

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Lewis, Knoblauch, Graves) ^{CKL EK}
Division of Accounting and Finance (Sewards, Bennett, Norris) ^{R9}
Division of Economics (Bruce, Hudson) ^{WMB}
Office of the General Counsel (Crawford) ^{ED 92H}

Handwritten notes: TRB ALM, B2

RE: Docket No. 20180174-WU – Application to transfer facilities and Certificate No. 627-W in Polk County from Sunrise Utilities, LLC to Sunrise Water, LLC.

AGENDA: 07/09/19 – Regular Agenda – Proposed Agency Action for Issue 2 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: Place before 20180175-WU (Alturas Utilities L.L.C.) on the Agenda.

Case Background

On September 14, 2018, an application was filed to transfer the operations of Sunrise Utilities, LLC (Sunrise Utilities or Utility) to Sunrise Water, LLC (Buyer).¹ Sunrise Utilities is a Class C utility providing water service to approximately 251 residential customers and 1 general service customer in Polk County.² The service territory is located in the Southwest Florida Water Management District.

¹A single purchase agreement affected the purchase of two separately certificated utilities, both located in Polk County. The transfer of Alturas Utilities, L.L.C., is addressed in Docket No. 20180175-WU.

²2018 Annual Report on file with the Commission, p. 18.

The Commission granted a grandfather certificate to the Utility in 1997 originally in the name of Sunrise Water Company.³ Sunrise Water Company was transferred to Keen Sales, Rentals and Utilities, Inc., in 1992, which was approved in 2000.⁴ Sunrise Utilities acquired a portion of Keen's service territory in 2005 when the Commission granted the transfer.⁵ According to the Utility's 2018 Annual Report, its total gross revenues were \$69,535, total operating expenses were \$89,414, and interest expenses were \$1,636, resulting in a net loss of \$21,513.

By Order No. PSC-16-0126-PAA-WU, issued March 28, 2016, in Docket No. 20140220-WU, the Commission established rates and charges for Sunrise Utilities. The Commission additionally ordered Sunrise Utilities to complete customer deposit refunds following the issuance of that Order. By letter dated May 29, 2019, the Buyer provided evidence that the appropriate amount of customer deposits were refunded.

This recommendation addresses the application to transfer facilities and Certificate No. 627-W filed on September 14, 2018, the appropriate net book value for transfer purposes, and whether an acquisition adjustment is appropriate. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

³Order No. PSC-97-0832-FOF-WU, issued July 11, 1997, in Docket No. 19961249-WU, *In re: Application for grandfather certificate to provide water service in Polk County by Sunrise Water Company, Inc.*

⁴Order No. PSC-00-1388-PAA-WU, issued July 31, 2000, in Docket No. 19990731-WU, *In re: Application for transfer of water facilities from Sunrise Water Company, Inc., holder of Certificate No. 584-W, to Keen Sales, Rentals and Utilities, Inc., holder of Certificate No. 582-W, in Polk County, for cancellation of Certificate No. 584-W, and for amendment of Certificate No. 582-W to include additional territory.*

⁵Order No. PSC-05-0308-PAA-WU, issued March 21, 2005, in Docket No. 20040159-WU, *In re: Application for transfer of portion of Certificate No. 582 -W by Keen Sales, Rentals and Utilities, Inc., to Sunrise Utilities, LLC, in Polk County.*

Discussion of Issues

Issue 1: Should the application for transfer of Certificate No. 627-W in Polk County from Sunrise Utilities, LLC to Sunrise Water, LLC be approved?

