

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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COMMISSION CLERK

DATE: August 2, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Accounting and Finance (Kaproth) *KK JS*
 Division of Engineering (Brady, Simpson) *pb JDP TET DB*
 Office of the General Counsel (Lawson) *JD ALM*

RE: Docket No. 110311-WU – Application for transfer of Certificate No. 588-W from Pinecrest Ranches, Inc., in Polk County, to Pinecrest Utilities, LLC.
 County: Polk

AGENDA: 08/14/12 – Regular Agenda – Proposed Agency Action for Issue 2 -- Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\AFD\WP\110311.RCM.DOC

Case Background

Pinecrest Ranches, Inc. (Pinecrest, Utility, or Seller) is a Class C water utility serving approximately 128 customers in Polk County. The Utility is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). However, there are no water use restrictions for the Utility because annual withdrawals are less than 100,000 gallons per day. The Utility's 2011 Annual Report lists combined annual revenues of \$51,031, with a net operating loss of \$11,784.

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The Utility was constructed in 1987. In 1997, Pinecrest was granted Certificate No. 588-W when Polk County turned over jurisdiction of privately-owned water and wastewater utilities to the Commission.¹ Pinecrest's subsequent certification actions include a name change in 1997,² a transfer of majority organizational control in 2002,³ and a quick-take territory amendment in 2003.⁴ On November 28, 2011, an application was filed for the transfer of Certificate No. 588-W to Pinecrest Utilities, LLC (Pinecrest Utilities, Buyer). The Commission has jurisdiction, pursuant to Section 367.071, Florida Statutes, (F.S.).

1 See Order No. PSC-97-0367-FOF-WU, issued April 2, 1997, in Docket No. 961253-WU, In re: Application for grandfather certificate to provide water service in Polk County by Pinecrest Ranches.

2 See Order No. PSC-97-1087-FOF-WU, issued September 17, 1997, in Docket No. 970635-WU, In re: Application for name change on Certificate No. 588-W in Polk County from Pinecrest Ranches to Pinecrest Ranches, Inc.

3 See Order No. PSC-02-0893-FOF-WU, issued July 5, 2002, in Docket No. 011651-WU, In re: Application for transfer of majority organizational control of Pinecrest Ranches, Inc., holder of Certificate No. 588-W in Polk County, from James O. Vaughn and Margaret S. Hankin to S. Norman Duncan and Richard S. Little.

4 See Order No. PSC-03-0318-FOF-WU, issued March 6, 2003, in Docket No. 020823-WU, In re: Application for quick-take amendment of Certificate No. 588-W in Polk County by Pinecrest Ranches, Inc.

Discussion of Issues

Issue 1: Should the transfer of Certificate No. 588-W from Pinecrest Ranches, Inc. to Pinecrest Utilities, LLC be approved?

Recommendation: Yes. The transfer is in the public interest and should be approved effective the date of the Commission's vote. The territory being transferred is described in Attachment A. The resultant order should serve as Pinecrest Utilities, LLC's Certificate No. 588-W and be retained. The Utility's existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariff pages reflecting the transfer should be effective on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, (F.A.C.). Pinecrest Utilities, LLC should be responsible for annual reports and RAFs for 2012 and future years. (Brady, Kaproth, Simpson, Lawson)

Staff Analysis: On November 28, 2011, an application was filed for approval of the transfer of Certificate No. 588-W from Pinecrest to Pinecrest Utilities, pursuant to Section 367.071, F.S. The application is in compliance with the governing statutes and other pertinent statutes and administrative rules concerning an application for transfer of certificate. The closing occurred on June 22, 2011; however, pursuant to Section 367.071, F.S., the transfer was made contingent upon Commission approval.

The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, F.A.C. No objections to the notice have been filed with the Commission and the time for filing objections has expired. A description of the territory being transferred is appended to this recommendation as Attachment A. The application contains a recorded copy of a warranty deed as evidence that Pinecrest Utilities owns the land on which the water treatment facilities are located, pursuant to Rule 25-30.037(2)(q), F.A.C.

