

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for transfer of Certificate
No. 588-W from Pinecrest Ranches, Inc., in
Polk County, to Pinecrest Utilities, LLC.

DOCKET NO. 110311-WU
ORDER NO. PSC-12-0475-PAA-WU
ISSUED: September 18, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING NET BOOK VALUE FOR TRANSFER PURPOSES
AND
ORDER APPROVING TRANSFER OF CERTIFICATE NO. 588-W

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for approving the transfer of certificate No. 588-W, is preliminary in nature and 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 (F.A.C.).

Background

Pinecrest Ranches, Inc. (Pinecrest, Utility, or Seller) is a Class C water utility serving approximately 128 customers in Polk County. The Utility is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). However, there are no water use restrictions for the Utility because annual withdrawals are less than 100,000 gallons per day. The Utility's 2011 Annual Report lists combined annual revenues of \$51,031, with a net operating loss of \$11,784.

The Utility was constructed in 1987. In 1997, Pinecrest was granted Certificate No. 588-W when Polk County turned over jurisdiction of privately-owned water and wastewater

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FPSC-COMMISSION CLERK

utilities to the Commission.¹ Pinecrest's subsequent certification actions included a name change in 1997,² a transfer of majority organizational control in 2002,³ and a quick-take territory amendment in 2003.⁴ On November 28, 2011, an application was filed for the transfer of Certificate No. 588-W to Pinecrest Utilities, LLC (Pinecrest Utilities, Buyer). We have jurisdiction pursuant to Section 367.071, Florida Statutes, (F.S.).

Decision

Transfer of Certificate No. 588-W

On November 28, 2011, an application was filed for approval of the transfer of Certificate No. 588-W from Pinecrest to Pinecrest Utilities, pursuant to Section 367.071, F.S. The application is in compliance with the governing statutes and other pertinent statutes and administrative rules concerning the transfer of certificates. The closing occurred on June 22, 2011; however, pursuant to Section 367.071, F.S., the transfer was made contingent upon Commission approval.

The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, F.A.C. No objections to the notice have been filed with this Commission and the time for filing objections has expired. A description of the territory being transferred is appended to this order as Attachment A. The application contains a recorded copy of a warranty deed which constitutes sufficient evidence that Pinecrest Utilities owns the land on which the water treatment facilities are located, pursuant to Rule 25-30.037(2)(q), F.A.C.

Pursuant to Rule 25-30.037(2)(h), F.A.C., the application contains a copy of the sales contract, which includes the purchase price, terms of payment, and a list of the assets purchased. The Utility assets were acquired for \$78,000. According to the application, there are no customer deposits, guaranteed revenue contracts, developer agreements, customer advances, or leases to be disposed of in the transfer.

Pursuant to Rule 25-30.037(2)(j), F.A.C., the application contains a statement explaining how the transfer is in the public interest, including the buyer's technical and financial ability to provide service. According to the application, the Buyer, Mr. Michael Smallridge as President of Pinecrest LLC., has been associated with the water and wastewater business for the past 20 years and has operated and managed utilities for seven different owners during that time, including Pinecrest, Sunrise Utilities, LLC, and Alturas Utilities, LLC, which are regulated by the Commission. In addition, Mr. Smallridge was appointed the receiver of the Four Points Utility

¹ See Order No. PSC-97-0367-FOF-WU, issued April 2, 1997, in Docket No. 961253-WU, In re: Application for grandfather certificate to provide water service in Polk County by Pinecrest Ranches.

² See Order No. PSC-97-1087-FOF-WU, issued September 17, 1997, in Docket No. 970635-WU, In re: Application for name change on Certificate No. 588-W in Polk County from Pinecrest Ranches to Pinecrest Ranches, Inc.

