State of Florida

ORIGINAL

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: January 20, 2005

TO: Division of the Commission Clerk and Administrative Services

FROM: Division of Economic Regulation (Fletcher) ~~JBS~~

RE: Docket No. 040450-WS – Application for rate increase in Martin County by Indiantown Company, Inc.

Please file the attached letter, from Mr. Frank Seidman, dated January 14, 2005, in the docket file for the above-referenced docket.

Enclosure

CMP _____
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RCA _____
SCR _____
SEC 1
OTH _____

P.O. Box 13427
Tallahassee, FL 32317-3427
Phone or Fax (850) 877-0673
e-mail: frankden@nettally.com

Management & Regulatory Consultants, Inc.

January 14, 2005 Hand Delivered

Mr. Bart Fletcher
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Indiantown Company, Inc.
Docket No. 040450-WS
Supplemental Response to Staff's First Data Request

Dear Mr. Fletcher:

On behalf of Indiantown Company, Inc. I have enclosed a supplemental response related to Items, 5, 6 and 9 of Staff's First Data Request. The basis for the supplemental response is explained in its introduction.

Please contact me if you have any questions.

Very truly yours,

Frank Seidman

cc: Jeffrey Leslie, w/enclosures
Jim Hewitt, w/enclosures
David Erwin, w/enclosures
Robert Nixon, w/enclosures
Scott Eckler, w/enclosures

Indiantown Company, Inc. (ICI) January 14, 2005
Docket No. 040450-WS
Supplemental Response to PSC Staff's First Data Request

A. Introduction

Section B of the Staff's First Data Request addressed issues related to used and useful. ICI has timely responded to that request. However, upon further review of the request, in conjunction with the concerns raised regarding used and useful of the wastewater plant in Interim Order No. PSC-04-1265-PCO-WS, ICI believes additional information is necessary for proper evaluation. ICI submits this supplemental response for that purpose.

Items 5, 6 and 9, under Section B of Staff's First Data Request all address issues related to the wastewater plant. However, these items do not directly address the issues raised in Order No. PSC-04-1265-PCO-WS in such a manner as to allow for a proper evaluation of used and useful for the wastewater treatment plant (WWTP).

As noted in Order No. PSC-04-1265-PCO-WS, events took place during 2003 that affected wastewater flows. ICI has reviewed the test year flows as well as historic flows and has utilized its findings to reevaluate its determination of WWTP used and useful. ICI's conclusion supports the 100% used and useful presented in its filing.

B. Evaluation of Wastewater Flows

ICI reviewed historical and test year wastewater flows and conditions and the relationship to water sales.

The most significant factor was the previously reported demolition of county owned housing developments within the ICI service area. The water service to those properties had been turned off for some time and, therefore, ICI was no longer aware of any activity at those locations. But, sometime during 2003, the county demolished the housing units on these properties without contacting ICI. Apparently, in the process of demolition, the wastewater lines and services were broken up leaving them exposed as entries for infiltration into the wastewater collection system. ICI did not become aware of this until after the fact, but once it did become aware, it acted to correct the situation. The corrections did not take place during 2003, so flows during the test year include any infiltration resulting therefrom. Flows in prior years were not affected by this event and the historical data for those years are considered accurate.

ICI has adjusted the 2003 wastewater flows to correct for these inadvertent and nonrecurring infiltration flows. This was done by evaluating inflow & infiltration (I&I) to determine a baseline for acceptable flows and reducing 2003 test year flows by the excess I&I.

As shown on Table 1, attached, ICI experienced 14.1 million gallons of excess I&I during 2003. Assuming these excessive flows primarily resulted from lines broken during the demolition of homes, and assuming that the demolition occurred beginning no earlier than March 2003, then the effects on monthly flows can be estimated based on its coincidence with the occurrence of rainfall. On that basis, monthly flows for 2003 can be restated as follows:
Wastewater Flows Adjusted for Excess Infiltration (000,000's)

	Per MFR, F-2	Adjusted
Jan	14.97	14.97
Feb	13.43	13.43
Mar	16.56	14.88
Apr	15.55	14.94
May	15.77	14.22
Jun	17.54	15.18
Jul	17.75	16.22
Aug	27.38	24.17
Sep	19.68	18.02
Oct	19.45	19.02
Nov	16.56	15.95
Dec	16.56	16.11
Total	211.20	197.11

In addition to the on-time infiltration from the condemned property sites, it is also noted that in some months treated flows may be greater than water sold simply because of rainfalls in excess of average year flows because rain falling directly into the treatment tank will increase measured treated flows. In at least the test year and the previous two years, annual average rainfall has exceeded historic averages by 12 to 40 inches per year. These excess have been concentrated in just 2-3 month periods. The greatest excesses experienced range from 5 to 13 inches in a single month.

