

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate  
increase in Martin County by  
Indiantown Company, Inc.

DOCKET NO. 990939-WS  
ORDER NO. PSC-00-2054-PAA-WS  
ISSUED: October 27, 2000

The following Commissioners participated in the disposition of  
this matter:

J. TERRY DEASON, Chairman  
E. LEON JACOBS, JR.  
LILA A. JABER  
BRAULIO L. BAEZ

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NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING INCREASE IN WATER AND WASTEWATER RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Indiantown Company, Inc. (Indiantown or utility), a wholly-owned subsidiary of Postco, Inc. (Postco), is a Class B utility providing water and wastewater service to approximately 1,749 water and 1,668 wastewater customers in Martin County. The utility is located in a region which has not been designated as a critical water use area. Comprehensive water and wastewater rates were last established for this utility by Order No. 11891, issued April 27, 1983, in Docket No. 810037-WS. The utility's rates were revisited in Docket No. 960011-WS, an investigation for possible overearnings, culminating in Order No. PSC-96-0657-FOF-WS, issued May 10, 1996. In that Order, this Commission established rate base as of 1994, required a refund of the 1994 Water Price Index Adjustment and reduced rates to remove the 1994 Water Price Index.

By Order No. PSC-95-1328-FOF-WS, issued November 1, 1995, in Docket No. 950371-WS (Investigation into the authorized return on equity (ROE) of Indiantown Company, Inc. in Martin County), 10.43% was authorized as the midpoint of Indiantown's return on equity (ROE) for all regulatory purposes effective November 1, 1995.

On December 27, 1999, Indiantown filed the Application for Rate Increase at issue in the instant docket. Staff found several deficiencies in the Minimum Filing Requirements (MFRs) which were corrected by the utility, and March 7, 2000, was established as the official filing date. The utility requested that the application be processed using our Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the historical twelve-month period ended June 30, 1999. By Order No. PSC-00-0912-PCO-WS, issued May 8, 2000, Indiantown was granted interim rates designed to generate annual

water revenues of \$545,003 and wastewater revenues of \$724,454. This represents a revenue increase on an annual basis of \$58,133 (11.94%) for water and \$180,355 (33.15%) for wastewater.

The utility requested final rates designed to generate annual water revenues of \$697,224 and wastewater revenues of \$1,023,257. This represents a revenue increase of \$188,272 (36.99%) for water and \$463,360 (82.76%) for wastewater.

We considered our staff's recommendation on this rate filing at the September 5, 2000 Agenda conference. At that time, the utility presented comments regarding the following issues: moving costs, deferred income taxes, management fees, allocated billing costs, sludge removal, land lease for the percolation ponds, rate case expense, and taxes other than income. The utility also identified parent debt as an issue, but chose not to comment on it. The Office of Public Counsel (OPC) presented comments regarding used and useful and management fees. Consequently, we deferred a ruling on the recommendation and required our staff to file a supplemental recommendation to address the utility and OPC's comments.

#### QUALITY OF SERVICE

Rule 25-30.433(1), Florida Administrative Code, states:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of the utility's product (water and wastewater); operational conditions of the utility's plant and facilities; and the utility's attempt to address customer satisfaction.

In addition, sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and the county health departments, or lack thereof, over the preceding three-year period are considered. DEP and county health department officials' comments concerning quality of service as well as the comments of the utility's customers are also considered.

The utility provides water service to 1,562 residential customers and 194 general service customers. It also provides wastewater service to 1,531 residential customers and 126 general service customers. The utility's raw water is obtained from eight wells in the area surrounding the water plant. The water treatment includes aeration, sand filtration and chlorination with a 50,000 gallon ground storage tank. The wastewater plant includes a 0.75 million gallons per day (mgd) secondary treatment facility which uses two percolation ponds and spray irrigation to dispose of effluent.

#### Quality of Utility's Product

In Martin County, both drinking water and wastewater programs are regulated by the DEP's Southeast Florida District. Both the quality of drinking water and wastewater treatment plant effluent are determined by the results of required testing and analysis. According to DEP, the utility is up to date with all of its testing requirements, and the results of those tests are satisfactory. A review of reports and required test results by our staff engineer indicates that the utility is properly treating its drinking water and wastewater effluent. Therefore, we find that the quality of the product is satisfactory.

#### Operational Conditions at the Plant

In addition to DEP periodic inspections over the last three years, our staff engineer conducted extensive inspections of all of the utility's facilities from February 28, 2000 through March 3, 2000. Conditions and operations were found to be satisfactory.

#### Customer Satisfaction

The utility received approximately 144 customer complaints during the test year. The majority (135) concerned water leaks and meter checks. Inspections validated leaks in the customers' plumbing and meter readings. The other complaints included the following: one complaint concerning sand in water; four complaints concerning low pressure; and two complaints concerning main breaks. There were also two complaints of wastewater backups. All complaints appear to have been resolved by the utility promptly. In addition, no complaints found in the Commission's Complaint Tracking System.

A customer meeting was held on April 12, 2000 at 6:00 p.m. in the Indiantown Community Center. The meeting was attended by approximately 120 customers and lasted approximately two hours. The majority of the complaints concerned the economic impact of the rate increase on the customers. There were four complaints as to the hardness of the drinking water and precipitants in the drinking water. In addition, there were two complaints of inadequate pressure in the Indianwood Subdivision. There were also a few billing complaints.

On April 13, 2000, our staff engineer, with the assistance of Mr. Jim Hewitt, Utility Supervisor, investigated all service related complaints from the customer meeting. This investigation included three in-home visits and several customer interviews in the Indianwood Subdivision. The results were as follows: (1) Water hardness was admitted to by the utility. Even though the water is hard, it is within the standards set by DEP. To add treatment to correct this aesthetic fault would only add to the rate increase. Therefore, we will not require additional treatment. (2) Indianwood pressure problems are caused by the pipe size and usage patterns along with system configuration. If the customers adhere to irrigation restrictions, the pressure is adequate. The utility will investigate ways to increase supply pressure. Moreover, the addition of high service pumps or the enlargement of the distribution system are cost prohibitive solutions. (3) In regards to the billing complaints, meter reading records were reviewed and concerned customers were contacted. All concerns and questions were satisfactorily answered.

Upon consideration of the three components identified above, we find that the quality of service provided by Indiantown, in treating and distributing water, is satisfactory. In addition, the quality of service provided by Indiantown, in collecting, treating and disposing of wastewater, is satisfactory.

#### RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedules Nos. 1-A and 1-B and our adjustments are itemized on Schedule No. 1-C, which are attached to this Order and by reference are incorporated herein. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on the schedules

without further discussion in the body of this Order. The major adjustments are discussed below.

### Used and Useful

#### Water Treatment Plant

Although the wells and storage yield a firm reliable capacity of 2.2 million gallons per day (mgd), the aeration-sand filtration limits the plant to 1.231 mgd. The hydraulic capacity of the water treatment plant is 1.231 mgd and the average flow from the five maximum days in the maximum month is .992 mgd. When fire flow (.240 million gallons) and a growth allowance of 5,523 gallons per day (gpd) is included, the results indicate that the plant is 100% used and useful. This is calculated by taking the five maximum days' average flow to which are added the growth allowance and the fire flow requirement and subtracting the excess unaccounted for water which produces the flows that are then divided by the plant capacity. The calculation is summarized in Attachment A, attached to this Order and by reference incorporated herein. The utility used the same method in its MFRs to calculate a requested 100% used and useful, but failed to include the required five-year growth allowance.

#### Water Distribution System

Since the water distribution system contains both residential and general service customers, an equivalent residential connection (ERC) evaluation method was used in calculating the used and useful percentage for the system. The used and useful percentage under the ERC evaluation method is calculated by adding the ERCs served to the growth in ERCs and dividing by the ERC capacity of the distribution system. This method yields a result of 100% used and useful, which is summarized in Attachment A of this Order. The distribution system is essentially built-out. If expected growth is realized, the system will have to be expanded in the near future.

#### Wastewater Treatment System

The wastewater treatment plant is permitted by DEP to handle .750 mgd based upon a three-month maximum average daily flow. The highest flows for a three-month period during the test year



occurred in September, October, and November of 1998. The used and useful percentage of the wastewater treatment system is calculated by taking the three month average daily flow which is added to the growth allowance and subtracting the excess inflow and infiltration and then dividing by the plant capacity. By the formula method described above, the used and useful plant was calculated to be 64.6% used and useful. The calculation is summarized in Attachment A of this Order. The utility used the same method in its MFRs to calculate a requested 63%, but failed to include the required five-year growth allowance.

#### Wastewater Collection System

Since the wastewater collection system contains both residential and general service customers, an ERC evaluation method was used in calculating the used and useful percentage for the system. The results indicate a collection system which is 100% used and useful. The calculation is summarized in Attachment A of this Order. The collection system is essentially built-out. If expected growth is realized, the system will have to be expanded in the near future.

#### Supplemental Used and Useful Information

In response to our staff's recommendation heard at the September 5, 2000 Agenda conference, the engineer for OPC, Mr. Ted Bidy, disagreed with our staff on all four used and useful recommendations. In fact, he recommended that the well field be given a separate used and useful percentage instead of the 100% recommended by staff for the entire water treatment plant.

#### Water Supply Wells

Mr. Bidy computed a Firm Reliable Capacity (FRC) for all eight wells in the well field of 2,836,800 gpd. He also estimated a fire flow requirement of only 750 Gallons Per Minute (gpm) for a total average daily flow (ADF) requirement of 1,087,119 gpd. Dividing the ADF by the FRC resulted in a 49.67% used and useful.

OPC's engineer made several assumptions when calculating a separate used and useful for the water wells:

1. All eight wells are capable of operating continuously for 24 hours per day.
2. All eight wells have back-up power available.
3. The consumptive use limitation was not recognized.

We find that all three of Mr. Bidy's assumptions are invalid for the following reasons:

1. Water well pumps cannot normally operate continuously for 24 hours per day without burning up or depleting the zone around the well casing. DEP uses 16 hours per day operation for large plants and 12 hours per day operation for medium sized plants. Our calculation is based on a pump operating 12 hours per day.

2. Only four of the eight wells have a back-up power generator available. These four wells have a FRC of .216 mgd if the largest well is eliminated and the remaining wells are pumped for 12 hours per day, the standard used by our staff. Therefore, the formula is (.216 mgd for FRC + .500 mgd for storage + .240 mgd for fire flow = .961 mgd demand), which is less than the maximum five day average demand of .992 mgd.

3. We also considered the fact that the Water Management District has a consumptive use permit limiting the utility to .973 mgd drawdown for the entire well field per day. Again, this is less than the 1.231 mgd plant capacity which we have used.

Accordingly, we do not believe it appropriate to calculate a separate used and useful percentage for the well field. It will be included in the water treatment plant used and useful percentage of 100%.

#### Water Treatment Plant

Mr. Bidy uses a "permitted capacity" of 1,296,000 gpd and a fire flow of 750 gpm or 90,000 gpd in his calculation. He arrived at two possible used and useful percentages for the water treatment plant: 83.88% if the permitted capacity is used or 88.31% if our staff's capacity of 1,231,000 gpd is used.

We find that OPC's engineer makes two incorrect assumptions in calculating the water treatment plant used and useful percentage.

1. OPC's engineer used a "permitted capacity" when none exists.

2. OPC's engineer assumed a 750 gpm fireflow demand. The county requires a demand of 1500-2000 gpm for two hours for fire flow. This is because the utility serves a mixed area of residential, multi-family and industrial customers. Indiantown experienced a major fire in this industrial area a few years ago.

The actual capacity of the water treatment plant is limited by the "weakest link" in the treatment chain: the filter which is limited to 1.231 mgd. The total demand of the plant is .992 mgd + .240 mgd + .0055 mgd which exceeds the capacity of the plant. Therefore, we find no reason to change the 100% used and useful for the water treatment plant, including the well field.

#### Wastewater Treatment Plant

For the wastewater treatment plant used and useful calculation, Mr. Biddy used an Annual Average Daily Flow (AADF) of 438,348 gpd and a permitted capacity of 750,000 gpd based upon AADF. After considering growth, he arrived at 60.16% used and useful.

We believe OPC's engineer incorrectly used the AADF when calculating the capacity of the wastewater treatment plant. The DEP permit clearly shows a three month annual average flow (3MADF). OPC's engineer derived this incorrect average from a line in the utility's 1999 Annual Report which was a typographical error since earlier on the same page of the Annual Report, the utility showed that the permit was issued based upon 3MADF.

We find that using the correct permitted capacity and the correct flows result in the wastewater treatment plant being 64.6% used and useful.

#### Water Distribution System

Mr. Biddy used the capacity of the water treatment plant, 1,231,000 gpd minus his recommended fire flow allowance of 90,000

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gpd to determine the capacity of the water distribution system of 1,141,000 gpd. Dividing his capacity by 316.27 gpd per ERC, he arrived at a capacity of the distribution system of 3,608 ERCs and a used and useful percentage of 63.01.

We find that the water distribution system is 100% used and useful. Our analysis is discussed below in combination with the wastewater collection system.

#### Wastewater Collection System

Mr. Biddy again used the capacity of the wastewater treatment plant, 750,000 gpd divided by test year ERCs plus growth, to arrive at a used and useful figure of 57.35%.

We find that Mr. Biddy incorrectly used plant capacities to derive the ERC capabilities of the distribution and collection systems. The used and useful percentages for distribution and collection systems have absolutely nothing to do with the capacity of the treatment plants. There is no correlation between plant hydraulic capacities and the length of distribution and collection lines. In addition, transmission lines from the water treatment plant to the neighborhoods being served and force mains or trunks from these customers back to the wastewater treatment plant are normally 100% used and useful. These mains and trunks can account for a sizable portion of the plant investment.

Our staff engineers spent several days in the service area studying the composition of the customer base: multi-family, general service, and industrial customers. We also considered the fact that mains and trunks passed several orange groves and undeveloped areas and analyzed which areas were contributed. Our staff actually counted customers on several streets in each neighborhood and multiplied by the number of streets when estimating the existing and potential customer base. While there are a few vacant lots, the service area is essentially "built-out" and there are no lines in undeveloped areas. It is interesting to note that DEP limits the water service area to 1,705 connections on Indiantown's permit. In Indiantown's service area, a connection did not necessarily equate to an ERC. Our staff's actual inspection and lot count resulted in an estimated 2,273 potential ERCs for water and 1,928 ERCs for wastewater. Many potential customers have their own wells and septic tanks and the county has

not required them to connect to the utility system. These factors must be considered when determining the used and useful percentages for a system.

We also considered and investigated the three factors presented by the utility:

1. The utility's system is a mix of invested and contributed lines.
2. A portion of the invested wastewater collection system has been contributed through main extension charges.
3. Active connections are spread equally throughout the developed system.

Based on the foregoing information, we concur with the utility that the service area is essentially built-out. Therefore, we find that the water distribution and wastewater collection systems are 100% used and useful.

Based on the foregoing, we find the utility's used and useful percentages are as follows:

PLANT OR SYSTEM	UTILITY REQUESTED	COMMISSION APPROVED
Water Treatment Plant	100%	100%
Water Distribution System	100%	100%
Wastewater Treatment Plant	63%	64.6%
Wastewater Collection System	100%	100%

The utility reduced utility plant by \$619,550 and accumulated depreciation by \$185,966 for non-used and useful wastewater treatment plant based on a used and useful percentage of 63%. As discussed above, we find a used and useful percentage of 64.6%. This will increase the utility's non-used and useful adjustment to plant by \$20,596 and accumulated depreciation by \$6,170, thereby increasing rate base by a net of \$14,426. Correspondingly, depreciation expense shall be increased by \$1,135. Deferred taxes and property tax adjustments will be discussed later in this Order.

Utility Land for Rate Base

The utility did not include any land in its rate base schedules (MFR Schedules A-1 and A-2). Order No. PSC-96-0657-FOF-WS, issued May 10, 1996, in Docket No. 960011-WS, included land in rate base of \$4,469 for water and \$383 for wastewater. These amounts were included on the books and no new land was added. The utility explained that it inadvertently omitted them when preparing the exhibits. We find that water rate base shall be increased by \$4,469 and wastewater rate base by \$383 to correct these omissions.

Capital Items That Were Expensed

As stated in Audit Disclosure No. 3, during the test year the utility recorded an expense for two water plant purchases that should have been capitalized. In August 1998, the utility purchased two Quincy compressors and two intake silencers for \$1,803 for the water plant. In December 1998, the utility purchased a transmitter and other miscellaneous parts for a finished water flow meter at the water plant for \$2,797. We note that these items are plant additions and are not a normal recurring material supplies expense.

Account No. 343, Tools, Shop and Garage Equipment, NARUC Uniform Systems of Accounts, Class B, states:

This account shall include the cost of tools, implements, and equipment used in construction, repair work, general shops and garages and not specifically provided for or includible in other accounts. A sample of items to be included in this account are listed below:

1. Air compressors.

Account No. 334, Meters and Meter Installations, NARUC Uniform Systems of Accounts, Class B, states:

A. This account shall include the cost of meters, devices and appurtenances attached thereto, used for measuring the quantity of water delivered to

users, whether actually in service or held in reserve.

Therefore, based upon the above definition of accounts and our staff engineer's evaluation, we find it appropriate to decrease Material and Supplies expense by \$4,600 for water. Since these were test year expenses, only the average balance of plant shall be included in rate base. Therefore, we find that average plant in service should be increased by \$2,300 for water. Account No. 343, Tools, Shop, and Garage Equipment shall be increased by \$902 and Account No. 334, Meters and Meter Installation shall be increased by \$1,398. Corresponding adjustments shall also be made to increase accumulated depreciation and depreciation expense for water by \$126 and \$252, respectively.

