

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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RECORDS AND REPORTING  
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GSR

**DATE:** JUNE 18, 1998

**TO:** DIRECTOR, DIVISION OF RECORDS AND REPORTING (EASD)

**FROM:** DIVISION OF WATER AND WASTEWATER (JOHNSON, REDEMANN)  
DIVISION OF LEGAL SERVICES (CROSBY)

**RE:** DOCKET NO. 971220-WS - APPLICATION FOR TRANSFER OF  
CERTIFICATES NOS. 592-W AND 509-S FROM CYPRESS LAKES  
ASSOCIATES, LTD. TO CYPRESS LAKES UTILITIES, INC. IN POLK  
COUNTY. POLK

**AGENDA:** 6/30/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION ON  
ISSUES 2, 3, AND A PORTION OF 4 - INTERESTED PERSONS MAY  
PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\WAW\WP\971220.RCM

CASE BACKGROUND

Cypress Lakes Associates, Ltd. (Cypress Lakes or utility or Seller) is a class C utility that provides water and wastewater service in Polk County and serves approximately 819 water and wastewater customers. According to its application, Cypress Lakes has been providing service since 1987. The annual report for 1996 shows that the operating revenue were \$14,383 and \$36,096; the net operating losses were \$3,895 and \$59,162, for the water and wastewater systems respectively.

On September 19, 1997, Cypress Lakes Associates, Ltd. filed an application for authority to transfer Water Certificate No. 592-W and Wastewater Certificate No. 509-S to Cypress Lakes Utilities Inc. pursuant to Section 367.071, Florida Statutes. Cypress Lakes Utilities Inc. is purchasing the water distribution and wastewater

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collection and treatment facilities of Cypress Lakes. Cypress Lakes Utilities, Inc. is a wholly-owned subsidiary of Utilities, Inc.

Section 367.071, Florida Statutes, states 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. Review of the application indicates Cypress Lakes (Seller) and Cypress Lakes Utilities, Inc. (Buyer) entered into an agreement for the sale of the utility system on August 20, 1997. According to the sales contract, the sale is contingent upon Commission approval, and closing is scheduled to occur ten days after Commission approval of the transfer. In addition, the sales contract states that the seller will provide deeds for the land upon which the utilities' facilities are located after closing of the sale has occurred. If the transfer is not approved by the Commission within 18 months, the sales contract indicates that the agreement will be terminated. Cypress Lakes Associates, Ltd. and Cypress Lakes Utilities, Inc. also entered into a management contract whereby Cypress Lakes Utilities, Inc. will operate and manage the utility for the Seller until closing of the sale occurs. Cypress Lakes Utilities, Inc. is being paid a fee to operate the system; all revenues collected are paid to the seller. Therefore, although Cypress Lakes Utilities, Inc. is operating the system, ownership and control has not passed from Cypress Lakes.

This recommendation addresses Cypress Lakes' application for transfer of Certificates Nos. 592-W and 509-S to Cypress Lakes' Utilities, Inc.

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### DISCUSSION OF ISSUES

**ISSUE 1:** Should the transfer of Water certificates No. 592-W and Wastewater Certificate No. 509-S from Cypress Lakes Associates, Ltd. to Cypress Lakes Utilities, Inc. be granted?

**RECOMMENDATION:** Yes, the transfer of Certificates Nos. 592-W and 509-S from Cypress Lakes Associates, Ltd. to Cypress Lakes Utilities, Inc. should be approved. In addition, Cypress Lakes Utilities, Inc. should be ordered to provide warranty deeds in the name of the utility for the land upon which the facilities are located within 60 days of the date the order is issued. (JOHNSON)

**STAFF ANALYSIS:** As stated in the case background, Cypress Lakes applied for a transfer of Water Certificate No. 592-W and Wastewater Certificate No. 509-S in Polk County to Cypress Lakes Utilities, Inc. on September 19, 1997. 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 \$3,000, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code.

