

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

FEBRUARY 20, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (COKER, REDEMANN)
DIVISION OF LEGAL SERVICES (CROSBY)

RE: DOCKET NO. 960643-WS - APPLICATION FOR TRANSFER OF WATER
CERTIFICATE NO. 507-W AND WASTEWATER CERTIFICATE 441-S
FROM SUMTER WATER COMPANY, INC. TO CRYSTAL RIVER
UTILITIES, INC.
COUNTY: SUMTER

AGENDA: MARCH 4, 1997 - REGULAR AGENDA - PROPOSED AGENCY ACTION
ON ISSUES NOS. 2 AND 3 AND THE PORTION OF ISSUE NO. 4
ADDRESSING DEPOSIT CHARGES AND LATE FEES

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

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CASE BACKGROUND

Sumter Water Company, Inc. (Sumter or utility) provides water and wastewater service in Sumter County. The utility currently serves approximately 65 water customers and 61 wastewater customers. The 1995 annual report for Sumter illustrates that the operating revenue for the system was \$31,833 and a net operating loss amounted to \$10,763. The utility is a Class C utility company under Commission jurisdiction. Pursuant to Section 367.071, Florida Statutes, on May 23, 1996, Crystal River Utilities, Inc. (Crystal River) applied for the transfer of Water Certificate No. 507-W and Wastewater Certificate No. 441-W from Sumter to Crystal River.

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DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of Certificate No. 507-W and Certificate No. 441-S from Sumter Water Company, Inc. to Crystal River Utilities, Inc. be approved?

RECOMMENDATION: Yes, the transfer of Certificate No. 507-W and Certificate No. 441-S from Sumter Water Company, Inc. to Crystal River Utilities, Inc. should be approved. (COKER, REDEMANN)

STAFF ANALYSIS: As stated in the case background, Crystal River applied for a transfer of the Sumter water and wastewater systems, including Water Certificate No. 507-W and Wastewater Certificate No. 441-S in Sumter County to Crystal River Utilities, Inc. on May 23, 1996. 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. The application contains a check in the amount of \$1,500, 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(2)(q), 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. No objections to the application were received, and the time for the filing of such objections has expired. A description of the territory served by the utility is appended to this memorandum as Attachment A. Order No. 19848, issued August 22, 1988, granted the utility's original territory. When the utility was transferred in Docket No. 920176-WS, Order No. PSC-92-0113-FOF-WS, issued October 5, 1992, the territory description contained an omission. This recommendation revises the territory description with the addition of a descriptive phrase, "of NE 1/4" to agree with the original service area granted in Order No. 19848.

With regard to the purchaser's technical ability, Crystal River has indicated that it will be retaining the services of H2O Utility Services, Inc. to maintain and operate the system. H2O currently operates and maintains over eighty systems in Florida. Staff has contacted the Department of Environmental Protection (DEP) and has learned that there are no outstanding notices of violation against the utility.

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Regarding the financial ability of Crystal River, the utility supplied financial statements to staff. The statements indicate that approximately 64% of the company's net worth is in real estate and other assets, and that it has approximately \$885,000 in liquid assets. We believe that the owner possesses the overall financial ability to operate the water facility. Since the system is small, staff believes that the financial foundation of the new owner should be adequate to insure the continued operations of the utility.

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 liabilities assumed. Based on the application, there are no guaranteed revenue contracts or customer advances. The seller will remain responsible for the existing debts of the utility. In addition, the developer agreements, customer deposits and interest thereon will be transferred to the purchaser. Crystal River has provided a statement that it will fulfill the commitments, obligations, and representations of the transferor.

Based on the above, staff believes the transfer of Water Certificate No. 507-W and Wastewater Certificate No. 441-S from Sumter Water Company, Inc. to Crystal River Utilities, Inc., is in the public interest and should be approved.

Crystal River Utilities, Inc.

The Woods Division

Sumter County

TERRITORY DESCRIPTION

The following described lands located in portions of Sections 7 and 12, Township 22 South, Range 21 East, Sumter County, Florida:

Section 12:

The SW 1/4 of the SE 1/4 of the NE 1/4; the South 660 feet of the SW 1/4 of NE 1/4, Less the West 480 feet thereof; the North 736 feet of NW 1/4 of SE 1/4, less the West 489 feet thereof.

Sections 12 and 7: (water only)

The SW 1/4 of the SE 1/4 of the NW 1/4 lying West of U.S. Highway No. 301; and the SE 1/4 of the SW 1/4 of the NW 1/4 and the SW 1/4 of the SW 1/4 of the NW 1/4 and the NW 1/4 of the NW 1/4 of the SW 1/4 and the NE 1/4 of the NW 1/4 of the SW 1/4 and the NW 1/4 of the NE 1/4 of the SW 1/4 lying West of U.S. Highway No. 301; thereof, all being in Section 7, Township 22 South, Range 22 East, also the SE 1/4 of the SE 1/4 of the NE 1/4 and the NE 1/4 of the NE 1/4 of the SE 1/4; thereof, all being in Section 12, Township 22 South, Range 21 East, Sumter County, Florida.

