



# 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-

RECEIVED-FPSC  
00 JUL 20 AM 10:19  
RECORDS AND REPORTING

**DATE:** JULY 20, 2000

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

**FROM:** DIVISION OF REGULATORY OVERSIGHT (BRADY, REDEMANN)  
DIVISION OF LEGAL SERVICES (CROSBY)

**RE:** DOCKET NO. 000333-WU - APPLICATION FOR TRANSFER OF WATER FACILITIES FROM TANGERINE WATER COMPANY, INC., HOLDER OF CERTIFICATE NO. 96-W, TO FLORIDA WATER SERVICES CORPORATION; FOR AMENDMENT OF CERTIFICATE NO. 84-W HELD BY FLORIDA WATER SERVICES CORPORATION; FOR CANCELLATION OF CERTIFICATE NO. 96-W; AND FOR TERRITORY CORRECTION.  
COUNTY: ORANGE

**AGENDA:** 08/01/00 - PROPOSED AGENCY ACTION FOR ISSUES NOS. 2 AND 3 - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\RGO\WP\000333.RCM

### CASE BACKGROUND

Tangerine Water Company, Inc. (Tangerine or utility) is a Class C water utility providing service to approximately 231 connections in Tangerine, Florida. According to its 1999 Annual Report, the utility reported water revenues of \$50,988 and a net operating loss of \$3,177.

Tangerine was granted Certificate No. 96-W by Order No. 5446, issued June 8, 1972, in Docket No. C-71559-W. The utility extended its territory once since then by Order No. 9568, issued September 26, 1980, in Docket No. 800048-W. In addition to the territory extension, the utility has had four staff assisted rates cases, the most recent of which was memorialized by Order No. PSC-99-1399-PAA-WU, issued July 21, 1999, in Docket No. 981663-WU (SARC Order).

DOCUMENT NUMBER-DATE

08736 JUL 20 8

FPSC-RECORDS/REPORTING

DOCKET NO. 000333-wJ  
DATE: JULY 20, 2000

On January 7, 2000, Tangerine and Florida Water Services Corporation (FWSC) closed on an Agreement for the Purchase and Sale of the utility facilities (Agreement). Pursuant to Section 367.071(1), Florida Statutes, the Agreement was made subject to Commission approval. The resulting application for transfer was submitted to the Commission on March 21, 2000. On April 25, 2000, at staff's request, supplemental information was submitted in the docket to correct Tangerine's service territory. All filing requirements for the transfer application were completed on June 26, 2000.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the transfer of water facilities from Tangerine to Florida Water Services Corporation be approved?

**RECOMMENDATION:** Yes. The transfer should be approved. The description of the territory being transferred should be corrected as shown in Attachments A and B. Certificate No. 84-W held by Florida Water Services Corporation should be amended and Certificate No. 96-W should be canceled. FWSC should be required to file a 2000 Annual Report and remit the resulting regulatory assessment fees to the Commission on behalf of the utility for 1/1/2000 through 12/31/2000 in the time-frame and manner prescribed by Commission rules. (BRADY, REDEMANN, CROSBY)

**STAFF ANALYSIS:** On March 21, 2000, an application was filed for approval of the transfer of water facilities from Tangerine to FWSC. The closing occurred on January 7, 2000, subject to approval by the Commission. On April 25, 2000, at staff's request, supplemental information was submitted in the docket to correct Tangerine's legal description. All filing requirements were completed June 26, 2000.

The application as filed and amended is in compliance with the governing statute, Section 367.071, Florida Statutes, and other pertinent statutes and administrative rules pertaining to an application for the sale, assignment, or transfer of a certificate of authorization or utility facilities. The application contained the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code. Pursuant to Rule 25-30.037(2)(t), Florida Administrative Code, FWSC's original Certificate No. 84-W was returned. However, Tangerine's original Certificate No. 96-W could not be located. Instead, the application contained an affidavit by Tangerine attesting to its efforts to locate the certificate. The application contained the following information regarding the remaining requirements for authority to transfer.

