

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MEMORANDUM

NOVEMBER 20, 1997

RECEIVED

NOV 20 1997

11:45
FPSC - Records/Reporting

TO: DIRECTOR OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER AND SEWER (WALKER, REDEMANN) *33m*
DIVISION OF LEGAL SERVICES (CROSBY) *per*

RE: DOCKET NO. 970822-WU - APPLICATION FOR TRANSFER OF FACILITIES FROM SH UTILITIES, INC. TO LINDRICK SERVICE CORPORATION: CANCELLATION OF CERTIFICATE NO. 111-W AND AMENDMENT OF CERTIFICATE NO. 157-W TO INCLUDE SHAMROCK HEIGHTS SERVICE AREA IN PASCO COUNTY

AGENDA: DECEMBER 2, 1997 - REGULAR AGENDA - PROPOSED AGENCY ACTION FOR ISSUES NOS. 2 and 3 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\970822.RCM

CASE BACKGROUND

S H Utilities, Inc. (S H Utilities or utility) is a Class C utility that provides water service for about 200 residential customers in Pasco County. In 1996, S H Utilities recorded operating revenues of \$35,701, operating expenses of \$33,161, and net operating income of \$2,540.

On July 14, 1997, Lindrick Service Corporation (Lindrick) filed an application for approval to transfer water facilities from S H Utilities to Lindrick, to amend Lindrick's water certificate (157-W), and cancel S H Utilities' certificate (111-W). As stated in the application, Lindrick intends to fulfill the commitments, obligations, and representations of S H Utilities with regard to utility concerns.

DOCUMENT NUMBER-DATE

11928 NOV 20 97

FPSC-RECORDS/REPORTING

DOCKET NO. 970822-WU
DATE: NOVEMBER 20, 1997

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve the request to transfer water facilities from S H Utilities to Lindrick, to amend Lindrick's water certificate (157-W), and to cancel S H Utilities' certificate (111-W)?

RECOMMENDATION: Yes, the transfer should be approved, S H Utilities' Water Certificate No. 111-W should be canceled, and Lindrick's Water Certificate No. 157-W should be amended to include the transferred territory. Further, Lindrick should be ordered to submit a properly executed warranty deed conveying title to the subject plant sites to Lindrick within 60 days of issuance of the order. (WALKER, 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 a 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.

In response to the question concerning proof of ownership for the treatment plant sites, Lindrick filed copies of property tax bills that reportedly encompass the utility's pumps and treatment facilities. The actual transfer of plant sites to Lindrick will occur after the Commission approves the proposed transfer and any other preliminary conditions are met. In other pending transfer proceedings, the Commission has required the acquiring utility to furnish further evidence that its plant sites are secure. Therefore, in accordance with Rule 25-30.037(2)(q), Florida Administrative Code, staff recommends that Lindrick be ordered to submit a properly executed warranty deed conveying title of the subject plant sites to Lindrick within 60 days of issuance of the order.

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.

Lindrick began operation in 1960 and provides water and wastewater service to residential and general service customers in the New Port Richey area of Pasco County. According to the

DOCKET NO. 970822-WU
DATE: NOVEMBER 20, 1997

application, the service areas of S H Utilities and Lindrick are contiguous. Lindrick has further agreed to fulfill the service obligations and duties of the acquired system. Lindrick contends in its application that its acquisition of S H Utilities system will provide economies of scale that will benefit existing and future customers. Lindrick's acquisition of the S H Utilities water system appears to relate an expected increase in water supplies, a consequent reduction in other purchased water costs, and anticipated economies of scale. In 1996, about 60% of Lindrick's water supply and about 50% of its operating expenses were associated with purchasing water from the City of New Port Richey. The S H Utilities system includes two wells that can produce about 230,000 gallons per day of water and a distribution system that serves about 200 customers. There are no immediate plans to interconnect the adjoining systems.

Staff contacted the Department of Environmental Protection (DEP) concerning S H Utilities' compliance status relative to any Notices of Violations or DEP consent orders. We were informed that this system is not subject to any outstanding violation or consent orders. According to Lindrick, its representatives have inspected S H Utilities' water system and are satisfied that the system is in satisfactory operating condition and is being operated in compliance with DEP standards.

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. Pursuant to the agreement, Lindrick will pay \$150,000 to acquire this utility system, with \$100,000 paid in installments subject to an 8% annual interest rate.

The purchase agreement includes a contingent measure regarding the proposed transfer. According to the agreement, the proposed sale is contingent upon approval from Southwest Florida Water Management District (SWFWMD) to withdraw an additional 100,000 gallons per day of water. Absent such approval, the option to conclude or terminate the agreement was given to Lindrick to exercise. Lindrick reportedly applied for added pumping authority but elected to withdraw its request since additional facilities and expenditures are also expected. Still, Lindrick has elected to pursue the requested transfer despite the presently unenlarged capacity of the acquired facilities and evaluate construction alternatives later.

Based on the above, the staff recommends that the proposed transfer is in the public interest and should be approved. Upon such approval, Lindrick's water certificate in Pasco County (157-W)

DOCKET NO. 970822-WU
DATE: NOVEMBER 20, 1997

should be amended to include the added territory and S H Utilities' present certificate (111-W) should be canceled.

