

FILED FEB 19, 2015
DOCUMENT NO. 01060-15
FPSC - COMMISSION CLERK

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: February 19, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Hill, King) *AK*
Division of Accounting and Finance (Norris) *AK PV CRB TB*
Division of Economics (Roberts) *AK* *SBF* *ALM*
Office of the General Counsel (Janjic, Villafrate) *AK* *JWD*

RE: Docket No. 140170-WU – Application for approval of transfer of Certificate No. 531-W from W.B.B. Utilities, Inc. to Lake Idlewild Utility Company in Lake County.

AGENDA: 03/03/15 – Regular Agenda – Proposed Agency Action for Issues 2 and 3 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: ~~Staff~~ *All Commissioners* *AK*
2-19-15

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On September 2, 2014, Lake Idlewild Utility Company (Lake Idlewild, applicant or buyer) filed an application for the transfer of Certificate No. 531-W from W.B.B. Utilities Inc. (W.B.B., Utility or seller) in Lake County. The service area is located in the St. Johns River Water Management District and is in a water resource caution area. According to the Utility's 2013 Annual Report, it serves 74 water customers with operating revenue of \$38,119, which designates it as a Class C utility.

Docket No. 140170-WU
Date: February 19, 2015

Certificate No. 531-W was originally granted in 1991.¹ There have been no certification actions since that time. The rates and charges for utility service were last approved in a staff-assisted rate case in 1994.²

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

¹ See Order No. 24007, issued January 22, 1991, in Docket No. 900826-WU, In re: Application of W.B.B. Utilities, Inc. for a water certificate in Lake County.

² See Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, In re: Application for staff-assisted rate case in Lake County by W.B.B. Utilities, Inc.

Discussion of Issues

Issue 1: Should the transfer of W.B.B. Utilities Inc.'s water system and Certificate No. 531-W to Lake Idlewild Utility Company be approved?

Recommendation: Yes. The transfer of the water system and Certificate No. 531-W is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the buyer's certificate and should be retained by the buyer. 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.). The seller should be responsible for all Regulatory Assessment Fees (RAFs) payable through the date of closing. The buyer should be responsible for filing the 2014 Annual Report and all future annual reports, and RAFs subsequent to the date of closing. (Hill, Norris)

Staff Analysis: On September 2, 2014, Lake Idlewild Utility Company filed an application for the transfer of Certificate No. 531-W from W.B.B. Utilities Inc., in Lake County. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The sale occurred on August 29, 2014, 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 filed, and the time for doing so has expired. The application contains a description of the Utility's water service territory, which is appended to this recommendation as Attachment A. The application contains a copy of a special warranty deed that was executed on August 20, 2014, as evidence that the applicant owns 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) (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 customer deposits, guaranteed revenue contracts, developer agreements, customer advances, leases, or debt of W.B.B. that must be disposed of with regard to the transfer. According to the purchase agreement, the total purchase price is \$58,000 for the portion of the assets attributable to water service, with 90 percent of the purchase price paid in cash at the closing. The remaining 10 percent is to be paid within 30 days of the final official approval date of the transfer established by the Commission. As noted, the sale took place on August 29, 2014, subject to Commission approval, pursuant to Section 367.071(1), F.S.

Facility Description and Compliance

The water treatment system consists of two wells with an elevated storage tank with a capacity of 7,500 gallons, and a liquid chlorination system used for disinfection. 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(2)(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, the buyer has considerable Florida-specific expertise in private utility ownership within the state. The directors have 29 and 37 years, respectively, of operation or ownership of utilities, including a number of utilities previously regulated by the Commission. In addition, the directors are part owners of several other systems regulated by the Commission, including Harbor Waterworks, Inc.,³ Lakeside Waterworks, Inc.,⁴ and LP Waterworks, Inc.⁵ The application also indicates that both the President and Vice President of Lake Idlewild have overseen more than 550 water and wastewater facilities within Florida during their careers.