³ See Order No. PSC-02-0893-FOF-WU, issued July 5, 2002, in Docket No. 011651-WU, In re: Application for transfer of majority organizational control of Pinecrest Ranches, Inc., holder of Certificate No. 588-W in Polk County, from James O. Vaughn and Margaret S. Hankin to S. Norman Duncan and Richard S. Little.

⁴ See Order No. PSC-03-0318-FOF-WU, issued March 6, 2003, in Docket No. 020823-WU, In re: Application for quick-take amendment of Certificate No. 588-W in Polk County by Pinecrest Ranches, Inc.

Corporation by the Tenth Circuit Court of Florida.⁵ Four Points Utility Corporation is also regulated by the Commission. Mr. Smallridge served as Chairman of the Citrus County Water and Wastewater Authority for seven years and currently has a consulting company which provides a number of utility and regulatory services. The Buyer contracts with a licensed water system operator to maintain his systems and employs a full-time maintenance worker. The application contains documentation demonstrating that the Buyer has sufficient personal financial resources to operate and maintain the Pinecrest water system.

The Buyer is aware that the Utility's books and records must be maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts and that it may not change the Utility's rates or charges, extend or delete the Utility's service territory, change the Utility's name or majority control, or transfer the Utility facilities without our consent. Further, the Buyer provided a statement agreeing to fulfill the commitments, obligations, and representations of the Seller with regard to utility matters.

Pursuant to Rule 25-30.037(2)(p), F.A.C., the application contains a statement that the water system is in compliance with the requirements set by the Florida Department of Health, which is responsible for water compliance in Polk County, and SWFWMD. The Utility's water system consists of two wells providing raw water, which are treated by liquid chlorine and an injection of polyphosphate solution for iron sequestration. A third well is available for fire protection using a separate distribution system. We find that the water system is currently in compliance with all applicable standards set by the Department of Health and SWFWMD. The Department of Health provided further comment that Mr. Smallridge has been extremely proactive in communicating with their office regarding any concerns the Department may have.

The Utility's rates and charges were last set by this Commission pursuant to the staff-assisted rate case in Docket No. 090414-WU.⁶ The Utility's existing rates and charges are shown on Schedule No. 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, we order that the existing rates and charges, shown on Schedule No. 2, remain in effect until a change is authorized by this Commission in a subsequent proceeding.

We find that Pinecrest is current on filing its annual reports through 2011 and regulatory assessment fees (RAFs) through 2010. The Buyer paid the Utility's 2011 RAFs from the date of the closing on June 22, 2011, though December 31, 2011. The Seller failed to pay the Utility's 2011 RAFs from January 1, 2011, through the date of closing. In addition, the Seller filed the Utility's 2008 and 2010 annual reports late, resulting in unpaid penalties. This Commission instructs its staff to pursue the appropriate collection efforts and, if necessary, file a subsequent

⁵ See Order Appointing Receiver, issued March 17, 2012 in Case No. 53-2012CA-1525, In re: Petition of Polk County, a political subdivision of the State of Florida to Appoint a Receiver for the Four Points Utility Corporation and The Bimini Bay Utilities Corporation pursuant to Section 367.165, Florida Statutes, Circuit Court of the Tenth Judicial Circuit In and For Polk County, Florida.

⁶ See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

recommendation to address any outstanding RAFs, penalties, and interest owed by the Seller. The Buyer shall be responsible for filing annual reports and RAFs for 2012 and future years.

Based on the above, this Commission finds that this transfer is in the public interest and is hereby approved. The transferred territory is described in Attachment A. The resultant order shall serve as Pinecrest Utilities, LLC's Certificate No. 588-W and shall be retained. The Utility's existing rates and charges shall remain in effect until a change is authorized by this Commission in a subsequent proceeding. The tariff pages reflecting the transfer shall be effective on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. Pinecrest Utilities, LLC shall be responsible for annual reports and RAFs for 2012 and future years.