Rule 25-30.037(2)(q), Florida Administrative Code, requires a utility to provide proof of ownership of the land upon which its facilities are located. The application contained a deed in the name of Cypress Lakes Associates, Ltd. that covers the entire Cypress Lakes development. According to the sales contract, the seller will provide deeds to the specific parcels of land where the utility's facilities are located at closing. Therefore, Cypress Lakes Utilities, Inc. should be required to provide copies of recorded deeds for the land upon which the utility facilities are located in the name of the utility as proof that it owns the land upon which the facilities are located. The deeds should be submitted within 60 days of the date of the order issued as a result of action taken at this agenda conference.

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 being transferred. A description of the territory requested by the applicant is appended to this memorandum as Attachment A.

With regard to the purchaser's technical ability, Cypress Lakes Utilities, Inc. is a wholly-owned subsidiary of Utilities, Inc. Utilities, Inc. has approximately 31 years of experience in the water and wastewater utility industry. In addition, to 22 years of experience in operating water and wastewater utilities

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under the regulation of the Florida Public Service Commission and the financial resources to ensure consistent compliance with environmental regulations. At the present time, Utilities, Inc., provides safe and reliable water and wastewater service to approximately 165,000 customers in fifteen states.

The application states that the Company's representative has performed a reasonable investigation of the Cypress Lakes system. The water plant appears to be in satisfactory condition and in compliance with all applicable standards set by the Florida Department of Environmental Protection (DEP). The wastewater plant has problems with capacity during the peak flow periods and requires expansion to meet future and existing flow demands. The Seller has prepared and submitted to the DEP the preliminary designs to expand the wastewater plant (construction permit). The preliminary costs are estimated to be \$535,000 for the plant expansion. Pursuant to the contract Cypress Lakes will fund the expansion and donate the facilities to Cypress Lakes Utilities, Inc. Staff has contacted the DEP and learned that there are no outstanding notices of violation against the utility, except as stated above. Further, the utility has a pending expansion application with the DEP.

With regard to the purchaser's financial ability, Utilities, Inc. provided a statement that it has both the regulatory experience and the financial ability to ensure consistent compliance with environmental protection regulations. Utilities Inc. has other water and wastewater utilities under the regulation of the Florida Public Service Commission. These Florida subsidiaries are in good standing with the Commission. Utilities, Inc. of Florida is a wholly-owned subsidiary of Utilities, Inc., which has approximately \$235,000,000 of assets and a total capitalization of \$87,000,000. Utilities, Inc., has the capability to provide investment capital at reasonable rates to Cypress.

The application contains a copy of the Purchase Agreement which includes the purchase price, terms of payment, and a list of the assets purchased and the liabilities assumed. According to the agreement, the purchase price is \$820,000, increased by the amount of any cash or current customer accounts receivable transferred by Seller to Buyer and decreased by any liabilities assumed by the Buyer. The Buyer purchased the water and wastewater systems by a cash transaction. Based on the application, there are no developer agreements which the buyer is obligated to assume or fulfill. Also, the utility's 1997 regulatory assessment fees and annual report has been filed. In addition, there are no customer

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deposits, guaranteed revenue contracts, customer advances, or leases.

Based on the above information, staff believes the transfer of Cypress Lakes Water Certificate No. 592-W and Wastewater Certificate No. 509-S is in the public interest and should be approved to serve the territory described in Attachment A.

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**ATTACHMENT A**

CYPRESS LAKES ASSOCIATES, LTD.  
WATER AND WASTEWATER SERVICE AREA  
POLK COUNTY

Parcel No. 1

That part of Sections 27, 28, 33 and 34, Township 26 South, Range 23 East, Polk County, Florida, being more particularly described as follows:

