



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: MARCH 4, 2004

TO: DIRECTOR, DIVISION OF THE COMMISSION & ADMINISTRATIVE SERVICES (BAYO)

FROM: DIVISION OF ECONOMIC REGULATION (JOHNSON, RIEGER, ROMIG) OFFICE OF THE GENERAL COUNSEL (Vining)

RE: DOCKET NO. 030655-WU - APPLICATION FOR TRANSFER OF FACILITIES AND CERTIFICATE NO. 149-W IN PASCO COUNTY FROM VIRGINIA CITY UTILITIES, INC. TO VIRGINIA CITY UTILITY COMPANY A DIVISION OF COMMUNITY UTILITIES OF FLORIDA, INC. COUNTY: PASCO

AGENDA: 03/16/04 - REGULAR AGENDA - PROPOSED AGENCY ACTION ISSUES 2 AND 3 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030655.RCM

CASE BACKGROUND

Virginia City Utilities, Inc. (Virginia City or utility) is a Class C water utility which provides service in Pasco County. The utility has 299 residential and 15 general service customers. The utility began operating in 1970. It is located in the Southwest Florida Water Management District (SWFWMD). This particular area of the SWFWMD is in the Tampa Bay Water Use Caution Area. Wastewater service is provide by Pasco County Utilities. The utility's 2002 annual report reflects operating revenues of \$92,137 and an operating loss of (\$29,489).

The utility was issued Water Certificate No. 149-W pursuant to Order No. 5809, issued July 26, 1973, in Docket No. C-73215-W, In Re: Application of Virginia City, Inc. for a Certificate to Operate an Existing Water System In Pasco County. By Order No. PSC-94-

DOCUMENT NUMBER-DATE

03164 MAR-4

FPSC-COMMISSION CLERK

0084-FOF-WU, issued January 24, 1994, in Docket No. 931028-WU, In Re: Application for Transfer of Certificate No. 149-W From Virginia City, Inc. to Virginia City Utilities, Inc. in Pasco County, the utility was transferred from Mr. Judson F. Potter to Mr. Matthew Potter, his son. Rate base for this utility was last established in Order No. PSC-97-0037-FOF-WU, issued January 8, 1997, in Docket No. 960625-WU, In Re: Application for Staff Assisted Rate Case in Pasco County by Virginia City Utilities, Inc.

On July 21, 2003, Virginia City Utility Company, a division of Community Utilities of Florida, Inc. (VCUC or Buyer) filed an application for transfer of the utility's facilities and Certificate No. 149-W from Virginia City to VCUC. According to the application, on December 30, 2002, Virginia City entered into an agreement for the purchase and sale of the utility for a purchase price of \$140,000. The application was found to be deficient. The deficiencies were corrected on November 18, 2003.

This recommendation addresses the transfer of Virginia City to VCUC. The Commission has jurisdiction to consider this matter pursuant to Section 367.071 Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of the facilities and Certificate No. 149-W from Virginia City to VCUC be approved?

RECOMMENDATION: Yes, the transfer of the facilities and Certificate No. 149-W from Virginia City to VCUC is in the public interest and should be approved. The effective date of the transfer should be the date of the Commission vote. VCUC is responsible for remitting the 2003 and all future regulatory assessment fees (RAFs) and annual reports. A description of the territory being transferred is appended to this recommendation as Attachment A. (JOHNSON, RIEGER, ROMIG)

STAFF ANALYSIS: On July 21, 2003, VCUC filed an application for transfer of Certificate No. 149-W from Virginia City to VCUC. The application, as filed, was deficient; VCUC submitted the corrected information on November 18, 2003. The application as filed and amended is in compliance with the governing statute, Section 367.071, Florida Statutes, and other pertinent statutes and rules concerning an application for transfer. The application contained a check in the amount of \$750, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code.

Section 367.071, Florida Statutes, requires that no utility shall sell, assign, or transfer its certificate of authorization, facilities or any portion thereof, or majority organizational control without prior approval of the Commission unless such sale, assignment, or transfer is made contingent upon Commission approval. The closing took place on December 30, 2002, contingent upon the Commission's approval of the transfer.

Noticing. Pursuant to Rule 25-30.030, Florida Administrative Code, the application contained the required proof of noticing. No objections to the notice of application have been received and the time for filing such has expired.

