



Public Service Commission

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COMMISSION
CLERK

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RECEIVED FPSC

DATE: AUGUST 2, 2001

TO: DIRECTOR, DIVISION OF COMMISSION CLERK (BAYÓ)

FROM: DIVISION OF REGULATORY OVERSIGHT (BRADY REDEMANN) *pb*
DIVISION OF LEGAL SERVICES (JAEGER) *DES* *RL SMA*

RE: DOCKET NO. 001820-SU - APPLICATION FOR TRANSFER OF WASTEWATER UTILITY FACILITY IN LEE COUNTY FROM CROSS CREEK OF FORT MYERS COMMUNITY ASSOCIATION, INC., A NOT-FOR-PROFIT FLORIDA CORPORATION, TO UTILITIES, INC. OF EAGLE RIDGE, HOLDER OF CERTIFICATE NO. 369-S, AND FOR AMENDMENT OF CERTIFICATE NO. 369-S TO INCLUDE ADDITIONAL TERRITORY. COUNTY: LEE

AGENDA: 08/14/01 - REGULAR AGENDA - 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\001820.RCM

CASE BACKGROUND

Utilities, Inc. of Eagle Ridge (UIER or buyer) is a Class B utility providing wastewater service in Lee County, Florida. The utility is located in a Critical Water Supply Problem Area and receives its water service from Lee County. According to its 2000 annual report, UIER serves approximately 1,771 connections with gross revenues of \$495,859 and a net operating income of \$59,956.

On December 26, 2000, an application was filed for approval of the transfer of the wastewater facilities owned by Cross Creek of Fort Myers Community Association, Inc. (Cross Creek or seller) to UIER. The development at Cross Creek is a built out residential subdivision consisting of 905 condominium units, a golf course,

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clubhouse, pool area and tennis courts. Its wastewater system was previously exempt from Commission regulation pursuant to Section 367.022(7), Florida Statutes, which exempts nonprofit corporations, associations, or cooperatives providing service solely to members who own and control such nonprofit corporations, associations, or cooperatives. Since the system has not been previously regulated, the application is also an amendment of service territory.

The Commission has jurisdiction over this amendment and transfer pursuant to Sections 367.045(2) and 367.071, Florida Statutes, respectively.

DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of the wastewater system from Cross Creek of Fort Myers Community Association, Inc. to Utilities, Inc. of Eagle Ridge be approved?

RECOMMENDATION: Yes. The transfer should be approved. The effective date of the transfer should be November 28, 2000. Certificate No. 369-S should be amended to include the territory described in Attachment A. (BRADY, REDEMANN, JAEGER)

STAFF ANALYSIS: On December 26, 2000, an application was filed for approval of the transfer of Cross Creek's wastewater facilities to UIER. Cross Creek is a not-for-profit corporation which was exempt from Commission regulation pursuant to Section 367.022(7), Florida Administrative Code. The Revised-Asset Purchase Agreement (sales agreement) between Cross Creek and UIER was executed on October 12, 2000, contingent upon Commission approval in accordance with Section 367.071(1), Florida Statutes. The interim closing occurred on November 28, 2000, after which UIER took over operations of the utility. Final closing is scheduled to take place within 10 days after Commission approval.

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 and provided the requisite proof of noticing pursuant to Rules 25-30.020 and 25-30.030, Florida Administrative Code, respectively. No objections to noticing were filed with the Commission and the time for filing such has expired. The territory being transferred is described in Attachment A. The application also returned UIER's original certificate pursuant to Rule 25-30.037(2)(t), Florida Administrative Code. In addition to these items, the application contained the following information with respect to the remaining requirements for authority to transfer.

Sales Contract and Financing. As required by Rules 25-30.037(2)(g), (h), (i), and (k), Florida Administrative Code, the application contained a copy of the sales contract and description of the financing. The purchase price was \$750,000 to be increased at closing by the amount of any current or accrued customer accounts receivable and decreased by any and all liabilities.

Cross Creek did not maintain customer deposits. According to the application, the purchase price was a cash transaction. Therefore, there are no entities upon which UIER is relying for financing.

