



# Public Service Commission

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

RECORDS AND REPORTING

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**DATE:** AUGUST 17, 2000

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

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

**RE:** DOCKET NO. 000334-WU - APPLICATION FOR TRANSFER OF WATER FACILITIES IN VOLUSIA COUNTY FROM TOMOKA WATER WORKS, INC., HOLDER OF CERTIFICATE NO. 81-W, TO FLORIDA WATER SERVICES CORPORATION; FOR AMENDMENT OF CERTIFICATE NO. 238-W HELD BY FLORIDA WATER SERVICES CORPORATION; AND FOR CANCELLATION OF CERTIFICATE NO. 81-W.  
COUNTY: VOLUSIA

**AGENDA:** AUGUST 29, 2000 - REGULAR AGENDA - PROPOSED AGENCY ACTION ON ISSUES NOS. 2 AND 3 - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\RGO\WP\000334.RCM

*Handwritten signatures and initials:*  
 JOHNSON  
 REDEMANN  
 CROSBY  
 GERVASI  
 BAYO'  
 BGM  
 PD  
 [Signature]

### CASE BACKGROUND

Tomoka Water Works, Inc. (Tomoka, seller, or utility) is a class C utility that provides water service in Volusia County and serves approximately 262 water customers. According to its application, Tomoka has been providing service since November 1991. The annual report for 1999 shows that the operating revenue was \$50,297, with a net operating loss of \$778.

On March 21, 2000, Florida Water Services Corporation (FWSC or Buyer) and Tomoka jointly filed an application for authority to transfer Tomoka's water facilities to FWSC pursuant to Section 367.071, Florida Statutes. FWSC is purchasing the water treatment, and transmission and distribution facilities of Tomoka. Tomoka

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FPSC-RECORDS/REPORTING

DOCKET NO. 000334-WU  
DATE: August 17, 2000

consists of four systems: the Tanglewood/Tomoka View water treatment system and water distribution system, and the Twin River Estates treatment system and water distribution system. FWSC is a Florida corporation that was formed in 1961.

The Commission has jurisdiction to rule upon this application pursuant to Section 367.071, Florida Statutes, which 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 that on September 28, 1999, Tomoka and FWSC entered into an acquisition agreement for the purchase and sale of the utility system, which includes all of the assets of Tomoka. The sale closed on December 21, 1999, contingent upon the approval of the Commission. This recommendation addresses the joint application of Tomoka and FWSC for transfer of the water facilities from Tomoka to FWSC, cancellation of Certificate No. 81-W and the amendment of Certificate No. 238-W held by FWSC.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the transfer of water facilities from Tomoka to FWSC be approved, Tomoka's Certificate No. 81-W canceled, and FWSC's Certificate No. 233-W amended to include the additional territory?

**RECOMMENDATION:** Yes, the transfer of the water facilities from Tomoka to FWSC should be approved. Tomoka's Certificate No. 81-W should be canceled and FWSC's Certificate No. 238-W should be amended to include the additional territory of Tomoka. (JOHNSON, REDEMANN)

**STAFF ANALYSIS:** As stated in the case background, FWSC and Tomoka jointly filed the application for the transfer of the Tomoka Water Works system to FWSC on March 21, 2000. 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 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 evidence that the utility owns the land upon which the utility's facilities are located as required by Rule 25-30.037(2)(q), 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 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.

The application states that the public interest will be well served by the transfer of the Tomoka facilities to FWSC because FWSC has the technical and financial ability to insure the continued operations of the Tomoka facilities.

With regard to the Buyer's technical ability to operate the system, FWSC has approximately 30 years of experience in the water and wastewater industry. FWSC owns and operates water and wastewater systems under the Commission's jurisdiction throughout the state of Florida, providing safe and reliable service. FWSC submits that it has a capital structure consisting of \$220 million in total capital including \$105 million in equity capital and \$115 million in long-term debt. The application states that the Buyer

has the technical and financial ability and manpower to operate the Tomoka system. Therefore, Staff believes that FWSC possesses the overall financial and technical ability to continue the operations of the Tomoka system.

The application states that the Buyer conducted a reasonable investigation of the water system and found it to be in satisfactory condition. Only minor maintenance on the system is anticipated. According to the application, the system is in compliance with the rules and regulations of the Volusia County Health Department and the St. Johns Water Management District (SJRWMD).