In January, 1999, the utility recorded \$898 of general computer software purchased as miscellaneous expense. This amount is part of the general hardware and software package purchased by the utility in 1998 during the test year which was allocated to different companies and should have been capitalized. Since these were test year expenses, only the average balance of plant shall be included in rate base. We find it appropriate to increase average plant in service by \$449, or \$225 for water and \$224 wastewater, and to decrease miscellaneous expense by \$898, or \$449 each for water and wastewater. Corresponding adjustments shall also be made to increase accumulated depreciation and depreciation expense for both water and wastewater by \$37 and \$74, respectively.

On a combined basis, average plant in service shall be increased by \$2,525 for water and \$224 for wastewater. Corresponding adjustments shall be made to increase water accumulated depreciation and depreciation expense by \$163 and \$326, respectively. Wastewater accumulated depreciation and depreciation expense shall also be increased by \$37 and \$74, respectively. The operation and maintenance (O&M) expense accounts shall be decreased by \$5,049 for water and \$449 for wastewater.

#### Costs for Move

In its MFRs, the utility included several pro forma adjustments related to moving water and wastewater personnel from the telephone company's (Indiantown Telephone Systems or ITS) building to the water plant. These adjustments include plant costs

of \$6,516 for a new copier, \$4,885 for the installation of a T-1 line to the telephone company and \$5,300 for a new telephone system for a total of \$16,701 which went into rate base along with related accumulated depreciation of \$1,452. The utility also made pro forma adjustments to increase O&M expenses by \$590 for annual copier expenses and \$4,152 for the annual expense of the T-1 line for a total adjustment to O&M expense of \$4,742.

In its original recommendation, our staff indicated that the utility stated that the move was necessary to allow ITS more room to expand its operations since the existing telephone company building could not be expanded. ITS, along with Arrow Communications, Inc. (ACI, also a subsidiary of Postco) and Indiantown, are all wholly-owned subsidiaries of Postco. As such, all are related parties.

It is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So.2d 1187, 1191 (1982). This burden is even greater when the transactions are between related parties.

In its original recommendation, our staff allocated the costs associated with the move equally between water and wastewater operations and the telephone operation. At the September 5, 2000, Agenda conference, the utility contested this recommended allocation of the costs of the move. The utility's position is that the move was not necessitated by the telephone company. The utility contended that there is no plan for expansion of the telephone company and the telephone company did not benefit from the move. According to the utility, the purpose was for Indiantown to house its personnel in its own building. Indiantown's intent was to do everything to separate itself from the operations of affiliated companies and to pay its own way. Costs that were incurred as a result of the move were reasonable and necessary. Indiantown stated that bids were received for the copier, which was purchased from an unrelated party. The utility states that the T-1 line was purchased from the related party's tariff. The telephone system was bid and bought for the best price, even though it was bought from a related party. Indiantown believes that it should stand on its own, that its personnel are now properly housed in an Indiantown facility and that the recommendation was not appropriate.



We find that the move was intended, in part, to allow ITS room to expand and that the costs should be recovered from both the utility and the related telecommunications entities, ITS and ACI. Our staff toured the facilities and observed the lack of space in the telephone company building. Even ACI, which has its own facilities for administration, uses the telephone company building for its electronic equipment. The main computer, which handles administrative functions for all Postco subsidiaries, is located within the telephone company building. Moving Indiantown administrative personnel to different locations away from the computer presents problems and increases operating costs. Further, the argument that the company wanted to separate itself from the affiliated operations is unsupportable. This case is full of related party transactions that are being considered by us.

ITS is a substantially larger company and is not subject to rate base regulation. While we do agree that some of the costs should be borne by Indiantown, we find it inappropriate to charge the water and wastewater operations for the full cost of this move. Since the telephone company benefitted as much, if not more, from the move, we find it appropriate to split the costs equally between water and wastewater operations and telephone operations. As such, the rate base pro forma additions of \$16,701 for the copier, T-1 line and telephone system shall be reduced by \$8,351, with a \$4,175 reduction to water and \$4,176 to wastewater. The pro forma depreciation expense and accumulated depreciation shall be reduced by \$362 for water and \$364 for wastewater.

Further, we find that the pro forma expenses of \$4,742 for the copier and T-1 line shall likewise be split with ITS. This results in O&M expense reductions of \$1,185 for water and \$1,186 for wastewater.

We do not find that Indiantown has supported recovery of its requested cost for this move in this case. Further, we find that this move benefitted ITS more than it did the water and wastewater operations.

#### Office Improvements

The utility has included a pro forma addition of \$25,000 to rate base for office improvements which have not taken place. Since the move has already taken place without the improvements, our

staff recommended at the September 5, 2000, Agenda conference that the proposed improvements are not an essential component nor are related to the move and are not warranted at this time. We note that our staff has visited the utility's water plant office and the offices occupied by utility personnel appear no worse than many of the offices in the telephone company building that they left.

At the September 5, 2000, Agenda conference, the utility contended that the pro forma office improvements to the water plant are necessary and should be allowed. Indiantown asserts that the office space is deplorable and very small. The utility believes that the upgrade is necessary for space and lighting, but the improvements have not begun because the utility did not have the money. The utility stated that construction will begin when the money is available.

This filing already includes the costs for upgrading the billing and general ledger systems, and along with new computers for each employee, and software and network costs. The mere statement that a utility wishes to upgrade the interior design of its office building is insufficient to prove that these costs are reasonable. Therefore, we find it appropriate to remove the \$25,000 from the test year rate base, or \$12,500 each from water and wastewater. Depreciation expense and accumulated depreciation shall be reduced by \$1,136, or \$568 each from water and wastewater.

Based on the above, the utility's pro forma plant additions shall be reduced by \$16,675 for water, \$4,175 for the move and \$12,500 for the improvements. The wastewater pro forma plant additions shall be reduced by \$16,676; \$4,176 for the move and \$12,500 for the improvements. Pro forma depreciation expense and accumulated depreciation shall be reduced by \$930 for water and \$932 for wastewater. The pro forma O&M expenses shall be reduced by \$1,185 for water and \$1,186 for wastewater.

#### Contributions-In-Aid-of-Construction (CIAC)

As indicated in Audit Exception No. 4, the utility had not recorded contributed plant received in settlement of the lawsuit between the utility and the Indianwood Development Homeowners' Association. The settlement directed that the water and wastewater assets constructed between 1984 and 1987 by the developer be transferred to the utility. The audit revealed that these assets

have not been recorded on the books of the utility. The Indianwood assets that were to be transferred on March, 1999, had values, according to the settlement, as follows:

Water Meters	\$78,090
Water Lines	\$295,635
Connections-Services	\$93,162
Wastewater Lines	\$687,522

Indianwood also constructed assets in 1982 and 1986 but no documentation could be found for these. Since there was no actual breakdown of the services between water and wastewater, we find it appropriate that these costs be split equally between water and wastewater at \$46,581 each. Accumulated depreciation and amortization of CIAC associated with these assets is \$175,777 for water and \$237,205 for wastewater.

We also note that Martin County contributed assets to the utility in September, 1996. According to the invoice reviewed by our staff auditors, the costs were as follows:

Water 6" main and fitting	\$15,742
Connection to Water main	\$1,045
Sanitary Sewer Lines	\$34,395
Offsite Force Main	\$50,817

Accumulated depreciation and amortization of CIAC associated with these Martin County assets is \$1,277 for water and \$7,981 for wastewater.

In addition, the audit disclosed that Indiantown Non-Profit Housing also contributed assets in March, 1997. An invoice reviewed by our staff auditors shows that there were contributed unspecified water and wastewater facilities of \$320,800 and a contributed lift station and force main of \$73,700. Upon request of the staff auditors, the utility called the contributors and asked for a breakdown of the costs. The utility provided documentation to show that \$204,277 of the \$320,800 was for a water main. The contributors could not, however, provide a breakdown

between water and wastewater for the remaining \$116,523 of on-site facilities. With the absence of specific identification, we find it appropriate that the \$116,523 be split equally between water and wastewater, with \$58,261 to water and \$58,262 to wastewater. Accumulated depreciation and amortization of CIAC associated with these assets is \$11,582 for water and \$8,373 for wastewater.

Based on these additions, water plant and water CIAC shall be increased as follows:

Indianwood Development	\$420,306
Martin County	16,787
Indiantown Non-Profit Housing	<u>262,538</u>
Total Additions	<u>\$699,631</u>

Water accumulated depreciation and amortization of water CIAC shall be increased as follows:

Indianwood Development	\$175,777
Martin County	1,277
Indiantown Non-Profit Housing	<u>11,582</u>
Total Additions	<u>\$188,636</u>

Wastewater plant and wastewater CIAC shall be increased as follows:

Indianwood Development	\$734,103
Martin County	85,212
Indiantown Non-Profit Housing	<u>131,962</u>
Total Additions	<u>\$951,277</u>

Wastewater accumulated depreciation and amortization of wastewater CIAC shall be increased as follows:

Indianwood Development	\$237,205
Martin County	7,981
Indiantown Non-Profit Housing	<u>8,373</u>
Total Additions	<u>\$253,560</u>

We find it appropriate that these adjustments be made to the utility's books, although the adjustments will have no effect on rate base.

Allowance for Working Capital

Rule 25-30.433(2), Florida Administrative Code, requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula approach. We made several adjustments to the utility's balance of O&M expenses, discussed in the Net Operating Income section of the this Order, to reflect an adjusted amount of \$410,500 for water and \$587,201 for wastewater. Accordingly, the working capital allowance shall be \$51,312 for water and \$73,400 for wastewater. This is a decrease of \$11,110 for water and \$18,383 for wastewater to the utility's requested working capital allowance.

Test Year Rate Base

We have calculated Indiantown's water and wastewater rate base using the utility's MFRs with our adjustments as stated above as \$604,240 for the water system and \$978,896 for the wastewater system.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2-A, which is attached to this Order and by reference is incorporated herein. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further

discussion in the body of this Order. The major adjustments are discussed below.

### Capital Structure

In Order No. PSC-97-1171-FOF-WS, issued October 1, 1997, in Docket No. 970556-WS, this Commission approved name changes, transfer of assets and majority organizational control relating to Indiantown and related entities. The water and wastewater operations were transferred to a new entity, Postco, in a tax-free stock transaction under IRS Code Section 351. No changes in book value for water and wastewater operations resulted from this transfer. The end result of this reorganization was that the water, wastewater and a small refuse/roll-off operation are the only businesses contained in the new Indiantown Company, Inc.

As previously stated, the telephone (ITS) and competitive local exchange company (ACI), which formerly were subsidiaries of Indiantown, are now in separate companies, also subsidiaries of Postco. In this application, the utility has used Indiantown's own capital structure (the utility subsidiary) to request final rates in this proceeding. The utility made specific adjustments to remove the long-term debt and deferred taxes for the refuse/roll-off operation. This adjustment removed all debt in the capital structure prior to reconciliation to rate base. The utility did not make any specific adjustments to remove non-utility investments from equity. The utility then reduced equity and deferred taxes on a pro rata basis to reconcile the capital to rate base, believing that it had effectively removed all other non-utility assets.

We note that several issues need to be addressed regarding the appropriate capital structure to use in this proceeding. First, we must decide whether Indiantown's capital structure is appropriate to use since it does not contain any outside debt financing. Second, we need to address whether any specific adjustments are required to the capital structure to reflect the utility invested capital balances prior to the pro rata reconciliation.

In Indiantown's most recent rate proceeding for the water and wastewater utility, this Commission used the capital structure of Indiantown, which was the parent at that time, to determine rate of return for the water and wastewater operations. Since the reorganization has occurred, we find that it is appropriate to

consider whether the "new" utility capital structure is reasonable for setting rates.

In Indiantown's last two water and wastewater rate proceedings, this Commission determined that loans specifically tied to the refuse/roll-off assets should be removed from the capital structure, along with the equity investment. The long-term debt involved is a loan made to purchase garbage trucks and is secured by the trucks. Since the debt in this case can be specifically identified with the refuse assets, we find that this is an appropriate adjustment to make to Indiantown's capital structure.

Further, Rule 25-30.433(12), Florida Administrative Code, states that non-utility investment should be removed directly from equity when reconciling the capital structure to rate base unless the utility can show that to do otherwise would result in a more equitable determination of the cost of capital for regulatory purposes. In this case however, the utility has not shown that the equity should not be reduced for the non-utility refuse/roll-off investment. Accordingly, the non-utility assets shown on the utility's balance sheet of \$354,762 shall be removed specifically from equity, as required by the above cited rule. After these specific adjustments are made, Indiantown's capital structure consists of \$4,463,601 of equity, \$415,442 of deferred income taxes and \$46,741 in customer deposits. We find that given the combined rate base of \$1,582,625 which we have previously found herein, these adjusted levels of equity, debt and deferred taxes are not reasonable for setting rates.

We reviewed the utility's balance sheet to see if any other non-utility investments were evident to explain why there is a \$3,355,792 difference between rate base and capital structure. Since the non-used and useful adjustment to rate base is only \$419,158, other reasons are causing this material discrepancy. On the balance sheet, Indiantown has an average test year balance of accounts and notes receivable, net of payables to associated companies of \$1,861,083. We believe that these assets represent investment of the parent or the utility in non-utility assets. Accordingly, we find it appropriate to remove these investments specifically from equity, as required by rule. After this adjustment, the utility's capital structure consists of \$2,602,518 in equity or an equity ratio of 85.66%.



We are also concerned that there is no long-term debt in the adjusted capital structure of Indiantown. Further, the utility made no pro forma adjustments to its capital structure to correspond to its pro forma adjustments to rate base. In May, 2000, the utility secured a \$320,000 loan at 9.5% from the Gulfstream Business Bank in Stuart, Florida, an independent entity. Based on information provided by the utility, this debt was to finance the DEP mandated plant improvements. This debt, however, is approximately half of the amount of the rate base pro forma additions.

To offset some of the effect of an unreasonably high equity ratio, we find it appropriate to impute the adjusted dollar amount of pro forma plant additions as supported by 100% debt. Since the utility was able to secure financing at 9.5% in an arms-length transaction, we find that this cost rate is reasonable for a pro forma adjustment to capital. Even though the utility has not secured the full amount of the pro forma additions with debt, we believe that it would have been prudent for the utility to do so. Accordingly, we find it appropriate to increase long-term debt \$643,673 to correspond to the pro forma construction included in rate base.

Based on our adjusted capital structure as discussed above, the equity ratio is now 80.17%. While the leverage formula does compensate in part for the level of equity in the capital structure, this relative level still appears excessive for rate setting purposes. One alternative would be to use the utility's parent company's capital structure for purposes of setting rates. However, because of the material nature of the parent-debt adjustment which would no longer be made, the revenue requirement would increase if the parent company's capital structure were substituted for the utility's adjusted capital structure. The parent-debt adjustment is discussed later in the body of this Order. For this reason, for purposes of this Proposed Agency Action proceeding, we find it appropriate to use the utility's adjusted capital structure.

Based on the above, Indiantown's test year capital structure shall be used, with specific adjustments to debt and equity as discussed above.



Deferred Income Taxes

The amount of credit deferred taxes for the test year listed in the MFRs on Schedules A-19 and D-2 is \$713,164. In calculating its cost of capital, the utility adjusted this amount by \$285,089 to remove deferred taxes specifically identified as relating to non-utility operations and to include pro forma plant additions. The utility further reduced deferred taxes by \$299,291 as part of the pro rata adjustment to reconcile capital with rate base. Using this calculation, deferred taxes make up 7.93% of total capital. This results in a ratio of 7.77% to total capital.

We have reviewed the utility's deferred income tax balance requested in this proceeding. We find that several adjustments are appropriate.

First, we concur with the utility's specific removal of the deferred taxes relating to non-utility operations. This was done in Order No. 11891, issued April 27, 1983, in Docket No. 810037-WS, the utility's last full rate proceeding, as well as in Order No. PSC-96-0657-FOF-WS, issued May 10, 1996, in Docket No. 960011-WS, Indiantown's last earnings investigation. However, based on Indiantown's trial balance, we find that the MFRs understate the deferred taxes associated with the non-utility operations and pro forma plant additions by \$12,633. After making this adjustment, the correct balance of deferred taxes for utility assets is \$415,442.

Secondly, other than a pro rata adjustment, the utility did not make any specific adjustments to deferred taxes associated with non-used and useful plant. In accordance with Rule 25-30.433(3), Florida Administrative Code, used and useful credit deferred taxes are to be included in the capital structure. In order to estimate these amounts, we have taken the amount of credit deferred taxes to depreciable plant (per books) and applied this ratio to the amount of non-used and useful plant. We also applied this percentage to the non-used and useful portion of pro forma plant. This resulted in a specific reduction to credit deferred taxes of \$58,665.

To determine the amount of deferred taxes related to the pro forma plant additions, we used the ratio of test year incremental current deferred tax expense to plant additions to estimate the deferred taxes that would have been booked for the pro forma

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additions. This adjustment results in an increase to credit deferred taxes of \$32,178.

We do not believe that the utility's pro rata adjustment to deferred taxes is proper. Just as the utility plant which gave rise to the deferred taxes is specifically identified and adjusted, the related deferred taxes should also be specifically adjusted. In Order No. PSC-96-1338-FOF-WS, issued on November 7, 1996, in Docket No. 951056-WS (Palm Coast Utility Corporation), the Commission found that the investment tax credit (ITC) adjustment should be a specific adjustment and that a pro rata adjustment should not be applied to ITCs. The Order stated that the capital structure should include customer deposits, ITCs and deferred taxes that are specifically related to the requested rate base and reconcile any remaining difference pro rata over the investor sources of capital only. This issue was appealed by Palm Coast Utility Corporation to the First District Court of Appeal and the Commission's treatment was upheld by the Court without discussion. Palm Coast Utility Corporation v. State, 742 So.2d 482 (1st DCA 1999).