C. Effects on Used and Useful (U&U)

1. The adjustment of the annual and monthly wastewater flows affects the mathematical calculation of WWTP used and useful because the three-month maximum average daily flow (3MMADF) is also affected. For the test year, the 3MMADF drops from the 724,000 gpd reported in MFR. F-4 (page 124 revised) to 634,000 gpd, adjusted for excess infiltration.

2. Historical growth also has an impact on used and useful. Growth was not addressed as a factor in the MFR because, with a calculated 97% U&U, it was not relevant. However, with

recognition of the adjusted wastewater flows it does become relevant. Historically, growth in the service are has been minimal, but it does exist and is officially recognized as a factor in the Upper East Coast Water Supply Plan (UEC Plan) submitted to the SFWMD. The plan uses the medium range forecast published by the Bureau of Economic and Business Research for 2002. The plan's shows population increasing for the ICI service area from 5,252 in 2002 to 6,193 in 2025. This is an annual average increase of 37.64 for 25 years, or 10.75 households per year assuming 3.5 person per household. This rate of growth is consistent with that of ICI and was used in the last rate case. The U&U calculation using this growth rate is shown in Table 2, attached.

3. In addition to recognizing the ongoing historic rate, recognition must also be given to the plans recently announced in local newspapers (TCPalm.com, George Andreassi, 1/9/05) that are being considered by reputable developers. Centrex Homes of Boynton Beach has proposed 1,079 homes on two sites in the Indiantown Community Redevelopment Area (ICRA) and is considering developing other sites which, including the ICRA development, which could total as much as 4,000 to 5,000 units. In addition, five other developers have proposed building another 600 homes. ICI realizes that these proposals are speculative and if carried out would not put requirements on the system until approximately 2007. But, even considering a 25 year development period beginning in 2007, that is an additional 224 homes per year. This new interest in development is not supported by historical trends, but it is driven by the increased interest in the Scripps Research Institute to be located in northern Palm Beach County. The U&U calculation using this growth rate is also shown in Table 2, attached.

Consideration of the factors discussed above, consideration of the numerous daily flows in excess of 1.0 mgd, as indicated in MFR, F-6 (page 127), and consideration of the economies of scale benefits associated with the size plant actually constructed in 1982, all support the conclusion that the WWTP is 100% used and useful as indicated in MFR, F-6 (page 127).

Indiantown Company, Inc. (ICI)
Docket No. 040450-WS
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TABLE 1

Indiantown Company, Inc.
Evaluation of Inflow & Infiltration (I&I) - 2003

A. Infiltration allowance, excluding service laterals

	Main dia. inches	Main length feet	Main length miles	Allowance @ 500 gpd/inch-dia./mile gpd	gpy
1	6	1,065	0.202	605	
2	8	55,362	10.485	41,941	
3	10	9,375	1.776	8,878	
4	15	2,400	0.455	3,409	
5	Total	68,202	12.917	54,833	20,014,028
6	Estimated Inflow @ 10% of flows (1.11)				19,470,100
7	Allowable I&I				39,484,128

B. Actual Inflow & Infiltration (I&I)

8	Wastewater treated			211,200,000
	Water Gallons	Sold to WW Cust.	Estimated returned	
9	Residential	157,317,000	80%	125,853,600
10	GS & Multi Master Metere	37,384,000	85%	31,776,400
11	Estimated flows returned	194,701,000		157,630,000
	Source: Billing Analysis			

12	Estimated I&I (treated less returned) [1.8-1.11]	53,570,000
13	Actual less allowable [1.12-1.7]	14,085,872
14	Excess, if any [1.12-1.7, if positive]	14,085,872
15	Excess as percent of wastewater treated	6.67%
16	Adjusted Annual Wastewater Treated [1.8 - 1.14]	197,114,128

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TABLE 2

Calculation of Used & Useful

	a. Based on Historical Growth		
1	Permitted capacity, Three month average daily flow (TMADF)	750,000	gpd
2	Highest TMADF	634,000	gpd
3	Property Needed (PN), historical basis [1.16 x 1.18]	17,274	gpd
4	Total Demand	651,274	gpd
5		86.84%	
	b. Based on Future Growth		
6	Permitted capacity, Three month average daily flow (TMADF)	750,000	gpd
7	Highest TMADF	634,000	gpd
8	Property Needed (PN), historical basis [1.16 x 1.21]	154,343	gpd
9	Total Demand	788,343	gpd
10		105.11%	

Calculation of Property Needed to serve five years after test year (PN)

	a. Basis:		
11	Wastewater billed to residential customers in TY =	157,317,000	gallons
12		431,005	gpd
13	Residential customers	1,576	
14	gpd/erc	274	
15	TMADF/ADF ratio	1.175	
16	TMADF per ERC	321	
	b. Historical Customer Growth		
17	Historical annual growth - customers per year	10.75	
18	- 5 years	53.75	
	c. Historical and Speculative Customer Growth		
19	Historical annual growth - customers per year, 2004-2006,	10.75	
20	plus speculative growth - customers per year, 2007-2008	224	
21	- 5 years	480.25	