

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-**

**DATE:** June 26, 2019

**TO:** Office of Commission Clerk (Teitzman)

**FROM:** Division of Engineering (Lewis, Knoblauch, Graves) *CKL EK*  
Division of Accounting and Finance (Sewards, Bennett, Norris) *WJ*  
Division of Economics (Bruce, Hudson) *ESD*  
Office of the General Counsel (Crawford) *FC*

*TS ALM*  
*AM BF*

**RE:** Docket No. 20180175-WU – Application to transfer facilities and Certificate No. 628-W in Polk County from Alturas Utilities, L.L.C. to Alturas Water, LLC.

**AGENDA:** 07/09/19 – Regular Agenda – Proposed Agency Action for Issue 2 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** Place after 20180174-WU (Sunrise Utilities, LLC) on the Agenda.

### Case Background

On September 14, 2018, an application was filed to transfer the operations of Alturas Utilities, L.L.C. (Alturas Utilities or Utility) to Alturas Water, LLC (Buyer).<sup>1</sup> Alturas Utilities is a Class C utility providing water service to approximately 48 residential customers and 7 general service customers in Polk County.<sup>2</sup> The service territory is located in the Southwest Florida Water Management District.

<sup>1</sup>A single purchase agreement effected the purchase of two separately certificated utilities, both located in Polk County. The transfer of Sunrise Utilities, LLC, is addressed in Docket No. 20180174-WU.

<sup>2</sup>2018 Annual Report on file with the Commission, p. 18.

The Commission granted a grandfather certificate to the Utility in 1997 originally in the name of Alturas Waterworks.<sup>3</sup> In 1998, Alturas Waterworks was transferred to Keen Sales, Rentals and Utilities, Inc. (Keen).<sup>4</sup> Alturas Utilities acquired a portion of Keen's service territory in 2005 when the Commission granted the transfer.<sup>5</sup> According to the Utility's 2018 Annual Report, its total gross revenues were \$24,789 and total operating expenses were \$35,372, resulting in a net loss of \$12,124.

By Order No. PSC-16-0128-PAA-WU, issued March 29, 2016, in Docket No. 20140219-WU, the Commission established rates and charges for Alturas Utilities. The Commission additionally ordered the Utility to refund customer deposits as well as over collected rate case expense from its 2009 rate case. By letter dated May 29, 2019, the Buyer provided evidence that the appropriate amount of customer deposits and rate case expense were refunded.

This recommendation addresses the application to transfer facilities and Certificate No. 628-W filed on September 14, 2018, the appropriate net book value for transfer purposes, and whether an acquisition adjustment is appropriate. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes (F.S.).

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<sup>3</sup>Order No. PSC-97-0513-FOF-WU, issued May 5, 1997, in Docket No. 19961109-WU, *In re: Application for grandfather certificate to operate a water utility in Polk County by Alturas Water Works.*

<sup>4</sup>Order No. PSC-98-1752-FOF-WU, issued December 22, 1998, in Docket No. 19980536-WU, *In re: Application for transfer of water facilities from Alturas Water Works to Keen Sales, Rentals and Utilities, Inc. in Polk County, cancellation of Alturas' Certificate No. 591-W, and amendment of Keen's Certificate No. 582-W to include additional territory.*

<sup>5</sup>Order No. PSC-05-0309-PAA-WU, issued March 21, 2005, in Docket No. 20040160-WU, *In re: Application for transfer of portion of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County.*

### **Discussion of Issues**

**Issue 1:** Should the application for transfer of Certificate No. 628-W in Polk County, from Alturas Utilities, L.L.C. to Alturas Water, LLC be approved?

