

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: March 28, 2013

TO: Office of Commission Clerk (Cole)

FROM: Division of Accounting and Finance (VanEsselstine, Fletcher, Maurey)
Division of Economics (Roberts)
Division of Engineering (P. Buys, C. Lewis)
Office of the General Counsel (Lawson)

RECEIVED-PPSC
13 MAR 28 AM 9:40
COMMISSION CLERK
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RE: Docket No. 120239-WS – Application for approval to transfer water and wastewater Certificate Nos. 625-W and 536-S in Lake County from Hidden Valley SPE LLC d/b/a Orange Lake to MHC OL Utility Systems, L.L.C.

AGENDA: 04/09/13 – Regular Agenda – Proposed Agency Action for Issue 2 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\AFD\WP\120239.RCM.DOC

DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

Case Background

Hidden Valley SPE LLC d/b/a Orange Lake Utilities (Utility or Orange Lake) is a Class C water and wastewater utility located in Lake County serving approximately 248 water and 242 wastewater customers in the Orange Lake Mobile Home Community. Orange Lake is located in the St. Johns River Water Management District (SJRWMD or District). The Utility's 2011 annual report reflects a net loss of \$3,266 for water and \$9,324 for wastewater.

The Utility began operations in 1985. On September 24, 2004, Orange Lake applied for original certificates to operate a water and wastewater utility in Lake County. Certificate Nos. 625-W and 536-S were granted to Orange Lake in 2004.¹ Prior to that time, the Utility provided water and wastewater service solely to the rental community tenants as a part of the rent, and was therefore exempt from the Commission's regulation pursuant to Section 367.022(5), Florida Statutes (F.S.). Rate base was last established for the Utility by Order No. PSC-09-0726-PAA-WS.²

On September 25, 2012, an application was filed for the transfer of Hidden Valley SPE LLC d/b/a Orange Lake Utilities' water and wastewater systems and Certificate Nos. 625-W and 536-S to MHC OL Utility Systems, L.L.C. (MHC OL). Pursuant to Section 367.071(1), F.S., the closing occurred on July 1, 2011, contingent upon Commission approval. The Commission has jurisdiction pursuant to Section 367.071, F.S.

¹ See Order No. PSC-04-1270-PAA-WS, issued December 22, 2004, in Docket No. 041141-WS, In re: Application for certificates to provide water and wastewater service in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake.

² See Order No. PSC-09-0726-CO-WS, issued November 3, 2009, in Docket No. 080714-WS, In re: Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities.

Discussion of Issues

Issue 1: Should the transfer of the Hidden Valley SPE LLC d/b/a Orange Lake Utilities water and wastewater systems and Certificate Nos. 625-W and 536-S to MHC OL Utility Systems, L.L.C. be approved?

Recommendation: Yes. The transfer is in the public interest and should be approved effective the date of the Commission vote. The territory being transferred is described in Attachment A. The resultant order should serve as MHC OL's water and wastewater certificates and should be retained as such. Pursuant to Rule 25-9.044(1), Florida Administrative Code (F.A.C.), the Utility's 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(1), F.A.C. MHC OL will be responsible for annual reports and regulatory assessment fees (RAFs) for 2012 and all future years. (VanEsselstine, P. Buys)

Staff Analysis: On September 25, 2012, an application was filed for approval of the transfer of Orange Lake's water and wastewater systems and Certificate Nos. 625-W and 536-S to MHC OL in Lake County. The application is in compliance with the governing statutes, Section 367.071, F.S., and administrative rules concerning applications for transfer of certificates. The closing occurred on July 1, 2011, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

Noticing, Territory, and Land Ownership

The application contains proof of compliance with the noticing provisions set forth in Section 367.071, F.S. and Rule 25-30.030, F.A.C. No objections to the transfer were timely filed with the Commission, and the time for doing so has expired. The application contains a description of the Utility's authorized service territory, which is appended to this recommendation as Attachment A. The application contains a copy of an easement that was executed on July 1, 2011, and recorded with the Lake County Clerk of Courts, as evidence that MHC OL owns the land upon which the water and wastewater treatment facilities are located.