The application contains a copy of the Agreement for Purchase and Sale which includes the purchase price, terms of payment and a list of the assets purchased. According to the Agreement, the purchase price for the utility facilities (including land and equipment) is \$40,000. The Tomoka purchase was a cash transaction, and no outside financing was needed. Based on the application, there are no guaranteed revenue contracts, developer agreements, utility debt, customer advances or customer deposits. Tomoka will remain responsible for the existing debts of the utility incurred or accrued up to closing, which includes regulatory assessment fees (RAFs) until the date of closing. According to correspondence received May 15, 2000, the closing occurred on December 21, 1999 and the parties may seek proration of the RAFs after the closing date. FWSC is responsible for filing the 2000 Annual Report and RAFs after the closing date. The utility is current on its RAFs through December 31, 1999 and has filed an annual report for 1999 and all prior years. Additionally, FWSC has provided a statement that it will fulfill the commitments, obligations, and representations of the Seller regarding utility matters.

Based on the above, staff recommends that the transfer of the water facilities from Tomoka to FWSC is in the public interest and should be approved. Tomoka's Certificate No. 81-W should be canceled and FWSC's Certificate No. 238-W should be amended to include the additional territory of Tomoka.

ATTACHMENT A

FLORIDA WATER SERVICES CORPORATION

VOLUSIA COUNTY

TOMOKA WATER SYSTEM

**Township 14 South, Range 32 East, Volusia County, Florida.**

Tanglewood Forest - Tomoka View System

Section 30

Begin at the Northwest corner of the Southeast 1/4 of the Northwest 1/4 and run thence North 02° 02' 46" West, 1,218 feet more or less to a point in the Southerly shore of the Tomoka River; thence return to the Point of Beginning; thence from said Point of Beginning, run South 02° 02' 46" East, 940 feet to a point; thence North 87° 57' 14" East, 1,090 feet to a point in the North right-of-way of Ormond-Barberville Road (Highway 40); thence North 34° 02' 23" East, 757.70 feet; thence North 45° 17' 23" East, 300.55 feet; thence North 49° 01' 37" West, 611.40 feet; thence North 08° 46' 17" West, 1,011.73 feet; thence South 87° 28' 07" West 1,067 feet more or less to a point in the aforesaid Southerly shore of the Tomoka River; thence Southwesterly 125 feet more or less to the Northerly termination of the first named course of this description, to end and close.

**Township 14 South, Range 31 East, Volusia County, Florida.**

Twin River Estates System

Section 25

Begin at the Southwest corner of the North 1/2 of the Southeast 1/4 of the Southwest 1/4 of Section 25; thence North 0° 48' West to a point in the Southerly shore line of the Little Tomoka River; thence return to the Point of Beginning; thence North 87° 56' East, 236.43 feet to a point in the Northerly right-of-way of the Ormond-Barberville Road (Highway 40); thence North 73° 05' 50" East, along said Northerly right-of-way line of the Ormond-Barberville Road (Highway 40) to an intersection with the West shoreline of Tomoka River; thence Northerly along the meandering West shoreline of said Tomoka River to an intersection with the Southerly shoreline of Little Tomoka River; thence Westerly along the meandering Southerly shoreline of said Little Tomoka River to a point being the termination of the first named course of this description, to end and close.

**ISSUE 2:** What is the rate base of Tomoka at the time of transfer?

**RECOMMENDATION:** The rate base, which for transfer purposes reflects the net book value, is \$34,543, as of December 21, 1999, for the Tomoka system. (JOHNSON)

**STAFF ANALYSIS:** According to the application, rate base for Tomoka was last established by Order No. 21674, issued August 3, 1989, in Docket No. 881583-WU, in a staff assisted rate case.

Staff conducted an audit of the books and records of the utility to determine the rate base (net book value) as of December 21, 1999, the date of the transfer. The December 21, 1999 transfer date balances were determined by restating the utility 1999 year-end trial balance. Staff determined the beginning balances from the work papers of the last audit in Docket 881583-WU. Additions and retirements since the last audit were traced and verified by Staff to supporting documentation. The audit report contained several exceptions, that resulted in adjustments to the plant, accumulated depreciation, contribution-in aid-of-construction (CIAC), and accumulated amortization accounts. These adjustments are discussed in the following analysis. The utility did not file a response to the audit report. The following adjustments were made by staff as a result of the audit.

