

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 20, 2023

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (M. Watts, Ramos) *TB*
Division of Accounting and Finance (Sewards, Thurmond) *ALM*
Division of Economics (Bethea, Hudson) *CP*
Office of the General Counsel (Thompson, J. Crawford) *JSC*

RE: Docket No. 20220062-WS – Application for transfer of water and wastewater facilities of C.F.A.T. H2O, Inc., water Certificate No. 552-W, and wastewater Certificate No. 481-S to CSWR-Florida Utility Operating Company, LLC, in Marion County.

AGENDA: 08/01/23 – Regular Agenda – Proposed Agency Action for Issues 2, 3, and 4 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: La Rosa

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: Schedule immediately after Docket No. 20220061-SU

Case Background

C.F.A.T. H2O, Inc. (CFAT, Utility, or Seller) is a Class C water and wastewater utility operating in Marion County. CFAT provides service to approximately 239 water customers and 248 wastewater customers. The Utility is in the St. Johns River Water Management District (SJRWMD). The SJRWMD has year-round watering restrictions in place for the portion of Marion County within its district. In its 2022 Annual Report, CFAT reported net operating

income of \$75,392 for water and \$96,367 for wastewater. The Utility's last rate case was in 2011.¹

In 1994, the Florida Public Service Commission (Commission) approved the transfer of water and wastewater Certificate Nos. 552-W and 481-S from The Resolution Trust Corporation to CFAT.² The Commission subsequently granted a transfer of majority organizational control.³

On March 15, 2022, CSWR-Florida Utility Operating Company, LLC (CSWR-CFAT or Buyer) filed an application with the Commission for the transfer of Certificate Nos. 552-W and 481-S from CFAT to CSWR-CFAT in Marion County. The application was found to be deficient. The Buyer cured the deficiencies on May 1, 2023. The sale will close after the Commission votes to approve the transfer. In its application, the Buyer has requested a positive acquisition adjustment, which is discussed in Issue 3. The Office of Public Counsel's (OPC) intervention was acknowledged by Order No. PSC-2022-0126-PCO-WS, issued March 24, 2022.

This recommendation addresses the transfer of the water and wastewater systems and Certificate Nos. 552-W and 481-S, the appropriate net book value of the water and wastewater systems for transfer purposes, and the request for an acquisition adjustment. The Commission has jurisdiction pursuant to Sections 367.071 and 367.081, Florida Statutes (F.S.).

¹Order No. PSC-11-0366-PAA-WU, issued August 31, 2011, in Docket No. 20100126-WU, *In re: Application for increase in water rates in Marion County by C.F.A.T. H2O, Inc.*

²Order No. PSC-94-0701-FOF-WS, issued June 8, 1994, in Docket No. 931080-WS, *In re: Application for transfer of Certificate Nos. 552-W and 481-S in Marion County from The Resolution Trust Corporation to C.F.A.T. H2O, Inc. in Marion County.*

³Order No. PSC-06-0593-FOF-WS, issued July 7, 2006, in Docket No. 20060028-WS, *In re: Application for transfer of majority organizational control of C.F.A.T. H2O, Inc., holder of Certificates 552-W and 481-S in Marion County, from Ronald Chase to Floyd and Eugenia Segarra and Charles deMenzes.*

Discussion of Issues

Issue 1: Should the transfer of Certificate Nos. 552-W and 481-S in Marion County from C.F.A.T. H2O, Inc. to CSWR-Florida Utility Operating Company, LLC be approved?

Recommendation: Yes. The transfer of the water and wastewater systems and Certificate Nos. 552-W and 481-S is in the public interest and should be approved effective the date that the sale becomes final. The resultant Order should serve as the Buyer's certificate and should be retained by the Buyer. The Buyer should submit the executed and recorded deed for continued access to the land upon which its facilities are located, copies of its permit transfer application, and a copy of its signed and executed contract for sale to the Commission within 60 days of the Order approving the transfer, which is final agency action. If the sale is not finalized within 60 days of the transfer Order, the Buyer should file a status update in the docket file. The Utility's existing rates, service availability charges, and initial customer deposits, as shown on Schedule No. 7, 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.). The Seller is current with respect to annual reports and regulatory assessment fees (RAFs) through December 31, 2022. The Buyer should be responsible for filing annual reports and paying RAFs for all future years. (M. Watts, Thurmond, Bethea)

Staff Analysis: On March 15, 2022, CSWR-CFAT filed an application for the transfer of Certificate Nos. 552-W and 481-S from CFAT to CSWR-CFAT in Marion County. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The sale to CSWR-CFAT will become final after Commission approval of the transfer, pursuant to Section 367.071(1), F.S.

Noticing, Territory, and Land Ownership

CSWR-CFAT 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 service territory, which is appended to this recommendation as Attachment A. In its application, CSWR-CFAT provided a copy of an unrecorded warranty deed as evidence that the Buyer will have rights to long-term use of the land upon which the treatment facilities are located pursuant to Rule 25-30.037(2)(s), F.A.C. CSWR-CFAT committed to providing the executed and recorded deed to the Commission within 60 days after the closing of the sale.