In its original recommendation, our staff stated that the balance of debit deferred taxes on the utility's books relate to CIAC and the utility has been allowed to collect gross-up (contributed taxes) to offset its investment in debit deferred taxes. Order No. 23541, issued October 1, 1990, in Docket No. 860184-PU, established the Commission's practice on the regulatory treatment gross-up on CIAC. According to that Order, any deferred taxes associated with gross-up should be removed for rate setting purposes. As such, our staff recommended that the utility appropriately excluded the balance of debit deferred taxes from the rate setting equation.

However, at the September 5, 2000, Agenda conference, the utility took the position that the credit deferred income taxes recognized in the capital structure should be offset by the utility's investment in debit deferred taxes on CIAC. According to the utility, the net amount of deferred taxes in the capital structure should be \$149,456 before adjustment for non-used and useful and pro forma plant. We note that this offset was not made in the utility's filing.

The utility stated that it was not aware of any utility with such a high ratio of deferred taxes in its capital structure. One of the reasons why Indiantown's ratio is so high is that there was no offset for the company's investment in taxes on CIAC. Indiantown was not a gross-up company until 1994 and therefore the company has an investment in the income taxes on CIAC from 1987 to 1994. The utility believes that \$149,456 is the proper amount of deferred taxes that should be in the capital structure. This would require a reduction of the amount of deferred taxes originally recommended by our staff.

We agree that the amount of deferred income taxes included in the utility's capital structure was an abnormally high ratio. We also agree that used and useful credit deferred taxes should be offset by debit deferred taxes related to the utility's investment in taxes paid on CIAC before the utility began the gross-up on CIAC. This netting is consistent with Rule 25-30.433(3), Florida Administrative Code. Staff has examined the amount of CIAC collected by Indiantown from 1987 to 1993 using the worksheets provided by the utility at the September 5, 2000, Agenda conference. The utility also made some collections during 1995 and 1996 before the gross-up tariffs were implemented. There are also debit deferred taxes for receivable accounts. In the original recommendation, our staff recommended that credit deferred taxes of \$388,955 be included in the capital structure which did not include the offsetting debit deferred taxes.

We agree with the utility that the net of the debit and credit deferred income taxes is \$149,456 before adjustment for non-used and useful and pro forma plant. We find that after adjustment for non-used and useful and pro forma plant, the balance of deferred income taxes is \$122,969.

#### Rate of Return On Equity

The utility's filing requests a return on equity (ROE) of 9.02% using the leverage formula. This ROE is based upon an equity ratio of 100% as a percentage of investor capital. After making the adjustments discussed previously, we find it appropriate to have an equity ratio as a percent of investor capital of 80.17%. Using the current leverage formula approved in Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, Consummated by Order No. PSC-00-1299-CO-WS, issued July 18, 2000,

the appropriate ROE should be 9.46%. Therefore, consistent with our practice, we find the appropriate range for the ROE shall be 8.46% to 10.46%.

#### Overall Rate of Return

Based on our previous adjustments, we calculate the overall rate of return to be 8.63% with a range of 7.91% to 9.35%.

#### AFUDC Rate

Based on a written request by the utility, we find that it is appropriate to establish an Allowance for Funds Used During Construction (AFUDC) rate for Indiantown. We have reviewed the utility's requested capital structure and, in accordance with Rule 25-30.116(7), Florida Administrative Code, approve an AFUDC rate of 8.63%. The monthly discounted rate is 0.718833%. The effective date of the rates should be July 1, 1999, in accordance with Rule 25-30.116(5), Florida Administrative Code, which states that the new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate. Our calculations are in accordance with Rule 25-30.116(2), Florida Administrative Code, based upon the capital structure for the twelve months ending June 30, 1999.

#### NET OPERATING INCOME

Our calculations of net operating income are depicted on Schedules Nos. 3-A and 3-B, and our adjustments are itemized on Schedule No. 3-C, which are attached to this Order and by reference are incorporated herein. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

#### Billing Determinants and Test Year Revenues

According to Audit Exception 14, the utility made several errors in its wastewater billing analysis. The following items explain the errors made:

1. The cumulative totals do not add-up. Some lines subtract usage instead of adding usage.

2. For the months that the old billing system was in use, garbage customers were included in the zero use general service  $5/8 \times 3/4$  customer number.

3. There were compilation errors.

4. The zero use customers "were plugged" by taking total customers less all other usage and were found to include customers who had temporary discontinuance of service according to Tariff Sheet 11, item 21. There were 401 water customer bills and 388 wastewater customer bills shown in zero usage categories that fell in this classification.

5. The utility left off 221 gallons of usage for the wastewater one inch general meter billing analysis.

6. The Public Fire Protection number of bills on Filing E-2, page 1, only shows the number of bills that were accrued. The utility did not accrue for the others on the ledger in 1999 and did not include the 145 hydrants that should have been billed \$76.93 each year.

Based on the recalculation, the total effect of the billing determinant errors decreases the annualized test year water and wastewater revenues. As such, we find it appropriate to reduce test year water and wastewater revenues by \$5,143 and \$2,657, respectively.

#### Management Fees

According to the utility, the management fees consists of an allocation from Postco for services rendered by two officers, one secretary, and one Management Information System (MIS) employee. It also includes the health insurance and payroll taxes for these individuals. In the MFRs, the utility submitted a breakdown of Postco's management fee to its related companies, of which \$172,143 was charged to Indiantown's water and wastewater systems. This amount represents a 39.78% allocation of Postco's gross management fee of \$432,759.

On June 8, 2000, our staff met with Indiantown to discuss certain issues that needed further explanation or additional information. Among the issues discussed was how the allocations of

the management fees were determined. The utility stated that the allocations were done on an estimate based on time spent with each of Postco's subsidiary companies since the above mentioned personnel did not keep time sheets. Further, there was no documentation to support this time allocation. According to the utility, the allocations were based on each person's recollection of how their respective time was spent at a meeting held once a year. Our staff then requested a copy of calendars for Postco's officers, Mr. Robert Post, Jr. and Mr. Jeff Leslie. These were not immediately available so it was agreed that the utility would submit them together with all the other information requested during the meeting.

On June 29, 2000, our staff received Mr. Leslie's calendar and on July 10, 2000, Mr. Post's. The period covered by these calendars was the latest one year available from June 1999 to May 2000. Our staff made a tabulation based on each submitted calendar. Our staff's analysis reflected that the results averaged 7.25% of time spent on Indiantown. However, we believe that it would be improbable to expect a person to reflect on a daily calendar all actual time spent by the officers on Indiantown water and wastewater business.

At the September 5, 2000, Agenda conference, the utility disputed the percentages recommended by our staff to allocate salaries of Mr. Post, Jr. and Mr. Leslie to its management fees and the disallowance of Mr. Diaz's allocated cost for training, travel, and other benefits. The utility stated that it did a thorough study of time spent by each officer and believed that based on this study, it has appropriately allocated 45% to Mr. Post and 40% to Mr. Leslie. Also, according to the utility, Mr. Diaz's allocated cost of \$1,803 for training, travel, and other benefits are necessary to his function as computer system analyst.

It is the utility's burden to prove that its requested costs are reasonable. Florida Power Corp. v. Cresse, 413 So.2d 1187, 1191 (1982). Based on the above, we find that the utility has failed to justify its requested allocations used for management fees. However, we believe that some level of management fees is appropriate.

We prepared various allocations using different percentages and comparisons with other utilities of the same size. We also

considered the personal involvement of the officers during the rate case. We find that it is appropriate to consider the total salary costs of officers that should be charged to Indiantown, in addition to the functions that these officers perform.

Mr. Post is the President/Managing Officer of four active companies, namely, Indiantown, ITS, Arrow Communications, and Postco. He is also the Director or President of First Bank of Indiantown, Sweetwater Environmental, National Investors Fund, Inc., and a few other companies. Based on our review of his calendars, Mr. Post meets weekly to discuss the Indiantown financials and also meets with Indiantown staff. Instead of the utility's requested 45%, we find that a more reasonable allocation of management fees to Indiantown for Mr. Post is 25%. This allows 10% each for water and wastewater, and the utility's original allocation of 5% for refuse/rolloff.

In addition to the change in allocation percentage, we find that an adjustment is appropriate to Mr. Post's total salaries and benefits. His unallocated management fee shall be increased by \$1,342. This is due to the difference in the cost of health insurance reported by the utility in its MFRs and the actual insurance premium submitted by the utility. The MFRs reported \$5,515 for health insurance cost for Mr. Post, while the total 1999 premium is \$6,857.

We find that it is appropriate to allocate Mr. Post's secretary's time by using the same percentage of time allowed on Indiantown business for Mr. Post. Therefore, we find that the appropriate allocation of management fees for Ms. Joan Shevlin is 25%, 10% for each water and wastewater, and 5% for refuse/rolloff.

We also find that an adjustment is appropriate to Ms. Shevlin's total salaries and benefits. Her unallocated amount of management fees shall be decreased by \$317 to reflect the actual health insurance premium submitted by the utility. The MFRs reported \$4,785 on insurance cost for Ms. Shevlin while the total 1999 rate is \$4,468.

Mr. Leslie is the Vice President of Indiantown, ITS, ACI, Postco, South Flora Land Development Corp., and Indico Properties. He also is a director of Arrownet and a company called Jeffrey S. Leslie, PA. Mr. Leslie has assisted our staff on most of the

discussions and was personally involved during the rate case. His calendar also reflects that he meets weekly with Indiantown staff. Mr. Leslie is a certified public accountant (CPA) who has experience with water and wastewater utilities. Instead of the utility's requested 40%, we find that a more reasonable allocation of management fees to Indiantown for Mr. Leslie is 33%. This allows 15% each for water and wastewater, and a 3% allocation for refuse/rolloff.

Mr. Leslie's total unallocated management fee shall also be reduced by \$182 to reflect the actual health insurance premium. The MFRs reported \$7,205 on insurance cost for Mr. Leslie while the total 1999 rate is \$7,023.

Mr. Arial Diaz is the utility's computer system analyst. The utility originally requested a 30% allocation of his time to Indiantown. In the MFRs, the utility included \$8,670 in management fees and \$7,196 in Contractual Services - Other. We find that the appropriate allocation is 10% each for water and wastewater, consistent with the allocation of computer costs to each company within Postco. The utility admitted that Mr. Diaz' allocation in the management fee was inconsistent with its allocation of computer costs. The utility subsequently submitted to our staff a corrected allocation of Mr. Diaz' compensation which included salary, payroll and unemployment taxes, travel and training, health insurance, and other benefits.

As mentioned earlier, the utility's requested management fees only include salary, payroll taxes, and health insurance from Postco. We find it is inappropriate to include the costs for travel, training, and other benefits for this employee and not for others. Regardless, the utility has not provided documentation that these additional costs are prudent. As such, we find it appropriate to remove the added costs for Mr. Diaz' allocation to Indiantown for travel, training, and other benefits of \$1,803.

Further, since we have included the full allocation of Mr. Diaz' salary and benefits in management fees, we have removed the erroneous amounts included in Contractual Services - Other of \$7,196. The increase in Mr. Diaz' total management fee of \$12,812 is due to the inclusion of his full annual salary and associated payroll taxes, and the actual cost of his health insurance premium reported by utility. In the MFRs, the utility reported half a



year's salary for Mr. Diaz, and \$1,203 for payroll taxes, and \$8,700 for health insurance. We find it appropriate to allocate the cost for Mr. Diaz's full annual salary, with payroll taxes of \$2,119 and \$6,125 for 1999 health insurance.

OPC stated at Agenda that all O&M expenses over the benchmark should not be allowed. According to OPC, Indiantown has exceeded its O&M benchmark by a considerable amount and should be held accountable to explain this excess. OPC's calculation shows that the water O&M increase equates to 95.5% and wastewater to 132.2% within the last 4.5 years compared to a growth plus inflation factor of 7.18% for water and 11.22% for wastewater.

The O&M benchmark analysis is a comparison of the O&M expenses approved in the last rate proceeding escalated for growth and inflation for the same time period to the level requested in the current case. We used the benchmark analysis as a tool to measure the utility's growth and to highlight the areas of concern. Our practice has been that all expense increases above the benchmark are not per se unreasonable or imprudent, nor are expenses below the benchmark automatically reasonable and prudent. Rather the current benchmark, when applied to the respective O&M expenses, may signal the need for further justification by utilities for the increased cost levels being requested. See Order No. 17304, issued March 19, 1987, in Docket No. 850062-WS (Meadowbrook Utility Systems, Inc.).

In the course of our review, we have identified the items that needed further investigation and we believe that our analysis has thoroughly verified the components of the items. Although it appears that upon our review of the items, the O&M expenses continue to be over the benchmark, we find that all necessary adjustments and allocations made to expenses are just and appropriate.

The following is a schedule comparing the utility's requested management fees to our allocation of management fees:

SCHEDULE OF MANAGEMENT FEES - Test Year Ended, June 30, 1999

Management Fee charged to Indiantown Company, Inc.

<u>Per Indiantown</u>	<u>Test Year Total</u>	<u>Water</u>	<u>%</u>	<u>Wastewater</u>	<u>%</u>	<u>Refuse/ Rolloff</u>	<u>%</u>
R. Post, Jr.	185,609	35,927	20%	35,927	20%	9,280	5%
J. Leslie	179,633	37,122	20%	37,122	20%	0	0%
J. Shevlin	38,613	8,688	23%	8,688	23%	0	0%
A. Diaz	<u>28,903</u>	<u>4,335</u>	15%	<u>4,335</u>	15%	<u>0</u>	0%
<b>Total</b>	<b>\$432,758</b>	<b>\$86,072</b>		<b>\$86,072</b>		<b>\$9,280</b>	
Pro forma Adjustment		1,390		1,544			
<b>Total Per Utility</b>		<b>\$87,462</b>		<b>\$87,616</b>			
<u>Commission approved</u>							
R. Post, Jr.	186,951	18,695	10%	18,695	10%	9,348	5%
J. Leslie	179,451	26,918	15%	26,918	15%	5,383	3%
J. Shevlin	38,296	3,830	10%	3,830	10%	1,915	5%
A. Diaz	<u>41,715</u>	<u>4,171</u>	10%	<u>4,171</u>	10%	<u>0</u>	0%
<b>Total</b>	<b>\$446,413</b>	<b>\$53,614</b>		<b>\$53,614</b>		<b>\$16,646</b>	
Pro forma Adjustment		336		336			
<b>Total Per Commission</b>		<b>\$53,950</b>		<b>\$53,950</b>			
<b>Commission approved Adjustment</b>		<b><u>\$33,512</u></b>		<b><u>\$33,666</u></b>			

In the MFRs, the utility made a pro forma adjustment to increase health insurance for its management fees of \$1,390 for water and \$1,544 for wastewater. Based on the actual premiums for 2000, submitted by the utility, these amounts are the unallocated gross yearly increases for each employee. Using our allocation of management fees previously discussed, we find that the appropriate increase in health insurance is \$672, or \$336 for each water and wastewater.

Based on the above, we find that the total appropriate management fee for Indiantown is \$107,900, which includes the \$672 pro forma increase on the cost of health insurance. Therefore, the management fees shall be reduced by \$67,178, or \$33,512 for water and \$33,666 for wastewater. Contractual Services - Other shall be reduced by \$7,196, or \$3,598 each for water and wastewater.

Contractual Service Expense

In its MFRs, the utility made a pro forma adjustment to legal expenses to remove \$47,576, or \$23,788 each from water and wastewater, of costs related to the acquisition of the water and wastewater system in the Indianwood Development. The MFRs reflected that these costs should be amortized over five years.

According to Audit Exception 9, the utility actually recorded legal expenses of \$49,000 and accounting expenses of \$4,335 during the test year related to the Indianwood Development. This is a total of \$53,335 included in test year expenses for this non-recurring event. To correctly remove all test year expenses related to this acquisition, we find it appropriate that legal and accounting expenses be reduced by \$5,759. This is the difference between the actual amount recorded and the utility's adjustment. Accordingly, test year O&M expenses shall be reduced by \$2,880 for water and \$2,880 for wastewater.

The utility's pro forma adjustments to amortize the Indianwood expenses were \$5,947 each for water and wastewater for a total of \$11,894. This reflects an amortization period of four years, not five years. The annual amortization of the correct amount of \$53,335 over five years is \$10,667. The utility's pro forma adjustment of \$11,894 is overstated by \$1,227. We find it appropriate that amortization expense be reduced by this amount, \$612 for water and \$613 for wastewater.

According to the audit, the utility also recorded test year legal expenses of \$7,947 related to the rate case. The utility made an adjustment to legal expense on its MFRs to remove \$1,499 each from water and wastewater expenses for a total of \$2,998 related to the rate case. This adjustment is understated by a total of \$4,951. We find it appropriate that O&M expenses be reduced by \$2,475 for water and \$2,475 for wastewater.

These adjustments reduce total operating expenses by \$10,710, \$5,759 for Indianwood and \$4,951 for the rate case. This reduces O&M expenses by \$5,355 for water and \$5,355 for wastewater. Further, amortization of the Indianwood Development costs shall be decreased by \$612 for water and \$613 for wastewater.

Accounting Contractual Service Expense

In February 1999, the utility recorded water Contractual Services - Accounting of \$6,555. These costs were incurred for the removal and replacement of fire hydrants and other repairs which should have been recorded in other contractual services. These misclassified costs of \$6,555 shall be removed from water Contractual Services - Accounting and be placed in water Contractual Services - Other. This action will have no effect on total operating expenses.

