State of Florida

Public Service Commission

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RECORDS AND REPORTING

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DATE: SEPTEMBER 14, 2000

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

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: 09/26/2000 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

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

SPECIAL INSTRUCTIONS: SUPPLEMENT TO THE STAFF RECOMMENDATION DEFERRED AT THE SEPTEMBER 5, 2000 AGENDA

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

CASE BACKGROUND

This case was brought to the Commission at the September 5, 2000 Agenda Conference. At that time, the utility presented statements addressing Issues 5, 10, 15, 19, 22, 23, 25 and 27. The utility also identified Issue 28, but chose not to comment on the issue. The Office of Public Counsel (OPC) presented statements addressing Issues 2 and 15. This supplemental recommendation addresses the utility, OPC and staffs statements addressing these issues. Based on the statements presented, staff is changing its recommendation for Issues 10, 25 and 27. In our revised recommendation statements included in this memo, staff has underlined the new and struck-through the previous text for comparison purposes. These changes will affect the revenue requirement and rates, and, as a consequence, Issues 7, 8, 12, 13, 28, 29, 30 and 32 will also change. To the extent the issues in this recommendation modify staff's September 5, 2000 recommendation, those modifications will be reflected in the proposed agency action order issued in this docket.

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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
U&U	Used and Useful
USOA	Uniform System of Accounts
WTP	Water Treatment Plant
WWTP	Wastewater Treatment Plant
Y2K	Year 2000

DISCUSSION OF ISSUES

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. (No Change) (MUNROE, B. DAVIS)

STAFF ANALYSIS: The engineer for OPC, Mr. Ted Biddy, disagreed with staff on all four used and useful recommendations. In fact, he recommended that the well field be given a separate used and useful percentage instead of the 100% recommended by staff for the entire water treatment plant.

Water Supply Wells

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

OPC's engineer made several assumptions when calculating a separate U&U for the water wells:

1. All 8 wells are capable of operating continuously for 24 hours a day.

2. All 8 wells have back-up power available.

3. The consumptive use limitation was not recognized.

All three of Mr. Biddy's assumptions are incorrect and, therefore, invalid because of the following reasons:

1. Water well pumps cannot normally operate continuously for 24 hours a day without burning up or depleting the zone around the well casing. DEP

uses 16 hours a day operation for large plants and 12 hours a day operation for medium sized plants. Staff calculates a pump operating 12 hours a day.

2. Only 4 of the 8 wells have a back-up power generator available. These 4 wells have a FRC of .216 MGD if the largest well is eliminated and the remaining wells are pumped for 12 hours a day, the standard used by staff. Therefore, staff's recommended formula is (.216 MGD for FRC + .500 MGD for storage + .240 MGD for fire flow = .961 MGD demand), which is less than the max 5 day average demand of .992 MGD.

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

For the above reasons, staff did not need to consider the U&U for the well field separately and recommends that it be included in the water treatment plant used and useful percentage of 100%.

Water Treatment Plant:

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

OPC made at least two errors in calculating the water treatment plant U&U.

1. OPC used a "permitted capacity" when none exists.

2. OPC assumed a 500 gpm fireflow demand. The county requires a demand of 1500-2000 GPM for 2 hours for fire flow. This is because the utility serves a mixed area of residential, multi-family **and** industrial customers. Indiantown experienced a major fire in this industrial area a few years ago.

The actual capacity of the water treatment plant is limited by the "weakest link" in the treatment chain: the filter which is limited to 1.231 MGD. The total demand of the plant is .992 MGD +

.240 MGD + .0055 MGD which exceeds the capacity of the plant. Therefore, staff recommends that the 100% U&U for the water treatment plant, including the well field, remain.

Wastewater Treatment Plant:

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

OPC incorrectly used the AADF when calculating the capacity of the Wastewater treatment plant even though the DEP permit clearly shows 3 month annual average flow (3MADF). OPC derived this incorrect average from a line in the 1999 Annual Report submitted by the utility. This was a typographical error since earlier on the same page of the annual report, the utility showed that the permit was issued based upon 3MADF.

Using the correct permitted capacity and the correct flows yields 64.6% U&U which staff again recommends.

Water Distribution System:

Mr. Biddy used the capacity of the water treatment plant, 1,231,000 GPD minus his recommended fire flow allowance of 90,000 GPD to determine the capacity of the water distribution system of 1,141,000 GPD. Dividing his capacity by 316.27 GPD per ERC he arrived at a capacity of the distribution system of 3,608 ERCs and a used and useful percentage of 63.01.

Staff still recommends 100% U&U for the water distribution system. Staff's analysis is combined with the discussion for the wastewater collection system shown below.