DOCKET NO. 970822-WU
DATE: NOVEMBER 20, 1997

ATTACHMENT A

LINDRICK SERVICE CORPORATION

TERRITORY DESCRIPTION

For the Shamrock Heights area in Township 26 South, Range 16 East, Pasco County

Sections 17 & 18

Begin at the Southeast corner of the Southwest 1/4 of Northwest 1/4, thence due North 1620 feet, thence due West 1160 feet to the Southeast right of way line of U.S. 19, thence Southwesterly to the point of intersection of said Southeast right of way line of U.S. 19 with the North right of way line of S.R. S-518, thence East along said North right of way line of S.R. S-518 to the Point of Beginning.

DOCKET NO. 970822-WU
DATE: NOVEMBER 20, 1997

ISSUE 2: What is the rate base of S H Utilities at the time of transfer?

RECOMMENDATION: The rate base amount, which for transfer purposes reflects the net book value, is \$20,899. (WALKER)

STAFF ANALYSIS: S H Utilities's rate base amount was last established by the Commission in Docket No. 860920-WU. The approved rate base amount was \$29,605 for the test year ended July 31, 1986 (Order No. 17434). In response to the inquiry in this application concerning the proposed rate base amount, Lindrick furnished a copy of S H Utilities' balance sheet for year ended December 31, 1996, which indicated a \$24,355 rate base amount. Lindrick further explained that the reserve accounts would need to be updated to the actual transfer date.

An audit examination was conducted by the Commission's audit staff to provide further support for the utility's reported balances. The audit staff recommended adjusting the utility's accumulated depreciation and amortization balances to July 31, 1997, the previously anticipated closing date. The audit staff also recommended adjusting the reserve balances to reflect the prescribed depreciation rates on an account by account basis, rather than the 4.38% composite rate the utility used. During his on-site inspection, the auditor confirmed that certain reported additions to plant were completed as expected and that the dollar amounts were not irregular. Our review shows that the utility's reported additions are adequately supported and should be allowed. However, the reserve accounts should be adjusted to agree with the auditor's findings. As adjusted, the recommended rate base amount is \$20,899.

Staff's recommended rate base balance for S H Utilities is illustrated on the attached Schedule No. 1. Based on the adjustments set forth herein, staff recommends that rate base for the S H Utilities system should be established as \$20,899. This rate base calculation is used solely to establish the net book value of the property being transferred. This amount does not include the normal ratemaking adjustments for working capital or used and useful factors.

DOCKET NO. 970822-WU
DATE: NOVEMBER 20, 1997

SCHEDULE NO. 1

S H UTILITIES, INC.
SCHEDULE OF WATER RATE BASE
AS OF JULY 31, 1997

<u>Description</u>	<u>Balance per Utility</u>	<u>Adjust</u>	<u>Balance per Staff</u>
Utility Plant in Service	\$103,143	\$0	\$103,143
Land	\$3,450	\$0	\$3,450
Accumulated Depreciation	(\$77,229)	(\$6,904) a)	(\$84,133)
CIAC	(\$52,498)	\$0	(\$52,498)
Accumulated Amortization	\$47,489	\$3,448 b)	\$50,937
Working Capital	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Totals	<u>\$24,355</u>	<u>(\$3,456)</u>	<u>\$20,899</u>

a) Adjustment to adjust accumulated depreciation to reflect use of guideline rates by individual account

b) Adjustment to adjust accumulated amortization to reflect use of guideline rates by individual account

DOCKET NO. 970822-WU
DATE: NOVEMBER 20, 1997

ISSUE 3: Should a positive acquisition adjustment be approved?

RECOMMENDATION: No. The \$129,101 positive acquisition adjustment should not be included in the calculation of rate base for transfer purposes. (WALKER)

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from the original cost calculation. In this proceeding, the purchase price for the S H Utilities system is \$150,000. This amount exceeds the recommended \$20,899 rate base amount by \$129,101. 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. Therefore, rate base inclusion of the resulting \$129,101 positive acquisition adjustment is not recommended in this proceeding. Further, Lindrick did not request rate base inclusion of an acquisition adjustment in this proceeding.

The acquisition adjustment that results from the transfer of S H Utilities is calculated as follows:

Purchase Price:	\$150,000
Staff Calculated Rate Base:	<u>\$20,899</u>
Positive Acquisition Adjustment:	<u>\$129,101</u>

Our review of the application suggests that Lindrick elected to purchase this water to obtain additional water supplies, to thereby reduce its purchased water costs, and to achieve expected economies of scale. Concerning the negative impact due excluding the acquisition adjustment, staff was advised that access to additional water was also important. Since extraordinary circumstances are not alleged, and none are evident, the staff recommends exclusion of the positive acquisition adjustment.

DOCKET NO. 970822-WU
DATE: NOVEMBER 20, 1997

ISSUE 4: Should Lindrick Service Corporation adopt and use the rates and charges approved by this Commission for S H Utilities, Inc.?

RECOMMENDATION: Yes, Lindrick should continue charging the rates and charges approved for this utility system. The utility filed a tariff reflecting the transfer of ownership, which will be approved for services provided and connections made after the stamped approval date. (WALKER)

STAFF ANALYSIS: The utility's approved rates and charges for residential and general service were effective on May 31, 1997, in accordance with administrative order WS-97-0037, which implemented a price index rate adjustment. Lindrick has proposed retention of those charges for this proceeding.

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)...

Lindrick has not requested a change in the rates and charges of the utility, and staff is not aware of any 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.

DOCKET NO. 970822-WU
DATE: NOVEMBER 20, 1997

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 (Issues Nos. 2 and 3), no further action will be required and the docket should be closed.