Purchase Agreement and Financing

Pursuant to Rule 25-30.037(2)(h), F.A.C., the application contains a copy of the executed purchase agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. The mobile home community and the Utility's assets were purchased by Equity LifeStyle Properties, Inc. (ELS), as part of a large transaction that related to the acquisition of Hometown America, LLC. The purchase price for the transaction that acquired 75 mobile home communities, utilities and other assets was \$1,263,600,064. There was not separate financing for the purchase of the Utility's assets, and the purchase agreement did not include a separate allocated amount for these assets. However, the net book value (NBV) of the water and wastewater facilities is discussed in Issue 2. MHC OL purchased the assets secured by a bank loan. There are no customer deposits, guaranteed revenue contracts, developer agreements, or debt of Orange Lake that must be disposed of with regard to the transfer. As noted, the sale took place on July 1, 2011, subject to Commission approval, pursuant to Section 367.071(1), F.S.

Facility Description and Compliance

The Orange Lake Mobile Home Community water system consists of two wells (one 6-inch and one 8-inch) treated with chlorine. The treated water is channeled into a 7,500-gallon hydropneumatic tank and a 75,000-gallon storage tank for distribution to customers. The wastewater system includes PVC collection lines, manholes, and one lift station. The treatment process consists of extended aeration and effluent discharge into the percolations ponds. Staff has verified that the water and wastewater systems are currently in substantial compliance with all applicable standards set by the Florida Department of Environmental Protection.

Technical and Financial Ability

Pursuant to Rule 25-30.037(2)(j), F.A.C., the application contains a statement indicating that the transfer is in the public interest. According to the application, the transfer is in the interest of the customers as MHC HV has the financial and technical ability to continue to provide the safe and reliable service to which they are accustomed. As discussed above, MHC HV operates under the parent company, ELS. Although MHC HV does not own any other water or wastewater utilities, its parent company manages other utility systems in Florida, including four systems regulated by the Commission.³ In addition, ELS has a second docket pending before the Commission for the transfer of Hidden Valley SPE LLC d/b/a Orange Lake to MHC OL Utility Systems, L.L.C.⁴ As of the end of 2011, ELS had indirect ownership of approximately 382 properties in the United States. Staff reviewed ELS' earnings and financial statements and believes it has the financial ability to provide safe and reliable service to its customers. As a result, staff believes that MHC HV has demonstrated the financial and technical ability to operate the Utility pursuant to Rule 25-30.037(2)(j), F.A.C.

Rates and Charges

The Utility's rates and charges were last approved in a 2009 staff-assisted rate case (SARC) and a subsequent 2011 price index. The Utility's existing rates and charges are shown on Schedule 3. 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 this Commission in a subsequent proceeding.

Regulatory Assessment Fees and Annual Reports

Staff has verified that the Utility is current on its annual report for 2011 and all prior years and there are no outstanding RAFs, fines, or refunds due. According to the Utility's purchase agreement, MHC OL is responsible for filing the Utility's annual reports and paying RAFs for 2012 and all future years.

³ ELS manages OB Utility Systems, L.L.C., COL Utility Systems, L.L.C., HV Utility Systems, L.L.C., and MFL Utility Systems, L.L.C., which are regulated by the Commission.

⁴ See Docket No. 120240-WS, In re: Application for approval of transfer of water Certificate No. 518-W in Lake County from CWS Communities LP (Haselton Village) to MHC HV FL Utility Systems, L.L.C.

Conclusion

Based on the above, staff recommends that the transfer of the Orange Lake water and wastewater systems and Certificate Nos. 625-W and 536-S to MHC OL is in the public interest and should be approved effective the date of Commission vote. The territory being transferred is described in Attachment A. The resultant order should serve as MHC OL's water and wastewater certificates and should be retained as such. The Utility's 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(1), F.A.C. MHC OL will be responsible for annual reports and RAFs for 2012 and all future years.

Issue 2: What are the appropriate net book values for MHC OL's water and wastewater systems for transfer purposes and should an acquisition adjustment be approved?