Begin at the Southeast corner of said Section 34; thence North 00° 48' 40" West along the East line of said Section 34, a distance of 2270.71 feet to the West right-of-way line of State Road No. 700 and No. 35 (U.S. No. 98) as is located this date (6-21-85), thence North 47° 20' 00" West along said West right-of-way line 1294.34 feet to the Point of Curvature of a curve concave to the Northeasterly having a radius of 5809.58 feet and a central angle of 22° 20' 00"; thence Northwesterly along said Westerly right-of-way line and curve 2264.52 feet to the Point of Tangency; thence North 25° 00' 00" West still along said Westerly right-of-way line 610.00 feet; thence South 65° 00' 00" West 600.00 feet; thence South 25° 00' 00" East 410 feet; thence South 65° 00' 00" West 525.00 feet; thence North 37° 30' 00" West 710.00 feet; thence North 84° 30' 00" West 790.00 feet; thence North 45° 00' 00" West 816.46 feet to the centerline of Rock Ridge Road; thence South 26° 18' 39" West along said centerline 49.37 feet; thence South 52° 01' 40" West still along said centerline 957.92 feet; thence South 37° 51' 58" West still along said centerline 754.96 feet; thence South 34° 36' 25" West still along said centerline 969.18 feet to the intersection with the North line of the South 30.00 feet of the Northwest 1/4 of the Northeast 1/4 of aforesaid Section 33; thence South 89° 32' 15" East along said North line 253.93 feet to a point on the West line of the East 60.00 feet of the West ½ of the Northeast 1/4 of said Section 33; thence South 00° 34' 50" East along the said West line of the East 60.00 feet, a distance of 1358.98 feet to the South line of the West ½ of said Northeast 1/4; thence South 89° 29' 41" East along said South line 60.01 feet to the Southeast corner of the West ½ of said Northeast 1/4; thence South 00° 34' 07" East along the West line of the East ½ of the Southeast 1/4 of said Section 33, a distance of 2564.11 feet to the Southwest corner of the East ½ of said Southeast 1/4; thence North 89° 39' 13" East along the South line of said East ½, a distance of 1326.44 feet to the Southeast corner of said Section 33; thence North 89° 22' 37" East along the South line of said Section 34, a distance of 5323.57 feet to the Point of Beginning; LESS AND EXCEPT

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30.00 feet for right-of-way for Rock Ridge Road. Said tract containing 710.23 acres, more or less.

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CYPRESS LAKES ASSOCIATES, LTD.  
WATER AND WASTEWATER SERVICE AREA  
POLK COUNTY

Parcel No. 2

That part of Sections 27 and 34, Township 26 South, Range 23 East, Polk County, Florida, being more particularly described as follows:

Commence at the Southeast corner of said Section 34, thence North  $00^{\circ} 48' 40''$  West along the East line of said Section 34, a distance of 2270.71 feet to the West right-of-way line of State Road No. 700 and No. 35 (U.S. No. 98) as is located on the date of 6/21/85; thence North  $47^{\circ} 20' 00''$  West along said West right-of-way line 1294.34 feet to the Point of Curvature of a curve concave to the Northeasterly having a radius of 5809.58 feet and central angle of  $22^{\circ} 20' 00''$ ; thence Northwesterly along said Westerly right-of-way line and curve 2264.52 feet to the Point of Tangency; thence North  $25^{\circ} 00' 00''$  West still along said Westerly right-of-way line 610.00 feet to the Point of Beginning; thence South  $65^{\circ} 00' 00''$  West 600 feet; thence South  $25^{\circ} 00' 00''$  East 410.00 feet; thence South  $65^{\circ} 00' 00''$  West 525.00 feet; thence North  $37^{\circ} 30' 00''$  West 710.00 feet; thence North  $84^{\circ} 30' 00''$  West 790.00 feet; thence North  $45^{\circ} 00' 00''$  West 816.46 feet to the centerline of Rock Ridge Road; thence North  $26^{\circ} 18' 39''$  East along said centerline 1212.81 feet; thence North  $62^{\circ} 32' 09''$  East still along said centerline 1293.14 feet to said Westerly right-of-way line of State Road No. 700 and No. 35 (U.S. No. 98); thence South  $25^{\circ} 00' 00''$  East along said Westerly right-of-way line 2265.06 feet to the said Point of Beginning. Said parcel containing 95.75 acres, more or less.

