

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION
CLERK

DATE: November 9, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Brady, Gardner, Simpson)
Office of the General Counsel (Young) *pb emp JS*

RE: Docket No. 110098-WU – Application for authority to transfer assets and water Certificate No. 428-W in Levy County from Par Utilities, Inc. to Hash Utilities, LLC.
County: Levy *ALM*

AGENDA: 11/22/11 – Regular Agenda – Proposed Agency Action for Issues 2, 3, and 4 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110098.RCM.DOC

Case Background

Par Utilities, Inc. (Par, Seller, Utility) is a Class C water utility serving the Inglewood Estates subdivision in Levy County, which is built-out at 57 residential customers. The Utility is located in the Southwest Florida Water Management District, which has water use restrictions. The Utility's 2010 Annual Report lists annual revenues of \$18,028 with a net operating income of \$119.

The Inglewood water system was initially constructed in 1973. After Levy County transferred jurisdiction to the Commission in 1983, the system was granted Certificate No. 428-

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W under the name of Inglewood Water System.¹ In 1986, control of the Utility transferred to James D. Ditullio.² In 2000, the system was acquired by Lonnie and Royanna Parnell,³ who subsequently changed the name on the certificate to Par.⁴ On April 12, 2011, an application was filed for the transfer of the Inglewood system and Certificate No. 428-W to Hash Utilities, LLC (Hash or Buyer). Pursuant to Section 367.071(1), Florida Statutes (F.S.), the transfer occurred on April 25, 2011, contingent upon Commission approval.

This recommendation addresses the transfer, net book value, and rates and charges for the Inglewood water system. The Commission has jurisdiction pursuant to Sections 367.071, 367.091, and 367.101, F.S.

¹ Order No. 13961, issued January 3, 1985, in Docket No. 840031-WU, In re: Application of Inglewood Water System for a certificate to operate a water utility in Levy County, pursuant to Section 367.171, Florida Statutes.

² Order No. 16863, issued November 19, 1986, in Docket No. 860866-WU, In re: Application of Inglewood Water System for transfer of utility from John Allen Brown to James D. Ditullio in Levy County.

³ Order No. PSC-00-0682-FOF-WU, issued April 12, 2000, in Docket No. 990253-WU, In re: Application for approval of sale of Inglewood Water System, holder of Certificate No. 428-W in Levy County, to Lonnie and Royanna Parnell.

⁴ Order No. PSC-00-0293-FOF-WU, issued November 3, 2000, in Docket No. 001557-WU, In re: Application for approval of name change on Certificate No. 428-W in Levy County from Lonnie and Royanna Parnell to Par Utilities, Inc.

Discussion of Issues

Issue 1: Should the transfer of assets and Certificate No. 428-W from Par Utilities, Inc. to Hash Utilities, LLC. be approved?

Recommendation: Yes, the transfer is in the public interest and should be approved effective the date of Commission vote. The territory being transferred is described in Attachment A. The resultant order should serve as Hash's water certificate and should be retained by Hash. The Utility's existing rates and charges should continue to be in effect until authorized to change by the Commission in a subsequent proceeding. The tariff pages reflecting the transfer should be effective for services provided or connections made on or after the stamped approval date on the tariff pages, pursuant to Rule 25-30.475(1), F.A.C. Hash should be responsible for submitting annual reports and remitting regulatory assessment fees (RAFs) for the Inglewood system for 2011 and all future years. (Brady, Gardner, Simpson, Young)

Staff Analysis: On April 12, 2011, an application was filed for approval of the transfer of the Inglewood water system and Certificate No. 428-W in Levy County from Par to Hash. The application is in compliance with the governing statutes, Sections 367.045 and 367.071, F.S., and other pertinent statutes and administrative rules concerning applications for transfer of certificates. Pursuant to Section 367.071(1), F.S., the transfer occurred on April 25, 2011, contingent upon Commission approval.

The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code (F.A.C.). No objections to the notice have been filed with the Commission and the time for filing objections has expired. A description of the territory being transferred is appended to this recommendation as Attachment A. The application contains a copy of a recorded warranty deed as evidence that Hash owns the land on which the water treatment facilities are located, pursuant to Rule 25-30.037(2)(q), F.A.C.

