

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: February 18, 2021

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Norris, Sowards) **ALM**
Office of the General Counsel (Lherisson, J. Crawford) **JSC**

RE: Docket No. 20190170-WS – Application for transfer of facilities and Certificate Nos. 259-W and 199-S in Broward County from Royal Utility Company to Royal Waterworks, Inc.

AGENDA: 03/02/21 – Regular Agenda – Proposed Agency Action – Reconsideration requested on the Commission’s own motion – Participation is at the Commission’s discretion

COMMISSIONERS ASSIGNED: Clark, Graham, Brown, Fay

PREHEARING OFFICER: Clark

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On August 29, 2018, Royal Waterworks, Inc. (Royal or Utility) filed an application for transfer of Certificate Nos. 259-W and 199-S from Royal Utility Company. The Commission approved the transfer in Order No. PSC-2020-0458-PAA-WS, issued November 23, 2020, and consummated by Order No. PSC-2020-0506-CO-WS, issued December 18, 2020. Following the issuance of the Consummating Order, an error was discovered regarding the calculation of the utility plant in service (UPIS) balances and the resulting net book value (NBV).

This recommendation addresses whether reconsideration is appropriate to correct the UPIS balances and the resulting NBV. The Commission has jurisdiction pursuant to Sections 367.071, 367.091, and 367.121, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission reconsider its decision made in Order No. PSC-2020-0458-PAA-WS, regarding the utility plant in service balances and the calculation of net book value?

Recommendation: Yes. The Commission should reconsider its decision with respect to the UPIS balances and the calculation of NBV. The correct UPIS balances of the water and wastewater systems are \$3,313,569 and \$1,873,194, respectively, as of July 1, 2019. The NBV of the water and wastewater systems are \$867,332 and \$467,593, respectively, as of July 1, 2019. Royal 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 2020 Annual Report when filed. (Sewards)

Staff Analysis:

Standard of Review

The appropriate standard of review for reconsideration is whether a point of fact or law was overlooked or that the Commission failed to consider in rendering its Order. *Stewart Bonded Warehouse, Inc. v. Bevis*, 294 So. 2d 315 (Fla. 1974); *Diamond Cab Co. v. King*, 146 So. 2d 889 (Fla. 1962); and *Pingree v. Quaintance*, 394 So. 2d 161 (Fla. 1st DCA 1981).

The doctrine of administrative finality provides that there must be a terminal point in every proceeding both administrative and judicial, at which the parties and the public may rely on a decision as being final and dispositive of the rights and issues involved therein. A decision, once final, may only be modified if there is a significant change in circumstances or if modification is required in the public interest. *Florida Power Corp. v. Garcia*, 780 So. 2d 34 (Fla. 2001); *Peoples Gas System, Inc. v. Mason*, 187 So. 2d 335 (Fla. 1966).

However, the Florida Supreme Court has also found that the Commission has the inherent power and the statutory duty to correct errors in its orders to protect the interests of the public. *Reedy Creek Utilities Co. v. FPSC*, 418 So. 2d 249 (Fla. 1982). For example, in *Reedy Creek*, the Court affirmed that the Commission correctly amended an erroneous order, two and half months after its issuance, where the appellant "did not change its position during the lapse of time between orders, and suffered no prejudice as a consequence." *Reedy Creek*, 418 So.2d at 254; *see also Peoples Gas System, Inc. v. Mason*, 187 So. 2d 335 (Fla. 1966) ("We have no doubt that such powers [to regulate public utilities] may, in proper instances, be exercised on the initiative of the commission.").

Analysis

By Order No. PSC-2020-0458-PAA-WS, issued November 23, 2020, the Commission approved the transfer of the water and wastewater certificates to Royal. After the Consummating Order had been issued, staff was notified by the Utility that it was unable to reconcile the Commission ordered adjustments to the total UPIS balances. Upon further review, staff discovered a calculation error was made in its October 22, 2020 recommendation, resulting in an overstated UPIS balance, as well as an overstated NBV.

The Commission approved water and wastewater UPIS balances of \$3,389,692 and \$1,944,996, respectively. However, staff inadvertently included the water and wastewater land balances of \$76,123 and \$71,802, respectively, in its calculation of UPIS. As a result, the UPIS balances were overstated. Correction of this calculation error results in water and wastewater UPIS balances of \$3,313,569 and \$1,873,194, respectively. The correct UPIS balances are shown in Schedule No. 1, with the correct amounts bolded and highlighted.

The Commission approved a water and wastewater system NBV of \$943,455 and \$539,395, respectively. Staff's calculation of NBV is comprised of UPIS, land and land rights, accumulated depreciation, contributions in aid of construction (CIAC), and accumulated amortization of CIAC. As discussed above, the land balances were inadvertently included in the UPIS balances, as well as the land and land rights balances. This resulted in a doubling of the land amounts and an overstatement of the NBVs of both the water and wastewater systems. Correction of this calculation error results in a water and wastewater system NBV of \$867,332 and \$467,593, respectively. The correct NBV shown in Schedule No. 1, with the correct amounts bolded and highlighted.

