

State of Florida



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 7, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (CLAPP, RIEGER, IWENJ, TORA) @ SPR ID [initials] DM [initials]
OFFICE OF THE GENERAL COUNSEL (BRUBAKER) [initials] JDJ

RE: DOCKET NO. 010119-WS - APPLICATION FOR TRANSFER OF FACILITIES OF STEEPLECHASE UTILITY COMPANY, INC., HOLDER OF CERTIFICATE NOS. 515-W AND 447-S IN MARION COUNTY, TO FLORIDA WATER SERVICES CORPORATION, HOLDER OF CERTIFICATE NOS. 373-W AND 322-S, FOR CANCELLATION OF CERTIFICATES 515-W AND 447-S, AND FOR AMENDMENT OF CERTIFICATES 373-W AND 322-S.
COUNTY: MARION

AGENDA: MARCH 19, 2002 - REGULAR AGENDA - PROPOSED AGENCY ACTION ISSUES 3, 4 AND 5 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010119WS.RCM

CASE BACKGROUND

Steeplechase Utility Company, Inc. (Steeplechase or utility) is a Class C utility located within the St. Johns River Water Management District (SJRWMD) serving approximately 897 water customers and 636 wastewater customers in Marion County. Steeplechase is owned by the developer, Stonecrest of Marion County, Ltd. (Stonecrest, SOMC, or development). The development was in the permitting stage when the utility applied for an original certificate in 1989. The utility was granted Water Certificate No. 515-W and Wastewater Certificate No. 447-S by Order

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No. 21063, issued April 18, 1989, in Docket No. 890145-WS. Steeplechase's service territory was amended to include additional territory pursuant to Order No. PSC-97-1508-FOF-WS, issued November 26, 1997, in Docket No. 970897-WS. The utility's 2000 annual report indicates revenues of \$212,889 and \$120,597 and net operating losses of \$29,239 and \$96,135 for water and wastewater, respectively.

On January 29, 2001, Florida Water Services Corporation (Florida Water or buyer) submitted an application for transfer of the utility from Steeplechase to Florida Water. The transfer application is the subject of this recommendation.

According to the application, on December 22, 2000, the utility, the developer, and the buyer entered into an agreement for purchase and sale of the utility and the land upon which the facilities were located. The closing on the transfer took place on December 29, 2000. The Commission has jurisdiction to consider this matter pursuant to Section 367.071, Florida Statutes.

This recommendation was deferred from the March 5, 2002, agenda. The changes made to Issues 1, 3, and 4 are shown in strikeout and redline format.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission order Steeplechase or Florida Water to show cause, in writing within 21 days, why it should not be fined for failing to charge its authorized wastewater rates, in apparent violation of Section 367.081(1), Florida Statutes?

RECOMMENDATION: No. The Commission should not order Steeplechase and/or Florida Water to show cause, in writing within 21 days, why it should not be fined for failing to charge its authorized wastewater rates, in apparent violation of Section 367.081(1), Florida Statutes. Staff recommends that the utility should impute the revenues that would have been generated if the tariffed gallonage cap had been billed for residential wastewater service. Florida Water should be required to pay its regulatory assessment fees (RAFs) based upon the imputed amount through June 1, 2003. Florida Water should be put on notice that after June 1, 2003, the utility should commence billing in accordance with its tariff, and should continue doing so until authorized to change by this Commission in a subsequent proceeding. Further, staff recommends that FWSC's proposed plan, including the customer notice and proposed meeting, is a reasonable solution to giving the customers notice of its intent to begin billing based on the 10,000 gallon cap in June, 2003. (BRUBAKER)

STAFF ANALYSIS: As part of staff's analysis of the utility's application, an audit was performed of the utility's books and records. Staff's audit report was filed on June 21, 2001. The audit staff's review of the utility's rates and charges during the 12-month period ended December 31, 2000, indicated, and utility personnel confirmed, that the utility does not charge based on the tariffed gallonage cap for residential wastewater service. The utility's original rates and charges were approved pursuant to Order No. 21438, issued June 26, 1989, in Docket No. 890145-WS, which included a 10,000 gallon cap for residential wastewater service. However, the utility never implemented the 10,000 gallon cap, but instead, instituted a cap of 5,000 gallons. The utility's annual wastewater revenues are therefore understated because of the utility's decision to cap wastewater charges to customers at water consumption levels of 5,000 gallons rather than the tariff level of 10,000 gallons.