The total for both water and wastewater accounting contractual services is \$21,579 after the above adjustment and our previous adjustment. The remaining accounting contractual expense is for accounting services from the public accounting firm of Chazotte, Lefanto which provided the annual reports, property tax reports, annual review, annual income tax filing and other accounting services for Indiantown.

In Docket No. 960011-WS, the utility indicated that it was hiring additional personnel so that most of the contractual accounting services could be performed in-house. Indiantown now has full-time positions for a controller and a bookkeeper. It also has a vice president, Mr. Leslie, a CPA with water and wastewater experience. As part of the management fee, we have allocated 30% of Mr. Leslie's time to Indiantown.

We find that with the addition of the positions, the accounting functions other than the outside auditor's review and income tax preparation can be done with utility personnel instead of the contracted accounting service. We find it appropriate to remove the costs of contracted accounting services, other than the outside auditor's review and income tax preparation from O&M expenses on a going-forward basis as being duplicative charges. Based on the above, contractual services-accounting shall be reduced by \$7,790 for both water and wastewater. This will allow

the utility a total of \$6,000 for Contractual Services - Accounting.

Transportation Expense

As noted in Audit Exception No. 10, the utility recorded in August, 1998, an expense of \$1,590 for the air-conditioning repair made on a utility vehicle in May 3, 1997. We find that this entry is outside of the test year period and an adjustment of \$795 each for water and wastewater shall be made to reduce transportation expense.

Allocated Billing Costs

In Docket No. 981612-WS, Indiantown, ITS and ACI requested to implement convergent billing whereby its customers would be charged for all utility and communication services rendered for each month on a single invoice. Currently, Indiantown offers water, wastewater, garbage and roll-off service. ITS provides local exchange telephone service and ACI provides Internet, alternative local exchange and long distance services. According to the utility, ITS is responsible for implementing the monthly invoice procedure, distributing to customers, receiving payment, and allocating the revenue received.

This Commission approved the utility's request for convergent billing by Order No. PSC-99-0376-FOF-WS, issued on February 22, 1999, in Docket No. 980612-WS. In that Order, this Commission found that convergent billing would be cost effective and less time consuming for Indiantown's staff. Prior to the purchase of the present convergent billing system, ITS prepared bills for Indiantown on a shared billing system. Under the old system, ITS ran telephone bills and then processed a separate run for water and wastewater bills. Each set of bills was processed and mailed separately. Accordingly, mailing and postage costs were incurred on both runs. Currently, the telephone, water, wastewater, refuse, roll-off, Internet, and long distance bills are combined. Therefore, the processing, mailing and postage costs should decrease, resulting in savings for the utility. Indiantown's tariffs now reflect convergent billing.

We have reviewed the booked and pro forma costs for billing that were included in the MFRs, the basis for those costs and the

allocation method. In 1999, the utility obtained a new general billing service and general ledger software. The company that performs the billing is located in South Dakota and the billing data is transmitted from ITS to the billing services computer via a T-1 high speed data transmission and telecommunications line.

The total billing system hardware and software plant cost that the company incurred was \$58,718 and accumulated depreciation was \$2,447. During the test year, the utility stated that it allocated these costs equally to the three Postco subsidiaries participating in the convergent billing. Indiantown's allocated share was to be 33.3%. However, by dividing Indiantown's allocated dollar amount on its books, it is shown that its share was \$17,010 or 29%.

The utility also estimated total billing expenses for hardware maintenance support of \$3,415, software support of \$4,908 and a timeshare fee of \$46,224. It also included \$4,908 software support for the general ledger financial package. This totaled \$59,455. The utility's allocated share of these amounts according to the MFRs was \$19,818, which was 1/3 of the total cost. The utility referred to this pro forma adjustment as a Service Bureau Access License and allocated \$9,909 each to water and wastewater.

The utility has also requested recovery of annual billing software enhancement fees for the total package of \$9,000, of which Indiantown was allocated \$3,000 or \$1,500 each to water and wastewater. In addition to the above costs, the utility requested recovery of its share of the annual cost for the T-1 line from ITS to the billing service computers in South Dakota and the cost incurred for Internet service. The total cost for the T-1 line was \$18,126 and the Internet cost was \$7,898. The utility's allocated share of this pro forma adjustment was labeled as Annual Telecommunications Charges. The utility's requested allocation for both of these amounts was \$4,337 each to water and wastewater, or 33% of the total cost. The utility also removed \$5,978, \$2,909 each to water and wastewater, of current year charges.

In addition to the allocated billing service and telecommunications charges, ITS charges Indiantown a \$1 processing fee for each convergent bill and \$1.50 for each water and wastewater bill that is sent out separately and not on a convergent basis. The utility states that this fee is for the costs and services to ITS to print and mail the bills and collect the revenue

for Indiantown. The requested pro forma adjustment, labeled Service Bureau Processing Fees, for this cost is an annual charge of \$26,400 allocated evenly between water and wastewater as \$13,200. This charge was calculated by taking the number of convergent bills of 905 times \$1 and adding the number of separate bills of 842 times \$1.5, then multiplying the total times 12 months. To offset this annualized estimate, the utility removed \$3,975 of costs incurred during the test year related to ITS billing services, \$1,987 to water and \$1,988 to wastewater.

The utility has requested annualized O&M expenses of \$57,891, depreciation expense of \$1,631 and the requested return on investment of \$1,331. This is a total billing cost to Indiantown of \$2.90 per bill.

The utility reviewed some of the pro forma adjustments based on its actual charges while preparing data requests, and indicated that the estimate of the total timeshare fee should be reduced by \$4,907 to \$41,317, total T-1 line charges should be reduced by \$7,986 to \$10,140 before allocation. The Service Bureau Processing Fee to Indiantown from ITS shall be reduced by \$384 to \$26,016, based on actual charges.

Indiantown also agreed that the financial package software, which is not a part of the billing operation, should have been allocated 25% to Indiantown instead of 33%, as all other financial package costs were allocated to the 3 subsidiary companies plus Postco. This is a reduction of \$409, or \$204 for water and \$205 for wastewater. Moreover, we find that the Internet costs are also not a part of the billing operation and should have been allocated based on the computer distribution within Postco, 20% to Indiantown instead of 33%. This is a reduction of \$1,054, or \$527 each for water and wastewater. Both of these costs shall be excluded when analyzing billing costs and stated separately in O&M expense.

When asked, the utility also researched the amount of billing costs that were included in test year expenses and that should have been removed. In the MFRs, the utility removed \$3,975 of Service Bureau Processing Fees but should have removed \$8,936 which would further decrease expenses by \$4,961. Accordingly, this adjustment of \$8,936 shall be made.

Upon our review, we find that the related company billing charges to Indiantown are excessive. With respect to the pro forma adjustments to billing costs, the new costs for billing were \$60,854. However, the utility only removed \$8,936 from the test year. This results in an increase of \$51,918 or a 581% increase from the cost for the prior billing system. We understand that it is important to have current Y2K computer software and billing systems. However, an increase of this magnitude coming from the fact that the utility switched to convergent billing does not reflect the economies promised.

In addition, Indiantown allows customers to receive individual, non-convergent bills, if they wish, and ITS charges an additional \$0.50 for each such bill. There were 842 bills issued individually, almost half of the bills issued. We believe that it is inappropriate, under the tariff, to allow separate billing. Therefore, the additional charge of \$5,052 shall not be allowed.

We also do not agree with the equal sharing of the costs amongst the participating companies. We believe that the costs of the bills depend upon the number of bills issued and favor an allocation based on relative customers billed and the size of the bill for each service. ITS has 3,611 customers, Indiantown has 1,788 customers and Arrow has 545 customers. Based on total customers, ITS represents 61% of the total customers, Indiantown represents 30% and Arrow represents 9%. Also, the representative bill presented by the utilities in Order No. PSC-99-0376-FOF-WS shows five pages, three for telephone and one each for the others. We believe that the number of pages also affects the cost of each bill. Since Indiantown only utilizes 20% of the billing pages, its 30% share of the billing costs based on its number of customers shall be discounted by 20%. Thus, Indiantown's share of the adjusted billing costs shall only be 24% of the total billing costs, instead of the 33% proposed by the utility.

As stated previously, we agree with the utility that a new billing system was necessary. We do not disagree with the costs incurred by the Postco companies for the billing service, as adjusted by the utility's experience with the system. However, we disagree with the allocation of these costs. We find that these costs shall be allocated to the participants in the convergent billing as stated above.



\$1 per Bill Charge from ITS

At the September 5, 2000, Agenda conference, the utility expressed concerns about our staff's recommended treatment of the \$1 per bill charge from ITS to the utility for printing and mailing the convergent bills and receiving and processing the payments.

The utility believes that the \$1 per bill charge from ITS to the utility to process each bill is a reasonable cost for the work involved and that the total cost of \$2.53 per bill based on the utility's allocation method is also reasonable. The processing of each bill includes printing, stuffing and mailing the bills. This charge also covers the costs of collection. The utility stated that it contacted a local accounting firm that would charge approximately \$1 per bill for this processing. The utility believes that these costs were necessary because the it needed a new billing system and this was the most economic way to provide for that need.

The \$1 cost per bill for printing, mailing and collection was not supported other than by the utility's belief that it represents a fair share of the costs involved. The utility has no breakdown, nor even an estimate, of the costs involved. Using the utility allocations, allocating one third of the cost to each billing participant, the cost to process each bill would be imputed as \$3 per bill. As we found previously, the allocation to Indiantown is only 24% of the total cost. Under this finding, the allocated cost per bill should be no more than \$0.72.

We do not believe that \$3 per bill is a reasonable estimate of the cost of processing each bill. The cost of a stamp on each bill is \$0.33. We believe that printing the bills should cost no more than \$0.05, since commercial copy companies charge about \$0.05 a copy for bulk copying, which includes the machine, paper and an operator. The same time and skills are involved in printing a bill, so the cost for ITS should be no more than \$0.05. The envelope is no more that \$0.01 or \$0.02 and the personnel cost of folding and stuffing the envelope would bring this phase of the operation to approximately \$0.40 to \$0.50 per bill. Receipt of the payment now involves one check and the processing costs should be minimal, no more that \$0.50 per bill. Based on these estimates, the cost per bill should be approximately \$1 per bill, which agrees with the local accounting firm contacted by the utility. However,

the \$1 per bill is charged for a convergent bill and must be allocated between the participants. Using our approved allocation, the cost to the utility for processing the bill by ITS should be no more than \$0.25. Since no additional evidence was presented by the utility, we find that our estimate of these costs of \$0.25 per bill, is a better approximation of the fair allocation of these costs.

Therefore, the fee shall be reduced by \$15,723 to reflect this per bill cost. Our total approved adjustment to the Service Bureau Processing Fee is a decrease of \$21,159, or \$10,579 for water and \$10,580 for wastewater. The Service Bureau Processing Fee as adjusted shall be \$5,241, or \$2,621 for water and \$2,620 for wastewater.

Based on our allocation method and the above adjustments, rate base shall be reduced by \$2,918. This is a reduction of \$1,459 each to water and wastewater for the allocation of the billing hardware. This shall be offset by a reduction of \$228 in accumulated depreciation, or \$114 each to water and wastewater. Depreciation expense shall be reduced by \$456, or \$228 to water and wastewater.

Annual O&M expenses for billing costs shall be reduced by \$34,052. Including the reduction in the total cost and our reallocation, both water and wastewater annual billing costs shall be reduced by \$15,937. A breakdown of our total adjustments follows:

<u>O&amp;M Expenses</u>	Comm. Approved <u>Total Cost</u>	<u>Indiantown</u>	<u>Water</u>	<u>Waste- Water</u>
Service Bureau Access License	\$49,640			
Annual Software Fees	\$9,000			
Telecommunication Charges T-1 Line to S. Dakota	\$10,140			
Total Allocated	\$68,780	\$16,507	\$8,253	\$8,254
Service Bureau Processing	\$5,241	\$5,241	\$2,621	\$2,620
Comm. Approved Annual O&M Expenses for Billing	\$74,021	\$21,748	\$10,874	\$10,874
Annual Billing Expense-MFRs	\$108,073	\$53,622	\$26,811	\$26,811

Comm. Approved-Billing Pro forma	<u>(\$34,052)</u>	<u>(\$38,297)</u>	<u>(\$15,937)</u>	<u>(\$15,937)</u>
Reduce Test Year Service Bureau Fees		<u>(\$4,961)</u>	<u>(\$2,481)</u>	<u>(\$2,480)</u>
Reallocate Financial Software		(\$409)	(\$204)	(\$205)
Reallocate Internet Charges		<u>(\$1,054)</u>	<u>(\$527)</u>	<u>(\$527)</u>
Total O&M Expense Adjustment-Per Commission		<u>\$38,298</u>	<u>(\$19,148)</u>	<u>(\$19,149)</u>

Based on our analysis, the water and wastewater total cost for billing shall include O&M expenses of \$21,749, depreciation expense of \$1,175 and a return on investment of \$945. The approved pro forma annual billing costs for the utility are \$23,869, a cost of \$1.16 per bill, which we find should reflect the economies of convergent billing.

DEP Required Expense

On Schedule B-3, page 2 of the MFRs, the utility increased wastewater expenses for additional testing by \$22,000. On the same schedule, the utility also requested increased wastewater expenses for additional engineering reports to DEP.

Upon request for data justifying this increase in testing and reporting requirements, the utility produced some estimates and referred to the DEP Operating Permit No. F:0029939-003-DW1 included in the MFRs. Of the \$22,000 of additional testing requirements, the utility was only able to provide support for \$11,100. Therefore, \$10,900 of the requested additional testing shall be removed.

For the additional reporting costs to DEP of \$24,000, the utility could only produce support for \$23,000. Therefore, the additional \$1,000 requested shall be removed as unsupported. Of the \$23,000 supported, \$9,000 was for annual additional reporting requirements and \$14,000 was for one-time costs for pretreatment and capacity analysis reports. One-time, non-recurring, costs shall be amortized over a five-year period pursuant to Rule 25-30.433(8), Florida Administrative Code, as a cost.

In summary, we find it appropriate to reduce the \$22,000 requested for additional annual WWTP testing by \$10,900 to \$11,100. The \$24,000 requested annual engineering cost shall be reduced by \$15,000 to reflect \$9,000 in annual engineering reports. This is a total reduction to wastewater O&M expense of \$25,900. The \$14,000 one time cost for engineering reports shall be amortized and annual wastewater amortization expense shall be increased by \$2,800.

#### Indianwood Maintenance Expense

In its MFRs, the utility requested a pro forma adjustment for maintenance costs that it believed would be incurred since the utility now owns all the water and wastewater lines in the Indianwood subdivision. The total pro forma adjustment was \$22,800 and was allocated evenly between water and wastewater.

According to the utility operations manager and as shown in the MFRs for the test year expenses, this maintenance should be accommodated by the addition of two new employees and their salaries are already included.

The condition of the Indianwood distribution system is suspect. Although, repairs may be expensive, no estimates are available at this time. Therefore, we find that any future repair expenses should be addressed in a future rate proceeding. Therefore, we find it appropriate to disallow the pro forma adjustment for the Indianwood Maintenance Expense of \$22,800, or \$11,400 to water and \$11,400 to wastewater.

#### Sludge Removal Expense

The annual cost for sludge removal listed for the test year was \$54,750. The utility has requested \$75,000 in this rate case.

Indiantown objected to our staff's recommendation that the sludge hauling expense should be decreased from \$75,000 to \$60,225. The utility stated at the September 5, 2000, Agenda conference that it had additional estimates other than those discussed below. However, these were not provided prior to the Agenda conference. In fact, these additional estimates have never been provided.

The utility did provide one estimate from a non-related company for \$120,000. This estimate was more than 200% of the test year expense for sludge hauling and was not considered. The second estimate provided by the utility was for \$75,000 and was submitted by a related company. We find that the related company's estimate represents an increase of 37% over test year sludge hauling expenses and is unreasonable.

We find that a 10% increase over test year expenses, which is more than the normal inflation index, is reasonable. Therefore, sludge hauling expenses of \$60,225 shall be allowed. This results in a decrease of \$14,775 to wastewater O&M expenses.

#### Percolation Ponds Expense

The utility is leasing 25.7 acres of land in Bowers Grove for the wastewater percolation ponds at \$2,100 per month or \$26,964 per year, including tax, for effluent disposal. The land is owned by Mr. Post, the owner of the utility. The utility began leasing this land in 1994 from the Flora Land Development Corporation (Flora). At that time, Flora shared common ownership with the utility, as well as common officers. The original lease was for 8.236 acres at \$500 per month on a year to year basis. This lease was updated in 1996. In 1999, Mr. Post, president of Flora and owner of Indiantown, purchased 25.7 acres from Flora which contained the 8.236 acre plot containing the percolation ponds. The entire 25.7 acre tract was then rented to the utility for \$2,100 per month, still on an year to year basis.

The percolation ponds are the utility's primary method of effluent disposal. We find that the utility should have obtained either ownership of the land or a long-term lease. Section 367.1213, Florida Statutes, requires water and wastewater utilities to either own or possess the right to continued use of the land on which treatment facilities are located. Pursuant to Rule 25-30.433(10), Florida Administrative Code, a 99 year lease, written easement, or other cost effective alternative which provides for the right to continuous use of the land is sufficient. The purpose of this rule is to preserve continued service to the customers. We find that the current year to year leases put the wastewater operations in jeopardy of losing the primary means of disposal at the end of any given year, which would jeopardize the utility's ability to function within DEP guidelines and cause possible loss

of its permit. This situation should have been considered when the utility entered into the agreement with the related land owner. We find it appropriate to require the utility to secure a long-term lease (such as 99 years) to preserve continued service to the customers.