Wastewater Collection System:

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

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

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

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

1. The utility's system is a mix of invested and contributed lines.

2. A portion of the invested wastewater collection system has been contributed through main extension charges.

3. Active connections are spread equally throughout the developed system.

After a thorough, on-site, inspection of the system, staff agrees with the utility that the service area is essentially built-out. Therefore, staff again recommends 100% U&U for the water distribution and wastewater collection systems.

Staff does have a typographical corrections to make to the original recommendation on page 10. First, the subheading

Wastewater Distribution System should read Wastewater Collection System. Second, the third sentence in that paragraph starting with "This is calculated....divided by plant capacity" should be deleted.

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. (No Change) (MERCHANT, B. DAVIS)

STAFF ANALYSIS: The utility has expressed concerns about staff's recommendation that the costs of the move should be split between the utility and the telephone company. The utility contends that the costs of the move should not be split and that the pro forma costs of office improvements at the water plant should also be allowed into test year rates.

Splitting the Cost of the Move

The utility's position is that the move was not necessitated by the telephone company. The utility contends that there is no plan for expansion of the telephone company and the telephone company did not benefit from the move. According to the utility, the purpose was for ICO to house its personnel in its own building. ICO's intent was to do everything to separate itself from the operations of affiliated companies and to pay its own way. Costs that were incurred as a result of the move were reasonable and necessary. There were costs for a copier, a T-1 line and a telephone system. ICO stated that bids were received for the copier, which was purchased from an unrelated party. The utility states that the T-1 line was purchased from the related party's tariff. The telephone system was bid and bought for the best price, even though it was bought from a related party. ICO believes that it should stand on its own, that its personnel are now properly housed in an ICO facility and that the staff arguments are not appropriate.

Staff still maintains that the move was, in part, to allow the telephone company room to expand and the costs should be recovered from both the utility and the related telecommunications entities, ITS and ACI. Staff toured the facilities and observed the lack of space in the telephone company building. Even ACI, which has its own facilities for administration, uses the telephone company building for its electronic equipment. The main computer, which handles administrative functions for all Postco subsidiaries, is located within the telephone company building. Moving ICO administrative personnel to different locations away from the computer presents problems and increases operating costs. Further, the argument that the company wanted to separate itself from the affiliated operations is unsupportable. This case is full of related party transactions that are being considered by the Commission. For these reasons, staff still believes that the move benefitted more than ICO and the costs should be split as recommended. Given the move, the costs incurred for the copier, T-1 line and telephone system were reasonable and necessary and staff has not disputed the costs, just the allocation of these costs.

Office Improvements

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

Staff still believes that these improvements were not essential for the move because the move has occurred and the improvements have not been made. The offices occupied by utility personnel appear no worse that many of the offices in the telephone company building that they left. Staff has visited the utility's water plant office and we do not believe that $25,000 in estimated improvements is warranted at this time. Staff recommends that these pro forma costs not be recognized in this proceeding.

Summary

In summary, the arguments of the utility on this issue are not persuasive in light of staff's observations, nor do they present any significant new information or facts to change staff's opinion on this issue.

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

RECOMMENDATION: The appropriate amount of net deferred taxes for the test year is ~~$388,955~~ $122,969. This amount should be specifically identified in the capital structure and not be subject to a pro rata adjustment. (MERCHANT, B. DAVIS)

STAFF ANALYSIS: At the agenda, the utility took the position that the deferred income taxes recognized in the capital structure should be offset by the utility's investment in taxes on CIAC. The amount of deferred taxes in the capital structure should be $149,456 before adjustment for non-used and useful and pro forma plant. Staff notes that this offset was not made in the utility's filing.

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

Staff agrees that the amount of deferred income taxes included in the utility's capital structure was an abnormally high ratio. Staff also agrees that used and useful credit deferred taxes should be offset by debit deferred taxes related to the utility's investment in taxes paid on CIAC before the utility began the gross-up on CIAC. This netting is consistent with Rule 25-30.433(3), Florida Administrative Code. Staff has examined the amount of CIAC collected by Indiantown from 1987 to 1993 using the worksheets provided by the utility at the September 5, 2000, Agenda Conference. The utility also made some collections during 1995 and 1996 before the gross-up tariffs were implemented. There are also debit deferred taxes for receivable accounts. In the original recommendation, staff recommended that credit deferred taxes of $388,955 be included in the capital structure which did not include the offsetting debit deferred taxes. Staff agrees with the utility that the net of the debit and credit deferred income taxes is $149,456 before adjustment for non-used and useful and pro forma plant. After adjustment for non-used and useful and pro forma plant the balance of deferred income taxes would be $122,969.

