



Public Service Commission

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OCT-7 AM 11:48
RECORDS AND REPORTING

DATE: OCTOBER 7, 1999

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

FROM: DIVISION OF WATER AND WASTEWATER (CLAPP, REDEMANN)
DIVISION OF LEGAL SERVICES (CIBULA) *SMC. JS*

RE: DOCKET NO. 981589-WU - APPLICATION FOR APPROVAL OF TRANSFER OF A PORTION OF THE FACILITIES OPERATED UNDER CERTIFICATE NO. 40-W IN ORANGE COUNTY FROM UTILITIES, INC. OF FLORIDA TO THE CITY OF MAITLAND.
COUNTY: ORANGE

AGENDA: 10/19/99 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\981589WU.RCM

CASE BACKGROUND

Utilities, Inc. of Florida (UIF or utility), on a total company basis, is a Class A utility providing water and wastewater service to systems in the following counties: Marion, Orange, Pasco, Pinellas, and Seminole. Involved in this application is one of three systems in Orange County and a portion of customers from a related system in Seminole County who are actually located in Orange County. According to the application filed by the utility, UIF's Orange County water systems serve 377 customers. The utility's 1998 annual report on file with the Commission lists total utility operating revenues of \$1,942,046 and total utility operating income of \$310,448.

On November 12, 1998, the utility filed an application for transfer of the Druid Isle Water System in Orange County to the City of Maitland (City). The system is interconnected with the

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

Oakland Shores water system, a small part of which is located in Orange County and the majority of which is in Seminole County. The actual transfer includes all 51 customers of Druid Isle and 40 of the 293 customers of Oakland Shores.

The purpose of this recommendation is to approve, as a matter of right, the transfer of part of UIF's systems in Orange County to the City, amend Water Certificates Nos. 40-W and 278-W, and determine whether the Commission should open an investigation on the gain on sale.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve the transfer of a portion of UIF's Orange County and Seminole County water facilities to the City, modify the territory descriptions, and amend Water Certificates Nos. 40-W and 278-W?

RECOMMENDATION: Yes. The Commission should approve, as a matter of right, the transfer of a portion of UIF's Orange County and Seminole County water facilities to the City, modify the territory descriptions, and amend Certificates Nos. 40-W and 278-W. (CLAPP, REDEMANN)

STAFF ANALYSIS: The utility has provided water service to three water systems in Orange County since April 18, 1976, pursuant to Order No. 7213. On November 12, 1998, this Commission received an application to transfer one of the Orange County systems, Druid Isle, plus 40 customers from the Oakland Shores system, which is certificated in Seminole County, from UIF to the City pursuant to Section 367.071, Florida Statutes, and Rule 25-30.037(4), Florida Administrative Code. Included with the application is a copy of the transfer agreement between the two parties. The application gives the proposed closing date of December 15, 1998. The actual closing date for the transfer was February 15, 1999, according to a subsequent letter from the utility's Regulatory Matters Vice President.

Pursuant to Section 367.071(4)(a), Florida Statutes, the sale of facilities to a governmental authority shall be approved as a matter of right. The application had deficiencies which were corrected as of June 30, 1999. The application is in compliance

DOCKET NO. 981589-WU
DATE: October 7, 1999

with Section 367.071(4)(a), Florida Statutes, and Rule 25-30.037(4), Florida Administrative Code. As such, no notice of the transfer is required and no filing fees apply.

The application contains a statement that the City obtained UIF's income and expense statement, balance sheet, statement of rate base for regulatory purposes, and contributions-in-aid-of-construction pursuant to Rule 25-30.037(4)(e), Florida Administrative Code. A statement that the customer deposits and interest thereon will be paid to the customers as required by Rule 25-30.037(4)(g), Florida Administrative Code, was also included in the application. Additionally, pursuant to the requirements of Rule 25-30.037(4)(h), Florida Administrative Code, a statement was included that UIF will pay outstanding regulatory assessment fees (RAFs) as part of its regular annual filing.

Staff recommends that the application is in compliance with all provisions of Rule 25-30.037, Florida Administrative Code. Pursuant to Section 367.071(4)(a), Florida Statutes, the transfer of facilities, in whole or part, to a governmental authority shall be approved as a matter of right. Therefore, staff recommends that the Commission approved, as a matter of right, the transfer of UIF to the City. Because UIF is transferring only a portion of its water systems within Orange County and Seminole County, the territory description should be modified and Certificates Nos. 40-W and 278-W should be amended to reflect the consequent deletions of territory.

UTILITIES, INC. OF FLORIDA

WATER SERVICE AREA OF THE OAKLAND SHORES SYSTEM

ORANGE COUNTY

Description:

A portion of Section 25, Township 21 South, Range 29 East, Orange County, Florida, and also a portion of Section 24, Township 21 South, Range 29 East, Seminole County, Florida; More particularly described as follows; Commencing at the SW corner of Section 24; Thence run due East a distance of 1320 feet along the South line of said Section 24 to the Point of Beginning; Thence run due South a distance of 640 feet to a point; Thence run due East 980 feet to a point; Thence run due South a distance of 100 feet to a point; Thence run due East a distance of 500 feet to a point; Thence run due South a distance of 100 feet to a point; Thence run due East a distance of 481 feet to a point; Thence run due North a distance of 900 feet to the South line of said Section 24; Thence run due East a distance of 550 feet to a point; Thence run due South a distance of 300 feet to a point; Thence run due East a distance of 575 feet to a point; Thence run due North 1050 feet to a point; Thence run due West 260 feet to a point; Thence run due North 420 feet to a point; Thence run due West 1250 feet to a point; Thence run due North 450 feet to a point; Thence run due West 320 feet to a point; Thence run due South 420 feet to a point; Thence run due West 300 feet to a point; Thence run due South 1250 feet to a point on the South line of section 24; Thence run due West a distance of 750 feet along the South line of said Section 24 the Point of Beginning.