Further, the application indicates that the President of Lake Idlewild has secured the services of U.S. Water Services Corporation to provide contract operating service, as well as, billing and collection services. Staff also reviewed the personal financial statements of the President and Vice President of Lake Idlewild.⁶ Based on the above, staff believes the buyer has demonstrated the technical and financial ability to provide service to the existing service territory.

Rates and Charges

The rates and charges for utility service were last approved in a staff-assisted rate case in 1994.⁷ In 1998, the rates were subsequently reduced to reflect the expiration of rate case expense approved in 1994. The service availability charges and allowance for funds prudently invested have been approved by the Commission in various other dockets.⁸ The Utility filed index rate

³ 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.

⁴ 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.

⁵ 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.

⁶ See Document No. 05741-14 (Confidential), in Docket No. 140121-WU.

⁷ See Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, In re: Application for staff-assisted rate case in Lake County by W.B.B. Utilities, Inc.

⁸ See Order Nos. PSC-94-0236-FOF-WU; PSC-97-0598-FOF-WU, issued May 23, 1997, in Docket No. 961498-WU, In re: Application for approval of revised service availability rates by W.B.B. Utilities, Inc.; and PSC-97-

adjustments in 1996 and 2000. In 2014, the Commission approved the Utility's request to change from quarterly billing to monthly billing.⁹ 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 existing rates and charges, shown on Schedules Nos. 1 and 2, remain in effect until a change is authorized by the Commission in a subsequent proceeding.

Regulatory Assessment Fees and Annual Reports

Staff has verified that the Utility is current on the filing of annual reports and RAFs through December 31, 2013. The seller will be responsible for all RAFs payable through the date of closing. The buyer is responsible for filing the 2014 Annual Report and all future annual reports, and RAFs subsequent to the date of closing.

Conclusion

Based on the foregoing, staff recommends that the transfer of the water system and Certificate No. 531-W is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the buyer's certificate and should be retained by the buyer. 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), F.A.C. The seller should be responsible for all RAFs payable through the date of closing. The buyer should be responsible for filing the 2014 Annual Report and all future annual reports, and RAFs subsequent to the date of closing.

1030-FOF-WU, issued August 27, 1997, in Docket No. 970397-WU, In re: Application to establish allowance-for-funds-prudently-invested (AFPI) charges in Lake County by W.B.B. Utilities, Inc.

⁹ See Order No. PSC-14-0681-TRF-WU, issued December 9, 2014, in Docket No. 140171-WU, In re: Request for approval of water rate tariff for a revision in customer billing from quarterly billing to monthly billing by W.B.B. Utilities, Inc. in Lake County.

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 of the water system for transfer purposes is \$50,565 as of August 29, 2014. The buyer did not request a positive acquisition adjustment, and staff is recommending that an acquisition adjustment should not be included in rate base. Within 30 days of the date of the final order, Lake Idlewild should be required to provide general ledger balances which show its books have been updated to reflect the Commission-approved balances as of August 29, 2014. The adjustments should be reflected in the 2014 Annual Report when filed. (Norris)

Staff Analysis: The purpose of establishing net book value (NBV) for transfers is to determine whether an acquisition adjustment should be approved. The NBV does not include normal ratemaking adjustments for non-used and useful plant or working capital. The application reflects a proposed NBV as of August 29, 2014.

Utility Plant in Service (UPIS)

The general ledger reflected a UPIS balance of \$192,336. Staff believes no adjustments are necessary. Therefore, staff recommends a balance of \$192,336. Staff's recommended UPIS balance is shown on page 1 of Schedule 3.

Land and Land Rights

The audited general ledger reflected a land balance of \$1,905. The value of land and land rights was last established in Order No. PSC-94-0236-FOF-WU.¹⁰ At that time, the Commission approved a land value of \$1,905. Staff believes no adjustments are necessary. Therefore, staff recommends land and land rights of \$1,905. Staff's recommended land balance is shown on page 1 of Schedule 3.

Accumulated Depreciation

The general ledger reflected an accumulated depreciation balance of \$102,125. Staff believes that this balance should be decreased by \$9,134 to account for the use of incorrect depreciation rates and plant balances. Therefore, staff recommends an accumulated depreciation balance of \$92,991. Staff's recommended accumulated depreciation balance is shown on page 1 of Schedule 3.

