



Marion Utilities, Inc.

ORIGINAL

710 NE 30TH AVE. Ocala, Florida 34470
(352) 622-1171

November 18, 2002

Division of Commission Clerk & Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

DISTRIBUTION CENTER
02 NOV 25 AM 9:12

Re: Docket No. 020650-WU

Attention: Patti Daniels, Certification Supervisor

Dear Patti:

In response to your letter of September 16, 2002, we submit the following information which is numbered the same as your letter:

1. Submitted previously with our letter of September 27, 2002.
2. A depreciation schedule is enclosed. Items which will revert back to Marion Utilities, Inc. are asset number 2523 (a pump); asset number 2568 (a generator); asset number 2640 (a pump); asset number 3012 (a chlorinator); and asset number 3514 (a tank). This schedule does not include capital improvement items which were required by the sale contract agreement.
3. A schedule of the cost of improvements required by the sale contract agreement and estimated costs not yet incurred is enclosed.
4. A statement signed by both parties to the agreement indicating that the transfer will be contingent on approval by the Commission is enclosed.
5. Submitted previously with our letter of September 27, 2002.

In addition, we enclose a statement outlining information to support our position that the gain on sale of the Sugar Hill Quad Villas and Quad Villas Estates system should not be shared with the remaining customers after the sale.

Sincerely,

Tim Thompson, President
Marion Utilities, Inc.

