State of Florida

Public Service Commission

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RECORDS AND REPORTING

DATE: AUGUST 24, 2000

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

FROM: DIVISION OF ECONOMIC REGULATION (CROUCH, MERCHANT, MAUREY, B. DAVIS, QUIJANO, MUNROE)
DIVISION OF LEGAL SERVICES (CHRISTENSEN, GERVASI)
DIVISION OF POLICY ANALYSIS & INTERGOVERNMENTAL LIAISON (GOLDEN, C. WILLIAMS)

RE: DOCKET NO. 990939-WS - APPLICATION FOR RATE INCREASE IN MARTIN COUNTY BY INDIANTOWN COMPANY, INC.
COUNTY: MARTIN

AGENDA: 09/05/2000 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 5-MONTH EFFECTIVE DATE: 9/28/2000 (PAA RATE CASE)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\990939.RCM

TABLE OF CONTENTS

TABLE OF CONTENTS

CASE BACKGROUND

Indiantown Company, Inc. (Indiantown, ICO or utility), a wholly-owned subsidiary of Postco, Inc., 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. Water and wastewater rates were last established for this utility by Order No. 11891, issued April 27, 1983, in Docket No. 810037-WS. The Commission revisited the utility's rates 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, the 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, the Commission authorized 10.43% as the midpoint of Indiantown's return on equity (ROE) for all regulatory purposes effective November 1, 1995.

On December 27, 1999, Indiantown filed this Application for Rate Increase. Staff found several deficiencies in the Minimum Filing Requirements (MFRs). These deficiencies were corrected, and March 7, 2000 was established as the official filing date. The utility requested that this application be processed using the Commission's 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 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.

This recommendation addresses Indiantown's requested final rates.

LIST OF ACRONYMS

ACI	Arrow Communications, Inc.
AFUDC	Allowance for Funds Used During Construction
BFC	Base Facility Charge
CIAC	Contributions in Aid of Construction
CPA	Certified Public Accountant
DEP	Florida Department of Environmental Protection
ERC	Equivalent Residential Connection
gpd	Gallons per day
ICO	Indiantown Company Inc. (the water & wastewater utility)
ITCs	Investment Tax Credits
ITS	Indiantown Telephone Systems, Inc.
ME	Meter Equivalent
MFRs	Minimum Filing Requirements
mgd	Million gallons per day
NARUC	National Association of Regulatory Utility Commissioners
O&M	Operation and Maintenance
PAA	Proposed Agency Action
POSTCO	Postco, Inc.
ROE	Return on Equity
USOA	Uniform System of Accounts
WTP	Water Treatment Plant
WWTP	Wastewater Treatment Plant
Y2K	Year 2000

DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Indiantown to its customers satisfactory?

RECOMMENDATION: Yes, staff recommends that the Commission find the quality of service provided by Indiantown satisfactory. (MUNROE)

STAFF ANALYSIS: 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 3-year period are also considered. DEP and county health department officials' testimony concerning quality of service as well as the testimony of utility's customers are to be considered. Staff's analysis below addresses each of these three components.

The utility's service area is located in Indiantown, Florida, which is in west central Martin County. 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 8 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 Southeast Florida District of DEP. Both the quality of drinking water and wastewater treatment plant effluent are determined by the results of required testing and analysis of their products. According to DEP, the utility currently 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 the staff engineer indicates the utility is properly treating its drinking water and wastewater effluent and the quality of the products is satisfactory.

Operational Conditions at the Plant

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

Utility's Attempt to Address Customer Satisfaction

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

A customer meeting was held April 12, 2000 at 6:00 P.M. in the Indiantown Community Center. The meeting was attended by approximately one hundred twenty 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. Also there were a few billing related complaints.

On April 13, 2000, the staff engineer, with the assistance of 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 - as admitted by the utility, the water is hard, but within the standards set by DEP. To add treatment to correct this aesthetic fault would only add to the rate increase and as such is not recommended at this time; (2) Indianwood pressure - the pipe size and usage patterns along with system configuration are the cause of the pressure problems. If the customers adhere to irrigation restrictions, the pressure is adequate. The utility will investigate ways to increase supply pressure, but the most obvious: the addition of high service pumps or the enlargement of the distribution system, are cost prohibitive; (3) Billing complaints - staff reviewed meter reading records and concerned customers were contacted. Staff believes that all concerns and questions were satisfactorily answered.

Conclusion

In view of an analysis of the three components, staff recommends that the Commission find the quality of service provided by Indiantown in treating and distributing water satisfactory and the quality of service in collecting, treating and disposing of wastewater, also satisfactory.

RATE BASE

ISSUE 2: What are the used and useful percentages for the water treatment plant, water distribution system, wastewater treatment plant and wastewater collection system?

RECOMMENDATION: The water treatment plant should be considered 100% used and useful. The wastewater treatment plant should be considered 64.6% used and useful. The distribution and collection systems should both be considered 100% used and useful. The utility's non-used and useful plant adjustment should be increased by $20,596 and accumulated depreciation by $6,170, for a net increase in rate base of $14,426. Depreciation expense should be increased by $1,135. (MUNROE, B. DAVIS)

STAFF ANALYSIS:

Water Treatment Plant

Although the wells and storage yield a firm reliable capacity of 2.2 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 flows from the 5 maximum days in the max month was .992 mgd. When fire flow (.240 million gallons) and a growth allowance of 5,523 gallons per day (gpd) is included, the results indicated 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, page 1, following this issue. The utility used the same method in its MFRs to calculate a requested 100%, but failed to include the required 5-year growth allowance.

Water Distribution System

An ERC evaluation method was used in calculating the distribution system used and useful because the system contains both residential and general service customers. This is calculated by adding the ERCs served to the growth in ERCs and dividing by the ERC capacity of the distribution system. This method yielded a result of 100% used and useful (see Attachment A, page 2). 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. By the formula method, the used and useful plant was calculated to be 64.6% used and useful. This 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. The calculation is summarized in Attachment A, page 3, following this issue. The utility used the same method in its MFRs to calculate a requested 63%, but failed to include the required 5-year growth allowance.

Wastewater Distribution System

An ERC evaluation method was used in calculating the collection system used and useful because the system contains both residential and general service customers. The results indicated the collection system used and useful of 100%. 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, page 4, following this issue. The collection system is essentially built-out. If expected growth is realized, the system will have to be expanded in the near future.

Conclusion

In view of the results presented above, staff recommends that the Commission find the utility's used and useful percentages as follows:

PLANT OR SYSTEM	UTILITY REQUESTED	STAFF RECOMMENDED
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, staff is recommending 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. Depreciation expense should be increased by $1,135. Deferred taxes and property tax adjustments will be discussed in separate issues.

Attachment A page 1 of 4

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 990939-WS - Indiantown Company, Inc.

1)	Firm Reliable Capacity of Plant	1,231,000	gallons per day
2)	Average of 5 Highest Days From Maximum Month	992,000	gallons per day
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 (10% of average Daily Flow)	92,600	gallons per day
	c) Excessive Amount	0	gallons per day

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = 100% Used and Useful

Docket No. 990939-WS - Indiantown Company, Inc.

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% Used and Useful

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 990939-WS - Indiantown Company, Inc.

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© 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 (10% of average Daily Flow)	4,179	gallons per day
	c) Excessive Amount	0	gallons per day

USED AND USEFUL FORMULA

[(3)+(4)-(5)]/(1) = 64.6% Used and Useful

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 990939-WS - Indiantown Company, Inc.

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% Used and Useful

ISSUE 3: What adjustment should be recognized in rate base for utility land?

RECOMMENDATION: Water rate base should be increased by $4,469 and wastewater by $383. (B. DAVIS)

STAFF ANALYSIS: The utility did not include any land in its rate base schedule on MFR Schedules A-1 and A-2. Commission Order No. PSC-96-0657-FOF-WS included land in rate base of $4,469 for water and $383 for wastewater. These amounts were included in the books and no new land was added. The utility inadvertently left it out when preparing the exhibits. Staff recommends that water rate base should be increased by $4,469 and wastewater by $383.

ISSUE 4: Should adjustments be made to capitalize items that were expensed?

RECOMMENDATION: Yes. Average plant in service should be increased by $2,525 for water and $224 for wastewater. Corresponding adjustments should be made to increase water accumulated depreciation and depreciation expense by $163 and $326, respectively. Wastewater accumulated depreciation and depreciation expense should also be increased by $37 and $74, respectively. The operation and maintenance (O&M) expense accounts should be decreased by $5,049 for water and $449 for wastewater. (QUIJANO, MUNROE)

STAFF ANALYSIS: In Audit Disclosure No. 3, the staff auditor found that 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, they also purchased a transmitter and other miscellaneous parts for a finished water flow meter at the water plant for $2,797. The audit staff believes that these items are plant additions and 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, staff recommends that with the above definition of accounts and staff engineer's evaluation, it is appropriate to decrease Material and Supplies expense by $4,600 for water. Since these were test year expenses, only the average balance of plant should be included in rate base. Therefore, staff recommends that the average plant in service should be increased by $2,300 for water. That is, increase Account No. 343, Tools, Shop, and Garage Equipment by $902 and increase Account No. 334, Meters and Meter Installation by $1,398. Corresponding adjustments should 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 should be included in rate base. Staff recommends that the average plant in service should be increased by $449, or $225 for water and $224 wastewater and miscellaneous expense should be decreased by $898, or $449 each for water and wastewater. Corresponding adjustments should also be made to increase accumulated depreciation and depreciation expense for both water and wastewater by $37 and $74, respectively.

To summarize, staff recommends that the average plant in service should be increased by $2,525 for water and $224 for wastewater. Corresponding adjustments should be made to increase water accumulated depreciation and depreciation expense by $163 and $326, respectively. Wastewater accumulated depreciation and depreciation expense should also be increased by $37 and $74, respectively. The O&M expense accounts should be decreased by $5,049 for water and $449 for wastewater.

