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Public Service Commission

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COMMISSION
CLERK

-M-E-M-O-R-A-N-D-U-M-

DATE: March 24, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Johnson, Kaproth, Rieger) *CCJ KK JS SDR TSD R*
Office of the General Counsel (Brown) *MCB WCL*

RE: Docket No. 041096-WS – Application for transfer of Certificate Nos. 542-W and 470-S in Putnam County from Buffalo Bluff Utilities, Inc. to St. John’s River Club, L.L.C.

AGENDA: 04/05/05 – 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\041096.RCM.DOC

Case Background

Buffalo Bluff Utilities, Inc. (Buffalo Bluff or utility) is a Class C water and wastewater utility providing service to approximately 59 customers in the Bayou Club development located in Putnam County. The utility is located in the St. Johns River Water Management District (SJRWMD). The SJRWMD has implemented district wide irrigation water use restrictions to encourage conservation. The utility’s 2003 annual report indicates gross revenues of \$12,132 and \$13,901 for water and wastewater, respectively, and net operating losses of \$2,150 for water and \$2,430 for the wastewater system.¹ The utility has had one staff assisted rate case.²

¹ The Commission granted Buffalo Bluff Utilities, Inc. its original Certificate Nos. 542-W and 470-S in Order No. PSC-92-0330-FOF-WS, issued May 11, 1992 in Docket No. 910646-WS, In Re: Application for water and wastewater certificates in Putnam County by Buffalo Bluff Utilities, Inc.

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FPSC-COMMISSION CLERK

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On September 17, 2004, St. John's River Club, L.L.C. (SJRC or buyer) filed an application for transfer of the utility's facilities and certificate from Buffalo Bluff to SJRC. According to the application, on August 3, 2004, SJRC entered into an agreement to purchase the utility and the land upon which the facilities are located for a purchase price of \$100,000. Staff determined that the application was deficient, but the deficiencies were corrected on November 12, 2004.

This recommendation addresses the transfer of Buffalo Bluff Utilities, Inc. to SJRC. The actual closing of the contract will not take place until after the Commission's approval of the transfer. The Commission has jurisdiction to consider this matter pursuant to Section 367.071, Florida Statutes.

² Docket No. 000327-WS, Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, In Re: Application for Staff-Assisted Rate Case in Putnam County by Buffalo Bluff Utilities, Inc.

Discussion of Issues

Issue 1: Should the Commission approve the transfer of facilities and Certificate Nos. 542-W and 470-S from Buffalo Bluff to St. John's River Club, L.L.C.?

Recommendation: Yes, the transfer of facilities and Certificate Nos. 542-W and 470-S from Buffalo Bluff to SJRC is in the public interest and the Commission should approve it. The transfer should be effective on the day of the Commission vote. SJRC should be ordered to submit a recorded warranty deed within 30 days of the date the order approving the transfer, reflecting that ownership of the land upon which the utility's facilities are located has been properly conveyed to SJRC. In addition, Buffalo Bluff will be responsible for the payment of all RAFs due for revenues received from January 1, 2005 through the date of closing. SJRC will be responsible for the payment of all RAFs due thereafter, and for filing the 2005 annual report for January 1 through December 31, 2005, and for the subsequent years. A description of the territory being transferred is appended to this recommendation as Attachment A. (Johnson, Kaproth, Rieger)

Staff Analysis: On September 17, 2004, Buffalo Bluff and SJRC filed an application for transfer of the facilities and Certificate Nos. 542-W and 470-S from Buffalo Bluff to SJRC. All of the filing requirements for the application were completed on November 12, 2004. The application is in compliance with the governing statute, Section 367.071, Florida Statutes, and other pertinent statutes and rules concerning an application for transfer. The closing on the sale of the utility is scheduled to occur after the Commission approves the transfer.

Pursuant to Rule 25-30.030, Florida Administrative Code, the application contains proof of compliance with the noticing requirement. No objections to the notice of application have been received and the time for filing such objections has expired.

The application contains a copy of the purchase agreement which includes the purchase price, terms of payment, and a list of the assets purchased. There are no customer deposits, guaranteed revenue contracts, developer agreements, customer advances, or leases that must be disposed of in relation to the transfer. The utility and land were purchased for \$100,000. The purchase is a cash transaction. The funds for the purchase are being held in a trust account.