Purchase Agreement and Financing

Pursuant to Rule 25-30.037(2)(g), (h), and (i), 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. There are no guaranteed revenue contracts or customer advances of CFAT that must be disposed of with regard to the transfer. CSWR-CFAT will review all leases and developer agreements and will assume or renegotiate those agreements on a case-by-case basis prior to closing. Any customer deposits will be refunded to customers by the Seller prior to the closing. According to the purchase and sale agreement, the total purchase price for the assets is \$1,440,000. According to the Buyer, the closing has not yet

taken place and is dependent on Commission approval of the transfer, pursuant to Section 367.071(1), F.S.

Facility Description and Compliance

CFAT's water system includes a water treatment plant (WTP) composed of two wells, a hypochlorination system for disinfection, a 200,000 gallon ground storage tank, and a hydropneumatic/flow tank. The wells are each rated at 250 gallons per minute. The water distribution system extends throughout the service area. CSWR-CFAT provided a copy of the Utility's current consumptive use permit (CUP) from the SJRWMD. The Buyer committed to providing a copy of its CUP transfer application, reflecting the change in ownership, to the Commission within 60 days of the contract for sale.

CFAT's wastewater treatment plant (WWTP) is a 0.99 million gallons per day annual average daily flow extended aeration treatment plant consisting of aeration, secondary clarification, chlorination, and aerobic digestion of biosolids. The effluent is discharged into a reuse system consisting of a lined holding pond and two rapid infiltration basins.

Staff reviewed the most recent Florida Department of Environmental Protection (DEP) sanitary survey for the WTP and compliance evaluation inspection (CEI) for the WWTP. The DEP's May 22, 2020, sanitary survey found no deficiencies. Staff also reviewed the results from its August 3, 2021, water quality tests, including the secondary contaminants water quality test. All results were below the DEP's maximum contaminant levels for each contaminant.

During the DEP's November 16, 2021, CEI, the DEP found several violations primarily related to past-due actions, missing on-site documents, and a leaking component. The Utility resolved these issues and the DEP closed out the CEI in August 2022. The CEI noted that the Utility was under a consent order from its previous CEI, conducted on February 16, 2021, and that CFAT continued to have problems with items listed in the consent order, namely effluent exceedances and solids buildup in the holding pond.⁴ As of July 11, 2023, the Utility has not completed all of the requirements of the consent order.

Technical and Financial Ability

Pursuant to Rule 25-30.037(2)(l) and (m), F.A.C., the application contains statements describing the technical and financial ability of the Buyer to provide service to the proposed service area. As referenced in the transfer application, the Buyer will fulfill the commitments, obligations, and representations of the Seller with regards to utility matters. CSWR-CFAT's application states that it owns and operates water and wastewater systems in Missouri, Arkansas, Kentucky, Louisiana, Texas, Mississippi, Arizona, North Carolina, and Tennessee that currently serve more

⁴OGC No. 21-0360.

than 73,000 water and 117,000 wastewater customers. The Commission has also approved CSWR's purchase of five Florida certificated utilities in prior dockets.⁵

The Buyer plans to use qualified and licensed contractors to provide routine operation and maintenance (O&M) of the systems, as well as to handle billing and customer service. Staff reviewed the financial statements of CSWR-CFAT and believes the Buyer has documented adequate resources to support the Utility's wastewater operations. Based on the above, the Buyer has demonstrated the technical and financial ability to provide service to the existing service territory.

Rates and Charges

CFAT's rates, miscellaneous service charges, and initial customer deposits were last approved in a 2011 staff assisted rate case.⁶ CFAT had a rate decrease to remove expired rate case expense amortization in 2015. Subsequently, the rates have been amended by seven price index rate adjustments with the last one being in 2022. The Utility's service availability charges were last approved in a 1993 transfer of certificate.⁷ Initial customer deposits were approved administratively in 2011. 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. However, the miscellaneous service charges do not conform to Rule 25-30.460, F.A.C., and are discussed in Issue 4. Therefore, staff recommends that the Utility's existing rates, service availability charges, and initial customer deposits as shown on Schedule No. 7, should remain in effect, until a change is authorized by this 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), F.A.C.

Regulatory Assessment Fees and Annual Report

Staff has verified that the Utility is current on the filing of annual reports and RAFs through December 31, 2022. The Buyer should be responsible for filing the Utility's annual reports and paying RAFs for all future years.

⁵See Order No. PSC-2022-0115-PAA-WS, issued March 15, 2022, in Docket No. 20210093-WS, *In re: Application for transfer of water and wastewater systems of Aquarina Utilities, Inc.*, water Certificate No. 517-W, and wastewater Certificate No. 450-S to CSWR-Florida Utility Operating Company, LLC, in Brevard County; Order No. PSC-2022-0120-PAA-WU, issued March 18, 2022, in Docket No. 20210095-WU, *In re: Application for transfer of water facilities of Sunshine Utilities of Central Florida, Inc. and water Certificate No. 363-W to CSWR-Florida Utility Operating Company, LLC, in Marion County*; Order No. PSC-2022-0116-PAA-SU, issued March 17, 2022, in Docket No. 20210133-SU, *In re: Application for transfer of facilities of North Peninsula Utilities Corporation and wastewater Certificate No. 249-S to CSWR-Florida Utility Operating Company, LLC, in Volusia County*; Order No. PSC-2022-0364-PAA-WU, issued October 25, 2022, in Docket No. 20220019-WU, *In re: Application for transfer of water facilities of Neighborhood Utilities, Inc. and water Certificate No. 430-W to CSWR-Florida Utility Operating Company, LLC, in Duval County*; Docket No. 20220149-SU, *In re: Application for transfer of wastewater Certificate No. 365-S of Sebring Ridge Utilities, Inc. to CSWR-Florida Utility Operating Company, LLC, in Highlands County* (the Commission approved the transfer of this system at the July 11, 2023 Commission Conference; an order is forthcoming).

