

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-

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**DATE:** August 21, 2014

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (P. Buys) ✓ PB PV  
Division of Accounting and Finance (Frank, Springer) CRED TDS  
Division of Economics (Roberts) ALM  
Office of the General Counsel (Brownless) ✓ DF

**RE:** Docket No. 130294-WU – Application for transfer of water systems and Certificate No. 579-W in Highland<sup>S</sup> County from Holmes Utilities, Inc. to Country Walk Utilities, Inc. ✓ CB

**AGENDA:** 09/04/14 – Regular Agenda – Proposed Agency Action for Issues 2 and 3 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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#### Case Background

On December 30, 2013, Country Walk Utilities, Inc. (Country Walk) filed an application for the transfer of the water system and Certificate No. 579-W on behalf of Holmes Utilities, Inc. (Holmes) in Highland<sup>S</sup> County. The service area is located in the Southwest Florida Water Management District and is in a water use caution area. According to Holmes' 2012 Annual Report, it serves 68 water customers in a subdivision known as Country Walk Subdivision.

Holmes has been in existence and providing water service since 1987. The facilities consist of one water treatment plant and one water transmission and distribution system.

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Wastewater treatment is provided by septic tanks. According to its 2012 Annual Report, Holmes has total revenues of \$24,465 and is a Class C utility.

Holmes received its certificate by Order No. PSC-97-0568-FOF-WU, issued May 20, 1997, in Docket No. 960244-WU. In 2001, Holmes filed an application for a staff assisted rate case. Rate base for Holmes was established in Docket No. 010403-WU, Order No. PSC-01-2385-PAA-WU, issued December 10, 2001.

This recommendation addresses the transfer of the certificate, the net book value of the water system at the time of transfer, and whether an acquisition adjustment should be approved. The Commission has jurisdiction pursuant to Section 367.071, Florida Statutes (F.S.).

### **Discussion of Issues**

**Issue 1:** Should the transfer of Holmes Utilities, Inc.'s water system and Certificate No. 579-W to Country Walk Utilities, Inc. be approved?

**Recommendation:** Yes. The transfer of Holmes' water system and Certificate No. 579-W to Country Walk is in the public interest and should be approved effective the date of the Commission's vote. The resultant order should serve as the certificate and should be retained by Country Walk. The 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.). Country Walk should be responsible for filing the 2013 Annual Report and paying the 2014 Regulatory Assessment Fee (RAFs) and should be responsible for filing all future annual reports and RAFs. (P. Buys, Frank, Roberts, Springer)

**Staff Analysis:** On December 30, 2013, Country Walk filed an application for approval of the transfer of Certificate No. 579-W and the associated water treatment facilities on behalf of Holmes. The application is in compliance with Section 367.071, F.S., and administrative rules concerning applications for transfer of certificates. Pursuant to Section 367.071(1), F.S., the sale took place on September 4, 2013, and the closing occurred on October 23, 2013, contingent upon Commission approval.

#### **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 filed with the Commission and the time for doing so has expired. The application contains a description of the water service territory, which is appended to this recommendation as Attachment A. A copy of a Special Warranty Deed and a Bill of Sale, executed on October 17, 2013, were provided, as evidence for ownership of the land upon which the water treatment facilities are located pursuant to Rule 25-30.037(2)(q), F.A.C.

#### **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. There are no customer deposits, guaranteed revenue contracts, developer agreements, customer advances, leases, or debt of Holmes that must be disposed of with regard to the transfer. According to the Purchase Agreement, the total purchase price of \$5,500 is for assets attributable to water service, with 100 percent of the purchase price paid in cash at the closing.

### Facility Description and Compliance

The water treatment plant (WTP) consists of two wells. The older well, which was constructed in 1987, has a depth of 1,000 feet and a 5 horsepower motor. This well is no longer in service. The new well, which was constructed in 2012, has a depth of 483 feet, a 5 horsepower motor, and a rating of 80 gallons per minute (GPM). The WTP includes a hydropneumatic tank with a capacity of 5,000 gallons for storage. Water pressure is maintained by the hydropneumatic tank and liquid chlorination is used for disinfection.