Rule 25-30.037(2) (q), Florida Administrative Code, requires proof that the utility owns or has provided for the continued use of the land upon which the utility facilities are located. The buyer has provided an unrecorded warranty deed in the filing and has agreed to provide proof that the utility owns the land upon which its facilities are located after the closing. SJRC should be required to provide a recorded warranty deed as proof that it owns the land upon which the utility's facilities are located within 30 days of the order approving the transfer.

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. According to the applicant, the transfer is in the public interest because the seller is no longer interested in continuing in the utility business. The applicant states that the principal owners of SJRC have the experience, the expertise, and the financial capability needed to maintain this utility. In

addition, the buyers will retain the services of the utility's engineer. The engineer is a Florida Department of Environmental Protection (FDEP) regulation certified plant operator with over 18 years of experience in water and wastewater operations. He has provided operational, supervisory, and consultant services for the utility since June, 1987.

According to the application, in regards to the buyer's technical ability, the three principals of SJRC have diverse experience that will contribute to the management and operation of the utility. The President of SJRC has approximately thirty years of experience in the mobile home sales business and has managed several mobile home projects which used water and wastewater package plants. The Vice President of SJRC has experience as an investment broker and as an owner and manager of a mobile home park which utilized a septic and well system. The Treasurer is an engineer with extensive experience in the treatment of commercial wastewater. According to the application, at the present time, safe and reliable water and wastewater service is provided to the customers.

With regard to the buyers' financial ability, all three principal owners have provided personal financial statements which indicate that they have the financial ability to provide sufficient funding to the utility. Also, they have indicated a willingness to secure lines of credit so that the utility may continue operating in accordance with sound engineering practices and comply with the rules and policies of the Commission. Additionally, the application contains a statement that the buyer will fulfill the commitments, obligations, and representations of the sellers with regard to utility matters.

The application states that the buyer has performed a reasonable investigation of the utility system as required by Rule 25-30.037(2) (p), Florida Administrative Code. The buyer included a statement that the system appears to be in satisfactory condition and in compliance with all applicable standards set by the FDEP. Staff has contacted the FDEP and verified that there are no outstanding notices of violation. The utility's water treatment plant is composed of two two-inch wells and two four-inch wells with aeration and liquid chlorination used as the primary forms of treatment.

The application states that all RAFs have been paid by Buffalo Bluff and no refunds or fines are outstanding. Buffalo Bluff has filed its 2004 annual report and paid its 2004 regulatory assessment fees (RAFs). On October 4, 2004, a letter was filed by the utility's Certified Public Accountants stating that Buffalo Bluff will pay the RAFs for the period of January 1, 2005, through the closing date. SJRC will be responsible for paying the RAFs from the closing date to December 31, 2005, and for the subsequent years. SJRC will also be responsible for filing the 2005 annual report and for the subsequent years.

Based on the above, staff recommends that the transfer of facilities and Certificate Nos. 542-W and 470-S from Buffalo Bluff to SJRC is in the public interest and should be approved. The transfer should be effective on the day of the Commission vote. SJRC should be ordered to submit a recorded warranty deed within 30 days of the date of the order approving the transfer, demonstrating that ownership of the land upon which the utility's facilities are located has been conveyed to SJRC. In addition, Buffalo Bluff will be responsible for the payment of all RAFs due for revenues received from January 1, 2005 through the date of closing. SJRC will be

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responsible for the payment of all RAFs due thereafter, and for filing the 2005 annual report for January 1 through December 31, 2005, and for the subsequent years. A description of the territory being transferred is appended to this recommendation as Attachment A.

Issue 2: What is the rate base for Buffalo Bluff's water and wastewater systems at the time of the transfer?

Recommendation: The rate base, which for transfer purposes reflects the net book value at the time of transfer, is \$18,042 for the water system and \$33,928 for the wastewater system as of December 31, 2004. (Johnson)

Staff Analysis: Rate base was last set for the utility as \$24,309 for water and \$32,674 for wastewater as of May 31, 2000.³ An audit of Buffalo Bluff's books and records was conducted to determine the rate base as of December 31, 2004.

Utility Plant In Service (UPIS). The utility's books reflect UPIS of \$83,971 for water and \$125,020 for wastewater as of December 31, 2004.

In 2003, the utility purchased a \$367 blower for the wastewater plant, but recorded it in water plant account 334. The blower should be removed and appropriately recorded in the wastewater plant account 380. Support was also provided for plant additions totaling \$1,050 which should be recorded in wastewater account 380. Based on these adjustments, staff recommends that UPIS be reduced by \$367 for water, and wastewater UPIS be increased by \$1,417 which results in a UPIS balance of \$83,604 for water and \$126,437 for the wastewater system, as of December 31, 2004.

