

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for rate increase in Martin
County by Indiantown Company, Inc.

DOCKET NO. 040450-WS
ORDER NO. PSC-05-0624-PAA-WS
ISSUED: June 7, 2005

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON
LISA POLAK EDGAR

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN WATER AND WASTEWATER RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that, except for the four-year rate reduction and the requirement to provide proof of adjustments, the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. Background

Indiantown Company, Inc. (Indiantown or utility) is a Class B utility providing water and wastewater service to approximately 1,806 water and 1,686 wastewater customers in Martin County. In addition to the regulated water and wastewater operations, the utility also has unregulated refuse and roll-off operations. Also, Indiantown Telephone System, Inc. (ITS), a sister company, performs administrative functions for the utility. Indiantown is a wholly-owned subsidiary of Postco, Inc. (Postco). Further, several employees, including Mr. Robert Post (President of Postco, ITS, and Indiantown), Mr. Jeff Leslie (Vice-President of Postco, ITS, and Indiantown), and Mr. William Hannah (Special Projects Manager for ITS and Indiantown), spend time on regulated and non-regulated activities and their time must be allocated accordingly.

Water and wastewater rates were last established for this utility by Order No. PSC-00-2054-PAA-WS, issued October 27, 2000, in Docket No. 990939-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

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On August 18, 2004, Indiantown filed its Application for Rate Increase in the instant docket. However there were several deficiencies in the Minimum Filing Requirements (MFRs), and the utility corrected those deficiencies on November 2, 2004, which was established as the official filing date. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure set forth in Section 367.081(8), Florida Statutes (F.S.). Pursuant to that section, at the expiration of five months following the official filing date, if this Commission has not taken action or, if the Commission's action is protested by a party other than the utility, the utility may place its requested rates into effect under bond, escrow, or corporate undertaking subject to refund, upon notice to the Commission and upon filing the appropriate tariffs. Indiantown also requested interim rates pursuant to Section 367.082, F.S. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2003.

By Order No. PSC-04-1265-PCO-WS, issued December 21, 2004, in this docket, we approved an interim revenue increase of \$56,022 (or 9.17%) for water and \$93,702 (or 10.76%) for wastewater.

The utility requested final rates designed to generate annual water revenues of \$801,014 and wastewater revenues of \$1,209,823. This would have been a revenue increase of \$189,765 (31.05%) for water and \$338,771 (38.89%) for wastewater.

By letter dated February 14, 2005, Indiantown initially extended the five-month statutory deadline for the consideration of its requested final rates to April 19, 2005. On April 13, 2005, the utility requested a deferral of staff's original recommendation filed on April 7, 2005, in order to provide additional information on the recommended sludge removal expense adjustment. Indiantown extended the statutory deadline to June 14, 2005. Upon further review, our staff did not take issue with the MFR amount of sludge removal expense and that issue was deleted.

This order addresses Indiantown's requested final rates. We have jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

II. Quality of Service

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, this Commission shall determine the overall quality of service provided by the utility by evaluating: (1) the quality of the product; (2) the operating conditions of the plant and facilities; and (3) the utility's attempt to address customer satisfaction.

A. Quality of the Product

Based on our staff's review of both the utility and the Department of Environmental Protection's (DEP) records and communications with DEP staff, it appears that the finished product of the wastewater treatment plant complies with regulatory standards. However, according to DEP, the utility's lab results indicate that the Total Trihalomethanes (TTHM) levels for the finished water product exceeded the maximum contaminant levels (MCL).

Trihalomethanes are the result of chlorine interacting with organics in water. On February 23, 2005, the utility, in a response to a staff data request, indicated that it would be converting from its existing chlorine disinfection system to a chloramine system. Chloramines consist of two chemicals (chlorine and ammonia). The utility believes that the change in the disinfection method will reduce its TTHM level to meet DEP regulatory standards.

Although the quality of the finished product for water exceeds the MCL for TTHM, it appears that the utility has begun to take the necessary steps toward resolving its TTHM issue. Based on the above, we find that the quality of the finished product for both water and wastewater treatment plants shall be considered satisfactory.

B. Operating Conditions of the Water and Wastewater Facilities

Based on the DEP inspection, our staff's field inspection, and other investigations, the wastewater utility plant does not comply with DEP environmental regulatory standards. The DEP wastewater inspector inspected the plant on February 23, 2005, and found that the facility was out of compliance. He stated that, "[a]ll of the pits that were formerly the sludge drying beds contained solids which must be removed and disposed of properly. This deficiency was noted during the last inspection." The utility has not yet removed the solids, resulting in pits with direct discharge to groundwater. In addition, the inspector stated that, "[o]ne of the sludge drying beds has been receiving effluent discharges during the flushing of the chlorine contact chamber."

Since the February 23, 2005 inspection, DEP has issued a "NOTICE OF NONCOMPLIANCE" to the utility. Indiantown has 15 days to respond with documentation that the deficiencies have been corrected or with a plan for achieving compliance.

In addition, our staff believes that the test-year plant flow records of both plants (water and wastewater) have erroneous data. For example, the water treatment plant's records indicated that in ten out of the twelve months of the test year, the gallons of water sold were greater than the finished water pumped. The wastewater plant's records indicated that in five out of the twelve months of the test year, the gallons of wastewater treated were greater than the gallons of water sold. This erroneous data was a clear indication that the utility was not monitoring its plants' flow meters or analyzing the data, which could result in lost revenue and possible excessive expenses, which could be passed onto its customers.

According to the utility, it has addressed the problem by purchasing new water plant flow meters and calibrating all of the other plant meters. In addition, the utility stated that, in the past, no individual was assigned the task of monitoring and analyzing the flow data; and that Indiantown's assistant superintendent will be charged with these responsibilities.

Based on the above, we find that the operating condition of both the water and wastewater facilities shall be considered unsatisfactory.

C. The Utility's Attempt to Address Customer Satisfaction

Our staff reviewed the customer complaint logs of the utility, DEP, and the Commission. In its MFRs, the utility listed 101 customer complaints that were received by the utility during the test year. Those complaints related to "high water use-check meter for leaks." Our staff reviewed the utility's records, and it appears that all of the customer complaints were handled properly. Our staff also reviewed the DEP records and found no customer complaints on file.

Our own records indicate that six complaints were received from the utility's customers during the last five years (October 2000 to January 2005). These complaints concerned high bills, improper bills, and quality of service. Again, our staff reviewed the utility's records, and it appears that the complaints were handled in a proper and timely manner.

On January 12, 2005, our staff conducted a customer meeting in the utility's service territory in Indiantown, Florida. Of the nine persons that attended the meeting, five people spoke. The customers' primary concerns were low water pressure, the gallonage cap on wastewater rates, possible water contamination, and meter readers not reading their meters. Our staff requested a written response from the utility regarding the concerns expressed by the residents at the customer meeting. The utility's response is as follows:

- 1) Pressure - A representative from the utility visited the residence of Ms. Laura Groomes, Mrs. Deninger, and Mr. Matson. The water pressure readings were 70, 65, and 65, pounds per square inch, respectively. In addition, a utility representative visited Ms. Eckels home and was unable to determine why she had a problem with the toilet and no problems with any of her other appliances. Further, in its response, the utility stated that it would respond promptly to any allegations of low water pressure and would investigate each complaint. Indiantown stated that if development occurs close to the Indianwood community in the future it would, if necessary, loop the system.
- 2) Gallonage Cap on sewer – The utility's response was that it would leave the issue of rate structure to the Commission.
- 3) Contamination - The utility stated that it would continue to provide DEP required notices to customers. In addition, it would take timely water samples and file all reports due to DEP. If, after the third quarter of sampling, the changes in methodology and flushing have not achieved the desired results, it would take further corrective action, as appropriate.
- 4) Meter reading – According to Indiantown, Mr. Hewitt, the plant superintendent, showed Ms. Eckel how the meter readers scrape off any dirt or debris in order to read the meters. In addition, he explained that the meters are below ground, and there is usually some dirt or debris on top, but this does not interfere with obtaining an accurate reading.

Based on the above, it appears that the utility promptly handles its customer’s complaints, and we find that the utility’s response to customer complaints shall be considered satisfactory.

D. Summary

Based on our staff’s review, the quality of the finished water exceeds the MCL for TTHM. However, the utility is actively attempting to address the water product problem regarding its TTHM exceeding the MCL. The wastewater treatment facility’s finished product does comply with DEP’s standards; however, the utility’s plant’s operating conditions do not comply due to its failure to remove solids in the sludge drying beds. Also, the test-year plant flow records of both the water and wastewater plants have erroneous data, which demonstrated that the utility was not monitoring its plants’ flow meters or analyzing the data. Based on these deficiencies, the operating conditions of both the water and wastewater facilities shall be considered unsatisfactory. It appears that the utility did not attempt to comply with the DEP mandate regarding the removal of the sludge drying beds. Therefore, the utility’s overall quality of service shall be considered marginal. The utility shall make all DEP required corrections to its water and wastewater treatment facilities.

III. Rate Base

A. Stipulated Rate Base Adjustments

Our staff auditors recommended the following rate base adjustments.

<u>Audit Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
1. Remove unused wireless equipment– Exception No. 1		
Decrease Plant (Account No. 340)	(\$3,120)	0
Decrease Accumulated Depreciation	\$260	0
2. Computer Retirements and Reclassifications – Exception No. 3		
Decrease Plant (Accounts Nos. 340 and 390)	(\$9,830)	(\$2,819)
Decrease Accumulated Depreciation	\$6,563	\$6,086

<u>Audit Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
3. Vehicle Retirements – Exception No. 4		
Decrease Plant (Accounts Nos. 341 and 391)	(\$38,059)	(\$7,533)
Decrease Accumulated Depreciation	\$36,859	\$6,608
4. Correct Amortization of CIAC – Exception No. 5		
Increase Accumulated Amortization of CIAC		\$3,030
5. Pro Forma Vehicle Purchased in 2004 – Exception No. 9		
Increase Plant (Accounts Nos. 341 and 391)	\$1,875	\$5,625
Increase Accumulated Depreciation	(\$156)	(\$469)
6. Correcting Depreciation Rate for Account 304 – Disclosure No. 4		
Increase Accumulated Depreciation	(\$478)	
7. Capitalizing Items Expensed – Disclosure No. 11		
Increase Plant – Account No. 330	\$1,233	
Increase Plant – Account No. 331	\$8,050	
Increase Plant – Account No. 364		\$1,934
Increase Plant – Account No. 371		\$1,611
Increase Plant – Account No. 394		\$733
Increase Accumulated Depreciation	(\$110)	(\$299)

The utility agrees with all of the above audit adjustments. Therefore, plant shall be decreased by (\$39,851) for water and (\$448) for wastewater and accumulated depreciation shall be decreased by \$42,938 for water and \$11,925 for wastewater. In addition, wastewater accumulated amortization of CIAC shall be increased by \$3,030.