**Noticing.** The original notices pursuant to Rule 25-30.030, Florida Administrative Code, were given too far in advance of the application to comply with the requirements of the rule. As a consequence, staff required the applicant to renotice the filing. No objections to any of the notices were filed with the Commission and the time for filing such has expired.

**Territory Description.** As noted above, on April 25, 2000, at staff's request, FWSC submitted information to correct Tangerine's legal description. In its Agreement with FWSC, Tangerine disclosed in an exhibit that it had notified the Commission that approximately four accounts within its service area did not appear in the territory description on file with this Commission. The discrepancy was discovered in Tangerine's recent rate case. Apparently, Tangerine was serving the accounts prior to the issuance of its original certificate which was granted by Order No. 5446, issued June 8, 1972, in Docket No. C-71559-W.

Order No. 5446 was issued pursuant to the enactment of Subsection 367.171(1)(b), Florida Statutes, (1971). Based on the enactment of the law, effective September 1, 1971, any utility engaged in the operation or construction of a system in any applicable county was entitled to receive a certificate for area served if it filed documents within 90 days. Tangerine met the requirements by submitting its existing legal description and map. However, during the process of originally installing the utility's lines, the owner had allowed an isolated group of customers to tie into the lines with their own labor. Unfortunately, the utility's legal description and maps were not updated at the time to reflect the additional service area and the matter was subsequently forgotten.

After the error was discovered in the recent rate case, the matter was referred to certification which sent an application to Tangerine for a territory correction. Pleading lack of time and resources for an additional filing, Tangerine requested an extension of time until the transfer was filed so both matters could be handled at the same time. Because the utility was already serving the territory when its certificate was granted in 1971, staff believes the omission was inadvertent. As a consequence, staff agreed to handle the correction in this manner.

The territory correction is located in Section 9, Township 20 South, Range 27 East. Appended as Attachment A is the utility's current legal description with the additional territory shown in legislative format. This description combines the original territory granted by Order No. 5446 along with the territory extension granted by Order No. 9568, issued September 26, 1980, in Docket No. 800048-W. Appended as Attachment B is the corrected legal description of the territory to be transferred. By means of the notices required by staff, above, the correct territory proposed to be transferred was given to all customers and local governments and utilities. And, as also indicated above, no

protests to any of the notices of transfer were filed with the Commission and the time for filing such has expired.

**Sales Contract and Financing.** As required by Rules 25-30.037(2)(g), (h), (i) and (k), Florida Administrative Code, the application contains a copy of the Agreement and all auxiliary or supplemental agreements. The agreed upon purchase price was \$165,000. This was a cash transaction. As such, there are no entities upon which FWSC has relied, or will rely, for funding. The Agreement provides FWSC with the right, title and interest to all customer agreements, advances for construction, guaranteed revenues, fees and charges, customer deposits and all customer receivables for any services provided from and after the closing.

**Land Ownership.** As required by Rule 25-30.037(2)(q), Florida Administrative Code, the application contains adequate proof of long-term lease to the land upon which the water facilities are located. FWSC obtained Title Insurance in the amount of the purchase price for the period December 21, 1999 through January 1, 2099. The Title Insurance is for a Lease Extension Agreement dated December 21, 1999. The Lease Extension Agreement was based on an original Lease Agreement dated January 4, 1945 between Tangerine Improvement Society, Lessor, and Tangerine Water Company, Lessee.

**Annual Report and Regulatory Assessment Fees (RAFs).** Staff has confirmed that the utility is current on Annual Reports and RAFS through 1999 and that there are no penalties, interest or refunds due. FWSC will be responsible for filing the 2000 Annual Report and resulting RAfs for the Tangerine water system. Staff has discussed the matter with FWSC, which concurs.

**Financial and Technical Ability.** Pursuant to Rule 25-30.037(2)(j), Florida Administrative Code, the application contains a statement of FWSC's experience in water and wastewater operations and financial ability to provide service. FWSC has been regulated by the Commission since 1964. It currently owns and operates utility facilities under Commission regulation in 20 service areas throughout the state of Florida. At year-end 1999, FWSC's capital structure consisted of \$220 million in total capital including \$105 million in equity capital and \$115 million in long-term debt.