Pursuant to Rule 25-30.037(2)(h), F.A.C., the application contains a copy of the Inglewood Water System Sale Agreement which includes the purchase price, terms of payment, and a list of the assets purchased. Inglewood's water system assets were purchased for \$25,000 in cash. Any past due customer accounts were returned to the Seller and any prepayments or deposits transferred to the Buyer.

The Inglewood water system consists of two 4-inch wells with primary treatment by chlorine. Treated water is then injected with an AquaMag solution for iron sequestration and channeled into a hydropneumatic tank for distribution. Staff has verified that the water system is currently in satisfactory condition and in substantial compliance with all applicable standards set by the Florida Department of Environmental Protection (DEP).

The application indicates that the Buyer is licensed by the DEP and has a decade of construction experience. The Buyer currently owns and operates four other water systems in nearby Citrus County and is available 24 hours a day for service calls. The Buyer is also the owner of a software development company and, in addition to asset holdings, has access to business and personal lines of credit. According to the application, the Buyer enjoys interacting with the customer base and has agreed to fulfill the commitments, obligations, and

representations of the Seller with regard to Utility matters. Therefore, it appears the Buyer has demonstrated the financial and technical ability to continue to operate the Utility, pursuant to Rule 25-30.037(2)(j), F.A.C.

For transfer purposes, an audit was conducted to establish the net book value of the Inglewood water system as of December 31, 2010. The audit determined that the Utility's general ledger was in conformity with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC's USOA). The audit also obtained a description of the Buyer's record-keeping system, which appears to be adequate to keep the Inglewood water system revenues and expenses separate from the Buyer's other water systems. The Buyer appears to have an understanding and willingness to comply with Commission rules and regulations.

The application indicates that the Seller is responsible for any RAFs prior to the transfer and the Buyer is responsible for RAFs after the transfer. As noted, deposits on account were transferred to the Buyer at the closing on April 25, 2011. Staff has verified that the Utility is current on its annual report for 2010 and all prior years, and that there are no outstanding RAFs, fines, or refunds due. Therefore, Hash should be responsible for submitting annual reports and remitting RAFs for the Inglewood water system for 2011 and all future years.

The Utility's rates and charges were last approved by the Commission in 1987.⁵ However, the Seller has implemented regular price indexes since 2004 and the Buyer has indicated that it intends to continue this practice. The Utility's existing service rates consist of a monthly base facility charge of \$17.88 and a gallonage charge of \$2.93 per 1,000 gallons, as shown on Schedule No. 3. The Utility also has a service availability charge for new connections, an initial customer deposit, and miscellaneous service charges also shown on Schedule No. 3. 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 Utility's existing rates and charges shown on Schedule No. 3 be continued until authorized to change by this Commission in a subsequent proceeding. In addition, while not requesting any changes to the Utility's existing rates and charges, the Buyer has requested that the Commission approve a bi-monthly billing cycle, consistent with its other systems, and a new meter installation charge (Issues 3 and 4).

Based on the above, staff recommends that the transfer of the Inglewood water system and Certificate No. 428-W from Par Utilities, Inc. to Hash Utilities, LLC is in the public interest and should be approved effective the date of Commission vote. The territory being transferred is described in Attachment A. The resultant order should serve as Hash's water certificate and be retained by Hash. The Utility's existing rates and charges should continue until authorized to change by the Commission in a subsequent proceeding. The tariff pages reflecting the transfer should be effective for services provided or connections made on or after the stamped approval date on the tariff pages, pursuant to Rule 25-30.475(1), F.A.C. Hash should be responsible for

⁵ Order No. 17558, issued May 14, 1987, in Docket No. 861263-WU, In re: Application of Inglewood Water System for a staff-assisted water rate case in Levy County, Florida.

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submitting annual reports and remitting RAFs for the Inglewood water system for 2011 and all future years.