We also find it appropriate to reduce the cost of the lease. It is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So.2d 1187, 1191 (1982). This burden is even greater when the transactions are between related parties. The standard established in GTE Florida Inc. v. Deason, 642 So.2d 545 (Fla. 1994), to evaluate affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair. When transactions occur with affiliates, they should be compared to costs the utility would have paid in an open market at the time the property was first dedicated to public service.

At the September 5, 2000, Agenda conference, the utility stated that when Mr. Post became the owner of the utility, he had to purchase 25.7 acres of undivided land in order to purchase the 8.3 acres where the percolation ponds are located. The utility argues that not to recognize the purchase price of more than \$200,000 will ultimately cause hardship. If given a reasonable rental for the property, the new owner will devote the property to utility use on a long-term basis. It is Indiantown's position that the 25.7 acres of property within which the percolation ponds lie have not yet been devoted to utility purposes, since they have never been the subject of any long-term financing arrangement.

In addition, the utility has taken the position that the \$6,000 annual lease payment is unreasonable because the land purchase was an arms-length transaction with a purchase price in excess of \$200,000. The utility asserts that property taxes for the full value of the land will have to be paid out of the lease proceeds, making Mr. Post's return on his \$200,000 investment wholly inadequate if the \$6,000 annual lease payment is approved. The utility believes that, at the time of the purchase, Flora and Indiantown were not related parties. The purchase price paid by Mr. Post was based on the developer's estimate of the development value of the land, considering its proximity to the canal connecting Lake Okeechobee with the Atlantic Ocean and the marina, in an arm's-length transaction. The lease price allows Mr. Post to

recover his expenses and a reasonable profit. The purchase price also reflected that Mr. Post had to purchase the entire 25.7 acre tract since it could not be divided. Further, the utility argued that the real estate appraisal obtained by our staff is based on grazing land and is not applicable to the land holding the percolation ponds. The original lease also has no bearing on the price of the land since it was a temporary lease and did not reflect the cost of the property.

In Order No. PSC-96-0663-FOF-WS, issued May 13, 1996, in Docket No. 950336-WS, (Rotonda West Utility Corporation), the Commission found that the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) requires that land should be recorded at the original cost when first dedicated to public use. Therefore, we consider the cost of utility assets at the time those assets were dedicated to public service.

In the Rotunda case, this Commission found that land should be recorded at the original cost when first dedicated to public use. The utility's position is that, although the percolation ponds were built on the land in 1994, the land was on a temporary lease from the developer and this did not indicate a permanent commitment. The utility has not conceded that the land on which the percolation ponds reside has been dedicated to public service. The utility contends that dedication to public service will be established when the land is subject to a long-term lease.

We find that the land was dedicated to public service when the ponds were built, if not before, when the planning of the construction took place. Considerable cost was expended to clear the land, build the ponds and connect them to the wastewater treatment plant which is some distance away from the pond site. We find that if the expenditure were for a temporary arrangement that might require the whole process to be repeated at a later time, it would have been imprudent. At the time the ponds were built, Flora and Indiantown had common ownership and management. The related developer had then committed the land to the utility by allowing the ponds to be located on the 8.236 acre tract. A more prudent course, at that time, would have been for the utility to secure a long-term lease or the land should have been transferred from the developer to the utility.

The utility has not supported an assessed valuation of the land at its current price nor the original cost at the time of dedication to public service. We have not been able to obtain the assessed value of the land at either time. In absence of evidence of the original cost, we revert back to the original 1994 lease which was for \$500 per month for the 8.236 acres that the percolation ponds occupy. Local real estate agents were contacted. One realtor who was familiar with the property, provided an estimate of \$400 per month or \$4,800 per year.

Flora set aside 8.236 acres of the 25.7 acre tract for the ponds and charged the utility \$500 per month, on an annual lease, for use of the land. This indicates that the developer was holding the remaining 17.464 acres for other purposes. Our staff engineer has evaluated the ponds and believes that 8.236 acres is sufficient for the ponds. Our staff engineer has also observed other utilities where the land adjacent to the percolation ponds was developed. We find, when compared to the real estate agent's estimate of an appropriate lease cost, that the \$500 per month lease for the 8.236 acres was reasonable. Appraising the land on its development value is not appropriate, since there is very little development in the Indiantown area.

Moreover, when Mr. Post purchased the land, although Flora and Indiantown had separate ownership, they still had common management. We believe they were related parties and that to classify the purchase as an arm's-length transaction is a stretch of the definition. Since the land was dedicated to public service prior to the purchase, the purchase price shall have no bearing on the cost to the utility of using the land.

We conducted an additional analysis which compared the total requested lease price of \$2,100 per month for the total 25.7 acres with the portion of the monthly lease cost for the 8.236 acres used for the ponds. The portion of the monthly lease related to the ponds is \$673 per month which indicates some inflation due to the purchase price. However, the original lease price using the CPI growth factor from MFR Schedule B-8, would have increased only by \$551.

Moreover, we do not believe that this rate should be escalated for future years. Commission rules require that only the original cost of land when first devoted to public service should be



included in setting rates. To allow this lease to escalate annually for the lessors benefit would effectively allow the market value for land in rates. We have calculated, for comparison purposes, a rate base value based on \$6,000 annual expense. Assuming a 10% average lifetime rate of return, this expense roughly equates to about a \$60,000 original cost. Dividing that amount by 8.236 acres equals a per-acre cost of \$7,285. Absent any other support providing the original cost when first devoted to public service, we find that this per-acre cost is reasonable.

Further, we find that the lease price of \$2,100 per month which is for the full 25.7 acres is not reasonable and not supported by evidence. Our staff engineer has determined that the utility only needs 8.236 acres, 32% of the tract, and only that portion of the property should be the subject of the lease payment. Only those costs associated with the lease of the 8.236 acres required to provide service should flow through to the customers. Therefore, the lease payment shall be reduced to the original lease payment of \$500 per month, an annual cost of \$6,000.

The pro forma cost of the current lease is \$26,964, or \$2,247 per month. This is the \$2,100 lease payment and \$147 for sales tax at 7%. According to a representative of the Florida Department of Revenue, an operating lease, even between related parties, is subject to Florida sales tax. However, this land transaction very easily could have been a purchase of land in 1994 and not subject to annual sales tax. Therefore, we find it appropriate not to include any allowance for sales tax on this lease. Based on the above, the 1994 lease price of \$500 per month with no sales tax is a reasonable cost for the percolation pond land. The expense included in rates shall be \$6,000 annually, which is an annual reduction of \$20,964 to the wastewater rental of real property.

#### Chemical and Purchased Power Expense

We find it appropriate to make a 7% residential repression adjustment, or a reduction of consumption of 12,686,940 gallons for water and 6,294,470 gallons for wastewater, as discussed later in the body of this Order. Chemical and purchased power expenses, in large part, are variable based on consumption. We have analyzed the cost per billed gallon of chemical and purchased power expense. Based on our findings on the level of consumption, chemical and

purchased power expenses shall be decreased by \$2,665 for water and \$3,490 for wastewater.

Rate Case Expense

The utility included an \$80,000 estimate in the MFRs for current rate case expense. As part of its analysis, our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount for completion. The utility submitted a revised estimated rate case expense through completion of the PAA process of \$151,780. The components of the estimated rate case expense are as follows:

	<u>MFR</u>		<u>ADDITIONAL</u>	
	<u>ESTIMATED</u>	<u>ACTUAL</u>	<u>ESTIMATE</u>	<u>TOTAL</u>
Filing Fee	\$4,000	\$7,000	\$0	\$7,000
Legal Fees	25,000	36,336	13,664	50,000
Accounting Fees	45,000	76,355	5,235	81,590
Capitalized Time	5,000	0	0	0
Engineering Fees	0	3,376	0	3,376
Miscellaneous Expense	<u>1,000</u>	<u>7,564</u>	<u>2,250</u>	<u>9,814</u>
Total Rate Case Expense	<u>\$80,000</u>	<u>\$130,631</u>	<u>\$21,149</u>	<u>\$151,780</u>
Annual Amortization	<u>\$20,000</u>			<u>\$37,945</u>

We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. We find that the revised estimate is excessive and unreasonable.

Florida Statutes 367.081(7) states that:

The Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by a consumer.

Legal Fees

In its MFRs, the utility requested legal rate case expense of \$25,000. As requested, the utility submitted a breakdown of actual legal expenses which amounted to \$36,336. With the utility's estimate to complete, the revised total legal rate case expense was \$50,000.

In reviewing the requested rate case expense, we find that the actual legal fees incurred for rate case expense are prudent with the exception of \$12,083. We note that the utility began incurring legal rate case expenses in April, 1998. The utility did not request test year approval for this rate case until July, 1999. The expenses for 1998 included planning meetings and phone calls with utility personnel. It also included costs to request a copy of another utility's MFRs to use as an example. Based on our review of this documentation, we find that not all of these costs are related to the current rate case and are duplicative, which is discussed in further detail below. In addition, we are aware that the utility intended to apply for a rate case sometime in 1998, but it did not do so. However, the \$250 cost for obtaining other examples of MFRs is a reasonable cost and shall be allowed. Therefore, we find that it is appropriate to disallow \$4,334 of the 1998 fees.

At the September 5, 2000, Agenda conference, the utility disputed our staff's recommendation to disallow the following: 1) weekly conference calls between Messrs. Nixon, Leslie, and Erwin; 2) legal costs for Indiantown backflow prevention devices; 3) and the cost incurred in correcting MFRs deficiencies.

The utility states that it was necessary to have the weekly conference calls during the time to complete the MFRs and does not believe that it was excessive. We agree with the utility and do not contest the importance of conference calls. In fact, we allowed some of the conference calls made between the lawyer, utility, and accounting consultant for the completion of the MFRs and for calls made since the first Agenda conference addressing this docket. However, we specifically disallow the 18.0 hours of calls made in June 1998 for rate planning. We find that these calls were excessive because it took the utility five months from the approval of test year to the actual completion of the MFRs. A utility is normally given three months to complete its MFRs after

test year approval. We find that it is appropriate to disallow the calls that were excessive.

Our analysis of the supporting documentation submitted by the utility reveals that legal fees were incurred for back-flow prevention devices. The utility states that the legal fees incurred related to the Indianwood backflow prevention devices should be allowed in rate case expense because it was necessary to compute a possible pro forma adjustment on the annual inspection fee for devices acquired from Indianwood. We identified 8.2 hours or \$1,107 in legal rate case expense for this activity. We find that this cost was reasonable but should not have been included in legal rate case expense. It shall instead be added to the Indianwood litigation fees as a deferred debit to be amortized over five years. Therefore, we find it appropriate that the Amortization Expense - Other be increased by \$221, or \$111 for water and \$110 for wastewater.

The utility expressed concern with our staff's recommendation to disallow legal rate case expenses to correct deficiencies in the MFRs. The utility believes that the Commission is setting a perfection standard in its filing.

The deficiencies which we identified were not additional information but were minimum filing requirements in a normal rate case which are clearly stated in the Florida Administrative Code. The utility either did not provide the information requested or made errors in filing the schedules.

On July 16, 1999, Indiantown filed a request for the approval of a test year ended June 30, 1999, for its water and wastewater system. This request was approved by the Chairman on August 2, 1999. The utility then filed its MFRs with this Commission on December 27, 1999. After reviewing the information on the MFRs, we determined that there were deficiencies. A letter was sent on January 19, 2000 identifying four specific deficiencies on the MFRs. These four specific deficiencies were failure to submit a breakdown of CIAC and Accumulated Amortization of CIAC by account or classification, failure to provide allocation of expenses between water and wastewater systems, failure to submit appropriate system maps, and failure to submit a detailed description and itemization of the distribution of all adjustments to rate base and operating expense for the test year.

The utility submitted its first deficiency response on February 14, 2000. After reviewing the information, we determined that the MFRs were still incomplete and sent another deficiency letter on February 23, 2000. The utility submitted the required additional information on March 7, 2000. We find that this additional cost to correct some schedules of the MFRs would not have been incurred if the utility had completed the schedules correctly when it submitted its MFRs the first time.

The official filing date was established on March 7, 2000, after the utility had satisfied the minimum filing requirements. We find that all expenses incurred pertaining to deficiencies on the MFRs for the period of January 19, 2000 through March 7, 2000, in the amount of \$1,201 for legal fees are unreasonable. Therefore, we find it appropriate that this cost be disallowed as rate case expense. We have previously disallowed rate case expense incurred for revising MFRs and correcting MFR deficiencies. The utility could have called our staff if it had questions in completing the schedules of the MFRs. We find it appropriate to disallow all expenses incurred to correct deficiencies, as they should not be borne by the ratepayers.

The legal rate case summary submitted by the utility also included numerous telephone calls by and between the lawyer, the utility, and our staff which did not detail the subject matter of the calls. At our request, the utility submitted further explanation of phone calls on the dates for which the subject matter of the phone call was not clearly defined. After we reviewed this additional information, there were still several phone calls which were not explained. We find it appropriate to disallow these unexplained phone calls and their associated costs.

Rate case legal fees also included costs associated with the convergent billing docket, which was not related to this rate case. Further, we also find that the utility incurred legal fees that were duplicative of what the accounting consultant performed. Examples of these included outlining pro forma adjustments to expenses which are appropriately done by a regulatory consultant, not an attorney. After careful analysis, we find it appropriate to disallow \$5,441 in unsupported legal fees.

The utility submitted an estimated additional cost of \$13,500 for 100 hours in legal fees to complete the rate case through the

PAA process. This estimate did not include a breakdown of the legal work that would be performed for the remainder of the case. We find that 30 hours, or \$4,050, is sufficient for legal fees to cover the review of the recommendation, attendance at agenda, and review of the PAA order, if not protested. This is the same amount of time that the accounting consultant has requested in his estimate to complete the PAA process.

However, since this item was deferred for continuance at the September 26, 2000, Agenda conference, we find that it is appropriate to approve an additional 12 hours or \$1,620 in legal rate case expense to allow the attorney's incurred expenses for September 5, 2000, Agenda conference and to prepare the necessary documents needed for the September 26, 2000, Agenda conference. This results in a total of \$5,670 estimated additional cost in legal rate case expense.

To summarize, we find that the appropriate amount of legal rate case expense is \$29,923. This is a reduction of \$20,077 from the utility's revised estimated legal fees of \$50,000.

#### Accounting Fees

In its MFRs, the utility requested accounting rate case expenses of \$45,000. As requested, the utility submitted a breakdown of actual accounting expenses which amounted to \$76,355. Including the utility's estimate for completion, the revised total accounting rate case expense was \$81,590. In reviewing the requested rate case expense, we find that the actual accounting fees incurred for rate case expense are prudent with the exception of \$39,800.

We note that this is a PAA rate case for a Class B water and wastewater utility. The utility's requested accounting rate case expense is much higher than that requested by most Class B utilities that have filed rate cases in the last several years. This case uses an historical test year that had more corrections to its MFRs for test year misclassifications on its books and pro forma adjustments than usually experienced. Based on our count, the utility had 13 rate base and 46 net operating income corrections and pro forma adjustments. This count does not include the 24 corresponding pro forma adjustments for accumulated depreciation and depreciation expense.

This utility, along with its affiliates, recently underwent a major reorganization. The utility also has many complex related party transactions and allocations. Further, after the test year, the utility management completely changed the salary structure of Indiantown and its management fee allocation. Given the large amount of adjustments made to the MFRs and related party allocations, it is not surprising that the MFRs took five months to complete or that the accounting rate case expense is higher than normal. Based on this information, while we do not dispute that these accounting services were required to get the filing correct, we do find that the full cost should not be borne by the ratepayers.

At the September 5, 2000, Agenda conference, the utility disputed our staff's recommendation to disallow expenses incurred for filing additional MFRs or changes to MFRs in response to the deficiency letter. The utility believes that the requested MFR revisions were not due to errors but were additional information requested by our staff. Again, as stated earlier in this Order, we found that the deficiencies identified by our staff were not additional information but were specifically required in completing the schedules of the MFRs. Expenses incurred to correct deficiencies in the amount of \$8,018 should not be borne by the ratepayers and they shall therefore be disallowed.

We have analyzed the invoices submitted to support the accounting fees. Each invoice identified the number of hours spent on each MFR schedule and other activities performed. The hours were divided between Mr. Bob Nixon, a CPA accounting consultant, and his associate, Mr. Paul DeChario. On many invoices, especially those from the time period of the preparation of the MFRs, we identified a total of 86 hours that were classified as rate case administration. The invoices relating to these hours did not specifically detail the type of administrative work needed for the rate case. Without specific identification, we cannot determine whether these amounts were reasonable and prudent. Further, we question why this administrative cost is so large. We find that an allowance of 19.5 hours, 8 hours and 11.5 between Mr. Nixon and Mr. DeChario, respectively, is more appropriate. This results in a \$6,290 reduction to accounting rate case costs.

We also find that Mr. Nixon spent 7.5 hours on drafting a test year approval letter. This function was also performed by the

attorney. We find that some consulting time is appropriate, and that 4 hours is a more reasonable estimate of time for this function. This is a reduction of \$560 of accounting rate case expense.

Mr. Nixon spent 10.5 hours reviewing the first draft of the MFRs and then spent an additional 32 hours reviewing and making changes to that draft. The utility also disputed our staff's recommendation to disallow 32 hours to change the MFRs. The utility believes that the cost associated with the 32 hours is reasonable. However, we find that the changes were made by the utility prior to filing the MFRs and we did not request these changes. According to the utility's records, it has spent a total of 419 hours or \$51,124 in preparing the MFRs alone, excluding hours spent in correcting deficiencies. We do not find it appropriate to charge the ratepayers \$5,120 in additional expenses for the 32 hours the utility incurred to correct or change its MFRs.