ISSUE 5: Are the costs incurred to move personnel and equipment, from the telephone building into the water plant reasonable?

RECOMMENDATION: No, the costs of moving personnel and equipment to the water plant should be shared with the telephone company which also received benefits from this move. The pro forma plant additions should be reduced by $16,675 for water and $16,676 for wastewater. The pro forma depreciation expense and accumulated depreciation should each be reduced by $930 for water and $932 for wastewater. The pro forma O&M expenses should be reduced by $1,185 for water and $1,186 for wastewater. (MERCHANT, B. DAVIS)

STAFF ANALYSIS: 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 operation and maintenance expenses by $590 for annual copier expenses and $4,152 for the annual expense of the T-1 line for a total adjustment to operation and maintenance expense of $4,742.

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 the water and wastewater utility (ICO), 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 GTE Florida Inc. v. Deason, 642 So.2d 545 (Fla. 1994), the Court established that when affiliate transactions occur, that does not mean that "unfair or excessive profits are being generated, without more." The standard established to evaluate affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair. The evidence in the GTE Florida case indicated that its related party costs were no greater than they would have been had services and supplies been purchased elsewhere.

Staff believes that the facts in the instant case are distinguishable from those facts in the GTE Florida case. The distinction is that in the GTE Florida case, there was evidence in the record that showed that the utility's cost was equal to or less than the costs associated with an arms-length transaction. Staff does not believe that Indiantown has supported recovery of its requested cost in this case. Further, staff believes that this move benefitted ITS more than it did the water and wastewater operations.

ITS is a substantially larger company and is not subject to rate base regulation by this Commission. While we do agree that some of the costs should be borne by ICO, staff believes that it would be 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, staff recommends that the costs be split equally between water and wastewater operations and telephone operations. As such, staff recommends that the rate base pro forma additions of $16,701 for the copier, T-1 line and telephone system should 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 should, therefore, be reduced by $362 for water and $364 for wastewater.

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

The utility has also 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, staff believes that the proposed improvements are not an essential component nor are related to the move. Staff visited the utility's water plant office and we do not believe that $25,000 in estimated improvements is warranted at this time. This filing already includes the costs for upgrading the billing and general ledger systems and along with new computers for each employee, 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. Staff, therefore, recommends that the $25,000 be removed from the test year rate base, or $12,500 each from water and wastewater. Depreciation expense and accumulated depreciation should be reduced by $1,136, or $568 each from water and wastewater.

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

ISSUE 6: Are any adjustments necessary to the amount of CIAC?

RECOMMENDATION: Yes, plant and CIAC should be increased by $699,632 for water and $951,277 for wastewater to show contributed plant from Indianwood, Martin County and Indiantown Non-Profit Housing. Accumulated depreciation and amortization of CIAC should also be increased by $188,636 for water and $253,560 for wastewater. (B. DAVIS)

STAFF ANALYSIS: In Audit Exception No. 4, the staff auditors noted that 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. In the staff audit, 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, the auditors recommended that they 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.

The auditors also stated that Martin County contributed assets to the utility in September, 1996. According to the invoice reviewed by the 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 assets is $1,277 for water and $7,981 for wastewater.

In addition, the auditors disclosed that Indiantown Non-Profit Housing also contributed assets in March, 1997. An invoice reviewed by the auditors shows that there were contributed unspecified water and sewer 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, the staff auditors recommended that the $116,523 be split 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 should be increased as follows:

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

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

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

Wastewater plant and wastewater CIAC would increase as follows:

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

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

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

Staff recommends that this adjustment should be made to the utility's books, although the adjustment will have no effect on rate base.

ISSUE 7: What is the appropriate allowance for working capital?

RECOMMENDATION: The appropriate amount of working capital is $51,221 for water and $73,318 for wastewater based on the formula approach. This is a decrease of $11,201 for water and $18,465 for wastewater to the utility's requested working capital allowance. (QUIJANO)

STAFF ANALYSIS: Rule 25-30.433(2), Florida Administrative Code, requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula approach. Staff has recommended several adjustments to the utility's balance of O&M expenses to reflect an adjusted amount of $409,766 for water and $586,543 for wastewater. Accordingly, the working capital allowance should be $51,221 for water and $73,318 for wastewater. This is a decrease of $11,201 for water and $18,465 for wastewater to the utility's requested working capital allowance.

ISSUE 8: What is the appropriate test year rate base?

RECOMMENDATION: The appropriate rate base for the test year ended June 30, 1999 is $604,149 for the water system and $978,814 for the wastewater system. (QUIJANO)

STAFF ANALYSIS: Staff has calculated Indiantown's water and wastewater rate base using the utility's MFRs with staff's adjustments as recommended in the preceding issues as $604,149 for the water system and $978,814 for the wastewater system.

COST OF CAPITAL

ISSUE 9: What is the appropriate capital structure for rate making purposes?

RECOMMENDATION: The appropriate capital structure for rate making purposes is the utility's actual capital structure. The capital structure should then be adjusted to include pro forma loans for the pro forma construction, to remove non-utility investments and receivables to associated companies from equity, and to specifically identify used and useful deferred taxes for the water and wastewater assets. The adjusted investor sources of capital should be reconciled on a pro rata basis to rate base. (MERCHANT, B. DAVIS, MAUREY)

STAFF ANALYSIS: In Order No. PSC-97-1171-FOF-WS, issued October 1, 1997 in Docket No. 970556-WS, the 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, Inc., 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.

The telephone (ITS) and competitive local exchange company (ACI), which formerly were subsidiaries of Indiantown, are now in separate companies, also subsidiaries of Postco, Inc. 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 also 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.

Staff believes that several issues need to be addressed regarding the appropriate capital structure to use in this proceeding. First, the Commission must decide whether Indiantown's capital structure is appropriate to use since it does not contain any outside debt financing. Second, the Commission should 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, the 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, staff believes 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, the Commission determined that loans specifically tied to the refuse/roll-off assets should be specifically 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, staff believes that this is an appropriate adjustment to make to Indiantown's capital structure.

Further, Rule 25-30.433(12), 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, staff recommends that the non-utility assets shown on the utility's balance sheet of $354,762 should be removed specifically from equity as required by the above 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. Staff believes that given the recommended combined rate base of $1,582,625, these adjusted levels of equity, debt and deferred taxes are not reasonable for setting rates.

Staff then 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. Staff believes that these assets represent investment of the parent or the utility in non-utility assets. Accordingly, staff recommends removing 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%.

Staff is 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, staff believes that it is 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, staff believes 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, staff believes that it would have been prudent for the utility to do this. Accordingly, staff recommends that long-term debt should be increased by $643,673 to correspond to the pro forma construction included in rate base.

Based on the adjusted capital structure recommended by staff, 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 in Issue 28. For this reason, although staff would not necessarily support this relative level of equity if this case were set for hearing, for purposes of this PAA staff recommends using the utility's adjusted capital structure.

Based on the above, staff believes that Indiantown's test year capital structure should be used, with specific adjustments to debt and equity as discussed above. Staff discusses our recommended adjustment to deferred taxes in Issue 10.

ISSUE 10: What is the appropriate amount of deferred income taxes to be included in the capital structure?

RECOMMENDATION: The appropriate amount of deferred taxes for the test year is $388,955. This amount should be specifically identified in the capital structure and not be subject to pro rata adjustment. (MERCHANT, B. DAVIS)

STAFF ANALYSIS: 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.

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, 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, the utility appropriately excluded the balance of debit deferred taxes from the rate setting equation.

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

First, staff agrees 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 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, staff believes 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, states that used and useful credit deferred taxes should be included in the capital structure. In order to estimate these amounts, staff has 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, staff 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 additions. This adjustment results in an increase to credit deferred taxes of $32,178.

Based on the above adjustment, staff believes that the appropriate balance of deferred taxes to be included in the capital structure is $388,955, which results in a ratio of 24.58% to total capital.

Staff does 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 (ITCs) 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 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)

ISSUE 11: What is the appropriate rate of return on equity?

RECOMMENDATION: The appropriate rate of return on equity should be 9.46% with a range of 8.46% - 10.46% using the current leverage formula. *(B. DAVIS)*

STAFF ANALYSIS: 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 in Issue 9 and Issue 10, staff recommends 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, the appropriate ROE should be 9.46%. (Consummated by Order No. PSC-00-1299-CO-WS, issued July 18, 2000). Therefore, staff recommends that, consistent with Commission practice, the appropriate range for the ROE should be 8.46% to 10.46%.

ISSUE 12: What is the appropriate overall rate of return?

STAFF ANALYSIS: The appropriate overall rate of return should be 7.04%, with a range of 6.46% to 7.62%. (B. DAVIS)

STAFF ANALYSIS: The staff's recommended overall rate of return is based on application of Commission practice and is derived as shown on Schedule No. 2-A. Based on staff's recommendations in the previous issues, the appropriate overall rate of return should be 7.04%, with a range of 6.46% to 7.62%.

ISSUE 13: Should the utility be allowed an AFUDC rate and, if so, what should it be?

RECOMMENDATION: The Commission should approve an AFUDC rate of 7.04% and a monthly discounted rate of 0.586256% for Indiantown effective July 1, 1999, based on the June 30, 1999, capital structure developed in this docket. (B. DAVIS)

STAFF ANALYSIS: Based on a written request by the utility, staff is recommending that an AFUDC rate be established for Indiantown. Staff has reviewed the utility's requested capital structure and recommends that the Commission, in accordance with Rule 25-30.116(7), Florida Administrative Code, should approve an AFUDC rate of 7.04%. The monthly discounted rate should be 0.586256%. 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. Staff 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

ISSUE 14: Are the billing determinates for the test year as filed in the MFR correct and should test year revenue be adjusted?