B. Retirements for Plant Placed Into Service Prior to 1975

According to Audit Disclosure No. 3, staff auditors stated that the balances in Accounts Nos. 348 and 398, Other Tangible Plant for water and wastewater, respectively, include plant that was placed into service prior to 1975. Staff auditors also stated that there is no support available detailing what types of plant are in those accounts and that the depreciation period should be 10 years, pursuant to Rule 25-30.140, F.A.C. In its audit response, the utility stated that the Commission has utilized a 2.5% depreciation rate in its last two rate cases because there is no detailed breakdown available for assets in these accounts. Based on the utility's group depreciation adjustment in its MFRs, the plant in these accounts will be fully depreciated before the approved rates go into effect in 2005.

Because the utility has no detail regarding what types of plant are included in Accounts Nos. 348 and 398, Other Tangible Plant for water and wastewater, respectively, and because the plant in these accounts will be fully depreciated before the approved rates go into effect in 2005, the following adjustments shall be made to retire this plant.

	<u>Water</u>	<u>Wastewater</u>
Plant	(\$706,235)	(\$709,350)
Accumulated Depr.	\$706,235	\$709,350
Depreciation Expense	(\$17,656)	(\$9,817)

C. Additional Retirements

According to Audit Exception No. 2, the utility failed to make several plant retirements from 1999 to 2003. Based on the information provided by the utility, our auditors could not determine the original cost, and stated that the original cost of the retired plant would have to be determined before any retirements could be booked.

According to our staff's discussions with Indiantown, the utility did not have a retirement policy. Based on the utility's audit response and its response to Staff's Third Data Request, Indiantown estimated the in-service dates of retired plant based on the utility water and wastewater superintendent's recollection since he has been with Indiantown for 30 years. The utility estimated the original cost of the retired plant by deflating the replacement cost of each asset using the Consumer Price Index.

On numerous occasions, we have approved Utilities, Inc.'s retirement policy, which is to retire 75% of the replacement cost, if the original cost of the plant retired or the year that the retired plant was placed into service is not known. Otherwise, if the year that the retired plant was placed into service is known, the Handy Whitman Index (HWI) is used to determine the appropriate retirement percentage to apply to the cost of the replaced plant. See Order No. PSC-04-0363-PAA-SU, issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc., at p. 11; and Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket No. 991437-WU, In re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc., at p. 9. Because Indiantown cannot provide any support documentation verifying its estimated in-service dates and does not have a retirement policy, and based on our past practice, plant and accumulated depreciation shall be reduced by 75% of the replacement value of the new plant. See also Order No. PSC-04-0356-PAA-WU, issued April 5, 2004, in Docket No. 030423-WU, In re: Investigation into 2002 earnings of Residential Water Systems, Inc. in Marion County, at p. 16; Order No. PSC-03-1250-PAA-WU, issued November 6, 2003, in Docket No. 030250-WU, In re: Application for staff-assisted rate case in Pasco County, by Floralino Properties, Inc., at p. 10; and Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, In re: Application for approval of staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc., at p. 10.

Therefore, plant and accumulated depreciation shall each be reduced by \$51,910 for water and \$94,634 for wastewater. Correspondingly, depreciation expense shall be reduced by \$1,367 for water and \$3,934 for wastewater.

D. Utility's Pro Forma Plant and Expense Items

In its MFRs, the utility included eight pro forma plant additions totaling \$42,953 for water and \$185,131 for wastewater. Indiantown also included a pro forma expense of \$14,000, which is an annual amortization amount of the total tank painting cost over five years. The utility has completed five of the pro forma plant additions. The outstanding pro forma projects are as follows:

<u>Description</u>	<u>System</u>	<u>Plant</u>	<u>Expense</u>
Security Camera	Water	\$6,000	\$0
Generator for Sewer Plant	Wastewater	69,093	0
Relocate Jefferson St. LS	Wastewater	75,000	0
Painting Sewer Tanks	Wastewater	<u>0</u>	<u>14,000</u>
Total		<u>\$150,093</u>	<u>\$14,000</u>

Pursuant to our staff's First Data Request, Indiantown provided a description, projected cost, and expected completion date for each project. However, Indiantown provided unexecuted cost proposals for all the above items, which date back to 2003. Upon further questioning by our staff, on March 3, 2005, the utility provided the executed contracts for all of these projects. The following is a breakdown of the utility's revised costs for its outstanding projects.

<u>Description</u>	<u>System</u>	<u>Plant</u>	<u>Expense</u>
Security Camera	Water	\$10,131	\$0
Generator for Sewer Plant	Wastewater	72,500	0
Relocate Jefferson St. LS	Wastewater	91,480	0
Painting Sewer Tanks	Wastewater	<u>0</u>	<u>16,788</u>
Total		<u>\$174,111</u>	<u>\$16,788</u>

Section 367.081(2)(a)2., F.S., states:

. . . the commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates

All of the outstanding pro forma projects are scheduled to be completed before year-end 2005. Thus, all of these requested pro forma projects are within the 24-month time frame mentioned above. Further, it appears that all the pro forma projects requested in the utility's filing are needed to serve current customers.

In Audit Disclosure No. 2, the auditors stated that the utility did not include a pro forma retirement adjustment for the Jefferson Street lift station. In its audit response, the utility stated the Jefferson Street lift station was built in 1960 and that the estimated original cost was \$3,000. Based on discussions with Indiantown, the 1960 in-service date was estimated based on the

utility water and wastewater superintendent's recollection. The utility cannot provide any support documentation verifying this estimated in-service date. As discussed earlier, when there is a lack of support documentation for the in-service dates, we have used a retirement policy that reduces plant and accumulated depreciation by 75% of the replacement value of the new plant. For consistency, the Jefferson Street lift station shall also be retired at 75% of the replacement cost.

Based on the above, plant shall be increased by \$4,131 for water and decreased by (\$48,723) for wastewater. Corresponding adjustments shall be made to increase water accumulated depreciation by (\$112) and decrease wastewater accumulated depreciation by \$66,887. Corresponding adjustments shall also be made to increase depreciation expense by \$226 for water and \$1,160 for wastewater. Further, Operations and Maintenance (O&M) expenses for wastewater shall be increased by \$2,788.

E. Excessive Unaccounted for Water and Infiltration and Inflow

1. Unaccounted for Water

It is our practice to allow 10% of total water treated as an acceptable level of unaccounted for water. See Order No. PSC-96-1466-FOF-WU, issued December 3, 1996, in Docket No. 960133-WU, In re: Application for staff-assisted rate case in Lee County by MHC-DeAnza Financing Limited Partnership, d/b/a Buccaneer Water Services. In most instances, we have reduced the chemical and electrical costs associated with unaccounted for water in excess of 10% so that ratepayers do not bear those excessive costs.

In its original MFRs, the utility indicated that the test year unaccounted for water was a negative (8.62%) and its filing showed no other gallons of water usage. In addition, the utility does not believe that it has excessive unaccounted for water. Further, MFR Schedule F-1 indicated that the utility sold 16,984,000 more gallons of water than it pumped. Indiantown stated that gallons pumped are based on flow meter readings at the end of each month, while gallons billed are based on the flow meter reading taken on the 19th of each month; therefore, gallons sold are greater than gallons pumped. In addition, the utility stated that the flow meters are old and need to be repaired or replaced. Regarding accountability of unaccounted for water, the utility stated that it considers water not sold to be other water usage and it does not record the other water usage.

After two requests from our staff for a more detailed analysis regarding unaccounted for water, the utility responded stating that it had replaced the water flow meters in October 2004, and the meters were now registering properly. Following the installation of the new water meters, and upon request of our staff, the utility provided copies of its current flow recording (from October 2004 to January 2005). These records show that the total unaccounted for water is 15%. Based on the above-noted orders, we find that only 10% is acceptable and the remaining 5% is excessive. However, the utility still believes there is no excessive unaccounted for water.

A review of the applicants original MFRs and the filing showed two months (March and June 2003) where the gallons of water sold was less than the wastewater treated. In addition, the records indicated that for ten out of twelve months of the test year, the gallons of water sold were greater than the finished water pumped. Therefore, this data was flawed and unreliable and could not be used to calculate used and useful (U&U) percentages or unaccounted for water. After receiving the utility's response to staff's data request, our staff analyzed the data and it appears that the records are now reflecting normal flow patterns. Although Indiantown's records indicated 5% excessive unaccounted for water, the utility made no reduction to chemicals or purchased power expenses, and these adjustments shall be made. In addition, the installation of the new meters will allow the utility to be able to better address variances in water pumped compared to water sold and produce reliable data. Further, the water flow data (from October 2004 to January 2005) will allow an accurate U&U calculation.

The utility shall strive to reduce its unaccounted for water by aggressively seeking a goal of 10% or less. Water conservation is becoming increasingly important and utilities shall make extra effort to track water sales, record water losses, and be vigilant to reduce excessive amounts of unaccounted water. See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, at p. 110. Based on the above, the adjusted expenses for purchased power and chemicals shall be reduced by 5.0%, or \$2,231.