**UTILITY PLANT-IN-SERVICE**

According to the company ledger, the utility's ending depreciable plant-in-service and accumulated depreciation balances were \$99,904 and \$51,646, respectively, as of December 21, 1999. The utility's books and records were maintained in substantial compliance with the Commission directives. However, upon investigation, staff found that the utility failed to book a prior Order adjustment of \$4,336 and incorrectly capitalized \$2,395 of general maintenance expense. The prior Order adjustment of \$4,336, includes \$2,776 in pumping equipment (account no. 311) and \$1,560 for meters (account no. 334). The plant-in-service balance should be increased by \$4,336 to reflect the required adjustment of Commission Order No. 21674, issued August 3, 1989. The utility had two invoices totaling \$2,395 for cleaning and repair services on a generator and a pump. The cost incurred for servicing the pump and generator is general maintenance. General maintenance costs are reoccurring expenses that should be expensed and not capitalized. Therefore, \$2,395 should be removed from the plant-in-service balance. The net affect of these two adjustments results in a \$1,941 increase to the plant-in-service balance.

Based on these adjustments, staff recommends that the plant-in-service balance as of December 21, 1999 is \$101,845.

**ACCUMULATED DEPRECIATION**

As discussed above, the utility's ledger provided an accumulated depreciation balance of \$51,646, as of December 21, 1999. Staff applied Rule 25-30.140, Florida Administrative Code, to apply the guideline depreciation rates to the audited plant subaccount balances from 1989 to December 21, 1999 and determined that the accounts are understated by \$820.

Staff has adjusted the accumulated depreciation balance by \$820 to reflect the additional depreciation through the closing of the transfer. Based upon the above, staff recommends that accumulated depreciation should be increased by a total of \$820 to reflect a balance of \$52,466, as of December 21, 1999.

**CIAC & ACCUMULATED AMORTIZATION OF CIAC**

The utility's year-end trial balance, restated to December 21, 1999, indicated that the CIAC and accumulated amortization balances were \$42,732 and \$21,743, respectively.

By Order No. 21674, issued August 3, 1989, in Docket No. 881583-WU, the Commission established the December 31, 1988 CIAC balance at \$45,653 and the accumulated amortization of CIAC balance at \$9,497. Staff used the Commission order balances and verified the CIAC additions up to the transfer date and calculated a CIAC balance of \$46,878. The utility had understated the CIAC order balance by \$3,721. By Order No. 22854, issued April 24, 1990, in Docket No. 881583, the Commission established meter installation charges of \$75 for 5/8" X 3/4" meters and actual cost for 1" or larger meters. There was one commercial customer in 1991 that had a 2" meter installed for \$425, that the utility did not record. Therefore, CIAC should be adjusted by a total increase of \$4,146 to reflect the appropriate CIAC balance. Based on the above, staff recommends a CIAC balance of \$46,878, as of December 21, 1999.

The associated CIAC amortization was recalculated using annual composite amortization rates from January 1, 1989 to December 21, 1999, and it was calculated to be \$30,042. Therefore, staff recommends that accumulated amortization of CIAC should be increased by \$8,299, to reflect a \$30,042 CIAC amortization balance.

DOCKET NO. 000334-WU  
DATE: August 17, 2000

**RATE BASE**

Staff's calculation of rate base as of December 21, 1999 is shown on Schedule No. 1. The adjustments to rate base are itemized on Schedule No. 2. Based on the adjustments set forth herein, staff recommends that rate base for the Tomoka water system be established as \$34,543 as of December 21, 1999. This rate base calculation is used solely to establish the net book value of the property being transferred and does not include the normal rate making adjustments for working capital and used and useful.



SCHEDULE NO. 1

TOMOKA WATER WORKS, INC.  
SCHEDULE OF WATER RATE BASE  
As of December 21, 1999

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant-in-Service	\$ 99,904	\$1,941	\$101,845
Land	2,000	0	2,000
Accumulated Depreciation	(51,646)	( 820)	(52,466)
Contributions-in-aid-of-Construction	(42,732)	(4,146)	(46,878)
Accumulated of Amortization CIAC	<u>21,743</u>	<u>8,299</u>	<u>30,042</u>
TOTAL	\$ 29,269 =====	\$ 5,274 =====	\$ 34,543 =====

TOMOKA WATER WORKS, INC.