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

Recommendation: The net book value of the Inglewood water system is \$27,314 as of December 31, 2010. A positive acquisition adjustment should not be approved. Within 30 days of the date of the final order, Hash should be required to provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of December 31, 2010, along with a statement that these numbers will also be reflected in the Utility's 2011 annual report. (Brady, Gardner, Simpson, Young)

Staff Analysis: Net book value for the Inglewood water system was last established as of June 30, 1998, in the amount of \$25,238, pursuant to Order No. PSC-00-0682-FOF-WU (last order).⁶ An audit of the Utility's books and records was conducted to establish the net book value for transfer purposes as of December 31, 2010. Net book value is used to determine whether an acquisition adjustment should be approved and does not include normal rate making adjustments for used and useful plant or working capital.

Utility Plant in Service (UPIS)

The Utility's general ledger reflects a water UPIS balance of \$63,831 as of December 31, 2010. The water system consists primarily of structures and improvements, treatment and pumping equipment, lines, services, and meters. The Utility has not made the adjustments to UPIS reflected in the last order. As shown on Schedule No. 1, staff recommends an adjustment to reduce the Utility's UPIS balance by \$2,587 to reflect adjustments made in the last order, which results in a UPIS balance as of December 31, 2010 of \$61,244.

Land & Land Rights

The Utility's general ledger reflects land of \$4,307. The NARUC's USOA states that the cost of land should be recorded at its original cost when first dedicated to utility service. The last order established the original cost of the land at \$3,307 as of June 30, 1998. No additional land has been purchased by the Utility; therefore, staff recommends a reduction to land of \$1,000 consistent with the last order. This results in staff's recommended land balance as of December 31, 2010 of \$3,307 shown on Schedule No. 1.

Accumulated Depreciation

The Utility's general ledger reflects an accumulated depreciation balance of \$49,126 as of December 31, 2010. The Utility has not made the adjustments to accumulated depreciation balances reflected in the last order. As shown on Schedule No. 1, staff recommends a reduction to the Utility's accumulated depreciation balance of \$12,320 to reflect adjustments made in the last order, which results in an accumulated depreciation balance as of December 31, 2010 of \$36,806.

⁶ See Order No. PSC-00-0682-FOF-WU.

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

The Utility's general ledger reflects a \$570 balance for CIAC and an accumulated amortization of CIAC balance of \$46 as of December 31, 2010. According to the staff audit, when the Utility's CIAC became completely amortized in 2002, the Utility removed the CIAC and accumulated amortization balances from its books. Therefore, the 2002 CIAC and accumulated amortization balances of \$14,464 should be restored. In addition, the Utility collected its approved service availability charge of \$190 for three connections between 2003 and 2005, which results in an addition to its CIAC balance of \$570 as of December 31, 2010. Audit staff then recalculated accumulated amortization pursuant to the guidelines in Rule 25-30.140, F.A.C., which results in an additional adjustment to Utility's accumulated amortization balance of \$93. As shown on Schedule No. 1, staff recommends adjustments to the Utility's CIAC balance of \$14,464 and accumulated amortization of CIAC balance of \$14,557, which result in CIAC and accumulated amortization of CIAC balances of \$15,034 and \$14,603, respectively, as of December 31, 2010.

Net Book Value

The Utility's general ledger reflects total net book value for the Inglewood water system of \$18,488 as of December 31, 2010. Based on the adjustments described above and shown on Schedule No. 1, staff recommends that net book value for the Inglewood water system is \$27,314 as of December 31, 2010. Schedule No. 2 contains the NARUC account balances for UPIS and accumulated depreciation as of December 31, 2010.

Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from the net book value of the assets at the time of the acquisition. The Inglewood water system was purchased for \$25,000. Based on a net book value of \$27,314 as of December 31, 2010, the transfer would result in a positive acquisition adjustment of \$2,314. 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 and there is no evidence of extraordinary circumstances. Therefore, staff recommends that a positive acquisition adjustment should not be approved.

Conclusion

Based on the above, staff recommends that the net book value of the Inglewood water system is \$27,314 as of December 31, 2010. A positive acquisition adjustment should not be approved. Within 30 days of the date of the final order, Hash should be required to provide general ledgers which show its books have been updated to reflect the Commission-approved balances as of December 31, 2010, along with a statement that these numbers will also be reflected in the Utility's 2011 annual report.

Issue 3: Should the Buyer's request for a bi-monthly billing cycle be approved?