Additionally, audit staff noted that Recital No. 10 in the Agreement for Purchase and Sale, dated December 22, 2000, states

that until June 1, 2003, Florida Water will not increase rates or service availability charges in any manner for any customer located in the territory served by Steeplechase prior to the date of closing or for any customer in a territory added to Florida Water certificates pursuant to this agreement.

A joint response to the staff audit was filed by Steeplechase and Florida Water on August 30, 2001. The respondents concur that Steeplechase has a tariffed gallonage cap of 10,000 gallons for wastewater, but applied a billing gallonage cap of 5,000 for wastewater charges to residential customers when the initial rates were established. The respondents further believe that it is in the best interest of the Steeplechase customers to maintain this cap as part of the overall agreement by Florida Water not to increase rates until June 1, 2003. No explanation was provided as to why the cap at 5,000 gallons was instituted or why the utility did not secure Commission approval for the change. Staff contacted counsel for Florida Water on December 17, 2001, and confirmed that Florida Water was continuing to charge the unauthorized gallonage cap instituted by Steeplechase.

Staff expressed a concern to FWSC that customers will perceive the change to a 10,000 gallon cap in June, 2003 as a rate increase. As a result, on February 28, 2002, FWSC provided a proposed plan by which FWSC would notify the Steeplechase customers of its intent to implement the 10,000 gallon cap. The plan includes a customer letter describing the reason for and impact of its changing the cap to 10,000 gallons per month. In addition, FWSC proposed that, upon approval for the transfer and plan by the Commission, FWSC would schedule a meeting to give the customers an opportunity to ask questions regard the planned change. A copy of the proposed customer notice is included as Attachment B.

Pursuant to Section 367.081(1), Florida Statutes, a utility may only charge rates and charges that have been approved by the Commission. In failing to charge Steeplechase's authorized wastewater rates, the utility and Florida Water are in apparent violation of the above-referenced statutory provision. Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Thus, any intentional act, such as the utility's failure to obtain a certificate, would meet the standard for a

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"willful violation." In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6. Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes.

While Steeplechase, and subsequently Florida Water's, failure to bill using the approved wastewater gallonage cap constitutes an apparent violation of Section 367.081(1), staff does not recommend that show cause proceedings should be initiated with respect to the prior owner or Florida Water. Rather, staff recommends that the utility should impute the revenues that would have been generated if the tariffed gallonage cap had been billed for residential wastewater service through June 1, 2003, for the purpose of calculating its RAFs. This will effectuate compliance with the utility's tariff, while allowing Florida Water to comply with its obligations under the purchase and sale agreement. By letter dated January 29, 2002, Florida Water agreed with the imputation and payment of RAFs until, under the terms of the purchase agreement, the utility can charge the tariffed 10,000 gallon residential wastewater cap. Florida Water should be put on notice that after June 1, 2003, the utility should commence billing in accordance with its tariff, and should continue doing so until authorized to change by this Commission in a subsequent proceeding.

Further, staff recommends that FWSC's proposed plan, including the customer notice and proposed meeting, is a reasonable solution to giving the customers notice of its intent to begin billing based on the 10,000 gallon cap in June, 2003.

ISSUE 2: Should the transfer of facilities of Steeplechase to Florida Water, the cancellation of Certificates Nos. 515-W and 447-S, and the amendment of Certificates No. 373-W and 322-S be approved?

RECOMMENDATION: Yes, the transfer of facilities of Steeplechase to Florida Water, the cancellation of Certificates Nos. 515-W and 447-S, and the amendment of Certificates No. 373-W and 322-S should be approved. A description of the territory being transferred is appended to this issue as Attachment A. (CLAPP, RIEGER)

STAFF ANALYSIS: As stated in the case background, Florida Water applied for a transfer of Water Certificate No. 515-W and Wastewater Certificate No. 447-S in Marion County from Steeplechase on January 29, 2001. 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 maximum number of connections the water system can efficiently serve is 1,600 ERC's. For wastewater, the system can efficiently serve 750 ERC's. The application contains a check in the amount of \$3,000, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code.

Section 367.071, Florida Statutes, requires that no utility shall sell, assign, or transfer its certificate of authorization, facilities or any portion thereof, or majority organizational control without prior approval of the Commission unless such sale, assignment, or transfer is made contingent upon Commission approval. The closing on the transfer of the utility facilities and purchase of the land upon which the utility facilities are located took place on December 29, 2000. The parties included Section 20 Regulatory Approval and Repurchase Rights in the Agreement for Purchase and Sale, which provides for the repurchase of the utility from Florida Water in the event the Commission does not approve the joint transfer application. Therefore, the application is in compliance with the statute.