Pursuant to Rule 25-30.037(2)(h), F.A.C., the application contains a copy of the sales contract, which includes the purchase price, terms of payment, and a list of the assets purchased. The Utility assets were acquired for \$78,000. According to the application, there were no customer deposits, guaranteed revenue contracts, developer agreements, customer advances, or leases to be disposed of in the transfer.

Pursuant to Rule 25-30.037(2)(j), F.A.C., the application contains a statement indicating how the transfer is in the public interest, including the buyer's technical and financial ability to provide service. According to the application, the Buyer, Mr. Michael Smallridge, has been associated with the water and wastewater business for the past 20 years and has operated and managed utilities for 7 different owners during that time, including Pinecrest, Sunrise Utilities, LLC, and Alturas Utilities, LLC, which are regulated by the Commission. In addition, Mr. Smallridge is the County-appointed receiver for West Lakeland Wastewater, Inc. and Four Points Utility Corporation, which are also regulated by the Commission. Mr. Smallridge served as Chairman of the Citrus County Water & Wastewater Authority for 7 years and currently has a consulting company which provides a number of utility and regulatory services. The Buyer contracts with a licensed water system operator to maintain his systems and employs a full-time

maintenance worker. The application contains documentation to demonstrate that the Buyer has sufficient personal financial resources to operate and maintain the Pinecrest water system.

The Buyer is aware that the Utility's books and records must be maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts and that it may not change the Utility's rates or charges, extend or delete the Utility's service territory, change the Utility's name or majority control, or transfer the Utility facilities without Commission approval. Further, the Buyer provided a statement agreeing to fulfill the commitments, obligations, and representations of the Seller with regard to utility matters.

Pursuant to Rule 25-30.037(2)(p), F.A.C., the application contains a statement that the water system is in compliance with the requirements set by the Florida Department of Health (DOH or Department), which is responsible for water compliance in Polk County, and SWFWMD. The Utility's water system consists of two wells providing raw water, which are treated by liquid chlorine and an injection of polyphosphate solution for iron sequestration. A third well is available for fire protection using a separate distribution system. Staff has verified that the water system is currently in compliance with all applicable standards set by the DOH and SWFWMD. The DOH provided further comment that Mr. Smallridge has been extremely proactive in communicating with their office regarding any concerns the Department may have.

The Utility's rates and charges were last set by the Commission pursuant to the staff-assisted rate case in Docket No. 090414-WU.⁵ The Utility's existing rates and charges are shown on Schedule No. 2. Rule 25-9.044(1), F.A.C., provides that, in the case of a change of ownership or control of a utility, the rates, classifications, and regulations of the former owner must continue unless authorized to change by this Commission. Therefore, staff recommends that the Utility's existing rates and charges shown on Schedule No. 2 remain in effect until a change is authorized by this Commission in a subsequent proceeding.

Staff has verified that Pinecrest is current on the filing of annual reports through 2011 and regulatory assessment fees (RAFs) through 2010. The Buyer paid the Utility's 2011 RAFs from the date of the closing on June 22, 2011 through December 31, 2011. The Seller failed to pay the Utility's 2011 RAFs from January 1, 2011 through the date of closing. In addition, the Seller filed the Utility's 2008 and 2010 annual reports late, resulting in unpaid penalties. Staff will pursue the appropriate collection efforts and, if necessary, file a subsequent recommendation to address any outstanding RAFs, penalties, and interest owed by the Seller. The Buyer should be responsible for filing annual reports and RAFs for 2012 and future years.

Based on the above, staff recommends that the transfer is in the public interest and should be approved effective the date of the Commission's vote. The territory being transferred is described in Attachment A. The resultant order should serve as Pinecrest Utilities, LLC's Certificate No. 588-W and be retained. The Utility's existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariff pages reflecting the transfer should be effective on or after the stamped approval date on the

⁵ See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

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tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. Pinecrest Utilities, LLC should be responsible for annual reports and RAFs for 2012 and future years.

