

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

March 6, 1997

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

FROM: DIVISION OF WATER & WASTEWATER (GOLDEN, REDEMANN) *ms to m* *ppk* *my*
DIVISION OF LEGAL SERVICES (CROSBY) *WJ*

RE: DOCKET NO. 960793-WU - HAINES CREEK MOBILE HOMESITES
WATERWORKS - APPLICATION FOR TRANSFER OF CERTIFICATE NO.
130-W IN LAKE COUNTY FROM HAINES CREEK MOBILE HOMESITES
WATERWORKS TO CRYSTAL RIVER UTILITIES, INC.
COUNTY: LAKE

AGENDA: MARCH 18, 1997 - REGULAR AGENDA - PROPOSED AGENCY ACTION
ON ISSUES 2, 3, AND A PORTION OF 4 - INTERESTED PERSONS
MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\960793WU.RCM

DOCUMENT NUMBER-DATE
02468 MAR-65
FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Haines Creek Mobile Homesites Waterworks (Haines Creek, Seller, or utility) is a Class C utility which provides water service in Lake County. According to the utility's 1995 Annual Report, it serves 107 water customers. In 1995, the utility had annual operating revenues of \$18,570 and a net operating income of \$4,395. The utility's facilities consist of one water treatment plant and one water transmission and distribution system.

On July 1, 1996, Crystal River Utilities, Inc. (Crystal River or Buyer) filed an application to transfer Water Certificate No. 130-W from Haines Creek to Crystal River. The application states that the transfer is in the public interest because the Seller is retiring and divesting himself of all interests in community systems. This water system is the only Florida Public Service Commission (Commission or PSC) regulated system owned by the Seller.

Section 367.031, Florida Statutes, requires each utility subject to the Commission's jurisdiction to obtain a certificate of authorization. Section 367.071, Florida Statutes, states in part that no utility shall sell, assign, or transfer its certificate of authorization, facilities or any portion thereof, or majority organizational control without approval of the Commission. Staff has reviewed the Agreement for Purchase and Sale (Agreement) and has found that although the parties have come to an agreement on the sale, the official closing is contingent upon the approval of the Commission. The following is staff's recommendation regarding the requested transfer.

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DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of Water Certificate No. 130-W from Haines Creek Mobile Homesites Waterworks to Crystal River Utilities, Inc. be approved?

RECOMMENDATION: Yes, the transfer should be approved. Water Certificate No. 130-W, held by Haines Creek Mobile Homesites Waterworks, should be cancelled, and Water Certificate No. 123-W held by Crystal River Utilities, Inc. should be amended to include the appropriate territory. The utility should file an executed and recorded copy of the easements for the land upon which its facilities are located within thirty days of the issuance date of the Order granting the certificate. (GOLDEN, REDEMANN)

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 \$750, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code.

The applicant has not provided evidence that the utility owns or will have continued use of the land upon which the utility's facilities are located as required by Rule 25-30.037(2)(g), Florida Administrative Code. However, the Rule states that "the Commission may consider a written easement or other cost-effective alternative" to land ownership. The application includes a copy of the executed warranty deed which shows that the Seller owns the land upon which the utility's facilities are located. Additionally, the Division of Auditing and Financial Analysis conducted an audit of the books and records of Haines Creek to determine the rate base of the utility. During the audit, field audit staff verified that the land was in the name of the utility owner. According to an Addendum to the Agreement for Purchase and Sale, the Seller is not selling the land to the Buyer. However, both the Seller and Buyer informed staff that the Seller will grant the Buyer exclusive easements for the land upon which the utility's facilities are located.

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.

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Regarding the Buyer's technical ability to operate the system, Crystal River has indicated that it will be retaining the services of H2O Utility Services, Inc. (H2O) to maintain and operate the system. H2O currently operates and maintains over eighty systems in Florida. The application states that the Buyer conducted personal and outside professional investigations on the water system. The Buyer also conducted a complete review of all files at the Florida Department of Environmental Protection (DEP), and determined that there are no outstanding consent orders or violations with the DEP on this system. Additionally, staff has contacted the DEP and learned that there are no outstanding notices of violation against the utility.