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ISSUE 2: What is the rate base of Sumter Water Company, Inc. at the time of transfer?

RECOMMENDATION: The rate base, which for transfer purposes reflects the net book value as of December 31, 1995, is \$23,042 for the water and wastewater systems. (COKER)

STAFF ANALYSIS: According to the application, the net book value of the water and wastewater systems being transferred as of the date of the proposed transfer is \$25,149. Crystal River derived this amount by using the rate base determination from Order No. 25139, issued September 30, 1991 with adjustments for depreciation and amortization through December 31, 1995.

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. Prior to the audit, rate base was last set in Order No. PSC-92-1113-FOF-WS, issued October 5, 1992, when the utility was operating as Homosassa Utilities, Inc. In that Order, the Commission's approved rate base values were \$8,697 for the water system and \$29,256 for the wastewater system.

Staff auditors analyzed plant through December 31, 1995, testing 100% of the available invoices. The auditors verified land ownership, existing rates, miscellaneous service charges, service availability charges and customer deposits currently being charged by the utility. The audit revealed the utility did not book the Commission adjustments per Order No. PSC-92-1113-FOF-WS. The following adjustments were needed to bring the books into compliance:

	WATER	WASTEWATER
Utility Plant In Service	\$ 69,963	\$ 85,747
Land	3,000	7,000
Accumulated Depreciation	(44,000)	(44,108)
Contrib. In Aid Construction	(48,741)	(59,642)
CIAC Amortization	<u>22,548</u>	<u>36,994</u>
TOTAL	\$ 1,914	25,991

Further adjustments were required as a result of this audit. The utility was not collecting customer deposits as authorized by the tariff. By failing to book previously authorized Commission adjustments the utility was underestimating depreciation and amortization of CIAC. Lastly, the utility expensed items which should have been capitalized. Therefore, adjustments were necessary to the accounts of utility plant in service, accumulated depreciation and contribution in aid of construction, which are detailed as follows:

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Utility Plant In Service/Accumulated Depreciation

The auditors reclassified assets totaling \$1,613 for the water system and \$900 for the wastewater system. The utility understated accumulated depreciation by \$10,842 for the water system and \$15,056 for the wastewater system.

Contributions In Aid of Construction

The auditors reclassified CIAC amortization reflecting the adjustments made from the above mentioned order. The utility understated accumulated depreciation by \$3,488 for the water system and \$5,825 for the wastewater system.

The adjustments are reflected on schedules 1 and 2. The adjusted rate base values per the audit examination were \$2,583 for the water system and \$20,459 for the wastewater system. The utility did not submit a response to the audit report.

In conclusion, while the audit disclosed that Sumter Water Company did not record the adjustments per Order No. PSC-92-1113-FOF-WS, as shown on the previous page, our audit examination included appropriate corrections for that omission. The recommended rate base for the combined water and wastewater systems is \$23,042. The calculation of rate base, with adjustments, is shown on Schedules No. 1 and 2. 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 and used and useful adjustments.

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SCHEDULE NO. 1

Sumter Water Company, Inc.
SCHEDULE OF WATER RATE BASE
As of December 31, 1995

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
	\$ 47,374	\$69,963	\$ 118,617
Utility Plant in Service	500	1,613	3,500
Land		3,000	
Accumulated Depreciation	(7,122)	(44,856)	(62,820)
Contributions-In-Aid-of-Construction	(41,150)	(10,842)	(89,841)
CIAC Amortization	7,091	(48,741)	33,127
		50	
Plant Held for Future Use	0	22,548	0
Working Capital	0	3,488	0
Acquisition Adjustment	0	0	0
Amortization-Acquisition Adj	<u>0</u>	0	<u>0</u>
TOTAL	<u>\$ 6,360</u>	(3,777)	<u>\$ 2,583</u>

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SCHEDULE NO. 2

Sumter Water Company, Inc.
SCHEDULE OF WASTEWATER RATE BASE
As of December 31, 1995

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 4,110	\$85,747 900	\$ 90,757
Land	500	7,000	7,500
Accumulated Depreciation	(843)	(44,108) (15,056)	(60,007)
Contributions-In-Aid-of-Construction	(1,100)	(59,642) 50	(60,692)
CIAC Amortization	82	39,994 5,825	42,901
Plant Held for Future Use	0	0	0
Working Capital	0	0	0
Acquisition Adjustment	0	0	0
Amortization-Acquisition Adj	<u>0</u>	0	<u>0</u>
TOTAL	<u>\$ 2,749</u>	17,710	<u>\$ 20,459</u>

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ISSUE 3: Should an acquisition adjustment be approved?

RECOMMENDATION: No. (COKER)

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

Purchase price	\$25,000
Staff calculated rate base	<u>\$23,042</u>
Acquisition adjustment	<u>\$ 1,958</u>

Crystal River is an operating entity that acquires and consolidates small utility systems in order to achieve greater operating efficiencies. Additional investments to enhance system performance are sometimes needed and Crystal River has committed resources to make any necessary repairs.