The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code. No objections to the application were received, and the time for the filing of such objections has expired. A description of the territory served by the utility is appended to this issue as Attachment A. The service area includes the original service area granted to the utility in Order No. 21063, and as amended in Order

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No. PSC-97-1508-FOF-WS, issued November 26, 1997, in Docket No. 970897-WS.

The application contains documentation to comply with Rules 25-30.037(2)(g), (h), (i), and (k), Florida Administrative Code, regarding terms of the sale and financing of the purchase. The application contains a copy of the agreement for purchase and sale which includes the sales price, terms of payment, and a list of the assets purchased and liabilities assumed of Steeplechase. The purchase price for the utility and land is \$1,500,000 plus an amount equal to the outstanding accounts receivable. The purchase price is based on an estimated market value of \$400,000 for land and an estimated market value of \$1,100,000 for the utility systems. The agreement also provided for an easement for Stonecrest to access and operate a wetwell and related facilities for golf course irrigation purposes. A condition precedent for each party prior to the closing was to enter into a Developer's Agreement to accommodate Stonecrest's future development requirements. Florida Water has filed the Developer's Agreement pursuant to Rule 25-30.550, Florida Administrative Code, and it appears to be consistent with Florida Water's standard development agreements and tariff. The sale was a cash transaction from funds provided by operations of Florida Water. Therefore, no outside financing was required for the transaction.

The purchase and sales agreement also contained several clauses that may be of interest to the Commission. First, there is an option for Florida Water to purchase additional land for the wastewater treatment facilities at \$40,000 per acre. Also, the agreement contains a statement that Florida Water will not increase rates or service availability charges before June 1, 2003. The impact of the agreement to not increase rates was addressed in Issue 1. The utility's authority to collect rates and charges is addressed in Issue 5. The agreement also includes a clause that states if and when Florida Water starts to provide reuse water it will sell it to SOMC at a rate of \$0.05 per 1,000 gallons. This clause is addressed in Issue 5. Finally, there is a statement that Florida Water may institute inverted rates, which are encouraged by the Department of Environmental Protection, as long as it does not result in a "wind fall" for Florida Water. This provision is addressed in Issue 5.

The application also contains a statement, pursuant to Rule 25-30.037(2)(j), Florida Administrative Code, regarding how the

transfer is in the public interest. Florida Water indicated that the transfer is in the public interest because Florida Water has the requisite technical and superior financial ability to own and operate the Steeplechase water and wastewater facilities. Florida Water has been regulated by the Commission since 1964 and owns and operates water and wastewater facilities under Commission regulation in 21 counties throughout the state. Florida Water's application states that its financial ability is exemplified in Florida Water's 2000 year-end capital structure of \$213 million including \$101 million in equity capital and \$112 million in long-term debt. Additionally, the applicant stated that Florida Water will fulfill the commitments, obligations, and representations of the seller with regard to utility matters.

Rule 25-30.037(2)(l), Florida Administrative Code, requires the buyer to submit a proposed net book value of the systems at the time of transfer. The application contained a proposed or estimated net book value as of December 29, 2000, of \$178,305 for water and \$134,098 for wastewater for a combined total of \$312,403. Rate base is discussed further in Issue 3.

The application states that the buyer has performed a reasonable investigation of the utility system as required by Rule 25-30.037(3)(p), Florida Administrative Code. The buyer included a statement that the buyer has reviewed the overall condition of the water and wastewater treatment plants and facilities and found them to be in satisfactory condition. The buyer added that the systems seem to be in general compliance with the requirements of the Department of Environmental Protection (DEP) and of the St. John River Water Management District. Staff has contacted the DEP and verified that there are no outstanding notices of violation.

The utility's water treatment facility is composed of two wells powered by 150 horsepower (hp) motors rated at 1,500 gallons per minute (gpm) each. For reservoir capacity, there are two 20,000 gallon steel tanks. Liquid chlorination, used for disinfection, is the only form of treatment provided at this facility. The utility's wastewater treatment facility has a total permitted capacity of 150,000 gallons per day. It uses a secondary treatment, activated sludge process, and has three percolation ponds used for effluent disposal.

Rule 25-30.037(2)(q), Florida Administrative Code, requires the utility to provide proof of ownership or agreement for long

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term use of the land upon which its facilities are located. The application contains a Warranty Deed transferring the property upon which the utility treatment facilities are located from Stonecrest to Florida Water.