Description:

A portion of Section 24, Township 21 South, Range 29 East, Seminole County, Florida. Being more particularly described as follows: Commencing at the SW corner of said Section 24, same point also being the Point of Beginning; Thence run due East along the South line of said Section 24, a distance of 660 feet to a point; Thence run due North a distance of 1250 feet to a point, Thence run due West a distance of 660 feet to the West line of Section 24, Thence run due South along the West line of said Section 24 a distance of 1250 feet to the Point of Beginning.

ISSUE 2: Should the Commission open a docket to examine whether UIF's sale of its facilities involves a gain that should be shared with UIF's remaining Orange and Seminole County customers?

RECOMMENDATION: Yes. The Commission should open a docket to examine whether UIF's sale of its facilities involves a gain that should be shared with UIF's remaining Orange and Seminole County customers. (CLAPP, CIBULA)

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 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 Commission last established rate base for UIF's water systems in Orange and Seminole Counties by Order No. PSC-95-0574-FOF-WS, issued May 9, 1995 in Docket No. 940917-WS, for the average test year ending December 31, 1993. Since uniform rates were established for each county, the order did not contain rate base for the individual systems within each county. Consequently, staff devised a method to estimate if there appeared to be a gain on sale. This method is explained below.

Orange and Seminole Counties' rate bases shown in the utility's 1998 annual report were adjusted for the Allowance for Funds Used During Construction (AFUDC) changes outlined in Order No. PSC-95-0574-FOF-WS. The adjusted rate bases were then divided by the Equivalent Residential Connections (ERCs) in each county for a per ERC rate base. This number was then multiplied by the number of ERCs transferred to the City to determine an estimate of rate base value relating to the transferred ERCs. The rate base values for both counties was then subtracted from the aggregate purchase price to determine an estimate of any potential gain on sale. The actual calculations are shown on Schedule 1.

Based on these calculations, the estimated value of rate base associated with the transfer of these ERCs was \$43,597. According to the purchase agreement, the purchase price for UIF's facilities known as Druid Isle and a part of Oakland Shores is \$159,000. That sum exceeds the estimated rate base values of \$43,597. The excess purchase amount of \$115,403 divided by the remaining ERCs in both counties, 2,549, gives a per customer excess of \$45.

The staff recognizes that these calculations are only a proxy for the actual rate base determination. However, since both systems received the benefit of uniform rates, there is justification for using the per ERC allocation methodology in calculating a value of rate base that is associated with those customers transferred to the City.

The utility also submitted unaudited rate base information for the two systems as \$27,761 for Druid Isle and \$201,247 for Oakland Shores. The entire Druid Isle system is being transferred to the City, so it appears appropriate to include the entire rate base amount. A prorated amount for the 40 Oakland Shores customers being transferred could be calculated as $40/293$ times \$201,247 resulting in an estimated \$27,474 value. The resulting estimated combined rate base of \$55,235 subtracted from the contract sales price of \$159,000 yields an estimated gain on sale of \$103,765. Dividing this gain on sale by the 2,549 remaining ERC's in the two counties, gives a per ERC excess of \$41, which closely compares to the gain on sale calculated by the per ERC rate base methodology of \$45.

An investigation in the gain on sale would determine whether the remaining customers of UIF subsidized the investment in the overall UIF systems during the years that the systems were combined for ratemaking purposes. However, due to the estimated amount of the gain on sale, it appears to be prudent to initiate an investigation at this time. Therefore, staff recommends that a docket be opened to examine whether UIF's sale of its facilities involves a gain that should be shared with UIF's remaining Orange and Seminole County customers.

ESTIMATED GAIN ON SALE CALCULATIONS

Orange County Rate Base

Rate Base per 1998 Annual Report	\$133,507
Less AFUDC*	-2,288
Plus Depreciated AFUDC*	<u>+188</u>
Adjusted Rate Base	\$131,407
Per ERC Rate Base (383.5 County ERCs)	\$343
Value of ERCs Transferred (55.5)	\$19,037

Seminole County Rate Base

Rate Base per 1998 Annual Report	\$1,404,134
Less AFUDC*	-16,354
Plus Depreciated AFUDC*	<u>+1,507</u>
Adjusted Rate Base	\$1,389,287
Per ERC Rate Base (2,261 County ERCs)	\$614
Value of ERCs Transferred (40)	\$24,560

Rate Base Value of Purchase

Orange County Value Transferred	\$19,037
Seminole County Value Transferred	<u>+24,560</u>
Total Value	\$43,597

Gain on Sale Determination

Purchase Price	\$159,000
Less Value of Purchase	<u>-43,597</u>
Excess Purchase Price	\$115,403
Excess Per Remaining ERCs (2,549)	\$45

*From Rate Case Docket #940917-WS Order No. PSC-95-0574-FOF-WS

DOCKET NO. 981589-WU
DATE: October 7, 1999

ISSUE 3: Should this docket be closed?

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

STAFF ANALYSIS: No further action is required; therefore, this docket should be closed.