

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: July 31, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Hill)

Division of Accounting and Finance (Frank, Springer)

Division of Economics (Thompson)

Office of the General Counsel (Lawson)

RE: Docket No. 130269-WU – Joint application for authority to transfer the assets of Venture Associates Utilities Corp. and Certificate No. 488-W in Marion County, Florida to Ocala Palms Utilities, LLC.

AGENDA: 08/12/14 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Balbis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On November 8, 2013, Venture Associates Utilities Corp. (Venture) filed an application for the transfer of Certificate No. 488-W to Ocala Palms Utilities, LLC (Ocala Palms) in Marion County. The service area is located in the Southwest Florida Water Management District and is in a water use caution area. According to Venture's 2013 Annual Report, it serves 1,059 water customers with operating revenue of \$612,143, which designates it as a Class B utility.

Certificate No. 488-W was originally granted in 1987.¹ In 1993, the Commission approved an allowance for funds used during construction.² In 1994, there was an amendment to

¹ See Order No. 18121, issued September 8, 1987, in Docket No. 860872-WU, In re: Application of Venture Associates Utilities Corporation for water certificate in Marion County.

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include additional territory.³ In 1995, there was a new class of service added to Venture's tariff.⁴ In 1996, main extension and meter installation charges were approved as Contributions-in Aid-of-Construction (CIAC).⁵ In 1997, there was a transfer in part to Palm Cay Utilities, Inc.⁶ In 2001 and 2002, Venture's tariffs were revised to reflect revised service availability charges due to City of Ocala impact fees^{7,8} In 2006, there was an application for a staff assisted rate case which was denied due to Venture's revenue exceeding the maximum allowed for staff assistance.⁹

This recommendation addresses the transfer of the water system and the net book value of the water system at the time of transfer. The Commission has jurisdiction pursuant to Section 367.071, Florida Statutes (F.S.).

² See Order No. PSC-93-1170-FOF-WU, issued August 10, 1993, in Docket No. 930406-WU, In re: Application for approval of allowance-for-funds-used-during-construction (AFUDC) rates in Marion County by Venture Associates Utilities Corp.

³ See Order No. PSC-94-1621-FOF-WU, issued December 30, 1994, in Docket No. 930892-WU, In re: Application for amendment of Certificate No. 488-W in Marion County by Venture Associates Utilities Corp.

⁴ See Order No. PSC-96-0120-FOF-WU, issued January 23, 1996, in Docket No. 951365-WU, In re: Application for a new class of service in Marion County by Venture Associates Utilities Corp.

⁵ See Order No. PSC-96-0790-FOF-WU, issued June 18, 1996, in Docket No. 930892-WU, In re: Application for amendment of Certificate No. 488-W in Marion County by Venture Associates Utilities Corp.

⁶ See Order No. PSC-98-1231-FOF-WU, issued September 21, 1998, in Docket No. 971670-WU, In re: Application for transfer of part of Certificate No. 488-W in Marion County from Venture Associates Utilities Corp. to Palm Cay Utilities, Inc.

⁷ See Order No. PSC-01-1436-CO-WU, issued July 3, 2001, in Docket No. 010444-WU, In re: Request for approval of tariff filing by Venture Associates Utilities Corp. in Marion County.

⁸. See Order No. PSC-02-0766-CO-WU, issued June 6, 2002, in Docket No. 020247-WU, In re: Request for approval of tariff increase for portion of tariff that applies to City of Ocala Impact Fees in Marion County by Venture Associates Utilities Corp.

⁹ See Docket No. 060349-WU, In re: Application for staff-assisted rate case in Marion County by Venture Associates Utilities Corp.

Discussion of Issues

Issue 1: Should the transfer of Venture's water system and Certificate No. 488-W to Ocala Palms be approved?

Recommendation: Yes. The transfer of Venture's water system and Certificate No. 488-W is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as Ocala Palms' certificate and should be retained by Ocala Palms. Venture's existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariff pages reflecting the transfer should be effective on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.). Ocala Palms should be responsible for filing the 2014 Annual Report and paying 2014 Regulatory Assessment Fees (RAFs) and should be responsible for filing all future annual reports and RAFs. (Hill, Frank)