Proof of Ownership. Rule 25-30.037(2)(q), Florida Administrative Code, requires evidence that the utility owns or has provided for the continued use of the land upon which the utility facilities are located. The application contained a copy of a 99-year ground lease between Cross Creek, the lessor, and UIER, the lessee, beginning on January 1, 2001, and terminating on December 31, 2100. In accordance with the rule, a 99 year lease is acceptable proof of continued use of the land.

Annual Reports and Regulatory Assessment Fees (RAFs). As noted above, Cross Creek was exempt from Commission regulation pursuant to Section 367.022(7), Florida Statutes, prior to the acquisition by UIER. However, when title to the wastewater system was transferred to UIER at the interim closing on November 28, 2000, the Cross Creek wastewater system became jurisdictional and therefore subject to Commission regulation. Staff has verified that UIER is current on annual reports and RAFs through 2000. UIER provided a supplemental statement indicating that revenues accrued by UIER for the Cross Creek system in 2000 were included in UIER's 2000 Annual Report, which was the basis for UIER's 2000 RAFs.

Environmental Compliance. Pursuant to Rule 25-30.037(2)(p), Florida Administrative Code, the application contains a statement that the buyer is not aware of any outstanding Florida Department of Environmental Protection (FDEP) Notices of Violation or any consent orders. Staff verified with the FDEP that both Cross Creek's and UIER's wastewater system are currently in compliance with all of FDEP's environmental rules and regulations.

Financial and Technical Ability and Public Interest. Pursuant to Rule 25-30.037(2)(j), Florida Administrative Code, the application contained a statement of public interest, including a summary of the buyers' experience in utility operations and a showing of the buyer's technical and financial ability to provide service.

UIER is a wholly-owned subsidiary of Utilities, Inc. (UI). The application stated that UI has approximately 35 years of experience in the water and wastewater utility industry and that it currently provides safe and reliable water and wastewater service

to approximately 230,000 customers in 16 states. UI was formed in 1965 with the objective of acquiring small water and wastewater companies with the intent to, not only operate, but also improve them. By centralizing the management, accounting, billing and data processing functions, UI claims these companies can achieve economies of scale that would be unattainable on a stand-alone basis.

With respect to the buyer's technical and financial ability, the application stated that UI has both the regulatory experience and financial wherewithal to ensure consistent compliance with environmental regulations. UI believes its experience, through its UIER subsidiary, in operating wastewater utilities will provide depth to the Cross Creek customers on both a day-to-day basis as well as during emergencies. UI also states that it has operated other water and wastewater utilities in Florida under the regulation of the Commission since 1976 and that UI's existing Florida subsidiaries are in good standing with the Commission.

Staff would also note that in its review of the Cross Creek association minutes with regard to the transfer it was clear that Cross Creek no longer wished to carry the burden of maintaining its wastewater system. Before Cross Creek entered into the sales contract, it performed an extensive study of its service options including various expert opinions, multiple cost projections, and an insurance appraisal. For a variety of reasons, the sale of the utility facilities to UIER was considered to be in the long-term best interests of Cross Creek's members.

Based on all the above, staff recommends that the transfer of Cross Creek's wastewater system to UIER is in the public interest and should be approved. The effective date of the transfer should be November 28, 2000. Certificate No. 369-S should be amended to include the territory described in Attachment A.

ISSUE 2: What is the rate base for Cross Creek's wastewater system at the time of the transfer?

RECOMMENDATION: The rate base is \$750,000 as of December 31, 2000.
(BRADY, REDEMANN)

STAFF ANALYSIS: Prior to the transfer to UIER, Cross Creek's wastewater system was exempt from Commission regulation. As a consequence, rate base had never been established nor was there any requirement for Cross Creek to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners' (NARUC's) uniform system of accounts. To determine a value for the assets being transferred, an audit of Cross Creek's books and records was requested by staff as of December 31, 2000.

The auditor first examined all invoices relating to plant additions after Cross Creek took ownership of the system. The auditor then obtained all available documentation relating to original plant costs from the developer. This information was supplemented with a review of outside estimates of the plant costs and a tour of the utility facilities. Finally, the auditor reviewed all available court documents for any additional information relating to original costs. Despite these efforts, the audit scope was limited to the extent that no supporting documentation could be found relating to Cross Creek's collection mains or lift stations. On its own initiative, UIER decided to contract for an original cost study for the remaining plant not verified in staff's audit.