Recommendation: The net book values of MHC OL's water and wastewater systems for transfer purposes are \$231,435 and \$123,369, respectively, as of December 31, 2011. An acquisition adjustment should not be included in rate base. Within 30 days of the final order, MHC OL should be required to provide general ledgers that show its books have been updated to reflect the Commission-approved balances as of December 31, 2011, along with a statement that these adjustments will also be reflected in the Utility's 2012 annual report. (VanEsselstine)

Staff Analysis: Rate base for the Utility's water and wastewater systems were established as of December 31, 2008, in a SARC by Order No. PSC-09-0726-CO-WS. Included in the Utility's application was a statement that there had been no adjustments made to the plant since the previously mentioned Order. Staff reviewed the annual reports for 2009 through 2011 which reflected minor plant additions. However, in response to staff's data request, MHC OL determined that it could not produce support documentation for these plant additions. Further, MHC OL stated no plant additions should be considered in the instant docket.

Staff believes it is necessary to establish the appropriate net book value (NBV) for transfer purposes as of December 31, 2011. 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 used and useful plant or working capital. Staff's recommended NBV for water and wastewater, as described below, are shown on Schedule Nos. 1 and 2, respectively.

Utility Plant in Service (UPIS)

In its 2011 annual report, MCH OL reflected plant balances of \$611,130 for water and \$606,968 for wastewater. After a review of the Order and subsequent annual report filings, staff determined that the Commission-ordered adjustments from the Utility's last rate proceeding had not been properly made. The adjustments pertained to the 2007 and 2008 plant additions and retirements in both water and wastewater accounts and pro forma plant for water. To account for the adjustments, UPIS should be increased by \$4,479 for water and decreased by \$41,260 for wastewater. With these adjustments, staff believes that the appropriate UPIS balances are \$615,609 for water and \$565,708 for wastewater. The appropriate UPIS amounts for the Utility's water and wastewater systems are outlined in Schedule Nos. 1 and 2, respectively.

Land and Land Rights

In its 2011 annual report, the Utility reflected land balances of \$4,600 and \$3,750 for water and wastewater, respectively. In its application, MHC OL stated that there had been no adjustments made to the land balances since the SARC Order. An audit was conducted in the 2009 SARC, and staff confirmed that the Utility recorded the land at its original cost when it was first dedicated to utility service. Therefore, no adjustment is necessary.

Accumulated Depreciation

As noted above, staff determined that the Utility did not properly make the plant adjustments required in its last rate proceeding. In its 2011 annual report, the Utility reflected accumulated depreciation balances of \$377,170 for water and \$438,320 for wastewater. Staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and the previously approved 2008 plant balances. As a result, staff recommends these balances be decreased by \$9,683 for water and \$25,918 for wastewater as of December 31, 2011, to reflect the calculated depreciation. Staff's recommended accumulated depreciation balances are shown on Schedule Nos. 1 and 2.

Contribution in Aid of Construction (CIAC)

In its 2011 annual report, the Utility reflected CIAC balances of \$107,789 for water and \$178,699 for wastewater. An audit was conducted in the 2009 SARC and it was determined the appropriate amount of CIAC was \$107,789 for water and \$178,699 for wastewater, respectively. Further, in the 2009 SARC the system was determined to be built out. As no additions have been made subsequent to the SARC, the appropriate CIAC amounts for the Utility's water and wastewater systems are outlined in Schedule Nos. 1 and 2, respectively.

Accumulated Amortization of CIAC

In its 2011 annual report, the Utility reflected accumulated amortization of CIAC balances of \$75,123 for water and \$131,282 for wastewater. However, after a review of the Order and subsequent annual report filings, staff determined that the Commission-ordered adjustments from the Utility's last rate proceeding had not been properly made to the accumulated amortization of CIAC. Staff calculated amortization of CIAC using composite rates prescribed in Rule 25-30.140, F.A.C., and the previously approved 2008 CIAC balances. As a result, the amounts in these accounts have been increased by \$11,379 for water and \$13,730 for wastewater to reflect the calculated depreciation. Staff's recommended accumulated amortization of CIAC balances are shown on Schedule Nos. 1 and 2.