LESS AND EXCEPT maintained right-of-way for Rock Ridge Road and that part of Section 27, Township 26 South, Range 23 East, Polk County, Florida, being more particularly described as follows:

Commence at the Southeast corner of Section 34, Township 26 South, Range 23 East and run North  $00^{\circ} 48' 40''$  West along the East line of said Section 34, a distance of 2270.71 feet to the West right-of-way line of State Road No. 700 and No. 35 (U.S. No. 98) as is located on the date of 6/21/85; thence North  $47^{\circ} 20' 00''$  West along said West right-of-way line, 1294.34 feet to the Point of Curvature of a curve concave to the Northeast having a radius of 5809.58 feet and central angle of  $22^{\circ} 20' 00''$ ; thence Northwesterly along said Westerly right-of-way line and curve 2264.52 feet to the Point of Tangency; thence North  $25^{\circ} 00' 00''$  West still along said



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Westerly right-of-way line 2525.06 feet to the Point of Beginning; thence continue North 25° 00' 00" West along said Westerly right-of-way 350.00 feet to the centerline of Rock Ridge Road; thence South 62° 32' 09" West along said centerline 330.00 feet; thence South 25° 00' 00" East 350.00 feet; thence North 62° 32' 09" East 330.00 feet to the said Point of Beginning. Said parcel containing 2.50 acres.

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**ISSUE 2:** What is the rate base of Cypress Lakes Associates, Ltd., at the time of transfer?

**RECOMMENDATION:** The rate base, which for transfer purposes reflects the net book value, is \$617,609 for the water and \$921,439 for wastewater system as of December 31, 1997. The utility should be required to comply with the Uniform Systems of Accounts. (JOHNSON)

**STAFF ANALYSIS:** According to the initial application, the net book value of the system was \$863,372 as of the December 31, 1995. The utility amended the net book value in its audit response to \$765,248 for water and \$1,258,431 for wastewater. The utility has never had a rate proceeding before the Commission.

Staff conducted an audit of the books and records of the utility to determine the rate base (net book value) as of December 31, 1997. The rate base was determined by Staff from company provided historical records and supporting source documentation. The utility does not keep separate books for the utility operations. Cypress Lakes Associates, Ltd., purchased the mobile home community along with the utility assets and allocated \$2,547,450 as the recorded price for the utility. The company combined water and wastewater assets. The audit report contained several exceptions. The utility filed a response to the audit report on May 18, 1998. 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 (USOA). Rule 25-30.115(1), Florida Administrative Code, requires all water and wastewater utilities to maintain their accounts and records in conformity with the 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. Further, the new owner, Cypress Lakes Utilities, Inc. has the ability to keep the books in conformance with the USOA.

#### UTILITY PLANT IN SERVICE

Staff has determined the plant-in-service balances are \$908,575 for water and \$1,383,869 for wastewater systems as of December 31, 1997. The utility believes the plant-in-service account balances should be \$1,059,914 and \$1,728,299, respectively

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for water and wastewater as of December 31, 1997. The utility disagrees with staff's exclusion of the franchise costs and the costs of plant lines to serve Phase V-1 development from the plant balances.

According to the utility's May 18, 1998 response to the audit report, \$60,644 in capitalized franchise costs should be included in the plant-in-service balances. The \$60,644 should be split equally between the water and wastewater plant balances. The franchise costs are consultant fees for processing a franchise application before the Polk County Commission. The utility contends that because no one has established a basis that Polk County committed an error by allowing the franchise costs to be capitalized, the costs should remain in the plant accounts.

Staff excluded the franchise costs because the invoices that were provided did not always distinguish the franchise costs from other services provided. Furthermore, Polk County no longer requires or collects a franchise fee and the capitalized franchise costs have expired. Staff believes the expired capitalized franchise costs should be retired. The expiration occurred when the Polk County Commission relinquished jurisdiction to Florida Public Service Commission in May 1996. Staff's treatment of the franchise cost is consistent with the NARUC Uniform System of Accounts, which states that expired franchise costs should be retired. Therefore, staff has decreased each of the plant accounts for water and wastewater by \$30,322 and the related accumulated depreciation balances are decreased by \$2,274 for water and \$2,274 for wastewater.