⁶Order No. PSC-11-0366-PAA-WS, issued August 31, 2011, in Docket No. 20100126-WU, *In re: Application for increase in water rates in Marion County by C.F.A.T. H2O, Inc.*

⁷Order No. PSC-94-0701-FOF-WS, issued June 8, 1994, in Docket No. 19931080-WS, *In re: Application for Transfer of Certificates Nos. 552-W and 481-S from the Resolution Trust Corporation to C.F.A.T. H2O, Inc. in Marion County.*

Conclusion

Based on the foregoing, staff recommends that the transfer of the water and wastewater systems and Certificate Nos. 552-W and 481-S is in the public interest and should be approved effective the date that the sale becomes final. The resultant Order should serve as the Buyer's certificate and should be retained by the Buyer. The Buyer should submit the executed and recorded deed for continued access to the land upon which its facilities are located, copies of its permit transfer application, and a copy of its signed and executed contract for sale to the Commission within 60 days of the Order approving the transfer, which is final agency action. If the sale is not finalized within 60 days of the transfer Order, the Buyer should file a status update in the docket file. The Utility's existing rates, service availability charges, and initial customer deposits, as shown on Schedule No. 7, 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), F.A.C. The Seller is current with respect to annual reports and RAFs through December 31, 2022. The Buyer should be responsible for filing annual reports and paying RAFs for all future years.

Issue 2: What is the appropriate net book value for CSWR-Florida Utility Operating Company LLC's water and wastewater system for transfer purposes?

Recommendation: For transfer purposes, the net book value (NBV) of the water and wastewater systems is \$228,698 and \$99,918, respectively, as of February 28, 2022. Within 90 days of the date of the Consummating Order, CSWR-CFAT 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 Utility's 2023 Annual Report when filed. (Thurmond)

Staff Analysis: Rate base for the water system was last established as of December 31, 2009.⁸ No rate proceeding has taken place for the wastewater system. The purpose of establishing NBV for transfers is to determine whether an acquisition adjustment should be approved. CSWR-CFAT's request for a positive acquisition adjustment is addressed in Issue 3. The NBV does not include normal ratemaking adjustments for used and useful plant or working capital. The Utility's NBV has been updated to reflect balances as of February 28, 2022.⁹ Staff's recommended NBV, as described below, is shown on Schedule Nos. 1 and 2.

Utility Plant in Service (UPIS)

According to the Utility's general ledger, the total UPIS balance for water and wastewater was \$594,332 and \$379,847, respectively, as of February 28, 2022. Staff auditors compiled the plant additions and retirements to UPIS from December 31, 2009, to February 28, 2022, and traced supporting documentation and analyzed utility annual reports and general ledgers. As a result, staff recommends decreases to UPIS of \$49,667 and \$179,616 for water and wastewater, respectively, as of February 28, 2022. Accordingly, staff recommends total UPIS balances of \$544,665 and \$200,231 for water and wastewater, respectively, as of February 28, 2022.

Land

The Utility's general ledger reflected land balances of \$19,500 and \$39,000 for water and wastewater, respectively, as of December 31, 2009. There have been no additions to land since December 31, 2009. Therefore, staff recommends no adjustments to its land balance.

Accumulated Depreciation

According to the Utility's general ledger, the total accumulated depreciation balances were \$405,657 and \$333,946, for water and wastewater, respectively, as of February 28, 2022. Staff auditors recalculated depreciation accruals using the depreciation rates established by Rule 25-30.140, F.A.C. As a result, staff recommends that the accumulated depreciation balance be decreased by \$80,623 and \$208,710 for water and wastewater, respectively, as of February 28, 2022. Accordingly, staff recommends total accumulated depreciation balances of \$325,034 and \$125,236 for water and wastewater respectively, as of February 28, 2022.

⁸Order No. PSC-11-0366-PAA-WU, issued August 31, 2011, in Docket No. 20100126-WU, *In re: Application for increase in water rates in Marion County by C.F.A.T. H2O, Inc.*

⁹Net book value is calculated through the date of the closing. According to the Utility's application, the closing will not occur until after the transaction receives Commission approval. Therefore, staff is relying on the most current information provided to staff auditors at the time of the filing.

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

According to the Utility's general ledger, the CIAC balances were \$132,796 and \$262,882 for water and wastewater, respectively, as of February 28, 2022. Accumulated amortization of CIAC balances were \$121,903 and \$244,230 for water and wastewater, respectively, as of February 28, 2022. Staff auditors recalculated CIAC and accumulated amortization of CIAC balances from December 31, 2009, to February 28, 2022, using supporting documentation, annual reports, and the utility general ledger. As a result, staff recommends that the water CIAC balance be decreased by \$7,863, as of February 28, 2022. Staff also recommends that the accumulated amortization of CIAC balances be decreased by \$7,403 for water and increased by \$4,575, for wastewater, as of February 28, 2022. Accordingly, staff recommends total CIAC balances of \$124,933 and \$262,882, for water and wastewater, respectively, as of February 28, 2022. Staff also recommends Accumulated Amortization of CIAC balances of \$114,500 and \$248,805 for water and wastewater, respectively, as of February 28, 2022.