**Recommendation:** Yes. The transfer of the water system and Certificate No. 628-W is in the public interest and should be approved effective the date of the Commission's vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475, Florida Administrative Code (F.A.C). The Buyer will be responsible for paying Regulatory Assessment Fees (RAFs) for 2019 and all subsequent years. The Buyer has filed the 2018 Annual Report, and will be responsible for filing all future annual reports. (Lewis, Knoblauch, Sowards)

**Staff Analysis:** On September 14, 2018, the Buyer filed an application for the transfer of Certificate No. 628-W from Alturas Utilities, L.L.C. to Alturas Water, LLC in Polk County. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The sale to Alturas Water, LLC occurred on June 15, 2018, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

#### **Noticing, Territory, and Land Ownership**

The Buyer provided notice of the application pursuant to Section 367.071, F.S., and Rule 25-30.030, F.A.C. No objections to the transfer were filed, and the time for doing so has expired. The application contains a description of the water service territory which is appended to this recommendation as Attachment A. The application contains a copy of a warranty deed agreement that was executed on June 15, 2018, as evidence that the Buyer owns or has rights to long-term use of the land upon which the water treatment facilities are located pursuant to Rule 25-30.037(2)(s), F.A.C.

#### **Purchase Agreement and Financing**

Pursuant to Rule 25-30.037(2)(i), and (j), F.A.C., the application contains a statement regarding financing and a copy of the Purchase Agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. The Buyer stated in the application that he assumes responsibility for all customer deposits. There are no guaranteed revenue contracts, developer agreements, customer advances, leases, or debt of the Utility that must be disposed of with regard to the transfer. The Purchase Agreement was prepared for the sale of Alturas Utilities, L.L.C. and Sunrise Utilities, LLC for a total purchase price of \$89,900. Based upon Equivalent Residential Connections, the allocated portion of the purchase price for Alturas Utilities is \$18,789. According to the Buyer, the sale took place on June 15, 2018, subject to Commission approval, pursuant to Section 367.071(1), F.S.

### **Facility Description and Compliance**

The water treatment system consists of one well with a hydropneumatic tank rated at 3,000 gallons, and utilizes a chlorination process for disinfection. The distribution system consists of varying sizes of 1- to 4-inch polyvinyl chloride (PVC), concrete, and galvanized iron pipes.

The last sanitary survey of the facility was conducted on July 31, 2018, by the Florida Department of Environmental Protection (DEP), which identified a variety of deficiencies. Additionally, Alturas Utilities has several open consent orders with the Polk County Department of Health (PCDH). Pursuant to Rule 25-30.037(2)(q), F.A.C., the Buyer provided a description of the required repairs and improvements as well as an approximate cost to complete the repairs and improvements. Additionally, the Buyer has provided documentation which demonstrates that he is working with the PCDH and the DEP to address the issues outlined in the open consent orders.

### **Technical and Financial Ability**

Pursuant to Rule 25-30.037(2), F.A.C., the application contains statements and documentation describing the technical and financial ability of the Buyer to provide service to the proposed service area. The Buyer was appointed to the Citrus County Water and Wastewater Authority, the local regulatory body for Citrus County, where he served for seven years. The Buyer also served as the “Class C” representative for the Legislative Study Committee for Investor-Owned Water and Wastewater Utility Systems in 2013. He attends yearly training classes through the Florida Rural Water Association and completed the National Association of Regulatory Utility Commissioners Utility Rate School in 2001. The Buyer is the owner and manager of several Class C water and wastewater facilities that are regulated by the Commission. Staff reviewed the personal financial statements of the Buyer, as well as the financial statements of the Buyer’s company, Florida Utility Services 1, LLC.<sup>6</sup> Based on the above, the Buyer has demonstrated the technical and financial ability to provide service to the existing service territory.

### **Rates and Charges**

The Utility’s rates were last approved in a staff-assisted rate case.<sup>7</sup> The Utility’s late payment charge was approved administratively in 2010.<sup>8</sup> The Utility’s miscellaneous service charges were approved in 1997.<sup>9</sup> The Utility’s existing rates and charges are shown on Schedule No. 2. 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 remain in effect until a change is authorized by the Commission in a subsequent proceeding.

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<sup>6</sup>Document No. 06855-2018.

<sup>7</sup>Order No. PSC-16-0128-PAA-WU, issued March 29, 2016, in Docket No. 20140219-WU, *In re: Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.*

<sup>8</sup>WS-10-0098.

