

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 24, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (M. Watts, K. Johnson, Ramos) *TB*
Division of Accounting and Finance (Norris, Thurmond) *ALM*
Division of Economics (Sibley) *JGH*
Office of the General Counsel (Lherisson) *JSC*

RE: Docket No. 20190182-WS – Application to transfer facilities and Certificate No. 578-W from Sunny Shores Water Co. to Sunny Shores Utilities, LLC, in Manatee County.

AGENDA: 07/07/20 – Regular Agenda – Proposed Agency Action for Issue 2 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On September 18, 2019, Sunny Shores Utilities, LLC (Sunny Shores, Utility, or Buyer) filed an application with the Florida Public Service Commission (Commission) for the transfer of Certificate No. 578-W from Sunny Shores Water Co. (SSWC or Seller) in Manatee County.¹ According to the Utility's 2019 Annual Report, Sunny Shores is a Class C utility serving approximately 266 water customers, with operating revenues of \$93,256 and a net operating loss of \$757. Sunny Shores is a reseller and purchases bulk water service from Manatee County. The customers receive wastewater service directly from Manatee County.

¹ Document No. 08854-2019.

Docket No. 20190182-WS

Date: June 24, 2020

In 1995, Manatee County declared the privately owned water and wastewater utilities in Manatee County subject to the provisions of Chapter 367, Florida Statutes (F.S.).² In 1996, Sunny Shores Water Co. was granted a grandfather certificate to operate a water system in existence since 1969.³ In 2016, the Utility was granted a transfer of majority organizational control.⁴

This recommendation addresses the transfer of the water system and Certificate No. 578-W, the appropriate net book value of the water system for transfer purposes, and the need for an acquisition adjustment. The Commission has jurisdiction pursuant to Section 367.071, F.S.

² Order No. PSC-95-1393-FOF-WS, issued November 9, 1995, in Docket No.19951235-WS, *In re: Resolution of the Board of County Commissioners of Manatee County declaring Manatee County subject to the provisions of Chapter 367, F.S.*

³ Order No. PSC-96-0599-FOF-WS, issued May 7, 1996, in Docket No. 19960028-WS, *In re: Application for certificates to provide water and wastewater service in Manatee county by Sunny Shores Water Co., Inc. under grandfather rights.*

⁴ Order No. PSC-16-0523-TRF-WU, issued November 21, 2016, in Docket No. 201600023-WU, *In re: Application for transfer of majority organizational control of Sunny Shores Water Company, Inc., holder of Certificate No. 578-W in Manatee County, from Jack E. Mason to Jack E. Mason, II and Debbie A. Mason.*

Discussion of Issues

Issue 1: Should the transfer of Certificate No. 578-W in Manatee County from Sunny Shores Water Co., to Sunny Shores Utilities, LLC be approved?

Recommendation: Yes. The transfer of the water system and Certificate No. 578-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, Florida Administrative Code (F.A.C.). The Buyer is current with respect to annual reports and Regulatory Assessment Fees (RAFs) through December 31, 2019, and will be responsible for all future years. (K. Johnson, M. Watts, Thurmond, Sibley)

Staff Analysis: On September 18, 2019, the Buyer filed an application for the transfer of Certificate No. 578-W from SSWC. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The sale to the Buyer occurred on June 19, 2019, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

Noticing, Territory, and Land Ownership

The system is consecutive, meaning bulk water service is purchased, in this instance, from Manatee County. Thus, no proof that the Utility owns or has access to the land on which the treatment facilities are located is required. However, the Buyer included the Assignment of Easements documents in its application for transfer in an effort to comply with Rule 25-30.037(2)(s), F.A.C., which requires the utility to provide proof of access to the land under which the treatment facilities are located. The Buyer provided notice of the application pursuant to Section 367.071, F.S., and Rule 25-30.030, F.A.C. The notice was mailed to customers and other required entities on January 13, 2020, and published on January 17, 2020. Thus, the protest period expired February 16, 2020. No objections 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.

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. There are no developer agreements, customer deposits, or customer advances that must be disposed of with regard to the transfer. According to the purchase agreement, the total purchase price for the assets is \$44,500. According to the Buyer, the sale took place on June 19, 2019, subject to Commission approval, pursuant to Section 367.071(1), F.S.

Facility Description and Compliance

Sunny Shores is a consecutive system that purchases bulk water service from Manatee County Utilities for resale to its customers. The Utility does not own or operate any treatment facilities. Sunny Shores maintains and operates the water distribution system. The Florida Department of Environmental Protection (DEP) conducts periodic inspections of the water distribution system. The most recent inspection report from the DEP, dated May 22, 2018, indicated that the Utility was compliant with its regulations and requirements.

Technical and Financial Ability

Pursuant to Rule 25-30.037(2)(1) and (m), F.A.C., the application contains statements describing the technical and financial ability of the Buyer to provide service to the proposed service area. As referenced in the transfer application, the Buyer was appointed to the Citrus County Water and Wastewater Authority, the local regulatory body for Citrus County, where the Buyer 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. The Buyer attends yearly training classes through the Florida Rural Water Association and completed the NARUC Utility Rate School in 2001. The Buyer is the owner and manager of 15 Class C water and wastewater facilities that are regulated by the Commission. Based on the above, the Buyer has demonstrated the technical ability to provide service to the existing service territory.