Staff notes that the changes in the UPIS balances and NBV have no effect on the Commission's other decisions reached in Order No. PSC-2020-0458-PAA-WS.

Conclusion

Staff recommends that the Commission should reconsider on its own motion its vote at the November 3, 2020 Agenda Conference, with respect to the UPIS balances and the calculation of NBV. Staff recommends that the correct UPIS balances of the water and wastewater systems are \$3,313,569 and \$1,873,194, respectively, as of July 1, 2019. The NBV of the water and wastewater systems are \$867,332 and \$467,593, respectively, as of July 1, 2019. Royal 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 2020 Annual Report when filed.

Issue 2: Should this docket be closed?

Recommendation: Yes. 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 after the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision. (Lherisson)

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 after the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision.

**Royal Waterworks, Inc.
 Schedule of Net Book Value as of July 1, 2019**

Water System

<u>Description</u>	<u>Balance Per Utility</u>	<u>Adjustments</u>	<u>Staff Recommended</u>
Utility Plant In Service	\$3,187,937	\$125,632	\$3,313,569
Land & Land Rights	76,123	0	76,123
Accumulated Depreciation	(2,437,158)	(49,202)	(2,522,360)
CIAC	(571,643)	0	(571,643)
Amortization of CIAC	<u>579,047</u>	<u>(7,404)</u>	<u>571,643</u>
Total	<u>\$798,306</u>	<u>\$69,026</u>	<u>\$867,332</u>

Wastewater System

<u>Description</u>	<u>Balance Per Utility</u>	<u>Adjustments</u>	<u>Staff Recommended</u>
Utility Plant In Service	\$1,814,757	\$58,437	\$1,873,194
Land & Land Rights	71,802	0	71,802
Accumulated Depreciation	(1,471,604)	(5,799)	(1,477,403)
CIAC	(238,921)	0	(238,921)
Amortization of CIAC	<u>206,294</u>	<u>32,627</u>	<u>238,921</u>
Total	<u>\$382,328</u>	<u>\$85,265</u>	<u>\$467,593</u>

**Explanation of Staff's Recommended Adjustments
To Net Book Value as of July 1, 2019**

<u>Explanation</u>	<u>Water</u>	<u>Wastewater</u>
Utility Plant in Service To reflect the appropriate amount of utility plant in service	<u>\$125,632</u>	<u>\$58,437</u>
Accumulated Depreciation To reflect the appropriate amount of accumulated depreciation	<u>(\$49,202)</u>	<u>(\$5,799)</u>
Amortization of CIAC To reflect the appropriate amount of amortization of CIAC	<u>(\$7,404)</u>	<u>\$32,627</u>
Total Adjustments	<u>\$69,026</u>	<u>\$85,265</u>

Royal Waterworks, Inc.
Schedule of Staff's Recommended Account Balances as of July 1, 2019
Water System

Account			UPIS	Accumulated
<u>No.</u>	<u>Description</u>			<u>Depreciation</u>
302	Franchises		\$713	(\$494)
304	Structure and Improvements		542,157	(404,877)
307	Wells and Springs		23,683	(23,683)
309	Supply Mains		48,267	(48,267)
310	Power Generation Equipment		11,948	(7,169)
311	Pumping Equipment		735,632	(728,171)
320	Water Treatment Equipment		224,484	(55,242)
330	Distribution Reservoirs and Standpipes		9,100	(9,100)
331	Transmission and Distribution Mains		974,103	(569,917)
333	Services		168,098	(131,089)
334	Meters and Meter Installations		335,937	(339,645)
335	Hydrants		68,439	(47,249)
339	Other Plant / Misc Equipment		60,527	(46,978)
340	Office Furniture and Equipment		11,693	(11,692)
341	Transportation Equipment		13,029	(13,029)
343	Tools, Shop and Garage Equipment		10,370	(10,370)
344	Laboratory Equipment		5,856	(5,856)
347	Misc Equipment		25,650	(25,650)
348	Other Tangible Plant		<u>43,883</u>	<u>(43,883)</u>
	Total		<u>\$3,313,569</u>	<u>\$2,522,360</u>

Royal Waterworks, Inc.
Schedule of Staff's Recommended Account Balances as of July 1, 2019
Wastewater System

Account			Accumulated
<u>No.</u>	<u>Description</u>	<u>UPIS</u>	<u>Depreciation</u>
354	Structure and Improvements	\$145,709	\$103,668
355	Power Generation Equipment	37,368	18,987
360	Collection Sewers-Force	120,328	120,328
361	Collection Sewers-Gravity	1,007,571	728,031
364	Flow Measuring Devices	81,227	81,227
371	Pumping Equipment	273,926	221,187
389	Other Plant/Misc Equipment	121,758	121,758
390	Office Furniture & Equipment	11,276	11,276
391	Transportation Equipment	13,029	13,029
393	Tools, Shop, and Garage Equipment	22,947	22,947
394	Laboratory Equipment	26,858	23,768
398	Other Tangible Plant	11,197	11,197
	Total	<u>\$1,873,194</u>	<u>\$1,477,403</u>