RECOMMENDATION: No, test year water and wastewater billing determinates should be adjusted for compilation errors and annualized test year water and wastewater revenue should be reduced by $5,143 and $2,657, respectively, to reflect the revised billing determinates. (B. DAVIS)

STAFF ANALYSIS: 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 add 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 x 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 1" 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 staff auditor's recalculation, the total effect of the billing determinate errors decreases the annualized test year water and wastewater revenues. As such, staff recommends that test year water and wastewater revenues should be reduced by $5,143 and $2,657, respectively.

ISSUE 15: Are the test year management fees reasonable?

RECOMMENDATION: No. The management fees allocated from Postco do not reflect a reasonable distribution of the cost of services provided to Indiantown. Management fees should be reduced by $67,178, or $33,512 for water and $33,666 for wastewater. Contractual Services - Other should be reduced by $7,196, or $3,598 each for water and wastewater. (QUIJANO)

STAFF ANALYSIS: According to the utility, the management fee 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 39.78% allocation of Postco's gross management fee of $432,759.

On June 8, 2000, staff met with Indiantown to discuss certain issues that needed further explanations or additional information. Among the issues discussed was how the allocations of the management fees were determined. The utility expressed that the allocations were done on an estimate based on time spent with each of Postco's subsidiary companies. The utility stated that 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 they spent their time at a meeting held once a year. Staff then requested a copy of calendars for Postco's officers, Mr. Robert Post, Jr. and Mr. Jeff Leslie. These were not immediately available to staff so it was agreed that the utility would submit it together with all the other information requested during the meeting.

On June 29, 2000, 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 - May 2000. Staff made a tabulation based on each submitted calendar. Staff's analysis reflected that the results averaged 7.25% of time spent on Indiantown. Staff, however, believes 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.

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, staff believes that the utility has failed to justify its requested allocations used for management fees. Staff, however, believes that some level of management fees is appropriate.

Staff prepared various allocations using different percentages and comparisons with other utilities of the same size. Staff also considered the personal involvement of the officers during the rate case. Staff believes that it is appropriate to consider the total salary costs of officers that should be charged to ICO, in addition to the functions that these officers perform.

Mr. Post is the President/Managing Officer of four active companies, namely, Indiantown Company, Inc., ITS Telecommunication, Inc., Arrow Communications, and Postco, Inc. He is also the Director or President of First Bank of Indiantown, Sweetwater Environmental, National Investors Fund, Inc., and a few more companies. Based on our review of his calendars, Mr. Post meets weekly to discuss the ICO financials and also meets with ICO staff. Instead of the utility's requested 45%, staff believes that a more reasonable allocation of management fees to ICO 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, staff believes that an adjustment is appropriate to Mr. Post's total salaries and benefits. His unallocated management fee should be increased by $1,342. This is due to the difference in the cost of health insurance reported by 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.

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

Staff also believes that an adjustment is appropriate to Ms. Shevlin's total salaries and benefits. Her unallocated amount of management fees should 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 ICO, 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 staff on most of the discussions and was personally involved during the rate case. His calendar also reflects that he meets weekly with ICO staff. Mr. Leslie is a certified public accountant who has experience with water and wastewater utilities. Instead of the utility's requested 40%, staff believes that a more reasonable allocation of management fees to ICO 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 should also be reduced by $182 to reflect the actual health insurance premium. The MFRs reported $7,205 on insurance cost for Jeff 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 ICO. In the MFRs, the utility included $8,670 in management fees and $7,196 in Contractual Services - Other. In our conversation with the utility, staff disagreed with the utility's allocation of Mr. Diaz portion of the management fees. Staff believes that the appropriate allocation should be 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 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. Staff believes it is inappropriate to include the costs for travel, training, and other benefits for this employee and not others. Regardless, the utility has not provided documentation that these additional costs are prudent. As such, staff recommends that the added costs for Mr. Diaz' allocation to ICO for travel, training, and other benefits of $1,803 be removed.

Further, since we have included the full allocation of Mr. Diaz' salary and benefits in management fees, staff has removed the erroneous amounts included in contractual services - others 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. The MFRs reported $19,000 for salary, $1,203 for payroll taxes, and $8,700 for health insurance. Mr. Diaz' annual salary is $33,471, with payroll taxes of $2,119 and $6,125 for 1999 health insurance.

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

SCHEDULE OF MANAGEMENT FEE
Test Year Ended, June 30, 1999

Management Fee charged to Indiantown Company, Inc.

Per Indiantown	Test Year Total	Water	%	Wastewater	%	Refuse/ Rolloff	%
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	28,903	4,335	15%	4,335	15%	0	0%
Total	**$432,758**	**$86,072**		**$86,072**		**$9,280**	
Pro forma Adjustment		1,390		1,544			
Total Per Utility		**$87,462**		**$87,616**			
Per Staff Recommendation							
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	41,715	4,171	10%	4,171	10%	0	0%
Total	**$446,413**	**$53,614**		**$53,614**		**$16,646**	
Pro forma Adjustment		336		336			
Total Per Staff		**$53,950**		**$53,950**			
Staff Recommended Adjustment		**$33,512**		**$33,666**			

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 utility, these amounts are the unallocated gross yearly increases for each employee. Using staff's recommended allocation of management fees previously discussed, staff believes that the appropriate increase in health insurance is $672, or $336 for each water and wastewater.

Based on the above, staff believes 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, staff recommends that the management fees should be reduced by $67,178, or $33,512 for water and $33,666 for wastewater. Contractual Services - Other should be reduced by $7,196, or $3,598 each for water and wastewater.

ISSUE 16: Are any adjustments necessary to contractual services expense?

RECOMMENDATION: Yes, legal and accounting contractual services expense should be adjusted to remove services related to the Indianwood Development acquisition and rate case expense. Operation and Maintenance should be reduced by $5,355 for water and $5,355 for wastewater. Amortization expense should be increased by $612 for water and $613 for wastewater. (B. DAVIS)

STAFF ANALYSIS: 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 staff auditors found that 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, staff recommends 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 should 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 pro forma adjustment of $11,894 is overstated by $1,227. Staff recommends that amortization expense be reduced by this amount, $612 for water and $613 for wastewater.

According to the staff auditors, 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 and staff recommends that O&M expenses be reduced by $2,475 for water and $2,475 for wastewater.

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

ISSUE 17: Are any further adjustments necessary to contractual services-accounting expense?

RECOMMENDATION: Yes, contractual services-accounting should be reduced by $7,790 for both water and wastewater to recognize accounting services that should be performed in-house. Also, misclassified costs of $6,555 should be removed from water contractual services-accounting and be placed in water contractual services-other. (B. DAVIS)

STAFF ANALYSIS: 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 should 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 should be $21,579 after the above adjustment and staff's recommended adjustment in Issue 16. The remaining accounting contractual expense is for accounting services from the public accounting firm of Chazotte, Lefanto who 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 by utility personnel. 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, staff has recommended that 30% of Mr. Leslie's time be allocated to Indiantown.

Staff believes 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. Staff recommends that the costs of contracted accounting services, other than the outside auditor's review and income tax preparation, be removed from O&M expenses on a going-forward basis as being duplicative charges. Based on the above, contractual services-accounting should be reduced by $7,790 for both water and wastewater. This will allow the utility a total of $6,000 for contractual services-accounting.

ISSUE 18: Are any adjustments necessary to transportation expenses?

RECOMMENDATION: Yes. The transportation expense should be reduced by $795 for both water and wastewater for repairs that are out of the test year. (QUIJANO)

STAFF ANALYSIS: In Audit Exception No. 10, the staff auditors found that 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. Staff believes that this entry is outside of the test year period and an adjustment of $795 each for water and wastewater should be made to reduce transportation expense.

ISSUE 19: Are the annual allocations of the billing costs reasonable?

RECOMMENDATION: No, operating and maintenance expenses should be decreased by $19,148 for water and $19,149 for wastewater. Plant costs for billing should be decreased by $1,459 each to water and wastewater, with corresponding decreases to accumulated depreciation and depreciation expense of $114 and $228, respectively, for both water and wastewater. (B. DAVIS)

STAFF ANALYSIS: In Docket No. 981612-WS, Indiantown (ICO), ITS and ACI requested to participate in convergent billing whereby its customers would be charged for all utility and communication services rendered for each month on a single invoice. Currently, ICO 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.

The 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, the 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, thus the processing, mailing and postage costs should have decreased, resulting in savings for the utility. Indiantown's tariffs now reflect convergent billing.

Staff has 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 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 supposed to be 33.3%. However, when you divide Indiantown's allocated dollar amount on its books, 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 on MFR Schedule B-3, page 2, Adjustment (F)(3)(A), 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. This is Adjustment (F)(3)(B) on MFR Schedule B-3, page 2. 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, and is shown on MFR Schedule B-3, page 2, Adjustment (F)(3)(C), 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 pro forma adjustment requested for this cost is an annual charge of $26,400 allocated evenly between water and wastewater as $13,200. This adjustment was labeled Service Bureau Processing Fees and is shown on MFR Schedule B-3, page 2, Adjustment (F)(3)(G). 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 operation and maintenance expenses of $57,891, depreciation expense of $1,631 and the requested return on investment of $1,331. This is a total 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 for staff, 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 should 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. 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 should be excluded when analyzing billing costs and stated separately in operating and maintenance expense.

When asked by staff, the utility also researched the amount of billing costs that were included in test year expenses and should have been removed. In the MFRs, the utility removed $3,975 of Service Bureau Processing Fees and should have removed $8,936 which would increase that adjustment by $4,961. Staff has reviewed these adjustments and agreed that they are appropriate.

Upon our review, staff believes that the related company billing charges to Indiantown are excessive. Just looking at 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 581% increase from the cost for the prior billing system. Staff understands 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. Staff believes that it is inappropriate, under the tariff, to allow separate billing and recommends that the additional charge of $5,052 not be allowed.

