

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

MEMORANDUM

May 5, 1994

TO : DIRECTOR OF RECORDS AND REPORTING

FROM : DIVISION OF WATER AND WASTEWATER (XANDERS) *ex 90 pm*
DIVISION OF LEGAL SERVICES (CROSBY) *bl*

RE : UTILITY: THE RESOLUTION TRUST CORPORATION
DOCKET NO. 931080-WS
COUNTY: MARION
CASE: APPLICATION FOR TRANSFER OF CERTIFICATES NOS.
552-W and 481-S FROM THE RESOLUTION TRUST
CORPORATION TO C.F.A.T. H2O, INC.

AGENDA : May 17, 1994 - REGULAR AGENDA - PROPOSED AGENCY
ACTION FOR ISSUES NOS. 2 AND 3 - INTERESTED
PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

LOCATION OF FILE [I:\PSC\WAW\WP\931080.RCM]

DOCUMENT NUMBER-DATE

04247 MAY-5

FPSC-RECORDS/REPORTING

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CASE BACKGROUND

On November 8, 1993, C.F.A.T. H2O, Inc. (CFAT) filed an application for the transfer of Certificates Nos. 552-W and 481-S from the Resolution Trust Corporation (RTC) to CFAT. The RTC currently provides water and wastewater service to approximately 91 customers in the Landfair Subdivision and the Hilltop Manor Subdivision in Marion County. The RTC began providing service to these developments when it was appointed receiver of this system. It became the receiver when The Miami Savings Bank, owner of certain utility assets of Tradewinds Utilities, became the subject of a foreclosure action.

DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of Water Certificate No. 552-W and Wastewater Certificate No. 481-S from the Resolution Trust Corporation to C.F.A.T. H2O, Inc. be approved?

RECOMMENDATION: Yes, the transfer should be approved. In addition, C.F.A.T. H2O, Inc. should be required to file a recorded warranty deed or other proof of ownership within thirty days of closing. (XANDERS)

STAFF ANALYSIS: The application is in compliance with the governing statute, Section 367.071, Florida Statutes, and other pertinent statutes and administrative rules concerning an application for transfer of certificate. The application contains a check in the amount of \$300.00, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code. The applicant has provided evidence that the utility owns the land upon which the utility's facilities are located as required by Rule 25-30.037(1)(o), Florida Administrative Code.

In addition, 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 to be transferred. No objections to the notice of application have been received and the time for filing such has expired.

A description of the territory served by the utility is appended to this memorandum as Attachment A.

The systems are currently providing service to developed lots which are being purchased by RSC Development, Inc. a corporation which is controlled by Ronald Chase, the majority shareholder of CFAT. CFAT's purpose is to assure that high quality water and wastewater service is provided to the residents of Landfair and Flltop. This has been demonstrated by the fact that CFAT has retained the same engineering firm to operate the treatment plants that operated the plants while the RTC was the receiver. Staff has contacted the Department of Environmental Protection and learned that there is no pending enforcement action. Therefore, staff believes the applicant has demonstrated the technical and financial ability to continue operation of the water and wastewater systems.

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With regard to the financial ability to operate the utility, CFAT is a newly formed corporation which will have invested approximately \$33,000 cash into the utility. The application contained a statement that the officers of the corporation are prepared to provide any additional funds as required. CFAT will obtain financing from the RTC under its normal terms for commercial property. Accordingly, CFAT plans to borrow approximately \$79,000 with interest at 6.5% for 5 years at approximately \$500.00 per month.

The application contains a copy of the contract for sale which includes the purchase price, terms of payment and a list of the assets purchased and the liabilities assumed. CFAT has provided a statement in its application that it will fulfill the commitments, obligations and representations of the RTC. There are no customer deposits, developer agreements, outstanding regulatory assessment fees, or refunds.

Based on the above, staff believes the transfer of Water Certificate No. 552-W and Wastewater Certificate No. 481-S from The Resolution Trust Corporation to C.F.A.T. H2O, Inc. is in the public interest and should be approved. C.F.A.T. H2O, Inc. should be required to file a warranty deed or other proof of ownership within thirty days of closing.

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ATTACHMENT A

The Resolution Trust Corporation

TERRITORY DESCRIPTION

The following described lands located in portions of Sections 16 and 21, Township 14-South, Range 22-East, Marion County Florida:

Section 16: SW 1/4 of SE 1/4, except the North 475 feet; SE 1/4 of SE 1/4; South 3 chains of NE 1/4 of SE 1/4.

Section 21: East 1/2 of NE 1/4.

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ISSUE 2: What is the rate base of The Resolution Trust Corporation at the time of transfer?

RECOMMENDATION: The rate base, which for transfer purposes reflects the net book value, is \$ 5,504.00 for the water system and \$2,950.00 for the wastewater system. Also, the utility should be required to restate certain accounts as described in the staff analysis to conform with Commission Order No. PSC-93-0900-FOF-WS, issued June 14, 1994 and conform with NARUC rules. (XANDERS)

STAFF ANALYSIS: According to the application, the net book value of the system being transferred as of the date of the proposed transfer is \$(13,787) for water and \$10,077 for wastewater. Rate base was previously established by this Commission in Docket No. 921260-WS, which was a transfer from Tradewinds Utilities, Inc. to the Resolution Trust Corporation. The utility did not provide any detailed adjustments to justify these amounts. According to Order No. PSC-93-0900-FOF-WS, issued on June 14, 1993, in that docket, rate base was \$0 for water and \$0 for wastewater as of December 31, 1991. The auditor used the company's books and records as the starting point for the audit.

