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MEMO

TO: Trisha Merchant, Florida Public Service Commission
FROM: David B. Erwin for Indiantown Company, Inc.
RE: Docket No. 990939-WS, Rate Application of Indiantown Company, Inc. –
Objections to Staff Recommendation.
CC: Blanca Bayo, Clerk, Florida Public Service Commission
DATE: September 7, 2000

Indiantown Company, Inc. objected at the September 5, 2000, Agenda to the following issues addressed in the Staff Recommendation and stated its position as set forth below:

Issue 5 – Are the costs incurred to move personnel and equipment from the telephone building into the water plant reasonable?

Staff Rec – Moving costs are not reasonable and pro forma plant additions should be reduced by \$16,675 for water and \$16,676 for wastewater, depreciation should be reduced by \$930 for water and \$932 for wastewater, and pro forma O & M expenses should be reduced by \$1,185 for water and \$1,186 for wastewater.

IC Position – The move was not necessitated by the telephone company. There is no plan for expansion of the telephone company, and the telephone company did not benefit from the move. The purpose was for IC to house its own personnel in its own building. It is the intent of IC to do everything to separate itself from the operations of affiliated companies and to pay its own way. Costs that were incurred as a result of the move were reasonable and necessary. There were costs for a copier, a T1 line and a telephone system. Bids were received for the copier, and it was purchased from an unrelated party. The T1 line was purchased from the related party's tariff; the telephone system was bid and bought for at the best price, even though it was bought from a related party. IC believes that it should stand on its own, that its personnel are now properly housed in an IC facility and that the staff adjustments are not right.

Issue 10 – What is the amount of deferred income taxes to be included in the capital structure?

Staff Rec – Staff proposed \$388,955 of deferred taxes should be included in the capital structure,

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resulting in a ratio of 24.58% of deferred taxes to total capital.

IC Position – There has never been a company with such a high ratio of deferred taxes in its capital structure, and one of the reasons why is that staff has not included an offset for the company's investment in taxes on CIAC. IC was not a gross up company until 1994 and there has been no offset for the company's investment in the income taxes on CIAC from 1987 to 1994. (See Order No. 23541) The amount of \$149,456 is the proper amount of deferred taxes that should be in the capital structure. That would require a reduction of the amount recommended by staff.

Issue 15 – Are the test year management fees reasonable?

Staff Rec – Management fees should be reduced by \$67,178 or \$33,512 for waster and \$33,666 for wastewater.

IC Position – Allocations were made by IC of salaries of Mr. Robert M. Post, Jr. and Mr. Jeff Leslie based on a study by the comptroller and accounting personnel. Staff reduced the allocation without adequate justification. Also an allocation for travel and training expenses for the IC computer operator should be allowed, just as the time spent was allowed, as allocated.

Issue 19 – Are the annual allocations of the billing costs reasonable?

Staff Rec – The staff has recommended that O & M expenses should be decreased by \$19,148 for water and \$19,149 for wastewater. Also, staff has recommended a decrease in plant costs and a corresponding decrease to accumulated depreciation and depreciation expense.

IC Position – IC objects to that portion of the Staff Rec which relates to the amount to be allowed for each bill. \$1.00 per bill is fair for processing each bill. (The total cost per bill is properly \$2.53 per bill.) The \$1.00 cost is what a local accounting firm indicated it would charge for processing. There is no basis for the \$.25 charge recommended by staff.

Issue 22 – Are any adjustments necessary to the annual costs for removal of sludge?

Staff Rec – Decrease water and wastewater O & M expenses \$14,775 to provide \$60,225 annually for sludge removal.

IC Position – No decrease is warranted. The IC request of \$75,000 is reasonable. Sludge is to be removed by an affiliated company, but the amount requested is much less than bids from non-affiliated companies. Applicant has met its burden set forth in GTE Florida, Inc. v. Deason, 642 So.2d 545 (Fla. 1994).

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

Staff Rec – Annual lease payment for the land should be \$6,000, and O & M expenses should be reduced by \$20,964.

IC Position – The lease price of \$2,100 per month is not unfair, even though an affiliated transaction is involved. When Mr. Post became owner of the utility he had to purchase 25.7 acres of land to keep the 8.3 acres of percolation ponds as percolation ponds. Not to recognize the purchase price of more than \$200,000 will ultimately cause a hardship. If given a reasonable rental for property, the new owner would devote the property to utility use on a long-term basis. It is IC's position that the 25.7 acres of property within which the percolation ponds lie has not yet been devoted to utility purposes, since it has never been the subject of any long term arrangement. Lease payments of \$6,000 annually are unreasonable in view of the necessary purchase in an arm's length transaction for an amount in excess of \$200,000, which will constitute the basis for calculation of real property taxes that will have to be paid out of the lease proceeds, making the return on a \$200,000 investment wholly inadequate.

Issue 25 – what is the appropriate amount of rate case expense?

Staff Rec –

Legal Fees – Staff recommended a reduction of \$21,697 for an approved legal rate case expense of \$28,303.

Accounting Fees – Staff recommended a reduction of \$41,080 for an approved accounting rate case expense of \$40,510.

IC Position – No decrease is warranted, but the Commission should at least allow the requested rate case expenses for the following:

Legal Fees –

- 1) Conference calls to plan for rate case;
- 2) Activity related to back flow prevention devices and possible need as a result of acquiring devices from Indianwood for an annual inspection that would be a proper pro forma adjustment in the rate case.
- 3) Expenses for filing additional MFRs or changes to MFRs requested by staff. (Is perfection in filing required?)

Accounting Fees –

- 1) Expenses for filing additional MFRs or changes to MFRs in response to deficiency letter.
- 2) Conference "calls," which were really conferences with staff in Indiantown on June 6 and 7, 2000 (19.5 hours).

- 3) Preparation of comparative balance sheets (26.5 hours) by DeChario was not excessive in view of split test year and need to remove end of year adjustments.
- 4) Preparation of “engineering schedules” was actually obtaining and preparing additional information and schedules as well as Section F of MFRs. The task actually took the amount of time indicated, and the Commission got the information requested (42 hours, as indicated on p. 63 of Staff Rec).
- 5) Changing MFRs took the amount of time indicated (32 hours). The amount of time charged was reasonable.
- 6) Contributed taxes was a big issue, and staff intended to do something out of line with what Mr. Nixon had experienced (16 hours). Time charged not excessive and was necessary.

Issue 27 – Are the taxes other than income appropriately stated for the test year?

Staff Rec – Staff recommended decreasing taxes by the amounts of \$2,153 for water and \$9,859 for wastewater. (After discussion with IC, staff indicated a willingness to reduce the reductions to \$1,447 for water and \$5,123 for wastewater).

IC Position – The theory espoused in Staff Rec that personal property taxes should be based on original cost rather than fair market value is not Commission policy and it should not become Commission policy, and final Order should not contain language supporting such a theory. In addition, the Commission should include contributed property in calculating tax that IC must pay.