DOCUMENT NUMBER-DATE

12901 NOV 25 02

FPSC-COMMISSION CLERK

Book Depreciation

FYE: 12/31/2002

Asset	Property Description	Date Acquired	Book Method	Book Period	*	Book Cost	Book Prior Deprec	Book Current Depreciation	Book End Depreciation
Location: Quadvilla/Sugarhill									
1127	Wells & springs Quad Villas	12/01/81	S/L	30.0	*	3,590.00	2,056.80	69.81	2,126.61
1154	Quadvillas - Wells	3/27/86	S/L	30.0	*	70.00	32.50	1.36	33.86
1160	Wells - Quadvillas	12/15/87	S/L	30.0	*	202.50	85.21	3.94	89.15
2112	Land - Quad Villas	12/01/81	Memo	0.0	*	10,000.00	0.00	0.00	0.00
2227	Structures & improvements Quad V	12/01/81	S/L	33.0	*	2,001.92	1,095.30	35.39	1,130.69
2327	Structures & improvements - Quadr	12/10/97	S/L	33.0	*	392.25	48.55	6.93	55.48
2523	Electric pumping equipment Quad V	12/01/81	S/L	20.0	*	5,323.85	3,804.31	155.28	3,959.59
2568	Electric pumping equipment Quadv	12/01/85	S/L	20.0	*	8,396.00	5,160.04	244.88	5,404.92
2593	Electric pump equip - Quadra Villas	4/09/86	S/L	20.0	*	52.03	31.53	1.52	33.05
2640	Electric pump equip - Quadra Villas	6/09/97	S/L	20.0	*	1,381.24	316.53	40.29	356.82
2645	Electric pump equip - Quadra Villas	4/23/98	S/L	20.0	*	222.39	40.77	6.49	47.26
3012	Chlorinator - Quad Villas	12/01/81	S/L	22.0	*	135.00	91.29	3.58	94.87
3035	Water treatment - Quadra	9/01/85	S/L	22.0	*	35.00	20.36	0.93	21.29
3071	Water treatment - Quad Villas	10/10/96	S/L	22.0	*	697.50	166.43	18.49	184.92
3078	Water treatment - Quadra Villas	2/10/98	S/L	22.0	*	2,110.40	375.72	55.96	431.68
3514	Tanks - Quad Villas	12/01/81	S/L	37.0	*	3,400.00	1,765.65	53.60	1,819.25
3570	Tanks - Quadra Villas	4/23/98	S/L	37.0	*	681.20	67.50	10.74	78.24
4031	Mains - Quad Villas	12/01/81	S/L	43.0	*	3,861.00	2,527.83	52.38	2,580.21
4032	Mains - Quad Villas/Sugar Hills	12/31/81	S/L	43.0	*	12,041.45	5,842.17	163.35	6,005.52
4033	Mains - Quad Villas/Sugar Hills acc	12/31/81	S/L	43.0	*	3,271.98	1,587.42	44.39	1,631.81
4052	Mains - Quad Villas	3/08/82	S/L	43.0	*	23.10	11.11	0.31	11.42
4053	Mains - Quad Villas	3/08/82	S/L	43.0	*	109.34	52.54	1.48	54.02
4054	Mains - Quad Villas	3/31/82	S/L	43.0	*	118.17	56.57	1.60	58.17
4061	Mains - Quadvilla	2/16/83	S/L	43.0	*	175.55	79.99	2.38	82.37
5515	Services - Quadvilla	1/21/82	S/L	40.0	*	120.42	59.96	1.76	61.72
5516	Services - Quadvilla	11/23/82	S/L	40.0	*	659.39	314.49	9.62	324.11
6009	Meters - Quad Villas	12/01/81	S/L	20.0	*	733.75	541.13	21.40	562.53
6019	16 meters - Quadvilla	2/28/82	S/L	20.0	*	578.08	409.42	16.86	426.28
6024	14 meters - Quadvilla	4/30/82	S/L	20.0	*	505.82	356.17	14.75	370.92
6029	17 meters - Quad Villa	5/31/82	S/L	20.0	*	614.21	431.23	17.91	449.14
6031	9 meters - Quadvilla	6/30/82	S/L	20.0	*	325.17	227.58	9.48	237.06
6033	9 meters - Quad Villa	7/31/82	S/L	20.0	*	325.17	226.91	9.48	236.39
6040	12 meters Quadvilla	8/01/82	S/L	20.0	*	433.56	302.57	12.65	315.22
6041	36 meters Quadvilla	11/01/82	S/L	20.0	*	1,300.68	899.59	37.94	937.53
6048	Meters - 37 Quadvilla	1/01/83	S/L	20.0	*	1,336.81	919.05	38.99	958.04
6056	Meters - 16 Quadvilla	3/01/83	S/L	20.0	*	578.08	394.97	16.86	411.83
6059	Meters - 17 Quadvilla	4/01/83	S/L	20.0	*	614.21	418.43	17.91	436.34
6068	Meters - 4 Quadvilla	6/01/83	S/L	20.0	*	144.52	97.86	4.22	102.08
6077	Meters - 6 Quadvilla	8/01/83	S/L	20.0	*	216.78	145.84	6.32	152.16
6082	Meters - 2 Quadvillas	9/01/83	S/L	20.0	*	72.26	48.43	2.11	50.54
6089	Meters - 2 Quadvilla	11/01/83	S/L	20.0	*	72.26	48.13	2.11	50.24
6110	Meters - Quadvilla	1/01/84	S/L	20.0	*	433.56	287.21	12.65	299.86
6111	Meters - Quadvilla	3/01/84	S/L	20.0	*	325.17	214.03	9.48	223.51
8012	Quadvilla Water system acquired 2/	1/01/82		0.0	*	0.00	0.00	0.00	0.00
Quadvilla/Sugarhill						67,681.77	31,659.12	1,237.58	32,896.70
*Less: Dispositions						67,681.77	31,659.12	0.00	32,896.70
Net Quadvilla/Sugarhill						<u>0.00</u>	<u>0.00</u>	<u>1,237.58</u>	<u>0.00</u>
Grand Total						67,681.77	31,659.12	1,237.58	32,896.70
Less: Dispositions						67,681.77	31,659.12	0.00	32,896.70
Net Grand Total						<u>0.00</u>	<u>0.00</u>	<u>1,237.58</u>	<u>0.00</u>

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IMPROVEMENTS - QUADVILLA & SUGAR HILL