Net Book Value

The Utility's general ledger reflected a NBV of \$197,282 and \$66,249 for water and wastewater, respectively, as of February 28, 2022. Based on the adjustments described above, staff recommends a NBV of \$228,698 and \$99,918 for water and wastewater, respectively, as of February 28, 2022. Staff's recommended NBV and the National Association of Regulatory Utility Commissioners, Uniform System of Accounts (NARUC USOA) balances for UPIS and accumulated depreciation are shown on Schedule Nos. 1 and 2 as of February 28, 2022. As addressed in Issue 3, staff recommends a positive acquisition adjustment not be recognized for ratemaking purposes.

Conclusion

Based on the above, staff recommends a NBV of \$228,698 and \$99,918 for water and wastewater, respectively, for a combined NBV of \$328,616, as of February 28, 2022, for transfer purposes. Within 90 days of the date of the Consummating Order, the Buyer 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 Utility's 2023 Annual Report when filed.

Issue 3: Should a positive acquisition adjustment be recognized for ratemaking purposes?

Recommendation: No. Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment should not be granted as the Buyer failed to demonstrate extraordinary circumstances. (Thurmond, M. Watts)

Staff Analysis: In its filing, the applicant requested a positive acquisition adjustment be included in the calculation of the Utility's rate base. An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of acquisition. Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment results when the purchase price is greater than the NBV and a negative acquisition adjustment results when the purchase price is less than the NBV. A positive acquisition adjustment, if approved, increases rate base.

According to the purchase agreement, the Buyer will purchase the Utility for \$1,440,000. As discussed in Issue 2, staff is recommending a combined NBV of \$328,616. This would result in a positive acquisition adjustment of \$1,111,384.

Any entity that believes a full or partial positive acquisition adjustment should be made has the burden to prove the existence of extraordinary circumstances. Rule 25-30.0371(2), F.A.C., states:

In determining whether extraordinary circumstances have been demonstrated, the Commission shall consider evidence provided to the Commission such as anticipated improvements in quality of service, anticipated improvements in compliance with regulatory mandates, anticipated rate reductions or rate stability over a long-term period, anticipated cost efficiencies, and whether the purchase was made as part of an arms-length transaction.

If a purchase price above depreciated original cost is used to determine rate base, without the requirement for extraordinary circumstances, it could encourage utilities to "swap assets" and inappropriately increase cost to customers.

Deferral

In discovery responses, CSWR-CFAT stated that it intends to ask for deferral of a decision regarding the requested acquisition adjustment. In its application, the Buyer laid out factors such as improvements to quality of service, cost efficiencies, and rate stability. These are discussed below, and staff recommends that these factors do not constitute extraordinary circumstances. In response to discovery, the Buyer agreed that after the rate base is set, if a company provides support in a separate and subsequent case that there are utility assets that were not previously recorded, then the company can prospectively recover the unrecorded amount of that investment. Therefore, if the Buyer finds assets were incorrectly recorded on the Seller's balance sheet, the Buyer can support those costs and recover them in a future rate case. That is normal Commission practice and is not considered extraordinary circumstances.

Pursuant to Commission practice, the Buyer has the burden of proving extraordinary circumstances at the time of transfer. Staff believes that in the instant case, the Buyer has failed to provide proof of extraordinary circumstances. Further, the Buyer had multiple opportunities to provide pertinent information needed to determine if a positive acquisition adjustment was

appropriate. As such, staff recommends the Commission deny the request to defer a decision on the positive acquisition adjustment.

Finally, it is long-standing Commission practice to address the disposition of any positive or negative acquisition adjustment at the time of transfer. Pursuant to Section 120.68(7)(e)3., F.S., when agencies change their established policies, practices, and procedures, they must give an explanation for the deviation. Staff does not believe the facts in this case warrant such a deviation. As such, staff believes the deferral of a positive acquisition adjustment decision in this docket would result in an unnecessary deviation from Commission practice.

Improvements in Quality of Service and Compliance with Regulatory Mandates

In its application, CSWR-CFAT listed six business practices that it believes will improve the quality of service to its customers: (1) provision of 24-hour emergency service phone numbers; (2) on-call emergency service personnel who are required to respond to emergency service calls within prescribed time limits; (3) a computerized maintenance management system; (4) access to resources not usually available to comparably sized systems and the ability to supplement local personnel with resources owned by the parent and sister companies; (5) online bill payment options; and (6) an updated website for customer communication, bulletins, procedures, etc.

Staff reviewed the complaints filed with the Commission for the five-year period prior to the application, from March 2017 to March 2022. The Commission recorded one complaint regarding improper billing during this time period. In its application, CSWR-CFAT did not list any customer complaints related to the water or wastewater treatment systems or for secondary water quality issues.

