

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for approval to transfer water and wastewater Certificate Nos. 625-W and 536-S in Lake County from Hidden Valley SPE LLC d/b/a Orange Lake to MHC OL Utility Systems, L.L.C.

DOCKET NO. 120239-WS
ORDER NO. PSC-13-0173-PAA-WS
ISSUED: April 26, 2013

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING NET BOOK VALUE FOR TRANSFER PURPOSES
AND
ORDER APPROVING THE TRANSFER OF HIDDEN VALLEY SPC LLC WATER AND WASTEWATER SYSTEMS AND CERTIFICATE NOS. 625-W AND 536-S

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the transfer of Hidden Valley SPE LLC, water and wastewater systems and Certificate Nos. 625-W and 536-S, 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

Hidden Valley SPE LLC d/b/a Orange Lake Utilities (Utility or Orange Lake) is a Class C water and wastewater utility located in Lake County serving approximately 248 water and 242 wastewater customers in the Orange Lake Mobile Home Community. Orange Lake is located in the St. Johns River Water Management District (SJRWMD or District). The Utility's 2011 annual report reflects a net loss of \$3,266 for water and \$9,324 for wastewater.

The Utility began operations in 1985. On September 24, 2004, Orange Lake applied for original certificates to operate a water and wastewater utility in Lake County. Certificate Nos. 625-W and 536-S were granted to Orange Lake in 2004.¹ Prior to that time, the Utility provided

¹ See Order No. PSC-04-1270-PAA-WS, issued December 22, 2004, in Docket No. 041141-WS, In re: Application for certificates to provide water and wastewater service in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake.

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water and wastewater service solely to the rental community tenants as a part of the rent, and was exempt from the our regulation pursuant to Section 367.022(5), Florida Statutes (F.S.). Rate base was last established for the Utility by Order No. PSC-09-0726-PAA-WS.²

On September 25, 2012, an application was filed for the transfer of Hidden Valley SPE LLC d/b/a Orange Lake Utilities' water and wastewater systems and Certificate Nos. 625-W and 536-S to MHC OL Utility Systems, L.L.C. (MHC OL). Pursuant to Section 367.071(1), F.S., the closing occurred on July 1, 2011, contingent upon our approval. We have jurisdiction pursuant to Section 367.071, F.S.

Transfer

On September 25, 2012, an application was filed for approval of the transfer of Orange Lake's water and wastewater systems and Certificate Nos. 625-W and 536-S to MHC OL in Lake County. The application is in compliance with the governing statutes, Section 367.071, F.S., and administrative rules concerning applications for transfer of certificates. The closing occurred on July 1, 2011, contingent upon our approval, pursuant to Section 367.071(1), F.S.

Noticing, Territory, and Land Ownership

The application contains proof of compliance with the noticing provisions set forth in Section 367.071, F.S. and Rule 25-30.030, F.A.C. No objections to the transfer were timely filed with this Commission, and the time for doing so has expired. The application contains a description of the Utility's authorized service territory, which is appended to this Order as Attachment A. The application contains a copy of an easement that was executed on July 1, 2011, and recorded with the Lake County Clerk of Courts, as evidence that MHC OL has continued use of the land upon which the water and wastewater treatment facilities are located.

Purchase Agreement and Financing

Pursuant to Rule 25-30.037(2)(h), F.A.C., the application contains a copy of the executed purchase agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. The mobile home community and the Utility's assets were purchased by Equity LifeStyle Properties, Inc. (ELS), as part of a large transaction that related to the acquisition of Hometown America, LLC. The purchase price for the transaction that acquired 75 mobile home communities, utilities and other assets was \$1,263,600,064. There was not separate financing for the purchase of the Utility's assets, and the purchase agreement did not include a separate allocated amount for these assets. MHC OL purchased the assets secured by a bank loan. There are no customer deposits, guaranteed revenue contracts, developer agreements, or debt of Orange Lake that must be disposed of with regard to the transfer. As noted, the sale took place on July 1, 2011, subject to our approval, pursuant to Section 367.071(1), F.S.

² See Order No. PSC-09-0726-CO-WS, issued November 3, 2009, in Docket No. 080714-WS, In re: Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities.

Facility Description and Compliance

The Orange Lake Mobile Home Community water system consists of two wells (one 6-inch and one 8-inch) treated with chlorine. The treated water is channeled into a 7,500-gallon hydropneumatic tank and a 75,000-gallon storage tank for distribution to customers. The wastewater system includes PVC collection lines, manholes, and one lift station. The treatment process consists of extended aeration and effluent discharge into the percolations ponds. Commission staff verified that the water and wastewater systems are currently in substantial compliance with all applicable standards set by the Florida Department of Environmental Protection.