2. Excessive Infiltration and Inflow (I&I)

The industry standard that we rely upon is based on the assumption that 80% of the water purchased by residential customers is returned as wastewater. In its filing, the utility indicated that there was no excessive I&I. In its revised MFRs, Indiantown also stated:

During August 2003, the Company's service area received approximately 14 inches of rain. Among other things, a demolition site in the service area was flooded and 30 4 inch sewer lines that were left uncapped by the contractor drew in the water from the pond that was created by the flooding. All of the water was processed by the sewer plant, and FDEP gave approval to overflow into the St. Lucie Canal. Subsequent smoke testing revealed the uncapped lines, which were then capped. The Company believes this was a one-time act of God and was beyond the immediate control of the Utility.

Indiantown believes that this resulted in a very large amount of inflow, which should explain why the amount of wastewater treated was greater than the amount of water sold during August 2003.

Later, the utility provided an I&I calculation showing that there was 6.67% (14.1 million gallons) of excessive I&I. The method used by the utility to calculate I&I is as follows:

- a) First, to determine the allowance for infiltration, the utility multiplied 500 gallons per day (gpd) times the diameter of each main (wastewater), times the mileage equivalent, times 365 days that resulted in 20,016,235 gallons per year.
- b) Second, Indiantown used the customer's billing records to determine the allowance for inflow; taking 10% of the total of 194,701,000 gallons results in an allowable inflow of 19,470,100 gallons.
- c) Third, the utility combined the infiltration and the inflow, for an allowable I&I of 39,484,128 gallons.
- d) Fourth, Indiantown subtracted the actual wastewater treated (211,200,000) from the estimated water flows returned to the wastewater system (157,630,000), which resulted in an estimated I&I of 53,570,000 gallons.
- e) Fifth, the utility subtracted the allowable I&I from the total estimated I&I, which resulted in an excessive I&I of (14,085,872 or 14.1 million gallons which is approximately 6.67%).

We agree with the utility's methodology and conclusion, and, due to excessive I&I, the expenses for purchased power and chemicals for wastewater shall be reduced by 6.67%, or \$4,920.

3. Conclusion

Based on the above, Indiantown has 5.0% excessive unaccounted for water and 6.67% excessive I&I for wastewater. Therefore, purchased power and chemicals shall be reduced by \$2,231 (5%) for water and \$4,920 (6.67%) for wastewater.

F. Used and Useful Percentages

In its filing, the utility stated that its water and wastewater treatment plants, distribution and collection systems are 100% percent used and useful (U&U). We have analyzed each below.

1. Water Treatment Plant

In its MFRs, the utility did not provide a water treatment plant U&U percentage calculation because it was 100% U&U in the last rate case. Indiantown believes the water treatment facility is 100% U&U, pursuant to Order No. PSC-00-2054-PAA-WS, at p. 8. Our staff reviewed the utility's MFRs and could not calculate the water treatment plant's U&U percentage because the flow data was unreliable. In addition, our staff reviewed the following: 1) the utility's records to determine the amount of residential growth since the last rate case; 2) the utility's facility to see if there was an increase in its plant capacity; and, 3) the utility's Monthly Operation Reports to analyze the data. The records show a growth rate of 18.4

customers per year, which is not a substantial amount of growth and there were no new components added to the plant, which would increase its capacity. Further, as discussed above, the flow data was flawed.

We have calculated the U&U percentage by taking the peak demand, plus a growth allowance, fire flow, and subtracted excessive unaccounted for water, divided by the capacity of the system. Given the numerous problems with the utility's water flow data, we used the utility's current flow data from October 2004 to January 2005 to calculate the U&U percentage. We find the peak demand of 832,000 gpd (in the peak month of January 2005) to be reasonable. According to the utility's MFRs, the required fire flow allowance is 2000 gallons per minute, which is to be maintained for two hours, or 240,000 gpd. Since the utility's last rate case there has been no additions to plant; therefore, the plant's capacity is 1.231 million gallons per day (mgd), as in the last rate case. The growth allowance is based on linear regression, which shows an annual growth of 15.5 equivalent residential connections (ERCs) per year; the annual growth rate (15.5) shall be multiplied by 5 years to obtain the statutory five-year growth allowance of 77.5 ECRs at 412.5 gpd per ERC, or 31,968 gpd, pursuant to Section 367.081(2)(a)2.b., F.S. As discussed above, the excessive unaccounted for water is 5%. This calculation shows that the water treatment plant is 86.96% U&U.

In Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties, at p. 77, this Commission determined that the level of used and useful treatment plant determined in an earlier proceeding shall not be decreased due to a decline in demand. Furthermore, the Commission determined that it would be appropriate to authorize a decreased level of used and useful plant if there were (1) the addition of new plant, or (2) mistakes in calculations in earlier proceedings to correct. This Order was appealed and reversed on other grounds.

Specifically, for Indiantown, there has been a decline in demand. Further, there has not been any additional plant added that would increase capacity or any mistakes in calculations made in the last case. Therefore, the used and useful percentage for the water treatment plant shall remain at 100%.

2. Wastewater Treatment Plant

Pursuant to Rule 25-30.432, Florida Administrative Code, used and useful percentages for a wastewater treatment plant shall be calculated by comparing test year flows to the DEP permitted capacity, using the same method of measuring flows. The rule further states that the Commission will consider other factors including growth, infiltration and inflow, whether the service area is built-out, whether the permitted capacity differs from the design capacity, differences between components, and whether the flows have decreased.

In this case, the utility has twice revised its calculation of the wastewater treatment plant U&U percentage. The utility's three calculations are as follows:

(a) Original Calculation

In its original MFRs, the utility provided a used and useful calculation of 97% for the wastewater treatment plant. It divided the three-maximum-month average daily flow (TMADF) of 724,000 gpd by the DEP permitted capacity 750,000 gpd. Notwithstanding this calculation, the utility believes that the plant should be considered 100% used and useful.

The utility stated that the wastewater treatment plant should be considered 100% U&U because the plant's permitted capacity was exceeded on numerous occasions during the test year and the calculation was based on the requirements of Rule 25-30.432, F.A.C., to match the numerator with the denominator. However, the utility did not include growth or infiltration and inflow, in its calculation. In addition, the utility states that the plant should be considered 100% U&U because it has exceeded 0.8 mgd on 27 occasions during the year and on 14 of those occasions, flow met or exceeded 1.0 mgd.

(b) First Revision

On January 14, 2005, Indiantown submitted a supplemental response to staff's data request. This supplemental response contained revised calculations of its wastewater treatment plant used and useful. These calculations were provided by an engineering consultant and were based on historical growth and future growth. We will briefly describe each revised proposal separately.

Historical Growth: According to this response, the utility's consultant first restated the historical wastewater flows by eliminating 14.1 million gallons of excess inflow and infiltration. These excessive flows were assumed to be based on lines broken during demolition of county owned homes and 2003 rainfall amounts in excess of average year flows. This reduces the three-maximum-month average daily flow (TMADF) from 724,000 gpd reported in the MFRs to 634,000 gpd. Then the utility's consultant used total wastewater billed to residential customers from the MFRs divided by 365 days to calculate its average gallon per day. This was then divided by the total residential customers to calculate the annual gallons per day per customer. Then a multiplier was applied to this amount to estimate the three-maximum-month average daily flow (TMADF) per ERC. It is not clear how the multiplier was calculated.

To calculate "historical growth," the consultant then used the Upper East Coast (UEC) Water Supply Plan. Based on the UEC, population for Indiantown is estimated to grow from 5,252 people in 2002 to 6,193 people in 2025, or an average of 37.64 per year. This equates to approximately 10.75 ERCs per year, assuming 3.5 people per household. This growth was applied to the statutory period of five years and multiplied times the TMADF per ERC. This calculation results in a used and useful percentage of 86.84%.

Future Growth: In the second calculation, the consultant began with the same methodology described above to calculate the TMADF per ERC. However, to estimate growth, a speculative annual growth rate was used based on a newspaper article published in the TCPalm local news. The article addresses potential development in Indiantown by several local developers. In its response, Indiantown stated that it realizes that these proposals by local developers are speculative and are not supported by historical trends. Based on this news article, the consultant calculated future growth by using the 10.75 customers per year described above and adding speculative growth of 224 customers per year for a total of 480.25 customers for the statutory five year growth period. The result is a proposed used and useful percentage of 105.11%.

(c) Second Revision

On January 21, 2005, the consultant submitted a second revision to Indiantown's U&U calculation. In this supplemental response, Indiantown used the same methodology described above, however it changed its TMADF to 665,000 gpd. This results in U&U percentages of 90.97% and 109.25% for historical and future growth respectively.

The burden of proof in a Commission proceeding is always on a utility seeking a rate change. Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Given the numerous problems with the flow data and inconsistencies with the utility's U&U calculations, we used the same U&U percentage in the last case of 64.6% for interim purposes. However, upon review of the utility's numerous calculations, we take the following positions:

- 1) We agree with the utility regarding the conclusion of its I&I calculation.
- 2) The utility's adjustments that were made to the wastewater flow data (Schedule F-2) are not warranted because the level of rainfall was not abnormal. (Our rainfall analysis is discussed in Attachment C.)
- 3) A review of the utility's reason for using the UEC Plan and speculative growth shows that the utility has failed to demonstrate why its methodology is better than our practice of using actual flow data and linear regression as set out in Rule 25-30.431, F.A.C., and is therefore rejected.
- 4) To calculate growth and the appropriate growth allowance, a regression analysis was performed. Based on actual customer growth data, we calculate a growth of 14 ERCs per year, which results in a projection of 25,200 gpd for the statutory 5-year growth period defined in Section 367.081(2)(a)2.b., F.S.
- 5) A review of the three maximum months used by the utility shows that these are the three months that received the highest levels of I&I, and that the service area received 14 inches of rain during the month of August 2003, which was "a one-time act of God." We disagree with the utility's choice of these months, and find that months that receive abnormal rainfall shall not be considered, and that months that receive high levels of I&I do not reflect months of high customer usage. Therefore, we have selected the months of May, June and July, 2003. Also, we have not used the corrected flows subsequently provided by the utility's consultant.