Additionally, field audit Staff determined that the developer has expanded the existing park to include a new mobile home rental community referred to as Phase V-1. According to the auditor the company records indicate that lots in this phase were being connected to the water and wastewater systems since June 30, 1997. Phase V-1 is now complete and being served by the utility. However, the utility's sales contract between the buyer and the seller does not list the assets and infrastructure in Phase V-1. The sales contract between Cypress Lakes Associates, Ltd. (seller) and Cypress Lakes Utilities, Inc., (buyer) was entered into on August 20, 1997. The contract requires the conveyance of title and (or) easements to the buyer for real property associated with utility operations. The utility is required to provide water and wastewater service to customers in Phase V-1, but the buyer will not own nor have legal access to any of the water and wastewater infrastructure. The seller is aware of the omission of Phase V-1 from the sale's contract, but it believes that the plant costs for

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Phase V-1 should still be included in the plant-in-service balances.

Subsequent to the audit, the utility submitted documentation to support the costs requested for inclusion of Phase V-1. According to the documentation, the plant costs are \$121,017 and \$314,108 for water and wastewater, respectively. The utility is serving the area and the documentation supports the requested costs for the plant. However, the company's documentation is unaudited, and staff believes it would not be appropriate to include plant based upon unsubstantiated costs.

Additionally, there is a provision in the sales contract requiring the seller to install and construct additional water and/or wastewater facilities that may be necessary in the future in order to provide service for additional residences to be constructed within the property. The plant expansion and costs are to be borne by the seller and then given to the Cypress Lakes Utilities (purchaser) at no cost or expense to the purchaser. Further, the contract states the purchaser will either waive the collection of the tap fees or collect the tap fees as the agent, on behalf of the seller.

Since the sales contract was signed on August 20, 1997, but connections to the Phase V-1 area began in June 1997, the staff is uncertain whether the referencing in the sales contract to expansion and contributed plant actually exclude the Phase V-1 area. The staff suggested a modification to clarify this point, however it has not been done at this time. According to the utility's accounting consultant, the Phase V-1 plant investment is not contributed property. Because the Phase V-1 plant was not listed as part of the assets and infrastructure in the contract, the new data from the company is unaudited and the contract language does not specifically exclude Phase V-1, staff does not believe it is appropriate to authorize the inclusion of that plant at this time.

Therefore, staff has removed the costs of Phase V-1 from the plant-in-service balances. The plant-in-service balances should be decreased by \$121,017 for water and \$314,108 for wastewater. The accumulated depreciation balances should be decreased by \$1,426 for water and \$5,164 for wastewater to remove the related depreciation of Phase V-1.

Based on these adjustments, staff has determined the plant-in-service balances are \$908,575 and \$1,383,869, for the respective water and wastewater systems as of December 31, 1997.

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### ACCUMULATED DEPRECIATION

The field audit staff has calculated the depreciation expense using the rates per Rule 25-30.140, Florida Administrative Code, to compute depreciation rates. In the May 18, 1998 response to the audit report, the utility disagreed with using guideline depreciation rates. The utility believes the depreciation should be calculated using the service lives that were established by Polk County upon which the utility's monthly service rates were based. The utility has never appeared before this Commission in a rate proceeding, therefore, the original rates are still in effect.

Rule 25-30.140(3), Florida Administrative Code, states that "[e]xcept as listed in Sections (5) and (6) of this rule, average service life depreciation rates based on the guideline lives and salvages shall be used in rate proceedings before this Commission." Section (5) provides that a utility may petition for average service life depreciation rates different from those contained in this rule. Section (6) specifies the conditions under which a utility may apply for guidelines for a proposal for implementation of remaining life depreciation rates. In the past, the Commission has had the practice of not implementing new rules and guideline depreciation rates until that company participates in a proceeding before this Commission either for (1) revised water and/or wastewater rates and charges, or (2) a specific request for changes in depreciation rates (not necessarily advisable without matching revenues).

Staff believes it maybe more appropriate for the utility to base its depreciation on the service lives established under Polk County rather than Class C utilities guideline rates. Because this docket is not a rate proceeding and the utility has never participated in a rate proceeding before this Commission, staff believes it would not be appropriate to change the utility's depreciation rates at this time. The Commission has allowed other utilities to continue using depreciation rates that were established prior to the Commission's regulation or prior to a rate proceeding. This recommendation is consistent with Order No. PSC-95-0622-FOF-WS, issued May 22, 1995, in Docket No. 940850-WS, concerning the transfer of Colonies Water Company. Staff believes the utility should continue using the approved depreciation rates established by Polk County, which results in accumulated depreciation balances of \$189,257 for water and \$393,401 for wastewater.