Utility Plant in Service (UPIS). Cross Creek's original facilities were built by the developer, US Homes, in 1985 and expanded in 1987. Around 1988, the developer then turned over ownership of the utility facilities to Cross Creek at no charge. The auditor received a printout of capital additions from the developer in which a majority of original plant was traced to final contract payments made to Source Engineering. There were some minor items, such as soil testing and fencing, which could not be substantiated by any invoices. However, the most significant missing invoices were those needed to verify the amounts paid for the collection system. The audit verified \$708,240 of investment by the developer in UPIS.

After acquiring the utility facilities from the developer, Cross Creek added two additional capital expansions. The first

expansion was in 1992 for a new surge tank. The second expansion was in 1995 for storage tanks and a spray irrigation system. The audit verified that the costs for these two plant additions, plus all other replacement and operational costs since Cross Creek acquired the utility facilities, were paid for by member dues or assessments. Because of the rules for non-profit associations, Cross Creek did not capitalize any of these assets. Instead, the auditor derived the supporting cost documentation from invoices and reserve fund activity. To verify that Cross Creek had neither capitalized nor depreciated these amounts, the auditor also reviewed Cross Creek's 1999 depreciation schedule and its 1999 federal tax return. The audit verified a total amount of capital additions paid for by Cross Creek as \$639,464. Therefore, the total amount of plant substantiated by the audit was \$1,347,704 (\$708,240 + \$639,464). This amount was not disputed by UIER.

However, as already noted, the original plant and additions verified by the audit did not include the wastewater collection system. When such a situation occurs, the Commission has historically recognized that the original cost of the assets may be estimated by reconstructing cost by reference to cost indices, federal income tax returns, or any other reasonable proxy. On this understanding, UIER contracted for an original cost study (study) to assess the cost of the collection system unverified by the audit.

The procedure for determining original cost consists of identifying the existence of the assets, estimating the physical quantities, and estimating the cost of those assets at the time they were constructed or placed into service. Cross Creek's "Utility Master Plan" drawings were used to locate and inspect existing facilities, to estimate line footage and various dimensions, to verify equipment descriptions, and to determine lengths of pipe. However, certain assumptions had to be made on the depth of mains and manholes based on engineering practices and the use of the "Recommended Standards for Wastewater Facilities, 1997 Edition." This method would result in a conservative estimate upon which to base cost information as no provisions are made for special circumstances which almost inevitably occur during construction.

The reference sources for cost information used by the study were the signed vendor payment requisitions for actual 1984 construction of wastewater mains and appurtenances by UI in Pasco

County. This construction was one year prior to the in-service date for Cross Creek's original facilities. The index source used to trend those construction costs to the in-service years of Cross Creek's original facilities and the later 1987 plant addition was the Means Historical Cost Index (HCI) published by R.S. Means Company, Inc. It is an index of the weighted average of the material and labor costs of building construction projects.

Staff would note that it has been prior Commission practice to use the U.S. Environmental Protection Agency's (EPA) Construction Cost Index (CCI) for trending wastewater construction costs. However, the EPA stopped maintaining the index in 1991. Currently, only two general construction indexes are being maintained, one is the ENR index which is maintained by ENR (formerly Engineering News Record Magazine) and the other is the HCI. The study made a comparison of both the ENR index and the HCI to the EPA's CCI for the 35 year period, 1957-1991. A graphic comparison was included in the study which showed that the HCI trended favorably with that of the EPA's CCI. Based on these representations, staff believes that the HCI appears to be a reasonable basis for trending wastewater construction cost for purposes of this study.

The study initially concluded that the estimated original cost of the collection system assets not included in staff's audit was \$360,581. However, the study had assumed that the service lines and laterals had been conveyed to UIER even though these lines were not specified in the sales contracts. In the audit work papers was an amendment to the sales contract which clarified that the service lines and laterals were not conveyed to UIER. Staff, therefore, requested that the study be adjusted accordingly. The resulting revised original cost was \$343,627.