Regarding the Buyer's financial ability, Crystal River provided its 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 Buyer possesses the overall financial ability to operate the water facility. As stated previously, the Annual Report for 1995 shows that the utility's annual operating revenue for the system was \$18,570 and the net operating income was \$4,395. Additionally, according to the utility's Annual Reports for 1989 through 1994, the utility has consistently earned a profit ranging from \$2,551 to \$6,165. Since the system is small and has consistently earned a profit since 1989, staff believes the assets of the new owner should be adequate to insure the continued operations of the utility.

The application contains a copy of the Agreement for Purchase and Sale which includes the purchase price, terms of payment and a list of the assets purchased and liabilities assumed. According to the Agreement, the purchase price is \$15,000. The Buyer will pay \$5,000 cash, and the Seller will finance the balance at 8.0% over five years. The purchase money note will be secured by a mortgage and lien on the purchased assets only. 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 incurred or accrued up to closing. The developer agreements, customer deposits and interest thereon will be transferred to the Buyer. Also, the Buyer will be fully responsible for regulatory assessment fees in the year closing occurs. Additionally, Crystal River has provided a statement that it will fulfill the commitments, obligations, and representations of the Seller regarding utility matters.

Based on the above, staff believes the transfer of Water Certificate No. 130-W from Haines Creek Mobile Homesites Waterworks to Crystal River Utilities, Inc. is in the public interest and

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should be approved. However, subsequent to the filing of this application, Crystal River was granted Water Certificate No. 123-W in Lake County. Customarily, when a utility currently holds a certificate of authorization to provide service within a certain county, the Commission will amend its existing certificate to include the purchased utility's territory rather than granting multiple certificates for the same county. Therefore, staff recommends that Water Certificate No. 130-W, held by Haines Creek Mobile Homesites Waterworks, should be cancelled, and Water Certificate No. 123-W held by Crystal River Utilities, Inc. should be amended to include the appropriate territory. Additionally, staff recommends that the utility be required to file an executed and recorded copy of the easements for the land upon which its facilities are located within thirty days of the issuance date of the Order granting the certificate.

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ATTACHMENT A

CRYSTAL RIVER UTILITIES, INC.

TERRITORY DESCRIPTION

SERVING THE HAINES CREEK MOBILE HOME PARK

LAKE COUNTY

The following described lands located in portions of Sections 11 and 12, Township 19 South, Range 25 East, Lake County, Florida:

In Section 11:

Commence at the Northeast corner of said Section 11, for a Point of Beginning; thence South 89° 55' 30" West along the North line of the Northeast 1/4 of said Section, 142.86 feet to a point on the West right-of-way line of County Road No. 473, said point being 40 feet from the centerline of said county road; thence South 00° 07' 47" West along said West right-of-way line, 720.08 feet to the point of beginning; thence continue South 00° 07' 47" West along said West right-of-way line, 612.00 feet; thence departing said West right-of-way-line and run North 89° 56' 23" West; 660.00 feet; thence North 00° 07' 50" East, 183.67 feet; thence North 36° 22' 38" East, 501.98 feet; thence North 86° 18' 09" East, 364.00 feet to the point of beginning, containing 7.63 acres, more or less.

In Section 12:

Commence at the Northwest corner of said Section 12 for a Point of Beginning; thence run East along said section line 825 feet to the East Boundary of Learn's Road; thence South 500 feet; thence West 200 feet; thence South 1390 feet to the North right-of-way line of Haines Creek Road; thence West along said right-of-way line 630 feet to the West section line of said Section 12; thence North along said section line 1870 feet to the Point of Beginning.

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ISSUE 2: What is the rate base of Haines Creek Mobile Homesites Waterworks at the time of transfer?

RECOMMENDATION: The rate base, which for transfer purposes reflects the net book value, is \$4,747 for the water system as of December 31, 1995. (GOLDEN)

STAFF ANALYSIS: According to the application, the net book value of the system being transferred as of December 31, 1995 is \$10,260. Rate base was previously established by this Commission in Docket No. 870008-WU which was a staff-assisted rate case. According to Order No. 18000 issued on August 14, 1987 in that docket, rate base was \$8,345 as of December 31, 1986.