Staff Analysis: On November 8, 2013, Venture and Ocala Palms filed a joint application for approval to transfer the Venture water system and Certificate No. 488-W to Ocala Palms. The application is in compliance with Section 367.071, F.S., and the Florida Administrative Rules concerning applications for transfer of certificates. The closing occurred on September 6, 2013, 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. From a pool of 1,059 customers, the Commission has received correspondence from six customers concerning the proposed transfer.¹⁰ Specifically, one customer raised concerns that Venture owed the City of Ocala anywhere from \$20,000 to \$50,000 for purchased water and implied that these debts had been outstanding for weeks if not months. Commission staff, after investigation, believes that Venture is current on all debts due to the City of Ocala.¹¹ Four of the six objecting customers asserted that the system should be annexed or otherwise transferred to the City of Ocala and implied that the City was intent on acquiring the system. Commission staff believes that these issues are not germane to this transfer. While there is a possible referendum effort underway, current documents provided by the City of Ocala indicate that the earliest date such a referendum would be held is March 2015 and if the referendum for annexation is approved, then any transfer of the system resulting from this referendum may well take several additional months. Staff believes that this potential referendum should not have any impact on the Commission's decision to transfer this certificate for two reasons. First, until such time as a utility is acquired by a municipality, the owners and operators of the utility must comply with the laws and regulations of the State of Florida which include maintaining the certificate that is the subject of this proceeding. Second, consideration of the referendum in this docket is not ripe since it is not

¹⁰ Additionally, staff received one correspondence on July 30, 2014 objecting to the transfer. This objection, which was filed outside of the protest period, contained similar concerns to those addressed in this recommendation.

¹¹ Commission staff does note that in the past year Venture has been overdue in paying its bills for purchased water once by a period of three days and once by a period of seven days. It is staff's opinion that these delinquencies are relatively minor and do not affect staff's recommendation regarding the proposed transfer.

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certain that the referendum will be held; and if it is held, its outcome would have no weight until the results of the referendum are certified by the County Supervisor of Elections or the Florida Secretary of State. The Commission also received correspondence from one customer requesting information, which staff provided. The customer did not express objection to the transfer.

The application contains a description of Venture's water service territory, which is appended to this recommendation as Attachment A. Venture serves as a water reseller with no treatment facilities, and there is no land purchase associated with the transfer.

Purchase Agreement and Financing

Pursuant to Rule 25-30.037(2)(h) and (i), F.A.C., the application contains a copy of the Purchase Agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. The customer deposits on Venture's books will be maintained by Ocala Palms and will be refunded at the appropriate time, in accordance with Rule 25-30.311, F.A.C. There are no guaranteed revenue contracts, developer agreements, customer advances, leases, or debt of Venture that must be disposed of with regard to the transfer. According to the Purchase Agreement, the total purchase price is \$500,000 for the portion of the assets attributable to water service, with 100 percent of the purchase price paid in cash at the closing. As noted, the closing took place on September 6, 2013, subject to Commission approval, pursuant to Section 367.071(1), F.S.

Facility Description and Compliance

Venture serves as a water reseller with no treatment facilities. Staff contacted the Florida Department of Environmental Protection (DEP) concerning the compliance status relative to any Notices of Violation or any DEP consent orders. DEP stated that the system is not subject to any outstanding violations or consent orders.

Technical and Financial Ability

Pursuant to Rule 25-30.037(1)(j), F.A.C., the application contains statements describing the technical and financial ability of the applicant to provide service to the proposed service area. According to the application, in addition to the water system, Ocala Palms also acquired all development assets served by Venture, as part of a larger commercial transaction. As such, there is an inherent interest by Ocala Palms to maintain and operate the system properly and efficiently. In addition, Ocala Palms has retained key Venture personnel with knowledge, training, and expertise to assist in the operation and maintenance of the utility system.

At this time, the service territory is at 100 percent build out. As such, there is no anticipated need for additional capital funds, other than for normal replacement of current assets. Staff has reviewed the financial statement of Ocala Palms and determined that the assertion made in an affidavit filed with the transfer application that Ocala Palms will supply the necessary funds if there is need for improvements above the level of internal funding, is reasonable.¹²

¹² See Document 06853-13, "Joint application for authority to transfer the assets of Venture and Certificate No. 488-W in Marion County to Ocala Palms. Exhibit C," p. 11.

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Based on the above, it appears that Ocala Palms has demonstrated the technical and financial ability to provide service to the existing service territory.