In addition to reviewing the Utility's most recent sanitary survey (May 22, 2020) and CEI (November 16, 2021), as discussed in Issue 1, staff also reviewed the two prior sanitary surveys (conducted in 2017 and 2014) and CEIs (conducted in 2021 and 2016). As with the 2020 sanitary survey for the WTP, the 2017 and 2014 sanitary surveys found a few minor issues, which were corrected.

For the WWTP, the October 27, 2016, CEI noted a monitoring violation and reporting errors that were corrected. The Utility's February 16, 2021, CEI resulted in the issuance of a consent order, which was in effect and noted during the subsequent CEI, performed on November 16, 2021. The DEP issued CFAT a warning letter on December 20, 2021, based on the deficiencies found during the November 2021 CEI. As stated in Issue 1, the November 2021 CEI noted that the Utility continued to have problems with effluent exceedances and solids buildup in the holding pond. In an August 25, 2022, letter, the DEP closed out the November 2021 CEI and subsequent warning letter as CFAT had resolved all of the issues from the November 2021 CEI. However, the August 25, 2022, letter noted that the DEP's consent order was still in effect.

In Exhibit H of its application, CSWR-CFAT described its plans for rehabilitation of major system components, repairs, and general improvements. The Buyer's plans for the water system, having found no major problems with its compliance history or obvious need for repairs, include rehabilitating the wells and tanks, and performing distribution repairs as needed. In Exhibit H of its application, the Buyer proposed making general renovations to the facility. Additionally, The

Buyer plans to rehabilitate the five lift stations and perform collection system repairs as necessary. CSWR-CFAT's plans for improvements to both the water and wastewater systems are to install remote monitoring systems. The Buyer stated in its application that no governmental authorities are presently requiring repairs or improvements to the systems.

Based on the above, it appears that CFAT currently has no issues with respect to regulatory compliance regarding its water system, but does have issues with reporting, maintenance, and permit exceedances. While the Buyer identified some general improvements it intends to implement, staff does not believe the Buyer has demonstrated extraordinary circumstances in support of its requested positive acquisition adjustment. Instead, staff believes that the proposed anticipated improvements in quality of service demonstrate CSWR-CFAT's intention to responsibly execute its obligations as a utility owner. While staff does not believe the Utility's anticipated improvements justify its requested positive acquisition adjustment, these improvements may be considered for prudence and cost recovery in a future rate proceeding.

Anticipated Cost Efficiencies and Rates

In its application, the Buyer stated that its size and anticipated consolidation of many small systems under one financial and managerial entity would result in operational cost efficiencies, particularly in the areas of:

- PSC and environmental regulatory reporting
- Managerial and operational oversight
- Utility asset planning
- Engineering planning
- Ongoing utility maintenance
- Utility record keeping
- Customer service responsiveness
- Improved access to capital is necessary to repair and upgrade CFAT' systems to ensure compliance with all health and environmental requirements and ensure service to customers remains safe and reliable

In response to discovery, the Utility estimated an increase of O&M expense of approximately \$23,000 in order to cure compliance issues already present and ensure the system can avoid them in the future. While staff is aware of the importance of maintaining compliance, this increase on top of the requested acquisition adjustment of \$1,111,384 (over three times greater than the system's current NBV of \$328,616) would result in a substantial increase in revenue requirement.

The Buyer also stated that CSWR-CFAT would bring long-term rate stability to the Utility, should the transfer be approved. Staff agrees that economies of scale and the potential consolidation of several systems in Florida, as proposed by CSWR-CFAT, could bring some long-term rate stability. However, absent specific and detailed support for these assertions, the Buyer has failed to meet its burden of demonstrating extraordinary circumstances.

Staff's recommendation is consistent with the Commission's decision in Order No. PSC-2020-0458-PAA-WS.¹⁰ In that docket, the Buyer identified estimates of anticipated cost efficiencies, including a reduction in O&M expenses and a reduction in the cost of capital that would result from the transfer. Additionally, the Buyer cited several improvements it has made to the wastewater treatment plant and wastewater lift station since acquisition to improve the quality of service and compliance with regulatory mandates. While the Commission acknowledged that the Buyer accomplished cost savings, it did not believe the actions performed demonstrated extraordinary circumstances that would justify approval of a positive acquisition adjustment.

Staff's recommendation is also consistent with the Commission's decisions to deny CSWR-Florida Utility Operating Company, LLC a positive acquisition adjustment in Order Nos. PSC-2022-0116-PAA-SU, PSC-2022-0120-PAA-WU, PSC-2022-0115-PAA-WS, PSC-2022-0364-PAA-WU, and Docket No. 20220149-SU.¹¹ In those cases, the Commission determined that the Buyer failed to provide sufficient evidence of extraordinary circumstances, and the Buyer was denied a positive acquisition adjustment in all five cases. In those cases, the Buyer also requested a deferral of the decision regarding the positive acquisition adjustments, which was also denied by the Commission. Staff believes the facts of this case are similar to the five cases discussed above.

Conclusion

Pursuant to Rule 25-30.0371, F.A.C., staff recommends a positive acquisition adjustment not be granted as the Buyer did not demonstrate extraordinary circumstances. Staff believes the Buyer's anticipated improvements in quality of service and compliance with regulatory mandates do not illustrate extraordinary circumstances and instead demonstrate CSWR-CFAT's intentions to responsibly provide utility service.

