

State of Florida



Public Service Commission

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DATE: AUGUST 22, 2002

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

FROM: DIVISION OF ECONOMIC REGULATION (JOHNSON, WALDEN, *AK* *18* *Net*  
KAPROTH) *KK*  
OFFICE OF THE GENERAL COUNSEL (CROSBY, HELTON) *Net*

RE: DOCKET NO. 020256-WU - APPLICATION FOR TRANSFER OF  
CERTIFICATE NO. 380-W FROM A. P. UTILITIES, INC. IN MARION  
COUNTY TO SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.,  
HOLDER OF CERTIFICATE NO. 363-W, FOR AMENDMENT OF  
CERTIFICATE NO. 363-W, AND FOR CANCELLATION OF CERTIFICATE  
NO. 380-W.  
COUNTY: MARION

AGENDA: SEPTEMBER 3, 2002 - REGULAR AGENDA - PROPOSED AGENCY  
ACTION ISSUES 2 AND 3 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020256.RCM

CASE BACKGROUND

A. P. Utilities, Inc. (APU or utility) was a Class B utility that served approximately 1,017 residential water customers in Marion County. The utility is in the St. Johns River Water Management District all of which is a water use caution area. According to the utility's 2001 annual report, APU has been providing service since 1973. All of the APU customers are on septic tanks. Pursuant to Order No. 11475, issued December 29, 1982, in Docket No. 810364-W, Water Certificate No. 380-W was granted in the name of Maco Developments, Inc. The certificate has been transferred twice (Dockets No. 881603-WU and 910117-WU) and amended several times to include additional territory. APU was

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composed of seven water systems until, in Docket No. 981030-WU, two of the systems were transferred to another Commission regulated utility. In Docket No. 010506-WU, four of the remaining five systems were transferred to Marion County Utilities. The utility's 2001 annual report shows total operating revenue of \$227,555 and a net operating loss of \$554.

On March 21, 2002, Sunshine Utilities of Central Florida, Inc. and APU jointly filed an application for transfer of the Quail Run water system to Sunshine Utilities of Central Florida, Inc. (Sunshine or buyer). The Quail Run system serves approximately 66 residential water customers in Marion County. The rate base for this system was previously established in Docket No. 910119-WU, in Order 25063, issued September 13, 1991.

This recommendation addresses the transfer of APU's last remaining water system, Quail Run, to Sunshine. The Commission has jurisdiction to consider this matter pursuant to Section 367.071 Florida Statutes.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the transfer of Certificate No. 380-W from APU to Sunshine holder of Certificate No. 363-W be approved and Water Certificate No. 363-W be amended and Certificate No. 380-W be canceled?

**RECOMMENDATION:** Yes, the transfer of Certificate No. 380-W from APU to Sunshine should be approved, Water Certificate No. 363-W should be amended to included the Quail Run service area and Certificate No. 380-W should be canceled. The utility is current on its 2001 regulatory assessment fees (RAFs) and annual reports. As of January 1, 2002, Sunshine is responsible for remitting all future RAFs and annual reports to the Commission. A description of the territory served by the utility is appended to this memorandum as Attachment A. (JOHNSON, WALDEN, KAPROTH)

**STAFF ANALYSIS:** On December 11, 2001, APU and Sunshine jointly filed an application for transfer of Certificate No. 380-W from APU to Sunshine. 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 joint applicants have provided evidence in the form of a 99-year lease that the utility has continued use of the land upon which its facilities are located, as required by Rule 25-30.037(2)(q), 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 without prior approval of the Commission unless such sale, assignment, or transfer is made contingent upon Commission approval. Consistent with the statute, the closing on the transfer of the utility took place on November 15, 2001, contingent upon the Commission's approval.

In addition, 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 memorandum as Attachment A.

Sunshine is a water utility that operates 21 water systems throughout the Marion and Citrus county area. Sunshine is not a developer, nor is it a developer related company. According to the application, the transfer is in the public interest because Sunshine can provide better service to the APU customers with its large and more experienced staff.

With regard to the buyer's technical ability, according to Sunshine, it has the financial resources to maintain consistent compliance with environmental regulations. Sunshine has been providing water service in Marion County for more than 24 years and operates 21 separate water systems. Staff has contacted the Department of Environmental Protection (DEP) and has learned that there are no outstanding notices of violation against the utility.

According to the application, the buyer's financial ability would not be affected by this transfer. Sunshine has provided its 2000 tax return and 2001 consolidated annual report as an indication of its financial position. Sunshine's financial data indicates that it can provide the financial stability required to maintain the utility system in accordance with Commission standards. In addition, the customers will receive the benefit of centralized management, accounting, billing, and data processing functions, resulting in the economies of scale that would be unattainable on a stand-alone basis. Staff believes that the buyer has demonstrated the overall financial and technical ability to insure the continued operations of the water system.