<sup>9</sup>Order No. PSC-97-0513-FOF-WU, issued May 5, 1997, in Docket No. 19961109-WU, *In re: Application for Grandfather Certificate to operate a water utility in Polk County by Alturas Water Works.*

### **Regulatory Assessment Fees and Annual Reports**

Staff has verified that the Utility is current with respect to annual reports and RAFs through December 31, 2018. The Buyer will be responsible for filing annual reports and paying RAFs for 2019 and all subsequent years.

### **Conclusion**

Based on the foregoing, staff recommends that the transfer of the water system and Certificate No. 628-W is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475, F.A.C. The Buyer will be responsible for paying all future RAFs and filing all future annual reports.

**Issue 2:** What is the appropriate net book value for the Alturas Utilities water system for transfer purposes and should an acquisition adjustment be approved?

**Recommendation:** The net book value (NBV) of the water system for transfer purposes is \$22,035, as of June 15, 2018. An acquisition adjustment should not be included in rate base. Within 90 days of the date of the final order, Alturas Water, LLC should be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in the 2019 Annual Report. (Sewards, Bennett)

**Staff Analysis:** Rate base was last established as of December 31, 2014.<sup>10</sup> The purpose of establishing NBV for the water system for transfers is to determine whether an acquisition adjustment should be approved. The NBV does not include normal ratemaking adjustments for non-used and useful plant and working capital. The NBV has been updated to reflect balances as of June 15, 2018. Staff's recommended NBV, as described below, is shown on Schedule No. 1.

#### **Utility Plant in Service (UPIS)**

The Utility's general ledger reflected a UPIS balance of \$64,927, as of June 15, 2018. Staff reviewed the UPIS balance and has no adjustments. Therefore, staff recommends a UPIS balance of \$64,927.

#### **Land**

In Order No. PSC-16-0128-PAA-WU,<sup>11</sup> the Commission established the value of the land to be \$500. The Utility's general ledger reflected a land balance of \$500. There have been no additions to land purchased since that order was issued. Therefore, staff recommends a land balance of \$500, as of June 15, 2018.

#### **Accumulated Depreciation**

The Utility's general ledger reflected an accumulated depreciation balance of \$43,329, as of June 15, 2018. Audit staff reviewed additional depreciation since the last rate case proceeding and calculated an accumulated depreciation balance of \$43,392. As a result, accumulated depreciation should be increased by \$63 to reflect an accumulated depreciation balance of \$43,392, as of June 15, 2018.

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

As of June 15, 2018, the Utility's general ledger reflected a fully amortized CIAC balance of \$18,637. Staff reviewed the CIAC balances and has no adjustments. Therefore, staff recommends a CIAC balance of \$18,637 and accumulated amortization of CIAC balance of \$18,637, as of June 15, 2018.

#### **Net Book Value**

The Utility's general ledger reflected NBV of \$22,098. Based on the adjustments described above, staff recommends that the NBV for the Utility's system is \$22,035, as of June 15, 2018.

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<sup>10</sup>Order No. PSC-16-0128-PAA-WU, issued March 29, 2016, in Docket No. 20140219-WU, *In re: Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.*

<sup>11</sup>*Id.*

Staff's recommended NBV and the National Association of Regulatory Utility Commissioners, Uniform System of Accounts balances for UPIS and accumulated depreciation are shown on Schedule No. 1.

### **Acquisition Adjustment**

An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of the acquisition. The Utility and its assets were purchased for \$18,789. As stated above, staff recommends the appropriate NBV total to be \$22,035. Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment may be appropriate when the purchase price is greater than the NBV, and a negative acquisition adjustment may be appropriate when the purchase price is less than NBV. However, pursuant to Rule 25-30.0371(3), F.A.C., if the purchase price is greater than 80 percent of NBV, a negative acquisition adjustment will not be included in rate base. The purchase price of \$18,789 is greater than 80 percent of Alturas Utilities' net book value. Thus, staff recommends that no negative acquisition adjustment be included in accordance with Rule 25-30.0371(3), F.A.C.