Land. Staff recommends that the utility's books reflect the appropriate land balance of \$1,103 for the water system and \$9,838 for the wastewater system.

Contributions-in-aid-of-Construction (CIAC) The utility's rate base balances as of December 31, 2004, included CIAC of \$24,000 for water and \$24,000 for wastewater.

By Order No PSC-00-2500-PAA-WS, issued December 12, 2000, the utility's service availability charges were revised to include main extension charges of \$545 for water and \$935 for wastewater, and a meter installation charge of \$110. In 2004, the utility had one new customer connection that was not recorded. The utility representative agrees that the fees were collected and the connection should be reflected in the utility's books. Therefore, staff recommends that CIAC be increased by \$655 for water and \$935 for wastewater which results in CIAC balances of \$24,655 for the water system and \$24,935 for the wastewater system as of December 31, 2004.

Accumulated Depreciation. The utility's rate base balances for water and wastewater as of December 31, 2004, include accumulated depreciation of \$58,213 and \$94,142, respectively. No adjustments are recommended.

³ Rate base was last set for Buffalo Bluff Utilities, Inc. pursuant to Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In Re: Application for staff assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.

Amortization of CIAC. The utility's rate base balances as of December 31, 2004, included amortization of CIAC of \$21,967 for water and \$21,589 for wastewater.

The composite depreciation rate was not used consistently by the utility in amortizing CIAC. Based on the utility books, staff recalculated accumulated amortization of CIAC by using an amortization rate of 3.7%. Staff recommends that amortization of CIAC balances be reduced by \$5,764 for water and \$4,859 for wastewater which results in an amortization of CIAC balance of \$16,203 for water and \$16,730 for wastewater as of December 31, 2004.

Conclusion. Based upon all of the above, staff recommends that rate base for transfer purposes as of December 31, 2004, should be \$18,042 for the utility's water system, and \$33,928 for the utility's wastewater system. Schedules 1 and 2 show the calculation for water and wastewater rate base, respectively. Schedule 3 shows staff's recommended adjustments to the utility's proposed water and wastewater rate bases. Schedules 4 and 5 show staff's recommended water and wastewater account balances, respectively, for UPIS and accumulated depreciation as of December 31, 2004. Staff notes that rate base for transfer purposes does not include the normal rate making adjustments for used and useful or working capital.

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

Recommendation: No. Pursuant to Rule 25-30.0371(2), Florida Administrative Code, an acquisition adjustment should not be included in rate base. (Johnson)

Staff Analysis: An acquisition adjustment results when the purchase price differs from the rate base at the time of the acquisition. The acquisition adjustment resulting from the transfer of Buffalo Bluff to SJRC would be calculated as follows:

Purchase Price	\$100,000
Less Staff Calculated Rate Base	\$ 51,970
Positive Acquisition Adjustment	<u>\$ 48,030</u>

Pursuant to Rule 25-30.0371(2), Florida Administrative Code, a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. The buyer has neither requested an acquisition adjustment nor identified any extraordinary circumstances. Therefore, staff recommends that a positive acquisition adjustment should not be included in the calculation of rate base for transfer purposes.

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Issue 4: Should the utility's existing rates and charges be continued?

Recommendation: Yes. The existing rates and charges for the utility should be continued until authorized to change by the Commission in a subsequent proceeding. The tariff sheets reflecting the existing rates and charges should be effective for services rendered or connections made on or after the stamped approval date. (Johnson)

Staff Analysis: The utility's current water and wastewater rates, miscellaneous service charges, and water and wastewater service availability charges became effective February 1, 2001, pursuant to Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In Re: Application for staff assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc. The utility's approved rates and charges are shown on Attachment B.

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 that will thereafter operate the utility business must adopt and use the rates, classifications, and regulations of the former operating company, unless authorized to change by the Commission.

The buyer has not requested a change in the rates or service availability charges of the utility. Accordingly, 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. SJRC has filed a tariff reflecting the transfer of ownership. The tariff should be effective for services rendered or connections made on or after the stamped approval date.

Issue 5: Should the utility be required to provide proof that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the adjustments recommended herein?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, SJRC should provide proof, within 30 days of issuance of a final order on this matter, that adjustments to all applicable NARUC USOA primary accounts have been made to reflect the Commission-approved rate base adjustments and balances. (Johnson)

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, staff recommends that the utility should provide proof, within 30 days of issuance of a final order on this matter, that adjustments to all applicable NARUC USOA primary accounts have been made to reflect the Commission-approved rate base adjustments and balances. To assist the utility, staff has reflected its recommended 2004 year-end plant balance by primary account in Schedule Nos. 4 and 5.