**Environmental Compliance.** Pursuant to Rule 25-30.037(2)(p), Florida Administrative Code, the application contains an exhibit in which Tangerine discloses its obligation with respect to the recent SARC Order to complete certain equipment and distribution system

upgrades. Tangerine also disclosed in the exhibit its compliance-monitoring scheduled with the Florida Department of Environmental Protections (FDEP).

By Order No. PSC-00-1091-PAA-WU, issued June 6, 2000, in Docket No. 981663-WU, the Commission granted FWSC's motion for extension of time until September 7, 2000, in which to comply with the pro forma work specified in the SARC order. In addition, FWSC was required to submit monthly progress reports. The remaining improvements required to be completed by September 7, 2000, by Order No. PSC-00-1091-PAA-WU were:

- Install an FDEP required chlorine alarm;
- Install an FDEP required transfer switch;
- Complete all FDEP required electrical work.

FWSC has indicated to staff that all the above pro forma requirements have now been completed. Staff will verify the work by field audit prior to the required completion date. In addition to the pro forma work, the SARC Order also required the utility to begin undertaking a program of looping system lines to help reduce low pressure problems. FWSC has indicated to staff that it has not yet completed the line loop program because of delays due to the refusal of some customers to grant easements across their property. Where FWSC is not able to obtain the necessary easements, it has indicated it will locate alternative routes. Since the requirement in the SARC Order was for FWSC to begin undertaking a looping program, staff believes that the requirement has been met by FWSC's efforts to date. Staff has also confirmed with the FDEP that the agency is satisfied with FWSC's compliance efforts.

**Public Interest.** As required by Rule 25-30.037(2)(j), Florida Administrative Code, the buyer provided a statement indicating how the transfer is in the public interest. FWSC believes the public interest will be well served by the transfer of Tangerine's facilities to FWSC because of FWSC's requisite technical and superior financial ability to own and operate such facilities. In addition, FWSC has stated, and already demonstrated with respect to the above pro forma work, its intention to fulfill Tangerine's commitments, obligations, and representations regarding utility matters.

Based on all the above, staff recommends that the transfer of water facilities from Tangerine Water Company, Inc. to Florida Water Services Corporation is in the public interest and should be approved. The description of the territory being transferred

DOCKET NO. 000333-WJ  
DATE: JULY 20, 2000

should be corrected as shown in Attachments A and B, appended to this recommendation. Certificate No. 84-W held by Florida Water Services Corporation should be amended and Certificate No. 96-W should be canceled. FWSC should be required to file a 2000 Annual Report and remit the resulting regulatory assessment fees to the Commission on behalf of the utility for 1/1/2000 through 12/31/2000, in the time-frame and manner prescribed by Commission rules.

**ISSUE 2:** What is the rate base of Tangerine Water Company, Inc. at the time of the transfer?

**RECOMMENDATION:** The rate base for the water system as of December 31, 1998, was \$85,408 as previously established by Order No. PSC-99-1399-PAA-WU. (BRADY)

**STAFF ANALYSIS:** Since the transfer of the utility closed on January 7, 2000, staff would normally request an audit to establish the net book value of the utility as of year-end 1999, excluding the normal ratemaking calculations of used and useful adjustments and working capital. However, rate base for the utility as of year-end 1998 had just been established by the SARC Order issued July 21, 1999, and was the basis used to negotiate the purchase price. As such, for rate base at the time of the transfer, staff recommends adopting the rate base in the SARC Order. It should be noted that no used and useful adjustments were made in the SARC Order. However, a working capital allowance of \$7,816 was included as well as pro forma adjustments of \$22,870. (See Issue 1.)

The utility's unaudited 1999 Annual Report shows plant additions of \$4,724. Presumably, most of the additions are the required pro forma work already included in the SARC Order rate base. However, even with the \$4,724 in plant additions, the utility's total plant in service at year-end 1999 was less than the \$183,286 in the SARC Order rate base because the required pro forma work had not been completed by year-end 1999.