According to our records, the utility is current on its regulatory assessment fees through 2000, and has filed an annual report for 2000, and all prior years. Rule 25-30.037(2)(r), Florida Administrative Code, requires the application to contain a statement regarding the disposition of any outstanding regulatory assessment fees, fines, or refunds owed. Florida Water is responsible for the 2001 and future regulatory assessment fees and annual reports.

Based on the above, staff recommends that the transfer of facilities of Steeplechase to Florida Water, the cancellation of Certificates Nos. 515-W and 447-S, and the amendment of Certificates No. 373-W and 322-S is in the public interest and should be approved.

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ISSUE 3: What is the rate base of Steeplechase at the time of transfer?

RECOMMENDATION: The rate bases, which for transfer purposes reflect the net book value, are ~~\$122,498~~ \$115,815 for the water system and (\$139,747) for the wastewater system as of December 31, 2000. (CLAPP)

STAFF ANALYSIS: The audit was performed by examining, on a test basis, the utility's books and records since its original water and wastewater certificates were approved in Order No. 21063. According to the utility, the proposed rate base is \$90,535 for the water system and \$171,757 for the wastewater system as of the date of transfer.

Even though the closing took place on December 29, 2000, the audit staff, with the approval of the buyer and seller, used the period ending December 31, 2000, for reporting purposes. The audit report contained six audit exceptions concerning the utility's books and records. The buyer and seller filed a joint audit response. These audit exceptions, the utility's response, and staff recommendations are discussed in detail below. The utility's proposed rate base and staff recommended adjustments are shown on Schedule Nos. 1, 2, 3, and 4.

Audit Exception No. 1. This exception was the audit opinion that water and wastewater Utility-Plant-in-Service (UPIS), Accumulated Depreciation, contributions-in-aid-of-construction (CIAC), and Accumulated Amortization of CIAC are understated. Steeplechase provides service to 19 subdivisions. The utility's books and records included the original cost associated with the water and wastewater infrastructure for the five subdivisions built from 1991 to 1994. The audit staff determined, and SOMC confirmed, that SOMC built and paid for the water and wastewater utility infrastructure in the 14 subdivisions developed during the period 1995 through 2000. The utility infrastructure built from 1995 to 2000 had not been recorded on the books of Steeplechase Utilities, Inc., as of December 31, 2000. The entire utility infrastructure of the 14 subdivisions will be transferred to Florida Water with no expectation of payment.

Therefore, staff recommends that the utility's rate base should be adjusted to record the developer-contributed property. The adjustments to record contributed water facilities of \$384,963

and the associated depreciation and amortization of \$29,267 are shown on Schedule 2. The adjustments to record contributed wastewater facilities of \$693,646 and the associated depreciation and amortization of \$80,212 are shown on Schedule 4.

Audit Exception No. 2. This exception was the audit opinion that water UPIS and Accumulated Depreciation are overstated by \$64,115 and \$7,693, respectively, because of misclassifications and lack of supporting documentation for certain additions. The specific audit exceptions include:

1. Water meter repairs of \$565 that were capitalized but should have been expensed and the associated accumulated depreciation of \$24 should be removed from rate base.
2. The capitalization of \$2700 to paint 36 fire hydrants as part of the utility's yearly maintenance program that should have been expensed and the associated accumulated depreciation of \$169 that should be removed from rate base.
3. Six plant additions recorded during 1995 through 1999, totaling \$29,090, that had no supporting documentation and, therefore, should be removed from rate base along with the associated accumulated depreciation of \$6683.
4. The \$31,760 cost of potable Well No. 3, which was still under construction and had not been placed in service as of December 31, 2000, should be recorded as Construction Work-in-Progress (CWIP) and the associated Accumulated Depreciation of \$817 should be removed from rate base.

The respondents concur with exceptions 1, 2, and 4; however they disagree with exception 3. In their response to the audit, Steeplechase and Florida Water stated that the Commission has allowed plant costs in the absence of support documentation in the form of invoices in the past. They further stated that previously, the Commission accepted amounts recorded in the general ledger, the annual report, and on corporate tax returns as proof.

Staff has reviewed the utility's annual reports and tax returns for 1995 through 1999, the time period during which the unsupported plant additions were recorded on the utility's books. Our review indicates that the utility's annual reports and tax returns appear to include the unsupported plant additions. In

addition, the tax returns do not reflect a write off of any utility plant costs to cost of goods sold. The additions include meters, service pipes, and power equipment.

