

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building  
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Tallahassee, Florida 32399-0850

M E M O R A N D U M

May 6, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF WATER AND WASTEWATER (CHAPDELAIN) *CH*  
DIVISION OF LEGAL SERVICES (GOLDEN) *GP*

RE : UTILITY: TRADEWINDS UTILITIES, INC.  
DOCKET NO. 921260-WS  
COUNTY: MARION  
CASE: APPLICATION FOR CERTIFICATES BY THE RESOLUTION  
TRUST CORPORATION AND AMENDMENT OF CERTIFICATES NOS.  
405-W AND 342-S FOR TRADEWINDS UTILITIES, INC.

AGENDA: MAY 18, 1993 - CONTROVERSIAL - PROPOSED AGENCY ACTION  
FOR ISSUE ONE - PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

FILE NAME: I:\PSC\WAW\WP\921260A.RCM

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DOCUMENT NUMBER-DATE  
04942 MAY-68  
PSC-RECORDS/REPORTING

CASE BACKGROUND

Tradewinds Utilities, Inc. (Tradewinds) is a Class C "mom and pop" utility located in Marion County which had two separate systems just a few miles due north of the City of Ocala. The utility served 366 water customers and 257 wastewater customers. The customers served since deletion of territory going to the Resolution Trust Corporation (RTC) and, RTC's contractor/asset manager, Real Estate Recovery, Inc. (RER), is 289 and 162 for water and wastewater, respectively. According to Tradewinds' annual report for calendar year 1991, water revenue was \$63,739 and wastewater revenue was \$73,171. The net operating income was \$7,017 and \$6,631 for water and wastewater, respectively.

A portion of Tradewinds' territory was obtained by RTC as receiver for Miami Savings Bank during October 1991 as a result of a court proceeding in the Fifth Judicial Circuit. The territory is the so called Landfair/Hilltop Manor projects which were acquired by Tradewinds and amended to its territory as approved in Order No. 19688 issued July 19, 1988. A foreclosure proceeding occurred on a loan secured by a mortgage on utility assets and facilities in Landfair/Hilltop. This foreclosure does not affect the other separate systems owned and operated by Tradewinds.

On December 15, 1992, RER applied for certificates to operate water and wastewater systems in Marion County and to delete the same territory to be operated by RER from Certificates Nos. 405-W and 342-S held by Tradewinds. The Commission granted the request, issued Certificates Nos. 552-W and 481-S to RER and deleted territory from Tradewinds territory pursuant to Order No. PSC-93-0368-FOF-WS issued March 3, 1993.

This recommendation has been revised as the result of the case being deferred from the April 20, 1993 agenda. At that agenda, staff had recommended a rate base for RTC which was negative for the water system and positive for the wastewater system with an overall net negative rate base of nearly \$4,000. As the result of the Commissioners' desire that the rate base for RTC be deemed to be zero, staff made adjustments to the CIAC accounts for RTC and Tradewinds as described in Issue 1.

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**ISSUE 1:** What is the rate base of Resolution Trust Corporation/Real Estate Recovery and Tradewinds Utilities, Inc. at the time of transfer?

**RECOMMENDATION:** The rate base for Resolution Trust Corporation/Real Estate Recovery, which for transfer purposes reflects the net book value, is \$0 for the water system and \$0 for the wastewater system. The rate base for Tradewinds Utilities, Inc., which for transfer purposes reflects the net book value, is \$(46,345) for the water system and \$155,175 for the wastewater system. (CHAPDELAINÉ)

**STAFF ANALYSIS:** According to the application, the net book value of the portions of the water and wastewater systems being transferred as of December 31, 1991 is \$37,360. Rate base was previously established by this Commission in Docket No. 870212-WS, which was a staff assisted rate proceeding. According to Order No. 18312 issued on October 19, 1987 in that docket, Tradewinds' rate base was \$55,526 as of December 31, 1986. Order No. 18312 did not include rate base related items involving the so called Landfair/Hilltop projects. As previously indicated, it is the Landfair/Hilltop projects which are being transferred to RTC/RER in this proceeding. The applicant has provided an asset valuation statement prepared by a certified public accountant (CPA) which was based upon Tradewinds' annual reports for 1990 and 1991.

Staff conducted an audit of the books and records of the utility to determine the rate base (net book value) at the time of transfer.