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. Sunshine purchased the Quail Run system of APU for one dollar (\$1.00).

The buyer states that a reasonable investigation of the utility has been performed. The investigation revealed that the distribution system is in compliance with the applicable standards set by the DEP. The utility is a reseller of purchased water.

According to our records, APU has filed an annual report for January 1, 2001 through December 31, 2001. APU has also paid the RAFs for January 1, 2001 through December 31, 2001. As of January 1, 2002, Sunshine will be responsible for remitting all future RAFs and annual reports.

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Based on the above, staff recommends that the transfer of Certificate No. 380-W from APU to Sunshine is in the public interest and it should be approved. Certificate No. 363-W should be amended to include the Quail Run service area and Certificate No. 380-W should be canceled. A description of the territory served by the utility is appended to this memorandum as Attachment A.

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

**RECOMMENDATION:** The rate base for transfer purposes is \$19,685 for the water system as of March 15, 2002. Sunshine should be reminded of its obligation to maintain the utility's books and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA). (JOHNSON)

**STAFF ANALYSIS:** According to the application, the utility's proposed rate base was unknown as of March 15, 2002, the date of transfer. Rate base was previously established as of November 30, 1990, at \$27,936 for the system pursuant to Order No. 25063, issued September 13, 1991, in Docket No. 910119-WU. Plant and depreciation balances were updated to the date of transfer, March 15, 2002, based on invoices and other documentation provided by the company. The utility did not provide a response to the audit report.

The audit indicated that the utility's books and records do not reflect proper use of the NARUC USOA. Rule 25-30.115 (1), Florida Administrative Code, requires water and wastewater utilities to maintain their accounts and records in conformance with the 1996 NARUC USOA. Accounting Instruction 2.A of the NARUC USOA for Class C utilities states:

The books of accounts of all water and wastewater utilities shall be kept by the double entry method on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.

Accounting Instruction 2.B of the NARUC USOA for Class C utilities states:

All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information useful in determining the facts regarding a transaction.

According to the audit report, the utility maintains its books and records on a cash basis and does not utilize a general ledger, subsidiary ledger, or the NARUC USOA. APU's failure to maintain its books and records in accordance with NARUC USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code. However, APU will not be operating the utility if the transfer to Sunshine is approved. Sunshine maintains its books and records using NARUC USOA. Therefore, Sunshine should be reminded of its obligation to maintain the utility's books and records in conformance with the NARUC USOA as prescribed by Rule 25-30.115, Florida Administrative Code.

The audit report contained one disclosure and three exceptions that resulted in adjustments to the plant and accumulated depreciation. These adjustments are discussed in the following analysis.

#### UTILITY PLANT-IN-SERVICE

As discussed above, the utility does not maintain a monthly general ledger or continuing property records to record plant additions. Staff relied on Order No. 25063, which established rate base at November 30, 1990, as the beginning balance for determining the plant-in-service balance. According to Order No. 25063, as of November 30, 1990, the utility's plant-in-service balance for water was \$36,365. The utility provided staff with invoices and other documentation which staff used to verify plant additions for the period of November 30, 1990, through March 15, 2002, the date of transfer.

Staff determined that \$7,917 of plant additions were made during the period that were expensed instead of capitalized. The utility incurred costs of \$6,577 to refurbish two water pumps; one pump was rebuilt on October 19, 1997, and the second pump on July 21, 2000. A cost of \$1,340 was incurred on March 31, 2001, to refurbish the utility's fuse box. Therefore, staff recommends that utility plant should be increased by \$7,917 for water as a result of repair costs that were expensed instead of capitalized, for a total water utility plant in service balance of \$44,282.

LAND

The utility has a land lease for 99 years for a total cost of \$99 that is payable in equal annual installments of one dollar each year. Therefore, staff recommends that land should not be included in the rate base calculation.

CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) and AMORTIZATION OF CIAC

Per Order No. 13292, issued May 15, 1984, in Docket No. 830361-WU, CIAC and Accumulated Amortization of CIAC had a zero balance as of February 28, 1983. These accounts are zero because the utility does not have an approved service availability policy or charge.

ACCUMULATED DEPRECIATION

APU does not maintain records for accumulated depreciation. Therefore, accumulated depreciation had to be determined as of the date of transfer. Pursuant to Order No. 25063, as of November 30, 1990, the utility's accumulated depreciation balance for water was \$8,429.

Depreciation on the \$36,365 plant balance from December 1, 1990, through March 15, 2002, was computed as \$15,231 based on Rule 25-30.140, Florida Administrative Code. An additional \$937 of accumulated depreciation was computed for the \$7,917 in plant additions. Therefore, staff recommends that accumulated depreciation for water be adjusted by \$16,168, to reflect a balance of \$24,597.