Staff believes that the revised original cost of the collection system is reasonable. Therefore, staff recommends that the original cost of Cross Creek's UPIS should include the original assets donated by the developer (\$708,240), the capital additions paid for by Cross Creek (\$639,464), and the revised estimated cost of the collection system (\$343,627), for a total investment of \$1,691,331. The associated accumulated depreciation pursuant to Rule 25-30.140, Florida Administrative Code, would be \$994,323 as of December 31, 2000.

Contributions in Aid of Construction (CIAC). Pursuant to Rule 25-30.570, Florida Administrative Code:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Since Cross Creek did not maintain its books and records according to the NARUC uniform system of accounts, the utility assets were not capitalized and no CIAC was recorded. In addition, the developer's tax returns were not available to verify whether the cost of the utility assets were expensed for tax purposes. Therefore, because the developer turned over ownership of the utility facilities to Cross Creek at no charge, staff recommends that it be assumed that the cost of the plant and lines that were donated to the utility were recovered by the developer as part of the purchase price of the homes. If this was the case, then the homeowners paid their share of the cost of the original plant and lines (\$708,240 and \$343,627) when they bought their homes and this amount should be imputed as CIAC.

In addition, the audit verified that all additional plant expansions and capital improvements were paid for in full by the homeowners through Cross Creek homeowner dues and assessments. Also, Cross Creek's 1999 depreciation schedule and its 1999 federal tax return were reviewed to determine whether Cross Creek had capitalized or depreciated the plant. It was determined that it had done neither. Therefore, since the cost of the plant expansion and capital improvements, \$639,464, were paid for by the homeowners/customers, this amount should also be imputed as CIAC.

For these reasons, staff recommends that 100% of the plant and lines included in UPIS be imputed as CIAC for purposes of setting rate base at the time of the transfer. The imputed CIAC would be \$1,691,331, with an associated accumulated amortization of \$994,323.

Adjustment to CIAC. The impact of considering the plant 100% contributed would be a rate base of \$0.00. However, UIER paid \$750,000 for the acquisition of Cross Creek's wastewater system.

The Cross Creek association minutes reflect that the purchase price will be used to offset future homeowners dues. Therefore, the customers will benefit directly by being reimbursed a portion of the cost of the utility system previously paid for through the purchase price of their homes and through homeowners dues and assessments. While staff believes that the customers have previously paid for 100% of the cost of the utility assets, staff also believes they are being reimbursed \$750,000 of that cost.

In most transfers, the sales transaction is outside the control of the customers of the utility and generally only benefits the utility and its shareholders. However, this transfer is unique in that the customers of the utility are also the owners of the utility. Staff believes the purchase price of \$750,000 should be used to offset the imputed CIAC of \$1,691,331 to reflect the fact that the customers have been reimbursed a portion of their investment in the utility.

It should be noted that both Cross Creek and UIER performed extensive and thorough due diligence in arriving at a mutually agreed-upon purchase price. In addition, the sales contract specifies that the application for transfer should request the establishment of a rate base in an amount equal to the purchase price.

Based on all the above, Staff recommends that the purchase price of \$750,000 should be used to offset CIAC. Staff's recommended schedule of rate base is shown on Schedule 1. As is Commission practice for rate base at the time of transfer, the schedule does not include the normal rate making considerations of working capital and used and useful plant. Staff recommends that rate base for transfer purposes be established as \$750,000, as of December 31, 2000.

CROSS CREEK
 SCHEDULE OF WASTEWATER RATE BASE
 AS OF DECEMBER 31, 2000

	<u>AUDIT & ORIGINAL COST STUDY</u>	<u>STAFF ADJUSTMENT</u>	<u>STAFF RECOMMENDS</u>
UTILITY PLANT IN SERVICE	\$1,691,331	\$ 0	\$1,691,331
LAND/NON-DEPRECIABLE ASSETS	0	0	0
ACCUMULATED DEPRECIATION	(994,323)	0	(994,323)
CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(1,691,331)	750,000	(941,331)
ACCUM. AMORTIZATION OF CIAC	<u>994,323</u>	<u>0</u>	<u>994,323</u>
WASTEWATER RATE BASE	<u>\$ 0</u>	<u>\$ 750,000</u>	<u>\$ 750,000</u>

ISSUE 3: Should an acquisition adjustment be approved?