Therefore, staff recommends that no adjustment should be made to remove the \$29,090 of plant additions and associated accumulated depreciation from rate base. However, the adjustments to reclassify the items that were capitalized but should have been expensed, the CWIP, and the associated accumulated depreciation should be reflected in rate base. These adjustments are shown on schedule No. 2.

Audit Exception No. 3. This exception was the audit opinion that various assets were not transferred to Florida Water. The audit staff determined, and Stonecrest confirmed, that \$6,336 in office furniture and equipment was not transferred to Florida Water. Therefore staff recommends that the assets should be retired. The adjustments to retire \$2,269 of office furniture and equipment from the water rate base and the associated accumulated depreciation of \$1,065 are shown on Schedule 2. The adjustment to retire \$4,067 of office furniture and equipment from the wastewater rate base and the associated accumulated depreciation of \$1,491 are shown on Schedule 4.

Audit Exception No. 4. This exception was the audit opinion that various UPIS costs, including meters, treatment and disposal, and structures and improvements were incorrectly recorded as O&M expenses. This resulted in water and wastewater UPIS being understated by \$12,108 and \$12,826, respectively. Additionally, the utility's water and wastewater accumulated depreciation are understated by \$371 and \$1,065, respectively.

Therefore staff recommends that the utility's rate base be adjusted to record the capital additions. The adjustments are shown on Schedules 2 and 4.

Audit Exception No. 5. This exception was the audit opinion that the value for the water and wastewater land as of December 31, 2000, should be \$9,102 and \$30,725, respectively. The audit recommendation is based on the NARUC definition of original cost as the costs of such property to the person first devoting it to public service.

In Order No. 21438, issued June 26, 1989, in Docket No. 890145-WS, the Commission recognized an annual long-term lease of \$2,229 and \$3,156 for the water and wastewater plant sites, respectively, between the developer and the newly certificated utility. The 832.508 acres of land were purchased for \$3,309,000 on February 1988 by Shultz Corporation. On February 13, 1989, the Shultz Corporation executed a Special Warranty Deed that transferred the property to Leisure Living for the Active Retiree Joint Venture (LLARJV), a related party. LLARJV recorded a platted subdivision that dedicated certain lands contained in the acreage as utility sites and easements on January 26, 1990. LLARJV was subsequently reorganized and succeeded out of bankruptcy by Stonecrest. Stonecrest and Steeplechase terminated the long-term lease and, simultaneous with the December 2000 closing, the developer executed a Warranty Deed that transferred approximately 2.29 acres of water plant land and 7.73 acres of wastewater plant land to Florida Water Services.

The respondents disagree with the recommendation in this exception. Included with the response was an appraisal report for the property, which determined an estimated market value of the properties to be \$45,000 per acre. The response requests that the Commission assign a value based upon \$40,000 per acre for a land value of \$92,000 for the water plant and \$308,000 for the wastewater plant.

The response to the audit provides information as to how the buyer and seller arrived at the price per acre for the transaction, based upon today's market. However, based on the NARUC definition for original cost, the value of the land when first dedicated to public use in 1989 should be used. The land was first placed into public use when the utility was established and the 99-year lease entered into in 1989. The value of the land, based upon the purchase of the 832.508 acres for \$3,309,000, is \$3,974.74 per acre. Therefore, staff recommends that land should be included in the utility's rate base at \$9,102 and \$30,725 based on the original cost when first dedicated to public use. Schedules 2 and 4 contain the staff recommended adjustments.

Audit Exception No. 6. This exception was the audit opinion that for the 12-month period ending December 31, 2000, Steeplechase incorrectly accounted for a total of 20 additions to CIAC. Specifically, wastewater CIAC additions were recorded to water CIAC and water CIAC additions were recorded to wastewater CIAC accounts.

Therefore staff recommends and the utility agrees that adjustments should be made to reduce water CIAC \$7,900 and increase wastewater CIAC \$7,900.

Based on these adjustments, staff recommends that, as of December 31, 2000, rate base for the Steeplechase system is ~~\$122,498~~ \$115,815 for the water system and (\$139,747) for the wastewater system. The schedule of water rate base is shown on Schedule No. 1, with adjustments set forth on Schedule No. 2. The schedule of wastewater rate base is shown on Schedule No. 3, with adjustments set forth on Schedule No. 4. The rate base calculations are used solely to establish the net book value at the time the property is transferred. As such, the calculations do not include the normal ratemaking adjustments for working capital calculations and used and useful adjustments.

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ISSUE 4: Should an acquisition adjustment be approved?