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AMORTIZATION OF CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC)

The depreciation rate is used to establish the CIAC amortization rate. Based upon the above information, it would also be appropriate to use the amortization rate established under the Polk County Commission. Therefore, staff believes the appropriate accumulated CIAC amortization balances are \$10,801 for water and \$15,352 for wastewater.

RATE BASE

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 Cypress Lakes Associated Utilities be established as \$617,609 for the water system and \$921,439 for the wastewater system as of December 31, 1997. This rate base calculation is used purely to establish the net book value of the property being transferred and does not include the normal rate making adjustments of working capital calculations and used and useful adjustments.

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SCHEDULE NO. 1

CYPRESS LAKES ASSOCIATES, LTD.

SCHEDULE OF WATER RATE BASE

As of December 31, 1997

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$1,059,914	(\$151,339)	(1) \$908,575
Land	509	0	509
Plant Held for Future Use	0	0	0
Accumulated Depreciation	(\$189,257)	\$ 3,700	(2) (\$185,557)
Contributions-in- aid-of-Construction	(\$116,719)	0	(116,719)
CIAC Amortization	<u>\$10,801</u>	<u>0</u>	<u>10,801</u>
<b>TOTAL</b>	<u>\$765,248</u>	<u>\$147,639</u>	<u>\$617,609</u>

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SCHEDULE NO. 2

CYPRESS LAKES UTILITIES, INC. WATER SERVICE

SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>		<u>ADJUSTMENT</u>
<b>Utility Plant in Service</b>		
A. To remove franchise cost which were capitalized		(\$30,322)
B. To remove unaudited phase V-1 plant costs		<u>(\$121,017)</u>
	TOTAL (1)	<u>(\$151,339)</u>
<b>Accumulated Depreciation</b>		
A. Adjustment related to removal of franchise cost		\$ 2,274
B. Adjustment related to unaudited plant costs		<u>1,426</u>
	TOTAL (2)	<u>\$3,700</u>



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SCHEDULE NO. 3

CYPRESS LAKES ASSOCIATES, LTD.

SCHEDULE OF WASTEWATER RATE BASE

As of December 31, 1997

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$1,728,299	(\$344,430) (1)	\$1,383,869
Land	\$2,610	0	\$2,610
Plant Held for Future Use	\$2,500	0	\$2,500
Accumulated Depreciation	(\$393,401)	\$7,438 (2)	(\$385,963)
Contributions-in- aid-of-Construction	(\$96,929)	0	(\$96,929)
CIAC Amortization	<u>\$15,352</u>	<u>0</u> (4)	<u>\$15,352</u>
<b>TOTAL</b>	<u>\$1,258,431</u>	<u>\$336,992</u>	<u>\$921,439</u>

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SCHEDULE NO. 2

CYPRESS LAKES ASSOCIATES WASTEWATER SERVICE

SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>		<u>ADJUSTMENT</u>
<b>Utility Plant in Service</b>		
A. To remove franchise cost which were capitalized		(\$30,322)
B. To remove unaudited phase V-1 plant costs		<u>(\$314,108)</u>
	TOTAL (1)	<u>(\$344,430)</u>
<b>Accumulated Depreciation</b>		
A. Adjustment related to removal of franchise cost		\$ 2,274
B. Adjustment related to unaudited plant costs		<u>5,164</u>
	TOTAL (2)	<u>\$7,438</u>

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**ISSUE 3:** Should a negative acquisition adjustment be approved?

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

**STAFF ANALYSIS:** An acquisition adjustment results when the purchase price differs from the rate base for transfer purposes. The acquisition adjustment resulting from the transfer of Cypress Lakes Associate would be calculated as follows:

Purchase Price:	\$ 820,000
Staff Calculated Rate Base:	<u>1,539,048</u>
Negative Acquisition Adjustment:	<u>\$719,048</u>

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. Further, an acquisition adjustment was not requested by the applicant. Also, field audit staff stated that they did not recommend an acquisition adjustment at this time. Therefore, Staff recommends that a negative acquisition adjustment not be included in the calculation of rate base.