Staff found two Compliance Inspection reports from the Department of Environmental Protection (DEP), dated August 30, 2012, and June 27, 2014, and one Sanitary Survey Inspection report from DEP, dated April 17, 2013. Each report had deficiencies and all deficiencies have now been corrected or are in the process of being corrected. Staff also located a Consent Order against Holmes dated June 27, 2013. The Consent Order was issued because Holmes installed a new well and made modifications to the water system before applying for a permit. As a result, fines and additional chemical analyses of the water from the system were required by DEP. On August 7, 2013, DEP determined that all conditions of the Consent Order had been complied with and closed the case.

### 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, Country Walk has considerable Florida-specific expertise in private utility ownership within the state. The directors of Country Walk have been in the water and wastewater utility management, operations, and maintenance industry for many years, providing service to more than 550 Florida facilities throughout their careers. Further, the application indicates that the President and Vice President of Country Walk have 28 and 36 years, respectively, of operation or ownership of utilities, including a number of utilities previously regulated by the Commission. The application indicates that operating, billing, collection, and customer services will be provided by contract through an affiliated entity, U.S. Water Services Corporation, which currently provides such services to utilities serving approximately 80,000 customers in Florida.

Staff also reviewed the personal financial statements for the President and Vice President of Country Walk.<sup>1</sup> The President is part owner of other systems regulated by the Commission, including Harbor Waterworks, Inc.,<sup>2</sup> Lakeside Waterworks, Inc.,<sup>3</sup> LP Waterworks, Inc.,<sup>4</sup> and

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<sup>1</sup> See Document No. 02835-12, filed May 3, 2012, in Docket No. 120148-WU, In re: Application for approval of transfer of Harbor Hills Utility, L.P. water system and Certificate No. 522-W in Lake County to Harbor Waterworks, Inc.

<sup>2</sup> See Order No. PSC-12-0587-PAA-WU, issued October 29, 2012, in Docket No. 120148-WU, In re: Application for approval of transfer of Harbor Hills Utility, L.P. water system and Certificate No. 522-W in Lake County to Harbor Waterworks, Inc.

<sup>3</sup> See Order No. PSC-13-0425-PAA-WS, issued September 18, 2013, in Docket No. 120317-WS, In re: Application for approval to transfer water and wastewater system Certificate Nos. 567-W and 494-S in Lake County from Shangri-La by the Lake Utilities, Inc. to Lakeside Waterworks, Inc.

several of the systems previously owned by Aqua Utilities Florida.<sup>5</sup> Based on the above, it appears that Country Walk has demonstrated the technical and financial ability to provide service to the existing service territory.

### Rate and Charges

Holmes' rates and charges were last approved in a staff-assisted rate case in 2001.<sup>6</sup> In 2006, the rates were subsequently reduced to reflect the expiration of rate case expense approved in 2001. Holmes has also consistently filed index rate adjustments from 2004 through 2013. The 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 the Commission. Therefore, staff recommends that the existing rates and charges remain in effect until a change is authorized by the Commission in a subsequent proceeding.

### Regulatory Assessment Fees (RAFs) and Annual Reports

Staff has verified that Country Walk is current on the payment of RAFs through December 2013 and will also be responsible for paying RAFs for 2014 and all future years. Country Walk will be responsible for filing the 2013 Annual Report due on August 31, 2014, and all future annual reports.

### Conclusion

Based on the above, staff recommends that the transfer of Holmes' water system and Certificate No. 579-W to Country Walk is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the certificate and should be retained by Country Walk. The existing rates and charges should remain in effect until a

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<sup>4</sup> See Order No. PSC-14-0130-PAA-WS, issued March 17, 2014, in Docket No. 130055-WS, In re: Application for approval of transfer of LP Utilities Corporation's water and wastewater systems and Certificate Nos. 620-W and 533-S, to LP Waterworks, Inc., in Highlands County.