Based on our positions above, we calculated the plant's U&U percentage by taking the TMADF (May, June, and July 2003) of 567,333 gpd and 25,200 gpd allowance for growth, subtracted 38,591 gpd for excessive I&I, and dividing that by the plant's DEP permitted capacity of 750,000 gpd based on TMADF. This results in a 73.86% used and useful and 26.14% non-used and useful percentage for the wastewater treatment plant. Based on this non-used and useful percentage, the wastewater treatment plant is reduced by \$249,687. Corresponding adjustments for non-used and useful plant shall also be made to reduce depreciation expense by \$24,319 and property taxes by \$5,597.

3. Water Distribution and Wastewater Collection Systems

In its MFRs, the utility did not provide a U&U calculation for the water distribution and the wastewater collection systems because it was 100% U&U in the last rate case. The utility stated that the water distribution and the wastewater collection systems are 100% U&U, pursuant to Order No. PSC-00-2054-PAA-WS, at p. 13.

A review of Indiantown's records shows that there have been no substantial changes to the utility's distribution or collection system, which would increase its residential connections since the last rate case. We have calculated the used and useful percentage for the distribution and collection systems by adding the average number of the test year ERCs of 1,617 and the 77.5 ERCs for growth (approximate total of 1,695), and dividing by the capacity of the system (1,745 ERCs). The result is 97.11% used and useful. Consistent with our practice, any percentage above 95% shall be considered 100%. See Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties, at p. 77. Based on the above, we find that the used and useful percentage for the water distribution and wastewater collection systems is 100%.

4. Summary

Based on the above, the used and useful percentages are as follows:

Water Treatment Plant	100%
Wastewater Treatment Plant	73.86%
Water Distribution and Wastewater Collection Systems	100%

Wastewater rate base shall be reduced by \$249,687 to reflect that 26.14% of treatment and disposal equipment is not used and useful. Corresponding adjustments shall also be made to reduce wastewater depreciation expense and property tax expense by \$24,319 and \$5,597, respectively.

G. Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. Due to our adjustments, we calculate working capital to be \$68,841 and \$91,232 for water and wastewater, respectively. This reflects a decrease of (\$9,112) to the utility's requested working capital allowance of \$77,953 for water and a decrease of (\$12,336) from the utility's requested allowance of \$103,568 for wastewater.

H. Total Rate Base

Consistent with our adjustments, the appropriate average rate base for the test year ending December 31, 2003 is \$387,964 for water and \$1,045,123 for wastewater. Our calculations of the appropriate water and wastewater rate bases are shown on Schedules Nos. 1-A and 1-B, respectively, with our adjustments being shown on Schedule No. 1-C.

IV. Cost of Capital

A. Return on Equity (ROE)

The ROE included in the utility's filing is 9.39%. This return is based on the application of our current leverage formula approved in Order No. PSC-04-0587-PAA-WS, issued June 10, 2004, in Docket No. 040006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), F.S., and an equity ratio of 84.0%.

As discussed below, we have capped Indiantown's ratio of common equity as a percentage of investor sources of capital at 60% for ratemaking purposes. Based on this cap, and using the leverage formula from the Order above, the appropriate ROE is 10.13%, with a range of plus or minus 100 basis points.

B. Weighted Average Cost of Capital

The test year per book amounts were taken directly from Indiantown's MFR filing, Schedule D-2. We agree with the specific adjustments proposed by the utility with one exception. Pursuant to Audit Disclosure No. 6, the utility's proposed adjustment to reduce short-term debt overstated the amount associated with non-utility liability insurance debt. Per its response to the Audit Report, the utility is in agreement with the auditor's opinion. Based on the finding in the Audit Report, we have reduced the adjustment to short-term debt. The impact of this adjustment is a net increase in the balance of short-term debt compared to the utility's filing.

Indiantown's test year per book amounts produce an equity ratio as a percentage of investor sources of capital of 93.4%. After making the adjustment to remove the investment in

non-utility operations from common equity, the ratio is 89.5%. The utility used its equity ratio as a percentage of total capital of 84.0% to determine its proposed ROE of 9.39%. The level of equity capitalization proposed by Indiantown is excessive and unreasonable relative to the level of risk faced by the utility. Since common equity is generally the most expensive form of capital available to a utility, Indiantown should employ a more balanced mix of debt and equity in an effort to minimize its overall cost of capital. To this end, we shall cap Indiantown's ratio of common equity as a percentage of investor sources of capital at 60% for ratemaking purposes.

Based on a review of Indiantown's annual reports and the financial statements of its parent company, Postco, Inc., Indiantown has access to debt capital under reasonable terms. Capping Indiantown's equity ratio for ratemaking purposes will give the utility the incentive to pursue a more cost effective mix of capital. Capping a utility's equity ratio at 60% for ratemaking purposes is consistent with past Commission decisions. See Order Nos. PSC-01-1274-PAA-GU, issued June 8, 2001, in Docket No. 001447-GU, In Re: Request for Rate Increase by St. Joe Natural Gas Company, Inc.; PSC-04-0565-PAA-GU, issued June 2, 2004, in Docket No. 030954-GU, In Re: Petition for Rate Increase by Indiantown Gas Company; and PSC-04-1260-PAA-GU, issued December 20, 2004, in Docket No. 040270-GU, In Re: Application for Rate Increase by Sebring Gas System, Inc. The impact of our adjustment is a net increase in the balance of long-term debt and a net decrease in the balance of common equity compared to the utility's filing.

We have used the respective cost rates proposed by the utility with one exception. Based on our cap of 60% on the equity ratio, the cost of common equity is 10.13% as opposed to the 9.39% return used by the utility in its filing. We did not take issue with the proposed cost rates for long-term debt of 9.50%, short-term debt of 4.82%, and customer deposits of 6.00%.

Finally, the utility made a pro rata adjustment over all sources of capital except customer deposits when it reconciled the capital structure to rate base. However, when the balance of deferred income taxes has been specifically identified, as was done in this case, including deferred incomes taxes in the pro rata adjustment is not appropriate. Our adjustment to reconcile the capital structure to rate base was made pro rata over the investor sources of capital. The impact of this adjustment is a net decrease in the balances of common equity, long-term debt, and short-term debt, and a net increase in the balance of deferred income taxes compared to the utility's filing.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2003, we find the weighted average cost of capital to be 8.98%. Our calculation of the cost of capital is shown on Schedule No. 2.

V. Net Operating Income

A. Water Revenue Adjustment

In its filing, the utility made a (\$6,876) water revenue adjustment relating to a billing error for the Indiantown Marina. According to the utility's response to a staff data request, this

customer is a water only customer who was also billed for usage from 18 meters at the docks, and the meters at the docks are 5/8" x 3/4" meters. As such, the utility should receive 18 base facility charges monthly, not one base facility charge (BFC). Therefore, water revenues shall be increased by \$2,107 (17 meters times \$10.33 times 12 months) to reflect the appropriate receipt of base facility charges for the Indiantown Marina.

B. Stipulated Net Operating Income Adjustments

Staff auditors recommended the following adjustments:

<u>Audit Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
1. Remove unused wireless equipment– Exception No. 1		
Decrease Depreciation Expense	(\$260)	
2. Computer Retirements and Reclassifications – Exception No. 3		
Decrease Depreciation Expense	(\$1,238)	(\$654)
3. Vehicle Retirements – Exception No. 4		
Decrease Depreciation Expense	(\$6,344)	(\$1,256)
4. Correct Amortization of CIAC – Exception No. 5		
Increase CIAC Amortization Expense		(\$3,030)
5. Correct health, dental, and disability insurance– Exception No. 6		
Decrease Pension and Benefits	(\$14,492)	(\$22,828)
6. Correct liability insurance – Exception No. 7		
Decrease Insurance – General Liability	(\$1,381)	(\$2,429)
7. Correct workman’s compensation insurance– Exception No. 8		
Increase Insurance – Workman’s Compensation	\$395	
Decrease Insurance – Workman’s Compensation		(\$2,866)
8. Correct vehicle insurance and Pro Forma Vehicle – Exception No. 9		
Decrease Insurance – Vehicle	(\$100)	(\$6,836)
Increase Depreciation Expense	\$313	\$938
9. Reflect actual purchased power – Exception No. 10		
Decrease Purchased Power	(\$207)	(\$219)
10. Non-utility inter-company telephone charges – Exception No. 11		
Decrease Purchased Power	(\$172)	(\$172)
11. Inventory adjustment to materials & supplies – Exception No. 12		
Decrease Materials & Supplies	(\$6,527)	

<u>Audit Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
12. Amortize cost of wastewater permit renewal – Exception No. 14		
Decrease Materials and Supplies		(\$2,400)
Decrease Contractual Services – Engineering		(\$505)
Decrease Contractual Services – Other		(\$7,493)
13. Remove cost for test well – Exception No. 15		
Decrease Contractual Services – Other	(\$5,261)	
14. Remove out-of-period testing expense – Exception No. 16		
Decrease Contractual Services – Other		(\$870)
15. Reflect actual affiliate billing charges – Exception No. 18		
Increase Materials and Supplies	\$631	\$631
16. Reflect actual payroll taxes – Exception No. 19		
Increase/(Decrease) Payroll Taxes	\$1,689	(\$1,702)
17. Reclassify mowing expenses – Exception No. 20		
Increase/(Decrease) Contractual Services – Management Fees	(\$1,360)	\$1,360
18. Correct depreciation for Account 304 – Disclosure No. 4		
Increase Depreciation Expense	\$101	
19. Include omitted salary of one employee – Disclosure No. 7		
Increase Salaries & Wages	\$13,475	\$1,358
Increase Payroll Taxes	\$1,031	\$104
20. Increase omitted benefits of one employee – Disclosure No. 8		
Increase Pensions and Benefits	\$8,122	\$11,171
21. Capitalizing Items Expensed – Disclosure No. 11		
Decrease Materials & Supplies	(\$8,217)	(\$2,344)
Decrease Contractual Services – Management Fees	(\$3,000)	
Increase Depreciation Expense	\$221	\$599
22. Correct bad debt expense - Disclosure No. 15		
Decrease Bad Debt Expense	(\$103)	(\$585)
23. 50/50 allocation of late fee – Disclosure No. 17		
Increase/(Decrease) Forfeited Discounts Revenue	(\$1,382)	\$1,382

The utility agrees with all of the above audit adjustments. Therefore, these adjustments shall be made, and revenues shall be reduced by (\$1,382) for water and increased by \$1,382 for wastewater, and O&M expenses shall be reduced by (\$18,198) for water and (\$35,028) for wastewater. Further, depreciation expense shall be reduced by (\$7,209) for water and (\$3,403)

for wastewater, and payroll taxes shall be increased by \$2,720 for water and decreased by (\$1,599) for wastewater.

