

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building  
101 East Gaines Street  
Tallahassee, Florida 32399-0850

M E M O R A N D U M

AUGUST 15, 1991

TO : DIRECTOR OF RECORDS AND REPORTING

FROM : DIVISION OF WATER AND SEWER (GILCHRIST)  
DIVISION OF LEGAL SERVICES (A. CROSBY) *pc*  
*df*  
*lt*  
*and for ACC*

RE : UTILITY: AQUA PURE WATER COMPANY  
DOCKET NO. 910118-WU  
COUNTY: MARION  
CASE: APPLICATION FOR TRANSFER OF AQUA PURE WATER  
COMPANY TO A. P. UTILITIES, INC., CANCELLATION  
OF CERTIFICATE NO. 395-W AND AMENDMENT OF  
CERTIFICATE NO. 380-W

AGENDA: AUGUST 27, 1991 - CONTROVERSIAL - PROPOSED AGENCY ACTION  
FOR ISSUE NO. 2 - PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: DOCKET NOS. 910115-WU, 910116-WU, 910118-  
WU, AND 910119-WU SHOULD BE SCHEDULED  
CONSECUTIVELY IN NUMERICAL ORDER.

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CASE BACKGROUND

Aqua Pure Water Company (Aqua Pure or utility) is a Class C Utility providing water service to 129 customers. The utility's 1990 Income Statement shows \$27,912 as gross annual revenue and net operating income of \$14,890.

On November 30, 1990 Mr. Blake and Mr. Woods entered an agreement whereby Mr. Woods agreed to purchase Aqua Pure and Marico Properties, Inc. (Marico) for \$150,467, contingent upon Commission approval. This agreement also included the proposed stock purchase of A.P. Utilities, Inc. (A. P.) which was approved at the August 6, 1991 Agenda Conference.

DOCUMENT NUMBER-DATE

08194 AUG 14 1991

FPSC-RECORDS/REPORTING

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On February 6, 1991, Mr. Woods filed five applications with the Commission; one application which was approved at the August 6, 1991 Agenda Conference, involved the stock purchase of A. P., the other four applications involving amendments and transfers will be addressed at the August 27, 1991 Agenda Conference. The subject of this recommendation is the application to transfer Aqua Pure to A. P.

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**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the transfer of utility assets from Aqua Pure Water Company to A. P. Utilities, Inc. and amendment of Water Certificate No. 380-W be approved?

**RECOMMENDATION:** Yes, the transfer should be approved. Certificate No. 395-W, held by Aqua Pure Water Company should be canceled and Certificate No. 380-W, held by A. P. Utilities, Inc., should be amended to include the territory described in Attachment A. (GILCHRIST)

**STAFF ANALYSIS:** The application is in compliance with the governing statute, Section 367.071, Florida Statutes, and other pertinent statutes and administrative rules concerning an application for transfer of utility assets. The application contains a check in the amount of \$150.00, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code. The applicant has provided evidence that the utility owns the land upon which the utility's facilities are located as required by Rule 25-30.037(1)(o), Florida Administrative Code.

In addition, the application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code, including notice to the customers of the system to be transferred. No objections to the notice of application have been received and the time for filing such has expired.

A description of the territory served by the utility is appended to this memorandum as Attachment A.

Mr. Woods is a Professional Engineer (PE) and is in the process of getting certified as a plant operator. In the meantime, Mr. Woods has contracted with Enviro-Masters to operate A. P. Enviro-Masters operates water and wastewater systems in Marion and Citrus Counties. The principal owner is Len Tabor. Mr. Tabor is a certified operator with four years' experience in water/wastewater utility operations and his associate, Buddy Morris is also a certified operator with eight years' experience in water/wastewater utility operations. Staff has contacted the Department of Environmental Regulation and learned that there are no outstanding notices of violation issued against this utility.

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Mr. Woods intends to purchase Aqua Pure and Marico for \$150,467 and will assume several promissory notes to finance the purchase. Mr. Woods is using two Certificates of Deposits in the amount of \$100,000 each as security for the notes assumed.