Technical and Financial Ability

Pursuant to Rule 25-30.037(2)(j), F.A.C., the application contains a statement indicating that the transfer is in the public interest. We find the transfer is in the interest of the customers as MHC OL has the financial and technical ability to continue to provide the safe and reliable service to which they are accustomed. As discussed above, MHC OL operates under the parent company, ELS. Although MHC OL does not own any other water or wastewater utilities, its parent company manages other utility systems in Florida, including four systems regulated by this Commission.³ In addition, ELS has a second docket pending before us for the transfer of CWS Communities LP (Haselton Village) to MHC HV FL Utility Systems, L.L.C.⁴ As of the end of 2011, ELS had indirect ownership of approximately 382 properties in the United States. After reviewing ELS' earnings and financial statements, we find it has the financial ability to provide safe and reliable service to its customers. As a result, we find that MHC OL has demonstrated the financial and technical ability to operate the Utility pursuant to Rule 25-30.037(2)(j), F.A.C.

Rates and Charges

The Utility's rates and charges were last approved in a 2009 staff-assisted rate case (SARC) and a subsequent 2011 price index. The Utility's existing rates and charges are shown on Schedule 3. 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 find that the Utility's existing rates and charges shall remain in effect until a change is authorized by this Commission in a subsequent proceeding.

Regulatory Assessment Fees and Annual Reports

The Utility is current on its annual report for 2011 and all prior years and there are no outstanding RAFs, fines, or refunds due. According to the Utility's purchase agreement, MHC

³ ELS manages OB Utility Systems, L.L.C., COL Utility Systems, L.L.C., HV Utility Systems, L.L.C., and MFL Utility Systems, L.L.C., which are all regulated by this Commission.

⁴ See Docket No. 120240-WS, In re: Application for approval of transfer of water Certificate No. 518-W in Lake County from CWS Communities LP (Haselton Village) to MHC HV FL Utility Systems, L.L.C.

OL is responsible for filing the Utility's annual reports and paying RAFs for 2012 and all future years.

Net Book Value

Rate base for the Utility's water and wastewater systems were established as of December 31, 2008, in a SARC by Order No. PSC-09-0726-CO-WS. Included in the Utility's application was a statement that no adjustments had been made to the plant since the previously mentioned Order. The annual reports for 2009 through 2011 reflected minor plant additions. However, in response to Commission staff's data request, MHC OL determined that it could not produce supporting documentation for these plant additions. Further, MHC OL stated no plant additions should be considered in the instant docket.

We find it is necessary to establish the appropriate net book value (NBV) for transfer purposes as of December 31, 2011. The purpose of establishing NBV for transfers is to determine whether an acquisition adjustment shall be approved. The NBV does not include normal ratemaking adjustments for used and useful plant or working capital. The NBV for water and wastewater, as described below, are shown on Schedule Nos. 1 and 2, respectively.

Utility Plant in Service (UPIS)

In its 2011 annual report, MCH OL reflected plant balances of \$611,130 for water and \$606,968 for wastewater. After a review of the Order and subsequent annual report filings, we found that the ordered adjustments from the Utility's last rate proceeding had not been properly made. The adjustments pertained to the 2007 and 2008 plant additions and retirements in both water and wastewater accounts and pro forma plant for water. To account for the adjustments, UPIS shall be increased by \$4,479 for water and decreased by \$41,260 for wastewater. With these adjustments, we find that the appropriate UPIS balances are \$615,609 for water and \$565,708 for wastewater. The appropriate UPIS amounts for the Utility's water and wastewater systems are outlined in Schedule Nos. 1 and 2, respectively.

Land and Land Rights

In its 2011 annual report, the Utility reflected land balances of \$4,600 and \$3,750 for water and wastewater, respectively. In its application, MHC OL stated that there had been no adjustments made to the land balances since the SARC Order. An audit was conducted in the 2009 SARC, and the Utility recorded the land at its original cost when it was first dedicated to utility service. Therefore, no adjustment is necessary.

Accumulated Depreciation

As noted above, we found that the Utility did not properly make the plant adjustments required in its last rate proceeding. In its 2011 annual report, the Utility reflected accumulated depreciation balances of \$377,170 for water and \$438,320 for wastewater. Calculating the accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and the

previously approved 2008 plant balances; we find these balances shall be decreased by \$9,683 for water and \$25,918 for wastewater as of December 31, 2011, to reflect the calculated depreciation. The accumulated depreciation balances are shown on Schedule Nos. 1 and 2.

Contribution in Aid of Construction (CIAC)

In its 2011 annual report, the Utility reflected CIAC balances of \$107,789 for water and \$178,699 for wastewater. An audit was conducted in the 2009 SARC and it was determined the appropriate amount of CIAC was \$107,789 for water and \$178,699 for wastewater, respectively. Further, in the 2009 SARC the system was determined to be built out. As no additions have been made subsequent to the SARC, the appropriate CIAC amounts for the Utility's water and wastewater systems are outlined in Schedule Nos. 1 and 2, respectively.

