



Public Service Commission

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

DATE: February 15, 2001

TO: Division of Records and Reporting
Division of Legal Services (Jaeger)

FROM: Division of Regulatory Oversight (Redemann)

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[Signature]

RE: Docket No. 001585-WU - Application for Amendment of Certificate No. 424-W to Add Territory Located in Highlands County by AquaSource Utility, Inc.

AquaSource Utility, Inc. (AquaSource or utility) is a Class A Utility. AquaSource owns systems in Lee, Polk, Charlotte, Lake and Highlands County. In addition, AquaSource owns the stock of Ocala Oaks Utilities, Inc., Jasmine Lakes Utilities, Inc., Arredondo Utilities, Inc., Crystal River Utilities, Inc. and Lake Suzy Utilities, Inc. AquaSource serves about 4,694 water customers and about 3,768 wastewater customers. The system that is the subject of this amendment application is the Lake Josephine water system (Lake Josephine) which serves approximately 474 water customers in Highlands County. Lake Josephine is within the Southwest Florida Water Management District (SWWMD) and is operating under Consumptive Use Permit Number 204167.01. SWWMD issued this permit on December 7, 1988 and the permit has been extended to December 7, 2009. Lake Josephine is in "The Highlands Ridge Water Use Caution Area."

On September 9, 1982, the Board of County Commissioners of Highlands County adopted a resolution which bestowed jurisdiction over privately owned water and/or wastewater utilities in the County upon the Florida Public Service Commission. The utility was granted Certificate No. 424-W by Order No. 12989, issued February 13, 1984, which also established initial rates.

By Order No. PSC-00-1389-PAA-WU, issued on July 31, 2000, in Docket No. 991001-WU, AquaSource was granted a transfer of the Lake Josephine water system to AquaSource. As a result of the transfer, AquaSource was ordered to file an amendment application, because Lake Josephine was serving outside its certificated area. On October 23, 2000, AquaSource complied with the order and filed an application for amendment of Certificate No. 424-W to its Lake Josephine system. The order also stated that a show cause proceeding would not be initiated, because the purpose of a show cause proceeding is to bring a utility into compliance with Commission orders, rules, and statutes. Since Lake Josephine was being transferred to another party, it served no purpose to initiate a show cause proceeding.

The application is in compliance with the governing statute, Section 367.045, Florida Statutes, and other pertinent statutes and administrative rules concerning an application for

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amendment of certificate. The application contains a check in the amount of \$500, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code. The utility has provided a copy of a warranty deed which provides for the continued use of the land as required by Rule 25-30.036(3)(d), Florida Administrative Code.

Adequate service territory and system maps and a territory description have been provided as prescribed by Rule 25-30.036(3) (e),(f) and (i), Florida Administrative Code. A description of the territory is appended to this recommendation as Attachment A. The description is a composite description that includes the old territory and the new territory. The utility has submitted an affidavit consistent with Section 367.045(2)(d), Florida Statutes, that it has tariffs and annual reports on file with the Commission.

In addition, the application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code. Although no objections were filed and the time for filing such has expired, one customer wrote that he had concerns about the current water pressure. The utility responded to the Commission staff that those problems preexisted the acquisition of that system by AquaSource. However, AquaSource had plans to upgrade the water treatment plant and the satellite booster station which the company believes will help alleviate the low water pressure problems. The customer received a copy of this information and there has been no further correspondence. Staff has contacted the Department of Environmental Protection (DEP) and learned that there are no outstanding notices of violation issued for the water system. In addition, DEP is aware of the low pressure problem and is working with the utility to resolve the problem.

The local planning agency was provided notice of the application and did not file a protest to the amendment. The Department of Community Affairs has identified no growth management concerns with the proposed expansion of the utility. The utility states that the provision of service will be consistent with the utility section of the local comprehensive plan.

With respect to technical ability, the utility utilizes licensed operators to operate the system. The certified public accounting firm of Cronin, Jackson, Nixon & Wilson provides the utility accounting services. The law firm of Rose, Sundstrom & Bentley, LLP provides legal services to the utility. The Lake Josephine water system has a design capacity of 300,000 gallons per day (gpd). The average flow for 1999 was about 111,473 gpd. Since these customers are already being served by AquaSource, there appears to be no negative impact on the water system as a result of this amendment application.

With respect to financial ability, AquaSource, Inc. a DQE company was formed in mid-1997 to purchase water and wastewater utilities and companies, and to provide management services/operations to utilities. As of December 31, 2000, DQE had operating revenues of \$1,317,000,000. Since its conception, AquaSource has invested over \$300 million in the water industry by purchasing and upgrading privately owned water utilities, bottled water operations, and water/wastewater service companies. For the Florida AquaSource systems, the utility's 1999 annual reports lists a combined water and wastewater revenue of \$4,284,435, and a net operating loss of \$27,460. A majority of the loss was from operations that have been since been discontinued (Rotunda Operations). For the Lake Josephine water system, the utility's 1999

annual report lists annual revenues of \$62,836. The annual report also includes annual operating expenses of \$71,717 resulting in a net operating loss of \$8,881. Since the utility has already been serving the customers in the requested territory, staff believes the utility has demonstrated the financial ability to provide quality service to these customers.

Staff recommends the rates and charges approved by the Commission be applied to customers in the new service territory. The utility has filed revised tariff sheets incorporating the additional territory into its tariff and returned its certificate for entry reflecting the additional territory.

Based on the above information, staff believes it is in the public interest to grant the application of AquaSource Utility, Inc. for amendment of Water Certificate No. 424-W for the territory described in Attachment A. An administrative order should be issued granting the application, within 30 days.

If you have any questions, please contact me immediately.

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cc: Division of Records and Reporting (Security File)

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Attachment A

AquaSource Utility, Inc.

The Lake Josephine Water System

Highlands County

Complete Territory Description

The Southeast 1/4 of the Southeast 1/4 of Section 28, the Southwest 1/4 of Section 27, the East 1/2 of Section 31, all of Sections 32 and 33, the Northwest 1/4 and the Northwest 1/4 of the Southwest 1/4 of Section 34, all in Township 35 South, Range 29 East, also including lots 16 through 25 of Sebring Lake Acres Unit 1 described as the North 830 feet of the East 1/2 of the Northwest 1/4 of the Northwest 1/4 of Section 4, Township 36 South, Range 29 East less the westerly 305 feet of the Northwest 1/4 of the Southwest 1/4 of Section 27, Township 35 South, Range 29 East.