<sup>5</sup> See Order No. PSC-14-0300-PAA-WS, issued June 11, 2014, in Docket No. 130171-WS, In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to The Woods Utility Company in Sumter County; Order No. PSC-14-0315-PAA-WS, issued June 13, 2014, in Docket No. 130172-WS, In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 501-W and 435-S of Aqua Utilities Florida, Inc. to Sunny Hills Utility Company in Washington County; Order No. PSC-14-0327-PAA-WU, issued June 25, 2014, in Docket No. 130173-WU, In re: Application for approval of transfer of certain water and wastewater facilities and Certificate No. 053-W of Aqua Utilities Florida, Inc.'s to Lake Osborne Waterworks, Inc. in Palm Beach County; Order No. PSC-14-0326-PAA-WU, issued June 25, 2014, in Docket No. 130174-WU, In re: Application for approval of transfer of Aqua Utilities Florida, Inc.'s water systems and Certificate No. 002-W to Brevard Waterworks, Inc. in Brevard County; Order No. PSC-14-0314-PAA-WS, issued June 13, 2014, in Docket No. 130175-WS, In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 422-W and 359-S of Aqua Utilities Florida, Inc. to HC Waterworks, Inc. in Highlands County; and Order No. PSC-14-299-PAA-WS, issued June 11, 2014, in Docket No. 130176-WS, In re: Application for approval of Transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to Jumper Creek Utility Company in Sumter County.

<sup>6</sup> See Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.

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. Country Walk should be responsible for filing the 2013 Annual Report and paying 2014 RAFs and should be responsible for filing all future annual reports and RAFs.

**Issue 2:** What is the appropriate net book value for the water system as of September 4, 2013?

**Recommendation:** For transfer purposes, the net book value (NBV) of the water system is \$31,955, as of September 4, 2013. Within 30 days of the date of the final order, Country Walk should be required to provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of September 4, 2013. The adjustments should be reflected in the utility's 2014 Annual Report when filed. (Springer)

**Staff Analysis:** The purpose of establishing NBV for transfer applications is to determine whether an acquisition adjustment should be approved. The NBV does not include normal ratemaking adjustments such as used and useful plant or working capital. Staff's recommended NBV, as described below, is shown on Schedule No. 2.

#### Utility Plant in Service (UPIS)

The utility's general ledger reflected a UPIS balance of \$90,829, as of December 31, 2012. The staff auditor determined that certain plant retirements had not been made to Accounts 311, 320, and 334 and documentation of the original cost of the retired assets could not be obtained. When the original cost or the year that retired plant was placed in service is not known, it is Commission practice to determine the retirement cost by using 75 percent of the replacement cost.<sup>7</sup> As a result, UPIS should be reduced by \$1,520. Therefore, staff recommends a UPIS balance as of September 4, 2013, of \$89,309, as shown on Schedule No. 2.

#### Land and Land Rights

The utility's general ledger reflected a land and land rights balance of \$1,495. Staff determined that land had been recorded at original cost. No adjustments have been identified by staff. Therefore, staff recommends a Land and Land Rights balance of \$1,495 as of September 4, 2013.

#### Accumulated Depreciation

The utility's general ledger reflected an accumulated depreciation balance of \$49,258 as of December 31, 2012. Audit staff reviewed the records and determined that depreciation was not recorded for the period January 1, 2013, through September 4, 2013. Audit staff calculated depreciation based on the depreciation rates prescribed in Rule 25-30.140, F.A.C., and determined that the accumulated depreciation should be increased by \$2,138. Additionally, due to the aforementioned retirements of plant, there should be a reduction in accumulated depreciation of \$1,520. The net of these two adjustments results in an increase of \$618 to accumulated depreciation. Therefore, staff recommends an accumulated depreciation balance as of September 4, 2013, of \$49,876, as shown on Schedule No. 2.

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<sup>7</sup> See Order PSC-13-0187-PAA-WS, issued May 2, 2013, in Docket No. 120152-WS, In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.

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

As of December 31, 2012, the utility's general ledger reflected a CIAC balance of \$23,700 and accumulated amortization of CIAC balance of \$14,278. The balance of accumulated amortization of CIAC was increased by \$449 to recognize accrual of amortization through September 4, 2013. As a result, staff recommends a CIAC balance as of September 4, 2013, of \$23,700 and an accumulated amortization of CIAC balance of \$14,727, as shown on Schedule No. 2.