RATE BASE

Staff's calculation of rate base for water is shown on Schedule No. 1. Adjustments to rate base are itemized on Schedule No. 2. Based on the adjustments set forth herein, staff recommends that rate base for APU be established as \$19,685 for the water system as of March 15, 2002. 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.



**ISSUE 3:** Should an acquisition adjustment be included in the calculation of rate base?

**RECOMMENDATION:** No. Sunshine 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 rate base for transfer purposes. Based on Commission policy and practice at the time this transfer took place and the docket opened, the acquisition adjustment resulting from the transfer of Sunshine would be calculated as follows:

Purchase Price:	\$	1
Less Staff Calculated Rate base:	\$	19,685
Negative		
Acquisition Adjustment:	\$	19,684
	=====	

Based upon the current Commission practice and in the absence of extraordinary circumstances, the 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 Commission 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.

It should be noted that the Commission recently adopted Rule 25-30.0371, Florida Administrative Code, to address the appropriate treatment of acquisition adjustments that occur when the purchase price of a utility differs from its rate base. In the case of APU, because the purchase occurred and the application was filed prior

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to the adoption of the rule, the new rule is not applicable in this docket. For informational purposes only, staff notes that if the new rule were applicable, the resulting negative acquisition adjustment would be \$15,747, which is the difference between 80 percent of the staff recommended rate base and the purchase price, leaving a rate base of \$3,938. Under the new rule, however, the negative acquisition adjustment would not be recorded for ratemaking purposes or used for any earnings review unless the utility files for a rate increase during the five year period over which the acquisition adjustment is amortized.

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**ISSUE 4:** Should the rates and charges approved for this utility be continued?

**RECOMMENDATION:** Yes, Sunshine 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 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 were grandfathered in pursuant to Order No. 13292, issued May 15, 1984, in Docket No. 830361-WU. The utility has no service availability charges and has never filed for a rate increase. The utility's approved rates and charges are as follows:

**Monthly Water Service Rates**

**Residential, Multi-Residential & General Service,**

**Base Facility Charge:**

**Meter Size:**

All meter sizes	\$ 9.00
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**Miscellaneous Service Charges**

	<b>Water</b>
Violation Reconnection Fee-Normal Hrs.	\$ 8.00
Violation Reconnection Fee-After Hrs.	\$15.00

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

In case[s] 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) . . . .

Sunshine has not requested a change in the rates and charges of the utility. Therefore, staff recommends that 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. The utility has filed a revised tariff reflecting the change in issuing officer due to the transfer of control. If the Commission approves staff's recommendation, the tariff filing should be effective for services rendered or connections made on or after the stamped approval date. It should be noted that if Sunshine installs meters in the Quail Run service area, the utility will need to request that the Commission establish metered rates for this system.

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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. (CROSBY)

**STAFF ANALYSIS:** 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.

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**ATTACHMENT A**

**A. P. UTILITIES, INC.  
WATER TERRITORY DESCRIPTION**

QUAIL RUN

Portions of Section 25, Township 16 South, Range 21 East  
in Marion County, Florida:

Section 25

The Southeast 1/4 of the Southeast 1/4

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SCHEDULE 1

A. P. UTILITIES, INC.  
(QUAIL RUN SYSTEM)  
SCHEDULE OF WATER RATE BASE  
AS OF MARCH 15, 2002

<u>DESCRIPTION</u>	<u>BALANCE PER ORDER NO. 25063</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 36,365	\$ 7,917 A	\$ 44,282
Land	0	0	0
Contributions in Aid of Construction (CIAC)	0	0	0
Accumulated Depreciation	(8,429)	(16,168) B	(24,597)
Amortization of CIAC	<u>0</u>	<u>0</u>	<u>0</u>
WATER RATE BASE	<u>\$ 27,936</u>	<u>\$ (8,251)</u>	<u>\$ 19,685</u>

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SCHEDULE 2

A. P. UTILITIES, INC.  
SCHEDULE OF WATER RATE BASE ADJUSTMENTS  
AS OF MARCH 15, 2002

<u>EXPLANATION</u>	<u>ADJUSTMENTS</u>
<b>A Utility Plant-in-Service</b>	
1) To record rebuilt pump	\$ 1,259
2. To record refurbished pump	5,318
3. To record rebuilt 200-amp motor fuse box	<u>1,340</u>
TOTAL	<u>\$ 7,917</u>
<b>B Accumulated Depreciation</b>	
1) To reflect depreciation from 12/1/90 through 3/15/02	(\$15,231)
2) To reflect depr. on unrecorded plant	<u>(937)</u>
TOTAL	<u>(\$16,168)</u>