RECOMMENDATION: No. UIER did not request an acquisition adjustment and none should be approved. (BRADY)

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from rate base at the time of the acquisition. The acquisition adjustment resulting from the transfer of Cross Creek's wastewater systems to UIER is calculated as follows:

Purchase Price	\$750,000
Rate Base at December 31, 2000	<u>\$750,000</u>
Acquisition Adjustment	<u>\$ 0</u>

If the Commission approves staff's recommendation for rate base at the time of transfer, as set forth in Issue 2, there is no difference between the purchase price and rate base. In addition UIER did not request an acquisition adjustment. Therefore, staff recommends that no acquisition adjustment be approved.

ISSUE 4: What rates and charges should be approved for Cross Creek?

RECOMMENDATION: A monthly general service wastewater rate of \$12,172 should be approved for service to Cross Creek. Zero reclaimed water rates should be approved for service to the Cross Creek Golf Club and the Eagle Ridge Golf and Tennis Club, Ltd. No service availability charges for Cross Creek should be approved at this time. The tariff sheets reflecting these rates should be effective for services rendered or connections made on or after the stamped approval date. The utility should be required to return to the Commission for a determination regarding the rates for reclaimed water service prior to providing reclaimed water service to any other customers. (BRADY, REDEMANN)

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, classification and regulations of the former operating company (unless authorized to change by the commission).

Cross Creek has 905 condominiums which pay a monthly per unit flat rate of \$13.45 for wastewater service to Cross Creek. This rate includes the cost of wastewater service to common area facilities such as the community golf course. Potable water service is provided by Lee County Utilities Department through metered connections. According to the sales contract, UIER will bill Cross Creek, as a general service customer, \$12,172 per month (905 units x \$13.45) for the provision of wastewater service to the 905 units. In addition, the sales contract also contains a provision whereby UIER has agreed not to file for a rate proceeding for two years. Since the Cross Creek service territory is built out, no service availability charges should be approved at this time.

Reclaimed Water Rate. Cross Creek's wastewater system includes reclaimed water treatment facilities. The treated effluent is used to irrigate Cross Creek's golf course areas. Cross Creek's wastewater treatment facility consists of a 0.349

million gallons per day (MGD) extended aeration treatment plant with one flow equalization tank, four aeration basins, two reuse holding tanks with a total capacity of 0.925 million gallons, and one substandard tank with a capacity of 0.375 million gallons.

Historical records for the treatment facility indicate that the volume of reuse water produced during the peak occupancy period, and during wet weather conditions, provides only a fraction of the irrigation water required by Cross Creek's golf course. And, since there is no customer growth projected within the service area, the annualized plant flow is not likely to increase. Therefore, it appears that during extended wet weather periods there will be ample storage capacity in Cross Creek's existing tanks to offset the decreased use of reclaimed water for golf course irrigation. As such, no additional storage facilities will be needed in order for UIER to provide reclaimed water service to the Cross Creek Golf Club.

Staff would note that Cross Creek currently has a FDEP exemption to the Class I reliability standard, as it applies to public access reuse plants, which will expire in 2010. This exemption slightly reduces the treatment requirements. Upon the expiration of the exemption, the FDEP will require the design and construction of additional facilities. At a minimum, UIER anticipates this will include the addition of a second clarifier. Other required facilities may include additional pumps, piping, valves, and instrumentation equipment.

According to the sales agreement, UIER has agreed to continue to provide reclaimed water from these facilities at no cost to Cross Creek for irrigation purposes only, and Cross Creek has agreed to accept the reclaimed water to the maximum extent possible. Although UIER does not have an existing reclaimed water tariff, staff has learned that UIER's existing Eagle Ridge wastewater system also has reclaimed water facilities that are providing effluent at no charge to the Eagle Ridge Golf and Tennis Club, Ltd. UIER does not have a reclaimed water tariff on file because the Eagle Ridge facilities were constructed prior to the time utilities were required to maintain zero rate reclaimed water tariffs. Staff also notes that Cross Creek's and Eagle Ridge's reclaimed water facilities are not interconnected nor are there any plans for them to be interconnected. Nevertheless, the following discussion applies generally to both systems.

