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July 16, 1999

Joe A. Garcia, Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

990939-WS

Dear Chairman Garcia:

This letter requests approval of a test year for Indiantown Company, Inc. The company intends to submit an application for general rate relief to the Florida Public Service Commission for both its water system (Certificate No. 387W) and its wastewater system (Certificate No. 331S) in Martin County, Florida. The company intends to submit the minimum filing requirements (MFRs) on or before November 30, 1999, if the requested test year is approved.

Indiantown Company, Inc.'s last rate case initiated by the company was in Docket No. 810037-WS, which set Indiantown Company's rates and charges in Order No. 11891, issued on April 27, 1983. Subsequent to that rate proceeding Indiantown Company, Inc. filed one pass through increase and periodic indexing applications, and in Docket No. 960011-WS, the Commission initiated an investigation into the company's rates and charges.

As a result of the 1996 investigation, the Commission, in Order No. PSC-96-0657-FOF-WS, established rate base for both systems, required a refund of the 1994 Water Price Index Adjustment, as applied to 1994, 1995 and 1996 and reduced water rates to remove the 1994 Water Price Adjustment. In Order No. PSC-96-1205-FOF-WS, the Commission found that the water system had exceeded its authorized maximum ROE while the wastewater system was below the authorized range. On a combined basis, the Commission found that Indiantown Company, Inc. was earning 3.22% ROE. At the end of calendar year 1998 and at the present time, both systems are significantly underearning and have no net operating income and a negative ROE.

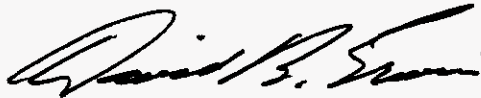
Indiantown Company, Inc. requests that the Commission approve an historic twelve month test period ended June 30, 1999, to which the company will apply certain pro forma adjustments to permit the establishment of appropriate rates on a going forward basis. The historic test period requested is appropriate for the following reasons:

1. The company believes that the test year ended June 30, 1999, is representative of current operations.
2. The company has not changed the mode of water or wastewater operations.
3. The company has not experienced and does not expect significant population growth, so that pro forma expenses will be for the benefit of existing customers.
4. There have been no major plant expansions for which capital recovery will be requested in this case. Although the company will request inclusion in rate base of a new emergency generator, which cost approximately \$150,000, this expenditure will benefit current customers and should not have an undue impact on the representative nature of the requested test year.
5. There were two occurrences during the requested test year which will require pro forma adjustments to the test year, since the financial impact of these occurrences will take place after the end of the test year.
 - a. In March, 1999, the company settled a dispute with the developer of Indianwood Subdivision. Pursuant to the written settlement agreement that resulted from mediation in which the Commission participated, the company will take over ownership of the collection and distribution systems within the subdivision. As a result, the company will experience additional operation and maintenance expenses (\$1,900). Since the water and wastewater treatment company has been providing services to the subdivision, treatment costs will be unaffected.
 - b. On May 21, 1999, the company received a new permit for operation of its wastewater treatment facility. The permit imposes numerous conditions and requirements, which will result in some capitalized expenses and some recurring expenses for which proforma adjustments will be required. The company will have to begin recurring testing that is not currently done (\$ 22,000) and calibrate meters (\$200). The company will have to annually clean and scarify all ponds (\$ 5,000), perform routine aquatic weed control (\$1,000), maintain and mow pond embankments and access areas (\$2,000). The company will have an additional electric bill of \$1,000 a month as a result of required changes (\$12,000). Because of sludge land application, the company must monitor five sites (\$500) and accomplish soil testing (\$6,260). There are many reports that must be filed which will require input from engineers (\$24,000). In addition to these recurring expenses, the company must make improvements to existing plant, such as construct monitoring wells at five site (\$1,500), install a meter for loading off-site ponds (\$8,000), modify its surge tank

(\$15,000), install a dissolved oxygen meter in its lab (\$1,200), install baffles in the chlorine contact tank (\$22,000), install a chlorine analyzer and plant metering equipment (\$25,000). Finally, the company will have to construct a lime silo and a slurry mixing basin (\$360,000).

Please note that all of the estimates may change once firm contracts and prices are established. The dollar figures are presented to provide an order of magnitude and to show that the test year is not overly distorted or made unrepresentative by the adjustments that will be necessary to develop rates that are appropriate on a going forward basis.

Sincerely,



David B. Erwin

DBE:jm/

Copy: ✓ Blanca Bayo, Clerk, FPSC

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