

FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

JUNE 12, 1997

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

FROM: DIVISION OF WATER & WASTEWATER (BRADY) ^{lyn pb}
DIVISION OF LEGAL SERVICES (K. JOHNSON) ^{kmj} ~~JD~~ ~~JD~~

RE: DOCKET NO. 961331-WU - GLENN'S COVE CENTRAL WATER SYSTEM
- APPLICATION FOR TRANSFER OF CERTIFICATE NO. 324-W FROM
GLENN'S COVE CENTRAL WATER SYSTEM TO COVE WATER SYSTEM,
INC.
COUNTY: LAKE

AGENDA: JUNE 24, 1997 - REGULAR AGENDA - INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\961331WU.RCM

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CASE BACKGROUND

Glenn's Cove Central Water System (Glenn's Cove or utility) is a Class C utility which provides water service to approximately 58 customers in a residential community known as Glenn's Cove, located just outside the Tavares City limits in Lake County, Florida. Wastewater service is provided by septic tanks. According to its 1996 Annual Report, the utility had annual operating revenues of \$7,748 and a net operating loss of \$1,238.

The current owners of the utility have provided potable water service to the community since 1978 when they purchased the utility from the developer-owner. Wishing to be relieved of the responsibility of running the water system, the current owners entered into a contract with the City of Tavares to purchase the water system. An application was filed with the Commission on March 29, 1996, to acknowledge the sale with the closing date scheduled for June 4, 1996. The Commission acknowledged the sale to a government entity and cancelled the utility's water certificate by Order No. PSC-96-0782-FOF-WU, issued June 17, 1996, in Docket No. 960394-WU.

On or about June 26, 1996, staff received notice that the City of Tavares had exercised its option under the feasibility clause of the sales contract to rescind the sale and the transfer did not occur on June 4, 1996, as scheduled. By Order No. PSC-96-1101-FOF-WU, issued August 28, 1996, the Commission vacated its prior order and reinstated the utility's certificate.

On November 6, 1996, the utility filed another application to transfer Certificate No. 324-W to Cove Water System, Inc. (Cove or buyer). Cove is a non-profit organization established by the customers of the utility in order to own and control the water facilities themselves. The Glenn's Cove's application to transfer the utility system to Cove is the subject of this recommendation.

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DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of Water Certificate No. 324-W from Glenn's Cove Central Water System to Cove Water System, Inc., be approved?

RECOMMENDATION: Yes, the transfer should be approved. Water Certificate No. 324-W should be cancelled upon verification from Glenn's Cove Central Water System and Cove Water System, Inc., that the sale of the utility has been closed. (BRADY)

STAFF ANALYSIS: As stated in the case background, Cove is a non-profit corporation formed by the customers of Glenn's Cove for the purpose of owning and operating the water utility. Section 367.022(7), Florida Statutes, exempts from Commission regulation non-profit corporations providing service solely to members which own and control the corporation.

The President of Cove, Mr. Gideon H. Massey III, provided a statement certifying that Cove intends to provide service solely to its members. In addition, Mr. Massey provided a copy of the Cove's Articles of Incorporation as filed with the Florida Department of State, Division of Corporations, as well as the Cove's By-Laws. Staff believes such documents indicate that Cove satisfies the requirements of Section 367.022(7), Florida Statutes. Therefore, if the Commission approves the utility's application to transfer Water Certificate No. 324-W to Cove, staff recommends that the certificate be cancelled upon verification of the sale closing.

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 a transfer of certificates. 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 application also contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code. No objections to the notice have been received and the time for filing such has expired. A warranty deed was provided as evidence that the utility owns the land upon which the utility facilities are located as required by Rule 25-30.037(2)(g), Florida Administrative Code.

A copy of the sales agreement entitled "Agreement of Purchase and Sale of Glenn's Cove Water System" was also provided with the application. The contract was signed on August 28, 1996, but the closing date is contingent upon the Commission's approval and authorization of the sale. According to the contract, the purchase price is \$13,800. Cove anticipates that the total acquisition

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costs, including all provisions and closing costs, will be \$18,000. No money is being borrowed to finance the purchase. Instead, each member of Cove is required to pay a membership fee of \$600. As of the date of the filing, Cove had collected \$28,000 leaving it with an operating reserve of \$10,000.

With regard to its technical ability, Cove admits that it does not have any prior utility experience. However, the buyer has retained the services of Mr. S.E. Gene Croyle to manage the overall operation of the utility. Mr. Croyle holds a Class C water license issued by the Florida Department of Environmental Protection (DEP). Cove provided a statement that, upon inspection and reasonable investigation, it appears that the water system is in satisfactory condition and in compliance with all applicable standards set by the DEP. Staff has confirmed with DEP that the system being transferred is in compliance with the DEP's standards and rules as of the date of this recommendation.

The utility provided a statement that it does not hold any customer deposits or prepaid water bills. The utility has filed a 1996 Annual Report and paid 1996 regulatory assessment fees. In addition, the utility agrees that it is responsible for any additional assessment fees up to the actual closing date of the contract.

The buyer has provided a statement that it intends to fulfill the commitments, obligations and representations of Glenn's Cove with regard to utility matters. The buyer has stated that it has received all books and records of the seller and copies of the seller's federal income tax returns from the date rate base was last established.

Rate base for transfer purposes is not generally set nor are rates and charges established where the transfer is to an entity which will not be regulated by the Commission. However, for information purposes, the Commission last established the utility's rate base in Docket No. 930449-WU, which was a staff-assisted rate case. In the resulting Order No. PSC-93-1816-FOF-WU, issued December 22, 1993, rate base was determined to be \$50,102 as of March 31, 1993.

Based on all the above, staff believes the transfer of Water Certificate No. 324-W from Glenn's Cove Central Water System to Cove Water System, Inc., is in the public interest and should be approved. Further, it appears that Cove Water System, Inc., satisfies the requirements for exemption pursuant to Section 367.022(7), Florida Statutes. Therefore, staff recommends that

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Water Certificate No. 324-W be cancelled upon verification that the sale of the utility has been closed.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open pending the sale of the utility to Cove Water System, Inc. (K. JOHNSON)

STAFF ANALYSIS: The docket should remain open to receive verification from Glenn's Cove Central Water System and Cove Water System, Inc., that the sale of the utility has been closed, at which time the docket should be administratively closed by staff.

cc: Mr. Glenn Little
Cove Water System
P.O. Box 545
Tavares, Florida 32778-0545

Alice Crosby, Division of Legal Services
Division of Records and Reporting