Staff's calculation of rate base for the RTC is shown on Schedules Nos. 1A and 3A for the water and wastewater systems, respectively, with adjustments to rate base shown on Schedules Nos. 2A and 4A as of December 31, 1991. Likewise, staff's calculation of rate base for the remaining Tradewinds systems is shown on Schedules Nos. 1B and 3B for the water and wastewater systems, respectively, with adjustments to the rate base shown on Schedules Nos. 2B and 4B as of December 31, 1991. Based on the adjustments set forth herein, staff recommends that rate base for RTC be established as \$0 for the water system and \$0 for the wastewater system as of December 31, 1991. The rate base remaining for Tradewinds is \$(46,345) for water and \$155,175 for

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wastewater as of December 31, 1991. This rate base calculation is used purely to establish the net book value of the property being transferred and does not include the normal ratemaking adjustments of working capital calculations and used and useful adjustments.

This recommendation has been revised as the result of the case being deferred from the April 20, 1993 agenda. At that agenda, staff had recommended a rate base for RTC which was negative for the water system and positive for the wastewater system with an overall net negative rate base of nearly \$4,000. As the result of the Commissioners' desire that the rate base for RTC be deemed to be zero, staff made adjustments to the CIAC accounts for RTC and Tradewinds as described in the following paragraph and as shown in the schedules of rate bases following the staff analyses of this issue.

The adjustments which were made to the Resolution Trust Corporation rate base components brought the investment transferred into agreement with the data contained in Order No. 18312. The accumulated depreciation and accumulated amortization of CIAC were set equal to each other due to the plants being all contributed to Tradewinds in 1987. A negative rate base for the RTC water system was initially determined as a result of the rate base audit. An excess of CIAC collected from the developer in the Landfair/Hilltop development resulted in the CIAC exceeding the plant and land in service. Whether or not excessive CIAC was collected intentionally was not readily determinable. Staff believes that it is most likely that as property was donated or contributed, a mismatch occurred in booking CIAC and the physical assets received primarily due to excess cash collections for the water system. In any event, the staff's recommended rate base represents the value of the investment transferred in terms of utility plant in service and land, CIAC, and accumulated depreciation and amortization with the CIAC for each system equated to the plant and land in service resulting in a zero rate base for the RTC systems. The zero rate base for RTC necessitated adjustments to the CIAC amounts for Tradewinds' rate base.

The rate bases of the systems remaining under Tradewinds results from adjustments to properly recognize the CIAC which was erroneously recorded as income, to correct an erroneous general ledger entry regarding accumulated depreciation, and to adjust for booking entries not made pursuant to Order No. 18312. The negative rate base for the water system is due to payments from developers in the form of advances for construction as well as

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recognition of excess cash CIAC collected in the Landfair/Hilltop development. An unsupported entry for land of \$114,715 was adjusted out of the land account for wastewater. Staff verified that \$75,500 was recorded for a land acquisition several years ago. However, the land is not being used in utility service to the public and therefore should not be included in the rate base for Tradewinds.

Staff believes that the adjustments discussed herein are reasonable since Tradewinds collected excess CIAC in the past as previously discussed. Furthermore, even after the adjustment to Tradewinds' CIAC account, a substantial overall positive rate base remains for the utility as a whole.

Due to the transfer of a portion of the original assets to a receiver and no purchase price, per se, no acquisition adjustment is recommended in this proceeding.

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SCHEDULE NO. 1A

The Resolution Trust Corporation

SCHEDULE OF WATER RATE BASE

December 31, 1991

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 111,313	\$(34,888)	\$ 76,425
Land	19,500	0	19,500
Accumulated Depreciation	( 14,983)	2,329	( 12,654)
Contributions-in-aid-of-Construction	(130,813)	34,888	( 95,925)
CIAC Amortization	<u>19,497</u>	<u>( 6,843)</u>	<u>12,654</u>
TOTAL	<u>\$ 4,514</u>	<u>\$( 4,514)</u>	<u>\$ 0</u>

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SCHEDULE NO. 2A

The Resolution Trust Corporation  
SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service Adjust to Order No. 18312	\$(34,888)
Accumulated Depreciation Adjust to Rule Rate	\$ 2,329
Contributions-in-aid- of-Construction Adjust to Order No. 18312	\$ 21,101
Adjust the RTC Rate Base to Zero	13,787
CIAC Amortization Adjust to Rule Rate	\$( 6,843)

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SCHEDULE NO. 3A

The Resolution Trust Corporation  
SCHEDULE OF WASTEWATER RATE BASE  
December 31, 1991