We also reviewed the amount of accounting consultant time spent on different rate case components and issues. We reviewed the detailed time spent reviewing and revising the MFR Sections A-E, O&M expense, allocated expenses and Taxes - Other schedules. We find that the number of hours spent on these activities are reasonable and we make no adjustments.

In addition, the utility disputed our staff's recommendation to allow 4 hours out of the 26.5 hours to prepare the comparative balance sheets and remove end of year adjustments. The utility believes that the time spent is not excessive.

Mr. DeChario spent 26.5 preparing the balance sheet schedules and 39 hours on the monthly billing schedules and billing analysis. Preparing the balance sheet for an historical test year should have simply involved taking the information from the utility's books and records. If it involved more than this, then it appears that there may be a problem with the utility's books which should not be passed on to the ratepayers. Further, we do not believe that it should have taken almost a week to prepare the billing analysis and schedules. This information should be readily available in the utility's books and records. As noted previously, the billing analysis submitted also included many errors and miscalculations. We find that an appropriate amount of time to prepare the balance



sheet and billing schedules is 4 and 10 hours, respectively. This results in a decrease of \$4,377 to accounting charges.

Additionally, the utility disputed our staff's recommendation to allow 22 out of the 42 hours spent to obtain and prepare the engineering schedules. The utility states that these hours are actual hours spent in obtaining the data needed in the schedules.

Mr. Nixon and Mr. DeChario spent 36 and 6 hours, respectively, reviewing and revising the engineering schedules (Section F) and used and useful issues in the MFRs. We find that much of this information should have been compiled by either the utility's part-time engineer or other in-house employees, or the accounting consultant's associate. Therefore, it should not have taken the accounting consultant 42 hours to consolidate and arrange the numbers for the schedule.

In evaluating the invoices, we shifted some hours from Mr. Nixon to Mr. DeChario on schedules which we believe should have been completed by the associate rather than by the consultant. We find that it is reasonable to allow Mr. Nixon three hours to review the engineering schedules with 19 hours for Mr. DeChario. This was a net reduction of \$4,175 (\$5,280-\$1,105).

The utility also disputed our staff's recommendation to disallow conference calls which the utility believes were for June 6 and 7, 2000 conferences. However, the staff recommended that the conferences on these dates be allowed. The conference calls which staff recommended that we disallow were incurred on October 1998 and February 1999. We note that those conferences occurred at a very early stage in the rate case and we find it appropriate to disallow them. The MFRs were not filed until December 27, 1999, and the official date of filing was not established until March 7, 2000.

Mr. Nixon participated in weekly conference calls with the attorney and utility. He reported 19.5 hours spent in conference calls and to be consistent with our adjustment to legal fees, we find that this is excessive. We find that 4.5 hours for conference calls is reasonable given the length of time spent preparing the MFRs and the complexity of the related party transactions. This results in a reduction of \$2,400.

As shown in the accounting invoices, Mr. Nixon spent 9.5 hours reviewing the interim recommendation. We find that this was excessive given that parties may not participate in the interim decision. We find that 2 hours is sufficient for consultant time plus the 1.5 hours spent by Mr. DeChario. We note that the attorney spent approximately 2 hours reviewing the interim recommendation, which we agree is reasonable. This is a reduction of \$1,200.

Finally, the utility disputed our staff's recommendation to disallow expenses incurred to prepare schedules and analysis of the regulatory treatment of contributed taxes. The utility expressed that this is an important issue and should therefore be allowed in rate case expense.

In our review of the MFRs, we were not able to determine the per book accounting treatment of the utility's contributed taxes. As part of the discovery process, the staff requested the location of the amounts associated with contributed taxes on the utility's financial statements. After inquiring of the utility as to how it accounted for these amounts, the utility agreed that these amounts should be included above the line. Based on our review of the accounting rate case expense invoices, Mr. Nixon spent 16 hours performing research on the regulatory treatment of contributed taxes. After consideration of the discussion with the utility, we find it appropriate that the utility be allowed 8 hours from the requested 16 hours for this issue. Thus, we find it appropriate to disallow \$1,280 accounting rate case expense.

The utility also requested recovery of accounting fees of \$4,700 charged by Chazotte, Lefanto & Co., PA, CPAs, for preparing portions of the tax section of the MFRs, responding to audit requests and other staff data requests. We find that these services related mostly to deferred income tax compilation and documentation. Due to the complex nature of this utility's affiliates and the refuse/roll-up operation combined with the water and wastewater utility, the deferred tax information was not readily available. We find that this information should have been easily compiled from the utility's books and records by in-house personnel without the assistance of an additional accounting firm. As such, we find that this \$4,700 in accounting fees is not prudent, and therefore, it shall be disallowed from the rate case.

Mr. Nixon also spent 10.5 hours to research deferred tax reconciliation methods. As discussed above, the utility's deferred tax information should have been readily available and thus, easily identified to utility used and useful assets. This would have negated the need for a pro rata reconciliation to deferred taxes. Therefore, we do not find that the 10.5 hours for accounting research for deferred taxes in this case is reasonable. Based on the above, \$1,680 in accounting rate case expense shall be disallowed.

The utility submitted an estimated additional cost of \$5,235 in accounting fees to complete the rate case through the PAA process. We find that this amount is reasonable and sufficient as additional accounting costs to cover the review of the recommendation, attendance at the Agenda conference, and review of the PAA order, if not protested.

However, since this item was deferred from the September 5, 2000, Agenda conference to the September 26, 2000 Agenda conference, we find it appropriate to increase rate case expense by an additional 12 hours for accounting fees. This is an estimate of \$1,920 plus \$350 in air fare. This will allow for Mr. Nixon's time to prepare and attend the September 26, 2000, Agenda conference. Accounting rate case expense shall be increased by \$7,505.

To summarize, we find that the appropriate amount of accounting fees is \$44,060. This is a reduction of \$37,530 from the utility's revised estimated accounting fees of \$81,590.

#### Capitalized Time

In its MFRs, the utility requested \$5,000 for capitalized time related to rate case expense. In its revised actual amounts and in its estimate to complete, the utility did not include this amount. Therefore, this amount shall be removed from rate case expense.

#### Engineering Fees

In its MFRs, the utility did not include any engineering fees for rate case expense. In its revised actual amounts, \$3,376 was incurred for rate case engineering services. We have reviewed these charges and find that they are reasonable.

Miscellaneous Rate Case Expenses

In reviewing the miscellaneous expense of the revised estimated rate case expense submitted by the utility through completion of the PAA, we find that it is prudent with one exception. We do not find that \$2,996 incurred for one round-trip ticket to Tallahassee was prudent for Mr. Leslie to meet with our staff. This trip was taken on Princess Aviation, Inc. (Princess), a private airline owned by Mr. Post. The utility has removed all other charges from Princess from this filing. The airline invoice from Princess states: "This should be allowable rate case expense as could not get a flight to be there as scheduled and received only 2 days notice of meeting necessity." While we agree that the meeting with the utility was on short notice, we were not aware that Mr. Leslie would be charging the ratepayers for the full cost of his private flight or that he could not get a commercial flight. Otherwise, our staff would have rescheduled the meeting. Moreover, we note that the billing amount of \$2,996 was for four people, yet Mr. Leslie flew alone. Therefore, we find that it is reasonable to allow only one-fourth of this expense, which is \$700 to cover this travel expense.

The utility submitted an estimated additional cost of \$2,250 in Miscellaneous Expense to cover the review of the recommendation, attendance at the September 5, 200, Agenda conference, and review of the PAA Order, if not protested. We find that this amount is reasonable. Also, we find it appropriate to approve an additional \$400 to cover the cost of air fare for Mr. Leslie to attend the September 26, 2000, Agenda conference. The total approved Miscellaneous Rate Case Expense shall be \$2,650.

Conclusion

After addressing the utility's concerns on rate case expense, we find that the appropriate total rate case expense through the PAA process for this docket is \$92,277. We find that this is a reasonable amount. A detailed breakdown of the allowance of rate case expenses is as follows:

	<u>MFR</u> <u>ESTIMATED</u>	<u>UTILITY</u> <u>REVISED</u> <u>ACTUAL</u>	<u>REVISED</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>COMMISSION</u> <u>ADDITIONAL</u> <u>ESTIMATE</u>	<u>COMMISSION</u> <u>ADJUSTED</u> <u>BALANCE</u>
Filing Fee	\$4,000	\$7,000	\$0	\$0	\$7,000
Legal Fees	25,000	36,336	(12,083)	5,670	29,923
Accounting Fees	45,000	76,355	(39,800)	7,505	44,060
Capitalized Time	5,000	0	0	0	0
Engineering Fees	0	3,376	0	0	3,376
Miscellaneous Expense	<u>1,000</u>	<u>7,564</u>	<u>(2,296)</u>	<u>2,650</u>	<u>7,918</u>
Total Rate Case Expense	<u>\$80,000</u>	<u>\$130,631</u>	<u>(\$54,179)</u>	<u>\$15,825</u>	<u>\$92,277</u>
Annual Amortization	<u>\$20,000</u>				<u>\$23,069</u>

The allowable rate case expense is to be amortized over four years, pursuant to Section 367.0816, Florida Statutes, at \$23,069 per year. Based on the data provided by the utility and our adjustments discussed above, the rate case expense shall be increased by \$3,069. This is the difference between the \$23,069 approved amortization and the \$20,000 included in the MFRs. The method of allocation used between systems is based on the percentage of total ERCs at June 30, 1999. The ERCs for water are 2,083 or 52.68% and 1,871 or 47.32% for wastewater. Therefore, the appropriate increase in amortization expense for rate case expense for water is \$1,617 and \$1,452 for wastewater per year.

Amortization of Contributed Taxes

The utility collected CIAC during the period when CIAC was taxable and accrued contributed taxes due to the gross-up of that CIAC. By Order No. 23541, issued October 1, 1990, in Docket No. 860184-PU, this Commission directed that the benefits of contributed taxes were to be passed back to the ratepayers over the lives of the related assets. The amortization of contributed taxes for the test year is \$3,388 for water and \$2,454 for wastewater. We have reviewed this amount and we agree with the utility's calculations using the composite CIAC amortization rate. The utility has not shown this amount in the income statements in the MFRs. Therefore, the above amortization amounts shall be shown on the test year operating statements as an offset to expense.

Taxes Other Than Income

In Audit Exception No. 13, the utility included in its MFR Schedule B-15, Taxes Other Than Income of \$26,861 for water and \$39,407 for wastewater after utility adjustments. To arrive at this amount, the utility allocated 100% of its real estate tax bill to the water plant. The property actually includes the office that is used for water, wastewater, and refuse/roll-off. Also, there was some land leased for non-utility use that is not included in this filing.

At the September 5, 2000, agenda conference, the utility disputed our staff's recommendation that real estate taxes should be allocated as 95% water and 5% wastewater. Also, the utility disputed our staff's recommendation that personal property taxes should be allocated on original cost rather than on fair market value. The utility further asserts that our staff's original recommendation erroneously states that this is Commission policy. Lastly, the utility requests that contributed property be included in computing the personal property tax expense because the County does assess taxes on contributed assets.

Real Estate Taxes

During the last audit in 1994, the utility's plant manager recommended a tax bill allocation of 85% to water, 5% to wastewater, and 10% to non-utility assets. The utility explained that these percentages pertained to the time when the refuse/roll-off were still occupying the water plant. In the past few years, these operations have been moved to a separate location. However, the utility did not specify when the move took place. The utility stated that the proper allocation of real estate taxes should be 95% for water and 5% for wastewater. We requested that the utility produce a separate tax bill for the refuse/roll-off. However, the utility stated that there was no separate tax bill because the refuse/roll-off leases a storage area. Without proof that the non-utility items were not included in the tax bill, we find that the utility's recommended allocation is not justified.

The utility's plant manager also identified several real estate tax bills for easements, wells, and a lift station that were not included. We agree with these allocations. Below is a

schedule showing all identified real estate tax bills with our calculation of the correct allocations to water and wastewater.

<u>1999 REAL ESTATE TAX</u>	<u>TOTAL</u>	<u>WATER</u>	<u>WASTEWATER</u>
Water Plant and Offices	7,819	6,646	391
Sewer Ponds	1,006	0	1,006
Sewer Ponds	1,052	0	1,052
Sewer Treatment Plant	3,246	0	3,246
Water Easement	49	49	0
Fire Hydrant Easement	262	262	0
Water and Sewer Easement	0	0	0
Well 1/3 Water	1,508	503	0
Lift Station	<u>194</u>	<u>0</u>	<u>194</u>
<b>ADJUSTED REAL ESTATE TAX</b>	<b><u>7,316</u></b>	<b><u>7,460</u></b>	<b><u>5,889</u></b>

We find that the appropriate allocation for real estate tax is \$7,460 for water and \$5,889 for wastewater.

#### Personal Property Taxes

Regarding personal property taxes, the utility disagrees that personal property taxes should be based on original cost rather than fair market value. The utility asserts that it is not a Commission policy and should not become Commission policy because the taxes paid on personal property are mandated by the County in which the property is situated.

We agree with the utility that the County mandates whether or not personal property taxes are taxed according to original cost or fair market value. The assessed value used by the County was based on the utility's book value less depreciation, real estate, and vehicles. Based on our review of the 1998 property, plant and equipment schedule of Indiantown, we find that the proper allocation for personal property taxes is 39.49% for water and 56.74% for wastewater.

Our staff also verified on September 8, 2000 with a Personal Property Tax Appraiser for Martin County that contributed assets are taxed. It appears that our staff auditor was given incorrect information during the audit. The utility has submitted a copy of its proposed property taxes for 2000 and the estimate includes the increase due to the additional contributed assets. We note that the utility's filing does not include the property taxes associated with previously unrecorded contributed assets. Accordingly, we have removed our adjustment related to CIAC.

The schedule below shows our and the utility's adjustments to compute the correct real estate and personal property taxes to be used for this rate case.

	<u>WATER</u>	<u>WASTEWATER</u>
Commission Adjusted Real Estate (RE) Tax	7,460	5,889
Commission Adjusted Personal Property Tax	17,589	25,273
Utility's Pro Forma Adjustment	2,393	6,082
Utility's U/U Pro Forma Adjustment	0	2,824
Commission CIAC/Plant Adjustments	<u>12,684</u>	<u>17,307</u>
Gross Real Estate/Personal Property Tax w/o Non-Used & Useful	40,126	57,376
Use & Useful Plant %	<u>100.0%</u>	<u>82.44%</u>
Commission Net Property Tax Expense	40,126	47,299
Utility's Requested RE/PP Taxes	<u>26,861</u>	<u>39,407</u>
Commission Total Adjustment to RE/PP Taxes	<u>13,265</u>	<u>7,892</u>

Based on the above schedule, we find that the appropriate net property tax expense is \$40,126 for water and \$47,299 for wastewater. This will result in an increase in real estate and property taxes of \$13,265 for water and \$7,892 for wastewater.



Parent Debt Adjustment

Rule 25-14.004, Florida Administrative Code, requires that where the regulated utility is a subsidiary of a single parent, the income tax effect of the parent's debt invested in the equity of the subsidiary utility shall reduce the income tax expense of the utility. Although this rule was in place during the prior rate proceedings, it did not pertain to the utility's operations. Prior to the reorganization, the water and wastewater utility (Indiantown) owned the stock of the telephone, cellular, competitive local exchange, and some other investments. The capital structure of this utility was used in the prior rate proceedings. Therefore, no adjustment was necessary for the effect of parent debt, since Indiantown was the parent at that time.

As discussed in the capital structure section, Indiantown is no longer the parent company. Indiantown is now a subsidiary company included in the consolidated income tax return of Postco. Given the utility's corporate reorganization, we find that the rule now applies.

The utility contends that nothing has changed which would now warrant a parent debt adjustment. The utility further contends that even if a parent debt adjustment is ultimately deemed applicable, it should be based on only that portion of Postco, debt used to acquire the stock of the water and wastewater utility.

Based on our analysis, the rule requires that a parent debt adjustment be made in this proceeding. Further, the rule does not allow for specific identification of debt from the parent to the subsidiary utility. Since the utility is included in the consolidated income tax returns of the parent, we believe that it would be very difficult to prove specific identification to only the utility. Rule 25-14.004(3), Florida Administrative Code, states that it shall be a rebuttable presumption that a parent's investment in any subsidiary or in its own operations shall be considered to have been made in the same ratios as exist in the parent's overall capital structure.

Moreover, the parent debt adjustment calculated by the utility in the MFRs does not exclude Indiantown's retained earnings as required by the rule. We have calculated a parent debt adjustment, consistent with the rule, in the amount of \$7,706 for water and

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\$12,484 for wastewater based on test year amounts and have applied it to test year income tax expense.

After adjustment and inclusion of the parent debt adjustment, test year income taxes reflect negative income taxes of \$45,444 for water and \$121,402 for wastewater.

#### Net Operating Income

Based on the adjustments discussed previously, we find that the test year operating income, before any provision for increased revenues, shall be operating losses of \$16,357 for water and \$102,215 for wastewater. The schedules for water and wastewater operating income are attached as Schedules Nos. 3-A and 3-B, and the adjustments are shown on Schedule No. 3-C. The schedules are attached to this Order and by reference are incorporated herein.

#### REVENUE REQUIREMENT

The revenue requirement is a summary computation that is dependent upon previously approved provisions for rate base, cost of capital, and operating expenses. Indiantown requested final rates designed to generate annual revenues of \$697,224 and \$1,023,257 for water and wastewater, respectively. These revenues exceed test year revenues by \$107,640 (21.54%) for the water operations and \$463,360 (82.76%) for the wastewater operations.