Based on the information presented by the utility and staff's additional calculations, staff now recommends that the Commission should recognize net deferred income taxes in the amount of $122,969 in the capital structure.

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. (No Change) (QUIJANO)

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

A thorough study of time spent referred by the utility was not documented. Upon staff's request, the utility submitted its officers' calendars and a one-page listing of all its employees on every related company identifying the percentages these employees spent on each. Staff believes that the documentation was insufficient and that the utility failed to submit proper justification for its requested allocations for management fees. In addition to the utility's documents, staff further prepared various allocations and made comparisons with other utilities of the same size. Based on our analysis, staff again believes that it is appropriate to allocate 25% to Mr. Post and 33% to Mr. Leslie.

As for Mr. Diaz's allocated cost for training, travel, and other benefits, staff believes that the utility failed to submit proper support to justify its requested allocations. The training, travel, and other benefits were not originally requested in its MFRs but were added after the June 8 meeting with utility. Staff notes that the utility did not include any travel or training for any of the other employees included in the management fee but we have included health insurance and payroll taxes. Further, based on staff's analysis, the cost of other benefits for Mr. Diaz appears to be excessive compared to the benefits of other employees of the utility. Thus, without proper support and justification, staff believes it is not appropriate to allow these additional expenses.

Office of Public Counsel

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

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

In our review, staff has identified the items that needed further investigation and we believe that our analysis has thoroughly verified the components of the items. Although it appears that the O&M expenses are still over the benchmark after staff has carefully reviewed the items, staff believes that all necessary adjustments and allocations made to expenses are just and appropriate.

Summary

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 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 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. (No Change) (B. DAVIS)

STAFF ANALYSIS: The utility has expressed concerns about staff's recommended treatment of the $1 per bill charge from ITS to the utility for printing and mailing the convergent bills and receiving and processing the payments. The utility also contends that the $2.53 cost per bill is a necessary and reasonable cost.

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

Pro Forma Billing Service Costs

Staff agrees with the utility that a new billing system was necessary. Staff does not contest the costs incurred by the Postco companies for the billing service, as adjusted by the utility's experience with the system. Staff did, however, take issue with the allocation of these costs. The utility has not presented any evidence that staff's recommended allocation method is not fair and reasonable. Staff still recommends these costs be allocated to the participants in the convergent billing as recommended in the original recommendation.

$1 per Bill Charge from ITS

The $1 cost per bill for printing, mailing and collection was not supported other than the utility believes that it represents a fair share of the costs involved. The utility has no breakdown, nor even an estimate, of the costs involved. Using the utility allocations, allocating one third of the cost to each billing participant, the cost to process each bill would be imputed as \$3 per bill. Staff has recommended, in the original recommendation, that the allocation to ICO only be 24% of the total cost. Under that assumption, the allocated cost per bill should be no more than \$0.72.

Staff does not believe that \$3 per bill is a reasonable estimate of the cost of processing each bill. The cost of a stamp on each bill is thirty three cents. Staff believes that printing the bills should be no more than five cents, since commercial copy companies charge about five cents a copy for bulk copying, which includes the machine, paper and an operator. The same time and skills are involved in printing a bill, so the cost should be no more than 5 cents. The envelope is no more that one or two cents and the personnel folding and stuffing the envelope would bring this phase of the operation to approximately forty to fifty cents per bill. Receipt of the payment now involves one check and the processing costs should be minimal, no more that fifty cents per bill. Based on these estimates, the cost per bill should be approximately \$1 per bill, which agrees with the local accounting firm contacted by the utility. However, the \$1 per bill is charged for a convergent bill and has to be allocated between the participants. Using staff's recommended allocation, the cost to the utility for processing the bill by ITS should be no more than twenty five cents. Since no additional evidence was presented by the utility, staff continues to support the original recommendation of twenty five cents per bill.

In summary, staff agrees with the utility that the costs of the new billing service were reasonable and necessary, but the allocation of these cost was flawed. Staff has recommended a more reasonable allocation of these costs in the original recommendation and continues to support that recommendation. The \$1 per bill charge was not, and is not now, supported by evidence. Therefore, staff believes that our estimate of these costs in the original recommendation, of twenty five cents per bill, is a better approximation of the fair allocation of these costs.

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. (No Change) (MUNROE)

STAFF ANALYSIS: Indiantown objected to staff's recommendation that the sludge hauling expense should be decreased from $75,000 to $60,225. The company stated that they had more estimates.