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 122,414	\$(26,925)	\$ 95,489
Land	39,000	0	39,000
Accumulated Depreciation	( 18,322)	5,495	( 12,827)
Contributions-in- aid-of-Construction	(161,414)	26,925	(134,487)
CIAC Amortization	<u>40,033</u>	<u>(27,206)</u>	<u>12,827</u>
TOTAL	<u>\$ 21,711</u>	<u>\$(21,711)</u>	<u>\$ 0</u>



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SCHEDULE NO. 4A

The Resolution Trust Corporation  
SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service Adjust to Order No. 18312	\$(26,925)
Accumulated Depreciation Adjust to Rule Rate	\$ 5,495
Contributions-in-aid- of-Construction Adjust to Order No. 18312 Adjust RTC Rate Base to Zero	\$ 37,002 (10,077)
CIAC Amortization Adjust to Rule Rate	\$(27,206)

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SCHEDULE NO. 1B

Tradewinds Utilities, Inc.  
SCHEDULE OF WATER RATE BASE  
December 31, 1991

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 297,407	\$ 34,888	\$ 332,295
Land	20,000	0	20,000
Accumulated Depreciation	( 59,747)	3,229	( 56,518)
Contributions-in-aid-of-Construction	(111,742)	(219,121)	(330,863)
Advances for Const.	( 48,045)	0	( 48,045)
CIAC Amortization	<u>35,909</u>	<u>877</u>	<u>36,786</u>
TOTAL	<u>\$ 133,782</u>	<u>\$(180,127)</u>	<u>\$( 46,345)</u>

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SCHEDULE NO. 2B

Tradewinds Utilities, Inc.

SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service Adjust to Order No. 18312	\$ 34,888
Accumulated Depreciation Correct for error in gen. ledger Adjust to Order No. 18312	\$ 5,098 ( 1,869)
Contributions-in-aid- of-Construction Correct for CIAC rec. as income Adjust to Order No. 18312 Adjustment from RTC Rate Base	\$(184,233) ( 21,101) ( 13,787)
CIAC Amortization Adjust to Order No. 18312	\$ 877

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SCHEDULE NO. 3B

Tradewinds Utilities, Inc.

SCHEDULE OF WASTEWATER RATE BASE

December 31, 1991

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 663,705	\$ 26,925	\$ 690,630
Land	150,716	(114,715)	36,001
Accumulated Depreciation	(123,264)	( 44)	(123,308)
Contributions-in-aid-of-Construction	(157,058)	(248,110)	(405,168)
Advances for Const.	(110,901)	0	(110,901)
CIAC Amortization	<u>62,681</u>	<u>5,240</u>	<u>67,921</u>
TOTAL	<u>\$ 485,879</u>	<u>\$(330,704)</u>	<u>\$ 155,175</u>

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SCHEDULE NO. 4B

Tradewinds Utilities, Inc.

SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service Adjust to Order No. 18312	\$ 26,925
Land Reduction due to lack of proof	\$(114,715)
Accumulated Depreciation Correct for error in gen. ledger Adjust to Order No. 18312	\$( 3,092) 3,048
Contributions-in-aid- of-Construction Correct for CIAC rec. as income Adjust to Order No. 18312 Adjustment from RTC Rate Base	\$(221,185) \$( 37,002) 10,077
CIAC Amortization Adjust to Order No. 18312	\$ 5,240

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**ISSUE 2:** Should the Resolution Trust Corporation adopt and use the rates and charges approved for this utility system?

**RECOMMENDATION:** Yes, the Resolution Trust Corporation should continue charging the rates and charges approved for this utility system. (CHAPDELAINÉ)

**STAFF ANALYSIS:** The utility's approved rates and charges were effective June 19, 1992 pursuant to a 1992 Price Index.

Rule 25-9.044(1), Florida Administrative Code, provides that:

"In cases of change of ownership or control of a utility which places the operation under a different or new utility...the company which will thereafter operate the utility business must adopt and use the rates, classification and regulations of the former operating company (unless authorized to change by the Commission)..."

The Resolution Trust Corporation has not requested a change in the rates and charges of the utility and staff sees no reason to change them at this time. Accordingly, staff recommends that the utility continue operations under the existing tariff and apply the approved rates and charges. The utility has filed a tariff reflecting the transfer of ownership of the Landfair/Hilltop system. Staff will approve the tariff effective for services provided or connections made after the stamped approval date.

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ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If there is no timely protest to Issue 1.  
(GOLDEN)

STAFF ANALYSIS: If no party files a timely protest to the recommendation contained in Issue 1, no further action is required and this docket may be closed.