Net Book Value

Based on the adjustments described above and shown on Schedule Nos. 1 and 2, staff recommends that the NBV of the Utility's water system is \$231,435, and its wastewater system is \$123,369, as of December 31, 2011. Schedule Nos. 1 and 2 contain the resulting NARUC USOA balances for UPIS and accumulated depreciation as of December 31, 2011, for water and wastewater, respectively.

Acquisition Adjustment

An acquisition adjustment results when the purchase price of a utility differs from the original cost of the assets adjusted to the time of the acquisition. A positive acquisition adjustment exists when the purchase price is greater than NBV, and a negative acquisition adjustment exists when the purchase price is less than net book value. 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. As discussed above, the purchase of MHC OL was part of a larger purchase of multiple properties. As such, a separate purchase price was not allocated to the Utility and its assets. ELS has indicated that the purchase price of the Utility assets was equal to the NBV as reflected in the 2011 annual report. MHC OL did not request a positive acquisition adjustment, and there is no evidence of extraordinary circumstances. Therefore, staff recommends that an acquisition adjustment is not warranted.

Conclusion

Based on the above, staff recommends that the NBV of the Utility's water system is \$231,435, and its wastewater system is \$123,369, as of December 31, 2011. A positive acquisition adjustment should not be included in rate base. Within 30 days of the date of the final order, MHC OL should be required to provide general ledger balances which show its books have been updated to reflect the Commission approved balances as of December 31, 2011, along with a statement that these numbers will also be reflected in the Utility's 2012 annual report. If the Utility's 2012 annual report has already been filed, the Utility should file an amended 2012 annual report.

Docket No. 120239-WS

Date: March 28, 2013

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, VanEsselstine)

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.

MHC OL Utility Systems, LLC

Lake County

Description of Water and Wastewater Territory

PER ORDER NO. PSC-04-1270-PAA-WS

The Southeast $\frac{1}{4}$ of the Northeast $\frac{1}{4}$ of Section 27, Township 22 South, Range 26 East, Lake County, Florida, less the right of way for State Road 50.

FLORIDA PUBLIC SERVICE COMMISSION

authorizes

MHC OL Utility Systems, L.L.C.

pursuant to

Certificate Number 625-W

to provide water service in Lake 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-04-1270-PAA-WS	12/22/04	041141-WS	Original Certificate
*	*	120239-WS	Transfer of Certificate

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

FLORIDA PUBLIC SERVICE COMMISSION

authorizes

MHC OL Utility Systems, L.L.C.

pursuant to

Certificate Number 536-S

to provide wastewater service in Lake 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-04-1270-PAA-WS	12/22/04	041141-WS	Original Certificate
*	*	120239-WS	Transfer of Certificate

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

MHC OL Utility Systems, L.L.C.

MHC OL Water System

Net Book Value as of December 31, 2011

**Utility Proposed and Staff Recommended
 Schedule of Net Book Value as of December 31, 2011**

Description	Utility Proposed	Adjustment		Staff Recommended
Utility Plant in Service	\$611,130	\$4,479	A	\$615,609
Land & Land Rights	4,600	0		4,600
Accumulated Depreciation	(377,170)	9,683	B	(367,487)
CIAC	(107,789)	0		(107,789)
Amortization of CIAC	<u>75,123</u>	<u>11,379</u>	C	<u>86,502</u>
Net Book Value	<u>\$205,894</u>	<u>\$25,541</u>		<u>\$231,435</u>

**Explanation of Staff's Recommended
 Adjustments to Net Book Value as of December 31, 2011
 Water**

Explanation	Amount
A. Utility Plant In Service (UPIS) To reflect adjustment from Order No. PSC-09-0647-PAA-WS.	<u>\$4,479</u>
B. Accumulated Depreciation To reflect the appropriate amount of Accumulated Depreciation.	<u>\$9,683</u>
C. Amortization of CIAC To reflect the appropriate amount of Amortization of CIAC.	<u>\$11,379</u>
Total Adjustments to Net Book Value as of December 31, 2011	<u>\$25,541</u>

MHC OL Utility Systems, L.L.C.