Staff does not agree with the charge of $1 per bill and the utility has not supported this charge. Staff believes $0.25 is a more reasonable estimate of the per bill cost and recommends that the fee be further reduced by $15,723 to reflect this per bill cost. The total recommended adjustment to the Service Bureau Processing Fee is $21,159, $10,579 to water and $10,580 to wastewater. The Service Bureau Processing Fee as adjusted by staff should be $5,241, $2,621 to water and $2,620 to wastewater.

Staff also does not agree with the equal sharing of the costs amongst the participating companies. Staff believes 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. Staff believes 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 should be discounted by 20%. Thus, staff believes that Indiantown's share of the adjusted billing costs should only be 24% of the total billing costs, instead of the 33% proposed by the utility.

Based on staff's recommended allocation method and the above adjustments, rate base should 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 should be offset by a reduction of $228 in accumulated depreciation, or $114 each to water and wastewater. Depreciation expense should be reduced by $456, or $228 to water and wastewater.

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

O&M Expenses	Staff Recomm. Total Cost	ICO	Water	Waste Water
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
Staff Recomm. 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
Staff Adj.-Billing Pro forma	($34,052)	($38,297)	($15,937)	($15,937)
Reduce Test Year Service Bureau Fees		($4,961)	($2,481)	($2,480)
Reallocate Financial Software		($409)	($204)	($205)
Reallocate Internet Charges		($1,054)	($527)	($527)
Total O&M Expense Adjustment-Per Staff		$38,298	($19,148)	($19,149)

Based on staff's analysis, the recommended water and wastewater total cost for billing should include O&M expenses $21,749, depreciation expense of $1,175 and a return on investment of $945. staff recommends that the pro forma annual billing costs for the utility are $23,869, a cost of $1.16 per bill, which should reflect the economies of convergent billing.

ISSUE 20: Are any adjustments necessary to the pro forma DEP required expenses for permit renewal conditions?

RECOMMENDATION: Yes, the $22,000 requested for additional annual WWTP testing should be reduced by $10,900 to $11,100. The $24,000 requested annual engineering cost should be reduced by $15,000 to reflect $9,000 in annual engineering reports. And amortization expense of $2,800 in annual amortization expense should be recognized for one-time costs for engineering reports. (MUNROE)

STAFF ANALYSIS: 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. The staff auditors were unable to determine if these costs were reasonable and deferred to the staff engineer.

Upon request for data justifying this increase in testing and reporting requirements, the utility produced some estimates and referred staff 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 should 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 should be removed as unsupportable. 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 should be amortized over a five-year period pursuant to Rule 25-30.433(8), Florida Administrative Code, as a cost.

In summary, staff recommends that the $22,000 requested for additional annual WWTP testing be reduced by $10,900 to $11,100. The $24,000 requested annual engineering cost should be reduced by $15,000 to reflect $9,000 in annual engineering reports. This is a total reduction to wastewater operation and maintenance expense of $25,900. The $14,000 one time cost for engineering reports should be amortized and annual wastewater amortization expense should be increased by $2,800.

ISSUE 21: Should the pro forma adjustment for maintenance of the Indianwood water and wastewater lines be approved?

RECOMMENDATION: No, the $11,400 for water maintenance and $11,400 for wastewater maintenance in Indianwood should be disallowed. (MUNROE)

STAFF ANALYSIS: 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. Repairs may be expensive, however, no estimates are available at this time. Therefore, Staff believes that any future repair expenses should be addressed in a future rate proceeding.

ISSUE 22: Are any adjustments necessary to the annual costs for removal of sludge?

RECOMMENDATION: Yes, the utility's request for $75,000 annually for sludge removal is not reasonable. Staff recommends that $60,225 should be approved for sludge removal. (MUNROE)

STAFF ANALYSIS: The annual cost for sludge removal listed for the test year was $54,750. The utility has requested $75,000 in this rate case. While the utility submitted a $120,000 quote for annual sludge hauling to staff, this quote was considerably out of reason as it represents over a 100% increase in cost with no significant growth in customers served. The utility also negotiated with a related party and received a $75,000 quote. Staff considered a 10% increase over the test year amount as reasonable considering inflation and possibly a slight increase in the amount of sludge to be hauled. Consequently, staff recommends $60,225 as a more reasonable annual amount considering the amount of sludge and distance to dump sites. This results in a decrease of $14,775 to wastewater O&M expenses.

ISSUE 23: Is the lease on the land for the percolation ponds sufficient and is the annual cost reasonable?

RECOMMENDATION: No, the utility should be ordered to obtain either ownership of the land where the percolation ponds are located or a long-term lease (such as 99 years). Further, the annual lease payment for the land should be $6,000, or a reduction to O&M expenses of $20,964. This $6,000 cost should not be escalated annually for rate setting purposes. (B. DAVIS, MUNROE)

STAFF ANALYSIS: 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. Staff believes that the utility should have obtained either ownership of the land or a long-term lease. Section 367.1214, Florida Statutes, requires water and wastewater utilities 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. Staff believes the current year to year leases puts 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 possible loss of its permit. This situation should have been considered when the utility entered into agreement with the related land owner. Staff recommends that the utility secure a long-term lease (such as 99 years) to preserve continued service to the customers.

Staff also believes that the cost of the lease should be reduced. It is the utility's burden to prove that is 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 GTE Florida Inc. v. Deason, 642 So.2d 545 (Fla. 1994), the Court established that when affiliate transactions occur, that does not mean that "unfair or excessive profits are being generated, without more." The standard established 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.

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. Florida is an original cost jurisdiction and Chapter 367, Florida Statutes, requires that this Commission consider the cost of utility assets at the time those assets were dedicated to public service.

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. Staff has not been able to obtain the assessed value of the land at either time. In absence of evidence of the original cost, staff has gone 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 by the staff auditors. One, who was familiar with the property, provided an estimate of $400 a month or $4,800 a year.

Further, staff believes 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. The 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. The lease payment should 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. Staff, however, believes that this land transaction very easily could have been a purchase of land in 1994 and not subject to annual sales tax. Therefore, staff does not recommend including any allowance for sales tax on this lease. Based on the above, staff recommends that 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 should be $6,000 annually, which is an annual reduction of $20,964 to the wastewater rental of real property.

Further, staff does 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. Staff has calculated, for comparison purposes, a rate base value based on staff's recommended $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, staff believes that this per-acre cost is reasonable.

ISSUE 24: Should chemical and purchased power expense be adjusted to reflect the anticipated reduction to water and wastewater consumption due to repression?

RECOMMENDATION: Based on staff's recommended repression adjustment to water and wastewater consumption discussed in Issue 31, chemical expense and power expense should be decreased by $2,665 for water and $3,490 for wastewater. (B. DAVIS)

STAFF ANALYSIS: Staff is recommending 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 in Issue 31. Chemical and purchased power expenses, in large part, are variable based on consumption. Staff has analyzed the cost per billed gallon of chemical and purchased power expense. Based on staff's recommended level of consumption, chemical and purchased power expenses be decreased by $2,665 for water and $3,490 for wastewater.

ISSUE 25: What is the appropriate amount of rate case expense?

RECOMMENDATION: The appropriate rate case expense for this docket is $86,707. This expense should be recovered over four years for an annual expense of $21,677. The method of allocation used between systems is based on percentage of total ERCs at June 30, 1999. Therefore, the appropriate increase in amortization expense for rate case expense for water is $883 and $794 for wastewater per year. (MERCHANT, QUIJANO)

STAFF ANALYSIS: The utility included an $80,000 estimate in the MFRs for current rate case expense. As part of its analysis, 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 Proposed Agency Action (PAA) process of $151,780. The components of the estimated rate case expense are as follows:

		REVISED ESTIMATE		
	MFR ESTIMATED	ACTUAL	ADDITIONAL ESTIMATE	TOTAL
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	1,000	7,564	2,250	9,814
Total Rate Case Expense	$80,000	$130,631	$21,149	$151,780
Annual Amortization	$20,000			$37,945

Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Staff believes 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 by staff, 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, staff believes that the actual legal fees incurred for rate case expense are prudent with the exception of $12,083. During our review, staff noticed 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, staff does not believe all of these costs are related to the current rate case and are duplicative. Staff is aware that the utility intended to apply for a rate case sometime in 1998, but it did not do so. The $250 cost for obtaining other examples of MFRs is a reasonable cost and should be allowed. However, staff believes that it is appropriate to disallow $4,334 of the 1998 fees.

The legal rate case summary submitted by the utility also included numerous telephone conversations by and between the lawyer, the utility, and PSC staff which did not detail the subject matter. As requested by staff, the utility further submitted an explanation of phone calls on dates not clearly defined. After staff reviewed this additional detail, there were still several items which were not explained. Staff recommends that any unexplained costs not be approved.

Our analysis of the supporting documentation submitted by the utility revealed that legal fees were incurred for back-flow prevention devices. This issue is not addressed in this rate proceeding and staff believes that these legal fees should not be included in rate case expense. Rate case legal fees also included costs associated with the convergent billing docket, which was not related to this rate case. Costs were also included for numerous weekly conference calls that had no further explanation as to the purpose of the call and how it related to the rate case. Further, the utility took 5 months to submit its original set of MFRs to the

Commission. Staff believes that weekly conference calls during this extended period of time to complete the MFRs were excessive.

Staff also believes 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. Legal fees were also included which were incurred due to the Indianwood litigation. After careful analysis, staff believes that $6,548 in unsupported and inappropriate legal fees should be disallowed.