As mentioned in the stock purchase transfer which was approved at the August 6, Agenda Conference, Staff is very concerned over the amount of debt that is being assumed by Mr. Woods. Therefore, we asked and received from Mr. Woods a financial analysis regarding the operation of A. P. According to the report, the subdivisions served by A.P. are growing rapidly; the report shows 81 connections within a year's time. With an annual growth rate of approximately 80 connections per year, the utility anticipates collecting just enough to cover expenses in the initial years. However, the analysis shows that the utility should be profitable within six years. According to the utility's 1990 annual report, the utility paid \$47,452 in interest expense and still earned \$945 as net income.

Although this utility will be struggling through its initial years of operation, Staff believes that the customers of Aqua Pure will benefit from this transfer since Mr. Blake wishes to get out of the utility business. Further, Mr. Woods, who has been managing this utility for nine months, has been very aggressive in preventive maintenance and has made substantial efforts in keeping the utility in compliance with Department of Environmental Regulations (DER) standards.

The application contains a copy of the contract for sale which includes the purchase price, terms of payment and a list of the assets purchased and the liabilities assumed. A. P. Utilities, Inc. provided a statement in its application that it will fulfill the commitments, obligations and representations of Aqua Pure. According to the amended agreement, Mr. Blake will reimburse Mr. Woods \$10,477, for customer deposits belonging to Aqua Pure and Marico. Actually, the \$10,477 will be deducted from the cash amount (discussed in the A. P. stock purchase agreement) Mr. Woods is suppose to pay to Mr. Blake.

Based on the above, staff believes the transfer of utility assets from Aqua Pure Water Company, cancellation of Certificate No. 395-W held by Aqua Pure and amendment of Certificate No. 380-W held by A.P. Utilities, Inc. is in the public interest and should be approved.

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ATTACHMENT A

Aqua Pure Water Company

TERRITORY DESCRIPTION

The following described lands located in portions of Sections 18, 24, Township 15S, Range 21E, Marion County, Florida:

The Subdivisions of Indian Trails, Evergreen, Peppertree Village And The Unplatted Areas Between Said Subdivisions As Further Described As Being The North 3/4 of the East 1/4 of Section 24, Township 15S, Range 21 East, And The SE 1/4 of Section 18, Township 15S, Range 21 East.

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**ISSUE 2:** What is the rate base of Aqua Pure Water Company at the time of transfer?

**RECOMMENDATION:** The rate base, which for transfer purposes reflects the net book value, is \$ 118,228. (GILCHRIST)

**STAFF ANALYSIS:** According to the application, the net book value of the system being transferred as of the date of the proposed transfer is \$102,068. Rate base has never been established by the Commission.

Staff conducted an audit of the books and records of the utility to determine the rate base (net book value) at the time of transfer. The utility was unable to provide the auditor with the documentation to substantiate the original cost of plant. Therefore, Mr. Woods prepared original cost studies and submitted \$69,568 as the original cost of plant. Although Aqua Pure has three systems, Mr. Woods only submitted original cost studies for two of the systems. Mr. Woods also failed to include the original cost for the interconnection of these three systems. Therefore, the Staff engineer adjusted the figure by \$16,000 to reflect the cost of the other system and by \$85,004 to reflect the cost of the interconnection.

On December 22, 1989, a litigation settlement was reached between Aqua Pure and Miller Enterprises, Inc. (Handy Way Food Store). The settlement was for \$109,022.90 due to a gasoline storage tank at Handy Way contaminating Aqua Pure's wells at the Evergreen subdivision. Since the wells were contaminated, Mr. Blake abandoned the Evergreen plant, purchased a new water plant at the Peppertree subdivision and interconnected the old and new systems together. The plant items contaminated by gasoline are no longer in service, therefore, \$3,965 of plant has been retired.

The staff engineer also adjusted the utility's original cost study for services and for engineering and administrative costs. Utility plant-in-service per the engineer's calculation is \$170,597.