¹⁰ Order No. PSC-2020-0458-PAA-WS, issued November, 23, 2020, in Docket No. 20190170-WS, *In re: Application for transfer of facilities and Certificate Nos. 259-W and 199-S in Broward County from Royal Utility Company to Royal Waterworks, Inc.*

¹¹ Order No. PSC-2022-0116-PAA-SU, issued March 17, 2022, in Docket No. 20210133-SU, *In re: Application for transfer of facilities of North Peninsula Utilities Corporation and wastewater Certificate No. 249-S to CSWR-Florida Utility Operating Company, LLC, in Volusia County.*; Order No. PSC-2022-0120-PAA-WU, issued March 18, 2022, in Docket No. 20220095-WU, *In re: Application for transfer of wastewater facilities of Sunshine Utilities of Central Florida, Inc. and wastewater Certificate No. 363-W to CSWR-Florida Utility Operating Company, LLC, in Marion County*; Order No. PSC-2022-0115-PAA-WS, issued March 15, 2022, in Docket No. 20210093-WS, *In re: Application for transfer of wastewater and wastewater systems of Aquarina Utilities, Inc., wastewater Certificate No. 517-W, and wastewater Certificate No. 450-S to CSWR-Florida Utility Operating Company, LLC, in Brevard County.*; Order No. PSC-2022-0364-PAA-WU, issued October 25, 2022, in Docket No. 20220019-WU, *In re: Application for the transfer of water facilities in Neighborhood Utilities, Inc. and water Certificate No. 430-W to CSWR-Florida Utility Operating Company, LLC, in Duval County*; Docket No. 20220149-SU, *In re: Application for transfer of wastewater Certificate No. 365-S of Sebring Ridge Utilities, Inc. to CSWR-Florida Utility Operating Company, LLC, in Highlands County* (at its July 11, 2023 Commission Conference, the Commission denied deferral of or granting of a positive acquisition adjustment; an order is forthcoming).

Issue 4: Should CSWR-Florida Utility Operating Company, LLC’s miscellaneous service charges be revised to conform to amended Rule 25-30.460, F.A.C.?

Recommendation: Yes. Staff recommends the miscellaneous service charges be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. CSWR-CFAT should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. CSWR-CFAT should be required to charge the approved miscellaneous services charges until authorized to change them by the Commission in a subsequent proceeding. (Bethea)

Staff Analysis: Effective June 24, 2021, Rule 25-30.460, F.A.C., was amended to remove initial connection and normal reconnection charges.¹² The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge. The Utility’s miscellaneous service charges consist of initial connection and normal reconnection charges. Therefore, staff recommends that the initial connection and normal reconnection charges be removed. The definition for the premises visit charge should be updated to comply with amended Rule 25-30.460, F.A.C. The Utility’s existing and staff’s recommended miscellaneous service charges are shown in Tables 4-1 and 4-2.

Table 4-1
Utility Existing and Staff Recommended Miscellaneous Service Charges- Water

| | <u>Existing</u> | | <u>Staff Recommended</u> | |
|-------------------------------|---------------------|--------------------|--------------------------|--------------------|
| | <u>Normal Hours</u> | <u>After Hours</u> | <u>Normal Hours</u> | <u>After Hours</u> |
| Initial Connection Charge | \$11.00 | \$16.00 | N/A | N/A |
| Normal Reconnection Charge | \$16.00 | \$24.00 | N/A | N/A |
| Violation Reconnection Charge | \$21.00 | \$31.00 | \$21.00 | \$31.00 |
| Premises Visit Charge | \$16.00 | N/A | \$16.00 | N/A |

¹²Order No. PSC-2021-0201-FOF-WS, issued June 4, 2021, in Docket No. 20200240-WS, *In re: Proposed amendment of Rule 25-30.460, F.A.C., Application for Miscellaneous Service Charges.*

**Table 4-2
 Utility Existing and Staff Recommended Miscellaneous Service Charges-
 Wastewater**

| | <u>Existing</u> | | <u>Staff Recommended</u> | |
|-------------------------------|---------------------|--------------------|--------------------------|--------------------|
| | <u>Normal Hours</u> | <u>After Hours</u> | <u>Normal Hours</u> | <u>After Hours</u> |
| Initial Connection Charge | \$10.00 | \$12.00 | N/A | N/A |
| Normal Reconnection Charge | \$15.00 | \$20.00 | N/A | N/A |
| Violation Reconnection Charge | Actual Cost | Actual Cost | Actual Cost | Actual Cost |
| Premises Visit Charge | \$15.00 | N/A | \$15.00 | N/A |

Conclusion

Based on the above, the miscellaneous service charges be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. CSWR-CFAT should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. CSWR-CFAT should be required to charge the approved miscellaneous services charges until authorized to change them by the Commission in a subsequent proceeding.

Issue 5: 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 upon Commission staff's verification that the revised tariff sheets have been filed, that proof has been provided that appropriate noticing has been done pursuant to Rule 25-30.4345, F.A.C., the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision, that the Buyer has submitted the executed and recorded warranty deed, that the Buyer has submitted a copy of its application for permit transfer to the DEP, and that the Buyer has submitted a signed and executed copy of its contract for sale within 60 days of the Commission's Order approving the transfer. (Thompson, J. 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, that proof has been provided that appropriate noticing has been done pursuant to Rule 25-30.4345, F.A.C., the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision, that the Buyer has submitted the executed and recorded warranty deed, that the Buyer has submitted a copy of its application for permit transfer to the DEP, and that the Buyer has submitted a signed and executed copy of its contract for sale within 60 days of the Commission's Order approving the transfer.