Issue 6: Should this docket be closed?

Recommendation: No. If no timely protest is received to the proposed agency action issues, the Order will become final upon the issuance of a Consummating Order. However, the docket should remain open pending receipt of evidence that the utility owns or has continued use of the land upon which its facilities are located, and has provided a statement within 30 days of the order approving the transfer that it has established its books and records in compliance with the NARUC USOA and that its books have been adjusted to reflect the Commission-approved rate base balances as of the date of the transfer. Upon receipt of the statement and the recorded deed and staff's verification that the deed satisfies the requirements of Rule 23-30.037(2)(q), Florida Administrative Code, the docket should be administratively closed. (Brown)

Staff Analysis: If no timely protest is received to the proposed agency action issues, the Order will become final upon the issuance of a Consummating Order. However, the docket should remain open pending receipt of evidence that the utility owns or has continued use of the land upon which its facilities are located, and has provided a statement within 30 days of the order approving the transfer that it has established its books and records in compliance with the NARUC USOA and that its books have been adjusted to reflect the Commission-approved rate base balances as of the date of the transfer. Upon receipt of the statement and the recorded deed and staff's verification that the deed satisfies the requirements of Rule 23-30.037(2) (q), Florida Administrative Code, the docket should be administratively closed.

ATTACHMENT A

ST. JOHN'S RIVER CLUB, L.L.C.
DESCRIPTION OF TERRITORY SERVED

A part of Sections 33 and 34, Township 10 South, Range 26 East and a part of Section 39, Township 10 South, Range 26 East and part of Section 39, Township 11 South, Range 26 East, Putnam County, Florida, being more particularly described as follows: For a point of reference commence at the point of intersection of the northerly line of said Section 39, Township 10 South, Range 26 East, said point being 100.00 feet easterly of as measured at right angles to the center line of the CSX Transportation right-of-way as now established; thence S 28°27'00" E, a distance of 1226.87 feet to the northeasterly right-of-way of County Road 309-B as now established to the POINT OF BEGINNING; thence northwesterly along said northeasterly right-of-way line, along the arc of a curve concave northeasterly and have a radius of 1860.08 feet, a chord bearing of N 53°28'26" W and a chord distance of 118.36 feet; thence N 28°27'00" W, a distance of 1281.54 feet; thence N 61°33'00" E, a distance of 50.00 feet; thence N 28°27'00" W, along the easterly right-of-way line of the CSX Transportation right-of-way, said right-of-way line being 100.00 feet easterly of as measured at right angles to said center line as now established, a distance of 1404.97 feet; thence N 73°28'46" E, a distance of 478.55 feet; thence N 01°09'00" W, a distance of 210.00 feet; thence N 88°51'00" E, a distance of 210.00 feet; thence N 01°09'00" W, a distance of 600 feet more or less to the waters of Murphy Creek; thence southeasterly along said waters of Murphy Creek a distance of approximately 4700 feet to the easterly line of Section 39, Township 10 South, Range 26 East; thence S 26°14'14" E, along said easterly line of said Section 39, Township 10 South, Range 26 East and the easterly line of said Section 39, Township 11 South, Range 26 East, a distance of 1447 feet more or less; thence S 74°31'16" W, a distance of 1674.27 feet, to the northeasterly right-of-way line of County Road 309-B as now established; thence N 59°08'00" W along said northeasterly right-of-way line a distance of 203.67 feet; thence northwesterly along the northeasterly right-of-way line, along the arc of a curve concave northeasterly and having a radius of 1860.08 feet, a chord bearing of N 57°11'47" W and a chord distance of 125.6 feet to the POINT OF BEGINNING.

ATTACHMENT B

WATER
Residential and General Service
Monthly Service Rates

<u>Meter Size:</u>	<u>Base Facility Charge:</u>
5/8" x 3/4"	\$ 7.91
3/4"	\$ 11.87
1"	\$ 19.78
1-1/2"	\$ 39.55
2"	\$ 63.28
3"	\$126.56
4"	\$197.75
6"	\$395.50
Charge per 1,000 gallons	\$ 3.63

WASTEWATER
Monthly Service Rates
Residential

<u>Meter Size:</u>	<u>Base Facility Charge:</u>
All Meter Sizes	\$ 11.09
Charge per 1,000 gallons (8,000 gallon cap)	\$ 3.84