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The utility submitted \$32,500 as the value for land. Staff adjusted this figure to reflect the value of the land at the time it was first devoted to public service, and, therefore it is valued at \$29,256. Normally, plant held for future use (PHFU) adjustments are not made in setting net book value in transfer cases. However, since the Evergreen well sites have been contaminated by gasoline and are no longer in use, Staff removed \$12,500 of land from rate base and placed it in PHFU.

The utility's original cost study does not address accumulated depreciation. However the study reveals that the Evergreen system was installed in 1979, the Peppertree system was installed in 1982, the Indian Trails system was installed in 1985 and the interconnection of the three systems was done in 1988. Therefore, Staff brought accumulated depreciation forward from the dates of installation to the date of transfer, using Commission approved rates per Rule 25-30.140, Florida Administrative Code. Accumulated depreciation per Staff's Calculation is \$26,373.

The audit shows that the Indian Trails system is contributed, therefore, Contributions-in-aid-of-construction (CIAC) has been increased \$16,000 to reflect the cost of the system. The utility expensed \$1,343 of water meters on its tax return; therefore, CIAC has been increased accordingly. The utility is authorized by its tariff to collect a \$250 tap-in fee. As of the date of transfer, the utility had collected \$33,250 in tap-in fees from its customers. CIAC per staff's calculation is \$50,593.

CIAC Amortization for the Indian Trails system was amortized at a 2.63% depreciation rate, the expensed plant items and the cash contributions were amortized at a 4.07% composite depreciation rate. CIAC Amortization per Staff's calculation is \$7,841.

Staff's calculation of rate base is shown on Schedule No. 1. Adjustments to rate base are itemized on Schedule No. 2. Based on the adjustments set forth herein, staff recommends that rate base for Aqua Pure be established as \$118,228 as of November 30, 1990, the date used by the auditor. This rate base calculation is used purely to establish the net book value of the property being transferred and does not include the normal ratemaking adjustments of working capital calculations.

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SCHEDULE NO. 1

Aqua Pure Water Company  
SCHEDULE OF WATER RATE BASE  
As of November 30, 1990

<u>BALANCE DESCRIPTION</u>	<u>STAFF PER UTILITY</u>	<u>BALANCE PER ADJUSTMENTS</u>	<u>STAFF</u>
Utility Plant in Service	\$ 69,568	\$101,029 (1)	\$170,597
Land	32,500	( 3,244) (2)	29,256
Accumulated Depreciation	0	( 26,373) (3)	( 26,373)
Contributions-in- Aid-of-Construction	0	( 50,593) (4)	( 50,593)
CIAC Amortization	0	7,841 (5)	7,841
Plant Held For Future Use	<u>0</u>	<u>( 12,500)</u> (6)	<u>( 12,500)</u>
<b>TOTAL</b>	<u>\$102,068</u>	<u>\$ 16,160</u>	<u>\$118,228</u>

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SCHEDULE NO. 2

Aqua Pure Water Company

SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
<b>Utility Plant in Service</b> To reflect the cost of the Indian Trails system, the cost of the interconnection, reflect retirements, to adjust for service connections and engineering and administrative costs.	(1) <u>\$101,029</u>
<b>Land</b> To reflect the value of land at the time it was first devoted to public service.	(2) <u>\$( 3,244)</u>
<b>Accumulated Depreciation</b> To bring depreciation to date using Commission approved rates per Rule 25-30.140, Florida Administrative Code.	(3) <u>\$(26,373)</u>
<b>Contributions-in-aid-of-Construction</b> To reflect the Indian Trails system, expensed water meters, and tap-in fees as CIAC.	(4) <u>\$(50,593)</u>
<b>CIAC Amortization</b> To reflect amortization for Indian Trails system using 2.63% rate and to reflect amortization of cash contributions using 4.07% composite depreciation rate.	(5) <u>\$ 7,841</u>
<b>Plant Held For Future Use</b> To remove contaminated well sites from rate base.	(6) <u>\$(12,500)</u>

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**ISSUE 3:** Should a positive acquisition adjustment be approved?