Recommendation: Yes, the request for a bi-monthly billing cycle should be approved. Hash should be required to bill on a bi-monthly basis until authorized to change the billing cycle by this Commission in a subsequent proceeding. Hash should be required to file a proposed customer notice to reflect the bi-monthly billing cycle for the water system. The approved bi-monthly billing cycle should be effective for services rendered on or after the stamped approval date of the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved bi-monthly service cycle should not be implemented until staff has approved the proposed customer notice. Hash should provide proof of the date notice was given within ten days after the date of the notice. (Brady, Simpson)

Staff Analysis: The Buyer has requested a change in the Utility's billing cycle from monthly to bi-monthly. This will result in a two-month base facility charge of \$35.76 with usage continuing to be billed at \$2.93, per 1,000 gallons, as shown on Schedule No. 3. As justification, the application indicates that the Buyer has a bi-monthly billing cycle for its other water systems and believes that it reduces the cost of meter reading, mailing, and payment processing. The Buyer indicates that a majority of its customers appreciate bi-monthly bills. However, for the few customers who prefer monthly bills, the Buyer allows an estimated payment in the non-billed month. Since the Utility's overall service rates are relatively low and the Inglewood water system relatively small, staff recommends that the Buyer's request to bill on a bi-monthly cycle be approved. The Buyer should be required to provide notice to its customers of the bi-monthly billing cycle.

Staff, therefore, recommends that Hash Utilities, LLC's request for a bi-monthly billing cycle be approved. Hash should be required to bill on a bi-monthly basis until authorized to change the billing cycle by this Commission in a subsequent proceeding. Hash should be required to file a proposed customer notice to reflect the bi-monthly billing cycle for the water system. The approved charges should be effective for services rendered on or after the stamped approval date of the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice. Hash should provide proof of the date notice was given within ten days after the date of the notice.

Issue 4: Should the Buyer's request for a meter installation charge be approved?

Recommendation: Yes. Hash Utilities, LLC's request for a meter installation charge should be approved. Hash should be required to charge the approved meter installation charge until authorized to change the charge by this Commission in a subsequent proceeding. The charge should be effective for new connections made on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. (Brady, Simpson)

Staff Analysis: Pursuant to Section 367.101, F.S., the Commission shall set just and reasonable charges and conditions for service availability. Even though the Inglewood water system is at build-out, staff recommends that the Utility's tariff contain service availability charges. As noted, the Utility's existing tariff has the provision for a service connection charge of \$190. The Buyer is requesting that the Commission approve a meter installation charge of \$175 for 5/8" x 3/4" and 1" meters. Staff has reviewed the Buyer's cost justification and believes the meter installation charge is reasonable. Existing customers are not required to pay service availability charges.

As shown on Schedule No. 3, staff recommends that Hash Utilities, LLC's request for a meter installation charge be approved. Hash should be required to charge the approved meter installation charge until authorized to change the charge by this Commission in a subsequent proceeding. The approved meter installation charge should be effective for new connections made on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C.

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Issue 5: Should this docket be closed?

Recommendation: Yes. If no protest to the proposed agency action issue is filed by a substantially affected person within 21 days of the date of the order, the docket should be closed upon the issuance of a consummating order. (Young)

Staff Analysis: If no protest to the proposed agency action issue is filed by a substantially affected person within 21 days of the date of the order, the docket should be closed upon the issuance of a consummating order.

**Hash Utilities, LLC
Water Service Territory
Inglewood Water System
Levy County**

**Township 16 South, Range 16 East
Section 34**

That portion of the North 950 feet of the South 3,100 feet of the East 1/2 of said Section 34,
lying South of State Road 40-A.

FLORIDA PUBLIC SERVICE COMMISSION
authorizes
Hash Utilities, LLC
pursuant to
Certificate Number 428-W

to provide water service in Levy 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> |
|---------------------|--------------------|----------------------|------------------------------|
| 13961 | 01/03/85 | 840031-WU | Grandfather Certificate |
| 16863 | 11/19/86 | 860866-WU | Transfer of Majority Control |
| PSC-00-0682-FOF-WU | 04/12/00 | 990253-WU | Transfer of Certificate |
| PSC-00-2093-FOF-WU | 11/03/00 | 001557-WU | Name Change |
| * | * | 110019-WU | Transfer of Certificate |