RECOMMENDATION: No. An acquisition adjustment was not requested; therefore, an acquisition adjustment should not be included in the calculation of rate base for transfer purposes. (CLAPP)

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 Steeplechase would be calculated as follows:

Purchase Price		\$1,500,000
Staff Calculated Rate Base	(17,249)	(23,932)
Positive		
Acquisition Adjustment	\$1,517,249	<u>\$1,523,932</u>

An acquisition adjustment was not requested by the buyer. The buyer stated that it considered the purchase price to be fair considering the number of customers, the monthly expenses, and the potential monthly income of the acquired utility. It should be noted that the purchase price of \$1,500,000 is based on an estimated fair market value of \$1,100,000 for the utility assets and \$400,000 for the land.

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. Since the buyer stated in its application for transfer that it was not seeking an acquisition adjustment, and there are no extraordinary circumstances regarding this purchase that would justify an acquisition adjustment to rate base, staff recommends that an acquisition adjustment not be included in the calculation of rate base. Staff's recommendation is consistent with previous Commissions decisions in this regard. See Order No. PSC-01-0425-PAA-WU, issued February 22, 2001, in Docket No. 001083-WU; Order No. PSC-01-1271-PAA-SU, issued June 6, 2001, in Docket No. 010382-SU; Order No. PSC-01-1655-PAA-WS, issued August 13, 2001, in Docket No. 000793-WS; and Order No. PSC-01-1917-PAA-WS, issued September 24, 2001, in Docket No. 001551-WS.

ISSUE 5: Should the rates and charges approved for this utility be continued?

RECOMMENDATION: Yes, Florida Water should continue charging the rates and charges approved for this utility system until authorized to change by the Commission in a subsequent proceeding. The tariff pages reflecting the transfer should be effective for services provided or connections made on or after the stamped approval date on the tariff sheets. The utility should be required to file a tariff prior to providing reuse service. (CLAPP)

STAFF ANALYSIS: The current rates and charges have been in effect for the systems since they were originally certificated, except for periodic price index rate adjustments. The current rates for water and wastewater service were approved by the Commission in an administrative price index proceeding effective June 12, 1998. The utility's approved rates and charges are as follows:

Water Monthly Service Rates
Residential and General Service

Base Facility Charge

Meter Sizes:

5/8" x 3/4"	\$ 6.36
3/4"	9.55
1"	15.91
1 1/2"	31.81
2"	50.89
3"	101.78
4"	159.03
6"	318.06
8"	508.90

Gallonage Charge

Per 1,000 gallons	\$ 0.77
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Wastewater Monthly Service Rates
Residential

Base Facility Charge

Meter Sizes:

5/8" x 3/4"	\$ 10.67
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Gallonge Charge

Per 1,000 Gallons

Residential \$ 1.69
 (Maximum charge of 10,000 gallons)

General Service

Base Facility Charge

Meter Sizes:

5/8" x 3/4"	\$ 10.67
3/4"	16.01
1"	26.68
1 1/2"	53.36
2"	85.38
3"	170.76
4"	266.82
6"	533.64
8"	853.82

Gallonge Charge

General Service 1.69

Miscellaneous Service Charges

	<u>Water</u>	<u>Wastewater</u>
Initial Connection	\$15.00	\$15.00
Normal Reconnection	\$15.00	\$15.00
Violation Reconnection	\$15.00	Actual Cost
Premises Visit (in lieu of disconnection)	\$10.00	\$10.00

Service Availability Charges

Water

Meter Installation Fee	
5/8" x 3/4"	\$75.00
1" and larger	Actual
System Capacity Charge	
Residential-per ERC (525 GPD)	\$900.00
All others-per gallon	1.71

Wastewater

System Capacity Charge

Residential-per ERC(263 GPD) \$1,175.00

All others-per gallon 4.47

It should be noted that at this time, the utility's wastewater treatment facility is not equipped to provide reuse quality effluent. In the purchase and sale agreement, the seller agrees to purchase reuse effluent from FWS in the event that it upgrades the treatment facility to become capable of producing reuse quality effluent. With respect to rates and charges reflecting reuse service, when it becomes available, the agreement states that there will be a charge of five cents (\$.05) per 1,000 gallons. As noted in the agreement, this charge is subject to approval by the Commission or other applicable regulatory authority. Although this is a part of the sales agreement, staff is not recommending that the agreed upon amount be approved or disapproved by the Commission at this time. Since no information relating to the cost of providing reuse service was provided in this application, staff was unable to properly analyze the rate. Before providing reuse service, the utility should file a tariff for reuse. The appropriate rates for this service should be considered at that time.

