

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for acknowledgment of transfer of land and facilities of Florida Water Services Corporation to Martin County, and for cancellation of Certificate Nos. 368-W and 319-S in Martin County.

DOCKET NO. 030967-WS
ORDER NO. PSC-03-1341-FOF-WS
ISSUED: November 24, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

ORDER APPROVING TRANSFER OF LAND AND FACILITIES
IN MARION COUNTY, CANCELLING CERTIFICATE
NOS. 368-W AND 319-S, AND OPENING DOCKET
TO INVESTIGATE GAIN ON SALE

BY THE COMMISSION:

Florida Water Services Corporation (FWSC or utility) is a Class A utility providing water and wastewater service throughout Florida. Most of its systems are under our jurisdiction. FWSC serves approximately 645 water and wastewater customers in Martin County. The Martin County systems are located in a priority water resource caution area of the South Florida Water Management District. The utility's 2002 annual report indicates that the Martin County systems had gross revenue of \$223,964 and \$345,093 for water and wastewater, respectively, a net operating loss of \$57,657 for water, and a net operating income of \$26,528 for wastewater.

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FPSC-COMMISSIONER

The utility was issued Certificate Nos. 368-W and 319-S pursuant to Order No. 11246, issued October 14, 1982, in Docket No. 810064-WS, In Re: Application of Southern States Utilities, Inc., Leilani Heights Division, for grandfather certificates and for increased water and sewer rates in Martin County, Florida. FWSC provided water and wastewater service in Martin County through its Fisherman's Haven, Fox Run, and Leilani Heights systems.

On October 6, 2003, an application was filed for the acknowledgment of the transfer of the utility's water and wastewater land and facilities to Martin County (the County or buyer) and for the cancellation of Certificate Nos. 368-W and 319-S. The application states that:

On July 9, 2003, the Circuit Court of the Nineteenth Judicial Circuit in and for Martin County, Florida, entered a Stipulated Final Judgment in Martin County v. Florida Water Services Corporation, Case No. 03-212CA, pursuant to the condemnation procedures set forth under Chapter 73, Florida Statutes. As a result of this condemnation proceeding, the County has acquired title to Florida Water's land and facilities in Martin County and has assumed operation of such facilities as of July 10, 2003.

We have jurisdiction pursuant to Sections 367.045, 367.071(4)(a), and 367.081, Florida Statutes.

TRANSFER OF FACILITIES

On October 6, 2003, FWSC filed its application seeking acknowledgment of the transfer of its Martin County land and facilities to the County pursuant to Section 367.071, Florida Statutes, and Rule 25-30.037(4), Florida Administrative Code. Included with the application is a copy of the Stipulated Final Judgment Order in Martin County v. Florida Water Services Corporation, pursuant to the condemnation procedures set forth under Chapter 73, Florida Statutes. As a result of the condemnation proceeding, Martin County assumed operation of FWSC's Martin County facilities as of July 10, 2003. Therefore, July 10, 2003, is the effective date of the acquisition.

FWSC filed its application pursuant to Section 367.071(4)(a), Florida Statutes, which provides that the sale of facilities, in whole or in part, to a governmental authority shall be approved as a matter of right. As such, no notice of the transfer is required and no filing fees apply. The application had no deficiencies, and is in compliance with Section 367.071(4)(a), Florida Statutes, and Rule 25-30.037(4), Florida Administrative Code. We note that while this proceeding was not a voluntary sale, as the County acquired the facilities through condemnation proceedings, pursuant to Section 367.071, Florida Statutes, we still must approve or acknowledge the transfer of FWSC's facilities.

The application contains a statement that the County obtained FWSC's most recent income and expense statement, balance sheet, statement of rate base for regulatory purposes, and contributions-in-aid-of-construction pursuant to Rule 25-30.037(4)(e), Florida Administrative Code. A statement that the customer deposits were transferred to the County for the benefit of the customers as required by Rule 25-30.037(4)(g), Florida Administrative Code, was also included in the application.

Pursuant to the requirements of Rule 25-30.037(4)(h), Florida Administrative Code, a statement was included that FWSC has no outstanding RAFs and no fines or refunds are owed. The utility has filed its 2002 annual report and paid its 2002 RAFs and there are no outstanding penalties and interest. For the period of January 1, 2003 through July 10, 2003, FWSC has agreed to file its RAF returns and RAF payments for the Martin County facilities within 20 days after the date the Order is issued approving the transfer.