**CSWR-Florida Utility Operating Company, LLC
MARION COUNTY
WATER AND WASTEWATER SERVICE TERRITORY**

A parcel of land being part of the SE 1/4 of SE 1/4, the SW 1/4 of SE 1/4, and the NE 1/4 of SE 1/4 of Section 16; and the NE 1/4 of NW 1/4 and the SE 1/4 of NW 1/4 of Section 21, all in Township 14 South, Range 22 East, Marion County, Florida and being more particularly described as follows:

Beginning at the SE corner of said Section 16, thence run West along the south line of said Section 16 for 2640.00 feet to the NE corner of the NE 1/4 of NW 1/4 of Section 21; thence run South 00°12'41" West along the east line of the W 1/2 of said Section 21 for 2555.69 feet to the northern right-of-way of NW 70th Street; thence run North 89°36'04" West for 674.92 feet to the western right-of-way of Jacksonville Road; thence run North 13°51'04" East along said right-of-way for 611.53 feet; thence run North 76°23'09" West for 450.97 feet; thence run North 13°36'58" East for 899.69 feet; thence run South 76°33'41" East for 453.52 feet back to said western right-of-way of Jacksonville Road; thence run North 13°46'51" East along said right-of-way for 1114.14 feet to the north line of said NE 1/4 of NW 1/4 of Section 21; thence run East along the north line of said Section 21 for 57.94 feet to the SW corner of the SW 1/4 of SE 1/4 of Section 16; thence run North along the west line of said SW 1/4 of SE 1/4 for 849.32 feet; thence run East for 1320.00 feet; thence run North for 671.05 feet; thence run East for 1320.00 feet to the east line of Section 16; thence run South along the east line of said Section 16 for 1520.37 feet back to the Point of Beginning. Containing 102.6 acres, more or less.

**FLORIDA PUBLIC SERVICE COMMISSION
authorizes
CSWR-Florida Utility Operating Company, LLC
pursuant to
Certificate Number 552-W**

to provide water service in Marion 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-93-0368-FOF-WS | 03/09/93 | 19921260-WS | Transfer |
| PSC-94-0701-FOF-WS | 06/08/94 | 19931080-WS | Transfer |
| PSC-06-0593-FOF-WS | 07/07/06 | 20060028-WS | TMOC |
| PSC-97-0206A-FOF-WS | 03/05/97 | 19960095-WS | Amendatory Order |
| * | * | 20220203-WS | Amendment |

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

**FLORIDA PUBLIC SERVICE COMMISSION
authorizes
CSWR-Florida Utility Operating Company, LLC
pursuant to
Certificate Number 481-S**

to provide wastewater service in Marion 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-93-0368-FOF-WS | 03/09/93 | 19921260-WS | Transfer |
| PSC-94-0701-FOF-WS | 06/08/94 | 19931080-WS | Transfer |
| PSC-06-0593-FOF-WS | 07/07/06 | 20060028-WS | TMOC |
| PSC-97-0206A-FOF-WS | 03/05/97 | 19960095-WS | Amendatory Order |
| * | * | 20220203-WS | Amendment |

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

**CSWR-Florida Utility Operating Company, LLC
C.F.A.T. H2O, Inc.**

Schedule of Water Net Book Value as of February 28, 2022

| <u>Description</u> | <u>Balance Per Utility 2/28/22</u> | <u>Adjustments</u> | | <u>Staff 2/28/22</u> |
|--------------------------|--|--------------------|---|--------------------------|
| Utility Plant in Service | \$594,332 | (\$49,667) | A | \$544,665 |
| Land & Land Rights | 19,500 | - | | 19,500 |
| Accumulated Depreciation | (405,657) | 80,623 | B | (325,034) |
| CIAC | (132,796) | 7,863 | C | (124,933) |
| Amortization of CIAC | <u>121,903</u> | <u>(7,403)</u> | D | <u>114,500</u> |
| Total | <u>\$197,282</u> | <u>\$31,416</u> | | <u>\$228,698</u> |

**CSWR-Florida Utility Operating Company, LLC
C.F.A.T. H2O, Inc.**

Schedule of Wastewater Net Book Value as of February 28, 2022

| <u>Description</u> | <u>Balance Per Utility 2/28/22</u> | <u>Adjustments</u> | | <u>Staff 2/28/22</u> |
|--------------------------|--|--------------------|---|--------------------------|
| Utility Plant in Service | \$379,847 | (\$179,616) | A | \$200,231 |
| Land & Land Rights | 39,000 | - | | 39,000 |
| Accumulated Depreciation | (333,946) | 208,710 | B | (125,236) |
| CIAC | (262,882) | - | C | (262,882) |
| Amortization of CIAC | <u>244,230</u> | <u>4,575</u> | D | <u>248,805</u> |
| Total | <u>\$66,249</u> | <u>\$33,669</u> | | <u>\$99,918</u> |

