

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for transfer of a portion of the facilities operated under Certificate No. 189-W from Florida Water Services Corporation in Citrus County to Homosassa Special Water District.

DOCKET NO. 990743-WU
ORDER NO. PSC-99-1924-FOF-WU
ISSUED: September 28, 1999

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JULIA L. JOHNSON
E. LEON JACOBS, JR.

ORDER APPROVING TRANSFER OF A PORTION OF
FLORIDA WATER SERVICES CORPORATION'S FACILITIES IN
CITRUS COUNTY TO HOMOSSASSA SPECIAL WATER DISTRICT,
AMENDMENT OF CERTIFICATE NO. 189-W, DECLINING TO
INVESTIGATE GAIN ON SALE, AND CLOSING DOCKET

BY THE COMMISSION:

CASE BACKGROUND

Florida Water Services Corporation (FWSC or utility) is a Class A utility, which provides water and wastewater service to 139 service areas in 28 counties. According to FWSC's 1998 annual report, it serves approximately 81,790 water and 40,866 wastewater customers with combined water and wastewater revenues of \$47,407,245 and a combined net operating income of \$8,306,392.

By Order No. 18900, issued March 15, 1988, in Docket No. 870915-WU, we approved the transfer of Crystal River Highlands to FWSC, and Certificate No. 189-W was amended accordingly.

On June 6, 1999, FWSC filed an application requesting the transfer of a portion of the facilities and certificated territory operating under Certificate No. 189-W from FWSC in Citrus County to

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FPSC-RECORDS/REPORTING

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Homosassa Special Water District (HSWD). The portion of the facilities being transferred is the Crystal River Highlands system, a description of which is appended to this Order as Attachment A and, by reference, is incorporated herein. According to FWSC's 1998 consolidated annual report, the Crystal River Highlands system serves approximately 74 water customers and has water revenues of \$28,559 and net operating income of \$5,956. The application includes a copy of the FWSC Agreement for Sale and Purchase of Water Distribution Lines (Contract for Sale). The transfer closing has not been finalized.

On July 27, 1999, the Citrus County Board of County Commissioners adopted a resolution pursuant to Section 367.171(1), Florida Statutes, which rescinded Commission jurisdiction in Citrus County immediately. At the September 7, 1999 agenda conference, we acknowledged Citrus County's Resolution No. 99-111. This transfer application originated while we had jurisdiction within Citrus County.

TRANSFER

On June 10, 1999, FWSC filed an application to transfer a part of FWSC's facilities in Citrus County to HSWD. HSWD is a special district created by Chapter 189, Florida Statutes. As such, it is a political subdivision as defined by Section 1.01(8), Florida Statutes, and a governmental authority as defined under Section 367.021(7), Florida Statutes. The provisions of Section 367.071, Florida Statutes, require an application for approval of the sale or transfer of a water and/or wastewater utility to a governmental agency. However, pursuant to subsection 367.071 (4)(a), the sale or transfer is approved as a matter of right. Rule 25-30.037(4)(e), Florida Administrative Code, requires the utility to submit with its application a statement that the governmental authority obtained, from the utility or the Commission, the most recently available income and expense statement, balance sheet, statement of rate base for regulatory purposes, and contributions-in-aid-of-construction (CIAC). FWSC provided HSWD with the utility's most recently available income and expense statement, balance sheet, statement of rate base for regulatory purposes and CIAC. Mr. Jack Moring, the representative for the HSWD, confirmed the receipt of these statements with the sales contract.

Rule 25-30.037(4)(g) and (h), Florida Administrative Code, requires the utility to submit with its application a statement describing the disposition of customer deposits and a statement

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regarding the disposition of any outstanding regulatory assessment fees (RAFs), fines, or refunds owed. The application states that FWSC will refund or credit all customers' deposits prior to the closing. Therefore, HSWD will not be responsible or obligated to honor credits for the customer deposits that originated under the ownership of FWSC. FWSC will remain liable for any outstanding fees, fines or refunds as of or arising prior to the closing.

The utility is current with its RAFs and its annual report. FWSC will remain responsible for RAFs up to the closing date. The closing is scheduled to occur in September, 1999. There are two pending rate case dockets -- Dockets Nos. 920199-WS and 950495-WS -- which include the systems in Citrus County. Therefore, pursuant to Section 367.171(5), Florida Statutes, we shall retain jurisdiction over these dockets.