Net Book Value

The utility's general ledger reflected a NBV of \$33,644 as of December 31, 2012. Based on the adjustments described above and as shown on Schedule No. 2, staff recommends that the NBV for the water system as of September 4, 2013, is \$31,955. Schedule No. 2 also contains the National Association of Regulatory Utility Commissioners Uniform System of Accounts balances for UPIS and accumulated depreciation as of September 4, 2013.

Conclusion

Based on the above, staff recommends that the NBV for transfer purposes is \$31,955 as of September 4, 2013. A negative acquisition adjustment should be included in rate base as addressed in Issue 3. Within 30 days of the date of the final order, Country Walk should be required to provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of September 4, 2013. The adjustments should be reflected in the utility's 2014 Annual Report when filed.

**Issue 3:** Should an acquisition adjustment be recognized for ratemaking purposes?

**Recommendation:** Yes. Pursuant to Rule 25-30.0371, F.A.C., a negative acquisition adjustment of \$20,064 for the water system should be recognized for ratemaking purposes. Beginning with the date of the issuance of the order approving the transfer, 50 percent of the negative acquisition adjustment, which is \$10,032, should be amortized over a 7-year period and the remaining 50 percent should be amortized over the remaining life of the assets. (Springer)

**Staff Analysis:** An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of the acquisition. The utility’s assets were purchased for \$5,500. As stated above, staff has determined the appropriate NBV to be \$31,955. Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment may be appropriate when the purchase price is greater than the NBV, and a negative acquisition adjustment may be appropriate when the purchase price is less than NBV. Specifically, pursuant to Rule 25-30.0371(3), F.A.C., if the purchase price is equal to or less than 80 percent of net book value, a negative acquisition adjustment shall be included in rate base and will be equal to 80 percent of net book value less the purchase price. Pursuant to Rule 25-30.0371(4)(b)(2), F.A.C., if the purchase price is equal to or less than 50 percent of net book value, then 50 percent of the negative acquisition adjustment is amortized over a 7-year period and 50 percent amortized over the remaining life of the assets, beginning with the date of the issuance of the order approving the transfer of assets. Staff agrees with Country Walk’s estimate that the remaining life of the applicable water assets is 11.1 years.

The calculation of Country Walk’s acquisition adjustment is shown in Table 3-1 below:

Table 3-1

Calculation of Negative Acquisition Adjustment	
	Water System
Net book value as of September 4, 2013	\$31,955
	x 0.80
80 percent of net book value	25,564
Less purchase price	(5,500)
Negative acquisition adjustment	<u>\$20,064</u>

Conclusion

Staff recommends, pursuant to Rule 25-30.0371, F.A.C., that a negative acquisition adjustment of \$20,064 for the water system be recognized for ratemaking purposes. Beginning with the date of the issuance of the order approving the transfer, 50 percent of the negative acquisition adjustment, \$10,032, should be amortized over a 7-year period and the remaining 50 percent should be amortized over the remaining life of the assets.

**Issue 4:** 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 order, a consummating order should be issued and the docket should be closed administratively after Country Walk has provided proof that its general ledgers have been updated to reflect the Commission–approved balances as of September 4, 2013. (Brownless)

**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 order, a consummating order should be issued and the docket should be closed administratively after Country Walk has provided proof that its general ledgers have been updated to reflect the Commission–approved balances as of September 4, 2013.

Description of Country Walk Utilities, Inc.'s Water Territory  
Highlands County

Township 36 South, Range 29 East

Section 16

Begin at the Northwest corner of the Southwest Quarter of the Southwest Quarter of said Section 16; Thence North  $88^{\circ}22'50''$  East along the North line of the said Southwest Quarter of the Southwest Quarter for a distance of 1328.55 feet to a point marking the Northeast corner of the Southwest Quarter of the Southwest Quarter of Section 16, Township 36 South, Range 29 East; Thence run South  $00^{\circ}02'11''$  East along the East line of the Southwest Quarter of the Southwest Quarter for a distance of 1272.47 feet to a point on the Government Meander Line of Lake Carrier; Thence run South  $78^{\circ}27'29''$  West a distance of 273.91 feet along said Government Meander Line to a point; Thence run South  $88^{\circ}22'28''$  West a distance of 1055.35 feet to the Southwest Corner of Section 16, Township 36 South, Range 29 East; Thence run North  $00^{\circ}14'24''$  West a distance 1319.68 feet to the point of beginning said portion containing 40.02 acres.