C. Further Adjustments to Employee Salaries

In its filing, Indiantown reflected total adjusted employee salaries of \$182,070 for water and \$212,338 for wastewater. Additionally, the filing reflected total adjusted pensions and benefits of \$115,747 and \$114,083, for water and wastewater, respectively. Included in MFR B-3, pages 2 and 3 of 4, were pro forma adjustments to salaries, benefits and taxes other than income. These calculations contained errors noted by the auditors and adjusted for earlier in this Order.

We find that additional adjustments are necessary. In response to a staff data request, the utility provided salary history from 1999 through 2004 for Indiantown's employees, which covers the period since the last rate case, and includes employees hired since 1999. The data showed that in most years, for most employees, raises were limited to 3%. For some years, certain employees did not receive a raise, or received 2% raises. In only one year did an employee receive a salary increase in excess of 3%; with that raise being for 5% for one employee. We find that the utility's actual past 3% wage increases are reasonable because those increases are above inflation. Because the utility's information indicated raises were generally no more than 3%, and in some cases less, we recalculated all salaries using 3% increases per year for all employees, even for those who did not receive any increase for a given year. This results in reductions to water and wastewater expense of \$17,733 and \$14,775, respectively. Corresponding reductions to taxes other than income of \$2,236 and \$1,957 for water and wastewater, respectively, shall also be made.

Additionally, the salary, benefits expense, and associated taxes other than income for Mr. William Hannah shall be disallowed for the purpose of calculating rates in this docket. The utility did not provide any support for Mr. Hannah's time in 2003; additionally, these expenses are duplicative of duties being performed by other employees. Also, as noted previously, in Florida Power Corporation v. Cresse, the burden of proof in a Commission proceeding is always on a utility seeking a rate change.

In a data request, our staff requested that the utility provide the original source documentation supporting how many hours each employee spent on Indiantown, Postco, Inc., or other affiliates whose time was charged to the utility for the 2003 or 2004 calendar years, with this documentation being in the form of time sheets, work orders, management reviews, or other documents that indicated at least weekly how a person's time was spent. The utility did not provide the requested information to our staff; and the only response to the staff data request was a copy of an internal e-mail that the requested information had been provided to the auditors. In that e-mail, Indiantown stated that the comptrollers of each company reviewed employee allocations annually and that the allocations were representative of the present time spent. Further, the utility stated that the allocations were found to have remained constant since the last rate case.

A review of the audit work papers showed that Indiantown had provided the auditors part of the requested documentation for Mr. Jeff Leslie, Mr. Robert Post, and Mr. William Hannah. The documentation provided for Mr. Leslie, for the 2003 calendar year only, was incomplete. The information provided for Mr. Robert Post consisted of an untotaled one-page sheet in outline form listing time spent for calendar year 2003.

The documentation provided for Mr. Hannah in the work papers was a two-page e-mail from Mr. Hannah to the Controller which was forwarded without comment or confirmation to our staff. The e-mail listed the hours for a number of activities, with a one or two-line explanation of the duties performed. Mr. Hannah presently is working 24 hours a week, and approximately 52% of his hours were for the regulated utility. A comparison of Mr. Hannah's activities for 2003 indicate that he largely performed functions that were duplicative of the activities performed by other employees.

Mr. Hannah reflected 611 hours for regulated activities, which is an approximate average of 12 hours per week. Of the total regulated hours, 100 hours were for responding to customer complaints and explaining procedures to the general public. Indiantown has a full time water and wastewater customer service representative to handle customer complaints; therefore, Mr. Hannah's activities appear to be duplicative. The e-mail also indicated that Mr. Hannah spent approximately 150 hours attending Martin County Commission (County Commission) meetings, for which 75 hours were on behalf of FPSC regulated Indiantown systems. The calculations provided for these hours appear to indicate that 150 hours was the total estimated hours the County Commission was in session for calendar year 2003. Our staff reviewed the proposed agendas and minutes of all County Commission meetings for 2003. There were a number of items which dealt with generalized area growth issues; however, our staff did not find any agenda item which dealt directly with the regulated water or wastewater system. While there may be items specifically related to Indiantown in future years, we do not believe it is necessary to attend all sessions from start to finish, particularly when all items are available for review on the internet prior to the actual agenda. Mr. Post's estimated hours indicates that he also spent 50 hours attending County Commission meetings. We find that it is duplicative for two individuals to attend the meetings when there is not an item specifically related to Indiantown. As such, Mr. Post's hours for his attendance at County Commission meetings shall be allowed, but Mr. Hannah's hours for this function is disallowed.

Mr. Hannah also lists 240 hours for items related to planning water service for Martin Correctional, a planned industrial park, and another planned project, both of which were either cancelled or abandoned. Mr. Post and Mr. Leslie list a total of 440 hours for these same projects. Again, these hours appear to be duplicative. As mentioned above, and also later in this Order, the utility has not provided sufficient documentation of time spent by Postco, Inc. or Indiantown Telephone System, Inc. employees. Further, the documentation for Mr. Hannah indicates that he is performing duties that are also being performed by other employees. For these reasons, the full salary expense and employee benefits allocated to Indiantown for Mr. Hannah of \$10,786 and \$4,817 for both water and wastewater are disallowed.

As a result of the above calculations and adjustments, water salaries and benefits shall be reduced by \$28,519 and \$4,818, respectively. Wastewater salaries and benefits shall be reduced by \$25,561 and \$4,818, respectively. Corresponding reductions for water and wastewater taxes other than income of \$2,236 and \$1,957, respectively, shall also be made.

D. Purchased Power

In its MFRs, the utility reflected an adjusted purchased-power test-year amount of \$35,949 for the utility's water system. Based on an uncontested audit adjustment, we have reduced purchased power for water by (\$207). In Audit Exception No. 10, staff auditors stated that the utility allocates its electric bill for its water plant as follows: 20% for water supply; 10% for water treatment; 50% for water transmission and distribution; 10% for water administration; and 10% for wastewater administration. However, the auditors further stated that four employees, who occupy a fourth of the office, spent between 10 to 20% of their time on the refuse and roll-off operations. Based on the above, purchased power for the water system shall be reduced by (\$356) as non-utility expense.

E. Amortization of Non-Recurring Expenses

Rule 25-30.433, F.A.C., states that "[n]on-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified." The following expenses appear to be non-recurring and shall be amortized in accordance with the above-noted rule.

1. Lightning Damage

In Audit Disclosure No. 10, staff auditors stated that the utility incurred \$26,428 related to lightning damage for which Indiantown received \$7,639 in insurance reimbursement. Staff auditors stated that, of the amount not covered by insurance, the utility had capitalized \$12,860 and expensed \$5,929 for testing and other contractual services. In addition, the auditors stated that the utility included \$1,941 in wastewater materials and supplies that related to lightning damage.

In its response to the audit, the utility stated that it operates in a severe lightning prone area and has received several strikes and damage to equipment through the years. Indiantown also stated that some of the expenses in the \$1,941 amount are individually less than the \$400 expense threshold for capitalization, pursuant to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA). Indiantown does not believe any adjustment is required under this disclosure.

In Staff's Third Data Request, the utility was asked to provide a schedule reflecting the dates its plant was damaged due to lightning strikes in 2002 and 2004, including the amount of damages incurred for each event and any insurance proceeds received for each occurrence. In its response, the utility failed to include any damages for the year 2002 and 2004. Because the utility failed to provide this information, we are unable to determine whether a portion or all of

the test year expenses associated with lightning damage is non-recurring in nature. Based on the above, these amounts shall be amortized over 5 years.

2. Grove Road Repairs

In Audit Disclosure No. 11, staff auditors noted several expenses that might be non-recurring in nature, which included \$1,685 for repairs to Grove Road leading to the utility's off-site ponds. In its response to the audit, Indiantown stated that these repairs were normal recurring types of expenses. In Staff's Third Data Request, the utility was asked to provide the amount of any repairs to the Grove Road. In its response, the utility stated that no repairs were made to the road in 2000, 2001, 2002, and 2004. As such, we find that these repairs are non-recurring in nature and the expense shall be amortized over 5 years.

3. Summary

Based on the above, O&M expenses shall be reduced by (\$4,743) for water and (\$2,900) for wastewater, in order to amortize non-recurring expenses over five years.

F. Materials and Supplies (M&S) for Wastewater

In its MFRs, the utility reflected a M&S test year amount of \$73,767 for the utility's wastewater system, which represents an increase of 181.07% over the approved amount in Indiantown's last rate case. The utility stated that the reason for the increase in M&S was due to an increase in maintenance requirements. Indiantown calculated a wastewater O&M expense benchmark index of 14.17%.

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. We use the benchmark analysis as a tool to measure the utility's growth and to highlight areas of concern. While all expense increases above the benchmark are not per se unreasonable or imprudent, O&M expense increases above the benchmark may signal the need for further justification by utilities for the increased cost levels being requested. See Order No. 17304, issued March 19, 1987, In Docket No. 850062-WS, In re: Application of Meadowbrook Utility Systems, Inc., for increased rates to its customers in Palm Beach County, Florida; and an Investigation into Overearnings, at p. 17.