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 . . . 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).

Florida Water has not requested a change in the rates and charges of the utility. Accordingly, staff recommends that, pursuant to Rule 25-9.044(1), Florida Administrative Code, the utility continue operations under the existing tariff and apply the approved rates and charges until authorized to change by the Commission in a subsequent proceeding. Florida Water has filed revised tariff pages incorporating the addition of Steeplechase in its existing tariff. If the Commission approves staff's recommendation, the tariff filing should be effective for services

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rendered or connections made on or after the stamped approval date. It should be noted that DEP is encouraging the utility to implement inverted rates. The utility must file an application for rate modification prior to the implementation of any inverted rates.

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ISSUE 6: Should this docket be closed?

RECOMMENDATION: Yes, if no timely protest is received to the proposed agency action issues, a Consummating Order should be issued upon the expiration of the protest period. Should no timely protests be received, the docket should be closed. (CLAPP, BRUBAKER)

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

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ATTACHMENT A

STEEPLECHASE UTILITY COMPANY, INC.

MARION COUNTY

WATER AND WASTEWATER SERVICE AREA

Township 17 South, Range 23 East

Section 25

The South 1,650.00 feet of the West 660.00 feet.

Section 26

The South 1683.00 feet of the East 412.50 feet.

Section 35

The East 1/2, less that portion lying South and West of U.S. Highway 27 and 441.

Section 36

All of Section 36, less the East 880.00 feet of the North 1980.00 feet of the Northwest 1/4, and less the East 264.00 feet of the North 594.00 feet of the Southeast 1/4 of the Northeast 1/4, and less all of that portion lying South and West of U.S. Highway 27 and 441.

Township 17 South, Range 24 East

Section 31

The South 3/4 of the Southwest 1/4 and the West 1/4 of the Southwest 1/4 of the Southeast 1/4.

ATTACHMENT B

Dear Stonecrest Customer,

When Florida Water Services acquired the Stonecrest utility from Steeplechase Utilities, we agreed not to raise rates (except for minor cost of living adjustments potentially once per year) until July 2003. We plan to keep that commitment.

We have discovered though that the Florida Public Service Commission (FPSC) approved cap for residential wastewater in Stonecrest is 10,000 gallons per month, even though Steeplechase Utilities charged its customers and now we are charging a 5,000-gallon per month cap. That 10,000 gallon per month cap was approved in FPSC Docket No. 890145-WS, by Order No. 21438 issued June 26, 1989. Private utilities are required by law to charge the FPSC approved rates for service.

The Florida Public Service Commission and Florida Water have worked together to come to a solution to this problem. Florida Water will continue only charging up to the 5,000-gallon cap, however, we must show the 10,000 gallon cap on your bill. The difference shown will be the savings on that bill because of our continued application of the lower cap. This savings will continue until the July 2003 bill when we must begin applying the approved wastewater cap of 10,000 gallons. In July 2003 customers who use 5,000 gallons or less of potable water will have no effect in their bill. Customers who use between 5,000 and 10,000 gallons will pay additional gallonage charges according to their usage. A customer using over 10,000 gallons will pay the gallonage charges up to the 10,000-gallon cap. Please refer to the following examples for clarification.

	Wastewater Bills At 5k, 8k, 10k and 15k Usage			
	Under 5k and 10k Cap			
	@5k	@8k	@10k	@15k
\$ Per thousand gallons.	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69
Wastewater base charge:	\$ 10.67	\$ 10.67	\$ 10.67	\$ 10.67
Gallonage charged at 5,000-gallon cap	\$ 8.45	\$ 8.45	\$ 8.45	\$ 8.45
5,000-gallon cap total wastewater bill	\$ 19.12	\$ 19.12	\$ 19.12	\$ 19.12
Gallonage that would be charged at 10,000-gallon cap	\$ 8.45	\$ 13.52	\$ 16.90	\$ 16.90
10,000-gallon cap total wastewater bill	\$ 19.12	\$ 24.19	\$ 27.57	\$ 27.57
Savings	\$ -	\$ 5.07	\$ 8.45	\$ 8.45

As can be seen from the above example, the maximum a wastewater bill can increase because of the 10,000-gallon cap is \$8.45 for those customers using 10,000 gallons of water or more per month.

Florida Water will be holding a customer meeting on ___ at ___ to answer any questions you may have regarding this change. Again, this change to the approved cap will take place in July of 2003.