The rate base calculation approved in the SARC Order is attached as Schedule No. 1. Based on this schedule, the Commission established rate base for Tangerine as \$85,408, as of December 31, 1998. Staff recommends that rate base at the time of transfer also be established as \$85,408, as of December 31, 1998.



DOCKET NO. 000333-WU  
DATE: JULY 20, 2000

SCHEDULE 1

TANGERINE WATER COMPANY, INC.  
SCHEDULE OF WATER RATE BASE  
AS OF DECEMBER 31, 1998

	<u>BALANCE PER ORDER NO.</u> <u>PSC-99-1399-PAA-WU</u>
UTILITY PLANT IN SERVICE	\$ 183,286
LAND	0
NON-USED AND USEFUL PLANT	0
CONTRIBUTIONS-IN-AID-OF CONSTRUCTION (CIAC)	( 57,698)
ACCUMULATED DEPRECIATION	( 70,547)
AMORTIZATION OF CIAC	22,551
WORKING CAPITAL ALLOWANCE	7,816
<b>WATER RATE BASE</b>	<b><u>\$ 85,408</u></b>

**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. (BRADY)

**STAFF ANALYSIS:** An acquisition adjustment results when the purchase price differs from the original cost calculation adjusted to the time of the acquisition. As noted in Issue 2, the calculation of the acquisition adjustment is shown below first with, and then without, the inclusion of working capital.

The acquisition adjustment, using the SARC Order rate base which includes working capital, is calculated as follows:

Purchase Price	\$165,000
Commission Established Rate Base	<u>\$ 85,408</u>
Positive Acquisition Adjustment	<u>\$ 79,592</u>

The acquisition adjustment, excluding \$7,816 in working capital, is calculated as follows:

Purchase Price	\$165,000
Commission Established Rate Base less Working Capital	<u>\$ 77,592</u>
Positive Acquisition Adjustment	<u>\$ 87,408</u>

In the absence of extraordinary circumstances, it is the practice of this Commission that the purchase of a utility at a premium or discount shall not affect the rate base calculation. This recommendation is consistent with the Commission's decisions in Order No. PSC-00-0913-PAA-WU, issued May 8, 2000, in Docket No. 970201-WU, In re: Application for transfer of facilities of Lake Region Paradise Island and amendment of Certificate No. 582-W held by Keen Sales, Rentals and Utilities, Inc. in Polk County; Order No. PSC-00-0579-PAA-SU, issued March 22, 2000, in Docket No. 990975-SU, In re: Application for transfer of Certificate No. 281-S in Lee County from Bonita Country Club Utilities, Inc. to RealNor Hallandale, Inc.; Order No. PSC-00-0682-FOF-WU, issued April 12,

DOCKET NO. 000333-WJ  
DATE: JULY 20, 2000

2000, in Docket No. 990253-WU, In re: Application for approval of sale of Inglewood Water System, holder of Certificate No. 428-W in Levy County, to Lonnie and Royanna Parnell; and Order No. PSC-00-0758-PAA-SU, issued April 17, 2000, in Docket No. 991056-SU, In re: Application for transfer of Certificate No. 456-S from Del Vera Limited Partnership to Coolidge-Ft. Myers Realty Limited Partnership d/b/a Heron's Glen Utilities in Lee County.

The buyer is not requesting a positive acquisition adjustment and the circumstances in this case do not appear to be extraordinary. For these reasons, staff recommends that a positive acquisition adjustment should not be included in the calculation of rate base.

**ISSUE 4:** Should the rates and charges approved for Tangerine Water Company, Inc. be continued?

**RECOMMENDATION:** Yes. The rates and charges approved for the utility should be continued. The tariff reflecting the transfer should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets. (BRADY)

**STAFF ANALYSIS:** Rule 25-9.044(1), Florida Administrative Code, provides that:

In case of change of ownership or control of a utility which places the operation under a different or new utility, or when its name is changed, the company which will thereafter operate the utility business must adopt and use the rates, classifications and regulations of the former operating company (unless authorized to change by the commission).