Replacements Meters	\$19,843.00
Misc. Cost - Concrete- Stakes - Flags	310.00
3 Wet Taps & Install Hydrants	3,753.00
Drive-Way Replacement	2,164.00
Back Hoe Work - Hydrants	743.00
Main Installation	17,050.00
Marion County Row Permit	692.00
Hydrants - Pipes - Valves - Etc.	11,546.00
PSC App. - Advertising - Mailing Costs	925.00
Installation of Meters (Estimated)	5,460.00
Final Clean Up (Sod, Etc.)	<u>500.00</u>
	\$62,986.00

PLANT DECOMMISSION

Remove Pumps	\$ 200.00
Remove Tank	800.00
Remove Generator	500.00
Dismantle Electric Parts	200.00
Abandon Wells	<u>2,050.00</u>
	\$ 3,750.00

Equipment removed will be used in other systems owned by Marion Utilities, Inc.



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Division of Commission Clerk & Administrative Svcs.
2540 Shumard Oak Boulevard
Tallahassee, Fl. 32399-0850

October 23rd, 2002

Attn: Patti Daniel
Re: Docket No. 020650-WU

Dear Patti,

It is our understanding that according to Chapter 367.071, Florida Statutes, the Commission must grant approval for the transfer of the Quadvilla water system from Marion Utilities, Inc. to Silver Springs Regional Water and Sewer.

Tim Thompson
President, Marion Utilities, Inc.

John Fannon
President, Silver Springs Regional Water and Sewer

Marion Utilities, Inc. is a Class A utility currently serving approximately 4,800 residential water customers and 118 wastewater customers in Marion County. The utility consists of several service areas throughout Marion County.

Marion Utilities, Inc. was formed in November 1980 for the purpose of purchasing systems which were owned by Mark II Utilities, Inc. Seven of the eleven systems purchased were under a court ordered receivership. The utility had been poorly managed and was in dire financial straits at the time of closing on the sale (February 1981). At the time of purchase, the Board of County Commissioners had jurisdiction over rates in Marion County. Marion County transferred jurisdiction of its water and wastewater utilities to the Public Service Commission on May 5, 1981, just three months after Marion Utilities, Inc. assumed ownership of the systems. Original cost studies were done on the systems at the time jurisdiction was transferred. Because of special circumstances, part of the purchase acquisition adjustment was approved for rate making purposes (order number 11568). The original purchase encompassed 11 systems and approximately 1,150 customers. Since this original purchase, the utility has purchased other small systems, extended lines and ungraded plants throughout their territory.

The Quad Villas Estates/Sugar Hill system was purchased late in 1981. There was a negative acquisition adjustment associated with this purchase, which has never been included in rate base.

We would like to offer information to support our position that the gain on sale of Quad Villas Estates/Sugar Hill system should be an increase to stockholders equity. We do not believe that the gain should be shared by the ratepayers in the remaining service areas after the sale.

Rate base was established by order number 11568 on January 31, 1983 as a result of a rate study which followed the original grandfather certificate. Rate base was last established by order number 95-1193-FOF-WS which was final on November 30, 1995. Except for Windgate Estates (137 active customers), all customers, including the Quad Villas Estates/Sugar Hill system, have uniform rates for water, service and miscellaneous fees. All of the customers (except for Windgate Estates) have had uniform rates since the utility assumed ownership.

Comparative Revenue Data for the calendar year 2001

	Quad Villas Estates/ Sugar Hill system	All Other Systems	Total
Customers at year end	217	4,502	4,724
Percentage	4.59%	95.41%	100.00%
Water Revenue	\$34,481	\$998,870	\$1,040,387
Percentage	3.31%	96.69%	100.00%
Water Operating Revenue	\$41,517	\$1,041,876	\$1,083,393
Percentage	3.83%	96.17%	100.00%

While the Company billing procedures accumulate separate revenue numbers for each system, the expenses are on a Company wide basis. Therefore, there is no analysis of direct expenses for the Quad Villas Estates/Sugar Hill system. However, the utility can easily provide actual purchased power expense (from utility bills) for Quad Villas Estates/Sugar Hill system.