Sales Contract and Financing. The application contains documentation to comply with Rules 25-30.037(2)(g), (h), (i), and (k), Florida Administrative Code, regarding terms of the sale and financing of the purchase. The application contained a copy of the purchase agreement which includes the purchase price, terms of payment and a list of the assets purchased. The purchase price for

the utility is \$140,000. The purchase was a cash transaction. In addition, the customer deposits were transferred to the buyer.

Proof of Ownership. Rule 25-30.037(2)(q), Florida Administrative Code, requires proof that the utility owns or has provided for the continued use of the land upon which the utility facilities are located. The utility has provided a 99 year lease agreement which was executed in April 2003 for an onsite well.

Annual Reports and Regulatory Assessments Fees. According to our records, Virginia City is current with its RAFs and has filed an annual report for 2002 and all prior years. No interest, penalties, or refunds are due or outstanding. Rule 25-30.037(2)(r), Florida Administrative Code, requires the application to contain a statement regarding the disposition of any outstanding RAFs, fines, or refunds owed. VCUC is responsible for remitting the 2003 and all future RAFs and annual reports.

Public Interest. The application also contains a statement, pursuant to Rule 25-30.037(2)(j), Florida Administrative Code, regarding how the transfer is in the public interest. According to the application, the transfer is in the public interest because the buyer has the expertise and finances to operate the utility to better serve the customers. In addition, VCUC is wholly-owned by Community Utilities of Florida, Inc., which is a corporation established for the purpose of uniting small utility systems under an organization that would increase the quality of customer service and efficiencies of the utility.

With regard to the buyer's technical ability, Mr. Deremer has approximately nineteen years of experience in the utility industry. He owned a utility service company that provided operation and maintenance services and engineering services to private and municipal utility systems in Florida. Mr. Deremer's service company was purchased in 1999 by American Water Services, Inc.

With regard to the buyer's financial ability, a statement was provided that Mr. Deremer has both the regulatory experience and the financial ability to ensure consistent compliance with the Florida Department of Environmental Protection (FDEP) regulations. In support of this statement, the application contained Mr. Deremer's financial statement which indicates sufficient net worth. While most of the assets are in real estate, the statement also reflects liquid assets, as well as the ability to attract

financing. According to the application, the utility's investment capital will be provided by Mr. Deremer. VCUC will receive the benefit of centralized management, accounting, billing, and data processing functions, resulting in the economies of scale that would be unattainable on a stand-alone basis. Additionally, the application contains a statement that the buyer will fulfill the commitments, obligations, and representations of the sellers with regard to utility matters.

The application states that the buyer has performed a reasonable investigation of the utility system as required by Rule 25-30.037(2)(p), Florida Administrative Code. The buyer included a statement that the system appears to be in satisfactory condition and in compliance with all applicable standards set by the FDEP. Staff has contacted the FDEP and verified that there are no outstanding notices of violation.

The utility has recently refurbished and reactivated an existing well and well house that had been out of service. In addition to the well water now used by the utility, supplemental water is also purchased from Pasco County. According to the utility's annual report, the water purchased from Pasco County for the year 2002, which was prior to the reactivation of the well, totaled 23,194,000 gallons. The utility reported in its application that the system is in compliance with all applicable standards set forth by the FDEP. There are lead and copper issues resulting from corrosive water, but the utility is addressing this problem by working on a treatment and public education plan.

Based on the above, staff recommends that the transfer of the facilities and Certificate No. 149-W from Virginia City to VCUC is in the public interest and it should be approved. The transfer should be effective the date of the Commission vote. A description of the territory being transferred is appended to the recommendation as Attachment A.

ISSUE 2: What is the rate base of Virginia City at the time of transfer?

RECOMMENDATION: The rate base for transfer purposes is \$31,276, as of December 30, 2002. (JOHNSON)

STAFF ANALYSIS: Rate base for this utility was previously established by Order No. PSC-97-0037-FOF-WU, issued January 8, 1997, in Docket No. 960625-WU, In Re: Application for Staff Assisted Rate Case in Pasco County by Virginia City Utilities, Inc., as \$23,846, as of December 31, 1995.

Virginia City entered into a contract on December 30, 2002, to sell its water facilities to VCUC. It is Commission practice to establish rate base as of the date of transfer, which is December 30, 2002. Staff conducted an audit of the books and records of the utility to determine the rate base as of December 30, 2002. The rate base was determined by Staff from company provided historical records and supporting source documentation. The audit report contained several audit disclosures. The utility did not file a response to the audit report. The following adjustments were made by staff as a result of the rate base audit.