Issue 2: What is the net book value of the Pinecrest water system for transfer purposes?

Recommendation: The net book value of the Pinecrest water system for transfer purpose is \$68,778 as of June 30, 2011. Within 30 days of the date of the final order, Pinecrest Utilities, LLC should be required to provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of June 30, 2011, along with a statement that the adjustments will be reflected in the Utility's 2012 annual report. (Brady, Simpson, Lawson)

Staff Analysis: Rate Base for the Pinecrest water system was last established as of June 30, 2009 at \$66,022,⁶ which included a working capital allowance of \$5,548; therefore, net book value was \$60,474. Because plant had been added since the last rate proceeding, staff updated net book value to the time of transfer on June 30, 2011. Net book value is used to determine whether an acquisition adjustment should be approved and does not include normal rate making adjustments for used and useful plant or working capital. Staff's recommended water net book value balances, as described below, are shown on Schedule No. 1.

Utility Plant in Service (UPIS) and Land

The Utility's general ledger reflects water UPIS and land balances as of June 30, 2011 of \$195,895 and \$6,500, respectively. The water system consists primarily of lines, wells, pumps, reservoirs, and meter equipment. The Utility's general ledger balance reflects \$10,454 in plant added in 2010 when a well and pump were replaced. There have been no additions to land. Staff reviewed the Utility's invoices for the plant added in 2010 and verified additional plant in the amount of \$5,924. Therefore, staff recommends the Utility's UPIS balance is \$201,819 and its land balance is \$6,500 as of June 30, 2011, as shown on Schedule No. 1.

Accumulated Depreciation

The Utility's general ledger reflects an accumulated depreciation balance of \$101,124 for the water system as of June 30, 2011. Staff recommends that accumulated depreciation be increased by \$6,085 to reflect the additional plant described above, as well as corrections to accumulated depreciation based on the guideline service lives in Rule 25-30.140, F.A.C. Therefore, staff recommends the Utility's water accumulated depreciation balance is \$107,209 as of June 30, 2011, as shown on Schedule No. 1.

Contributions-in-Aid-of-Construction (CIAC) and Accumulated Amortization of CIAC

The Utility's general ledger reflects a water CIAC balance of \$100,352 and an accumulated amortization of CIAC balance of \$63,006 for the water system as of June 30, 2011. Staff recommends no changes to the Utility's CIAC balance. However, staff recalculated the accumulated amortization of CIAC balance based on the composite rate pursuant to the guideline service lives in Rule 25-30.140, F.A.C. As such, staff recommends a increase of \$5,014 to the Utility's accumulated amortization of CIAC balance. Therefore, staff recommends that the Utility's CIAC balance is \$100,352 and its accumulated amortization of CIAC balance is \$68,020 as of June 30, 2011, as shown on Schedule No. 1.

⁶ See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

Net Book Value

The Utility's general ledger reflects a net book value for the water system of \$63,925 as of June 30, 2011. Based on the adjustments described above and shown on Schedule No. 1, staff recommends that the net book value for the Utility's water system as of June 30, 2011 is \$68,778. Schedule No. 1 contains the NARUC account balances for UPIS and accumulated depreciation as of June 30, 2011.

Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from the net book value of the assets at the time of the acquisition. The purchase price of the Utility on June 22, 2011 was \$78,000. Based on a net book value of \$68,778 as of June 30, 2011, the transfer would result in a positive acquisition adjustment of \$9,222. Pursuant to Rule 25-30.0371(2), F.A.C., a positive acquisition adjustment shall not be included in rate base unless there is proof of extraordinary circumstances. The buyer did not request a positive acquisition adjustment and there is no evidence of extraordinary circumstances. Therefore, staff recommends that a positive acquisition adjustment should not be approved.