**RECOMMENDATION:** No, a positive acquisition adjustment should not be included in the calculation of rate base for transfer purposes. (GILCHRIST)

**STAFF ANALYSIS:** An acquisition adjustment results when the purchase price differs from the original cost calculation. According to the sales agreement, Aqua Pure and Marico were both purchased for \$150,467. Marico's rate base which has been calculated as \$27,936 in Docket No. 910119-WU is also being addressed at this agenda. The acquisition adjustment resulting from the transfers of Aqua Pure and Marico would be calculated as follows:

Staff Calculated Rate Base: (Aqua Pure and Marico)	\$ 146,164
Purchase Price: (Aqua Pure and Marico)	\$ 150,467
Positive Acquisition Adjustment:	\$ 4,303

In the absence of extraordinary circumstances it has been Commission policy that a subsequent purchase of a utility system at a premium or discount shall not affect the rate base calculation. The circumstances in this exchange do not appear to be extraordinary; therefore, a positive acquisition adjustment should not be included in the calculation of rate base. Also, an acquisition adjustment was not requested by the applicant.

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**ISSUE 4:** Should A. P. Utilities, Inc. adopt and use the rates and charges approved by this Commission for Aqua Pure Water Company?

**RECOMMENDATION:** Yes, A. P. Utilities, Inc. should continue charging the rates and charges as detailed in the Staff Analysis. (GILCHRIST)

**STAFF ANALYSIS:** The present rates and charges approved for Aqua Pure are as follows:

Water Rates

(Monthly Charges)

Residential, Multi-Residential And General Service

First 4,000 gallons	\$9.50
Over 4,000 gallons	\$1.00 per 1,000 gallons

Miscellaneous Service Charges

<u>Description</u>	<u>Normal Hours</u>	<u>After Hours</u>
Initial Connection	\$ 5.00	\$ 5.00
Normal Reconnection	\$20.00	\$20.00
Violation Reconnection	\$20.00	\$40.00
Premises Visit	N/A	N/A

Service Availability Charges

Meter Installation Fee

And

Customer Connection (Tap-in) Charge

<u>Description</u>	<u>Amount</u>
5/8" x 3/4"	\$250.00
1"	\$300.00
1 1/2"	\$325.00
2"	\$350.00
Over 2"	Actual Cost

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Customer Deposits

<u>Description</u>	<u>Residential</u>	<u>General Service</u>
5/8" x 3/4"	\$20.00	\$50.00
1"	\$50.00	\$50.00
1 1/2"	N/A	N/A
2"	N/A	N/A

The utility's approved rates were effective April 28, 1983 pursuant to Order No. 11782 issued in Docket No. 820440-W, an original certificate application. The utility's approved customer deposits, miscellaneous and service availability charges were effective February 4, 1986 pursuant to WS File No. 86-27, an undocketed case.

Rule 25-9.044(1), Florida Administrative Code, provides that:

"In cases of change of ownership or control of a utility which places the operation under a different or new utility...the company which will thereafter operate the utility business must adopt and use the rates, classification and regulations of the former operating company (unless authorized to change by the Commission)..."

A. P. has not requested a change in the rates and charges of the utility and staff sees no reason to change them at this time. Accordingly, staff recommends that the utility continue operations under the existing tariff and apply the approved rates and charges. The utility will file a tariff reflecting the transfer of ownership. Staff will approve the tariff filing effective for services provided or connections made after the stamped approval date.

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**ISSUE 5:** Should this docket be closed?

**RECOMMENDATION:** Yes, this docket should be closed if no timely protests are filed to the proposed agency action issue.  
(A. CROSBY)

**STAFF ANALYSIS:** If there are no timely protests to proposed agency action Issue No. 2, no further action will be required and the docket should be closed.

(AQUAPU.JG)