Further, the utility included $1,201 of legal fees incurred in correcting MFR deficiencies. 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 the Commission on December 27, 1999. After reviewing the information on the MFRs, staff determined that there were deficiencies. A letter was sent on January 19, 2000 identifying four specific deficiencies on the MFRs. Some of the specifics 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, staff determined that the MFRs were still incomplete and sent another deficiency letter on February 23, 2000. The utility submitted the additional information on March 7, 2000. Staff believes that this additional cost to re-do some schedules of the MFRs would not have been incurred if the utility had done 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 completely satisfied the minimum filing requirements. Staff believes 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, staff recommends that this cost be disallowed as rate case expense. The Commission has previously disallowed rate case expense incurred for revising MFRs and correcting MFR deficiencies.

The utility submitted an estimated additional cost of $13,500 for 100 hours in legal fees to complete the rate case through PAA. This estimate did not include a breakdown of the legal work that would be performed for the remainder of the case. Staff believes 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 their estimate to complete the PAA process.

To summarize, staff believes that the appropriate amount of legal rate case expense is $28,303. This is a reduction of $21,697 from their revised estimated legal fees of $50,000.

Accounting Fees

In its MFRs, the utility requested accounting rate case expenses of $45,000. As requested by staff, 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 accounting fees, staff believes that the accounting fees for this rate case submitted by the utility are not prudent and are excessive.

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 most Class B utilities that have filed rate cases before the Commission in the last several years. This case is an historical test year that had more corrections to its MFRs for test year misclassifications on its books and pro forma adjustments than staff has 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 went through 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 ICO and its management fee allocation. Given the large amount of adjustments made to the MFRs and related party allocations, it does not surprise staff that the MFRs took 5 months to complete or that the accounting rate case expense is higher than normal. Based on this information, while staff does not dispute that these accounting services were required to get the filing correct, we do not believe that the full cost should be borne by the ratepayers.

Staff has 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 broken down 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, staff 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, staff cannot determine whether these amounts were reasonable and prudent. Further, staff questions why this administrative cost is so large. Staff believes that an allowance of 19.5 hours, 8 hours and 11.5 between Nixon and DeChario, respectively, is more appropriate. This results in a $6,290 reduction to accounting rate case costs.

Staff also found that Mr. Nixon spent 7.5 hours on drafting a test year approval letter. This function was also performed by the attorney. Staff believes that some consulting time is appropriate but 4 hours is a more reasonable estimate of time for this function. This is a reduction of $560 of accounting rate case expense.

Staff also reviewed the amount of accounting consultant time spent on different rate case components and issues. We reviewed the detailed time spent reviewing/revising the MFR Sections A-E, O&M expense, allocated expenses and taxes other schedules. Staff believes that the number of hours spent on these activities are reasonable and recommend no adjustments. However, 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 been simply 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 rate payers. Further, staff does 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 in Issue 14, the billing analysis submitted also had many errors and miscalculations included. Staff believes that an appropriate amount of time to prepare the balance sheet and billing schedules should be 4 and 10 hours, respectively. This results in a decrease of $4,377 to accounting charges.

Mr. Nixon and Mr. DeChario also spent 36 and 6 hours, respectively, reviewing and revising the engineer schedules (Section F) and used and useful issues in the MFRs. Staff believes 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. Staff believes that it is reasonable to allow Mr. Nixon 3 hours to review the engineering schedules with 19 hours for Mr. DeChario. In evaluating the invoices, staff shifted some hours from Mr. Nixon to Mr. DeChario on schedules which staff believes should have be done by the associate rather than the consultant. Since the consultant is paid $160 per hour and the associate $85 an hour, staff believes that it is reasonable to delegate the less complex tasks to an associate. This was a net reduction of $4,175 ($5,280-$1,105).

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. Staff does not believe that the additional 32 hours to make changes to the draft is reasonable and recommends that this be disallowed. This is a decrease of $5,120.

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

Furthermore, staff believes that all accounting expenses incurred pertaining to deficiencies on the MFRs, as explained in the legal section of this issue, should be disallowed. For the period of January 19, 2000 through March 7, 2000, staff recommends that accounting fees in the amount of $8,018 should be disallowed.

As shown in the accounting invoices, Mr. Nixon spent 9.5 hours reviewing the interim recommendation. Staff believes that this was excessive given that parties may not participate in the interim decision. Staff believes that 2 hours is sufficient for consultant time plus the hour and a half spent by Mr. DeChario, is appropriate. Staff notes that the attorney spent approximately 2 hours reviewing the interim recommendation, with which staff agrees is reasonable. This is a reduction of $1,200.

In staff's review of the MFRs, we were not able to determine the per book accounting treatment of the utility's contributed taxes. As part of our discovery, staff requested the location of the amounts associated with contributed taxes on the utility's financial statements. Upon staff's questioning of how ICO 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. While staff has recommended an adjustment to reflect amortization of contributed taxes as above the line, we do not believe that this issue required any research for this utility. If it took additional time to determine how these amounts were recorded on the utility's books, then the additional consulting time should not be passed on to the ratepayers. Staff, therefore, believes that these amounts were not prudent. This amounts to a reduction of $2,560.

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. Staff believes 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. Staff believes 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, staff recommends that this accounting fee is not prudent, and therefore, should 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, staff does not believe that the 10.5 hours for accounting research for deferred taxes in this case was reasonable. Based on the above, staff believes that $1,680 in accounting rate case expense should be disallowed.

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

To summarize, staff believes that the appropriate amount of accounting fees for this rate case is $40,510. This is a reduction of $41,080 from their 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 and estimate to complete, the utility did not include this amount. Staff, therefore, recommends that this 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. Staff has reviewed these charges and believe that they are reasonable.

Miscellaneous Rate Case Expenses

In reviewing the miscellaneous expense of the revised estimated rate case expense submitted by utility through completion of the PAA, staff believes that it is prudent with one exception. We do not believe that $2,996 incurred for one round-trip ticket to Tallahassee was prudent for Mr. Leslie to meet with staff. This trip was on Princess Aviation, Inc., a private airline owned by Mr. Post. The utility has removed all other charges from Princess Aviation from this filing. On the airline invoice from Princess, it 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." [sic] While staff agrees 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, staff would have rescheduled the meeting. Staff noticed that the billing amount of $2,996 was for four people but he flew alone. Therefore, staff believes that it is reasonable to allow only one-fourth which is $700 to cover this travel expense.

Summary

After a thorough evaluation of the revised and estimated rate case expense submitted by utility, staff recommends that the appropriate total rate case expense through the PAA process for this docket is $86,707. We believe that this is a reasonable amount. A detailed breakdown of the allowance of rate case expenses is as follows:

	MFR ESTIMATED	UTILITY REVISED ACTUAL	STAFF ADJUSTMENTS	STAFF ADDITIONAL ESTIMATE	STAFF ADJUSTED BALANCE
Filing Fee	$4,000	$7,000	$0	$0	$7,000
Legal Fees	25,000	36,336	(12,083)	4,050	28,303
Accounting Fees	45,000	76,355	(41,080)	5,235	40,510
Capitalized Time	5,000	0	0	0	0
Engineering Fees	0	3,376	0	0	3,376
Miscellaneous Expense	1,000	7,564	(2,296)	2,250	7,518
Total Rate Case Expense	$80,000	$130,631	($55,459)	$11,535	$86,707
Annual Amortization	$20,000				$21,677

The recommended allowable rate case expense is to be amortized over four years, pursuant to Section 367.0816, Florida Statutes, at $21,677 per year. Based on the data provided by the utility and the staff recommended adjustments discussed above, staff recommends that the rate case expense should be increased by $1,677. This is the difference between the $21,677 amortization recommended by staff 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 $883 and $794 for wastewater per year.

ISSUE 26: Should the amortization of contributed taxes be reflected above the line?

RECOMMENDATION: Yes, the amortization of contributed taxes should be reflected above the line as a decrease to operating expenses of $3,388 for water and $2,454 for wastewater. (B. DAVIS)

STAFF ANALYSIS: 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, the Commission directed that the benefits of contributed taxes should 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. Staff has reviewed this amount and agrees 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. Staff, therefore, recommends that the above amortization amounts be shown on the test year operating statements as an offset to expense.

ISSUE 27: Are the taxes other than income appropriately stated for the test year?

RECOMMENDATION: No. Real estate and personal property taxes should be decreased by $2,153 for water and $9,859 for wastewater. (QUIJANO)

STAFF ANALYSIS: In Audit Exception No. 13, the staff auditor found that 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.

During the last audit, the utility's plant manager recommended that the tax bill should have been allocated 85% to water, 5% to wastewater, and 10% to non-utility use. He also identified several real estate tax bills for easements, wells, and a lift station that were not included. Staff agrees with these allocations. Below is a schedule showing all identified real estate tax bills with staff's calculation of the correct allocations of $7,460 to water and $5,889 to wastewater.

1999 REAL ESTATE TAX	**TOTAL**	**WATER**	**WASTEWATER**
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	194	0	194
ADJUSTED REAL ESTATE TAX	**15,136**	**7,460**	**5,889**

For personal property taxes, the utility used the fair market value as shown on its personal property tax return. The NARUC USOA requires that utility plant should be recorded at the original cost when first dedicated to public use. Florida is an original cost jurisdiction, therefore, it is logical to allocate personal property taxes on original cost rather than the fair market value. Staff believes that by using an original cost allocation, the appropriate personal property taxes should be $15,144 for water and $21,380 for wastewater.

Rule 25-30.433(5), Florida Administrative Code, states that property tax expense on non-used and useful plant shall not be allowed. In our analysis of the MFRs, the utility only made a non-used and useful property tax adjustment on pro forma plant additions. It did not make a property tax adjustment for non-used and useful test year plant. Staff has adjusted property taxes for these amounts. Staff also decreased the utility's pro forma adjustment to property taxes based on staff's recommended adjustments to plant by $289 and $332, to water and wastewater, respectively.

The schedule below shows staff's and the utility's adjustments to compute the total appropriate real estate and personal property tax to be used for this rate case.