The utility gave staff one estimate from a non-related company for $120,000. This estimate was more than 200% of the test year expense for sludge hauling and was not considered. The second estimate submitted by the utility of $75,000 was submitted by a related company. Staff believes that this represents an increase of 37% over test year sludge hauling expenses and is unreasonable. The utility stated at Agenda that they had other estimates but these were not provided to staff prior to the recommendation. In fact, they have still not been given to staff. Staff still recommends that a 10% increase over test year expenses which is more than the normal inflation index, is reasonable and that sludge hauling expenses of $60,225 should be allowed.

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. (No Change) (B. DAVIS, MUNROE)

STAFF ANALYSIS: The utility presented statements that the monthly lease payment of $2,100 per month is fair, even though it is an affiliated transaction. Staff's recommended lease payments of $6,000 annually is unreasonable.

Dedication to Public Service

The utility stated that when Mr. Post became owner of the utility he had to purchase 25.7 acres of undivided land in order to purchase the 8.3 acres where the percolation ponds are located. The utility argues that not to recognize the purchase price of more than $200,000 will ultimately cause hardship. If given a reasonable rental for the property, the new owner will devote the property to utility use on a long-term basis. It is ICO'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 financing arrangement.

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

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

Original Cost When Dedicated to Public Service

The utility has taken the position that the $6,000 annual lease payment recommended by staff is unreasonable because the land purchase was an arms-length transaction with a purchase price in excess of $200,000. The utility asserts that property taxes for the full value of the land will have to be paid out of the lease proceeds, making Mr. Post's return on his $200,000 investment wholly inadequate if staff's recommendation is approved. The utility believes that, at the time of the purchase, Flora Development and ICO were not related parties. The purchase price paid by Mr. Post was based on the developer's estimate of the development value of the land, considering its proximity to the canal connecting Lake Okeechobee with the Atlantic Ocean and the marina, in an arm's-length transaction. The lease price allows Mr. Post to recover his expenses and a reasonable profit. The purchase price also reflected that Mr. Post had to purchase the entire 25.7 acre tract since it could not be divided. Further, the utility argued that the real estate appraisal obtained by staff is based on grazing land and is not applicable to the land holding the percolation ponds. The original lease also has no bearing on the price of the land since it was a temporary lease and did not reflect the cost of the property.

Staff has taken the position that the land was first dedicated to public service when the ponds were constructed and the cost of the land should be evaluated at that time. At the time of construction, ICO and Flora were related parties, having common ownership and management. Flora set aside 8.236 acres of the 25.7 acre tract for the ponds and charged the utility $500 per month, on an annual lease, for use of the land. This indicates to staff that the developer was holding the remaining 17.464 acres for other purposes. Staff engineering has evaluated the ponds and believes that 8.236 acres is sufficient for the ponds. Staff engineering has also observed other utilities where the land adjacent to the percolation ponds was developed. Staff believes, when compared to the real estate agent's estimate of an appropriate lease cost, that the $500 per month lease for the 8.236 acres was reasonable. Appraising the land on its development value is not appropriate, since there is very little development in the Indiantown area.

When Mr. Post purchased the land, Flora and ICO had separate ownership, but still had common management, and staff believes they were still related. Staff believes that to classify the purchase as an arm's-length transaction is a stretch of the definition. Since the land was dedicated to public service prior to the purchase, the purchase should have no bearing on the cost to the utility of using the land.

Another analysis that staff conducted was to compare the total requested lease price of $2,100 per month for the total 25.7 acres with the portion of the monthly lease cost for the 8.236 acres used for the ponds. The portion of the monthly lease related to the ponds is $673 per month which indicates some inflation due to the purchase price. However, using the CPI growth factor from MFR Schedule B-8 shows that the expansion of the original lease would only be $551. Staff believes that the lack of development in the area should keep the price of land constant.

In summary, staff's position is that the land necessary for the percolation ponds is the 8.236 acres originally leased from Flora Development, a related party. This land was dedicated to public service in 1994 when the ponds were constructed. The lease on the land, at that time, was $500 per month. Due to the lack of development in the area, the value of the land should remain constant and, therefore, so should the lease. Staff recommends no change from its original recommendation.

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

RECOMMENDATION: The appropriate rate case expense for this docket is ~~$86,707~~ $92,277. This expense should be recovered over four years for an annual expense of ~~$21,677~~ $23,069. 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~~ $1,617 and ~~$794~~ $1,452 for wastewater per year. Amortization expense-other should be increased by $221, or $111 for water and $110 for wastewater. (MERCHANT, QUIJANO)

STAFF ANALYSIS:

Legal Fees

The utility disputes staff's recommendation to disallow the following: 1) weekly conference calls between Messrs. Nixon, Leslie, and Erwin; 2) legal costs for Indiantown backflow prevention devices; 3) and correcting MFRs deficiencies.