Since closing has not taken place, staff conducted an audit of the books and records of the utility to determine the rate base (net book value) as of December 31, 1993.

The National Association of Regulatory Utility Commissioners, Accounting Instruction 2 requires utilities to keep their accounts monthly. The utility does not classify Plant in Service, Expenses, and CIAC on a monthly basis nor does it calculate Accumulated Depreciation or Accumulated CIAC Amortization on a monthly basis. Therefore, it should be required to comply with NARUC rules concerning the classification of accounts.

The utility did not correctly reconcile its books to Order No. PSC-93-0900-FOF-WS, issued June 14, 1993. According to the audit, the utility adjusted Plant in Service in 1993, however, it did not restate Accumulated Depreciation and CIAC Amortization retroactive to 1991, as required by Order No. PSC-93-0900-FOF-WS. The utility's adjustment was \$34,888 to Account #331 Transmission & Distribution Mains. This adjustment should have been \$34,583 to Account #331 Transmission & Distribution Mains and \$305 to Account #339 Other Plant & Misc. In addition, the utility should have adjusted its 12/31/91 ending balances for CIAC-Water and CIAC-Wastewater to the prior order balance per the Commission. The utility should be required to retroactively restate Accumulated

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Depreciation and Accumulated CIAC Amortization to 1991, correctly adjust 1993 Plant in Service, and adjust its 12/31/91 ending balances for CIAC-Water and CIAC-Wastewater to the prior order balance per the Commission.

The utility recorded \$5,718 in repairs as capital purchases to Utility Plant in Service - Water - Account #304 Structures and Improvements. These repairs and their amounts are as follows, Water Tank Repair, \$1,785; Water Main Repair, \$422; Water Plant Repairs, \$1,120; Water Plant Repairs \$355; and Overhead Capitalization, \$2,036. Since the utility should have recorded \$5,718 as repair and maintenance expenses; UPIS should be reduced by this amount. In addition, the utility recorded expenses to Water Plant for 2 new meters, a new chlorinator and a pump. These items should have been recorded as UPIS, therefore; UPIS should be increased by \$233 for the meters, \$220 for the chlorinator and \$4,432 for the pump.

At the time of transfer of ownership from Tradewinds Utility, Inc., to the RTC, Account #311 - Pumping Equipment had a balance of \$11,098. After discussions between the prior owner and the staff auditor, it was determined that \$8,500 of this amount represents the cost of the two wells placed in service in 1986. Further, the auditor learned that one of the two wells has never been put to use and that there are no current plans to use this well in the near future. Therefore, \$8,500 should be removed from Account #311 and \$4,250 transferred to Plant Held for Future Use and \$4,250 to Wells and Springs. In addition, since the wells are contributed property, CIAC should be decreased by \$4,250 to represent the CIAC associated with the well not in service. Further, Advances for Construction (CIAC) should be increased by \$4,250.

The utility made no accounting entries for UPIS retirements in 1993, although a well pump and a generator were retired. As a result of the retirements, UPIS should be decreased by \$5,021 and because all plant was contributed, CIAC should be decreased by \$5,021. Accordingly, the associated Accumulated Depreciation and Accumulated CIAC Amortization should be increased by \$5,021. Further, Accumulated Depreciation should be increased by \$300 to reflect the salvage value of the generator.

The utility recorded expenses to Wastewater Plant for a staff gauge, and two new chlorinators in 1992 and 1993 rather than recording them as plant additions. Therefore, UPIS should be increased by \$430 to reflect the plant additions.

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The utility's records indicate that water and wastewater connection fees of \$120 each were collected and the utility made no accounting entries to reflect the collection of these fees. Therefore, CIAC - Water should be increased by \$120 and CIAC - Wastewater should be increased by \$120.

According to the audit, the utility computes its CIAC Amortization by using a straight line rate based on 30 years rather than a rate based on contributed depreciable plant as required by Commission Rules. The auditor recalculated Accumulated Depreciation and CIAC pursuant to Rule 25-30.140, Florida Administrative Code. The correct balances for Accumulated Depreciation and CIAC Accumulated Amortization at 12/31/93 should be \$(10,914) and \$11,653, respectively, for the water system and the correct balances for Accumulated Depreciation and CIAC Accumulated Amortization at 12/31/93 should be \$(19,329) and \$21,967, respectively for the wastewater system.

Staff's calculation of rate base is shown on Schedules Nos. 1 and 3, for the water and wastewater systems, respectively. Adjustments to rate base are itemized on Schedules Nos. 2 and 4. Based on the adjustments set forth herein, staff recommends that rate base for The Resolution Trust Corporation be established as \$5,504.00 for the water system and \$2,950.00 for the wastewater system as of December 31, 1993. 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.