	WATER	WASTEWATER
Staff Adjusted Real Estate (RE) Tax	$7,460	$5,889
Staff Adjusted Personal Property (PP) Tax	15,144	21,380
Utility's Pro forma Adjustment (MFRs)	2,393	6,082
Utility's Used and Useful Pro forma	0	2,824
Tax Adj. - Staff Adjustments to Plant	(289)	(332)
Gross RE/PP taxes w/o Non-used & Useful	$24,708	$35,843
Net Non-Used and Useful Plant %	100%	17.56%
Non-Used & Useful Adjustment per Staff	0	(6,295)
Staff Net Property Tax Expense	$24,708	$29,548
Utility Requested Real Estate and Personal Property Taxes	26,861	39,407
Staff Total Adjustment to RE/PP Taxes	**($2,153)**	**($9,859)**

Based on the auditor's findings and staff adjustments stated above, staff believes that the appropriate net property tax expense is $24,708 for water and $29,548 for wastewater. This will result in a decrease in real estate and property taxes of $2,153 for water and $9,859 for wastewater.

ISSUE 28: Should the effect of the parent's debt be recognized in income tax expense?

RECOMMENDATION: Yes, the effect of the parent's debt should be recognized as a decrease to income tax expense of $6,254 for water and $10,133 for wastewater. (B. DAVIS)

STAFF ANALYSIS: 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 (ICO) owned the stock of the telephone, cellular, competitive local exchange as well as some other investments. The capital structure of this utility was used in the prior rate proceedings, so no adjustment was necessary for the effect of parent debt, since ICO was the parent at that time.

As addressed in the capital structure issue, ICO is no longer the parent company. ICO is now a subsidiary company included in the consolidated income tax return of Postco, Inc. Given the utility's corporate reorganization, staff believes 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, Inc., debt used to acquire the stock of the water and wastewater utility.

Based on staff's 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, staff believes 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.

Also, the parent debt adjustment calculated by the utility in the MFRs does not exclude Indiantown's retained earnings as required by the rule. Staff has calculated a parent debt adjustment, consistent with the rule, in the amount of $6,254 for water and $10,133 for wastewater based on test year amounts and 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 $20,709 for water and $82,144 for wastewater.

ISSUE 29: What is the appropriate net operating income for the test year?

RECOMMENDATION: The test year operating losses are $8,385 and $94,182 for water and wastewater operations, respectively. (B. DAVIS)

STAFF ANALYSIS: Based on the adjustments discussed in previous issues, staff recommends that the test year operating income, before any provision for increased revenues, should be operating losses of $8,385 for water and $94,182 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.

REVENUE REQUIREMENT

ISSUE 30: What is the total revenue requirement?

RECOMMENDATION: The following revenue requirements should be approved: (B. DAVIS)

	TOTAL	$ INCREASE	% INCREASE
Water	$580,011	$85,470	17.28%
Wastewater	$831,026	$273,786	49.13%

STAFF ANALYSIS: 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 staff's proposed recommendations concerning the underlying rate base, cost of capital, and operating income issues, we recommend approval of rates that are designed to generate a revenue requirement of $580,011 and $831,026 for water and wastewater, respectively. These revenues exceed staff's recommended test year revenues by $85,470 (17.28%) for the water operations and $273,786 (49.13%) for the wastewater operations as shown on attached Schedules 3-A and 3-B.

RATES AND RATE STRUCTURE

ISSUE 31: Is a repression adjustment to consumption appropriate for this utility, and if so, what is the appropriate adjustment?

RECOMMENDATION: Yes, repression adjustments of 12,686,940 gallons to water consumption and 6,294,470 gallons to wastewater consumption are appropriate. In order to monitor the effects of the rate increases on consumption, the utility should be ordered to 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 should be provided for each customer class and meter size. These reports should be provided for a period of two years, beginning the first quarter after the revised rates go into effect. (GOLDEN)

STAFF ANALYSIS: In an attempt to quantify the relationship between revenue increases and consumption impacts, staff has 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 17.28% for water and 49.13% for wastewater. Staff has 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 17.28%. This preliminary rate increase was compared to other utilities in the database which, as in Indiantown's case, underwent no change in the 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, staff 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 $47/ME. The remaining steps using this basis of comparison follow those described in the preceding paragraph. The $47/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 eleven utilities which experienced similar increases for water. The change in average monthly consumption per ME for these eleven utilities was (15%), (13%), (11%), (9%), (7%), (7%), (3%), (2%), (2%), 0% and 16%. We believe the utility with a 16% increase in average consumption is 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 ten utilities. The utilities that exhibited 2%, 3%, 7%, and 9% reductions in consumption most closely matched Indiantown's average consumption. Using this basis of analysis, consumption reductions between 2% and 9% would appear to be a conservative prediction of Indiantown's anticipated consumption reduction.

However, staff believes 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, staff 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 $47/ME. Indiantown's annual revenue requirement increase for wastewater is $98/ME. The $47/ME increase for water and $98/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/gallonage 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.

Staff has recommended 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 recommended adjustments.

Based upon our analysis, staff believes 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 recommended gallon reduction for the water system. Therefore, staff recommends repression adjustments of 12,686,940 gallons to water consumption and 6,294,470 gallons to wastewater consumption.

For informational purposes, 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, staff excluded the general service class from its recommended repression adjustment calculation.

In summary, staff recommends repression adjustments of 12,686,940 gallons to water consumption and 6,294,470 gallons to wastewater consumption. Further, staff believes it will be beneficial in future cases to monitor the effects of this rate increase on consumption. Therefore, staff recommends the utility should be ordered to 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 should be provided for each customer class and meter size. These reports should be provided for a period of two years, beginning the first quarter after the revised rates go into effect.

ISSUE 32: What are the appropriate water and wastewater rates?

RECOMMENDATION: Staff has recommended monthly rates using the base facility and gallonage charge rate structure. The recommended water rates should be designed to produce annual operating revenues of $560,099, which is the $580,011 revenue requirement less $19,212 in miscellaneous revenue. The recommended wastewater rates should be designed to produce annual operating revenues of $830,770 which is the $831,026 revenue requirement less $256 in miscellaneous revenue. The residential wastewater gallonage charge should continue to be capped at 6,000 gallons per month. The approved rates should 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 customers have received notice. The revised tariff sheets should be approved upon staff's verification that the tariff is consistent with the Commission's decision, that the protest period has expired, and that the proposed customer notice is adequate. (B. DAVIS, C. WILLIAMS)

STAFF ANALYSIS: 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 base facility 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 used by staff to determine whether a more aggressive conservation-oriented rate structure is appropriate. Based on the information above, staff recommends that the base facility and gallonage charge rate structure be continued for this utility.

Staff recommends that the final water rates approved for the utility should be designed to produce annual operating revenues of $560,099. This represents the $580,011 revenue requirement less $19,912 in miscellaneous revenue. Staff recommends that the final wastewater rates approved for the utility should be designed to produce annual operating revenues of $830,770, which is the $831,026 recommended 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. Staff recommends that this cap is reasonable and should 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 customer's 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. Staff has applied this differential to staff's recalculated billing and consumption to produce the recommended rates as shown on Schedule Nos. 4-A and 4-B.

The approved rates should 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 should be approved upon staff's verification that the tariff is consistent with the Commission's 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 staff's recommended rates is shown on Schedule Nos. 4-A and 4-B.

ISSUE 33: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated and what is the amount of the refund, if any?

RECOMMENDATION: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and any pro forma items which have not been incurred during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should not be required to refund any water and wastewater revenues collected under interim rates. Therefore, the revenue held subject to refund, and the letter of credit required by Order No. PSC-00-0912-PCO-WS, issued May 8, 2000, guaranteeing those revenues, should be released. (QUIJANO)

STAFF ANALYSIS: 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 from rates is shown below:

	Revenues	Increase	Percentage
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 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 staff proposed 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, staff has 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 have not been constructed during the time the interim rates have been in effect. Staff believes 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, staff has calculated the interim revenue requirement from rates for the interim collection period to be $567,039 for water and $786,507 for wastewater. This correlates to a 14.66% and 41.14%, 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, staff recommends that the utility should not be required to refund any water and wastewater revenues collected under interim rates. Therefore, the revenue held subject to refund and the letter of credit required by Order No. PSC-00-0912-PCO-WS guaranteeing those revenues should be released.

OTHER ISSUES

ISSUE 34: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (CHRISTENSEN)

STAFF ANALYSIS: *If no person whose substantial interests are* affected by the proposed agency action files a timely request for a Section 120.57, Florida Statutes, hearing within the twenty-one day protest period, no further action will be required and this docket should be closed upon the issuance of a consummating order.