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

**Hash Utilities, LLC
 Inglewood Water System**

Net Book Value as of December 31, 2010

**Utility Proposed and Staff Recommended
 Schedule of Net Book Value as of December 31, 2010**

| Description | Utility Proposed | Adjustment | | Staff Recommended |
|---|-------------------------|-------------------|---|--------------------------|
| Utility Plant in Service | \$ 63,831 | \$ (2,587) | A | \$ 61,244 |
| Land | 4,307 | (1,000) | B | 3,307 |
| Accumulated Depreciation | (49,126) | 12,320 | C | (36,806) |
| Contributions in Aid of Construction (CIAC) | (570) | (14,464) | D | (15,034) |
| Accumulated Amortization of CIAC | 46 | 14,557 | E | 14,603 |
| Water Net Book Value | \$ 18,488 | \$ 8,826 | | \$ 27,314 |

**Explanation of Staff's Recommended
 Adjustments to Net Book Value**

| Explanation | Amount |
|--|---------------|
| A. Utility Plant In Service (UPIS) | |
| 1. To reflect adjustments in Order No. PSC-00-0682-FOF-WU | (2,587) |
| B. Land | |
| 1. To remove undocumented land | (1,000) |
| C. Accumulated Depreciation | |
| 1. To reflect adjustment in Order No. PSC-00-0682-FOF-WU | 12,320 |
| D. CIAC | |
| 1. To add back balance removed in 2002 | (14,464) |
| E. Accumulated Amortization of CIAC | |
| 1. To add back balance removed in 2002 | 14,464 |
| 2. To recalculate balance for years 1998 to 2010 | 93 |
| Total Adjustments to Net Book Value as of December 31, 2010 | 8,826 |

Hash Utilities, LLC
Inglewood Water System

Schedule of Staff Recommended Account Balances as of December 31, 2010

| Acct. No. | Description | UPIS | Accumulated Depreciation |
|------------------|--------------------------------------|-----------------|---------------------------------|
| 304 | Structures & Improvements | \$10,415 | \$ 9,400 |
| 307 | Wells & Springs | 2,111 | 2,111 |
| 309 | Supply Mains | 1,504 | (570) |
| 310 | Power Generation Equipment | 722 | 233 |
| 311 | Pumping Equipment | 5,054 | 1,491 |
| 320 | Water Treatment Equipment | 11,047 | 9,786 |
| 330 | Distribution Reservoirs & Standpipes | 2,437 | 825 |
| 331 | Transmission & Distribution Mains | 13,708 | 13,693 |
| 333 | Services | 3,676 | 2,729 |
| 334 | Meter & Meter Installations | 9,421 | (2,144) |
| 340 | Office Furniture & Equipment | 543 | (620) |
| 343 | Tools, Shop, & Garage Equipment | 606 | (128) |
| Total | | \$61,244 | \$36,806 |

**Hash Utilities, LLC
 Inglewood Water System**

Schedules of Rates and Charges

**Service Rates
 Residential and General Service**

| | Existing Monthly Rates | Proposed Bi-Monthly Rates |
|--|-----------------------------------|--------------------------------------|
| Base Facility Charge (5/8" x 3/4" meter) | \$17.88 | \$35.76 |
| Gallonge Charge (per 1,000 gallons) | \$ 2.93 | \$ 2.93 |

**Service Availability Charges
 Residential and General Service**

| | Existing | Proposed |
|-------------------------------------|-----------------|-----------------|
| Customer Connection (Tap-in) Charge | \$190.00 | \$190.00 |
| Meter Installation Charges | | |
| 5/8" x 3/4" Meters | None | \$175.00 |
| 1" Meters | None | \$175.00 |

**Initial Customer Deposits
 Residential and General Service**

| | |
|---------------|---------|
| All Customers | \$50.00 |
|---------------|---------|

Miscellaneous Service Charges

| | Regular Hours | After Hours |
|--|----------------------|--------------------|
| Initial Connection Fee | \$10.00 | \$15.00 |
| Normal Reconnection Fee | \$15.00 | \$20.00 |
| Violation Reconnection Fee | \$20.00 | \$25.00 |
| Premises Visit Fee (in lieu of disconnection) | \$10.00 | None |