UTILITY PLANT-IN-SERVICE (UPIS)

The utility's UPIS, as of December 30, 2002 is \$80,853. Organizational costs of \$2,166, which were disallowed in the prior case, should be removed from Account 301. The utility recorded a net \$1,000 addition to its UPIS balance to reflect pro forma plant included in the SARC for meter replacement. The pro forma adjustments should be removed now that the actual cost of the meters has been recorded.

In 1997, the utility expensed \$14,248 for meters and meter installation which should have been capitalized. Accounts 331 and 334 should be increased by \$8,729 and \$5,519, respectively, to record the cost of the meters and installation. Accounts 331 and 334 should be decreased by \$1,810 and \$5,795, respectively, to remove the costs associated with the meters that were retired. Account 309 should be decreased to remove \$774 of operations and maintenance expenses that were improperly capitalized, and Account 334 should be increased by \$520 to correct an invoice that was recorded in the wrong amount. In addition, Account 340 should be

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reduced by \$2,637 to remove the cost of a computer that is not being transferred to the new utility.

Based on the above adjustment, staff recommends that the utility's UPIS balance as of December 30, 2002 should be \$81,440.

ACCUMULATED DEPRECIATION

The utility's books reflected a balance of \$54,277 in accumulated depreciation as of December 30, 2002. However, the utility did not remove \$2,729 of accumulated depreciation associated with organizational cost that was disallowed in the previous case. Accumulated depreciation should be decreased by \$7,602 for meters that were retired in 1997 through 2002. Accumulated depreciation should be increased by \$2,089 to correct the depreciation pursuant to Rule 25-30.140, Florida Administrative Code, and reduced by \$2,637 to remove the depreciation associated with the computer that was not included in the transfer.

Based on the above adjustments, staff recommends that the utility's accumulated depreciation balance, as of December 30, 2002 should be \$43,398.

CONTRIBUTION-IN-AID-OF-CONSTRUCTION (CIAC)

Staff recommends that the utility books reflect the appropriate CIAC balance of \$17,159, as of December 30, 2002.

ACCUMULATED AMORTIZATION OF CIAC

The utility books reflect an amortization of CIAC balance of \$9,161 as of December 30, 2002.

Staff recalculated amortization using an annual composite depreciation rate pursuant to Rule 25-30.140, (8)(a), Florida Administrative Code and determined a balance of \$10,393, as of December 30, 2002. Therefore, the balance for accumulated amortization of CIAC should be increased by \$1,232 to reflect amortization of CIAC of \$10,343 as of December 30, 2002.

RATE BASE

The calculation of rate base for water is shown on Schedule No. 1. The adjustments to rate base are itemized on Schedule No.

2. Based on these schedules, as of December 30, 2002, staff recommends that rate base for Virginia City be established as \$31,276. This rate base calculation is used solely to establish the net book value of the property being transferred and does not include the normal ratemaking adjustments for working capital and used and useful.

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ISSUE 3: Should an acquisition adjustment be included in the calculation of rate base?

RECOMMENDATION: No. Pursuant to Rule 25-30.0371(2), Florida Administrative Code, an acquisition adjustment should not be included in rate base. (JOHNSON)

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from the rate base at the time of the acquisition. The acquisition adjustment resulting from the transfer of Virginia City's water system to VCUC would be calculated as follows:

Purchase Price:	\$140,000
Less Staff Calculated Rate Base:	\$ 31,276
Positive	
Acquisition Adjustment:	\$108,724
	=====

Pursuant to Rule 25-30.0371(2), Florida Administrative Code, a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. The buyer has neither requested an acquisition adjustment nor identified any extraordinary circumstances. Therefore, staff recommends that a positive acquisition adjustment not be included in the calculation of rate base for transfer purposes.

ISSUE 4: Should the rates and charges approved for this utility be continued?