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**ISSUE 4:** Should Cypress Lakes Utilities, Inc. continue to charge the rates and charges approved in Cypress Lakes Associates, Ltd. tariffs? In addition, should Cypress Lakes Utilities, Inc. be authorized to implement a cap of 8,000 gallons per month for the monthly wastewater charge and a charge for installation of irrigation meters using the residential water rates?

**RECOMMENDATION:** Yes, Cypress Lakes Utilities, Inc. should continue to charge the rates and charges approved for Cypress Lakes Associates, Ltd. The rates and charges that are detailed in the staff analysis should be approved. The tariffs should reflect a cap of 8,000 gallons per month for the monthly wastewater charge for residential customers and allow for the installation of irrigation meters using the residential water rates. The tariff should be effective for services rendered or connections made on or after the stamped approval date of the tariff. (JOHNSON, MESSER)

**STAFF ANALYSIS:** On August 6, 1996, Polk County approved implementation of the rates and charges set forth on the following pages of this recommendation (with the exception of the residential wastewater gallonage cap and the charge for irrigation service) for Cypress Lakes based upon the results of a study prepared by an outside regulatory consultant. These are the same rates that were grandfathered in effective May 6, 1997 pursuant to Order No. PSC-97-0569-FOR-WS issued in Docket No. 961334-WS.

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)...

Cypress Lakes Utilities, Inc. has not requested a change in the basic rates and charges of the utility. However, the utility did request a provision to cap the monthly wastewater charge for residential customers at 8,000 gallons per month. This cap is not presently in effect. The utility also requested the approval of the installation and the use of irrigation meters, based on the general service water schedule. The utility proposed that it be allowed to install a second meter at the customer's request (fully paid for by the customer) for the operation of their on-site irrigation system. The second meter would eliminate the

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wastewater gallonage charge on the amount of water which would flow through the second meter into the irrigation system.

The idea of establishing a residential wastewater cap is not a new idea, and in fact is the preferred rate structure used by the Commission. The difference is that the staff generally evaluates rate structure issues in the context of a rate case, and billing data is used to evaluate the appropriate break point for establishing the wastewater cap. No such data was provided by the utility in its filing.

However, the wastewater cap is to the benefit of the customer, because it recognizes that all water used is not returned to the wastewater system. Since the wastewater bill is based on the amount of water used, the customer then only pays up to the amount of the cap. The following example shows the effect for a residential customer using 12,000 gallons of water in a month, with and without the cap:

		Without Cap(old)	With Cap(new)
<u>Water</u>			
Base Facility Charge	\$3.73	\$ 3.73	\$ 3.73
Gallonage Charge	1.20	14.40	14.40
TOTAL		18.13	18.13
<u>Wastewater</u>			
Base Facility Charge	9.36	9.36	9.36
Gallonage Charge	1.99	23.88	15.92
TOTAL		33.24	25.28

In this example, the water bill will not change, but the wastewater bill will never be more than \$25.88 - the amount that results from multiplying the cap amount times the gallonage charge.

Another factor in considering the cap, is that the service area is comprised of mobile homes. An 8,000 gallon wastewater cap is a fairly standard cap and typical of the usage of this type of development. The danger in reducing the cap too low, is that it requires the base facility charge to increase, sometimes

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substantially. The actual billing data allows an analyst to test and verify the impact that various caps may have on the base facility charge.

The utility has also requested the authority to charge for the installation of a second meter for the purpose of measuring water used for irrigation. This would include application of a meter installation charge and the general service water rates.

The utility has the current ability to install and charge for a separate meter to be used for irrigation. However, the staff does not believe the use of general service rates as requested by the utility is appropriate. The purpose of an irrigation meter is to measure water used for a residential service and to avoid the wastewater charge for water not returned to the collection system. Cypress Lakes' existing residential water rate has an inclining block gallonage charge, while the general service rate does not. The purpose of the inclining block charge is to encourage conservation. Staff believes it is more appropriate to apply the residential rate to both meters.