The utility states that it was necessary to have the weekly conference calls during the time to complete the MFRs and does not believe that it was excessive. Staff agrees with utility and does not contest the importance of conference calls. In fact, staff has allowed some of the conference calls made between the lawyer, utility, and accounting consultant toward the completion of the MFRs and in between the agendas. Staff disallowed specifically the 18.0 hours in June 1998 for rate planning. Staff believes that the calls were excessive because it took the utility 5 months from the approval of test year to the actual completion of the MFRs. A utility is normally given 3 months to complete its MFRs after test year approval. Staff believes that it has appropriately disallowed calls that were excessive.

The utility states that the legal fees incurred related to the Indianwood backflow prevention devices should be allowed in rate case expense because it was necessary to compute a possible pro forma adjustment on the annual inspection fee for devices acquired from Indianwood. Staff identified 8.2 hours or $1,107 in legal rate case expense for this activity. Staff believes that this costs was reasonable but should not be included in legal rate case expense. It should instead be added to the Indianwood litigation fees as a deferred debit to be amortized over five years.

Therefore, staff recommends that the amortization expense - others be increased by $221, or $111 for water and $110 for wastewater.

The utility also expressed its concern with staff's recommendation to disallow legal rate case expenses to correct deficiencies in the MFRs. The utility believes that the Commission is setting a perfection standard in its filing. The deficiencies identified by staff were not additional information but were minimum filing requirements in a normal rate case which are clearly stated in the Florida Administrative Code. The utility either did not provide the information requested or made errors in filing the schedules. The Commission has previously disallowed rate case expenses incurred to correct deficiencies. 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 utility could have called PSC staff if they had questions in completing the schedules of the MFRs. Staff believes that all expenses incurred to correct deficiencies should not be borne by the rate payers and therefore, should be disallowed.

Since this item was deferred for the next agenda on September 26, 2000, staff recommends an additional 12 hours or $1,620 in legal rate case expense to allow the lawyer's incurred expenses for September 5th Agenda Conference and to prepare the necessary documents needed for the next Agenda Conference set on September 26, 2000. This is the only additional adjustment being made by staff for the legal rate case expense.

Accounting Fees

The utility disputes staff's recommendation to disallow expenses incurred for filing additional MFRs or changes to MFRs in response to deficiency letter. The utility believes that the requested MFR revisions were not in error but were additional information requested by staff. Again, as mentioned earlier, the deficiencies requested by staff were not additional information but were specifically required in completing the schedules of the MFRs. Staff strongly believes that expenses incurred to correct deficiencies should not be borne by the rate payers and therefore, be disallowed.

The utility also disputes staff's recommendation to disallow conference calls which the utility believes were for June 6 and 7, 2000 conferences. In our recommendation, staff allowed the conferences on these dates. The conference calls disallowed by staff were incurred on October 1998 and February 1999. Staff believes that these conferences were at a very early stage in the rate case and should be disallowed. The MFRs were not filed until December 27, 1999, and the official date of filing was not established until March 7, 2000.

The utility disputes staff's recommendation to allow 4 hours out of the 26.5 hours to prepare the comparative balance sheets and remove end of year adjustments. The utility believes that the time spent is not excessive. Submitting the balance sheet for an historical test year should be simply a matter of taking the monthly account balances from the utility's books and records if the books and records are maintained according to NARUC Systems of Accounts. Staff believes that whatever problem the utility may have had to correct its books should not be borne by the rate payers.

The utility also disputes staff's recommendation to allow 22 out of the 42 hours spent to obtain and prepare the engineering schedules. The utility states that these hours are actual hours spent in obtaining the data needed in the schedules. Staff believes that the information should have been easily obtained or prepared by an in-house engineer or employee. Therefore, it should not have taken the accounting consultant 42 hours to consolidate and arrange the numbers for the schedule. Staff believes that 22 hours is appropriate as stated in our recommendation.

The utility disputes staff's recommendation to disallow 32 hours to change the MFRs. Further, the utility believes that the cost associated with the 32 hours is reasonable. The changes were done by the utility prior to filing the MFRS. Staff did not request these changes. According to the utility's records, it has spent a total of 419 hours or $51,124 in preparing the MFRs alone, excluding hours spent in correcting deficiencies. Staff believes that it is not appropriate to charge the rate payers additional expenses incurred by the utility to correct or change its MFRs.

The utility further disputes staff's recommendation to disallow expenses incurred to prepare schedules and analysis of the regulatory treatment of contributed taxes. The utility expressed that this is a big issue and should therefore be allowed in rate case expense. After thorough discussion between staff and utility, staff now recommends that the utility be allowed 8 hours from the requested 16 hours for this issue. Staff recommends that an additional $1,280 be allowed to increase accounting rate case expense.