FLORIDA PUBLIC SERVICE COMMISSION  
Authorizes  
Country Walk Utilities, Inc.  
Pursuant to  
Certificate Number 579-W

To provide water service in Highlands County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled, or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
PSC-97-0568-FOF-WU *	05/20/97 *	960244-WU 130294-WU	Original Certificate Transfer

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

**Country Walk Utilities, Inc.  
 Monthly Water Rates**

**Residential and General Service**

Base Facility Charge by Meter Sizes

5/8" X 3/4"	\$16.26
3/4"	\$24.39
1"	\$40.63
1-1/2"	\$81.26
2"	\$129.99
3"	\$260.01
4"	\$406.27
6"	\$812.56

Charge per 1,000 Gallons - Residential

0-10,000 gallons	\$6.10
Over 10,000 gallons	\$7.63

Charge per 1,000 Gallons – General Service

\$6.10

**Customer Deposit**

	<b><u>Residential</u></b>	<b><u>General Service</u></b>
5/8" x 3/4"	\$62.00	\$62.00
Over 5/8" X 3/4"	2 times average estimated bill	2 times average estimated bill

**Miscellaneous Service Charges**

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

**Service Availability Charges**

**Customer Connection (Tap-in) Charge**

5/8" x 3/4"	\$150.00
All other meter sizes	Actual Cost

**Meter Installation Charge**

5/8" x 3/4"	\$100.00
All other meter sizes	Actual Cost

<b>Country Walk Utilities, Inc.</b>				
<b>Water System</b>				
<b>Schedule of Net Book Value as of September 4, 2013</b>				
<b>Description</b>	<b>Utility</b>			<b>Staff</b>
	<b>Proposed</b>	<b>Adjustment</b>		<b>Recommended</b>
Utility Plant In Service	\$90,829	(\$1,520)	A	\$89,309
Land & Land Rights	1,495	0		1,495
Accumulated Depreciation	(49,258)	(618)	B	(49,876)
CIAC	(23,700)	0		(23,700)
Amortization of CIAC	<u>14,278</u>	<u>449</u>	C	<u>14,727</u>
<b>Net Book Value</b>	<b><u>\$33,644</u></b>	<b><u>(\$1,689)</u></b>		<b><u>\$31,955</u></b>

<b>Explanation of Staff's Recommended Adjustments to Net Book Value as of September 4, 2013</b>	
<b>Explanation</b>	<b>Amount</b>
<b>A. Utility Plan in Service</b>	
To reflect retirement of a pump in Account 311	(\$517)
To reflect retirement of a Chlorine Pump in Account 320	(\$868)
To reflect replacement of meters in Account 334	<u>(\$135)</u>
	<u>(\$1,520)</u>
<b>B. Accumulated Depreciation</b>	
To reflect appropriate amount of accumulated depreciation	(\$2,138)
To reflect retirements in UPIS not appropriately made	<u>\$1,520</u>
	<u>(\$618)</u>
<b>C. Accumulated Amortization of CIAC</b>	
To reflect appropriate amount of accumulated amortization of CIAC	<u>\$449</u>
<b>Total Adjustments to Net Book Value as of September 4, 2013</b>	<u>(\$1,689)</u>

<b>Country Walk Utilities, Inc.</b>			
<b>Schedule of Staff Recommended Account Balances as of September 4, 2013</b>			
<b>Account</b>			<b>Accumulated</b>
<b>No.</b>	<b>Description</b>	<b>UPIS</b>	<b>Depreciation</b>
304	Structure and Improvements	\$11,980	\$7,979
307	Wells and Springs	38,413	15,541
311	Pumping Equipment	4,736	2,144
320	Water Treatment Plant	7,509	7,509
330	Distribution Reservoirs and Standpipes	6,701	4,773
331	Transmission & Dist. Mains	11,863	4,477
334	Meter and Meter installation	<u>8,107</u>	<u>7,453</u>
	<b>Total</b>	<b><u>\$89,309</u></b>	<b><u>\$49,876</u></b>