We have previously approved an uncontested audit adjustment to reduce M&S for wastewater by (\$5,666). Review of the M&S expense shows that it has fluctuated greatly since Indiantown's last rate case. To test the reasonableness of the test year level, our staff compared M&S expenses for the two years prior to the 2003 test year. According to its annual reports from 2001-2003, the utility incurred average M&S expense of \$53,256 for wastewater, after the uncontested audit adjustment above. To normalize the test year M&S expense, we find that the appropriate expense level for rate setting purposes shall be a three-year average from 2001 to 2003, while also indexing the 2001 and 2002 expenses by the Commission-approved price indices. With the indexing adjustments, the three-year average is \$54,332 for wastewater.

Our staff notes that expenses for lift stations and manholes repairs, which flow through this account, fell by \$12,855 from 2003 to 2004. This might partly explain the difference between the test year amount and the three-year average. Based on the above, M&S expense for wastewater shall be reduced by \$13,770, to reduce the test year amount to the three-year indexed average amount of \$54,332. G. Management Fees

In its MFRs, Indiantown reflected management fees of \$109,641 for both water and wastewater, which included pro forma 2004 adjustments. The utility's amount represents a 103% increase over the management fees approved in Indiantown's last rate case. The utility explained that the reason for the increase was due to increases in health insurance and to reflect employee wage increases of 3% annually.

According to its filing, the management fees consist of salaries, benefits, payroll taxes, and other expenses associated with the president and vice-president of Postco, Inc. (Postco) and four employees of Indiantown Telephone System, Inc. (ITS), the utility's sister company. As a result of Audit Exception No. 17, we have adjusted Postco's health insurance, and depreciation expense to reflect the actual amounts, and adjusted ITS's benefits to reflect the actual amounts.

In response to Staff's First Data Request, Indiantown stated that Postco's president (Mr. Post) received a \$25,000 bonus in 2004 and its vice-president (Mr. Leslie) received a \$50,000 salary increase in April, 2004 and a \$15,000 bonus in the end of 2004. According to the MFRs, Mr. Post's and Mr. Leslie's salaries are \$207,488 and \$244,108, respectively. By Order No. 19161, issued April 18, 1988, in Docket No. 861564-WS, In re: Application of Century Utilities, Inc., for an increase in water and sewer rates in Palm Beach County, Florida, at p. 11, this Commission previously found that bonuses should be allowed if they do not cause the salaries to be unreasonably high. Taking into account the bonuses received by Mr. Post and Mr. Leslie, and Mr. Leslie's 2004 salary increase, we find the salary level of these officers to be excessive.

Earlier in this Order, we accepted the utility's 3% annual employee wage increases. For all employees or positions that were approved in the last rate case, our staff calculated Postco and ITS salaries based on this annual 3% increase. The MFR amounts requested by the utility were \$61,490 greater for Postco and \$28,517 greater for ITS over our staff's calculated salary amounts. Consistent with Indiantown's stated 3% wage increases for Postco and ITS, the salaries for Mr. Post, Mr. Leslie, the ITS computer system analyst, and Mr. Post's administrative assistant shall be capped at 3% per year through 2004 over the amount approved in the last rate case.

A review of the other expenses of Mr. Post and Mr. Leslie shows that further adjustments are necessary. First, Mr. Post's telephone expense shall be reduced by four-elevenths, in order to remove two home lines and two cell phones of his 11 phones as non-utility and excessive. Second, Mr. Leslie's auto insurance shall be reduced for out-of-period cost and his dues expense shall be reduced for contributions to charities and political action committees. Third, since the utility has provided no support (i.e. time sheets) for the time spent by ITS employees on Indiantown, Ms. Holt, Mr. Leslie's assistant, shall have the same allocation percentage as Mr. Leslie. Finally, in response to a staff data request, Indiantown failed to provide an itemized list

of entertainment expenses for Mr. Post and Mr. Leslie which totaled \$4,118 and statement of the purposes of each itemized cost. It is the utility's burden to prove that its requested costs are reasonable. Without an itemized list and statement of purposes of each itemized cost, we cannot determine whether these expenses are non-utility related, reasonable, or prudent, and these entertainment expenses shall be disallowed.

Based on the above, management fees shall be reduced by \$15,924 each for water and wastewater.

In the last rate case, this Commission found that the utility had failed to justify its requested allocations used for management fees because there was no documentation to support the time spent on Indiantown. However, because some level of management fees was appropriate, this Commission considered various allocations using different percentages, comparisons with other utilities of the same size, and the personal involvement of the officers during the rate case. This Commission also found that it was appropriate to consider both the total salary costs of officers that would be charged to Indiantown and the functions that these officers perform. Ultimately, we found that the time of Mr. Post, his secretary, and the computer system analyst would be allocated 10% each to water and wastewater and 5% to refuse and roll-off operations. The Commission also found that Mr. Leslie's time would be allocated 15% to water and wastewater each and 3% to refuse and roll-off operations. With the exception of Ms. Holt's time, we have not made any other changes to the utility's allocation percentages of the management fees for this rate case.

While we have made no further allocation adjustments in this case, we note that there is still no documentation to support the time spent on Indiantown by Postco and ITS employees. Indiantown provided staff auditors the estimated hours spent by Mr. Post and Mr. Leslie on each of Postco's subsidiary companies and only provided the 2003 calendar of Mr. Leslie. Based on our staff's review, Mr. Leslie's calendar only reflects total business hours of 343 hours, which represents only about 16% of the 2,200 total estimated hours Mr. Leslie stated he worked during the test year. While one could not expect a person to reflect on a daily calendar all actual time spent on Indiantown water and wastewater business, it is the utility's burden to prove that its requested costs are reasonable. Therefore, the utility shall begin keeping time logs of Postco and ITS employees who spend time on Indiantown's water and wastewater operations, in order to reflect the actual time spent. Based on the above, the utility is put on notice that the Commission will require support documentation for the actual time spent by Postco and ITS employees in Indiantown's next rate case.

H. Expense Adjustments Due to Repression

Based on previous adjustments, purchased power and chemicals are \$48,061 for water and \$68,846 for wastewater. As discussed below, we calculate that residential water consumption and wastewater usage gallons will decrease by 2.3%. With these decreases, there will be a decrease in purchased power expense due to having to pump less water and wastewater, and a decrease in chemical expense due to having to chemically treat less water and wastewater.

It is our practice to reduce chemicals and purchased power due to repression of water and wastewater gallons. See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., at p. 58; and Order No. PSC-01-1162-PAA-WU, issued May 22, 2001, in Docket No. 001118-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company), at p. 29. Thus, chemicals and purchased power shall be reduced by (\$830) for water and (\$1,198) for wastewater.

I. Rate Case Expense

The utility included a \$94,000 estimate in the MFRs for current rate case expense. Pursuant to a request by our staff, the utility submitted a revised estimated rate case expense through completion of the PAA process of \$121,468. The components of the utility's estimated rate case expense are as follows:

	<u>MFR Estimated</u>	<u>Actual</u>	<u>Additional Estimated</u>	<u>Total</u>
Filing Fee	\$7,000	\$7,000	\$0	\$7,000
Legal Fees (Dave Erwin)	20,000	8,740	9,260	18,000
Accounting Fees (CJNW)	60,000	73,568	7,210	80,778
Consultant Fees	0	4,221	2,600	6,821
Indiantown in-house expense	5,000	4,179	450	4,629
Notices/Misc	<u>2,000</u>	<u>2,495</u>	<u>1,745</u>	<u>4,240</u>
Total R/C Expense	<u>\$94,000</u>	<u>\$100,203</u>	<u>\$21,265</u>	<u>\$121,468</u>

Pursuant to Section 367.081(7), F.S., we must determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Our staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. With the exceptions noted below, the utility's revised estimate appears to be appropriate.

It appears that \$2,700 in legal expenses for an "if-needed" meeting with utility personnel in Indiantown was not needed and shall be disallowed. Also, we have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. See Order No. PSC-01-0326-FOF-SU, issued February 21, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc., at pp. 73-75. Therefore, \$446 of legal expenses for 3.3 hours billed to correct MFR deficiencies shall also not be allowed. Finally, \$370 to revise the estimated total to complete shall not be allowed. Based on the above adjustments, legal expenses shall be reduced by a total of \$3,516.

Because the utility failed to properly provide information to two staff data requests involving incorrect billings for the Indiantown Marina, we also find that accounting fees shall be reduced by \$360 for two hours of accounting. Additionally, consultant fees shall be reduced by \$2,150. This expense is for 21 estimated hours, and \$50 in expenses, to evaluate and prepare responses to our staff's recommendation, and to participate in the agenda conference for the present docket. Mr. Seidman's role in the present docket is limited to the evaluation of used & useful wastewater plant and assistance with responses to related PSC data requests. In a recent docket that Mr. Seidman participated in, Docket No. 030446-SU, the Mid-County Services, Inc. (Mid-County) rate case, Mr. Seidman estimated that it would require only four additional hours to prepare for and attend the agenda conference in which final rates would be set for Mid-County. In that docket, he had complete responsibility for the preparation of all MFR schedules and any staff data requests concerning these schedules, as well as the responsibility to prepare the utility's response to the entire staff recommendation. Since Mr. Seidman has a smaller degree of responsibility in this case, it is reasonable to reduce the allowed rate case expense to a level no greater than that allowed in the Mid-County docket. Therefore, the consultant's fees in this docket shall be reduced by \$2,150. Our adjustments reducing rate case expense by a total of \$6,026 are shown below.

	MFR <u>Estimated</u>	Utility Revised Actual & <u>Estimated</u>	Commission <u>Adjustments</u>	<u>Total</u>
Filing Fee	\$7,000	\$7,000	0	\$7,000
Legal Fees (Dave Erwin)	20,000	18,000	(3,516)	14,484
Accounting Fees (CJNW)	60,000	80,778	(360)	80,418
Consultant Fees	0	6,821	(2,150)	4,671
Indiantown in-house expense	5,000	5,379	0	5,379
Notices/Misc	<u>2,000</u>	<u>3,490</u>	<u>0</u>	<u>3,490</u>
Total R/C Expense	<u>\$94,000</u>	<u>\$121,468</u>	<u>(\$6,026)</u>	<u>\$115,442</u>
Total Annual Expense	\$23,500		<u>\$5,361</u>	<u>\$28,861</u>

As required by Section 367.0816, F.S., we have amortized the total rate case expense of \$115,442 over four years, for a total annual rate case expense of \$28,861.