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SCHEDULE NO. 1

The Resolution Trust Corporation

SCHEDULE OF WATER RATE BASE

As of December 31, 1993

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>		<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 82,142	(1)	\$(10,103)	\$ 72,039
Land	19,500		0	19,500
Plant Held for Future Use	0	(2)	4,250	4,250
Accumulated Depreciation	(14,519)	(3)	3,605	(10,914)
Contributions-in-aid-of-Construction	(94,787)	(4)	8,013	(86,774)
CIAC Amortization	22,028	(5)	(10,375)	11,653
Advances for Construction	<u>0</u>	(6)	<u>(4,250)</u>	<u>(4,250)</u>
TOTAL	\$ <u>14,364</u>		\$ <u>(8,860)</u>	\$ <u>5,504</u>

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SCHEDULE NO. 2

The Resolution Trust Corporation
SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service To decrease UPIS for repair and maintenance expenses	\$ (5,718)
To increase UPIS for plant additions in 1992 and 1993	4,885
To decrease UPIS for well not in use	(4,250)
To decrease UPIS for retired plant	<u>(5,021)</u>
Total	(1) <u>\$(10,103)</u>
Plant Held for Future Use To increase Plant Held for Future Use for well not in service	(2) <u>\$ 4,250</u>
Accumulated Depreciation To adjust for incorrect computations	(3) <u>\$(3,605)</u>
Contributions-in-aid- of-Construction To adjust CIAC to Order No. PSC-93-0900-FOF-WS	\$ (1,138)
To decrease CIAC for well not in use	4,250
To decrease CIAC for retired plant	5,021

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To increase CIAC for connection fees		(120)
Total	(4)	<u>\$ (8,013)</u>
CIAC Amortization		
To adjust CIAC amortization to reflect correct composite rate	(5)	<u>\$ (10,375)</u>
Advances for Construction		
To adjust for the contributed well not in service	(6)	<u>\$ 4,250</u>

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SCHEDULE NO. 3

The Resolution Trust Corporation
SCHEDULE OF WASTEWATER RATE BASE

As of December 31, 1993

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 95,489	(1) \$ 430	\$ 95,419
Land	39,000	0	39,000
Accumulated Depreciation	(17,570)	(2) (1,759)	(19,329)
Contributions-in- aid-of-Construction	(125,807)	(3) (8,800)	(134,607)
CIAC Amortization	<u>13,649</u>	(4) <u>8,318</u>	<u>21,967</u>
TOTAL	\$ <u>4,761</u>	\$ <u>(1,811)</u>	\$ <u>2,950</u>

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SCHEDULE NO. 4

The Resolution Trust Corporation
SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service	
To increase UPIS for plant additions in 1992	\$ 90
To increase UPIS for plant additions in 1993	340
Total	(1) \$ <u>430</u>
Accumulated Depreciation	
To adjust for incorrect computations	(2) \$ <u>(1,759)</u>
Contributions-in-aid- of-Construction	
To adjust CIAC to Order No. PSC-93-0900-FOF-WS	\$ (8,680)
To increase CIAC for connection fees	(120)
Total	(3) \$ <u>(8,800)</u>
CIAC Amortization	
To adjust CIAC amortization to reflect correct composite rate	(4) \$ <u>8,318</u>

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ISSUE 3: Should a positive acquisition adjustment be approved?

RECOMMENDATION: No, a positive acquisition adjustment should not be included in the calculation of rate base for transfer purposes.
(XANDERS)

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from the original cost calculation. The acquisition adjustment resulting from the transfer of The Resolution Trust Corporation would be calculated as follows:

Staff Calculated Rate Base:	\$ 8,454
Purchase Price:	\$105,000
Positive Acquisition Adjustment:	\$ 96,596

In the absence of extraordinary circumstances it has been Commission policy that a subsequent purchase of a utility system at a premium or discount shall not affect the rate base calculation. The purchase price in this case reflects the purchase of the development and the utility. The utility did not break out the purchase of the utility from the total purchase price. The circumstances in this exchange do not appear to be extraordinary; therefore, a positive acquisition adjustment should not be included in the calculation of rate base. Also, an acquisition adjustment was not requested by the applicant.

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ISSUE 4: Should CFAT adopt and use the rates and charges approved by this Commission for the RTC?

RECOMMENDATION: Yes, CFAT should continue charging the rates and charges approved for this utility system. (XANDERS)

STAFF ANALYSIS: The tariffs for the RTC reflect rates and charges that were approved June 14, 1993, pursuant to Order No. PSC-93-0900-FOF-WS, issued in Docket No. 921260-WS, which was a transfer application. These were the rates and charges of the previous owners, Tradewinds Utilities and were last changed 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)..."

CFAT 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. Staff will approve the tariff filing effective for services provided or connections made after the stamped approval date.

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ISSUE 5: Should this docket be closed?

RECOMMENDATION: Yes, this docket should be closed if no timely protests are filed to the proposed agency action issues. (CROSBY)

STAFF ANALYSIS: If there are no timely protests to the proposed agency action issues Issue Nos. 2 and 3, no further action will be required and the docket should be closed.