Since this item was deferred, staff recommends that rate case expense should increased by an additional 12 hours for accounting fees. This is an estimate of $1,920 plus $350 in air fare. This will allow for Mr. Nixon's time to prepare and attend the next agenda set on September 26, 2000. Accounting rate case expense should be increased by $3,550.

Miscellaneous Rate Case Expenses

Staff recommends an additional $400 to cover the cost of air fare for Jeff Leslie to attend the next Agenda Conference set on September 26, 2000. Miscellaneous Rate Case Expense should be increased by $400.

Summary

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

	MFR ESTIMATED	UTILITY REVISED ACTUAL	REVISED STAFF ADJUSTMENTS	STAFF ADDITIONAL ESTIMATE	STAFF ADJUSTED BALANCE
Filing Fee	$4,000	$7,000	$0	$0	$7,000
Legal Fees	25,000	36,336	(10,803)	5,670	31,203
Accounting Fees	45,000	76,355	(41,080)	7,505	42,780
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)	2,650	7,918
Total Rate Case Expense	$80,000	$130,631	($54,179)	$15,825	$92,277
Annual Amortization	$20,000				$23,069

The recommended allowable rate case expense is to be amortized over four years, pursuant to Section 367.0816, Florida Statutes, at $23,069 per year. Based on the data provided by the utility and the staff recommended adjustments discussed above, staff recommends that the rate case expense should be increased by $3,069. This is the difference between the $23,069 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 $1,617 and $1,452 for wastewater per year.

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~~ increased by ~~$2,153~~ $13,265 for water and ~~$9,859~~ $7,892 for wastewater. (QUIJANO)

STAFF ANALYSIS: The utility disputes staff's recommendation that real estate taxes should be allocated as 95% water and 5% wastewater. Also, the utility disputes staff's recommendation that personal property taxes should be allocated on original cost rather than fair market value. The utility further assets that staff's original recommendation erroneously states that this is Commission policy. Lastly, the utility requests that contributed property be included in computing the personal property tax expense because the county does assess taxes on contributed assets.

Real Estate Taxes

The staff auditor states that during the last audit in 1994, the utility's plant manager recommended a tax bill allocation of 85% to water, 5% to wastewater, and 10% to non-utility assets. The utility explained that these percentages used by staff were during the time when the refuse/roll-off were still occupying the water plant. In the past few years, these operations have been moved to a separate location. The utility did not however specify when the move took place. The utility stated that the proper allocation of real estate taxes should be 95% for water and 5% for wastewater. Staff requested that the utility produce a separate tax bill for the refuse/roll-off. However, the utility stated that there was no separate tax bill because the refuse/roll-off leases a storage area. Without proper proof that the non-utility items were not included in the tax bill, staff believes that the utility's recommended allocation is not justified. Staff still believes that the appropriate allocation for real estate tax is $7,460 for water and $5,889 for wastewater.

Personal Property Taxes

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

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

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

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

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

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

ISSUE 33A: Should Indiantown Company, Inc. be ordered to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Order No. PSC-99-0367-FOF-WS, issued February 22, 1999, in Docket No. 981612-WS, by failing to adhere to its approved convergent billing methodology?

RECOMMENDATION: No. A show cause proceeding should not be initiated. If the utility seeks the discretion to provide a separate billing for each service when a customer requests it, then the utility should file a request seeking authorization to do so. Until such authorization is granted, the utility should discontinue its current practice of providing separate billing for each service to customers who request it. (CHRISTENSEN)

STAFF ANALYSIS: As indicated in Issue 19 of staff's recommendation filed August 24, 2000, by Order No. PSC-99-0367-FOF-WS, issued February 22, 1999, in Docket No. 981612-WS, Indiantown was required to use convergent billing for its water and wastewater customers when these customers also receive their telephone service from its affiliated phone company. According to Order No. PSC-99-0367-FOF-WS at page 2, Indiantown indicated that under the tariffs for convergent billing "all utility services delivered to a customer will be itemized on one bill." (emphasis added).

Pursuant to Order No. PSC-99-0367-FOF-WS, Indiantown was to commence convergent billing upon the stamped approval date of the tariff sheets and provide a report to staff regarding customer reaction to convergent billing within twelve months of the issuance date of the Order. The convergent billing tariff sheets were approved on March 1, 1999.

In a letter dated February 23, 2000, in compliance with the Order, Indiantown reported on customer reaction to the convergent billing and indicated that approximately 10-12 customers insisted on receiving separate bills. However, Indiantown also indicated that upon its own initiative, the company began billing these individual customers separately for each of their utility services. In addition, Indiantown stated that it was continuing to bill its utility services separately for those customers who requested separate billing.