J. Parent Debt Adjustment

Rule 25-14.004, F.A.C., requires that where the regulated utility is a subsidiary of a single parent, the income tax effect of the parent's debt invested in the equity of the subsidiary

utility shall reduce the income tax expense of the utility. Consistent with the above rule, Indiantown reflected a parent debt adjustment of \$1,573 for water and \$5,139 for wastewater. However, based on our earlier rate base and cost of capital adjustments, the appropriate parent debt adjustment is \$994 for water and \$2,679 for wastewater.

K. Net Operating Income (Loss)

As shown on attached Schedules No. 3-A and 3-B, after applying our adjustments, the test year net operating loss before any revenue increase is (\$11,811) and (\$4,634) for water and wastewater, respectively. Our adjustments to operating income are listed on Schedule 3-C.

VI. Revenue Requirement

Indiantown requested final rates designed to generate annual revenues of \$801,014 and \$1,209,823, for water and wastewater, respectively. These requested revenues would exceed test year revenues by \$189,765 (31.05%), and \$338,771 (38.89%), for water and wastewater, respectively.

Based upon our above-noted adjustments to rate base, cost of capital, and operating income, we find that the appropriate rates shall be designed to generate a water revenue requirement of \$690,309, and a wastewater revenue requirement of \$1,037,818. These revenues exceed our adjusted test year revenues by \$78,334, or 12.80% for water, and \$165,384, or 18.96% for wastewater. These increases will allow the utility the opportunity to recover its expenses and earn an 8.98% return on its investment in water and wastewater rate base.

VII. Rate Structure and Rates

A. Rate Structure

The utility's current rate structures for its water and wastewater systems shall be changed to a three-tier inclining-block rate structure, with usage blocks of: a) 0-8 kgal; b) 8.001-15 kgal; and c) usage in excess of 15 kgal. The usage block rate factors shall be 1.0, 1.25 and 1.5, respectively, with the BFC cost recovery percentage set at 40%. The wastewater gallonage cap for residential customers shall be increased from 6 kgal to 10 kgal. Our analyses and resulting conclusions are contained on Attachment D.

B. Repression Adjustments

Typically, repression is calculated based on an analysis of our database of utilities receiving rate increases and decreases. However, Indiantown's most recent rate case increase became effective January 1, 2001. Therefore, in this instance, we find it is preferable to base our analysis in this case on the consumption patterns of Indiantown's customers resulting from that rate case. Our analyses and resulting conclusions are contained on Attachment E.

Based on our analysis, residential consumption should be reduced by 2.3%, resulting in a consumption reduction of approximately 3.7 kgal, for a total water consumption for ratesetting

purposes of 210,645 kgals. Residential wastewater usage, capped at 10 kgal, should also be reduced by 2.3%, resulting in a consumption reduction of approximately 2.7 kgal, for a total wastewater consumption for ratesetting purposes of 151,035 kgals. In order to monitor the effects of both the changes in rate structures and revenues, the utility shall prepare and provide monthly reports to our staff for both the water and wastewater systems, detailing the number of bills rendered, the consumption billed, and the revenues billed. In addition, the reports shall be prepared, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect.

C. Water and Wastewater Rates

As discussed earlier, the appropriate water and wastewater revenue requirements are \$690,309 and \$1,037,818, respectively. After excluding miscellaneous service revenues, the water and wastewater revenues to be recovered through rates are \$664,968 and \$1,036,253, respectively.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility's original rates, requested rates, and our approved water and wastewater rates is shown on Schedules Nos. 4-A and 4-B, respectively.

D. Interim Rates -- Refund Requirement

By Order No. PSC-04-1265-PCO-WS, issued December 21, 2004, we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirements are shown below:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
Water	\$667,271	\$56,022	9.17%
Wastewater	\$964,754	\$93,702	10.76%

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect are removed. Rate case expense, outstanding pro forma plant and expenses, and the repression adjustments were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, we have calculated the interim revenue requirement for the interim collection period to be \$673,681 for water and \$983,847 for wastewater. These amounts are greater than the interim revenues granted in Order No. PSC-04-1265-PCO-WS, and, as such, no water or wastewater interim refunds are required. Further, upon issuance of the Consummating Order in this docket, the letter of credit shall be released.

E. Four-Year Rate Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$15,318 for water and \$14,841 for wastewater. The decreased revenues will result in the rate reductions shown on Schedules Nos. 4-A and 4-B.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

VIII. Other

To ensure that the utility adjusts its books in accordance with our decisions, Indiantown shall provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Indiantown Company, Inc., for a water and wastewater rate increase is hereby approved as set forth in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, except for the statutory four-year rate reduction and the requirement that the utility provide proof that it has adjusted its books in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts which are final agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director,

Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Indiantown Company, Inc. shall complete any and all improvements to the system that are necessary to satisfy the standards set by the Florida Department of Environmental Protection. It is further

ORDERED that Indiantown Company, Inc. is authorized to charge the rates as set forth in the attachments to this Order. It is further

ORDERED that Indiantown Company, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. It is further

ORDERED that the rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the revised tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In no event shall the rates be effective for service rendered prior to the stamped approval date. It is further

ORDERED that if the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. It is further

ORDERED that the tariff sheets shall be approved administratively upon our staff's verification that the tariffs are consistent with our decision and the customer notice is adequate. It is further

ORDERED that Indiantown Company, Inc. shall reduce its water and wastewater rates as shown on Schedules Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. It is further

ORDERED that Indiantown Company, Inc. shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. It is further

ORDERED that if Indiantown Company, Inc. files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that Indiantown Company, Inc. shall begin keeping time logs of Postco and ITS employees who spend time on Indiantown's water and wastewater operations, in order to reflect the actual time spent. Based on the above, the utility is put on notice that the Commission will require support documentation for the actual time spent by Postco and ITS employees in Indiantown's next rate case. It is further

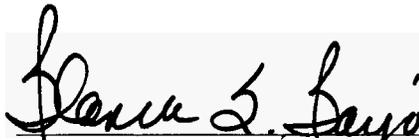
ORDERED that, to allow our staff to monitor the effects of both the changes in rate structures and revenues, the utility shall prepare and provide monthly reports to our staff for both the water and wastewater systems, detailing the number of bills rendered, the consumption billed, and the revenues billed. In addition, the reports shall be prepared, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect. It is further

ORDERED that no water or wastewater interim refunds are required, and, upon issuance of the Consummating Order in this docket, the letter of credit shall be released. It is further

ORDERED that Indiantown Company, Inc. shall provide proof within 90 days of the Consummating Order that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action portion of this Order files a protest within 21 days of the issuance of this Order, a Consummating Order will be issued and this docket shall be closed.

By ORDER of the Florida Public Service Commission this 7th day of June, 2005.



BLANCA S. BAYO, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action, except for the four-year rate reduction and the requirement to provide proof of adjustments, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 28, 2005. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action regarding the four-year rate reduction and the requirement to provide proof of adjustments in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and

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filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Indiantown Company, Inc. Schedule of Water Rate Base Test Year Ended 12/31/03			Schedule No. 1-A Docket No. 040450-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- Ments	Commission Adjusted Test Year
1 Plant in Service	\$2,955,679	\$37,603	\$2,993,282	(\$793,865)	\$2,199,417
2 Land and Land Rights	5,319	0	5,319	0	5,319
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,513,279)	(34,997)	(1,548,276)	800,970	(747,306)
5 CIAC	(1,825,903)	0	(1,825,903)	0	(1,825,903)
6 Amortization of CIAC	730,676	(43,080)	687,596	0	687,596
7 Net Debit Deferred Income Taxes	0	0	0	0	0
8 Advances for Construction	0	0	0	0	0
9 Working Capital Allowance	<u>75,984</u>	<u>1,969</u>	<u>77,953</u>	<u>(9,112)</u>	<u>68,841</u>
10 Rate Base	<u>\$428,476</u>	<u>(\$38,505)</u>	<u>\$389,971</u>	<u>(\$2,007)</u>	<u>\$387,964</u>

Indiantown Company, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/03			Schedule No. 1-B Docket No. 040450-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- Ments	Commission Adjusted Test Year
1 Plant in Service	\$4,532,950	\$179,781	\$4,712,731	(\$853,155)	\$3,859,576
2 Land and Land Rights	383	0	383	0	383
3 Non-used and Useful Components	0	0	0	(249,687)	(249,687)
4 Accumulated Depreciation	(2,306,374)	(60,128)	(2,366,502)	882,797	(1,483,705)
5 CIAC	(2,055,280)	0	(2,055,280)	0	(2,055,280)
6 Amortization of CIAC	954,488	(74,913)	879,575	3,030	882,605
7 CWIP	0	0	0	0	0
8 Advances for Construction	0	0	0	0	0
9 Working Capital Allowance	<u>104,166</u>	<u>(598)</u>	<u>103,568</u>	<u>(12,336)</u>	<u>91,232</u>
10 Rate Base	<u>\$1,230,333</u>	<u>\$44,142</u>	<u>\$1,274,475</u>	<u>(\$229,352)</u>	<u>\$1,045,123</u>

Indiantown Company, Inc. Adjustments to Rate Base Test Year Ended 12/31/03		Schedule No. 1-C Docket No. 040450-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Stipulated Audit Adjustments.	(\$39,851)	(\$448)	
2 Retire Plant In-Service Prior to 1975.	(706,235)	(709,350)	
3 Additional Plant Retirements.	(51,910)	(94,634)	
4 Reflect appropriate pro forma plant.	<u>4,131</u>	<u>(48,723)</u>	
Total	<u>(\$793,865)</u>	<u>(\$853,155)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment.	<u>\$0</u>	<u>(\$249,687)</u>	
<u>Accumulated Depreciation</u>			
1 Stipulated Audit Adjustments.	\$42,938	\$11,925	
2 Retire Plant In-Service Prior to 1975.	706,235	709,350	
3 Additional Plant Retirements.	51,910	94,634	
4 Reflect appropriate pro forma plant.	<u>(112)</u>	<u>66,887</u>	
Total	<u>\$800,970</u>	<u>\$882,797</u>	
<u>Accumulated Amortization of CIAC</u>			
Stipulated Audit Adjustments.	<u>\$0</u>	<u>\$3,030</u>	
<u>Working Capital</u>			
Reflect appropriate working capital.	<u>(\$9,112)</u>	<u>(\$12,336)</u>	