The Division of Auditing and Financial Analysis conducted an audit of the books and records of Haines Creek to determine the rate base (net book value) as of December 31, 1995. The audit report contained eight exceptions. The following adjustments were made by staff as a result of the rate base audit.

Field audit staff determined that the utility's books and records were not maintained in compliance with the NARUC Uniform System of Accounts. Rule 25-30.115(1), Florida Administrative Code, requires all water and wastewater utilities to maintain their accounts and records in conformity with the 1984 NARUC Uniform System of Accounts. Because this audit was conducted for the purpose of a transfer, field audit staff recommended that no action should be taken against the Seller at this time. However, staff believes this audit exception warrants mentioning so the Buyer will be aware of this requirement in future proceedings.

Staff is recommending that five adjustments totaling (\$9,081) be made to utility plant in service. First, the utility replaced a pump in 1988 and then again in 1991. However, the utility did not record these retirements and additions on its books. A reduction to plant of \$1,883 is necessary to reflect the pump retirements and additions. Second, Order No. 18000 discussed above established a balance of \$823 in Account No. 105, Construction Work in Progress (CWIP), for the installation cost of a two-inch master flow meter at the utility's water plant. The utility subsequently replaced the meter in 1987. The utility did not transfer the original \$823 from CWIP to utility plant in service, or record the retirement of the replaced meter. Also, the utility recorded the new meter to the incorrect account. An increase to plant of \$490 is necessary to properly record the initial installation, retirement, and replacement of the utility's master flow meter.

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The third adjustment to plant relates to a hydropneumatic tank that was replaced in 1990. Again, the retirement was not recorded, and the addition was recorded to incorrect accounts. A reduction of (\$877) is needed to properly reflect the retirement and addition of the tank. Fourth, Order No. 18000 allowed \$550 to be included in the utility's annual operations and maintenance expense to fund a water meter replacement program. However, the meters that were replaced between January 1, 1987 and December 31, 1995 were added to Account No. 334, Meters and Meter Installations. The replaced meters should have been expensed to operations and maintenance as part of the utility's recognized meter replacement program. Therefore, plant should be reduced by \$4,140 to remove the replacement meters.

Last, the Seller provided audit staff with a signed statement which discussed the utility property that will not be transferred to the Buyer. The building which houses the utility plant will not be transferred to the Buyer. The Seller will partition the building and grant access to the area that houses the utility plant at no cost to the Buyer. Also, of the \$1,792 in tools recorded on the Seller's books, only two items, with a total cost of \$98, will be transferred to the Buyer. The remaining \$1,695 in tools will remain the personal property of the Seller at closing. Therefore, plant should be reduced by (\$2,672) to reflect these items that will not be transferred to the Buyer.

The Seller also stated that the land upon which the utility facilities are located will not be transferred to the Buyer. As discussed in Issue 1, the Seller will give the Buyer an easement to access the utility property. Therefore, staff recommends that land be reduced by (\$882).

As discussed above, the building that houses the utility plant will not be transferred to the Buyer. Order No. 18000 established a net balance of \$156 for Account No. 103, Plant Held for Future Use, to represent the non used and useful portion of the building. This will likewise not be transferred to the buyer, and should be removed from plant held for future use.

Also, as discussed above, the utility did not transfer the installation cost for a two-inch master flow meter from CWIP to utility plant in service. CWIP should be reduced by (\$823) to reflect the transfer of the master flow meter to utility plant in service.

Rule 25-30.140(4)(b), Florida Administrative Code, requires all utilities to maintain depreciation rates as prescribed by the Commission. Order No. 18000 established a composite depreciation

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rate of 3.8 percent to calculate test year depreciation expense and accumulated depreciation balances. Field audit staff determined that the utility did not use the composite rate established by that Order. Therefore, field audit staff recalculated the utility's depreciation using the composite rate. Additionally, several adjustments were made to correspond to the adjustments to utility plant in service discussed above. The total recommended adjustment to accumulated depreciation is \$5,484.