In consideration of the above, we find that FWSC's application is in compliance with the provisions of Rule 25-30.037, Florida Administrative Code. Pursuant to Section 367.071(4)(a), Florida Statutes, the transfer of facilities to a governmental authority shall be approved as a matter of right. Therefore, the transfer of FWSC's Martin County land and facilities to Martin County shall be approved, as a matter of right, effective July 10, 2003. RAFs for January 1 through July 10, 2003, shall be submitted within 20 days after the issuance of the order approving the transfer. Certificate Nos. 368-W and 319-S shall be cancelled administratively at the conclusion of any pending cases for the Martin County facilities.

OPENING OF GAIN ON SALE DOCKET

Pursuant to the stipulated final judgment issued by the Nineteenth Judicial Circuit Court on July 9, 2003, FWSC shall have and recover the total sum of \$2,350,000 from Martin County as full compensation for the taking of the water and wastewater property. That sum appears to exceed the rate base values that the Commission has approved for those facilities. In Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges in Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties, the most recent rate proceeding for FWSC, the approved rate base value for the combined water and wastewater facilities in Martin County was \$1,257,237 for the projected test year ending December 31, 1996. Restoring used and useful adjustments, the aggregate rate base balance was \$1,494,288. In its 2002 Annual Report, FWSC reported a combined rate base of \$1,207,271 for its Martin County systems. As the taking occurred in 2003, an updated rate base calculation will be needed to determine the gain, if any, due to sale of these facilities. Initial review indicates that FWSC will record a gain on this transaction. Therefore, we must consider whether to open a separate docket to determine if the gain should be allocated among the remaining water and wastewater customers.

By letter dated August 29, 2003, the attorney for FWSC discussed the gain on sale issue and whether it was even appropriate to raise the issue in this docket, where the facilities were transferred pursuant to an involuntary condemnation. In that letter, FWSC cites our decision concerning gain on sale in Order No. PSC-93-0423-FOF-WS, issued March 22, 1993, in Docket No. 920199-WS, In Re: Application for rate increase in Brevard, Charlotte/Lee, Citrus, Clay, Duval, Highlands, Lake, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, Volusia, and Washington Counties by Southern States Utilities, Inc.; Collier County by Marco Shores Utilities (Deltona); Hernando County by Spring Hill Utilities (Deltona); and Volusia County by Deltona Lakes Utilities (Deltona) (SSU Order). In the SSU Order, FWSC argues that we concluded that there should be no sharing in the

gain arising from the condemnation of water and wastewater systems previously operated by FWSC. Because that decision concerning gain on sale was affirmed by the First District Court of Appeal in Citrus County v. Southern States Utilities, Inc., 656 So. 2d 1307 (Fla. 1st DCA 1995), FWSC argues that we are bound by the "Citrus County precedent."

Moreover, FWSC notes that "the Citrus County appellate court decision is consistent with" Order No. PSC-93-1821-FOF-WS, issued December 22, 1993, in Docket No. 930373-WS, In Re: Application for amendment of Certificate No. 247-S by North Fort Myers Utility, Inc., and cancellation of Certificate No. 240-S issued to Lake Arrowhead Village, Inc., in Lee County, and Docket No. 930379-SU, In Re: Application for a limited proceeding concerning the rates and charges for customers of Lake Arrowhead Village, Inc., in Lee County, by North Fort Myers Utility (North Fort Myers Order). In the North Fort Myers Order, FWSC points to the paragraph where we stated:

[C]ustomers of utilities do not have any proprietary claim to utility assets. Although customers pay a return on utility investment through rates for service, they do not have any ownership rights to the assets, whether contributed or paid for by utility investment.

Finally, with respect to the condemnation proceeding, FWSC argues that the Circuit Court confirmed the amount the utility was entitled to receive for its assets, and that we should not "interfere with the judicially sanctioned value of the utility's assets." FWSC concludes that it would amount to "an unconstitutional taking and deprivation of the shareholder's rights for the Commission to order a sharing of the gain."

We believe that FWSC has misinterpreted each of the above-noted Orders and court decision. In the SSU Order, in addressing whether a sharing of the gain on sale was appropriate, we specifically said, "Since SSU's remaining customers never subsidized the investment in the SAS [St. Augustine Shores] system, they are no more entitled to share in the gain from that sale than they would be required to absorb a loss from it." Therefore, our determination that a sharing of the gain on sale was not appropriate was limited to the specific facts of that case and was

not a "blanket" legal determination that a gain on sale would never be appropriate. The Citrus County case merely confirmed this factual interpretation.