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

The general ledger reflected balances of \$92,379 for CIAC and \$48,594 for accumulated amortization of CIAC. Staff believes the CIAC balance should be decreased by \$660 to correct the initial connection fees recorded as CIAC, which should have been recorded as miscellaneous service revenues. Accumulated amortization of CIAC should be decreased by \$7,559 to reflect

¹⁰ See Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, In re: Application for a Staff-Assisted Rate Case in Lake County by W.B.B. Utilities, Inc.

the correct amortization rates and beginning balances. Therefore, staff recommends a CIAC balance of \$91,719 and accumulated amortization of CIAC balance of \$41,034. Staff's recommended balances for CIAC and accumulated amortization of CIAC are shown on page 1 of Schedule 3.

Net Book Value

Based on the adjustments and balances described above, staff recommends that the NBV, as of August 29, 2014, is \$50,565. Staff's recommended NBV is shown on page 1 of Schedule 3 along with the National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) balances for UPIS and accumulated depreciation as of August 29, 2014.

Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of the acquisition. The assets were purchased for \$58,000. As stated above, staff has recommended a NBV of \$50,565. 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. However, 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. The buyer did not request a positive acquisition adjustment. As such, staff recommends that no positive acquisition adjustment be approved.

Conclusion

Based on the above, staff recommends that the NBV of the water system for transfer purposes is \$50,565 as of August 29, 2014. The buyer did not request a positive acquisition adjustment, and staff is recommending that an acquisition adjustment should not be included in rate base. Within 30 days of the date of the final order, Lake Idlewild should be required to provide general ledger balances which show its books have been updated to reflect the Commission-approved balances as of August 29, 2014. The adjustments should be reflected in the 2014 Annual Report when filed.

Issue 3: What is the appropriate initial customer deposit for Lake Idlewild?

Recommendation: The appropriate initial customer deposit should be \$86 for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. Lake Idlewild should file revised tariff sheets consistent with the Commission's vote. The initial customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets. (Roberts)

Staff Analysis: Rule 25-30.311, F.A.C., contains criteria for collecting, administering, and refunding customer deposits. Rule 25-30.311(1), F.A.C., requires that each company's tariff shall contain their specific criteria for determining the amount of initial deposits. The current tariff does not authorize the Utility to collect initial customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of rate payers. In addition, collection of customer deposits is consistent with one of the fundamental principles of rate making - ensuring that the cost of providing service is recovered from the cost causer.

Rule 25-30.311(7), F.A.C., authorizes utilities to collect new or additional deposits from existing customers not to exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. The two billing periods reflect the lag time between the customer's usage and the Utility's collection of the revenues associated with that usage. Commission practice has been to set initial customer deposits equal to two months bills based on the average consumption for a 12-month period for each class of customers. Staff reviewed the customer usage data and developed initial customer deposits for new residential and general service customers based on two times the average monthly consumption.

Staff recommends that the appropriate initial customer deposit should be \$86 for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. Lake Idlewild should file revised tariff sheets consistent with the Commission's vote. The initial customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

Issue 4: Should this docket be closed?

Recommendation: Yes. If no protest to the proposed agency action issues 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 Lake Idlewild Utility Company has provided proof that its general ledgers have been updated to reflect the Commission-approved balances as of August 29, 2014. (Janjic, Villafrate)

Staff Analysis: If no protest to the proposed agency action issues 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 Lake Idlewild Utility Company has provided proof that its general ledgers have been updated to reflect the Commission-approved balances as of August 29, 2014.

FLORIDA PUBLIC SERVICE COMMISSION

**Authorizes
Lake Idlewild Utility Company
pursuant to
Certificate Number 531-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>
24007	01/22/91	900826-WU	Original Certificate
*	*	140170-WU	Transfer of Certificate

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

Lake Idlewild Utility Company
Lake County
Description of Water Territory

PER ORDER NO. 24007:

The following described lands located in portions of Section 35, Township 18 South, Range 24 East, Lake County, Florida:

Section 35

The South 3/4 of the West 1/2 of the NW 1/4 less Lake Idlewild.