Recommendation: Yes. The transfer of the water system and Certificate No. 627-W is in the public interest and should be approved effective the date of the Commission's vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475, Florida Administrative Code (F.A.C.). The Buyer will be responsible for paying Regulatory Assessment Fees (RAFs) for 2019 and all subsequent years. The Buyer has filed the 2018 Annual Report, and will be responsible for filing all future annual reports. (Lewis, Knoblauch, Bennett)

Staff Analysis: On September 14, 2018, the Buyer filed an application for the transfer of Certificate No. 627-W from Sunrise Utilities, LLC to Sunrise Water, LLC in Polk County. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The sale to Sunrise Water, LLC occurred on June 15, 2018, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

Noticing, Territory, and Land Ownership

The Buyer provided notice of the application pursuant to Section 367.071, F.S., and Rule 25-30.030, F.A.C. No objections to the transfer were filed, and the time for doing so has expired. The application contains a description of the water service territory which is appended to this recommendation as Attachment A. The application contains a copy of a warranty deed agreement that was executed on June 15, 2018, as evidence that the Buyer owns or has rights to long-term use of the land upon which the water treatment facilities are located pursuant to Rule 25-30.037(2)(s), F.A.C.

Purchase Agreement and Financing

Pursuant to Rule 25-30.037(2)(i), and (j), F.A.C., the application contains a statement regarding financing and a copy of the Purchase Agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. The Buyer stated in the application that he assumes responsibility for all customer deposits. There are no guaranteed revenue contracts, developer agreements, leases, or debt of the Utility that must be disposed of with regard to the transfer. The Purchase Agreement was prepared for the sale of Alturas Utilities, L.L.C. and Sunrise Utilities, LLC for a total purchase price of \$89,900. Based upon Equivalent Residential Connections, the allocated portion of the purchase price for Sunrise Utilities is \$71,111. According to the Buyer, the sale took place on June 15, 2018, subject to Commission approval, pursuant to Section 367.071(1), F.S.

Facility Description and Compliance

The water treatment system consists of two wells with two hydropneumatic tanks rated at 3,000 and 6,000 gallons, and utilizes a chlorination process for disinfection. The distribution system consists of varying sizes of 2- to 6-inch polyvinyl chloride (PVC) and galvanized iron pipes.

The last sanitary survey of the facility was conducted on July 31, 2018, by the Florida Department of Environmental Protection (DEP), which identified a variety of deficiencies. Additionally, Sunrise Utilities has several open consent orders with the Polk County Department of Health (PCDH). Pursuant to Rule 25-30.037(2)(q), F.A.C., the Buyer provided a description of the required repairs and improvements, as well as an approximate cost, but stated that the Utility is still in the process of seeking bids. Additionally, the Buyer has provided documentation which demonstrates that he is working with the PCDH and the DEP to address the issues outlined in the open consent orders.

Technical and Financial Ability

Pursuant to Rule 25-30.037(2), F.A.C., the application contains statements and documentation describing the technical and financial ability of the Buyer to provide service to the proposed service area. The Buyer was appointed to the Citrus County Water and Wastewater Authority, the local regulatory body for Citrus County, where he served for seven years. The Buyer also served as the “Class C” representative for the Legislative Study Committee for Investor-Owned Water and Wastewater Utility Systems in 2013. He attends yearly training classes through the Florida Rural Water Association and completed the National Association of Regulatory Utility Commissioners Utility Rate School in 2001. The Buyer is the owner and manager of several Class C water and wastewater facilities that are regulated by the Commission. Staff reviewed the personal financial statements of the Buyer, as well as the financial statements of the Buyer’s company, Florida Utility Services 1, LLC. Based on the above, the Buyer has demonstrated the technical and financial ability to provide service to the existing service territory.

Rates and Charges

The Utility’s rates were last approved in a staff-assisted rate case.⁶ The Utility’s late payment charge was approved administratively in 2010.⁷ The Utility’s miscellaneous service charges and service availability charges were approved in 2005.⁸ 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 remain in effect until a change is authorized by the Commission in a subsequent proceeding.

Regulatory Assessment Fees and Annual Reports

Staff has verified that the Utility is current with respect to annual reports and RAFs through December 31, 2018. The Buyer will be responsible for filing annual reports and paying RAFs for 2019 and all future years.

⁶Order No. PSC-16-0126-PAA-WU, issued March 28, 2016, in Docket No. 20140220-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, L.L.C.*

⁷WS-10-0099.

⁸Order No. PSC-05-0308-PAA-WU, issued March 21, 2005, in Docket No. 20040159-WU, *In re: Application for transfer of portion of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Sunrise Utilities, LLC, in Polk County.*

Conclusion

Based on the foregoing, staff recommends that the transfer of the water system and Certificate No. 627-W is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475, F.A.C. The Buyer will be responsible for paying all future RAFs and filing all future annual reports.