Because all of the filing requirements have been met, we approve, as a matter of right, the transfer of the utility's Crystal River Highlands facilities to HSWD. Because only a portion of FWSC's facilities in Citrus County are being transferred, Certificate No. 189-W shall be amended to reflect that portion of the territory that FWSC will continue to operate, minus the territory that is being transferred. The territory that is being transferred is shown as Attachment A.

GAIN ON SALE

The proposition that gains on sales should be shared with customers has been considered in prior dockets. In each case, we evaluated whether or not ratepayers contributed to the utility's overall recovery of investment. See Order No. PSC-93-0301-FOF-WS, issued February 25, 1993, in Docket No. 911188-WS; Order No. PSC-93-0423-FOF-WS, issued March 22, 1993, in Docket No. 920199-WS; and Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS.

The last established rate base for the FWSC water systems was \$95,252,212, and the rate base for the wastewater systems was \$62,770,852 for the average test year ending period of December 31, 1996. See Order No. PSC 96-1320-FOF-WS, issued October 30, 1996 in Docket No. 950495-WS. In that same docket, we established the rate base of Crystal River Highlands as \$55,848.

According to the purchase agreement, the sales price for FWSC's facilities known as Crystal River Highlands is \$82,000.

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That sum exceeds the rate base values that we approved for those facilities both before and after used and useful measures. Restoring the used and useful, working capital, and deferred taxes adjustments, the aggregate rate base balance is \$72,948. Based on this analysis, it would appear that FWSC will experience a gain on sale of less than \$10,000 ($\$82,000 - \$72,948 = \$9,052$), which is immaterial on a stand alone basis in terms of a gain on sale. An investigation regarding the gain on sale would determine whether the remaining customers of FWSC subsidized the investment in the overall FWSC systems during the years that the systems were combined for ratemaking purposes. However, we question the cost benefit of attempting to distribute a gain on sale of less than \$10,000, to a utility that has a customer base of over 81,000 water customers and over 40,000 wastewater customers.

For rate setting purposes, FWSC systems have a uniform capband rate structure. A uniform capband rate structure is a combination of capped and banded rates designed to provide subsidy to other systems. Crystal River Highlands is a subsidized utility. However, Crystal River Highlands' rates are designed to generate 99% of its revenues on a stand alone basis. Therefore, the other FWSC systems are only providing a 1% subsidy to Crystal River Highlands. This initial review indicates that the ratepayers' contribution is immaterial to the utility's overall recovery of investment.

Because of the immaterial amount of the gain on sale, we find it would not be prudent or economical to initiate an investigation at this time. It would be appropriate to evaluate the gain on sale issue in the future, when FWSC applies for an increase in rates in a rate case filing. Therefore, no investigation shall be initiated at this time.

Because no further action is required, this docket shall be closed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the transfer of the Crystal River Highlands System from Florida Water Services Corporation, 1000 Color Place, Apopka, Florida 32703, to Homosassa Special Water District, 10351 West Fishbowl Drive, Homosassa, Florida 34487, is hereby approved. It is further

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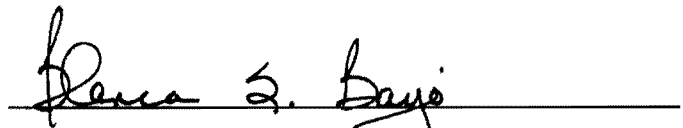
ORDERED that Certificate No. 189-W held by Florida Water Services Corporation in Citrus County, is hereby amended to reflect that portion of the territory that it will continue to operate, minus the territory that is being transferred and is described in Attachment A of this Order. It is further

ORDERED that Attachment A is incorporated herein by reference. It is further

ORDERED that a gain on sale investigation shall not be initiated. It is further

ORDERED that this docket is closed.

By ORDER of the Florida Public Service Commission this 28th day of September, 1999.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

TV

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

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Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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Attachment A

Florida Water Services Corporation
Crystal River Highlands
Water Service Area to be Deleted
Citrus County

Township 19 South, Range 17 East, Citrus County

Section 15

The North 750 feet of the Southeast 1/4 of the Northwest 1/4 of said section 15

and that portion of the West ½ of the Southwest 1/4 of the Northeast 1/4 of said Section 15 which is lying West of the centerline of Old U.S. Highway 19 (South Stonebrook Drive)

and the North 552 feet of the East 605 feet of that portion of said Section 15 which lies West of Old U.S. Highway 19 (South Stonebrook Drive).