General Service

<u>Meter Size:</u>	<u>Base Facility Charge:</u>
5/8" x 3/4"	\$ 11.09
3/4"	\$ 16.64
1"	\$ 27.73
1-1/2"	\$ 55.45
2"	\$ 88.72
3"	\$177.44
4"	\$277.25
6"	\$554.50
Charge per 1,000 gallons	\$ 4.60

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Miscellaneous Service Charges

Initial Connection Fee	\$ 25.00
Normal Reconnection Fee	\$ 25.00
Violation Reconnection Fee:	
Water	\$ 25.00
Wastewater	Actual Cost
Premises Visit Fee (in lieu of disconnection)	\$ 25.00

Service Availability Charges

	Water	Wastewater
Main Extension Charge	\$545.00	\$935.00
Meter Installation Charge	\$110.00	

SCHEDULE NO. 1

**BUFFALO BLUFF UTILITIES, INC.
SCHEDULE OF WATER RATE BASE
AS OF DECEMBER 31, 2004**

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 83,971	(367)	\$ 83,604
Land	1,103	0	1,103
Contributions in Aid of Construction (CIAC)	(24,000)	(655)	(24,655)
Accumulated Depreciation	(58,213)		(58,213)
Amortization of CIAC	<u>21,967</u>	<u>(5,764)</u>	<u>16,203</u>
WATER RATE BASE	<u>\$ 24,828</u>	<u>\$ 6,786</u>	<u>\$ 18,042</u>

SCHEDULE NO. 2

**BUFFALO BLUFF UTILITIES, INC.
SCHEDULE OF WASTEWATER RATE BASE
AS OF DECEMBER 31, 2004**

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$ 125,020	\$ 1,417	\$126,437
Land	9,838	(0)	9,838
Contributions in Aid of Construction (CIAC)	(24,000)	(935)	(24,935)
Accumulated Depreciation	(94,142)		(94,142)
Amortization of CIAC	<u>21,589</u>	<u>4,859</u>	<u>16,730</u>
WASTEWATER RATE BASE	<u>\$ 38,305</u>	<u>\$ (4,377)</u>	<u>\$ 33,928</u>

SCHEDULE NO. 3

**BUFFALO BLUFF UTILITIES, INC.
 SCHEDULE OF ADJUSTMENT TO RATE BASE
 AS OF DECEMBER 31, 2004**

EXPLANATION	ADJUSTMENTS	
A) <u>Utility Plant-In-Service</u>	Water	Wastewater
1. To reflect 2004 plant additions.		\$ 1,050
2. To record plant in the correct acct.	\$ <u>(367)</u>	<u>367</u>
Total adjustment	\$ <u>(367)</u>	\$ <u>1,417</u>
B) <u>CIAC</u>		
1. To record additional CIAC	\$ <u>(655)</u>	\$ <u>(935)</u>
D) <u>Amortization of CIAC</u>		
1. To correct CIAC amortization rate	\$ <u>(5,764)</u>	\$ <u>(4,859)</u>

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BUFFALO BLUFF UTILITIES, INC.		SCHEDULE NO. 4	
STAFF RECOMMENDED PLANT BALANCE AS OF DECEMBER 31, 2004			
ACCT NO.	ACCOUNT NAME	PLANT BALANCE	ACCUMULATED DEPRECIATION BALANCE
304	Structures and Improvements	3,825	2,748
307	Wells and Springs	13,229	10,038
311	Pumping Equipment	10,814	10,477
320	Water Treatment Plant	854	854
330	Distribution Reservoirs-Hydro Tank	7,350	5,020
331	Transmission & Distribution	32,336	18,147
333	Services	8,530	5,001
334	Meters & Meter Installation	6,666	5,928
	Total Water Plant	<u>\$83,604</u>	<u>\$ 58,213</u>

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BUFFALO BLUFF UTILITIES, INC.		SCHEDULE NO. 5	
STAFF RECOMMENDED PLANT BALANCE AS OF DECEMBER 31, 2004			
ACCT NO.	ACCOUNT NAME	PLANT BALANCE	ACCUMULATED DEPRECIATION BALANCE
354	Structures and Improvements	49,635	43,990
360	Collection Sewers – Force	8,681	6,588
361	Collection Sewers – Gravity	20,587	12,346
363	Services to Customers	2,414	1,415
370	Receiving Wells	6,614	5,425
380	Electrical	10,417	6,446
381	Plant Sewers	<u>28,089</u>	<u>18,021</u>
	Total Wastewater Plant	<u>\$126,437</u>	<u>\$94,231</u>