SCHEDULE OF WATER RATE BASE

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
<b>Utility Plant-in-Service</b>	
1) Adjustment pursuant to FPSC Order No. 21674	\$4,336
2) To remove general maintain exp.	(\$2,395)
Total	<u>\$1,941</u>
<b>Accumulated Depreciation</b>	
1) Adjustment to correct understatement	<u>\$ 820</u>
<b>CIAC</b>	
1) Adjustment pursuant to FPSC Order No. 21674	(\$3,721)
2) Adjustment to reflect 2" meter	(\$ 425)
Total	<u>(\$4,146)</u>
<b>Accumulated Amortization of CIAC</b>	
1) Adjustment to reflect recalculated account balance	<u>\$ 8,299</u>

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

**RECOMMENDATION:** No. Because FWSC has not requested an acquisition adjustment, and there are no extraordinary circumstances in this case to warrant the inclusion of an acquisition adjustment. Staff recommends that no acquisition adjustment should be included in the calculation of rate base. (JOHNSON, CROSBY)

**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 Tomoka would be calculated as follows:

Purchase Price:	\$40,000
Staff Calculated Rate Base:	<u>34,543</u>
Positive Acquisition Adjustment:	\$ 5,457 =====

Because the Buyer stated in the application that it was not seeking an acquisition adjustment, staff recommends that a positive acquisition adjustment not be included in the calculation of rate base. Moreover, 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. There are no extraordinary circumstances regarding this purchase that would justify an acquisition adjustment to rate base. Staff's recommendation is consistent with previous Commissions decisions in this regard. See Order No. PSC-00-0913-PAA-WU, issued May 8, 2000, in Docket No. 970201-WU; Order No. PSC-00-0579-PAA-SU, issued March 22, 2000, in Docket No. 990975-SU; Order No. PSC-00-0682-FOF-WU, issued April 12, 2000, in Docket No. 990253-WU; Order No. PSC-00-0758-PAA-SU, issued April 17, 2000, in Docket No. 991056-SU; Order No. PSC-98-1231-FOF-WU, issued on September 21, 1998, in Docket No. 971670-WU; and Order No. PSC-98-0514-FOF-SU, issued on April 15, 1998, in Docket No. 951008-SU.

**ISSUE 4:** Should FWSC adopt and use the rates and charges approved by this Commission for Tomoka?

**RECOMMENDATION:** Yes, FWSC should continue charging the rates and charges approved for this utility system until authorized to change in a subsequent proceeding. The tariff reflecting the change in ownership should be effective for services provided or connections made on or after the stamped approval date on the tariff sheets.  
(JOHNSON)

**STAFF ANALYSIS:** The utility's current rates for residential and general service were approved administratively in a price index and pass through application, which became effective on August 31, 1998. The service availability charges and the miscellaneous service charges were effective May 25, 1991 pursuant to Order No. 22854, issued April 24, 1990, in Docket No. 881583-WU. The utility's current approved rates and charges are as follows:

**Monthly Service Rates**

**Residential and General Service**

**Base Facility Charge:**

**Meter Size:**

5/8" x 3/4"	\$ 4.52
Full 3/4"	\$ 11.31
1"	\$ 22.64
1 1/2"	\$ 36.20
Gallonage Charge per 1,000 gallons	\$ 1.33

**Customer Deposits**

Residential	
5/8" x 3/4"	\$ 10.00
1"	12.50
1 1/2"	15.00
2"	Actual Cost

**Miscellaneous Service Charges**

Initial Connection Fee	\$ 15.00
Normal Reconnection Fee	\$ 15.00
Violation Reconnection Fee	\$ 15.00
Premises Visit Fee (in lieu of disconnection)	\$ 10.00

**Service Availability Charges**

Meter Installation Fee:	
5/8" x 3/4" Meter Size	\$ 75.00
1"	Actual Cost
1 1/2"	Actual Cost
2"	Actual Cost
Over 2"	
Back-Flow Preventor Installation Fee Over 2"	Actual Cost
Customer Connection (Tap-in) Charge Over 2"	Actual Cost
Inspection Fee Over 2"	Actual Cost

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

[i]n case 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).

FWSC has not requested a change in the rates and charges of the utility. Accordingly, staff recommends that the utility continue operations under the existing tariff and apply the approved rates and charges until authorized to change in subsequent proceeding. The

DOCKET NO. 000334-WU  
DATE: August 17, 2000

utility has filed the tariffs reflecting the transfer of ownership. If the Commission approves staff's recommendation, the tariff filing should be effective for services provided or connections made on or after the stamped approval date.

DOCKET NO. 000334-WU  
DATE: August 17, 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. (CROSBY)

**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.