Conclusion

Staff recommends that the net book value of the Pinecrest water system for transfer purpose is \$68,778 as of June 30, 2011. Within 30 days of the date of the final order, Pinecrest Utilities, LLC should be required to provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of June 30, 2011, along with a statement that the adjustments will be reflected in the Utility's 2012 annual report.

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Issue 3: Should this docket be closed?

Recommendation: Yes. If no protest to the proposed agency action issue is filed by a substantially affected person within 21 days of the date of the order, the docket should be closed upon the issuance of a consummating order. (Lawson)

Staff Analysis: If no protest to the proposed agency action issue is filed by a substantially affected person within 21 days of the date of the order, the docket should be closed upon the issuance of a consummating order.

**Pinecrest Utilities, LLC
Water Territory
Polk County**

Citrus Highlands

**Township 30 South, Range 26 East
Section 6**

Begin at the Northwest corner of the Northeast 1/4 of Section 6 and run North 89°28'10" East along the Northern boundary of Section 6 a distance of 1,145.33 feet; thence South 20°03'30" East a distance of 383.78 feet; thence North 69°56'30" East a distance of 57.71 feet to the East boundary of the West 1/2 of the Northeast 1/4; thence South 00°22'30" East along said East boundary a distance of 1,394.42 feet to the Northeast corner of the Southwest 1/4 of the Northeast 1/4 of Section 6; thence North 89°21'48" West along the North boundary of the Southwest 1/4 of the Northeast 1/4 a distance of 1,328.39 feet to the West boundary of the Northeast 1/4; thence North 00°24'01" West along said West boundary a distance of 1,709.77 feet to the Point of Beginning

Also, two parcels more particularly described as follows:

**Township 29 South, Range 26 East
Section 31**

Beginning at the Southeast corner of Section 31, run Westerly a distance of 2,771.38 feet to the Point of Beginning; thence run West a distance of 224.50 feet; thence run North a distance of 120 feet; thence run East a distance of 224.50 feet; thence run South a distance of 120 feet to the Point of Beginning.

And beginning at the Southeast corner of Section 31, run Westerly a distance of 2,591.38 feet to the Point of Beginning; continue West a distance of 60.00 feet; thence run North a distance of 105 feet; thence run East a distance of 60 feet; thence run South a distance of 105 feet to the Point of Beginning.

Starr Terrace

**Township 29 South, Range 26 East
Section 31**

Commence at the Southeast corner of Section 31, Township 29 South, Range 26 East, Polk County, Florida, and run thence South 89°29'09" West along the South boundary of Section 31 a distance of 1,891.63 feet to the Point of Beginning; run thence South 89°29'09" West a distance

of 880.26 feet; run thence North 00°30'51" West a distance of 120.00 feet; run thence South 89°29'09" West a distance of 224.50 feet; run thence North 00°30'51" West a distance of 40.00

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feet; run thence North 89°29'09" East a distance of 224.50 feet to the beginning of a curve to the right having a radius of 265.00 feet and a central angle of 10°59'54", run thence along said curve an arc distance of 50.87 feet; run thence North 20°03'30" West a distance of 306.84 feet to the right-of-way line of State Road 60; run thence North 69°56'30" East a distance of 730.00 feet to a point herein after referred to as "Point A"; run thence South 20°03'30" East a distance of 730.59 feet to the Point of Beginning.

And

Parcel B Description

Commence at "Point A" referred to in the foregoing description and run Northeasterly along the right-of-way line of State Road 60 a distance of 40.00 feet to the Point of Beginning; run thence South 20°03'30" East parallel to the Easterly boundary of Starr Terrace a distance of 300.00 feet; run thence North 69°56'30" East a distance of 190.00 feet; run thence North 20°03'30" West a distance of 302 feet more or less to the Southerly right-of-way line of said State Road 60; run thence Southwesterly along said right-of-way line a distance of 190 feet more of less to the Point of Beginning.

