

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for transfer of )	DOCKET NO. 880294-WS
Certificates Nos. 416-W and 351-S and )	
majority organizational control of FOX )	ORDER NO. 21408
RUN UTILITIES, INC. to SOUTHERN STATES )	
UTILITIES, INC. in Martin County )	ISSUED: 6-19-89
_____ )	

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman  
 THOMAS M. BEARD  
 BETTY EASLEY  
 GERALD L. GUNTER  
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTIONORDER ESTABLISHING RATE BASE

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein are 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.

BACKGROUND

On April 7, 1987, Chester W. Cook, Jr., President of Fox Run Utilities, Inc. (Fox Run) served a notice ~~of intent~~ to abandon Fox Run in accordance with Section 367.165, Florida Statutes, on June 6, 1987. On May 29, 1987, Southern States Utilities, Inc. (Southern States) and Fox Run entered into a tentative agreement for Southern States to purchase Fox Run. On June 3, 1987, Fox Run served notice of its intent to extend the effective date of its abandonment from June 6 until July 21, 1987. On July 16, 1987, Fox Run served notice of a further extension of six months on its abandonment, in order to resolve certain matters, so that the proposed sale to Southern States could be consummated.

On February 22, 1988, Southern States filed an application for the transfer of Certificates Nos. 416-W and 351-S. Based upon the proposed transfer, Fox Run withdrew its notice of abandonment. By Order No. 19129, issued April 11, 1988, we acknowledged Fox Run's withdrawal of its notice of abandonment.

By Order No. 19860, issued August 22, 1988, this Commission approved the transfer and set rate base for the sewer system. We did not establish a rate base for the water system, however, because we found the quality of the water produced to be poor. Instead, we required Southern States to provide an engineering report detailing the possible solutions to the water problems, the cost of each option, the effect that each option would have on rates and its reason for selecting

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one of these options. We further ordered Southern States to consider, as an option, an emergency or permanent interconnection with Martin Downs Utilities, Inc.

#### ENGINEERING REPORT

After filing several incomplete reports, Southern States finally submitted an engineering report, completed in compliance with Order No. 19860, on April 17, 1989. This report details four separate alternatives to alleviate the poor quality of the water. The first alternative considered is an interconnection with Martin Downs. According to Southern States' report, this would cost a total of \$159,840 in service availability fees and lines. This alternative would also involve the retirement of the Fox Run water treatment plant.

The second alternative considered is Southern States' construction of a new well. According to Southern States, the well would cost approximately \$25,000, plus an estimated \$50,000 in land costs. Southern States would also incur additional costs for engineering, permitting and lines. Under this alternative, however, the water is likely to be similar in quality to that of the existing well. Therefore, Southern States would also need to refurbish its iron filters.

The third alternative considered is the installation of a lime softening system. Southern States estimated the cost of this alternative to be approximately \$225,000. In addition, the operational costs would be quite expensive due to the chemicals needed for such a treatment system.

The final alternative considered involves refurbishing the three existing iron filters and installing two additional filters, adding two high service pumps and three backwash ponds and connecting two existing tanks to the system. Southern States estimates that this would cost approximately \$99,388 using an outside contractor and \$83,088 using in-house personnel. Southern States has concluded that this last alternative is the most cost effective and has chosen to take this approach. It has already received a permit for the construction of these additions and estimates that the work will be completed on or about October 31, 1989.

Based upon our review of the information supplied by Southern States, we agree that its choice is the most cost-effective of the alternatives considered. However, although we do not intend to indicate that we will hold Southern States to its estimate of these costs, we will review its choice and cost estimates in its next rate proceeding.

#### RATE BASE

For the purpose of this transfer, we have established rate base as of June 30, 1987, the date that Southern States began operating the system, rather than November 25, 1987, the actual closing date. The reason we have used this date is because Southern States had already made improvements to the system

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prior to the closing date and we are only interested in establishing the value of the property being transferred.

In order to establish the appropriate water rate base for the purpose of this transfer, we audited the utility's books through December 31, 1986, and brought accumulated depreciation and amortization of contributions-in-aid-of-construction forward to June 30, 1987. Since we are only concerned with the value of the property being transferred, we have made no used and useful or other adjustments typically performed in rate cases. Further, since Southern States chose to refurbish the existing system, we have made no retirements of any existing plant or other property.

Based upon the discussion above, we find that the appropriate rate base for the Fox Run water system is \$36,043, as of June 30, 1987. Our calculation of rate base is attached as Schedule No. 1.

#### ACQUISITION ADJUSTMENT

An acquisition adjustment occurs when the purchase price of a system differs from rate base at the time of transfer. Southern States purchased this system for \$5. We have already established the transfer rate base to be \$36,042, therefore, there is a negative acquisition adjustment of \$36,037.

Commission policy is to disregard any acquisition adjustment for ratemaking purposes, whether positive or negative, unless it is shown that extraordinary circumstances warrant our recognition of the adjustment and that it is in the best interests of the customers to recognize the adjustment. No such extraordinary circumstances have been brought to our attention. We, therefore, decline to recognize the acquisition adjustment for regulatory purposes.

Upon consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that the provisions of this Order are issued as proposed agency action and will become final unless an appropriate petition is filed with the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on July 7, 1989. It is further

ORDERED that the appropriate rate base for the Southern States Utilities, Inc. Fox Run water system is \$36,042 as of June 30, 1987. It is further

ORDERED that, after July 10, 1989, this Commission will issue either a notice of further proceedings or an order indicating that the provisions of this Order have become final and effective.

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By ORDER of the Florida Public Service Commission  
this 19th day of JUNE, 1989.

  
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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

RJP

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.

The action proposed herein 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, by the close of business on July 10, 1989. In the absence of such a petition, this order shall become effective July 11, 1989 as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent 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.

If this order becomes final and effective on July 11, 1989, 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 sewer 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.