**Lake Idlewild Utility Company
Monthly Water Rates**

Residential Service

Base Facility Charge by Meter Sizes

5/8" X 3/4"	\$11.87
3/4"	\$17.81
1"	\$29.68
1-1/2"	\$59.35
2"	\$94.96
3"	\$178.05
4"	\$296.75
6"	\$593.51

Charge per 1,000 Gallons	\$1.55
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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

Main Extension Charge

Residential – per ERC	\$887.00
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Meter Installation Charge

5/8" x 3/4"	\$110.00
All other meter sizes	Actual Cost

Plant Capacity Charge

Residential – per ERC	\$793.00
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**Lake Idlewild Utility Company
Lake County**

ALLOWANCES FOR FUNDS PRUDENTLY INVESTED
(AFPI)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
January	\$22.42	\$293.00	\$582.13	\$891.55	\$1,223.15
February	\$44.84	\$316.95	\$607.76	\$919.02	\$1,252.62
March	\$67.26	\$340.91	\$633.40	\$946.49	\$1,282.09
April	\$89.68	\$364.68	\$659.03	\$973.95	\$1,311.56
May	\$112.10	\$388.62	\$684.66	\$1,001.42	\$1,341.03
June	\$134.52	\$412.77	\$710.29	\$1,028.88	\$1,370.50
July	\$156.94	\$436.73	\$735.93	\$1,056.35	\$1,399.97
August	\$179.36	\$460.68	\$761.56	\$1,083.82	\$1,429.44
September	\$201.78	\$484.64	\$787.19	\$1,111.28	\$1,458.91
October	\$224.20	\$508.59	\$812.82	\$1,138.75	\$1,488.38
November	\$246.62	\$532.54	\$838.46	\$1,166.21	\$1,517.85
December	\$269.04	\$556.50	\$864.09	\$1,193.68	\$1,547.32

Remaining ERCs 4 as of August 29, 2014

Lake Idlewild Utility Company

Water System

Schedule of Net Book Value as of August 29, 2014

Description	Utility Proposed	Staff Adjustment		Staff Recommended
Utility Plant In Service	\$192,336	\$0		\$192,336
Land & Land Rights	1,905	0		1,905
Accumulated Depreciation	(102,125)	9,134	(A)	(92,991)
CIAC	(92,379)	660	(B)	(91,719)
Amortization of CIAC	<u>48,594</u>	<u>(7,559)</u>	(C)	<u>41,034</u>
 Net Book Value	 <u>\$48,331</u>	 <u>\$2,235</u>		 <u>\$50,565</u>

**Explanation of Staff's Recommended
Adjustments to Net Book Value as of August 29, 2014
Water System**

Explanation	Amount
A. Accumulated Depreciation To reflect appropriate amount of accumulated depreciation.	\$9,134
B. Contributions in Aid of Construction To reflect appropriate amount of CIAC.	\$660
C. Accumulated Amortization of CIAC To reflect the appropriate amount of Accum. Amortization of CIAC.	<u>(\$7,559)</u>
 Total Adjustments to Net Book Value as of August 29, 2014.	 <u>\$2,235</u>

Lake Idlewild Utility Company

Water System

Schedule of Staff Recommended Account Balances as of August 29, 2014

Account			Accumulated
No.	Description	UPIS	Depreciation
304	Structures and Improvements	\$5,642	(\$735)
307	Wells and Springs	19,011	(11,891)
309	Supply Mains	15,793	(5,595)
310	Power Generation Equip.	3,038	(3,420)
311	Pumping Equip.	20,285	(14,482)
320	Water Treatment Equip.	20,337	(14,176)
330	Distribution Reservoirs	32,468	(395)
331	Transmission and Dist. Mains	57,238	(26,986)
333	Services	44	(39)
334	Meters and Meter Install.	9,020	(10,505)
335	Hydrants	<u>9,460</u>	<u>(4,768)</u>
		<u>\$192,336</u>	<u>(\$92,991)</u>