In the absence of extraordinary circumstances, it has been Commission practice that a subsequent purchase of a utility system at a premium or discount shall not affect the rate base calculation. The circumstances in this exchange do not appear to be extraordinary. An acquisition adjustment was not requested by the applicant. Therefore, in consideration of the foregoing, an acquisition adjustment should not be included in the calculation of rate base.

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ISSUE 4: Should Crystal River Utilities, Inc. adopt and use the rates and charges approved by this Commission for Sumter Water Company, Inc.?

RECOMMENDATION: Yes, Crystal River Utilities, Inc. should continue charging the rates approved for this utility system. Additionally, the utility should be authorized to implement Crystal River's currently approved deposit charges and late fee. The tariff reflecting the change in ownership should be effective for services provided or connections made on or after the stamped approval date. The portion of the order concerning the approval of the deposit charges and late fee should be issued as proposed agency action. (COKER)

STAFF ANALYSIS: The utility's current approved rates and charges were effective December 15, 1995 due to a correction in rates from amortized rate case expense.

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)

Crystal River has requested the rates currently being charged remain in effect. The rates are reflected below:

WATER

Residential Service and General Service

Meter Size	Base Facility Charge
5/8 x 3/4"	\$ 13.00
3/4"	\$ 19.50
1.0"	\$ 32.50
1.5"	\$ 64.98
2.0"	\$ 103.97
3.0"	\$ 207.94
4.0"	\$ 324.91
6.0"	\$ 649.82
8.0"	\$1039.70
Gallage Charge (per 1,000 gallons)	\$ 2.45

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WASTEWATER

Residential Service and General Service

Meter Size	Base Facility Charge
5/8 x 3/4"	\$ 12.73
3/4"	\$ 19.10
1.0"	\$ 31.83
1.5"	\$ 63.64
2.0"	\$ 101.81
3.0"	\$ 203.65
4.0"	\$ 318.20
6.0"	\$ 636.40
8.0"	\$1018.24
RS Gallonage Charge (per 1,000 gallons)	\$ 2.77
GS Gallonage Charge (per 1,000 gallons)	\$ 3.33

**MISCELLANEOUS
SERVICE CHARGES**

Initial Connection	\$ 15.00
Normal Reconnection	\$ 15.00
Premises Visit	\$ 10.00
Violation Reconnection	Actual Cost

SERVICE AVAILABILITY CHARGES

Plant Capacity Charge	\$ 450.00
Main Extension Charge	\$ 50.00
Meter Installation Charge	Actual Cost

DEPOSITS

5/8" x 3/4" meter	\$ 40.00
1.0" meter	\$ 40.00
Meter Test Deposit	
5/8" x 3/4" meter	\$ 20.00
1.0" meter	\$ 25.00
2.0" and larger meter	Actual Cost

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Crystal River has not requested a change in the rates of the utility. However, Crystal River has requested that the deposit charges and late fee charge currently outlined in Crystal River's approved tariff be applied to the Sumter's service area. Sumter is currently authorized to charge a residential customer (5/8" x 3/4" meter size) a \$40.00 deposit. Crystal River has requested to implement the following charges:

	<u>Residential</u>	<u>General Service</u>
5/8" x 3/4"	\$ 20.00	\$ 20.00
1"	\$ 50.00	\$ 50.00
1.5"	\$100.00	\$100.00
Over 2.0"	\$160.00	\$160.00

Staff has compared Sumter's currently approved deposit charges with Crystal River's approved deposit charges and believes the Crystal River deposit is reasonable since the only difference between the two rates is the adjustment for larger meter sizes.

In addition, Crystal River has requested to implement its currently approved late fee of \$5.00. The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquent notices and accounts solely upon those who are the cost causer. Statistics filed with Crystal River's request show that approximately 24% of its customers are delinquent each month. Crystal River provided documentation showing that the utility incurs a cost of \$7.77 per late account. Therefore, staff recommends that Crystal River's request to apply its currently approved deposit charges and late fee to the Sumter service area are just, fair and reasonable and that the portion of the order concerning the approval of the deposit charges and late fee should be issued as proposed agency action.

Based on the above, staff recommends that the utility continue charging the rates approved for Sumter. Additionally, staff recommends that the utility should be authorized to implement Crystal River's currently approved deposit charges and late fee. The utility has filed a tariff reflecting the transfer of ownership. Staff will approve the tariff filing effective for services provided or connections made on or after the stamped approval date, provided the customers have received notice. The tariff sheets will be approved upon staff's verification that the tariff is consistent with the Commission's decision and Rule 25-30.475, Florida Administrative Code. Finally, staff recommends that the portion of the Order concerning the approval of the

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deposit charges and late fee should be issued as proposed agency
action.

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ISSUE 5: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the 21 day protest period, this docket should be closed if no timely protest is filed by a substantially affected person to the proposed agency action issues.
(CROSBY)

STAFF ANALYSIS: If there are no timely protests filed by a substantially affected person to the proposed agency action issues (Issues Nos. 2, 3 and 4), no further action will be required and this docket should be closed.