Rates and Charges

Venture's rates were last approved in an application for amendment in 1996.¹³ Venture has also consistently filed index rate adjustments from 2001 through 2014. Venture's miscellaneous service charges, customer deposits, and service availability charges have been approved by the Commission in various other dockets.¹⁴ The Utility's existing rates and charges are shown on Schedule No. 1. 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 Venture'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 Venture is current on the filing of annual reports and RAFs through the closing date of September 6, 2013. Ocala Palms will be responsible for filing annual reports and paying RAFs from the closing date through the end of 2013 and all future years. Staff has verified that the 2013 Annual Report has been filed and that Ocala Palms is current on the payment of RAFs through December 2013.

Conclusion:

Based on the foregoing, staff recommends that the transfer of the water system and Certificate No. 488-W is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as Ocala Palms' certificate and should be retained by Ocala Palms. Ocala Palms' existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariff pages reflecting the transfer should be effective on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. Ocala Palms should be responsible for filing the 2014 Annual Report and paying 2014 RAFs and should be responsible for filing all future annual reports and RAFs.

¹³ See Order No. PSC-96-0790-FOF-WU, issued June 18, 1996, in Docket No. 930892-WU, In re: Application for amendment of Certificate Number 488-W in Marion County by Venture Associates Utilities Corporation.

¹⁴ See Order No. PSC-98-1231-FOF-WU, issued September 21, 1998, in Docket No. 971670-WU, In re: Application for transfer of part of Certificate No. 448-W in Marion County from Venture Associates Utilities Corp. to Palm Cay Utilities, Inc.; Order No. PSC-02-0648-TRF-WU, issued May 13, 2002, in Docket No. 020247-WU, In re: Request for approval of tariff increase for portion of tariff that applies to City of Ocala Impact Fees in Marion County by Venture Associates Utilities Corp.

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

Recommendation: The net book value (NBV) of the water system for transfer purposes is \$528,760. This amount is based on an Original Cost Study which resulted in plant balances as of the closing date, September 6, 2013. No acquisition adjustment should be recorded. Within 30 days of the date of the final order, Ocala Palms should be required to provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of September 6, 2013, along with a statement that the adjustments will be reflected in the 2014 Annual Report when filed. (Springer, Frank)

Staff Analysis: The purpose of establishing NBV for transfers is to determine whether an acquisition adjustment is necessary to reflect the difference between the purchase price and the value of the system based on, in this case, an Original Cost Study. The NBV does not include normal ratemaking adjustments such as used and useful plant or working capital. Staff's recommended NBV of \$528,760, as described below, is shown on Schedule No. 2.

Utility Plant in Service (UPIS)

Venture's 2012 Annual Report reflected a water UPIS balance of \$1,422,751 as of December 31, 2012. Due to the lack of original documentation, Venture engaged Milian, Swain, & Associates, Inc., an independent third party, to conduct an Original Cost Study. This study identified water UPIS at \$1,662,082 based on historical record and estimation of supplies used.¹⁵ Staff believes the Original Cost Study is the best assessment of the Utility's assets and therefore recommends that the water UPIS balance as of September 6, 2013, is \$1,662,082 as shown on Schedule No. 2.

Land and Land Rights

Venture purchases water from the City of Ocala and they have no pumping or treatment facility in use. Additionally all distribution mains and lines are in right-of-ways or easements. Therefore, there is no balance for land and land rights in Account 303.

Accumulated Depreciation

Venture's general ledger reflected an accumulated depreciation balance of \$455,625 as of December 31, 2012. The accumulated depreciation per the Original Cost Study is \$591,982 based on appropriate life spans and depreciation schedules. These balances are reflective of all necessary accruals through the date of the study. Therefore, staff recommends an accumulated depreciation balance of \$591,982.

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

As of December 31, 2012, Venture's general ledger reflected a CIAC balance of

¹⁵ See Document No. 07612-13, Exhibit J "Original Cost Study" performed by Milian, Swain, & Associates, Inc., p. 6.

\$810,417 and an accumulated amortization of CIAC balance of \$332,327. According to the Original Cost Study, the CIAC balance is \$830,627 and the accumulated amortization of CIAC balance is \$289,287 as of September 6, 2013. Staff recommends that the CIAC balance as of September 6, 2013, is \$830,627 and accumulated amortization of CIAC balance is \$289,287, as shown on Schedule No. 2.

Net Book Value (NBV)

Venture's general ledger reflects NBV of \$489,036 as of December 31, 2012. Based on the Original Cost Study described above and as shown on Schedule No. 2, staff recommends that the NBV for the system as of September 6, 2013 is \$528,760.

Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of the acquisition. Pursuant to Rule 25-30.3071(2), 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. Rule 25-30.371(2), F.A.C., further states that a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. Positive acquisition adjustments, if approved, increase rate base. With respect to negative acquisition adjustments, Rule 25-30.371(3), F.A.C., states that no negative acquisition adjustment shall be included in rate base if the purchase price is greater than 80 percent of the NBV. If the purchase price is equal to or less than 80 percent of the NBV, a negative acquisition adjustment shall be included in rate base equal to 80 percent of the NBV, less the purchase price. Negative acquisition adjustments reduce rate base. The purchase price for the system and all assets was \$500,000. As stated above, staff recommends the appropriate NBV to be \$528,760. Given that purchase price is greater than 80 percent of the recommended NBV, staff recommends that no acquisition adjustment be made in this case.

Conclusion:

Based on the above, staff recommends that the NBV of the water system for transfer purposes is \$528,760. This amount is based on an Original Cost Study which resulted in plant balances as of the closing date, September 6, 2013. No acquisition adjustment should be recorded. Within 30 days of the date of the final order, Ocala Palms should be required to provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of September 6, 2013, along with a statement that these adjustments will also be reflected in Ocala Palms' 2014 Annual Report when filed.

Issue 3: Should this docket be closed?

Recommendation: Yes. If staff's recommendation in Issues 1 and 2 are approved, no further action is required and the docket should be closed. (Lawson)

Staff Analysis: If Issues 1 and 2 are approved, no further action is required and the docket should be closed.

Description of Ocala Palms Water Territory
Marion County

A Parcel of land lying in section 3, 4 and 9, Township 15 South, Range 21 East, Marion County, Florida, Tallahassee Meridian

Being more particularly described as follows:

Beginning at the Southeast corner of said Section 4; thence S $4^{\circ}48'07''$ W, along the East boundary of the Northeast 1/4 of said Section 9, 1322.45 feet to the Southeast corner of the N.E. 1/4 of the N.E. 1/4 of said Section 9; thence N $85^{\circ}41'55''$ W, along the South boundary of the said N.E. 1/4 of the N.E. 1/4, 1297.34 feet to the S.W. corner of the N.E. 1/4 of the N.E. 1/4 of said Section 9; thence continue N $85^{\circ}41'55''$ W, along the South boundary of the N.W. 1/4 of the N.E. 1/4, 1297.33 feet to the S.W. corner of the said N.W. 1/4 of the N.E. 1/4 of said Section 9; Thence N $84^{\circ}56'00''$ W, along the South boundary of the N.E. 1/4 of the N.W. 1/4 1348.41 feet, to the Southwest corner of the said N.E. 1/4 of the N.W. 1/4 of said Section 9; thence continue N $84^{\circ}56'00''$ W, along the South boundary of the East 1/2 of the N.W. 1/4 of the N.W. 1/4; thence N $5^{\circ}01'04''$ E, along the west line of the said East 1/2 of the N.W. 1/4 of the N.W. 1/4, 230.63 feet; thence N $85^{\circ}09'24''$ W, 649.90 feet to the east right of way lien of N.W. 60th Avenue (50' right of way); thence N $4^{\circ}50'36''$ E, along the said East right of way line, 264.00 feet; thence S $85^{\circ}09'24''$ E, departing said East right of way line, 650.70 feet to the West line of the said East 1/2 of the N.W. 1/4 of the N.W. 1/4; thence N $5^{\circ}01'04''$ E, along said West line, 824.90 feet to the Northwest corner of the said East 1/2 of the N.W. 1/4 of the N.W. 1/4; thence N $84^{\circ}30'04''$ W, along the South boundary of the S.W. 1/4 of the said Section 4, 648.13 feet to the East right of way line of said N.W. 60th Avenue; thence N $4^{\circ}52'39''$ E, along said east right of way line, 2643.25 feet to the North boundary of the S.W. 1/4 of said Section 4; thence S $85^{\circ}17'29''$ E, along said North Boundary, 2649.01 feet to the Northeast corner of the said S.W. 1/4; thence S $4^{\circ}09'21''$ W, along the East Boundary of the said S.W. 1/4, 315.00 feet (105 yards); thence S $85^{\circ}17'29''$ E, parallel to the North boundary of the S.E. 1/4 of said Section 4, along the South boundary of the North 105 yards, 882.23 feet; thence N $4^{\circ}28'23''$ E, along the West boundary of the East 6.36 chains of the N.W. 1/4 of the S.E. 1/4 of said Section 4, 44.39 feet to the South line of the North 4.10 chains of the said N.W. 1/4 of the S.E. 1/4; thence S $85^{\circ}17'29''$ E, along the South boundary of the said North 4.10 chains, 352.15 feet; thence N $4^{\circ}28'23''$ E, parallel to the East boundary of the N.W. 1/4 of the S.E. 1/4, 270.60 feet to the North boundary of the S.E. 1/4 of said Section 4; thence S $85^{\circ}17'29''$ E, along the North boundary of the S.E. 1/4, 414.98 feet to the Southerly right of way line of U.S. Highway No. 27 (State Road No. 500); thence S $57^{\circ}36'40''$ E, along said Southerly right of way line, 2827.20 feet to the South boundary of the N.E. 1/4 of the S.W. 1/4 of said Section 3; thence N $85^{\circ}36'04''$ W, along said South boundary, 224.48 feet to the Southwest corner of the said N.E. 1/4 of the S.W. 1/4; thence continue N $85^{\circ}36'04''$ W, along the South boundary of the N.W. 1/4 of the S.W. 1/4 of said Section 3, 1324.81 feet to the Southwest corner of the said N.W. 1/4 of the S.W. 1/4; thence S $4^{\circ}47'44''$ W, along the East boundary of the S.E. 1/4 of said Section 4, 1321.71 feet to the Point of Beginning.

