

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-**

RECORDS AND REPORTING

20 AUG 25 PM 4:23

RECEIVED-FPSC

**DATE:** AUGUST 26, 1999

**TO:** DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

**FROM:** DIVISION OF WATER AND WASTEWATER (JOHNSON, REDEMANN)  
DIVISION OF LEGAL SERVICES (VACCARO)

**RE:** DOCKET NO. 990743-WU - 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.  
COUNTY: CITRUS

**AGENDA:** SEPTEMBER 7, 1999 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\WAW\WP\990743.RCM

### 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, 1998 in Docket No. 870915-WU, the Commission 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 with the Commission requesting the transfer of a portion of the facilities and certificated territory operating under Certificate No. 189-W from

DOCUMENT NUMBER-DATE

10139 AUG 25 99

FPSC-RECORDS/REPORTING

DOCKET NO. 990743-WU  
DATE: August 19, 1999

FWSC in Citrus County to Homosassa Special Water District (HSWD). The portion of the facilities being transferred is the Crystal River Highlands system (see Attachment A). 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. Because of the gain on sale matter discussed in Issue 2, staff believes that it would not be appropriate to process this docket administratively.

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. A recommendation regarding acknowledgement of Citrus County's Resolution No. 99-111 has been filed for consideration at the September 7, 1999, agenda conference. This transfer application originated while the Commission had jurisdiction of Citrus County.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission approve FWSC's transfer to HSWD, a political subdivision of the State of Florida, as a matter of right, pursuant to Section 367.071, Florida Statutes, and amend FWSC's certificate?

**RECOMMENDATION:** Yes, the Commission should approve FWSC's transfer to HSWD, a political subdivision of the State of Florida, as a matter of right, pursuant to Section 367.071, Florida Statutes. FWSC's operating Certificate No. 189-W in Citrus County should be amended to reflect that portion of the territory that it will continue to operate, minus the territory that is being transferred. The territory that is being transferred is shown as Attachment A. (JOHNSON, REDEMANN, VACCARO)

**STAFF ANALYSIS:** On June 6, 1999, FWSC filed a 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. FWSC provided HSWD with the utility's most recently available income and expense statement, balance sheet, statement of rate base for regulatory purposes and contributions-in-aid-of-construction. Mr. Jack Moring, the representative for the HSWD confirmed the receipt of these statements with the sales contract.

Rules 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 regarding the disposition of any outstanding regulatory assessment fees, 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

DOCKET NO. 990743-WU  
DATE: August 19, 1999

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 regulatory assessment fees and its annual report. FWSC will remain responsible for regulatory assessment fees 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, the Commission shall retain jurisdiction over these dockets.

Since all of the filing requirements have been met, the staff recommends that the Commission should issue an order that acknowledges that HSWD has acquired the utility's Crystal River Highlands facilities. Since only a portion of FWSC's facilities in Citrus County are being transferred, Certificate No. 189-W should 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.

DOCKET NO. 990743-WU  
DATE: August 19, 1999

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 1/2 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).

DOCKET NO. 990743-WU  
DATE: August 19, 1999

**ISSUE 2:** Should the Commission open a docket to examine whether FWSC's sale of its facilities involves a gain that should be shared with FWSC's customers?

**RECOMMENDATION:** No. The Commission should not open a docket at this time to examine whether FWSC's sale of its facilities involves a gain that should be shared with FWSC's customers. (JOHNSON)

**STAFF ANALYSIS:** The proposition that gains on sales should be shared with customers has been considered in other dockets. In each case, the Commission evaluated whether or not ratepayers contributed to the utility's overall recovery of investment. See Order No. PSC-93-0301-FOF-WS, issued on 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 by the Commission 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. Order No. PSC 96-1320-FOF-WS, issued October 30, 1996 in Docket No. 950495-WS. In that same docket, the Commission established the rate base of Crystal River Highlands as \$55,848.

According to the purchase agreement, the sales price for the FWSC's facilities known as Crystal River Highlands is \$82,000. That sum exceeds the rate base values that the Commission 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 in 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, staff questions 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.

DOCKET NO. 990743-WU  
DATE: August 19, 1999

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, 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 a increase in rates in a rate case filing. Therefore, Staff recommends that no investigation be initiated by the Commission at this time.

DOCKET NO. 990743-WU  
DATE: August 19, 1999

**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** Yes, this docket should be closed. (VACCARO)

**STAFF ANALYSIS:** This docket concerns a transfer of facilities to a governmental agency, which must be approved as a matter of right. Therefore, this docket should be closed after the order approving transfer is issued.