Accordingly, Staff recommends that the utility continue operations under the existing tariff and the approved rates and charges. In addition, the utility should be authorized to include an 8,000 gallon wastewater cap on residential service and charge for a second meter for irrigation using residential service water rates. This portion of the rate should be issued as a PAA. 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.

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**Monthly Service Rates**

**Water Division:**

**Residential Service:**

<b>Base Facility Charge:</b>	<b><u>Amount</u></b>
All Meter Sizes	\$ 3.73
<b>Gallonage Charge: (per 1,000 Gallons)</b>	
0 - 6,000 Gallons	\$ .80
6,001 - 12,000 Gallons	\$ 1.20
Over 12,000 Gallons	\$ 1.60

**Multi-Residential Service:**

<b>Base Facility Charge:</b>	
For water service to all master-metered residential customers including, but not limited to, Condominiums, Apartments, and Mobile Homes.	\$ 3.73
<b>Gallonage Charge: (per 1,000 Gallons)</b>	
0 - 6,000 Gallons	\$ .80
6,001 - 12,000 Gallons	\$ 1.20
Over 12,000 Gallons	\$ 1.60

**General Service:**

<b>Base Facility Charge:</b>	<b><u>Amount</u></b>
<b><u>Meter Size</u></b>	
5/8" x 3/4"	\$ 3.73
1"	\$ 9.33
1 1/2"	\$ 18.65
2"	\$ 29.84
3"	\$ 55.95
4"	\$ 93.25
6"	\$186.50

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**Gallage Charge:** (per 1,000 gallons)

Per 1,000 Gallons \$ .80

**Wastewater Division:**

**Residential Service:**

**Base Facility Charge:** **Amount**

All Meter Sizes \$ 9.36

**Gallage Charge:** (per 1,000 Gallons)

Per 1,000 Gallons (Maximum charge at 8,000 gal) \$ 1.99

**Multi-Residential Service:**

**Base Facility Charge:**

For wastewater service to all master-metered residential customers including, but not limited to, Condominiums, Apartments, and Mobile Homes. \$ 9.36

**Gallage Charge:** (per 1,000 Gallons)

Per 1,000 Gallons (No Cap) \$ 1.99

**General Service:**

**Base Facility Charge:** **Amount**

Meter Size

5/8" x 3/4" \$ 9.36

1" \$ 23.40

1 1/2" \$ 46.80

2" \$ 74.88

3" \$140.40

4" \$234.00

6" \$468.00

**Gallage Charge:** (per 1,000 gallons)

Per 1,000 Gallons (No Cap) \$ 1.99



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**Customer Deposits: Residential and Commercial**

<u>Meter Size:</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
5/8" x 3/4"	\$ 17.00	\$ 43.00	\$ 60.00
1"	\$ 43.00	\$ 107.00	\$150.00
1 1/2"	\$ 85.00	\$215.00	\$300.00
2"	\$135.00	\$340.00	\$375.00

**Meter Test Deposits**

<u>Meter Size:</u>	<u>Charge</u>
5/8 x 3/4"	\$ 20.00
1" and 1 1/2"	\$ 25.00
2" and over	Actual Cost

**Miscellaneous Service Charges**

Initial Connection Fee:	\$ 15.00
Normal Reconnection Fee:	\$ 15.00
Violation Reconnection Fee:	\$ 25.00
Premises Visit Fee:	\$ 15.00

**Meter Installation Fees**

5/8" x 3/4" meter	\$125.00
1" meter	\$150.00
1 1/2" meter	\$300.00
2" meter	\$350.00
Over 2" meter	Actual Cost

The utility has filed the tariffs which reflect the above rates and charges. The utility has requested that its tariffs include a provision to cap the monthly wastewater charge for residential

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customers at 8,000 gallons per month. Staff recommends that they be approved as submitted. Staff further recommends that Cypress Lakes be required to continue to charge these rates and charges until authorized to change by the Commission. The tariff should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets.

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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. 3 and 4 and a portion of 5), no further action will be required and the docket should be closed.