The utility's current water service charges, schedule of customer deposits, and service availability fees and charges were implemented pursuant to the utility's recent SARC order and made effective September 1, 1999. The utility has the standard schedule of meter test deposits and miscellaneous service charges with the addition of an approved \$3.75 late payment fee.

**WATER TARIFF  
GENERAL AND RESIDENTIAL SERVICES**

**Quarterly Base Facility Charges**

<u>Meter Size</u>	<u>Charge</u>
5/8" x 3/4"	\$ 25.89
3/4"	\$ 38.82
1"	\$ 64.68
1-1/2"	\$ 129.39
2"	\$ 207.03
3"	\$ 414.03
4"	\$ 646.92
6"	\$1,293.87

**Gallonage Charge**                      \$ 1.48 per 1,000 gallons

**WATER TARIFF  
MULTI-RESIDENTIAL SERVICE**

<b>Quarterly Per Unit</b>	\$17.25
<b>Gallage Charge</b>	\$ 1.48 per 1,000 gallons

**WATER TARIFF  
SCHEDULE OF CUSTOMER DEPOSITS**

	<u>Residential</u>	<u>General Service</u>
5/8" x 3/4"	\$ 116.00	Avg.Quar.bill + 1 mon.
1"	Avg.Quar.bill + 1 mon.	Avg.Quar.bill + 1 mon.
1-1/2"	Avg.Quar.bill + 1 mon.	Avg.Quar.bill + 1 mon.
Over 2"	Avg.Quar.bill + 1 mon.	Avg.Quar.bill + 1 mon.

**WATER TARIFF  
SERVICE AVAILABILITY FEES AND CHARGES**

<b>Customer Connection (Tap-in) Charge</b>	
5/8" x 3/4" meters	\$100.00
All other meter sizes	At cost
<b>Main Extension Charge</b>	\$ 36.00
<b>Plant Capacity Charge</b>	\$ 64.00

Staff recommends that FWSC continue to charge the utility's existing rates and charges. FWSC has filed water tariff sheets reflecting the transfer for inclusion in its consolidated water tariff. The tariff sheets reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets.

DOCKET NO. 000333-WJ  
DATE: JULY 20, 2000

**ISSUE 5:** Should this docket be closed?

**RECOMMENDATION:** Yes, if no timely protest is received to the proposed agency action issues, upon the expiration of the protest period, the order should become final and effective upon the issuance of a consummating order and the docket should be closed.

**STAFF ANALYSIS:** If no timely protest is received to the proposed agency action issues, upon the expiration of the protest period, the order should become final and effective upon the issuance of a consummating order and the docket should be closed.

TERRITORY DESCRIPTION  
FLORIDA WATER SERVICES CORPORATION  
TANGERINE WATER SYSTEM  
ORANGE COUNTY

WATER SERVICE, ONLY  
ORDERS NOS. 5446 AND 9568

TERRITORY CORRECTION MARKED

Township 20 South, Range 27 East

Section 4	The South 1/2 of said Section 4.
Sections 5, 6, 7 and 8	All of said Sections 5, 6, 7 and 8.
Section 9	The West 1/2 of said Section 9 <u>and the North 1/2 of the NW 1/4 of the NE 1/4 of said Section 9.</u>
Section 16	The Northwest corner of said Section 16 bordered by State Road 448 and U.S. 441.
Sections 17 and 18	All of said Sections 17 and 18.

TERRITORY DESCRIPTION  
FLORIDA WATER SERVICES CORPORATION  
TANGERINE WATER SYSTEM  
ORANGE COUNTY

WATER SERVICE, ONLY  
ORDERS NOS. 5446 AND 9568

Township 20 South, Range 27 East

- |                        |   |
|------------------------|---|
| Section 4              | The South 1/2 of said Section 4.  |
| Sections 5, 6, 7 and 8 | All of said Sections 5, 6, 7 and 8.   |
| Section 9              | The West 1/2 of said Section 9 and the North 1/2 of the NW 1/4 of the NE 1/4 of said Section 9. |
| Section 16             | The Northwest corner of said Section 16 bordered by State Road 448 and U.S. 441.                |
| Sections 17 and 18     | All of said Sections 17 and 18.   |