Setting Net Book Value for Transfer Purposes

Present Net Book Value

Rate base for the Pinecrest water system was last established as of June 30, 2009 at \$66,022,⁷ which included a working capital allowance of \$5,548; therefore, net book value was \$60,474. Because plant had been added since the last rate proceeding, Commission staff updated net book value to the time of transfer on June 30, 2011. Net book value is used to determine whether an acquisition adjustment should be approved and does not include normal rate making adjustments for used and useful plant or working capital. The approved water net book value balances, as described below, are shown on Schedule No. 1.

Utility Plant in Service (UPIS) and Land

The Utility's general ledger reflects water UPIS and land balances as of June 30, 2011 of \$195,895 and \$6,500, respectively. The water system consists primarily of lines, wells, pumps, reservoirs, and meter equipment. The Utility's general ledger balance reflects \$10,454 in plant added in 2010 when a well and pump were replaced. There have been no additions to land. Our staff reviewed the Utility's invoices for the plant added in 2010 and verified additional plant in the amount of \$5,924. Therefore, we find that the Utility's UPIS balance is \$201,819 and its land balance is \$6,500 as of June 30, 2011, as shown on Schedule No. 1.

Accumulated Depreciation

The Utility's general ledger reflects an accumulated depreciation balance of \$101,124 for the water system as of June 30, 2011. We order the accumulated depreciation be increased by \$6,085 to reflect the additional plant described above, as well as corrections to accumulated depreciation based on the guideline service lives in Rule 25-30.140, F.A.C. Therefore, we find the Utility's water accumulated depreciation balance is \$107,209 as of June 30, 2011, as shown on Schedule No. 1.

⁷ See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

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

The Utility's general ledger reflects a water CIAC balance of \$100,352 and an accumulated amortization of CIAC balance of \$63,006 for the water system as of June 30, 2011. We find that no changes to the Utility's CIAC balance are needed. However, Commission staff recalculated the accumulated amortization of CIAC balance based on the composite rate pursuant to the guideline service lives in Rule 25-30.140, F.A.C. As such, we order an increase of \$5,014 to the Utility's accumulated amortization of CIAC balance. Therefore, the Utility's CIAC balance is \$100,352 and its accumulated amortization of CIAC balance is \$68,020 as of June 30, 2011, as shown on Schedule No. 1.

Net Book Value

The Utility's general ledger reflects a net book value for the water system of \$63,925 as of June 30, 2011. Based on the adjustments described above and shown on Schedule No. 1, we find that the net book value for the Utility's water system as of June 30, 2011 is \$68,778. Schedule No. 1 contains the NARUC account balances for UPIS and accumulated depreciation as of June 30, 2011.

Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from the net book value of the assets at the time of the acquisition. The purchase price of the Utility on June 22, 2011 was \$78,000. Based on a net book value of \$68,778 as of June 30, 2011, the transfer would result in a positive acquisition adjustment of \$9,222. 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. The buyer did not request a positive acquisition adjustment and there is no evidence of extraordinary circumstances. Therefore, a positive acquisition adjustment shall not be approved.

Conclusion

We find that the net book value of the Pinecrest water system for transfer purpose is \$68,778 as of June 30, 2011. Within 30 days of the date of the final order, Pinecrest Utilities, LLC shall provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of June 30, 2011, along with a statement that the adjustments will be reflected in the Utility's 2012 annual report.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the transfer of certificate No. 588-W from Pincrest Ranches, Inc. to Pinecrest Utilities, LLC, is in the public interest and is hereby approved. The transferred territory is more properly described in Attachment A. This Order shall serve as Pinecrest Utilities, LLC's Certificate No. 588-W and be retained by the Utility. It is further

ORDERED that the Utility's existing rates and charges shall remain in effect until a change is authorized by this Commission in a subsequent proceeding. It is further

ORDERED that the tariff pages reflecting the transfer shall be effective on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. It is further

ORDERED that Pinecrest Utilities, LLC shall be responsible for annual reports and RAFs for 2012 and future years. It is further

ORDERED that the net book value of the Pinecrest water system for transfer purposes is \$68,778 as of June 30, 2011. It is further

ORDERED that within 30 days of the date of the final order, Pinecrest Utilities, LLC shall provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of June 30, 2011, along with a statement that the adjustments will be reflected in the Utility's 2012 annual report. 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 Commission Clerk, 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 18th day of September, 2012.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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.