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	STAFF ADJUST-MENTS	STAFF 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
10 WORKING CAPITAL ALLOWANCE	75,712	(13,290)	62,422	(11,201)	51,221
RATE BASE	$493,703	$131,906	$625,609	($21,460)	$604,149

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	STAFF ADJUST-MENTS	STAFF 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	90,423	1,360	91,783	(18,465)	73,318
RATE BASE	$653,899	$345,473	$999,372	($20,558)	$978,814

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

SCHED. NO. 1-C
DOCKET 990939-WS

EXPLANATION	WATER	WASTEWATER
PLANT IN SERVICE		
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)
Total	$684,022	$933,366
LAND		
Issue 3 Include Land	$4,469	$383
NON-USED AND USEFUL		
Issue 2 to reflect staff's net non-used and useful	$0	$14[illegible]26
ACCUMULATED DEPRECIATION		
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
Total	($187,755)	($252,551)
CIAC		
Issue 6 CIAC Correction	($699,631)	($951,277)
ACCUM. AMORT. OF CIAC		
Issue 6 Record Contributed Plant	$188,636	$253,560
WORKING CAPITAL		
Issue 7 Staff adjustments to O&M	($11,201)	($18,465)

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

SCHEDULE NO. 2-A
DOCKET 990939-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY AVERAGE 6/30/99							
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**	$5,837,384	($544,205)	($3,668,198)	$1,624,981	100.00%		8.22%
PER STAFF AVERAGE 6/30/99							
9 LONG TERM DEBT	$259,116	$384,557	($416,187)	$227,486	14.37%	9.50%	1.37%
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)	(1,682,738)	919,780	58.10%	9.46%	5.50%
13 CUSTOMER DEPOSITS	46,741	0	0	46,741	2.95%	6.00%	0.18%
14 DEFERRED INCOME TAXES	713,164	(324,209)	0	388,955	24.57%	0.00%	0.00%
15 DEFERRED ITC'S	0	0	0	0	0.00%	0.00%	0.00%
16 **TOTAL CAPITAL**	$5,837,384	($2,155,497)	($2,098,925)	$1,582,962	100.00%		7.04%
					LOW	HIGH	
				RETURN ON EQUITY	8.46%	10.46%	
				OVERALL RATE OF RETURN	6.46%	7.62%	

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	STAFF ADJUST-MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REQUIRED REVENUE
1 OPERATING REVENUES	$486,870	$210,354	$697,224	($202,683)	$494,541	$85,470 17.28%	$580,011
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	$605,699	($106,319)	$499,380	($89,614)	$409,766		$409,766
3 DEPRECIATION-LESS CIAC	39,170	12,092	51,262	(832)	50,430		50,430
4 AMORTIZATION (Other)	0	5,947	5,947	(612)	5,335		5,335
5 AMORTIZATION (Contributed	0	0	0	(3,388)	(3,388)		(3,388)
6 TAXES OTHER THAN INCOME	58,189	14,578	72,767	(11,274)	61,493	3,846	65,339
7 INCOME TAXES	0	16,443	16,443	(37,152)	(20,709)	30,715	10,006
8 TOTAL OPERATING EXPENSES	$703,058	($57,259)	$645,799	($142,873)	$502,926	$34,561	$537,487
9 OPERATING INCOME	($216,188)	$267,613	$51,425	($59,810)	($8,385)	$50,909	$42,523
10 RATE BASE	$493,703		$625,609		$604,149		$604,149
11 RATE OF RETURN	-43.79%		8.22%		-1.39%		7.04%

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	STAFF ADJUST-MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REQUIRED REVENUE
1	OPERATING REVENUES	$544,099	$479,158	$1,023,257	($466,017)	$557,240	$273,786 49.13%	$831,026
	OPERATING EXPENSES							
2	OPERATION & MAINTENANCE	$723,387	$10,879	$734,266	($147,723)	$586,543		$586,543
3	DEPRECIATION LESS CIAC	72,823	(2,824)	69,999	49	70,048		70,048
4	AMORTIZATION (Other)	0	5,947	5,947	2,187	8,134		8,134
5	AMORTIZATION (Contributed	0	0	0	(2,545)	(2,454)		(2,454)
6	TAXES OTHER THAN INCOME	70,889	31,270	102,159	(30,830)	71,329	12,320	83,650
7	INCOME TAXES	0	28,738	28,738	(110,882)	(82,179)	98,389	16,211
8	TOTAL OPERATING EXPENSES	$867,099	$74,010	$941,109	($289,744)	$651,422	$110,710	$762,132
9	OPERATING INCOME	($323,000)	$405,148	$82,148	($176,273)	($94,182)	$163,076	$68,894
10	RATE BASE	$653,899		$999,372		$978,814		$978,814
11	RATE OF RETURN	-49.40%		8.22%		-9.62%		7.04%

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

SCHED. NO. 3-C
DOCKET 990939-WS

EXPLANATION	WATER	WASTEWATER
OPERATING REVENUES		
1 Remove requested final revenue increase	($197,540)	($463,360)
2 Issue 14 Correct Annualized Test Year Revenue	(5,143)	(2,657)
Total	($202,683)	($466,017)
OPERATION & MAINTENANCE EXPENSE		
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	(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	883	794
Total	($89,614)	($147,723)
DEPRECIATION EXPENSE-NET		
1 Issue 2 to reflect staff's 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	($832)	$49
AMORTIZATION EXPENSE (Other)		
1 Issue 16 Indianwood Fees	($612)	($613)
2 Issue 20 DEP Required Expenses	0	2,800
Total	($612)	$2,187
AMORTIZATION EXPENSE (Contributed Taxes)		
Issue 26 Contributed Taxes	($3,388)	($2,454)
TAXES OTHER THAN INCOME		
1 RAFs on revenue adjustments above	($9,121)	($20,971)
3 Issue 27 Property taxes reallocation & non-used & useful	(2,153)	(9,859)
Total	($11,274)	($30,830)
INCOME TAXES		
1 To adjust to test year income tax expense	($30,898)	($100,784)
2 Issue 28 Parent Debt Adjustment	(6,254)	(10,133)
Total	($37,152)	($110,917)

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

SCHEDULE NO. 4-A
DOCKET 990939-WS
PAGE 1 OF 1

	Utility Rates As of 6/30/99	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final
Residential, General Service and Multi-Family				
Base Facility Charge:				
Meter Size				
5/8" x 3/4"	$7.54	$8.48	$12.70	$9.75
1"	$18.86	$21.21	$31.75	$24.37
1-1/2"	$37.73	$42.43	$63.50	$48.74
2"	$60.36	$67.87	$101.60	$77.98
3"	$113.16	$127.25	$190.50	$146.21
4"	$188.60	$212.08	$317.50	$243.69
6"	$377.22	$424.18	$635.00	$487.37
8"	$603.54	$678.68	$1,016.00	$779.80
8" Turbine	$679.00	$763.54	$1,143.00	$877.27
Gallonage Charge, per 1,000	$1.08	$1.21	$1.43	$1.33
Private Fire Protection				
Base Facility Charge:				
Meter Size				
2"	$20.53	$23.09	$8.47	$6.50
3"	$38.49	$43.28	$15.88	$12.18
4"	$64.15	$72.14	$26.46	$20.31
6"	$128.31	$144.28	$52.92	$40.61
8"	$205.30	$230.86	$84.67	$64.98
Typical Residential Bills				
5/8" x 3/4" Meter Size				
3,000 Gallons	$10.78	$12.11	$16.99	$13.74
5,000 Gallons	$12.94	$14.53	$19.85	$16.40
10,000 Gallons	$18.34	$20.58	$27.00	$23.05

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

SCHEDULE NO. 4-B
DOCKET 990939-WS
PAGE 1 OF 1

	Utility Rates As of 6/30/99	Commissio Approved Interim	Utility Requested Final	Staff Recomm. Final
Residential				
Base Facility Charge:				
All meter sizes	$12.73	$16.95	$21.12	$15.28
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$1.88	$2.50	$3.64	$3.36
General Service				
Base Facility Charge:				
Meter Size				
5/8" x 3/4"	$12.73	$16.95	$21.12	$15.28
1"	$31.81	$42.36	$52.80	$38.21
1-1/2"	$63.60	$84.69	$105.60	$76.41
2"	$101.75	$135.49	$168.96	$122.26
3"	$190.79	$254.06	$316.80	$229.24
4"	$317.98	$423.42	$528.00	$382.06
6"	$635.96	$846.84	$1,056.00	$764.12
8"	$1,017.53	$1,354.94	$1,689.60	$1,222.60
8" Turbine	$1,144.72	$1,524.31	$1,900.80	$1,375.42
Gallonage Charge, per 1,000 Gallons	$1.88	$2.50	$4.28	$4.03
Typical Residential Bills				
5/8" x 3/4" meter				
3,000 Gallons	$18.37	$24.45	$33.96	$27.37
5,000 Gallons	$22.13	$29.45	$42.52	$35.43
10,000 Gallons	$24.01	$31.95	$46.80	$39.46
(Wastewater Gallonage Cap - 6,000 Gallons)				

SUMMARY OF ISSUES

ISSUE 1: Is the quality of service provided by Indiantown to its customers satisfactory?

RECOMMENDATION: Yes, staff recommends that the Commission find the quality of service provided by Indiantown satisfactory. (MUNROE)

ISSUE 2: What are the used and useful percentages for the water treatment plant, water distribution system, wastewater treatment plant and wastewater collection system?

RECOMMENDATION: The water treatment plant should be considered 100% used and useful. The wastewater treatment plant should be considered 64.6% used and useful. The distribution and collection systems should both be considered 100% used and useful. The utility's non-used and useful plant adjustment should be increased by $20,596 and accumulated depreciation by $6,170, for a net increase in rate base of $14,426. Depreciation expense should be increased by $1,135. (MUNROE, B. DAVIS)

ISSUE 3: What adjustment should be recognized in rate base for utility land?

RECOMMENDATION: Water rate base should be increased by $4,469 and wastewater by $383. (B. DAVIS)

ISSUE 4: Should adjustments be made to capitalize items that were expensed?

RECOMMENDATION: Yes. Average plant in service should be increased by $2,525 for water and $224 for wastewater. Corresponding adjustments should be made to increase water accumulated depreciation and depreciation expense by $163 and $326, respectively. Wastewater accumulated depreciation and depreciation expense should also be increased by $37 and $74, respectively. The operation and maintenance (O&M) expense accounts should be decreased by $5,049 for water and $449 for wastewater. (QUIJANO, MUNROE)

ISSUE 5: Are the costs incurred to move personnel and equipment, from the telephone building into the water plant reasonable?

RECOMMENDATION: No, the costs of moving personnel and equipment to the water plant should be shared with the telephone company which also received benefits from this move. The pro forma plant additions should be reduced by $16,675 for water and $16,676 for wastewater. The pro forma depreciation expense and accumulated depreciation should each be reduced by $930 for water and $932 for wastewater. The pro forma O&M expenses should be reduced by $1,185 for water and $1,186 for wastewater. (MERCHANT, B. DAVIS)

ISSUE 6: Are any adjustments necessary to the amount of CIAC?

