



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: MARCH 4, 1999

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

FROM: DIVISION OF WATER AND WASTEWATER (WALKER, REDEMANN) *30m N 80*
DIVISION OF LEGAL SERVICES (CROSBY) *[Signature]*

RE: DOCKET NO. 981623-WU - APPLICATION FOR TRANSFER OF MAJORITY ORGANIZATIONAL CONTROL OF QUAIL MEADOW UTILITIES, INC., HOLDER OF CERTIFICATE NO. 485-W IN MARION COUNTY, FROM HARRY T. MANGURIAN, JR. TO TRACY L. AHERRON *[Signature]*

AGENDA: 03/16/99 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\981623.RCM

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 RECORDS AND REPORTING

CASE BACKGROUND

Quail Meadow Utilities, Inc. (Quail Meadow or utility) is a Class C utility that provides water service for about 150 residential customers in Marion County. For 1997, Quail Meadow recorded operating revenues of \$44,324 and operating income of \$26,278.

On November 17, 1998, an application to acquire majority organizational control of Quail Meadow was filed by Ms. Tracy L. Aherron. Ms. Aherron is paying \$200,000 to purchase all of the utility's outstanding stock from Mr. Harry T. Mangurian.

The utility's rate base was last established by Order No. 18260, issued October 7, 1987, in Docket No. 861604-WU. A \$117,633 rate base amount was approved for the projected year ending January 31, 1989. A more current, \$111,851 rate base balance is indicated per Quail Meadow's 1997 annual report.

DOCUMENT NUMBER-DATE

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On November 17, 1998, Stephen G. Mehallis, Vice President and Treasurer of Quail Meadow Utilities, Inc., filed a written request pursuant to Rule 28-106.106, Florida Administrative Code, for Norman F. Mears to appear as a Qualified Representative for Quail Meadow. That request was approved by Order No. PSC-98-1755-PCO-WU, issued December 23, 1988.

This recommendation concerns the proposed transfer of majority organizational control of Quail Meadow from Mr. Mangurian to Ms. Aherron. According to the purchase agreement, this utility is a duly organized and validly existing corporation. Our review reveals that Quail Meadow is current with respect to submission of annual reports and payment of regulatory assessment fees through 1997. Quail Meadow's obligation, as a corporate entity, to file an annual report and pay regulatory assessment fees for 1998 is not affected by the proposed stock transfer.

DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of majority organization control of Quail Meadow be approved?

RECOMMENDATION: Yes, the transfer of majority organizational control should be approved. (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 majority organizational control. 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 provided a warranty deed as evidence that the utility owns the land upon which its treatment facilities are presently located pursuant to Rule 25-30.037(1)(o), 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, including notice to the customers of the system that will 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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According to the application, the seller no longer wishes to own the utility, while the buyer does. Ms. Aherron will retain the same managers and operators that have served Quail Meadow since its inception in 1987. With personal assets reportedly exceeding \$5,000,000, Ms. Aherron agreed to pay \$200,000, in cash, for 100% of the utility's common stock. According to the sales agreement, closing is scheduled to occur within seven days of Commission approval of the transfer.

Upon inquiry, staff was informed by the Department of Environmental Protection (DEP) that this system is not subject to any outstanding Notice of Violations. Ms. Aherron stated that her representatives informed her that Quail Meadow is in satisfactory condition and is meeting applicable DEP standards. She also reported that this system does not need any immediate repairs or improvements.

Based on the above, staff recommends that the proposed transfer majority organizational control of Quail Meadow from Mr. Harry T. Mangurian, Jr., to Ms. Tracy L. Aherron is in the public interest and should be approved.

Quail Meadow Utilities, Inc.

Water Service Area

Township 15 South, Range 21 East

Begin at the NE corner of Section 4, Township 15 South, Range 21 East, Marion County, Florida, thence S 89°42'54" W along the north boundary of said Section 4 a distance of 164.10 feet to the SE corner of Section 33, Township 14 South, Range 21 East, thence continue along said north boundary of Section 4, N 89°54'08" W, 828.28 feet to the NW corner of the East 1/2 of the West 1/2 of the East 1/2 of the NE 1/4 of said Section 4, thence S 00°11'47" E along the west boundary of said East 1/2 of West 1/2 of East 1/2 of NE 1/4, a distance of 2183.78 feet, thence S 89°54'04" E, 339.63 feet, thence N 89°20'53" E 642.41 feet, to a point on the west boundary of Section 3, Township 15 South, Range 21 East, thence N 89°09'21" E 1318.55 feet to the SW corner of the North 16 1/2 acres of that part of the SE 1/4 of the NW 1/4 of said Section 3 lying west of NW 44th Avenue, thence N 89°37'10" E along the south boundary of said North 16 1/2 acres 1145.47 feet to a point on the west right-of-way line of said NW 44th Avenue, thence N 00°01'12" W along said west right-of-way line 2150.16 feet to a point on the North boundary of said Section 3, thence N 89°58'20" W along said north boundary 2460.21 feet to the point of beginning, Containing 171.56 acres more or less.

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ISSUE 2: Should rate base be established?

RECOMMENDATION: No, different ownership of stock does not affect the rate base balance. (WALKER)

STAFF ANALYSIS: This Commission has consistently held that rate base will not be established when the utility's stock, alone, is transferred. The rate base balance does not change because different individuals own and control the utility's stock. Ms. Aherron's designation as Quail Meadow's sole stockholder does not change the utility's asset accounts, its liability accounts, or its rate base balance. Thus, as a general practice, rate base is not established when stock is transferred. In consideration of the above, the staff recommends that rate base should not be established in this docket.

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ISSUE 3: Should the rates and charges approved for this utility be continued?

RECOMMENDATION: Yes, the rates and charges approved for this utility system should be continued. (WALKER)

STAFF ANALYSIS: The utility's current rates were approved by Order No. PSC-96-0491A-FOF-WU, issued April 30, 1996, in Docket No. 960143-WU, in response to Quail Meadow's request to convert from monthly to quarterly billings. Otherwise, Quail Meadow's present rates are identical to the initial rates that were granted by Order No. 18260, issued October 7, 1987, in Docket No. 861604-WU.

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)..."

Ms. Aherron has not requested a change in Quail Meadow's rates and charges, nor is staff aware of any reason to change them at this time. Therefore, staff recommends that the utility continue operations under its existing tariff and apply its approved rates and charges. The utility has filed a revised tariff showing a new issuing officer due to the transfer of majority organizational control. Staff will approve the tariff filing effective for services provided or connections made after the stamped approval date.

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ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes, this docket should be closed. (CROSBY)

STAFF ANALYSIS: No further action is required in this docket, therefore, it should be closed upon issuance of the order.