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 PUBLIC WORKS CLERK

If you have any questions concerning this notice, please call our Customer Care Specialists at (800) 432-4501 between the hours of 8:00 a.m. and 7:00 p.m. weekdays.

Written comments to the Commission regarding Florida Water, its rates or service may be directed to the following address: Division of Consumer Affairs, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, FL 32399-0850. Such correspondence should refer to the Steeplechase Transfer Application, FPSC Docket No. 010119-WS. You may also call the Commission's Division of Consumer Affairs at the following toll-free number: (800) 342-3552.

Sincerely,

Florida Water Services Corporation

SCHEDULE 1

STEEPLECHASE UTILITY COMPANY, INC.
 SCHEDULE OF WATER RATE BASE
 AS OF DECEMBER 31, 2000

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF'S ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 835,935	\$ 359,778 A	\$1,195,713
Land	0	9,102 B	9,102
Construction-Work-in-Progress (CWIP)	0	31,760 C	31,760
Contributions in Aid of Construction (CIAC)	(636,935)	(337,063) D	(1,013,998)
Accumulated Depreciation	(210,715)	(20,881) E (27,563)	(231,596) (238,278)
Amortization of CIAC	<u>102,249</u>	<u>29,268</u> F	<u>131,517</u>
WATER RATE BASE	<u>\$ 90,535</u>	\$31,963 <u>\$25,280</u>	\$122,498 <u>\$115,815</u>

SCHEDULE 2

STEEPLECHASE UTILITY COMPANY, INC.
SCHEDULE OF WATER RATE BASE ADJUSTMENTS

	<u>EXPLANATION</u>	<u>STAFF RECOMMENDED ADJUSTMENT</u>
A	Utility Plant-in-Service	
1)	To record donated water facilities	\$ 384,963
2)	To correct misclassifications	(35,025)
3)	To remove nontransferred assets	(2,269)
4)	To record unrecorded assets	<u>12,108</u>
	TOTAL	359,778
B	Land	
1)	To record land at original cost	9,102
C	Construction Work-in-Progress	
1)	To record new well under construction	31,760
D	Contributions-in-Aid-of-Construction (CIAC)	
1)	To record donated water facilities	(384,963)
2)	To correct misrecorded assets	<u>7,900</u>
	TOTAL	(377,063)
E	Accumulated Depreciation	
1)	To record depreciation on donated water facilities	(29,267)
2)	To correct misclassifications	7,693 1,010
3)	To remove nontransferred assets	1,065
4)	To correct unrecorded assets	<u>(371)</u>
	TOTAL	(20,880) (27,563)
F	Accumulated Amortization of CIAC	
1)	To record amortization on donated water facilities	<u>29,267</u>
Total Adjustments		<u><u>\$31,963</u></u> <u>\$25,280</u>

SCHEDULE 3

STEEPLECHASE UTILITY COMPANY, INC.
 SCHEDULE OF WASTEWATER RATE BASE
 AS OF DECEMBER 31, 2000

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF'S ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 698,417	\$ 702,405 A	\$1,400,822
Land	0	30,725 B	30,725
Contributions in Aid of Construction (CIAC)	(740,397)	(701,546) C	(1,441,943)
Accumulated Depreciation	(280,298)	(79,786) D	(360,084)
Amortization of CIAC	<u>150,521</u>	<u>80,212</u> E	<u>230,733</u>
WASTEWATER RATE BASE	<u>\$(171,757)</u>	<u>\$ 32,010</u>	<u>\$(139,747)</u>

SCHEDULE 4

STEEPLECHASE UTILITY COMPANY, INC.
SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>STAFF RECOMMENDED ADJUSTMENT</u>
A Utility Plant-in-Service	
1) To record donated wastewater facilities	\$ 693,646
2) To remove nontransferred assets	(4,067)
3) To reclassify unrecorded assets	<u>12,826</u>
TOTAL	702,405
B Land	
1) To record land at original cost	30,725
C Contributions-in-Aid-of-Construction (CIAC)	
1) To record donated wastewater facilities	(693,646)
2) To reclassify misrecorded assets	<u>(7,900)</u>
TOTAL	(701,546)
D Accumulated Depreciation	
1) To record depreciation on donated wastewater facilities	(80,212)
2) To remove nontransferred assets	1,491
3) To record unrecorded assets	<u>(1,065)</u>
TOTAL	(79,786)
E Accumulated Amortization of CIAC	
1) To record amortization on donated wastewater facilities	<u>80,212</u>
TOTAL ADJUSTMENT	\$ <u>32,010</u>