As to the North Fort Myers Order, the language quoted by FWSC was merely addressing whether there should be a refund to the customers of the former utility, Lake Arrowhead Village, Inc. (LAVI). As to consideration of the gain on sale, we said:

We first examined whether any gain on sale should be passed on to the customers. The costs to dismantle the plant would range from \$20,000 to \$50,000, depending on the public health and other sanitary requirements for the intended use of the land where the treatment and disposal facilities are located. Therefore, even if the few lots which might be created by clearing the former plant site were sold, a significant portion of the gain would be greatly offset by the cost of clearing the site and preparing the lots for sale.

Therefore, again on a factual basis, we determined that a gain on sale adjustment was not appropriate. We do not agree that a review of the appropriate disposition of any gain on sale would constitute an interference "with the judicially sanctioned value of the utility's assets," or an "unconstitutional taking and deprivation of the shareholders' property rights" as alleged by FWSC. We are merely carrying out our jurisdictional duty to "fix rates which are just, reasonable, compensatory, and not unfairly discriminatory" to the remaining customers of FWSC, as required by Section 367.081(2)(a)1., Florida Statutes.

Before FWSC's Martin County facilities were taken by Martin County, those facilities were subject to our jurisdiction. Their service rates were established in FWSC's 1995 rate proceedings in Docket No. 950495-WS. According to FWSC's 2002 annual report, the Martin County systems had a net operating loss of \$57,657 for water, and a net operating income of \$26,528 for wastewater. Whether the Martin County systems were subsidized by other systems outside Martin County needs to be determined.

Further study to examine sharing considerations for the Martin County gain on sale is recommended to permit timely examination of

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this topic. Accordingly, a docket to examine whether FWSC's sale of its Martin County facilities involves a gain that should be shared with FWSC's remaining customers shall be opened. This is consistent with our prior decisions in the following Orders: Order No. PSC-98-0688-FOF-WS, issued May 19, 1998, in Docket No. 971667-WS, In Re: Application for approval of transfer of facilities of Florida Water Services Corporation to Orange County and cancellation of Certificate Nos. 84-W and 73-S in Orange County; Order No. PSC-99-2171-FOF-WU, issued November 8, 1999, in Docket No. 981589-WU, In re: Application for approval of transfer of a portion of the facilities operated under Certificate No. 40-W in Orange County from Utilities, Inc. of Florida to the City of Maitland; and Order No. PSC-99-2373-FOF-WS, issued December 6, 1999, in Docket No. 991288-WS, In re: Application for transfer of a portion of Certificates Nos. 278-W and 225-S in Seminole County from Utilities, Inc. of Florida to the City of Altamonte Springs. In each of the above-three Orders, we acknowledged the transfer to the respective governmental authority and opened another docket to evaluate the gain on sale.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the transfer of Florida Water Service Corporation's Martin County land and facilities to Martin County shall be approved as a matter of right. It is further

ORDERED that Certificate Nos. 368-w and 319-S shall be cancelled administratively at the conclusion of any pending dockets concerning Florida Water Service Corporation's Martin County land and facilities. It is further

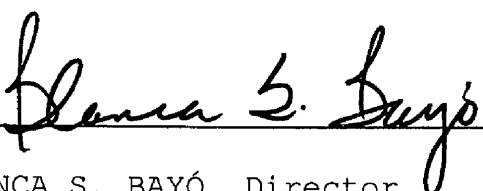
ORDERED that, as set out in the body of this Order, Florida Water Service Corporation shall submit regulatory assessment fees within 20 days of the date of this Order. It is further

ORDERED that a docket to examine whether Florida Water Service Corporation's sale of its Martin County land and facilities involves a gain that should be shared with Florida Water Service Corporation's remaining customers shall be opened. It is further

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ORDERED that this docket shall remain open until the conclusion of any pending dockets concerning the Martin County land and facilities, and until Certificate Nos. 368-w and 319-S are cancelled administratively.

By ORDER of the Florida Public Service Commission this 24th Day of November, 2003.



BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

LAH

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action on the transfer in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the

Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Any party adversely affected by the decision to open a docket to examine gain on sale in this order, which is procedural in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure. Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.