Issue 2: What is the appropriate net book value (NBV) for the Sunrise Utilities water system for transfer purposes and should an acquisition adjustment be approved?

Recommendation: The NBV of the water system for transfer purposes is \$24,258 as of June 15, 2018. An acquisition adjustment should not be included in rate base. Within 90 days of the date of the final order, Sunrise Water, LLC should be required to notify the Commission in writing, that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in the 2019 Annual Report. (Bennett, Sowards)

Staff Analysis: Rate base was last established as of December 31, 2014. The purpose of establishing NBV for transfers is to determine whether an acquisition adjustment should be approved. The NBV does not include normal ratemaking adjustments for non-used and useful plant and working capital. The NBV has been updated to reflect balances as of June 15, 2018. Staff's recommended NBV, as described below, is shown on Schedule No. 1.

Utility Plant in Service (UPIS)

The Utility's general ledger reflected UPIS balance of \$109,300 as of December 31, 2014. There were no adjustments to UPIS. Therefore, staff recommends that the Utility's UPIS balance be \$109,300 as of June 15, 2018.

Land

In Order No. PSC-16-0126-PAA-WU, issued March 28, 2016, in Docket No. 20140220-WU, the Commission established the value of the land to be \$553. The Utility's general ledger reflected a land balance of \$553. There have been no additions to land purchased since that order was issued. Therefore, staff recommends a land balance of \$553, as of June 15, 2018.

Accumulated Depreciation

The Utility's general ledger reflected an accumulated depreciation balance of \$86,449 as of June 15, 2018. Staff calculated the appropriate accumulated depreciation balance to be \$85,597. As a result, accumulated depreciation should be decreased by \$852 to reflect an accumulated depreciation balance of \$85,597 as of June 15, 2018.

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

As of June 15, 2018, the Utility's general ledger reflected a fully amortized CIAC balance of \$12,393. Staff reviewed CIAC balances and has no adjustments; however, staff notes that no CIAC activity was recorded in the Utility's annual reports. Therefore, staff recommends a CIAC balance of \$12,393, and an accumulated amortization CIAC balance of \$12,393 as of June 15, 2018. Additionally, staff recommends that the balances of CIAC and accumulated amortization of CIAC, should be reflected in the 2019 Annual Report and all future years.

Net Book Value

The Utility's general ledger reflected a NBV of \$23,404. Based on the adjustments described above, staff recommends that NBV for the Utility's system be \$24,258 as of June 15, 2018. Staff's recommended NBV and the National Association of Regulatory Utility Commissioners, Uniform System of Accounts balances for UPIS and accumulated depreciation are shown on Schedule No. 1, as of June 15, 2018.

Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of the acquisition. The Utility and its assets were purchased for \$71,111. As stated above, staff recommends the appropriate NBV total to be \$24,258. Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment may be appropriate when the purchase price is greater than the NBV, and a negative acquisition adjustment may be appropriate when the purchase price is less than NBV. However, 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. As such, staff recommends that no positive acquisition adjustment be approved.

Conclusion

Based on the above, staff recommends that the NBV of Sunrise Utilities for transfer purposes is \$24,258, as of June 15, 2018. No acquisition adjustment should be included in rate base. Within 90 days of the date of the final order, the Buyer should be required to notify the Commission in writing that it has adjusted its book in accordance with the Commission's decision. The adjustments should be reflected in the Sunrise Water, LLC 2019 Annual Report.

Issue 3: Should this docket be closed?

Recommendation: If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed and the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision. (Crawford)

Staff Analysis: If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed and the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision.