FLORIDA PUBLIC SERVICE COMMISSION
Authorizes
Ocala Palms Utilities, LLC
Pursuant to
Certificate Number 488-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>
18121	09/08/87	860872-WU	Original Certificate
PSC-96-0120-FOF-WU	01/23/96	951365-WU	New Class of Service
PSC-98-1231-FOF-WU	09/21/98	971670-WU	Partial Transfer
*	*	130269-WU	Transfer

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

Ocala Palms Utilities, LLC Monthly Water Rates

Residential and General Service

Base Facility Charge by Meter Size	
5/8" x 3/4"	\$13.30
3/4"	\$19.97
1"	\$33.30
1 1/2"	\$66.48
2"	\$106.42
3"	\$212.76
4"	\$332.46
6"	\$664.92
8"	\$1,063.86

Charges per 100 cubic feet – Residential and General Service \$2.49

Initial Customer Deposits

Residential Service	
5/8" x 3/4"	\$20.00
1"	\$20.00
1 1/2"	\$30.00
2"	\$35.00

Miscellaneous Service Charges

Schedule of Miscellaneous Service Charges

Initial Connection Charge	\$15.00	\$15.00
Normal Reconnection Charge	\$15.00	\$15.00
Violation Reconnection Charge	\$15.00	\$15.00
Premises Visit Charge (in lieu of disconnection)	\$10.00	N/A

Service Availability Charges

Meter Installation Charge

5/8" x 3/4"	\$100.00
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Customer Connection (Tap-In) Charge

Actual Cost

Main Extension Charge

Residential - Per ERC (ERC = 350 gpd)	\$715.00
All Others – Per gallon	\$2.0429

City of Ocala Impact Fee

Residential – Per ERU 0 – 1,499 sq. ft.	\$503.00
Residential – Per ERU 1,500 – 2,499 sq. ft.	\$629.00
Residential – Per ERU 2,500 – 3,499 sq. ft.	\$838.00
Residential – Per ERU 3,500 sq. ft.	\$1,048.00

Ocala Palms Utilities, LLC			
Schedule of Net Book Value as of September 6, 2013			
Description	Utility Proposed	Adjustment	Staff Recommended
Utility Plant In Service	\$1,662,082	0	\$1,662,082
Land & Land Rights	0	0	0
Accumulated Depreciation	(591,982)	0	(591,982)
CIAC	(830,627)	0	(830,627)
Amortization of CIAC	<u>289,287</u>	<u>0</u>	<u>289,287</u>
Net Book Value	<u>\$582,760</u>	<u>0</u>	<u>\$528,760</u>

Ocala Palms Utilities, LLC			
Schedule of Staff Recommended Account Balances as of September 6, 2013			
Account No.	Description	UPIS	Accumulated Depreciation
331	Transmission & Dist. Mains	\$1,262,482	(\$414,545)
333	Services	103,496	(36,338)
334	Meter and Meter installation	126,279	(89,199)
335	Hydrants	<u>169,825</u>	<u>(51,900)</u>
	Total	<u>1,662,082</u>	<u>(\$591,982)</u>