Accumulated Amortization of CIAC

In its 2011 annual report, the Utility reflected accumulated amortization of CIAC balances of \$75,123 for water and \$131,282 for wastewater. However, after a review of the Order and subsequent annual report filings, we find that ordered adjustments from the Utility's last rate proceeding had not been properly made to the accumulated amortization of CIAC. Calculating the amortization of CIAC using composite rates prescribed in Rule 25-30.140, F.A.C., and the previously approved 2008 CIAC balances; we find the amounts in these accounts shall be increased by \$11,379 for water and \$13,730 for wastewater to reflect the calculated depreciation. The accumulated amortization of CIAC balances are shown on Schedule Nos. 1 and 2.

Net Book Value

Based on the adjustments described above and shown on Schedule Nos. 1 and 2, we find that the NBV of the Utility's water system is \$231,435, and its wastewater system is \$123,369, as of December 31, 2011. Schedule Nos. 1 and 2 contain the resulting NARUC USOA balances for UPIS and accumulated depreciation as of December 31, 2011, for water and wastewater, respectively.

Acquisition Adjustment

An acquisition adjustment results when the purchase price of a utility differs from the original cost of the assets adjusted to the time of the acquisition. A positive acquisition adjustment exists when the purchase price is greater than NBV, and a negative acquisition adjustment exists when the purchase price is less than net book value. 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. As discussed above, the purchase of MHC OL was part of a larger purchase of multiple properties. As such, a separate purchase price was not allocated to the Utility and its assets. ELS has indicated that the purchase price of the Utility assets was equal to the NBV as reflected in the 2011 annual report. MHC OL did not request a

positive acquisition adjustment, and there is no evidence of extraordinary circumstances. Therefore, we find that an acquisition adjustment is not warranted.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the transfer of Certificate Nos. 625-W and 536-S from Hidden Valley SPE LLC d/b/a Orange Lake Utilities to MHC OL Utility Systems is in the public interest and shall be effective as of April 9, 2013. The transferred territory is described in Attachment A. This Order shall serve as MHC OL's water and wastewater certificates and shall be retained as such. Pursuant to Rule 25-9.044(1), Florida Administrative Code, the Utility's existing rates and charges shall remain in effect until a change is authorized by this Commission in a subsequent proceeding. The tariffs reflecting the transfer shall be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475(1), F.A.C. MHC OL will be responsible for annual reports and regulatory assessment fees (RAFs) for 2012 and all future years. It is further

ORDERED that the net book values of MHC OL's water and wastewater systems for transfer purposes are \$231,435 and \$123,369, respectively, as of December 31, 2011. An acquisition adjustment shall not be included in rate base. Within 30 days of the final Order, MHC OL shall provide general ledgers that show its books have been updated to reflect the approved balances as of December 31, 2011, along with a statement that these adjustments will also 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 26th day of April, 2013.



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.

MTL

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 the transfer of Hidden Valley SPE, LLC water and wastewater systems and Certificate Nos. 625-W and 536-S, 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 May 17, 2013. 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.

MHC OL Utility Systems, LLC

Lake County

Description of Water and Wastewater Territory

The Southeast $\frac{1}{4}$ of the Northeast $\frac{1}{4}$ of Section 27, Township 22 South, Range 26 East, Lake County, Florida, less the right of way for State Road 50.

FLORIDA PUBLIC SERVICE COMMISSION

authorizes

MHC OL Utility Systems, L.L.C.

pursuant to

Certificate Number 625-W

to provide water service in Lake 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-04-1270-PAA-WS	12/22/04	041141-WS	Original Certificate
PSC-13-0173-PAA-WS	04/26/13	120239-WS	Transfer of Certificate

FLORIDA PUBLIC SERVICE COMMISSION

authorizes

MHC OL Utility Systems, L.L.C.

pursuant to

Certificate Number 536-S

to provide wastewater service in Lake 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-04-1270-PAA-WS	12/22/04	041141-WS	Original Certificate
PSC-13-0173-PAA-WS	04/26/13	120239-WS	Transfer of Certificate

MHC OL Utility Systems, L.L.C.