MHC OL Water System

Schedule of Staff Recommended Account Balances as of December 31, 2011

Acct. No.	Description	UPIS	Accumulated Depreciation
304	Structures and Improvements	\$3,493	\$1,922
307	Wells and Springs	293,636	112,528
309	Supply Mains	9,535	7,607
310	Power Generation Equipment	6,373	6,373
311	Pumping Equipment	25,930	19,389
320	Water Treatment Equipment	57,720	57,720
330	Distribution Reservoirs and Standpipes	93,584	79,490
331	Trans & Dist. Mains - Pipes	68,417	41,912
333	Service to Customers	27,417	19,987
334	Meters	17,080	10,549
335	Hydrants	7,234	4,612
336	Backflow Prevention Devices	<u>5,190</u>	<u>5,398</u>
	Total	<u>\$615,609</u>	<u>(\$367,487)</u>

MHC OL Utility Systems, L.L.C.

MHC OL Wastewater System

Net Book Value as of December 31, 2011

**Utility Proposed and Staff Recommended
 Schedule of Net Book Value as of December 31, 2011**

Description	Utility Proposed	Adjustment		Staff Recommended
Utility Plant in Service	\$606,968	(\$41,260)	A	\$565,708
Land & Land Rights	3,750	0		3,750
Accumulated Depreciation	(438,320)	25,918	B	(412,402)
CIAC	(178,699)	0		(178,699)
Amortization of CIAC	<u>131,282</u>	<u>13,730</u>	C	<u>145,012</u>
Net Book Value	<u>\$124,981</u>	<u>(\$1,612)</u>		<u>\$123,369</u>

**Explanation of Staff's Recommended
 Adjustments to Net Book Value as of December 31, 2011
 Wastewater**

Explanation	Amount
A. Utility Plant In Service (UPIS) To reflect adjustment from Order No. PSC-09-0647-PAA-WS.	(\$41,260)
B. Accumulated Depreciation To reflect the appropriate amount of Accumulated Depreciation.	<u>\$25,918</u>
C. Amortization of CIAC To reflect the appropriate amount of Amortization of CIAC.	<u>\$13,730</u>
Total Adjustments to Net Book Value as of December 31, 2011	<u>(\$1,612)</u>

MHC OL Utility Systems, L.L.C.

MHC OL Wastewater System

Schedule of Staff Recommended Account Balances as of December 31, 2011

Acct. No.	Description	UPIS	Accumulated Depreciation
354	Structures & Improvements	\$8,869	\$2,250
360	Collection Sewers Force	2,411	2,275
361	Collection Sewers Gravity	83,580	53,284
362	Special Collecting Structure	37,875	33,094
363	Service to Customers	54,833	39,979
371	Pumping Equipment	29,209	20,209
380	Treatment Disposal	<u>348,931</u>	<u>261,311</u>
	Total	<u>\$565,708</u>	<u>(\$412,402)</u>

MHC OL Utility Systems, L.L.C.

Schedules of Rates and Charges

Monthly Service Rates

Water	Residential Service	General Service
<u>Base Facility Charges</u>		
5/8" x 3/4"	\$10.52	\$10.52
3/4"	\$15.77	\$15.77
1"	\$26.29	\$26.29
1-1/2"	\$52.58	\$52.58
2"	\$84.12	\$84.12
3"	\$168.25	\$168.25
4"	\$262.89	\$262.89
6"	\$525.77	\$525.77

Gallonge Charges (per 1,000 gallons)

Residential		
0-10,000	\$4.07	
10,000+	\$6.10	
General Service (per 1,000 gallons)		\$4.16

Wastewater	Residential Service	General Service
<u>Base Facility Charges</u>		
All Meter Sizes	\$18.01	
5/8" x 3/4"		\$18.01
3/4"		\$27.01
1"		\$45.02
1-1/2"		\$90.03
2"		\$144.05
3"		\$288.10
4"		\$450.16
6"		\$900.31
<u>Gallonge Charges (per 1,000 gallons)</u>	\$4.66*	\$5.60

* 6,000 gallon cap