Comparative Power Costs for calendar year 2001

	Amount	%
Quad Villas Estates/Sugar Hill system	\$1819.89	2.53%
All Other Systems	\$70.086	97.47%
Total Company	\$71,906	100.00%

If you assume the net operating income is proportional to the gross revenues (or even the water revenues), the Quad Villas Estates/Sugar Hill system would be allocated \$1,334 of the 2001 net income (\$34,819 x 3.83%). The fact that the Quad Villas Estates/Sugar Hill system comprises 3.83% of the water operating revenue and only 2.53% of the purchased power expense would seem to indicate that the Quad Villas Estates/Sugar Hill system is contributing to the net income. That would mean that the remaining customers have not been subsidizing the Quad Villas Estates/Sugar Hill system.

The utility did not achieve its authorized rate of return in 2001. With the sale of the Quad Villas Estates/Sugar Hill system the utility will lose the revenue from those customers as well as the future income stream. The gain on sale will, in part, compensate the shareholders for that loss of future earnings. Since Quad Villas Estates/Sugar Hill system is contributing to the net income, there should be little or no increase in the amount of administrative expenses allocated to the remaining customers. Rather these remaining customers will benefit from the assets from the sale which will revert to the utility to be used for future needs. This will decrease the demand for cash for those purchases. Additionally, the proceeds from this sale have been deposited by the utility as part of its operating cash and will be available to be used substantially for utility purposes, which will benefit those remaining customers.

The utility's customers do not acquire a proprietary interest in the property, plant and equipment that are used for utility service. The ownership of the property, plant and equipment resides with the shareholders. Likewise, any risk of loss in their investment is borne by the shareholders and not the utility customers. This risk of loss is generally rewarded with compensation for the risk. The gain on sale is this compensation. The remaining customers after the sale of Quad Villas Estate/Sugar Hill system did not contribute to recovery of the investment in Quad Villas Estates/Sugar Hill system. Therefore, the customers should not share in that gain. Certainly, if the sale resulted in a loss, that loss would not be borne by the remaining customers, but rather the shareholders.

NAME OF COMPANY MARION UTILITIES, INC.

WATER TARIFF

(Continued from Sheet No. 3.2)

DESCRIPTION OF TERRITORY SERVED

Sections 27 and 34

Libra Oaks:

The Southwest $\frac{1}{4}$ of the Southeast $\frac{1}{4}$ of the Southwest $\frac{1}{4}$.

AND

The North $\frac{1}{2}$ of the Northwest $\frac{1}{4}$ of the Northeast $\frac{1}{4}$ of the Northwest $\frac{1}{4}$.

Section 12

Pine Ridge Estates:

The West $\frac{1}{2}$ of the southwest $\frac{1}{4}$ of said Section 12.

Hunters Trace:

Commence at the Southwest corner of the East $\frac{1}{2}$ of the Southwest $\frac{1}{4}$ of Section 12, Township 15 South, Range 22 East and proceed North $00^{\circ} 00' 06''$ East. Along the West boundary of said East $\frac{1}{2}$ of Southwest $\frac{1}{4}$ of Section 12, a distance of 50.95 feet to a point on the maintained North right-of-way line of Northeast 7th Street, said point also being the point-of-beginning of the following described parcel: Thence continue North $00^{\circ} 00' 06''$ East. Along said East boundary a distance of 1330.50 feet; Thence North $89^{\circ} 39' 52''$ East. A distance of 1287.98 feet; Thence South $00^{\circ} 00' 54''$ East. A distance of 1346.16 feet to a point on the aforesaid maintained North right-of-way line a distance of 1288.37 feet to the point-of-beginning. Said parcel lying and being situate in Marion County, Florida.

Section 13

Fort King:

Tim E. Thompson, President

NAME OF COMPANY MARION UTILITIES, INC.

WATER TARIFF

(Continued from Sheet No. 3.2)

DESCRIPTION OF TERRITORY SERVED

Sections 27 and 34

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The Southwest $\frac{1}{4}$ of the Southeast $\frac{1}{4}$ of the Southwest $\frac{1}{4}$.

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