### **Conclusion**

Based on the above, staff recommends that the NBV of the Alturas Utilities system for transfer purposes is \$22,035, as of June 15, 2018. No acquisition adjustment should be included in rate base. Within 90 days of the date of the final order, the Buyer should be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in the Alturas Water, LLC 2019 Annual Report.

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

**Recommendation:** If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed and the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision. (Crawford)

**Staff Analysis:** If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed and the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision.



**TERRITORY DESCRIPTION**  
**Alturas Water, LLC**  
**Polk County**  
**Water Service**

**Township 30 South, Range 26 East**  
**In Section 16**

The Northeast 1/4 less the Northwest 1/4 of the Northeast 1/4 and less the Northwest 1/4 of the Northeast 1/4 of the Northeast 1/4 and less Star Lake.

The Southeast 1/4 of the Southeast 1/4 of the Northwest 1/4.

The North 480 feet of the Southeast 1/4.

The East 672 feet of the Southeast 1/4 less the South 672 feet.

**FLORIDA PUBLIC SERVICE COMMISSION**  
**authorizes**  
**Alturas Water, LLC**  
**pursuant to**  
**Certificate Number 628-W**

to provide water service in Polk 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>
PSC-97-0513-FOF -WU	05/5/1997	19961109-WU	Grandfather
PSC-98-1752-FOF-WU	12/22/1998	19980536-WU	Transfer
PSC-05-0309-PAA-WU	03/21/2005	20040160-WU	Partial Transfer and Issuance of Certificate 628-W
*	*	20180175-WU	Transfer

**\*Order Number and date to be provided at time of issuance**

**Alturas Water LLC.**  
**Net Book Value as of June 15, 2018**

<b>Description</b>	<b>Balance Per Utility</b>	<b>Adjustments</b>	<b>Staff Recommendation</b>
Utility Plant in Service	\$64,927	\$0	\$64,927
Land & Land Rights	500	0	500
Accumulated Depreciation	(43,329)	(63)	(43,392)
CIAC	(18,637)	0	(18,637)
Amortization of CIAC	<u>18,637</u>	<u>0</u>	<u>18,637</u>
Total	<u>\$22,098</u>	<u>(\$63)</u>	<u>\$22,035</u>

**Explanation of Staff's Recommended  
Adjustments to Net Book Value as of June 15, 2018**

<b>Explanation</b>	<b>Amount</b>
Accumulated Depreciation To reflect appropriate amount of accumulated depreciation.	<u>(\$63)</u>

**Alturas Water LLC.**  
**Schedule of Staff Recommended Account Balances as of June 15, 2018**

<b>Account</b>			<b>Accumulated</b>
<b>No.</b>	<b>Description</b>	<b>UPIS</b>	<b>Depreciation</b>
304	Structures & Improvements	\$519	(\$133)
307	Wells & Springs	6,987	(6,987)
309	Supply Mains	237	(59)
311	Pumping Equipment	9,108	(5,827)
320	Water Treatment Equipment	220	(220)
330	Distribution Reservoirs	22,822	(9,685)
331	Transmission & Distribution Mains	18,787	(18,787)
334	Meters & Meter Installations	<u>6,247</u>	<u>(1,694)</u>
	Total	<u>\$64,927</u>	<u>(\$43,392)</u>

**Alturas Utilities, LLC  
Monthly Water Rates**

**Residential and General Service**

Base Facility Charge by Meter Size

5/8" x 3/4"	\$12.47
3/4"	\$18.71
1"	\$31.18
1 1/2"	\$62.35
2"	\$99.76
3"	\$199.52
4"	\$311.75
6"	\$623.50

Charge Per 1,000 gallons \$5.63

**Initial Customer Deposits**

	Residential Service	General Service
5/8" x 3/4"	\$86.00	2 times average estimated bill
Over 5/8" x 3/4"	2 times average estimated bill	2 times average estimated bill

**Miscellaneous Service Charges**

	<u>Business Hours</u>
Initial Connection Charge	\$15.00
Normal Reconnection Charge	\$15.00
Violation Reconnection Charge	\$15.00
Premises Visit Charge (in lieu of disconnection)	\$10.00
Late Payment Charge	\$5.50