Due to growing concerns over water conservation, reclaimed water is increasingly being viewed as an alternative source of water for irrigation of golf courses, commercial sites and even residential communities in some cases. Along with the increased use of reclaimed water has come recognition that there are costs associated with the provision of the service. Consequently, it has become Commission practice to recognize reclaimed water service (sometimes referred to as effluent or reuse service) as a class of service which should be included in the utility's tariff, regardless of whether the utility assesses a charge for the service.

In many cases, where there are costs associated with the provision of reclaimed water service, there are also "avoided costs" which balance the actual cost of the service. In this case, if UIER did not have an agreement from Cross Creek to use its golf course to dispose of the effluent, then UIER would have to purchase additional land for spray fields or percolation ponds. Therefore, the utility benefits from the sales agreement in that it does not have to incur the costs of having to locate and purchase land to dispose of the effluent. Cross Creek benefits from having reclaimed water at no cost to offset potable water needs. The area also benefits from the preservation of potable water resources when reclaimed water is used instead of potable water for irrigation. And, as noted earlier, Lee County is designated by the South Florida Water Management District as a Critical Water Supply Problem Area.

Staff recommends that UIER be required to file a zero rate tariff for reclaimed water service to Cross Creek Golf Club and Eagle Ridge Golf and Tennis Club, Ltd. The utility should also be required to return to the Commission for a determination regarding the rates for reclaimed water service prior to providing reclaimed water service to any other customers.

Based on all the above, staff recommends that the general service wastewater rate of \$12,172 per month for Cross Creek be approved. Staff also recommends that zero rate reclaimed water tariffs be established for Cross Creek Golf Club and Eagle Ridge Golf and Tennis Club, Ltd. No service availability charges for Cross Creek should be approved at this time. UIER has filed proposed tariff sheets which reflect these rates and charges. The tariff sheets reflecting these rates and charges should be effective for services rendered or connections made on or after the

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stamped approval date. The utility should be required to return to the Commission for a determination regarding the rates for reclaimed water service prior to providing reclaimed water service to any other customers.

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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 a Consummating Order should be issued and the docket should be closed. (JAEGER)

RECOMMENDATION: If no timely protest is received to the proposed agency action issues, upon the expiration of the protest period a Consummating Order should be issued and the docket should be closed.

UTILITIES, INC. OF EAGLE RIDGE

WASTEWATER TERRITORY, ONLY

SERVING CROSS CREEK

LEE COUNTY

Township 45 South, Range 25 East
Sections 17 and 20

A parcel of land in Sections 17 and 20, Township 45 South, Range 25 East, Lee County, Florida, being more particularly described as follows:

Beginning at the Northeast corner of Section 20; thence North 01°21'01" West for 2,646.72 feet to the East 1/4 corner of said Section 17; thence South 88°53'26" West along the 1/4 Section line for 855.33 feet; thence South 29°44'17" West for 261.74 feet; thence South 07°59'36" West for 940.06 feet; thence South 30°59'16" West for 634.98 feet; thence South 40°31'05" East for 274.93 feet; thence South 40°28'51" West for 466.99 feet; thence North 84°28'38" West for 285.10 feet; thence South 22°27'36" West for 465.27 feet to the North line of Section 20 being common to Sections 17 and 20; thence South 88°54'28" West along said North line of Section 20, for 1,060.37 feet to the West line of the East 1/2 of the East 1/2 of the Northwest 1/4 of Section 20; thence South 00°00'12" East along aforesaid West line for 2,545.05 feet; thence North 88°57'31" East for 1,566.68 feet; thence South 01°02'17" East for 80.71 feet to the Northerly right-of-way line of Daniels Road (S.R. 867A); thence North 82°52'47" East along said Northerly right-of-way line of Daniels Road for 922.15 feet to a point of curvature; thence along the arc of said curve and said Northerly right-of-way line of Daniels Road to the right having a radius of 5,879.58 feet, a central angle of 06°04'44" feet for an arc distance of 623.80 feet to a point of tangency; thence North 88°57'30" East along said Northerly right-of-way line of Daniels Road for 99.53 feet to the intersection of the East line of said Section 20; thence North 01°13'17" West along the East line of said Section 20, and leaving said Northerly right-of-way line of Daniels Road for 2,497.43 feet to the Northeast corner of Section 20, the Point of Beginning.

Containing 266.30 acres more or less.