And

Parcel D Description

Commence at "Point A" referred to in the foregoing description and run Northeasterly along the right-of-way of State Road 60 a distance of 330.47 feet to the Point of Beginning; run thence South 20°03'30" East parallel to the Easterly boundary of Starr Terrace a distance of 323.78 feet; run thence North 69°56'30" a distance of 105.00 feet; run thence North 90°00'00" East a distance of 40.18 feet; run thence North 18°49'32" West a distance of 361.41 feet to the Southerly right-of-way line of State Road 60; run thence Southwesterly along said right-of-way line a distance of 152.04 feet to the Point of Beginning.

FLORIDA PUBLIC SERVICE COMMISSION

**authorizes
Pinecrest Utilities, LLC
pursuant to
Certificate Number 588-W**

to provide water service in Polk County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
PSC-97-0367-FOF-WU	04/02/1997	961253-WU	Grandfather Certificate
PSC-97-1087-FOF-WU	09/17/1997	970635-WU	Name Change
PSC-02-0893-FOF-WU	07/05/2002	011651-WU	Transfer Majority Control
PSC-03-0318-FOF-WU	03/06/2003	020823-WU	Amendment
*	*	110311-WU	Transfer of Certificate

***Order Numbers and dates to be provided at time of issuance.**

Pinecrest Utilities, LLC
Water Net Book Value as of June 30, 2011

Description	Utility Proposed	Adjustment		Staff Recommended
Utility Plant in Service	\$195,895	\$ 5,924	A	\$ 201,819
Land	6,500			6,500
Accumulated Depreciation	(101,124)	(6,085)	B	(107,209)
Contributions in Aid of Construction (CIAC)	(100,352)			(100,352)
Accumulated Amortization of CIAC	<u>63,006</u>	<u>5,014</u>	C	<u>68,020</u>
Water Net Book Value	\$ 63,925	\$ 4,853		\$ 68,778

Explanation of Staff Recommended Adjustments to Water Net Book Value

Explanation	Amount
A Utility Plant in Service	
1. To record additional plant in UPIS.	\$ 5,924
B Accumulated Depreciation	
1. To add accumulated depreciation association with additional plant and correct accumulated depreciation based on guideline service lives in Rule 25-30.140, F.A.C.	(6,085)
C Accumulated amortization of CIAC	
1. To correct accumulated amortization based on composite rate.	<u>5,014</u>
Total Adjustments to Net Book Value as of June 30, 2010	\$ 4,853

Staff Recommended Water Account Balances as of June 30, 2011

Account	Description	UPIS	Accumulated Depreciation
304	Structures & Improvements	\$ 5,753	\$ 4,587
307	Wells & Springs	24,869	8,398
309	Supply Mains	2,840	2,043
311	Pumping Equipment	11,192	9,363
320	Water Treatment Equipment	630	1,215
330	Distribution Reservoirs	11,448	8,672
331	Transmission & Distribution Mains	100,736	49,634
333	Services	15,363	9,784
334	Meters and Meter Installations	20,544	10,179
335	Hydrants	<u>8,444</u>	<u>3,334</u>
Total		\$201,819	\$107,209

Pinecrest Utilities, LLC

**Monthly Water Service Rates
Residential and General Service**

Base Facility Charges

5/8" x 3/4"	\$ 14.14
3/4"	21.21
1"	35.35
1-1/2"	70.70
2"	113.12
3"	226.24
4"	353.50
6"	707.00
Charge per 1,000 gallon	\$ 4.26

**Water Service Availability Charges
Residential and General Service**

Customer Connection (Tap-in) Charge	\$350.00
Meter Installation Charge -- 5/8" x 3/4" Meter	\$153.00

Water Miscellaneous Service Charges

Initial Connection Charge	\$ 15.00
Normal Reconnection Charge	\$ 15.00
Violation Reconnection Charge	\$ 15.00
Premises Visit Charge (in lieu of disconnection)	\$ 10.00
Late Payment Charge	\$ 5.50
Lock Tampering	\$ 50.00