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

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

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

For the foregoing reasons, staff does not believe that the apparent violation of Order No. PSC-99-0367-FOF-WS rises in these circumstances to the level which warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order Indiantown to show cause within 21 days why is should not be fined for its apparent violation of Order No. PSC-99-0367-FOF-WS by failing to adhere to its approved convergent billing methodology. If the utility seeks the discretion to provide a separate billing for each service when a customers requests it, then the utility should file a request seeking authorization to do so. Until such authorization is granted, the utility should discontinue its current practice of providing separate billing for each service to customers who request it.

ISSUES THAT WILL CHANGE AS A CONSEQUENCE OF THE CHANGES ABOVE

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

RECOMMENDATION: The appropriate amount of working capital is ~~$51,221~~ $51,312 for water and ~~$73,318~~ $73,400 for wastewater based on the formula approach. This is a decrease of ~~$11,201~~ $11,110 for water and ~~$18,465~~ $18,383 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~~ $604,240 for the water system and ~~$978,814~~ $978,896 for the wastewater system. (QUIJANO)

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

STAFF ANALYSIS: The appropriate overall rate of return should be ~~7.04%~~ 8.63%, with a range of ~~6.46% to 7.62%~~ 7.91% to 9.35%. (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%~~ 8.63% and a monthly discounted rate of ~~0.586256%~~ 0.718833% for Indiantown effective July 1, 1999, based on the June 30, 1999, capital structure developed in this docket. (B. DAVIS)

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~~ $7,706 for water and ~~$10,133~~ $12,484 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~~ $16,357 and ~~$94,182~~ $102,215 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~~ $609,543	~~$85,470~~ $115,002	~~17.28%~~ 23.25%
Wastewater	~~$831,026~~ $870,667	~~$273,786~~ $313,427	~~49.13%~~ 56.25%

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~~ $590,331, which is the ~~$580,011~~ $609,543 revenue requirement less $19,212 in miscellaneous revenue. The recommended wastewater rates should be designed to produce annual operating revenues of ~~$830,770~~ $870,411 which is the ~~$831,026~~ $870,667 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)

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	(11,110)	51,312
RATE BASE	$493,703	$131,906	$625,609	($21,369)	$604,240

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	(18,383)	73,400
RATE BASE	$653,899	$345,473	$999,372	($20,476)	$978,896

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

SCHEDULE 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 adjustment	$0	$14,426
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	($11,110)	($18,383)

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	($363,411)	$280,262	17.70%	9.50%	1.68%
10 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
11 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
12 COMMON EQUITY	4,818,363	(2,215,845)	(1,469,354)	1,133,164	71.58%	9.46%	6.77%
13 CUSTOMER DEPOSITS	46,741	0	0	46,741	2.95%	6.00%	0.18%
14 DEFERRED INCOME TAXES	713,164	(590,195)	0	122,969	7.77%	0.00%	0.00%
15 DEFERRED ITC'S	0	0	0	0	0.00%	0.00%	0.00%
16 **TOTAL CAPITAL**	$5,837,384	($2,421,483)	($1,832,765)	$1,583,136	100.00%		8.63%

	LOW	HIGH
RETURN ON EQUITY	8.46%	10.46%
OVERALL RATE OF RETURN	7.91%	9.35%

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	$115,002 23.25%	$609,543
	OPERATING EXPENSES:							
2	OPERATION & MAINTENANCE	$605,699	($106,319)	$499,380	($88,880)	$410,500		$410,500
3	DEPRECIATION-LESS CIAC	39,170	12,092	51,262	(832)	50,430		50,430
4	AMORTIZATION (Other)	0	5,947	5,947	(501)	5,446		5,446
5	AMORTIZATION (Contributed Taxes)	0	0	0	(3,388)	(3,388)		(3,388)
6	TAXES OTHER THAN INCOME	58,189	14,578	72,767	4,144	76,911	5,175	82,086
7	INCOME TAXES	0	16,443	16,443	(45,444)	(29,001)	41,328	12,327
8	TOTAL OPERATING EXPENSES	$703,058	($57,259)	$645,799	($134,901)	$510,898	$46,503	$557,401
9	OPERATING INCOME	($216,188)	$267,613	$51,425	($67,782)	($16,357)	$68,499	$52,142
10	RATE BASE	$493,703		$625,609		$604,240		$604,240
11	RATE OF RETURN	-43.79%		8.22%		-2.71%		8.63%