Pursuant to Rule 25-30.037(2)(1), F.A.C., the application includes financial statements supporting the financial ability of the Buyer to provide service to the proposed service area. Staff has reviewed the financial statements and believes the Buyer has demonstrated the financial ability to provide service to the existing service territory.

Rates and Charges

The Utility’s rates and charges were approved in a grandfather certificate docket in 1996.⁵ The rates were subsequently amended through 21 price index and pass through rate adjustments. Most recently, the Seller was approved for a price index, which was effective April 2019.⁶ However, when a staff audit was conducted for the transfer in September 2019, inadvertently, the prior tariff was used to verify the Utility’s billing. Furthermore, the Utility was also incorrectly billing its customers the rates in effect prior to the price index rate adjustment. As a result, there was no audit finding of incorrect billing and the Utility agreed. Subsequent to the audit, in May 2020, it was discovered that the Utility was not billing its approved rates. The Utility plans to back bill for 12 months of incorrect billing over that same time period pursuant to Rule 25-30.350, F.A.C. In addition, the Utility’s late payment charge was approved in 2016⁷ and miscellaneous service charges were approved in 1996.⁸

⁵ Order No. PSC-96-0599-FOF-WS, issued May 7, 1996, in Docket No. 19960028-WS, *In re: Application for certificates to provide water and wastewater service in Manatee county by Sunny Shores Water Co., Inc. under grandfather rights.*

⁶ 2018 Price Index increase was 1.18 percent.

⁷ Order No. PSC-16-0523-TRF-WU, issued November 21, 2016, in Docket No. 20160023-WU, *In re: Application for transfer of majority organizational control of Sunny Shores Water Company, Inc., holder of Certificate No. 578-W in Manatee County, from Jack E. Mason to Jack E. Mason, II and Debbie A. Mason.*

⁸ Order No. PSC-96-0599-FOF-WS, issued May 7, 1996, in Docket No. 19960028-WS, *In re: Application for certificates to provide water and wastewater service in Manatee County by Sunny Shores Water Co., Inc. under grandfather rights.*

The Utility's existing rates and charges are shown on Schedule No. 1, appended to this recommendation. 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 the 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.

Regulatory Assessment Fees and Annual Reports

Staff has verified that the Buyer is current with respect to annual reports and RAFs through December 31, 2019. The Buyer filed the 2019 Annual Report and paid RAFs for 2019. The Buyer will be responsible for filing the 2020 Annual Report and RAFs, along with all future years.

Conclusion

Based on the foregoing, staff recommends that the transfer of the water system and Certificate No. 578-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 filing annual reports and paying RAFs for 2019 and all future years.

Issue 2: What is the appropriate net book value for the Sunny Shores system for transfer purposes and should an acquisition adjustment be approved?

Recommendation: For transfer purposes, the net book value (NBV) of the water system is \$20,188 as of June 19, 2019. An acquisition adjustment should not 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 Buyer's 2020 Annual Report when filed. (Thurmond)

Staff Analysis: The Utility was granted a grandfather certificate by Order No. PSC-96-0599-FOF-WS,⁹ therefore rate base has never been established. The purpose of establishing NBV 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 19, 2019. Staff's recommended NBV, as described below, is shown on Schedule No. 2, appended to this recommendation.

Utility Plant in Service (UPIS)

The Utility reflected a UPIS balance of \$34,672. The Utility was not able to provide Commission audit staff with support for any plant additions prior to 2011, including costs of original plant. Based on the support documentation provided for plant additions since 2011, the UPIS balance is \$26,774. In response to staff's first data request, the Utility stated that the UPIS balance reconciles with its calculation of UPIS, as of the transfer date. As such, staff recommends that the Utility's UPIS balance as of June 19, 2019, should be \$26,774.

Land

There is no land associated with the Utility, as bulk water is purchased from Manatee County. Therefore, staff recommends a land balance of \$0.

Accumulated Depreciation

The Utility reflected an accumulated depreciation balance of \$28,517. In its response to staff's first data request, the Buyer also provided a recalculation of the accumulated depreciation balance based on the revised UPIS balance. Staff reviewed and verified the recalculated accumulated depreciation balance of \$6,586. As such, staff recommends that the Utility's accumulated depreciation balance should be \$6,586 as of June 19, 2019.

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

The Utility did not reflect a balance for CIAC or accumulated amortization of CIAC. Audit staff verified that there is no CIAC balance and therefore no accumulated amortization of CIAC. Therefore, staff recommends a balance of \$0 for CIAC and accumulated amortization of CIAC, as of June 19, 2019.

⁹ Order No. PSC-96-0599-FOF-WS, issued on May 7, 1996, in Docket No. 19960028-WS, *In re: Application for certificates to provide water and wastewater service in Manatee County by Sunny Shores Water Co., Inc. under grandfather rights.*

Net Book Value

The Utility reflected a NBV of \$6,155 (\$34,672 - \$28,517). Based on the adjustments above, staff recommends a NBV of \$20,188 (\$26,774 - \$6,586).