As identified in the body of this order, our action except for approving the transfer of certificate No. 588-W, 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 Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 9, 2012. 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 Office of Commission Clerk, 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 Office of Commission Clerk 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.

**Pinecrest Utilities, LLC
Water Territory
Polk County**

Citrus Highlands

**Township 30 South, Range 26 East
Section 6**

Begin at the Northwest corner of the Northeast 1/4 of Section 6 and run North 89°28'10" East along the Northern boundary of Section 6 a distance of 1,145.33 feet; thence South 20°03'30" East a distance of 383.78 feet; thence North 69°56'30" East a distance of 57.71 feet to the East boundary of the West 1/2 of the Northeast 1/4; thence South 00°22'30" East along said East boundary a distance of 1,394.42 feet to the Northeast corner of the Southwest 1/4 of the Northeast 1/4 of Section 6; thence North 89°21'48" West along the North boundary of the Southwest 1/4 of the Northeast 1/4 a distance of 1,328.39 feet to the West boundary of the Northeast 1/4; thence North 00°24'01" West along said West boundary a distance of 1,709.77 feet to the Point of Beginning

Also, two parcels more particularly described as follows:

**Township 29 South, Range 26 East
Section 31**

Beginning at the Southeast corner of Section 31, run Westerly a distance of 2,771.38 feet to the Point of Beginning; thence run West a distance of 224.50 feet; thence run North a distance of 120 feet; thence run East a distance of 224.50 feet; thence run South a distance of 120 feet to the Point of Beginning.

And beginning at the Southeast corner of Section 31, run Westerly a distance of 2,591.38 feet to the Point of Beginning; continue West a distance of 60.00 feet; thence run North a distance of 105 feet; thence run East a distance of 60 feet; thence run South a distance of 105 feet to the Point of Beginning.

Starr Terrace

**Township 29 South, Range 26 East
Section 31**

Commence at the Southeast corner of Section 31, Township 29 South, Range 26 East, Polk County, Florida, and run thence South 89°29'09" West along the South boundary of Section 31 a distance of 1,891.63 feet to the Point of Beginning; run thence South 89°29'09" West a distance of 880.26 feet; run thence North 00°30'51" West a distance of 120.00 feet; run thence South 89°29'09" West a distance of 224.50 feet; run thence North 00°30'51" West a distance of 40.00

feet; run thence North 89°29'09" East a distance of 224.50 feet to the beginning of a curve to the right having a radius of 265.00 feet and a central angle of 10°59'54", run thence along said curve an arc distance of 50.87 feet; run thence North 20°03'30" West a distance of 306.84 feet to the right-of-way line of State Road 60; run thence North 69°56'30" East a distance of 730.00 feet to a point herein after referred to as "Point A"; run thence South 20°03'30" East a distance of 730.59 feet to the Point of Beginning.

And

Parcel B Description

Commence at "Point A" referred to in the foregoing description and run Northeasterly along the right-of-way line of State Road 60 a distance of 40.00 feet to the Point of Beginning; run thence South 20°03'30" East parallel to the Easterly boundary of Starr Terrace a distance of 300.00 feet; run thence North 69°56'30" East a distance of 190.00 feet; run thence North 20°03'30" West a distance of 302 feet more or less to the Southerly right-of-way line of said State Road 60; run thence Southwesterly along said right-of-way line a distance of 190 feet more or less to the Point of Beginning.

