

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

SEPTEMBER 26, 2000

RE: DOCKET NO. 990939-WS - Application for rate increase in Martin County by Indiantown Company, Inc. (Deferred from the 9/5/00 Commission Conference and supplemental recommendation filed.)

(\* = Issues in the Supplemental Recommendation are 2, 5, 10, 15, 19, 22, 23, 25, 27 and 33A. Issues that will change as a consequence of the Supplemental Recommendation are 7, 8, 12, 13, 28, 29, 30, and 32.)

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.

**APPROVED**

COMMISSIONERS ASSIGNED: Full Commission

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

*[Handwritten signatures in the majority column]*

*[Handwritten signature in the dissenting column]*

REMARKS/DISSENTING COMMENTS:

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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)

**APPROVED**

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.

**APPROVED**

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.

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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)

**APPROVED**

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.

**APPROVED**

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.

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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.

**APPROVED**

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.

**APPROVED**

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.

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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.

**APPROVED**

Issue 12\*: What is the appropriate overall rate of return?

Recommendation: 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%.

**APPROVED**

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.

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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.

**APPROVED**

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)

**APPROVED**

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.

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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.

**APPROVED**

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.

**APPROVED**

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)

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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.

**APPROVED**

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.

**APPROVED**

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)

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**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)

**APPROVED**

**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.

**APPROVED**

**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.

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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.

**APPROVED**

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.

**APPROVED**

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.

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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.

**APPROVED**

Issue 30\*: What is the total revenue requirement?

Recommendation: The following revenue requirements should be approved:

	<u>TOTAL</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
Water	<u>\$580,011</u>	<u>\$85,470</u>	<u>17.28%</u>
	<u>\$609,543</u>	<u>\$115,002</u>	<u>23.25%</u>
Wastewater	<u>\$831,026</u>	<u>\$273,786</u>	<u>49.13%</u>
	<u>\$870,667</u>	<u>\$313,427</u>	<u>56.25%</u>

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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.

**APPROVED**

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.

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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.

**APPROVED**

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.

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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.

**APPROVED**