Similarly, Rule 25-30.140(8), Florida Administrative Code, requires all utilities to maintain contributions-in-aid-of-construction (CIAC) balances and amortization rates as prescribed by the Commission. The utility added one new customer in 1994 and again in 1995, but did not record the additional service availability charges to CIAC. Therefore, CIAC should be adjusted by (\$221) to reflect the additional CIAC.

Also, Order No. 18000 established a composite amortization rate of 2.6 percent to calculate the amount of CIAC amortization from March 1984 on a going forward basis. The utility did not use this composite rate. Field audit staff recalculated the utility's CIAC amortization to reflect the two new customer additions in 1994 and 1995, as well as the correct composite amortization rate. The total recommended adjustment to CIAC amortization is (\$146.)

Staff's calculation of rate base is shown on Schedule No. 1. Adjustments to rate base are itemized on Schedule No. 2. Based on the adjustments set forth herein, staff recommends that rate base for Haines Creek Mobile Homesites Waterworks be established as \$4,747 for the water system as of December 31, 1995. 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
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HAINES CREEK MOBILE HOMESITES WATERWORKS
SCHEDULE OF WATER RATE BASE

As of December 31, 1995

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF
			\$37,507
Utility Plant in Service	\$46,588	(\$9,081) (1)	\$0
Land	882	(882) (2)	\$0
Plant Held for Future Use	(156)	156 (3)	\$0
Construction Work in Progress	823	(823) (4)	\$0
Accumulated Depreciation	(25,675)	5,484 (5)	(\$20,191)
Contributions-in-aid-of-Construction	(23,292)	(221) (6)	(\$23,513)
CIAC Amortization	11,090	(146) (7)	<u>\$10,944</u>
Totals	<u>\$10,260</u>	<u>(\$5,513)</u>	<u>\$4,747</u>

HAINES CREEK MOBILE HOMESITES WATERWORKS
 SCHEDULE OF WATER RATE BASE ADJUSTMENTS

EXPLANATION		ADJUSTMENT
Utility Plant in Service		(\$1,883)
A. To record retirements and additions to pumping equipment		490
B. To properly record the initial installation, retirement, and replacement of a two-inch master flow meter at the utility's water plant		(877)
C. To properly record the retirement and replacement of a hydropneumatic tank		(4,140)
D. To remove improperly recorded meter replacements		(2,672)
E. To remove utility property which will not be transferred to the Buyer		
	Total (1)	(\$9,081)
Land		
A. To remove land which will not be transferred to the Buyer	(2)	(\$882)
Plant Held for Future Use		
A. To remove plant held for future use which will not be transferred to the Buyer	(3)	\$156
Construction Work in Progress		
A. To remove the two-inch master flow meter at the utility's water plant which was transferred to utility plant in service	(4)	(\$823)
Accumulated Depreciation		
A. To adjust balance to comply with Order No. 18000, and to correspond with audit adjustments to utility plant in service	(5)	\$5,484
Contributions-in-aid-of-Construction		
A. To record the addition of two new customers in 1994 and 1995	(6)	(\$221)
CIAC Amortization		
A. To adjust balance to comply with Order No. 18000, and to recognize the addition of two new customers in 1994 and 1995	(7)	(\$146)

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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.
(GOLDEN)

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

Purchase Price:	\$15,000
Staff Calculated Rate Base:	<u>\$ 4,747</u>
Positive Acquisition Adjustment:	<u>\$10,253</u>

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 circumstances in this exchange do not appear to be extraordinary. Field audit staff stated that no substantive facts or audit discoveries appeared during the audit process to warrant an acquisition adjustment at this time. Further, an acquisition adjustment was not requested by the applicant. Therefore, staff recommends that a positive 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 Haines Creek Mobile Homesites Waterworks?