And

Parcel D Description

Commence at "Point A" referred to in the foregoing description and run Northeasterly along the right-of-way of State Road 60 a distance of 330.47 feet to the Point of Beginning; run thence South 20°03'30" East parallel to the Easterly boundary of Starr Terrace a distance of 323.78 feet; run thence North 69°56'30" a distance of 105.00 feet; run thence North 90°00'00" East a distance of 40.18 feet; run thence North 18°49'32" West a distance of 361.41 feet to the Southerly right-of-way line of State Road 60; run thence Southwesterly along said right-of-way line a distance of 152.04 feet to the Point of Beginning.

FLORIDA PUBLIC SERVICE COMMISSION

**Authorizes
Pinecrest Utilities, LLC
Pursuant to
Certificate Number 588-W**

to provide water service in Polk 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>
PSC-97-0367-FOF-WU	04/02/1997	961253-WU	Grandfather Certificate
PSC-97-1087-FOF-WU	09/17/1997	970635-WU	Name Change
PSC-02-0893-FOF-WU	07/05/2002	011651-WU	Transfer Majority Control
PSC-03-0318-FOF-WU	03/06/2003	020823-WU	Amendment
PSC-12-0475-PAA-WU	09/18/2012	110311-WU	Transfer of Certificate

Pinecrest Utilities, LLC
Water Net Book Value as of June 30, 2011

Description	Utility Proposed	Adjustment		Approved
Utility Plant in Service	\$195,895	\$ 5,924	A	\$ 201,819
Land	6,500			6,500
Accumulated Depreciation	(101,124)	(6,085)	B	(107,209)
Contributions in Aid of Construction (CIAC)	(100,352)			(100,352)
Accumulated Amortization of CIAC	<u>63,006</u>	<u>5,014</u>	C	<u>68,020</u>
Water Net Book Value	\$ 63,925	\$ 4,853		\$ 68,778

Explanation of Adjustments to Water Net Book Value

Explanation	Amount
A Utility Plant in Service	
1. To record additional plant in UPIS.	\$ 5,924
B Accumulated Depreciation	
1. To add accumulated depreciation association with additional plant and correct accumulated depreciation based on guideline service lives in Rule 25-30.140, F.A.C.	(6,085)
C Accumulated amortization of CIAC	
1. To correct accumulated amortization based on composite rate.	<u>5,014</u>
Total Adjustments to Net Book Value as of June 30, 2010	\$ 4,853

Water Account Balances as of June 30, 2011

Account	Description	UPIS	Accumulated Depreciation
304	Structures & Improvements	\$ 5,753	\$ 4,587
307	Wells & Springs	24,869	8,398
309	Supply Mains	2,840	2,043
311	Pumping Equipment	11,192	9,363
320	Water Treatment Equipment	630	1,215
330	Distribution Reservoirs	11,448	8,672
331	Transmission & Distribution Mains	100,736	49,634
333	Services	15,363	9,784
334	Meters and Meter Installations	20,544	10,179
335	Hydrants	<u>8,444</u>	<u>3,334</u>
Total		\$201,819	\$107,209

Pinecrest Utilities, LLC

**Monthly Water Service Rates
Residential and General Service**

Base Facility Charges	
5/8" x 3/4"	\$ 14.14
3/4"	21.21
1"	35.35
1-1/2"	70.70
2"	113.12
3"	226.24
4"	353.50
6"	707.00
Charge per 1,000 gallon	\$ 4.26

**Water Service Availability Charges
Residential and General Service**

Customer Connection (Tap-in) Charge	\$350.00
Meter Installation Charge -- 5/8" x 3/4" Meter	\$153.00

Water Miscellaneous Service Charges

Initial Connection Charge	\$ 15.00
Normal Reconnection Charge	\$ 15.00
Violation Reconnection Charge	\$ 15.00
Premises Visit Charge (in lieu of disconnection)	\$ 10.00
Late Payment Charge	\$ 5.50
Lock Tampering	\$ 50.00