**CSWR-Florida Utility Operating Company, LLC
C.F.A.T. H2O, Inc.**

Explanation of Adjustments to Water Net Book Value as of February 28, 2022

| Explanation | Amount |
|--|-----------------|
| A. UPIS To reflect the appropriate balance. | (\$49,667) |
| B. Accumulated Depreciation To reflect the appropriate balance. | 80,623 |
| C. CIAC To reflect the appropriate balance. | 7,863 |
| D. Accumulated Amortization of CIAC To reflect the appropriate balance. | <u>(7,403)</u> |
| Total Adjustments to Water Net Book Value as of February 28, 2022 | <u>\$31,416</u> |

**CSWR-Florida Utility Operating Company, LLC
C.F.A.T. H2O, Inc.**

**Explanation of Adjustments to Wastewater Net Book Value as of February 28,
2022**

| Explanation | Amount |
|--|-----------------|
| E. UPIS To reflect the appropriate balance. | (\$179,616) |
| F. Accumulated Depreciation To reflect the appropriate balance. | 208,710 |
| G. Accumulated Amortization of CIAC To reflect the appropriate balance. | <u>4,575</u> |
| Total Adjustments to Wastewater Net Book Value as of February 28, 2022 | <u>\$33,669</u> |

**CSWR-Florida Utility Operating Company, LLC
C.F.A.T. H2O, Inc.**

**Schedule of Staff's Recommended Water Account Balances as of February 28,
2022**

| Account No. | Description | UPIS | Accumulated Depreciation |
|------------------------|--------------------------------------|------------------|-------------------------------------|
| 304 | Structures & Improvements | 23,320 | (1,141) |
| 307 | Wells & Springs | 38,888 | (27,590) |
| 310 | Power Generation Equipment | 22,587 | (22,587) |
| 311 | Pumping Equipment | 113,271 | (77,556) |
| 320 | Water Treatment Equipment | 10,142 | (6,339) |
| 330 | Distribution Reservoirs & Standpipes | 198,197 | (95,877) |
| 331 | Transmission & Distribution Mains | 74,217 | (45,969) |
| 333 | Services | 15,635 | (14,133) |
| 334 | Meters & Meter Installations | 48,200 | (33,635) |
| 343 | Tools, Shop, & Garage Equipment | 207 | (207) |
| | Total | <u>\$544,665</u> | <u>(\$325,034)</u> |

**CSWR-Florida Utility Operating Company, LLC
C.F.A.T. H2O, Inc.**

**Schedule of Staff's Recommended Wastewater Account Balances as of February
28, 2022**

| Account No. | Description | UPIS | Accumulated Depreciation |
|------------------------|--------------------------------|------------------|-------------------------------------|
| 351 | Organization | \$2,500 | (\$2,500) |
| 352 | Franchises | 2,062 | (2,062) |
| 354 | Structures & Improvements | 32,260 | (3,905) |
| 360 | Collection Sewers - Force | 7,700 | (7,700) |
| 361 | Collection Sewers - Gravity | 45,657 | (38,698) |
| 362 | Special Collection Structures | 15,148 | (14,073) |
| 363 | Service to Customers | 8,500 | (8,500) |
| 364 | Flow Measuring Devices | 90 | (90) |
| 365 | Flow Measuring Installations | 5,610 | (5,588) |
| 371 | Pumping Equipment | 48,307 | (19,722) |
| 380 | Treatment & Disposal Equipment | 19,164 | (19,164) |
| 389 | Other Plant & Misc. Equipment | 13,234 | (3,235) |
| | Total | <u>\$200,231</u> | <u>(\$125,236)</u> |

**CSWR – Florida Utility Operating Company, LLC.
C.F.A.T. H2O, Inc.**

Monthly Water Rates

Residential and General Service

Base Facility Charge by Meter Size

| | |
|-------------|----------|
| 5/8" x 3/4" | \$12.67 |
| 1" | \$31.68 |
| 1-1/2" | \$63.35 |
| 2" | \$101.36 |
| 3" | \$202.72 |
| 4" | \$316.75 |

Charge Per 1,000 gallons – Residential

| | |
|------------------------|---------|
| 0 – 5,000 gallons | \$4.33 |
| 5,001 – 10,000 gallons | \$8.02 |
| Over 10,000 gallons | \$12.02 |

Charge Per 1,000 gallons – General Service

\$5.99

Monthly Wastewater Rates

Residential Service

| | |
|-----------------|---------|
| All Meter Sizes | \$17.34 |
|-----------------|---------|

Charge Per 1,000 gallons – Residential
10,000 gallon cap

\$4.76

General Service

Base Facility Charge by Meter Size

| | |
|-------------|----------|
| 5/8" x 3/4" | \$17.34 |
| 1" | \$43.35 |
| 1-1/2" | \$86.70 |
| 2" | \$138.72 |
| 3" | \$277.44 |
| 4" | \$433.50 |

Charge Per 1,000 gallons – General Service

\$4.76

Initial Customer Deposits

Residential Service and General Service

5/8" x 3/4" \$60.00

**Meter Installation Charge
Service Availability Charges - Water**

5/8" x 3/4" meter size \$100.00

1" meter size \$130.00

1 1/2" meter size \$180.00

All Other Actual Cost