RECOMMENDATION: Yes, Crystal River Utilities, Inc. should continue charging the rates and service availability charges approved for this utility system. Additionally, Crystal River should be authorized to implement its currently approved customer deposits, miscellaneous service charges, and late fee. The tariff reflecting the change in ownership should be effective for services rendered or connections made on or after the stamped approval date. The portion of the Order concerning the approval of the customer deposits, miscellaneous service charges, and late fee should be issued as proposed agency action. (GOLDEN, CROSBY)

STAFF ANALYSIS: The utility's approved rates and charges were effective September 5, 1987 pursuant to Order No. 18000 issued in Docket No. 870008-WU, which was a staff-assisted rate case. 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 not requested a change in the rates or service availability charges of the utility, and staff sees no reason to change them at this time. However, Crystal River has requested that its currently approved customer deposits and miscellaneous service charges, which includes a late fee, be applied to the Haines Creek water service area. Crystal River owns several other systems and is currently charging the same customer deposits, miscellaneous service charges, and late fee to all of its customers. The proposed change to the Haines Creek charges will allow Crystal River to continue charging all of its customers consistently.

Haines Creek is authorized to charge miscellaneous service charges, but does not collect customer deposits or charge a late fee. Haines Creek's currently approved rates and service availability charges, as well as a comparison of Haines Creek's and Crystal River's customer deposits and miscellaneous service charges are shown on Schedule No. 3.

Rule 25-30.311(7), Florida Administrative Code, specifies that customer deposits should not exceed an amount equal to the average

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actual charge for water and/or wastewater service for two billing periods. Staff has reviewed Crystal River's proposed customer deposits and determined that they do not exceed the average two-months' bill for the Haines Creek customers. Therefore, staff believes the proposed charges are reasonable and should be approved.

Also, Crystal River has requested approval to change Haines Creek's miscellaneous service charges to the charges approved in the Crystal River tariff. Crystal River's miscellaneous service charges are the standard charges shown in the Commission's Staff Advisory Bulletin (SAB) No. 13, 2nd Revised. Because Crystal River's charges are in accordance with SAB No. 13, and are very close to those currently charged by Haines Creek, staff believes this change is reasonable and should be approved.

Additionally, Crystal River has requested approval to apply its currently approved late fee of \$5.00 to the Haines Creek service area. 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 late fee to the Haines Creek service area should be approved. The portion of the Order concerning the approval of the customer deposits, miscellaneous service charges, and late fee should be issued as proposed agency action.

Based on the above, staff recommends that the utility continue charging the rates and service availability charges approved for Haines Creek. Additionally, staff recommends that Crystal River should be authorized to implement its currently approved customer deposits, miscellaneous service charges, and late fee. The utility has filed a tariff reflecting the transfer of ownership. Staff will approve the tariff filing effective for services rendered or connections made on or after the stamped approval date. 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 customer deposits, miscellaneous service charges, and late fee should be issued as proposed agency action.

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SCHEDULE NO. 3
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MONTHLY RATES AND CHARGES OF
HAINES CREEK MOBILE HOMESITES WATERWORKS

WATER

Monthly Service Rates

Residential and General Service

Base Facility Charge

Meter Size:

5/8" x 3/4"	\$ 8.62
Full 3/4"	12.93
1"	21.55
1-1/2"	43.10
2"	68.96
3"	137.92
4"	215.50
6"	413.00

Gallonage Charge per 1,000 gallons:	\$ 1.38
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Service Availability Charges

Meter Installation Fee

5/8" x 3/4"	\$ 90.00
1"	Actual Cost
1-1/2"	Actual Cost
2"	Actual Cost
Over 2"	Actual Cost

**MONTHLY RATES AND CHARGES OF
 HAINES CREEK MOBILE HOMESITES WATERWORKS (Continued)**

**Comparison of Haines Creek's and Crystal River's
 Customer Deposits and Miscellaneous Service Charges**

Customer Deposits

Residential and General Service

Meter Size:	Haines Creek	Crystal River
5/8" x 3/4"	N/A	\$ 20.00
1"	N/A	50.00
1-1/2"	N/A	100.00
2" and Over	N/A	160.00

Miscellaneous Service Charges

	Haines Creek		Crystal River
	Normal Hours	After Hours	
Initial Connection	\$ 10.00	\$ 12.00	\$ 15.00
Normal Reconnection	15.00	20.00	15.00
Violation Reconnection	20.00	25.00	15.00
Premises Vist (in lieu of disconnection)	15.00	N/A	10.00
Late Fee	N/A	N/A	5.00

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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 filed by a substantially affected person to the proposed agency action issues (Issues Nos. 2, 3, and a portion of 4), no further action will be required and the docket should be closed.