Based upon the underlying rate base, cost of capital, and operating income issues, we approve rates that are designed to generate a revenue requirement of \$609,543 and \$870,667 for water and wastewater, respectively. These revenues exceed test year revenues by \$115,002 (23.25%) for the water operations and \$313,427 (56.25%) for the wastewater operations as shown on attached Schedules 3-A and 3-B.

#### RATES AND RATE STRUCTURE

##### Repression Adjustment

In an attempt to quantify the relationship between revenue increases and consumption impacts, we have created a database of all water utilities that were granted rate increases or decreases (excluding indexes and pass-throughs) between January 1, 1990 and

December 31, 1995. This database contains utility-specific information from the applicable orders, tariff pages and the utilities' annual reports for the years 1989 - 1995. The preliminary increases in this case, before any adjustments for repression, are 23.85% for water and 56.92% for wastewater. We have reviewed the database and found a number of utilities that experienced similar price increases. When combined, Indiantown's water and wastewater increases are significant enough to warrant consideration of a repression adjustment in this proceeding.

Our analysis in this case was performed using two different bases of comparison. The first basis of comparison used Indiantown's preliminary rate increase to the water system (before a repression adjustment) of 23.85%. This preliminary rate increase was compared to other utilities in the database which, as in Indiantown's case, underwent no change in the base facility charge (BFC)/gallonage water system rate structure. We then isolated eight utilities in the database which had experienced similar percentage increases in the average monthly bills. The change in average monthly consumption per meter equivalent (ME) for these eight isolated utilities was (28%), (11%), (7%), (7%), (5%), (4%), 1% and 5%. We believe the two utilities with the 1% and 5% increases in average consumption are anomalous, as it is illogical to conclude that a price increase would result in more usage. Next, we compared Indiantown's average consumption per ME to the remaining six utilities. The utilities which most closely matched Indiantown's average consumption exhibited 4% and 5% consumption reductions. Based on this analysis, a consumption reduction between 4% and 5% would appear to be a conservative prediction of Indiantown's anticipated consumption reduction.

The second basis of comparison used Indiantown's annual revenue requirement increase for water, which was \$63/ME. The remaining steps using this basis of comparison follow those described in the preceding paragraph. The \$63/ME increase was compared to similar increases in annual revenue requirement per ME of other utilities in the database which underwent no change in the BFC/gallonage water rate structure. This comparison produced seventeen utilities which experienced similar increases for water. The change in average monthly consumption per ME for these seventeen utilities was (19%), (15%), (13%), (13%), (11%), (10%), (9%), (7%), (7%), (5%), (3%), (2%), (2%), (1%), 3%, 5%, and 9%. We believe the utilities with the 3%, 5%, and 9% increases in average

consumption are anomalous, as it is illogical to conclude that a price increase would result in more usage. We then compared Indiantown's average consumption per meter equivalent to the remaining fourteen utilities. The utilities that exhibited 1%, 2%, 5%, 7%, and 9% reductions in consumption most closely matched Indiantown's average consumption. Using this basis of analysis, consumption reductions between 1% and 9% would appear to be a conservative prediction of Indiantown's anticipated consumption reduction.

However, we believe there are other factors that should be considered. A closer review revealed that many of the utilities appearing in the above samples underwent a concomitant wastewater system rate increase. Consequently, an argument could be made that the resulting consumption reductions were influenced by the wastewater rate increases. Accordingly, we carried the analysis one step further and attempted to isolate the utilities which had similar levels of both water and wastewater increases.

As discussed above, Indiantown's annual revenue requirement increase for water is \$63/ME. Indiantown's annual revenue requirement increase for wastewater is \$129/ME. The \$63/ME increase for water and \$129/ME increase for wastewater were compared to similar increases in annual revenue requirement per ME of other utilities in the database which underwent no change in the BFC/gallage water rate structure. This combined comparison produced five utilities which experienced similar increases for water and wastewater. The changes in average monthly consumption per ME for these five utilities were (13%), (10%), (7%), 3% and 5%. Again, we believe the utilities with the 3% and 5% increases in average consumption are anomalous, as it is illogical to conclude that a price increase would result in more usage. We then compared Indiantown's average consumption per meter equivalent to the remaining three utilities. The utility that exhibited the 7% reduction in consumption most closely matched Indiantown's average consumption. Using this basis of analysis, a consumption reduction of 7% would appear to be a conservative prediction of Indiantown's anticipated consumption reduction.

We have approved repression adjustments in a limited number of cases to date, and, as such, we have no established, previously-approved methodology to calculate an appropriate adjustment. Until we do have approved methodologies in place, we believe it is

appropriate to err on the side of caution when considering the magnitude of our adjustments.

Based upon our analysis, we believe a conservative prediction of Indiantown's anticipated consumption reduction is 7%. The resulting adjustment to water gallons is 12,686,940 gallons. The anticipated consumption reduction will also affect the billed gallons for the wastewater system. In this case, the ratio of billed wastewater gallons to billed water gallons is slightly over 49.6%. Consequently, it is reasonable to also adjust wastewater consumption to reflect approximately 49.6% of the approved gallon reduction for the water system. Therefore, we find that repression adjustments of 12,686,940 gallons to water consumption and 6,294,470 gallons to wastewater consumption are appropriate.

It should be noted that the repression adjustment was only applied to residential consumption. Little is known about how commercial/general service customers respond to water price. In addition, because these customers are such a heterogeneous group, it is difficult to quantify the group's price elasticity. Therefore, in keeping with past practice, we excluded the general service class from the repression adjustment calculation.

In summary, we find that repression adjustments of 12,686,940 gallons to water consumption and 6,294,470 gallons to wastewater consumption are appropriate. Further, we believe it will be beneficial in future cases to monitor the effects of this rate increase on consumption. Therefore, the utility shall prepare monthly reports, to be filed on a quarterly basis, for both water and wastewater detailing the number of bills rendered, the number of gallons billed and the total revenues billed for each month during the quarter. This information shall be provided for each customer class and meter size. These reports shall be provided for a period of two years, beginning the first quarter after the revised rates go into effect.

#### Water and Wastewater Rates

The permanent water rates requested by the utility are designed to produce annual operating revenues of \$697,224. The requested revenues represent an increase of \$107,540 (21.52%) for water based on the historic test year ending June 30, 1999. The permanent wastewater rates requested by the utility are designed to

produce annual operating revenues of \$1,023,257. The requested revenues represent an increase of \$463,360 (82.75%) for wastewater based on the historic test year ending June 30, 1999.

The utility's current rate structure consists of a BFC and gallonage charge rate structure. Under the current rate structure, the total average consumption per bill is 9,595 gallons, which is below the 10,000 gallon threshold that we have used to determine whether a more aggressive conservation-oriented rate structure is appropriate. Based on the information above, we find it appropriate that the base facility and gallonage charge rate structure be continued for this utility.

The final water rates approved for the utility shall be designed to produce annual operating revenues of \$590,331. This represents the \$609,543 revenue requirement less \$19,912 in miscellaneous revenue. The final wastewater rates approved for the utility shall be designed to produce annual operating revenues of \$870,411, which is the \$870,667 approved revenue requirement less \$256 in miscellaneous revenue. For wastewater service, the utility currently has a monthly cap of 6,000 gallons for residential customers. There is no cap for general service customers. We find that this cap is reasonable and it shall be continued.

There is also a differential in the gallonage charge for residential and general service wastewater customers that is designed to recognize that a portion of a residential customers' water usage will not be returned to the wastewater system. The last case also recognized a 1.2 differential in the gallonage charge between general service and residential wastewater customers. We have applied this differential to our recalculated billing and consumption to produce the rates as shown on Schedule Nos. 4-A and 4-B.

The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code, provided that the customers have received noticed. The revised tariff sheets shall be approved upon our staff's verification that the tariff is consistent with our decision, that the protest period has expired, and that the proposed customer notice is adequate.



The comparison of the utility's original rates and requested rates, expressed as monthly rates, and our approved rates are shown on Schedules Nos. 4-A and 4-B, which are attached to this Order and by reference incorporated herein.

Interim Refund

In Order No. PSC-00-0912-PCO-WS, issued May 8, 2000, the utility's proposed rates were suspended and interim water and wastewater rates were approved subject to refund, pursuant to Section 367.082, Florida Statutes. The approved interim revenue increase is shown below:

	<u>Revenues</u>	<u>Increase</u>	<u>Percentage</u>
Water	\$ 545,003	\$ 58,133	11.94%
Wastewater	\$ 724,454	\$ 180,355	33.15%

According to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates were in effect should be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates was the twelve months ended June 30, 1999. The approved interim rates did not include any provisions for consideration of our adjustments in operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded, because it was not an actual expense during the interim collection period. We have also removed any pro forma items which were not incurred during the interim period. The wastewater lime stabilization and silo equipment were not constructed during the time the interim

rates have been in effect. We find that it is appropriate to remove this plant in determining whether an interim refund is required. The pro forma plant was \$406,000. We have also removed the corresponding depreciation and non-used and useful amounts for interim refund purposes.

Using the principles discussed above, we have calculated the interim revenue requirement from rates for the interim collection period to be \$596,1229 for water and \$820,810 for wastewater. This correlates to a 20.54% and 47.30%, increase above test year revenues for water and wastewater, respectively. These revenue levels are more than the interim increases which were granted in Order No. PSC-00-0912-PCO-WS.

Based on the above, the utility shall not be required to refund any water and wastewater revenues collected under interim rates. Therefore, the revenue held subject to refund shall no longer be subject to refund and the letter of credit required by Order No. PSC-00-0912-PCO-WS guaranteeing those revenues may be released.

SHOW CAUSE

As indicated previously, by Order No. PSC-99-0367-FOF-WS, issued February 22, 1999, in Docket No. 981612-WS, Indiantown was required to use convergent billing for its water and wastewater customers when these customers also receive their telephone service from its affiliated phone company. According to that Order at page 2, Indiantown indicated that under the tariffs for convergent billing "all utility services delivered to a customer will be itemized on one bill." (emphasis added).

Pursuant to the Order, Indiantown was to commence convergent billing upon the stamped approval date of the tariff sheets and provide a report to our staff regarding customer reaction to convergent billing within twelve months of the issuance date of the Order. The convergent billing tariff sheets were approved on March 1, 1999.

In a letter dated February 23, 2000, in compliance with the Order, Indiantown reported on customer reaction to the convergent billing and indicated that approximately 10-12 customers insisted on receiving separate bills. However, Indiantown also indicated



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that upon its own initiative, the company began billing these individual customers separately for each of their utility services. In addition, Indiantown stated that it was continuing to bill its utility services separately for those customers who requested separate billing.

Section 367.161(1), Florida Statutes, authorizes us to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated an order of the Commission. By Indiantown's practice of billing separately each utility service in instances where the customer requests it, the utility's act was "willful" in the meaning and intent of Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

The utility's practice of billing a customer who requests separate billing for each utility service received is an apparent violation of Order No. PSC-99-0367-FOF-WS. Order No. PSC-99-0367-FOF-WS requires the utility to use convergent billing. The Order does not give the utility discretion to provide separate bills for separate services. However, there are mitigating circumstances in the instant case. As noted previously, the utility was to report to us on the customer's reaction to convergent billing. It appears that the utility assumed it had some leeway in addressing those customers who reacted negatively to the convergent billing. This assumption may have relied upon the portion of our Order which required the utility to report back on customer reaction to the convergent billing. Moreover, the utility seems to have engaged in this practice to provide good customer relations. Although we find that the utility did not have discretion to implement this practice under its convergent billing tariffs, it appears to be only a small

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number of individual customers who have requested to receive separate bills for each of their utility services.

Moreover, we note that Indiantown has indicated that there are instances where the utility services for a single address are listed under separate customer names. Under these circumstances, a bill has been regenerated for each utility service for each customer name. However, this does not appear to violate Order No. PSC-99-0367-FOF-WS, which states that a customer will receive a single bill for all the utility service provided for that customer.

For the foregoing reasons, we do not find that the apparent violation of Order No. PSC-99-0367-FOF-WS rises in these circumstances to the level which warrants the initiation of a show cause proceeding. Therefore, we shall not initiate show cause proceedings against Indiantown. If the utility seeks the discretion to provide a separate billing for each service when a customer requests it, then the utility should file a request seeking authorization to do so. Until such authorization is granted, the utility shall discontinue its current practice of providing separate billing for each service to customers who request it. The utility must follow its tariffs for convergent billing until changed by this Commission.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Indiantown Company, Inc.'s application for an increase in water and wastewater rates and charges is approved to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules and attachments attached hereto are incorporated herein by reference. It is further

ORDERED that Indiantown Company, Inc. shall file revised tariff sheets and a proposed customer notice to reflect our approved rates and charges. Our staff will administratively approve the revised tariff sheets upon verification that the

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revised tariff sheets are consistent with this Order. It is further

ORDERED that the rates and charges approved herein shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that the rates and charges shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. It is further

ORDERED that Indiantown Company, Inc. prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. The reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. It is further

ORDERED that the Proposed Agency Action portions of this Order shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that Indiantown Company, Inc. shall obtain a long-term lease such as a 99-year lease or otherwise obtain the right to continued use of the land in accordance with Section 367.1213, Florida Statutes, for the land which contains the percolation ponds. It is further

ORDERED that the revenue held subject to refund as security for the interim rates approved in this docket shall no longer be subject to refund and the letter of credit required by Order No. PSC-00-0912-PCO-WS guaranteeing those revenues may be terminated. It is further

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ORDERED that Indiantown Company, Inc., shall follow its tariffs for convergent billing until changed by this Commission. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 27th day of October, 2000.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

By: Kay Flynn  
Kay Flynn, Chief  
Bureau of Records

( S E A L )

PAC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 17, 2000.

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In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

WATER TREATMENT PLANT - USED AND USEFUL DATA

- 1) Firm Reliable Capacity of Plant 1,231,000 gallons per day
- 2) Average of 5 Highest Days From 992,000 gallons per day  
Maximum Month
- 3) Average Daily Flow 926,000 gallons per day
- 4) Fire Flow Capacity 240,000 gallons per day
  - a) Required Fire Flow: 2,000 gallons per minute for 2 hours
- 5) Growth
  - a) Test year Customers in ERCs: Beginning 2,258  
Ending 2,263  
Average 2,261
  - b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year 2.5 ERCs
  - c) Statutory Growth Period 5 Years  
(b)x(c)x [3\ (a)] = 5,119 gallons per day for growth
- 6) Excessive Unaccounted for Water 0 gallons per day
  - a) Total Unaccounted for Water 10,364 gallons per day  
Percent of Average Daily Flow 4.0%
  - b) Reasonable Amount 92,600 gallons per day  
(10% of average Daily Flow)
  - c) Excessive Amount 0 gallons per day

USED AND USEFUL FORMULA

$$[(2)+(4)+(5)-(6)]/(1) = 100\% \text{ Used and Useful}$$

**WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA**

1) Capacity of System	2,273	ERCs
2) Test year ERCs		
a) Beginning of Test Year	2,258	ERCs
b) End of Test Year	2,263	ERCs
c) Average Test Year	2,261	ERCs
3) Growth		
(Use average number of customers)		
a) customer growth in ERC for last 5 years including Test Year using Regression Analysis	2.5	ERCs
b) Statutory Growth Period	12.5	Years
(a)x(b) = 12.5 ERC allowed for growth		

**USED AND USEFUL FORMULA**

$$[(2)+(3)]/(1) = 100\% \text{ Used and Useful}$$

**WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA**

- 1) DEP Permitted Capacity of Plant (3 Month Average Daily Flow- 3MADF) 750,000 gallons per day
- 2) Maximum Daily Flow 980,000 gallons per day
- 3) 3 Month Average Daily Flow (9/98, 10/98, & 11/98) 471,000 gallons per day
- 4) Growth
  - a) Test year Customers in ERCs:

Begin	1,891
End	1,871
Average	1,881
  - (Use average number of customers)
  - b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year 11 ERCs
  - c) Statutory Growth Period 5 Years
  - (b)x(c) x [3\ (a)] = 13,772 gallons per day for growth
- 5) Excessive Infiltration or Inflow (I&I) 0 gallons per day
  - a) Total I&I: 0 gallons per day

Percent of Average Daily Flow	0%
-------------------------------	----
  - b) Reasonable Amount 4,179 gallons per day (10% of average Daily Flow)
  - c) Excessive Amount 0 gallons per day

**USED AND USEFUL FORMULA**

$$[(3)+(4)-(5)]/(1) = 64.6\% \text{ Used and Useful}$$



**WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA**

- |   |            |
|---|------------|
| 1) Capacity of System   | 1,928 ERCs |
| 2) Test year ERCs   |            |
| a) Beginning of Test Year   | 1,891 ERCs |
| b) End of Test Year   | 1,871 ERCs |
| c) Average Test Year  | 1,881 ERCs |
| 3) Growth   |            |
| (Use End of Test Year and End of Previous Years for growth ERC)                           |            |
| a) Customer Growth in ERCS for last 5 years including Test Year using Regression Analysis | 11 ERCs    |
| b) Statutory Growth Period  | 5 Years    |
| (a)x(b) = 55 ERCs allowed for growth  |            |

**USED AND USEFUL FORMULA**

$$[(2)+(3)]/(1) = 100\% \text{ Used and Useful}$$

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INDIANTOWN COMPANY, INC.  
 SCHEDULE OF WATER RATE BASE  
 TEST YEAR ENDED 06/30/99