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 \$44,500. As stated above, staff recommends the appropriate NBV is \$20,188. 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(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. As such, staff recommends that no positive acquisition adjustment be approved.

Conclusion

Based on the above, staff recommends that the NBV of Sunny Shores, for transfer purposes, is \$20,188, as of June 19, 2019. 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 Buyer's 2020 Annual Report.

Issue 3: 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, a consummating order should be issued and the docket closed. (Lherisson)

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, a consummating order should be issued and the docket closed.

SUNNY SHORES UTILITIES, LLC
WATER SERVICE AREA
MANATEE COUNTY

Located in a portion of Manatee County, Florida, situated entirely within the Northwest 1/4 of Section 2, Township 35 South, Range 16 East, described as follows:

Commence at the northwest corner of Section 2, Township 35 South, Range 16 East; thence run S 00°00'00" E a distance of 1,444 feet to the northerly ROW line of 40th Avenue West; thence run S 64°00'00" E along said ROW line a distance of 881 feet to the Point of Beginning; thence run N 24°00'00" E a distance of 1,468 feet along the westerly bank of a canal; thence continuing along the westerly bank of said canal run N 16°00'00" E a distance of 131 feet; thence continuing along said canal run N 26°00'00" E to the shoreline of Palma Sola Bay; thence run easterly along the shoreline of Palma Sola Bay a distance of approximately 1,000 feet to the point where a bulkhead intersects said shoreline; thence run along said bulkhead N 26°56'00" E a distance of 302.14 feet; thence continuing along said bulkhead run S 62°30'11" E a distance of 160.67 feet to the easterly ROW line of 115th Street West; thence run S 24°46'00" W along said ROW line a distance of 1,875 feet to the northerly ROW line of 40th Avenue West; thence run N 64°00'00" W along said ROW line a distance of approximately 1,069 feet to the Point of Beginning.

**FLORIDA PUBLIC SERVICE COMMISSION
Authorizes**

**Sunny Shores Utilities, LLC.
Pursuant to
Certificate Number 578-W**

to provide wastewater service in Manatee 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-96-0599-FOF-WS	05/07/1996	19960028-WS	Original Certificate
PSC-16-0523-TRF-WU	11/21/2016	20160023-WU	Transfer Majority
*	*	20190182-WU	Transfer

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

**Sunny Shores Water Co., Inc.
Quarterly Water Rates**

Residential & General Service

All Meter Sizes	
Base Facility Charge	\$74.16
Includes 10,800 gallons	
Charge per 1,000 over 10,800 gallons	\$5.08
Backflow Maintenance Service Charge	\$5.46

Miscellaneous Service Charges

Initial Connection Charge	\$19.01
Normal Reconnection Charge	\$19.01
Violation Reconnection Charge	\$19.01
Premises Visit Charge (in lieu of disconnection)	\$12.40
Late Payment Charge	\$5.19

Service Availability Charges

Meter Installation Charge	
5/8" x 3/4"	\$115.00

Sunny Shores Utilities, LLC
Water System
Schedule of Net Book Value as of September 30, 2019

<u>Description</u>	<u>Balance</u>	<u>Adjustments</u>	<u>Staff</u>
	<u>Per Utility</u>		
Utility Plant in Service	\$34,672	(\$7,898)	\$26,774
Land & Land Rights	-	-	-
Accumulated Depreciation	(28,517)	21,931	(6,586)
CIAC	-	-	-
Amortization of CIAC	-	-	-
Total	<u>\$6,155</u>	<u>\$14,033</u>	<u>\$20,188</u>

**Explanation of Staff's Recommended
Adjustments to Net Book Value as of June 19, 2019**

<u>Explanation</u>	<u>Amount</u>
Utility Plant in Service To reflect appropriate amount of utility plant in service.	Water <u>(\$7,898)</u>
Accumulated Depreciation To reflect appropriate amount of accumulated depreciation.	<u>\$21,931</u>
Total Adjustments to Net Book Value as of September 30, 2019	<u>\$14,033</u>

Sunny Shores Utilities, LLC
Water System
Schedule of Staff's Recommended Account Balances as of June 19, 2019

Account No.	Description	UPIS	Accumulated Depreciation
301	Organization	\$-	\$-
304	Structures & Improvements	-	-
307	Wells & Springs	-	-
309	Supply Mains	-	-
310	Power Generation Equipment	-	-
311	Pumping Equipment	-	-
320	Water Treatment Equipment	-	-
330	Distribution Reservoirs	-	-
331	Transmission & Distribution Mains	6,997	(616)
333	Services	125	(25)
334	Meters & Meter Install	17,257	(5,013)
336	Backflow Prevention Devices	1,655	(587)
343	Tools, Shop and Garage Equipment	<u>740</u>	<u>(345)</u>
	Total	<u>\$26,774</u>	<u>(\$6,586)</u>