MHC OL Water System

Net Book Value as of December 31, 2011

**Utility Proposed and Commission Approved
 Schedule of Net Book Value as of December 31, 2011**

Description	Utility Proposed	Adjustment		Commission Approved
Utility Plant in Service	\$611,130	\$4,479	A	\$615,609
Land & Land Rights	4,600	0		4,600
Accumulated Depreciation	(377,170)	9,683	B	(367,487)
CIAC	(107,789)	0		(107,789)
Amortization of CIAC	<u>75,123</u>	<u>11,379</u>	C	<u>86,502</u>
Net Book Value	<u>\$205,894</u>	<u>\$25,541</u>		<u>\$231,435</u>

**Explanation of
 Adjustments to Net Book Value as of December 31, 2011
 Water**

Explanation	Amount
A. Utility Plant In Service (UPIS) To reflect adjustment from Order No. PSC-09-0647-PAA-WS.	<u>\$4,479</u>
B. Accumulated Depreciation To reflect the appropriate amount of Accumulated Depreciation.	<u>\$9,683</u>
C. Amortization of CIAC To reflect the appropriate amount of Amortization of CIAC.	<u>\$11,379</u>
Total Adjustments to Net Book Value as of December 31, 2011	<u>\$25,541</u>

MHC OL Utility Systems, L.L.C.

MHC OL Water System

Schedule of Commission Approved Account Balances as of December 31, 2011

Acct. No.	Description	UPIS	Accumulated Depreciation
304	Structures and Improvements	\$3,493	\$1,922
307	Wells and Springs	293,636	112,528
309	Supply Mains	9,535	7,607
310	Power Generation Equipment	6,373	6,373
311	Pumping Equipment	25,930	19,389
320	Water Treatment Equipment	57,720	57,720
330	Distribution Reservoirs and Standpipes	93,584	79,490
331	Trans & Dist. Mains - Pipes	68,417	41,912
333	Service to Customers	27,417	19,987
334	Meters	17,080	10,549
335	Hydrants	7,234	4,612
336	Backflow Prevention Devices	<u>5,190</u>	<u>5,398</u>
	Total	<u>\$615,609</u>	<u>(\$367,487)</u>

MHC OL Utility Systems, L.L.C.

MHC OL Wastewater System

Net Book Value as of December 31, 2011

**Utility Proposed and Commission Approved
 Schedule of Net Book Value as of December 31, 2011**

Description	Utility Proposed	Adjustment		Commission Approved
Utility Plant in Service	\$606,968	(\$41,260)	A	\$565,708
Land & Land Rights	3,750	0		3,750
Accumulated Depreciation	(438,320)	25,918	B	(412,402)
CIAC	(178,699)	0		(178,699)
Amortization of CIAC	<u>131,282</u>	<u>13,730</u>	C	<u>145,012</u>
Net Book Value	<u>\$124,981</u>	<u>(\$1,612)</u>		<u>\$123,369</u>

**Explanation of
 Adjustments to Net Book Value as of December 31, 2011
 Wastewater**

Explanation	Amount
A. Utility Plant In Service (UPIS) To reflect adjustment from Order No. PSC-09-0647-PAA-WS.	<u>(\$41,260)</u>
B. Accumulated Depreciation To reflect the appropriate amount of Accumulated Depreciation.	<u>\$25,918</u>
C. Amortization of CIAC To reflect the appropriate amount of Amortization of CIAC.	<u>\$13,730</u>
Total Adjustments to Net Book Value as of December 31, 2011	<u>(\$1,612)</u>

MHC OL Utility Systems, L.L.C.

MHC OL Wastewater System

Schedule of Commission Approved Account Balances as of December 31, 2011

Acct. No.	Description	UPIS	Accumulated Depreciation
354	Structures & Improvements	\$8,869	\$2,250
360	Collection Sewers Force	2,411	2,275
361	Collection Sewers Gravity	83,580	53,284
362	Special Collecting Structure	37,875	33,094
363	Service to Customers	54,833	39,979
371	Pumping Equipment	29,209	20,209
380	Treatment Disposal	<u>348,931</u>	<u>261,311</u>
	Total	<u>\$565,708</u>	<u>(\$412,402)</u>

MHC OL Utility Systems, L.L.C.

Schedules of Rates and Charges

Monthly Service Rates

<u>Water</u>	Residential Service	General Service
<u>Base Facility Charges</u>		
5/8" x 3/4"	\$10.52	\$10.52
3/4"	\$15.77	\$15.77
1"	\$26.29	\$26.29
1-1/2"	\$52.58	\$52.58
2"	\$84.12	\$84.12
3"	\$168.25	\$168.25
4"	\$262.89	\$262.89
6"	\$525.77	\$525.77

Gallage Charges (per 1,000 gallons)

Residential		
0-10,000	\$4.07	
10,000+	\$6.10	
General Service		
(per 1,000 gallons)		\$4.16

<u>Wastewater</u>	Residential Service	General Service
<u>Base Facility Charges</u>		
All Meter Sizes	\$18.01	
5/8" x 3/4"		\$18.01
3/4"		\$27.01
1"		\$45.02
1-1/2"		\$90.03
2"		\$144.05
3"		\$288.10
4"		\$450.16
6"		\$900.31
<u>Gallage Charges (per 1,000 gallons)</u>		
	\$4.66*	\$5.60

* 6,000 gallon cap