RECOMMENDATION: Yes, plant and CIAC should be increased by $699,632 for water and $951,277 for wastewater to show contributed plant from Indianwood, Martin County and Indiantown Non-Profit Housing. Accumulated depreciation and amortization of CIAC should also be increased by $188,636 for water and $253,560 for wastewater. (B. DAVIS)

ISSUE 7: What is the appropriate allowance for working capital?

RECOMMENDATION: The appropriate amount of working capital is $50,221 for water and $73,318 for wastewater based on the formula approach. This is a decrease of $11,201 for water and $18,465 for wastewater to the utility's requested working capital allowance. (QUIJANO)

ISSUE 8: What is the appropriate test year rate base?

RECOMMENDATION: The appropriate rate base for the test year ended June 30, 1999 is $604,149 for the water system and $978,814 for the wastewater system. (QUIJANO)

ISSUE 9: What is the appropriate capital structure for rate making purposes?

RECOMMENDATION: The appropriate capital structure for rate making purposes is the utility's actual capital structure. The capital structure should then be adjusted to include pro forma loans for the pro forma construction, to remove non-utility investments and receivables to associated companies from equity, and to specifically identify used and useful deferred taxes for the water and wastewater assets. The adjusted investor sources of capital should be reconciled on a pro rata basis to rate base. (MERCHANT, B. DAVIS, MAUREY)

ISSUE 10: What is the appropriate amount of deferred income taxes to be included in the capital structure?

RECOMMENDATION: The appropriate amount of deferred taxes for the test year is $388,955. This amount should be specifically identified in the capital structure and not be subject to pro rata adjustment. (MERCHANT, B. DAVIS)

ISSUE 11: What is the appropriate rate of return on equity?

RECOMMENDATION: The appropriate rate of return on equity should be 9.46% with a range of 8.46% - 10.46% using the current leverage formula. (B. DAVIS)

ISSUE 12: What is the appropriate overall rate of return?

STAFF ANALYSIS: The appropriate overall rate of return should be 7.04%, with a range of 6.46% to 7.62%. (B. DAVIS)

ISSUE 13: Should the utility be allowed an AFUDC rate and, if so, what should it be?

RECOMMENDATION: The Commission should approve an AFUDC rate of 7.04% and a monthly discounted rate of 0.586256% for Indiantown effective July 1, 1999, based on the June 30, 1999, capital structure developed in this docket. (B. DAVIS)

ISSUE 14: Are the billing determinates for the test year as filed in the MFR correct and should test year revenue be adjusted?

RECOMMENDATION: No, test year water and wastewater billing determinates should be adjusted for compilation errors and annualized test year water and wastewater revenue should be reduced by $5,143 and $2,657, respectively, to reflect the revised billing determinates. (B. DAVIS)

<u>ISSUE 15</u>: Are the test year management fees reasonable?

<u>RECOMMENDATION</u>: No. The management fees allocated from Postco do not reflect a reasonable distribution of the cost of services provided to Indiantown. Management fees should be reduced by $67,178, or $33,512 for water and $33,666 for wastewater. Contractual Services - Other should be reduced by $7,196, or $3,598 each for water and wastewater. (QUIJANO)

<u>ISSUE 16</u>: Are any adjustments necessary to contractual services expense?

<u>RECOMMENDATION</u>: Yes, legal and accounting contractual services expense should be adjusted to remove services related to the Indianwood Development acquisition and rate case expense. Operation and Maintenance should be reduced by $5,355 for water and $5,355 for wastewater. Amortization expense should be increased by $612 for water and $613 for wastewater. (B. DAVIS)

<u>ISSUE 17</u>: Are any further adjustments necessary to contractual services-accounting expense?

<u>RECOMMENDATION</u>: Yes, contractual services-accounting should be reduced by $7,790 for both water and wastewater to recognize accounting services that should be performed in-house. Also, misclassified costs of $6,555 should be removed from water contractual services-accounting and be placed in water contractual services-other. (B. DAVIS)

<u>ISSUE 18</u>: Are any adjustments necessary to transportation expenses?

<u>RECOMMENDATION</u>: Yes. The transportation expense should be reduced by $795 for both water and wastewater for repairs that are out of the test year. (QUIJANO)

<u>ISSUE 19</u>: Are the annual allocations of the billing costs reasonable?

<u>RECOMMENDATION</u>: No, operating and maintenance expenses should be decreased by $19,148 for water and $19,149 for wastewater. Plant costs for billing should be decreased by $1,459 each to water and wastewater, with corresponding decreases to accumulated depreciation and depreciation expense of $114 and $228, respectively, for both water and wastewater. (B. DAVIS)

ISSUE 20: Are any adjustments necessary to the pro forma DEP required expenses for permit renewal conditions?

RECOMMENDATION: Yes, the $22,000 requested for additional annual WWTP testing should be reduced by $10,900 to $11,100. The $24,000 requested annual engineering cost should be reduced by $15,000 to reflect $9,000 in annual engineering reports. And amortization expense of $2,800 in annual amortization expense should be recognized for one-time costs for engineering reports. (MUNROE)

ISSUE 21: Should the pro forma adjustment for maintenance of the Indianwood water and wastewater lines be approved?

RECOMMENDATION: No, the $11,400 for water maintenance and $11,400 for wastewater maintenance in Indianwood should be disallowed. (MUNROE)

ISSUE 22: Are any adjustments necessary to the annual costs for removal of sludge?

RECOMMENDATION: Yes, the utility's request for $75,000 annually for sludge removal is not reasonable. Staff recommends that $60,225 should be approved for sludge removal. (MUNROE)

ISSUE 23: Is the lease on the land for the percolation ponds sufficient and is the annual cost reasonable?

RECOMMENDATION: No, the utility should be ordered to obtain either ownership of the land where the percolation ponds are located or a long-term lease (such as 99 years). Further, the annual lease payment for the land should be $6,000, or a reduction to O&M expenses of $20,964. This $6,000 cost should not be escalated annually for rate setting purposes. (B. DAVIS, MUNROE)

ISSUE 24: Should chemical and purchased power expense be adjusted to reflect the anticipated reduction to water and wastewater consumption due to repression?

RECOMMENDATION: Based on staff's recommended repression adjustment to water and wastewater consumption discussed in Issue 31, chemical expense and power expense should be decreased by $2,665 for water and $3,490 for wastewater. (B. DAVIS)

ISSUE 25: What is the appropriate amount of rate case expense?

RECOMMENDATION: The appropriate rate case expense for this docket is $86,707. This expense should be recovered over four years for an annual expense of $21,677. The method of allocation used between systems is based on percentage of total ERCs at June 30, 1999. Therefore, the appropriate increase in amortization expense for rate case expense for water is $883 and $794 for wastewater per year. (MERCHANT, QUIJANO)

ISSUE 26: Should the amortization of contributed taxes be reflected above the line?

RECOMMENDATION: Yes, the amortization of contributed taxes should be reflected above the line as a decrease to operating expenses of $3,388 for water and $2,545 for wastewater. (B. DAVIS)

ISSUE 27: Are the taxes other than income appropriately stated for the test year?

RECOMMENDATION: No. Real estate and personal property taxes should be decreased by $2,153 for water and $9,859 for wastewater. (QUIJANO)

ISSUE 28: Should the effect of the parent's debt be recognized in income tax expense?

RECOMMENDATION: Yes, the effect of the parent's debt should be recognized as a decrease to income tax expense of $6,254 for water and $10,133 for wastewater. (B. DAVIS)

ISSUE 29: What is the appropriate net operating income for the test year?

RECOMMENDATION: The test year operating losses are $8,385 and $94,182 for water and wastewater operations, respectively. (B. DAVIS)

ISSUE 30: What is the total revenue requirement?

RECOMMENDATION: The following revenue requirements should be approved: (B. DAVIS)

	TOTAL	$ INCREASE	% INCREASE
Water	$580,011	$85,470	17.28%
Wastewater	$831,026	$273,786	49.13%

ISSUE 31: Is a repression adjustment to consumption appropriate for this utility, and if so, what is the appropriate adjustment?

RECOMMENDATION: Yes, repression adjustments of 12,686,940 gallons to water consumption and 6,294,470 gallons to wastewater consumption are appropriate. In order to monitor the effects of the rate increases on consumption, the utility should be ordered to 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 should be provided for each customer class and meter size. These reports should be provided for a period of two years, beginning the first quarter after the revised rates go into effect. (GOLDEN)

ISSUE 32: What are the appropriate water and wastewater rates?

RECOMMENDATION: Staff has recommended monthly rates using the base facility and gallonage charge rate structure. The recommended water rates should be designed to produce annual operating revenues of $560,099, which is the $580,011 revenue requirement less $19,212 in miscellaneous revenue. The recommended wastewater rates should be designed to produce annual operating revenues of $830,770 which is the $831,026 revenue requirement less $256 in miscellaneous revenue. The residential wastewater gallonage charge should continue to be capped at 6,000 gallons per month. The approved rates should 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 customers have received notice. The revised tariff sheets should be approved upon staff's verification that the tariff is consistent with the Commission's decision, that the protest period has expired, and that the proposed customer notice is adequate. (B. DAVIS, C. WILLIAMS)

ISSUE 33: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated and what is the amount of the refund, if any?

RECOMMENDATION: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and any pro forma items which have not been incurred during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should not be required to refund any water and wastewater revenues collected under interim rates. Therefore, the revenue held subject to refund, and the letter of credit required by Order No. PSC-00-0912-PCO-WS, issued May 8, 2000, guaranteeing those revenues, should be released. (QUIJANO)

ISSUE 34: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (CHRISTENSEN)