TERRITORY DESCRIPTION
Sunrise Water, LLC
Polk County
Water Service

Township 28 South, Range 25 East, Section 21

Serving an area generally known as Sunrise Acres Subdivision, an unrecorded subdivision known as Pinewood, and an unrecorded mobile home village. More particularly described as:

From the Northwest corner of Section 21, also the Point of Beginning, run due East (along the South line of Section 16 and the North line of Section 21) for a distance of 2618.23 feet, more or less; thence, due South a distance of 1313 feet, more or less; thence due West a distance of 1455.20 feet, more or less; thence due South a distance of 235 feet, more or less; thence due West a distance of 405 feet, more or less; thence due South a distance of 1063 feet, more or less; thence due West a distance of 420.71 feet, more or less; thence due North a distance of 695 feet, more or less; thence due West a distance of 340 feet, more or less, to the West line of Section 21; thence due North a distance of 1922.35 feet, more or less, to the Point of Beginning.

**FLORIDA PUBLIC SERVICE COMMISSION
authorizes
Sunrise Water, LLC
pursuant to
Certificate Number 627-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-97-0832-FOF-WU	07/11/1997	19961249-WU	Grandfather
PSC-00-1388-PAA-WU	07/31/2000	19990731-WU	Transfer
PSC-05-0308-PAA-WU	03/21/2005	20040159-WU	Partial Transfer and Issuance of Certificate 627-W
*	*	20180174-WU	Transfer

***Order Number and date to be provided at time of issuance**

Sunrise Water, LLC
Schedule of Net Book Value as of June 15, 2018

<u>Description</u>	<u>Balance Per</u> <u>Utility</u>	<u>Adjustments</u>	<u>Staff</u> <u>Recommendation</u>
Utility Plant in Service	\$109,300	\$0	\$109,300
Land & Land Rights	553	0	553
Accumulated Depreciation	(86,449)	852	(85,597)
CIAC	0	(12,393)	(12,393)
Amortization of CIAC	<u>0</u>	<u>12,393</u>	<u>12,393</u>
Total	<u>\$23,404</u>	<u>\$852</u>	<u>\$24,258</u>

**Explanation of Staff's Recommended
Adjustments to Net Book Value as of June 15, 2018**

Explanation

Accumulated Depreciation

To reflect appropriate amount of accumulated depreciation. \$852

Contributions-In-Aid-of-Construction (CIAC)

To reflect appropriate amount of CIAC. (\$12,393)

Accumulated Amortization of CIAC

To reflect appropriate amount of accumulated amortization of CIAC. \$12,393

Total Adjustments to Net Book Value as of June 15, 2018

\$852

Sunrise Water, LLC
Schedule of Staff Recommended Account Balances as of June 15, 2018

<u>Account</u>			<u>Accumulated</u>
<u>No.</u>	<u>Description</u>	<u>UPIS</u>	<u>Depreciation</u>
301	Organization	\$750	(\$350)
304	Structures & Improvements	5,412	(4,100)
307	Wells & Springs	16,972	(16,845)
309	Supply Mains	649	202
310	Power Generation Equipment	15,070	(10,165)
311	Pumping Equipment	17,376	(7,871)
320	Water Treatment Equipment	4,055	(4,055)
330	Distribution Reservoirs	21,484	(18,152)
331	Transmission & Distribution Mains	12,393	(9,379)
334	Meters & Meter Install	12,257	(12,257)
340	Office Furniture and Equipment	494	(237)
348	Other Tangible Plant	<u>2,388</u>	<u>(2,388)</u>
	Total	<u>\$109,300</u>	<u>(\$85,597)</u>

**Sunrise Utilities, LLC
Monthly Water Rates**

Residential and General Service

Base Facility Charge by Meter Size

5/8" x 3/4"	\$10.01
3/4"	\$15.02
1"	\$25.03
1 1/2"	\$50.05
2"	\$80.08
3"	\$160.16
4"	\$250.25
6"	\$500.50

Charge Per 1,000 gallons - Residential

0-5,000 gallons	\$3.19
5,001-10,000 gallons	\$3.51
Over 10,000 gallons	\$7.01

Charge Per 1,000 gallons - General

\$3.63

Initial Customer Deposits

Residential Service and General Service

5/8" x 3/4" – Residential and General	\$52.00
Over 5/8" x 3/4" – General	2 times average estimated bill

Miscellaneous Service Charges

	<u>Business Hours</u>
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	\$7.00

Service Availability Charges

System Capacity Charge Residential – per ERC	\$450.00
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