SCHEDULE NO. 1-A  
 DOCKET 990939-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$1,992,336	\$157,288	\$2,149,624	\$684,022	\$2,833,646
2 LAND & LAND RIGHTS	0	0	0	4,469	4,469
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(931,413)	(12,092)	(943,505)	(187,755)	(1,131,260)
5 CIAC	(919,449)	0	(919,449)	(699,631)	(1,619,080)
6 AMORTIZATION OF CIAC	276,517	0	276,517	188,636	465,153
7 CWIP	0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
9 UNFUNDED POST-RETIRE. BENEFITS	0	0	0	0	0
1 WORKING CAPITAL ALLOWANCE 0	<u>75,712</u>	<u>(13,290)</u>	<u>62,422</u>	<u>(11,110)</u>	<u>51,312</u>
<b>RATE BASE</b>	<u>\$493,703</u>	<u>\$131,906</u>	<u>\$625,609</u>	<u>(\$21,369)</u>	<u>\$604,240</u>

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INDIANTOWN COMPANY, INC.  
 SCHEDULE OF WASTEWATER RATE BASE  
 TEST YEAR ENDED 06/30/99

SCHEDULE NO. 1-B  
 DOCKET 990939-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$2,896,058	\$518,015	\$3,414,073	\$933,366	\$4,347,439
2 LAND	0	0	0	383	383
3 NON-USED & USEFUL COMPONENTS	(281,261)	(152,323)	(433,584)	14,426	(419,158)
4 ACCUMULATED DEPRECIATION	(1,415,899)	(21,579)	(1,437,478)	(252,551)	(1,690,029)
5 CIAC	(1,008,481)	0	(1,008,481)	(951,277)	(1,959,758)
6 AMORTIZATION OF CIAC	373,059	0	373,059	253,560	626,619
7 ACQUISITION ADJUSTMENTS - NET	0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
9 UNFUNDED POST-RETIRE. BENEFITS	0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE	<u>90,423</u>	<u>1,360</u>	<u>91,783</u>	<u>(18,383)</u>	<u>73,400</u>
<b>RATE BASE</b>	<u>\$653,899</u>	<u>\$345,473</u>	<u>\$999,372</u>	<u>(\$20,476)</u>	<u>\$978,896</u>

**INDIANTOWN COMPANY, INC.  
 ADJUSTMENTS TO RATE BASE  
 TEST YEAR ENDED 06/30/99**

**SCHEDULE NO. 1-C  
 DOCKET 990939-WS**

<b>EXPLANATION</b>	<b>WATER</b>	<b>WASTEWATER</b>
<b><u>PLANT IN SERVICE</u></b>		
1 Issue 4 Capitalized Plant	\$2,525	\$224
2 Issue 5 Office Move Costs	(16,675)	(16,676)
3 Issue 6 Record Contributed Plant	699,631	951,277
4 Issue 19 Billing Costs	(1,459)	(1,459)
<b>Total</b>	<b><u>\$684,022</u></b>	<b><u>\$933,366</u></b>
<b><u>LAND</u></b>		
Issue 3 Include Land	<u>\$4,469</u>	<u>\$383</u>
<b><u>NON-USED AND USEFUL</u></b>		
Issue 2 to reflect net non-used and useful adjustment	<u>\$0</u>	<u>\$14,426</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1 Issue 4 Capitalized Plant	(\$163)	(\$37)
2 Issue 5 Office Move Costs	930	932
3 Issue 6 Record Contributed Plant	(188,636)	(253,560)
4 Issue 19 Billing Costs	114	114
<b>Total</b>	<b><u>(\$187,755)</u></b>	<b><u>(\$252,551)</u></b>
<b><u>CIAC</u></b>		
Issue 6 CIAC Correction	<u>(\$699,631)</u>	<u>(\$951,277)</u>
<b><u>ACCUM. AMORT. OF CIAC</u></b>		
Issue 6 Record Contributed Plant	<u>\$188,636</u>	<u>\$253,560</u>
<b><u>WORKING CAPITAL</u></b>		
Issue 7 adjustments to O&M	<u>(\$11,110)</u>	<u>(\$18,383)</u>

INDIANTOWN COMPANY, INC.  
 CAPITAL STRUCTURE  
 TEST YEAR ENDED 06/30/99

SCHEDULE NO. 2-A  
 DOCKET 990939-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST	
<b>PER UTILITY AVERAGE 6/30/99</b>								
1 LONG TERM DEBT	\$259,116	(\$259,116)	\$0	\$0	0.00%	0.00%	0.00%	
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%	
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	4,818,363	0	(3,368,907)	1,449,456	89.20%	9.02%	8.05%	
5 CUSTOMER DEPOSITS	46,741	0	0	46,741	2.88%	6.00%	0.17%	
6 DEFERRED INCOME TAXES	713,164	(285,089)	(299,291)	128,784	7.93%	0.00%	0.00%	
7 DEFERRED ITC'S	0	0	0	0	0.00%	0.00%	0.00%	
8 TOTAL CAPITAL	<u>\$5,837,384</u>	<u>(\$544,205)</u>	<u>(\$3,668,198)</u>	<u>\$1,624,981</u>	<u>100.00%</u>		<u>8.22%</u>	
<b>PER COMMISSION AVERAGE 6/30/99</b>								
9 LONG TERM DEBT	\$259,116	\$384,557	(\$363,411)	\$280,262	17.70%	9.50%	1.68%	
10 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%	
11 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%	
12 COMMON EQUITY	4,818,363	(2,215,845)	(1,469,354)	1,133,164	71.58%	9.46%	6.77%	
13 CUSTOMER DEPOSITS	46,741	0	0	46,741	2.95%	6.00%	0.18%	
14 DEFERRED INCOME TAXES	713,164	(590,195)	0	122,969	7.77%	0.00%	0.00%	
15 DEFERRED ITC'S	0	0	0	0	0.00%	0.00%	0.00%	
16 TOTAL CAPITAL	<u>\$5,837,384</u>	<u>(\$2,421,483)</u>	<u>(\$1,832,765)</u>	<u>\$1,583,136</u>	<u>100.00%</u>		<u>8.63%</u>	
						<b>LOW</b>	<b>HIGH</b>	
						RETURN ON EQUITY	8.46%	10.46%
						OVERALL RATE OF RETURN	<u>7.91%</u>	<u>9.35%</u>

INDIANTOWN COMPANY, INC.  
 STATEMENT OF WATER OPERATIONS  
 TEST YEAR ENDED 06/30/99

SCHEDULE NO. 3-A  
 DOCKET 990939-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR	REVENUE INCREASE	REQUIRED REVENUE
1 OPERATING REVENUES	<u>\$486,870</u>	<u>\$210,354</u>	<u>\$697,224</u>	<u>(\$202,683)</u>	<u>\$494,541</u>	<u>\$115,002</u> 23.25%	<u>\$609,543</u>
<b>OPERATING EXPENSES:</b>							
2 OPERATION & MAINTENANCE	\$605,699	(\$106,319)	\$499,380	(\$88,880)	\$410,500		\$410,500
3 DEPRECIATION-LESS CIAC AMORTIZATION	39,170	12,092	51,262	(832)	50,430		50,430
4 AMORTIZATION (Other)	0	5,947	5,947	(501)	5,446		5,446
5 AMORTIZATION (Contributed Taxes)	0	0	0	(3,388)	(3,388)		(3,388)
6 TAXES OTHER THAN INCOME	58,189	14,578	72,767	4,144	76,911	5,175	82,088
7 INCOME TAXES	<u>0</u>	<u>16,443</u>	<u>16,443</u>	<u>(45,444)</u>	<u>(29,001)</u>	<u>41,328</u>	<u>12,327</u>
8 TOTAL OPERATING EXPENSES	<u>\$703,058</u>	<u>(\$57,259)</u>	<u>\$645,799</u>	<u>(\$134,901)</u>	<u>\$510,898</u>	<u>\$46,503</u>	<u>\$557,401</u>
9 OPERATING INCOME	<u>(\$216,188)</u>	<u>\$267,613</u>	<u>\$51,425</u>	<u>(\$67,782)</u>	<u>(\$16,357)</u>	<u>\$68,499</u>	<u>\$52,142</u>
10 RATE BASE	<u>\$493,703</u>		<u>\$625,609</u>		<u>\$604,240</u>		<u>\$604,240</u>
11 RATE OF RETURN	<u>-43.79%</u>		<u>8.22%</u>		<u>-2.71%</u>		<u>8.63%</u>

INDIANTOWN COMPANY, INC.  
 STATEMENT OF WASTEWATER OPERATIONS  
 TEST YEAR ENDED 06/30/99

SCHEDULE NO. 3-B  
 DOCKET 990939-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR	REVENUE INCREASE	REQUIRED REVENUE
1 OPERATING REVENUES	<u>\$544,099</u>	<u>\$479,158</u>	<u>\$1,023,257</u>	<u>(\$466,017)</u>	<u>\$557,240</u>	<u>\$313,427</u> 56.25%	<u>\$870,667</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	<u>\$723,387</u>	<u>\$10,879</u>	<u>\$734,266</u>	<u>(\$147,065)</u>	<u>\$587,201</u>		<u>\$587,201</u>
3 DEPRECIATION LESS CIAC AMORTIZATION	<u>72,823</u>	<u>(2,824)</u>	<u>69,999</u>	<u>49</u>	<u>70,048</u>		<u>70,048</u>
4 AMORTIZATION (Other)	<u>0</u>	<u>5,947</u>	<u>5,947</u>	<u>2,297</u>	<u>8,244</u>		<u>8,244</u>
5 AMORTIZATION (Contributed Taxes)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,545)</u>	<u>(2,454)</u>		<u>(2,454)</u>
6 TAXES OTHER THAN INCOME	<u>70,889</u>	<u>31,270</u>	<u>102,159</u>	<u>(13,079)</u>	<u>89,080</u>	<u>14,104</u>	<u>103,184</u>
7 INCOME TAXES	<u>0</u>	<u>28,738</u>	<u>28,738</u>	<u>(121,402)</u>	<u>(92,664)</u>	<u>112,635</u>	<u>19,971</u>
8 TOTAL OPERATING EXPENSES	<u>\$867,099</u>	<u>\$74,010</u>	<u>\$941,109</u>	<u>(\$281,654)</u>	<u>\$659,455</u>	<u>\$126,739</u>	<u>\$786,194</u>
9 OPERATING INCOME	<u>(\$323,000)</u>	<u>\$405,148</u>	<u>\$82,148</u>	<u>(\$184,363)</u>	<u>(\$102,215)</u>	<u>\$186,688</u>	<u>\$84,473</u>
10 RATE BASE	<u>\$653,899</u>		<u>\$999,372</u>		<u>\$978,896</u>		<u>\$978,896</u>
11 RATE OF RETURN	<u>-49.40%</u>		<u>8.22%</u>		<u>-10.44%</u>		<u>8.63%</u>

**INDIANTOWN COMPANY, INC.**  
**ADJUSTMENTS TO OPERATING INCOME**  
**TEST YEAR ENDED 06/30/99**

**SCHEDULE NO. 3-C**  
**DOCKET 990939-WS**

EXPLANATION	WATER	WASTEWATER
<b><u>OPERATING REVENUES</u></b>		
1 Remove requested final revenue increase	(\$197,540)	(\$463,360)
2 Issue 14 Correct Annualized Test Year Revenue	(5,143)	(2,657)
Total	<u>(\$202,683)</u>	<u>(\$466,017)</u>
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>		
1 Issue 4 Capitalized Plant	(\$5,049)	(\$449)
2 Issue 5 Office Move Costs	(1,185)	(1,186)
3 Issue 15 Management Fees	(33,512)	(33,666)
4 Issue 15 Contract Serv. Other-MIS	(3,598)	(3,598)
5 Issue 16 Indianwood Legal & Acctg. Fees/Rate Case Expense	(5,355)	(5,355)
6 Issue 17 Contractual Accounting	(7,790)	(7,790)
7 Issue 18 Vehicle Expense	(795)	(795)
8 Issue 19 Billing Costs	(19,148)	(19,149)
9 Issue 20 DEP Required Expenses	0	(25,900)
10 Issue 21 Indianwood Maintenance	(11,400)	(11,400)
11 Issue 22 Sludge Removal	0	(14,775)
12 Issue 23 Percolation Pond Lease	0	(20,964)
13 Issue 24 Repression	(2,665)	(3,490)
14 Issue 25 Rate Case Expense	1,617	1,452
Total	<u>(\$88,880)</u>	<u>(\$147,065)</u>
<b><u>DEPRECIATION EXPENSE-NET</u></b>		
1 Issue 2 to reflect net non-used and useful adjustment	\$0	\$1,135
2 Issue 4 Capitalized Plant	326	74
3 Issue 5 Office Move Costs	(930)	(932)
4 Issue 19 Billing Costs	(228)	(228)
Total	<u>(\$832)</u>	<u>\$49</u>
<b><u>AMORTIZATION EXPENSE (Other)</u></b>		
1 Issue 16 Indianwood Fees	(\$612)	(\$613)
2 Issue 20 DEP Required Expenses	0	2,800
3 Indianwood Backflow Prevention Devices	\$111	\$110
Total	<u>(\$501)</u>	<u>\$2,297</u>
<b><u>AMORTIZATION EXPENSE (Contributed Taxes)</u></b>		
Issue 26 Contributed Taxes	<u>(\$3,388)</u>	<u>(\$2,454)</u>
<b><u>TAXES OTHER THAN INCOME</u></b>		
1 RAFs on revenue adjustments above	(\$9,121)	(\$20,971)
3 Issue 27 Property taxes reallocation & non-used & useful	13,265	7,892
Total	<u>\$4,144</u>	<u>\$13,079</u>
<b><u>INCOME TAXES</u></b>		
1 To adjust to test year income tax expense	(\$37,738)	(\$108,784)
2 Issue 28 Parent Debt Adjustment	(7,706)	(12,484)
Total	<u>(\$45,444)</u>	<u>(\$121,402)</u>



**INDIANTOWN COMPANY, INC.  
 WATER MONTHLY SERVICE RATES  
 TEST YEAR ENDED 06/30/99**

**SCHEDULE NO. 4-A  
 DOCKET 990939-WS**

	Utility Rates As of 6/30/99	Commission Approved Interim	Utility Requested Final	Commission Approved Final
<b><u>Residential, General Service and Multi-Family</u></b>				
<b>Base Facility Charge:</b>				
<b>Meter Size</b>				
5/8" x 3/4"	\$7.54	\$8.48	\$12.70	\$9.81
1"	\$18.86	\$21.21	\$31.75	\$24.51
1-1/2"	\$37.73	\$42.43	\$63.50	\$49.03
2"	\$60.36	\$67.87	\$101.60	\$78.44
3"	\$113.16	\$127.25	\$190.50	\$147.08
4"	\$188.60	\$212.08	\$317.50	\$245.13
6"	\$377.22	\$424.18	\$635.00	\$490.25
8"	\$603.54	\$678.68	\$1,016.00	\$784.41
8" Turbine	\$679.00	\$763.54	\$1,143.00	\$882.46
Gallage Charge, per 1,000 Gallons	\$1.08	\$1.21	\$1.43	\$1.45
<b><u>Private Fire Protection</u></b>				
<b>Base Facility Charge:</b>				
<b>Meter Size</b>				
2"	\$20.53	\$23.09	\$8.47	\$6.54
3"	\$38.49	\$43.28	\$15.88	\$12.26
4"	\$64.15	\$72.14	\$26.46	\$20.43
6"	\$128.31	\$144.28	\$52.92	\$40.85
8"	\$205.30	\$230.86	\$84.67	\$65.37
<b><u>Public Fire Protection</u></b>	\$76.93	None	None	None
<b><u>Typical Residential Bills</u></b>				
<b>5/8" x 3/4" Meter Size</b>				
3,000 Gallons	\$10.78	\$12.11	\$16.99	\$14.16
5,000 Gallons	\$12.94	\$14.53	\$19.85	\$17.06
10,000 Gallons	\$18.34	\$20.58	\$27.00	\$24.31

**INDIANTOWN COMPANY, INC.  
 WASTEWATER MONTHLY SERVICE RATES  
 TEST YEAR ENDED 06/30/99**

**SCHEDULE NO. 4-B  
 DOCKET 990939-WS**

	Utility Rates As of 6/30/99	Commission Approved Interim	Utility Requested Final	Commission Approved Final
<b>Residential</b>				
<b>Base Facility Charge:</b>				
All meter sizes	\$12.73	\$16.95	\$21.12	\$16.16
<b>Gallage Charge - Per 1,000 gallons (6,000 gallon cap)</b>	\$1.88	\$2.50	\$3.64	\$3.49
<b>General Service</b>				
<b>Base Facility Charge:</b>				
<b>Meter Size</b>				
5/8" x 3/4"	\$12.73	\$16.95	\$21.12	\$16.16
1"	\$31.81	\$42.36	\$52.80	\$40.41
1-1/2"	\$63.60	\$84.69	\$105.60	\$80.82
2"	\$101.75	\$135.49	\$168.96	\$129.32
3"	\$190.79	\$254.06	\$316.80	\$242.47
4"	\$317.98	\$423.42	\$528.00	\$404.12
6"	\$635.96	\$846.84	\$1,056.00	\$808.24
8"	\$1,017.53	\$1,354.94	\$1,689.60	\$1,292.18
8" Turbine	\$1,144.72	\$1,524.31	\$1,900.80	\$1,454.83
<b>Gallage Charge, per 1,000 Gallons</b>	\$1.88	\$2.50	\$4.28	\$4.19
<b>Typical Residential Bills</b>				
<b>5/8" x 3/4" meter</b>				
3,000 Gallons	\$18.37	\$24.45	\$33.96	\$26.63
5,000 Gallons	\$22.13	\$29.45	\$42.52	\$33.61
10,000 Gallons	\$24.01	\$31.95	\$46.80	\$37.10
<b>(Wastewater Gallage Cap - 6,000 Gallons)</b>				