RECOMMENDATION: Yes, VCUC should continue charging the rates and charges approved for this utility system until authorized to change by the Commission in a subsequent proceeding. The tariff reflecting the change in ownership should be effective for services provided or connections made on or after the stamped approval date on the tariff sheets. (JOHNSON)

STAFF ANALYSIS: The utility's current rates for residential and general service customers were approved administratively in a price index and pass through application, which became effective on May 31, 2003. The utility's service availability charges were adopted in the original certificate case. The utility's customer deposit charges and miscellaneous service charges were established by Order No. PSC-94-0084-FOF-WU, issued January 24, 1994, in Docket No. 931028-WU, In Re: Application For Transfer of Certificate No 149-W From Virginia City, Inc. to Virginia City Utilities, in Pasco County. The utility's approved rates and charges are as follows:

MONTHLY RATES - WATER
RESIDENTIAL & GENERAL SERVICE

<u>Meter Sizes</u>	<u>Base Facility Charge</u>
5/8" x 3/4"	\$ 7.16
3/4"	\$ 10.75
1"	\$ 17.91
1 1/2"	\$ 35.83
2"	\$ 57.32
<u>Gallonage Charge</u>	
Per 1,000 gallons	\$ 3.60

Miscellaneous Service Charges

	Water
Initial Connection Fee	\$ 15.00
Normal Reconnection Fee	\$ 15.00
Violation Reconnection Fee	\$ 15.00
Premises Visit Fee (in Lieu of disconnection)	\$ 10.00

SERVICE AVAILABILITY CHARGES

<u>Water</u>	
Tap Fee	
3/4" or 5/8"	\$60.00

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

In case[s] 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)

VCUC has not requested a change in the rates and charges. Based on the above, staff recommends that the utility continue operations under the existing tariff and apply the approved rates and charges until authorized to change by the Commission in a subsequent proceeding. The utility has filed a revised tariff reflecting the transfer to VCUC. If the Commission approves staff's recommendation, the tariff filing should be

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effective for services rendered or connections made on or after
the stamped approval date.

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ISSUE 5: Should this docket be closed?

RECOMMENDATION: Yes. If no timely protest is received to the proposed agency action issues, a Consummating Order should be issued upon the expiration of the protest period and the docket should be closed. (VINING)

STAFF ANALYSIS: If no timely protest is received to the proposed agency action issues, a Consummating Order should be issued upon the expiration of the protest period and the docket should be closed.

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ATTACHMENT A

VIRGINIA CITY UTILITIES, INC.

PASCO COUNTY

WATER SERVICE AREA

In Section 16, Township 26 South, Range 16 East, Pasco County, Florida:

Commence at the Southeast corner of the Southwest 1/4 of said Section 16; thence run Westerly along the South boundary of the Southwest 1/4 of said Section 16; same also being the centerline of State Road Number 54, a distance of 25.21 feet for a Point of Beginning; thence continue Westerly along said boundary for a distance of 1,319.54 feet; thence Northerly, a distance of 1,987.81 feet; thence Easterly, a distance of 1,311.72 feet to the centerline of Thys Road; thence Southerly along said centerline, a distance of 1,990.68 feet to the Point of Beginning.

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SCHEDULE NO. 1

VIRGINIA CITY UTILITIES, INC.
SCHEDULE OF WATER RATE BASE
AS OF DECEMBER 30, 2002

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$80,853	587 (A)	\$81,440
Land	0	0	0
Contributions in Aid of Construction (CIAC)	(17,159)	0	(17,159)
Accumulated Depreciation	(54,277)	10,879 (B)	(43,398)
Amortization of CIAC	<u>9,161</u>	<u>1,232</u> (C)	<u>10,343</u>
WATER RATE BASE	<u>\$18,578</u>	<u>12,698</u>	<u>\$31,276</u>

SCHEDULE NO. 2

VIRGINIA CITY UTILITY COMPANY
SCHEDULE OF ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service	
1) To remove organization costs	(\$2,166)
2) To remove pro forma plant	(\$1,000)
3) To record meters	\$14,248
4) To retire meters	(\$7,604)
5) To remove capitalized O & M expense	(\$774)
6) To record meters	\$520
7) To remove computer equipment	(\$2,637)
(A) Total	<u>\$587</u>
 Accumulated Depreciation	
1) To remove organization costs	\$2,729
2) To retire plant	\$7,602
3) To remove computer equipment	\$2,637
4) To correct depreciation	(\$2,089)
(B) Total	<u>\$10,879</u>
 Amortization of Contributions In Aid of Construction	
1) (C) To reflect annual composite depr. rate	<u>\$1,232</u>