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	$313,427 56.25%	$870,667
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	$723,387	$10,879	$734,266	($147,065)	$587,201		$587,201
3 DEPRECIATION LESS CIAC AMORT	72,823	(2,824)	69,999	49	70,048		70,048
4 AMORTIZATION (Other)	0	5,947	5,947	2,297	8,244		8,244
5 AMORTIZATION (Contributed Taxes)	0	0	0	(2,545)	(2,454)		(2,454)
6 TAXES OTHER THAN INCOME	70,889	31,270	102,159	(13,079)	89,080	14,104	103,184
7 INCOME TAXES	0	28,738	28,738	(121,402)	(92,664)	112,635	19,971
8 **TOTAL OPERATING EXPENSES**	$867,099	$74,010	$941,109	($281,654)	$659,455	$126,739	$786,194
9 **OPERATING INCOME**	($323,000)	$405,148	$82,148	($184,363)	($102,215)	$186,688	$84,473
10 **RATE BASE**	$653,899		$999,372		$978,896		$978,896
11 **RATE OF RETURN**	-49.40%		8.22%		-10.44%		8.63%

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

SCHEDULE 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 Expense	(5,355)	(5,355)
6 Issue 17 Contractual Accounting	(7,790)	(7,790)
7 Issue 18 Vehicle Expense	(795)	(795)
8 Issue 19 Billing Costs	(19,148)	(19,149)
9 Issue 20 DEP Required Expenses	0	(25,900)
10 Issue 21 Indianwood Maintenance	(11,400)	(11,400)
11 Issue 22 Sludge Removal	0	(14,775)
12 Issue 23 Percolation Pond Lease	0	(20,964)
13 Issue 24 Repression	(2,665)	(3,490)
14 Issue 25 Rate Case Expense	1,617	1,452
Total	($88,880)	($147,065)
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
3 Issue 25 Indianwood Backflow Prevention Devices	111	110
Total	($501)	$2,297
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	13,265	7,892
Total	$4,144	($13,079)
INCOME TAXES		
1 To adjust to test year income tax expense	($37,738)	($108,784)
2 Issue 28 Parent Debt Adjustment	(7,706)	(12,484)
Total	($45,444)	($121,402)

INDIANTOWN COMPANY, INC.
WATER MONTHLY SERVICE RATES
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	$9.81
1"	$18.86	$21.21	$31.75	$24.51
1-1/2"	$37.73	$42.43	$63.50	$49.03
2"	$60.36	$67.87	$101.60	$78.44
3"	$113.16	$127.25	$190.50	$147.08
4"	$188.60	$212.08	$317.50	$245.13
6"	$377.22	$424.18	$635.00	$490.25
8"	$603.54	$678.68	$1,016.00	$784.41
8" Turbine	$679.00	$763.54	$1,143.00	$882.46
Gallonage Charge, Per 1000 gallons	$1.08	$1.21	$1.43	$1.45
Private Fire Protection				
Base Facility Charge:				
Meter Size				
2"	$20.53	$23.09	$8.47	$6.54
3"	$38.49	$43.28	$15.88	$12.26
4"	$64.15	$72.14	$26.46	$20.43
6"	$128.31	$144.28	$52.92	$40.85
8"	$205.30	$230.86	$84.67	$65.37
Public Fire Protection (Annual Charge)	$76.93	None	None	None
Typical Residential Bills				
5/8" x 3/4" Meter Size				
3,000 Gallons	$10.78	$12.11	$16.99	$14.16
5,000 Gallons	$12.94	$14.53	$19.85	$17.06
10,000 Gallons	$18.34	$20.58	$27.00	$24.31

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

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

	Utility Rates As of 6/30/99	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final
Residential				
Base Facility Charge:				
All meter sizes	$12.73	$16.95	$21.12	$16.16
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$1.88	$2.50	$3.64	$3.49
General Service				
Base Facility Charge:				
Meter Size				
5/8" x 3/4"	$12.73	$16.95	$21.12	$16.16
1"	$31.81	$42.36	$52.80	$40.41
1-1/2"	$63.60	$84.69	$105.60	$80.82
2"	$101.75	$135.49	$168.96	$129.32
3"	$190.79	$254.06	$316.80	$242.47
4"	$317.98	$423.42	$528.00	$404.12
6"	$635.96	$846.84	$1,056.00	$808.24
8"	$1,017.53	$1,354.94	$1,689.60	$1,292.18
8" Turbine	$1,144.72	$1,524.31	$1,900.80	$1,454.83
Gallonage Charge, per 1,000 Gallons	$1.88	$2.50	$4.28	$4.19
Typical Residential Bills				
5/8" x 3/4" meter				
3,000 Gallons	$18.37	$24.45	$32.04	$26.63
5,000 Gallons	$22.13	$29.45	$39.32	$33.61
10,000 Gallons	$24.01	$31.95	$42.96	$37.10
(Wastewater Gallonage Cap - 6,000 Gallons)				