Indiantown Company, Inc. Capital Structure-Simple Average Test Year Ended 12/31/03						Schedule No. 2 Docket No. 040450-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$308,216	(\$5,002)	\$303,214	(\$147,111)	\$156,103	9.38%	9.50%	0.89%
2 Short-term Debt	30,367	(15,732)	14,635	(7,032)	7,603	0.46%	4.82%	0.02%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	4,813,931	(2,099,432)	2,714,499	(1,316,201)	1,398,298	84.01%	9.39%	7.89%
5 Customer Deposits	46,795	0	46,795	0	46,795	2.81%	6.00%	0.17%
6 Deferred Income Taxes	<u>15,135</u>	<u>93,020</u>	<u>108,155</u>	<u>(52,508)</u>	<u>55,647</u>	<u>3.34%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$5,214,444</u>	<u>(\$2,027,146)</u>	<u>\$3,187,298</u>	<u>(\$1,522,852)</u>	<u>\$1,664,446</u>	<u>100.00%</u>		<u>8.97%</u>
Per Commission								
8 Long-term Debt	\$303,214	\$894,800	\$1,198,014	(\$693,164)	\$504,850	35.23%	9.50%	3.35%
9 Short-term Debt	14,635	684	15,319	(8,864)	6,456	0.45%	4.82%	0.02%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	2,714,499	(894,800)	1,819,699	(1,052,867)	766,832	53.51%	10.13%	5.42%
12 Customer Deposits	46,795	0	46,795	0	46,795	3.27%	6.00%	0.20%
13 Deferred Income Taxes	<u>108,155</u>	<u>0</u>	<u>108,155</u>	<u>0</u>	<u>108,155</u>	<u>7.55%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>\$3,187,298</u>	<u>\$684</u>	<u>\$3,187,982</u>	<u>(\$1,754,895)</u>	<u>\$1,433,087</u>	<u>100.00%</u>		<u>8.98%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>9.13%</u>	<u>11.13%</u>	
OVERALL RATE OF RETURN						<u>8.45%</u>	<u>9.52%</u>	

Indiantown Company, Inc. Statement of Water Operations Test Year Ended 12/31/03						Schedule No. 3-A Docket No. 040450-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	\$618,125	\$182,889	\$801,014	(\$189,039)	\$611,975	\$78,334 12.80%	\$690,309
Operating Expenses							
2 Operation & Maintenance	607,870	15,750	623,620	(72,895)	550,725		550,725
3 Depreciation	31,006	8,871	39,877	(26,006)	13,871		13,871
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	76,969	7,308	84,277	(8,023)	76,254	3,525	79,779
6 Income Taxes	<u>18,223</u>	<u>37</u>	<u>18,260</u>	<u>(35,323)</u>	<u>(17,064)</u>	<u>28,151</u>	<u>11,087</u>
7 Total Operating Expense	<u>\$734,068</u>	<u>\$31,966</u>	<u>\$766,034</u>	<u>(\$142,247)</u>	<u>\$623,786</u>	<u>\$31,676</u>	<u>\$655,462</u>
8 Operating Income	<u>(\$115,943)</u>	<u>\$150,923</u>	<u>\$34,980</u>	<u>(\$46,792)</u>	<u>(\$11,811)</u>	<u>\$46,658</u>	<u>\$34,847</u>
9 Rate Base	<u>\$428,476</u>		<u>\$389,971</u>		<u>\$387,964</u>		<u>\$387,964</u>
10 Rate of Return	<u>-27.06%</u>		<u>8.97%</u>		<u>-3.04%</u>		<u>8.98%</u>

Indiantown Company, Inc. Statement of Wastewater Operations Test Year Ended 12/31/03						Schedule No. 3-B Docket No. 040450-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	\$885,706	\$324,117	\$1,209,823	(\$337,390)	\$872,434	\$165,384 18.96%	\$1,037,818
2 Operating Expenses							
Operation & Maintenance	\$833,329	(\$4,782)	\$828,547	(\$98,692)	\$729,855		\$729,855
3 Depreciation	91,263	30,786	122,049	(40,314)	81,735		81,735
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	103,570	15,809	119,379	(24,335)	95,044	<u>7,442</u>	<u>102,486</u>
6 Income Taxes	<u>4,276</u>	<u>21,252</u>	<u>25,528</u>	<u>(55,094)</u>	<u>(29,566)</u>	<u>59,434</u>	<u>29,867</u>
7 Total Operating Expense	<u>\$1,032,438</u>	<u>\$63,065</u>	<u>\$1,095,503</u>	<u>(\$218,435)</u>	<u>\$877,068</u>	<u>\$66,876</u>	<u>\$943,944</u>
8 Operating Income	<u>(\$146,732)</u>	<u>\$261,052</u>	<u>\$114,320</u>	<u>(\$118,954)</u>	<u>(\$4,634)</u>	<u>\$98,508</u>	<u>\$93,874</u>
9 Rate Base	<u>\$1,230,333</u>		<u>\$1,274,475</u>		<u>\$1,045,123</u>		<u>\$1,045,123</u>
10 Rate of Return	<u>-11.93%</u>		<u>8.97%</u>		<u>-0.44 0.76%</u>		<u>8.98%</u>

Indiantown Company, Inc.		Schedule 3-C	
Adjustment to Operating Income		Docket No. 040450-WS	
Test Year Ended 12/31/03			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$189,765)	(\$338,771)	
2 To reflect the appropriate amount of annualized revenues.	2,107	0	
3 Stipulated Audit Adjustments	<u>(1,382)</u>	<u>1,382</u>	
Total	<u>(\$189,039)</u>	<u>(\$337,390)</u>	
<u>Operation and Maintenance Expense</u>			
1 Reflect appropriate pro forma expense.	\$0	\$2,788	
2 Excessive unaccounted for water and I&I adjustments.	(2,231)	(4,920)	
3 Stipulated Audit Adjustments	(18,198)	(35,028)	
4 Employee Salaries and Benefits	(33,337)	(30,379)	
5 Remove non-utility purchased power expense.	(356)	0	
6 Amortize lightning damage and Grove Rd. nonrecurring items over five years.	(4,743)	(2,900)	
7 Reflect appropriate materials and supplies.	0	(13,770)	
8 Reflect appropriate management fees.	(15,924)	(15,924)	
9 To reflect the reversion adjustment to O&M expenses.	(830)	(1,198)	
10 Reflect appropriate rate case expense.	<u>2,723</u>	<u>2,638</u>	
Total	<u>(\$72,895)</u>	<u>(\$98,692)</u>	
<u>Depreciation Expense - Net of CIAC Amortization Expense</u>			
1 Retire Plant In-Service Prior to 1975.	(\$17,656)	(\$9,817)	
2 Additional Plant Retirements.	(1,367)	(3,934)	
3 Reflect appropriate pro forma plant.	226	1,160	
4 To remove net depreciation on non-U&U adjustment above.	0	(24,319)	
5 Stipulated Audit Adjustments	<u>(7,209)</u>	<u>(3,403)</u>	
Total	<u>(\$26,006)</u>	<u>(\$40,314)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above	(\$8,507)	(\$15,183)	
2 To remove property taxes on non-U&U adjustment above.	0	(5,597)	
3 Stipulated Audit Adjustments	2,720	(1,599)	
4 Employee Salaries	<u>(2,236)</u>	<u>(1,957)</u>	
Total	<u>(\$8,023)</u>	<u>(\$24,335)</u>	
<u>Income Taxes</u>			
1 To adjust to test year income tax expense.	(\$34,330)	(\$52,415)	
2 To reflect the appropriate parent debt adjustment.	(994)	(2,679)	
Total	<u>(\$35,324)</u>	<u>(\$55,094)</u>	

Indiantown Company, Inc.
Water Monthly Service Rates
Test Year Ended 12/31/03

Schedule No. 4-A
Docket No. 040450-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-year Rate Reduction
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$10.33	\$11.32	\$14.88	\$10.52	\$0.23
1"	\$25.82	\$28.29	\$37.20	\$26.30	\$0.58
1-1/2"	\$51.65	\$56.60	\$74.40	\$52.60	\$1.17
2"	\$82.63	\$90.55	\$119.04	\$84.16	\$1.87
3"	\$154.94	\$169.79	\$223.20	\$168.32	\$3.74
4"	\$258.23	\$282.98	\$372.00	\$263.00	\$5.84
6"	\$516.45	\$565.95	\$744.00	\$526.00	\$11.67
8"	\$826.32	\$905.52	\$1,190.40	\$841.60	\$18.68
8" Turbo	\$929.61	\$1,018.70	\$1,339.20	\$946.80	\$21.01
Residential Service Gallonage					
Charge, Per 1,000 Gallons					
0 to 8,000 Gallons	\$1.53	\$1.68	\$1.89	\$1.71	\$0.04
8,000 to 15,000 Gallons	\$1.53	\$1.68	\$1.89	\$2.14	\$0.05
Over 15,000 Gallons	\$1.53	\$1.68	\$1.89	\$2.57	\$0.06
General Service Gallonage					
Charge for all Gallons					
	\$1.53	\$1.68	\$1.89	\$1.90	\$0.04
<u>Private Fire Protection</u>					
Base Facility Charge by Meter Size:					
2"	\$6.90	\$7.56	\$9.92	\$7.01	\$0.16
3"	\$12.91	\$14.15	\$18.60	\$14.03	\$0.31
4"	\$21.52	\$23.58	\$31.00	\$21.92	\$0.49
6"	\$43.03	\$47.15	\$62.00	\$43.83	\$0.97
8"	\$68.86	\$75.46	\$99.20	\$70.13	\$1.56
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
5,000 Gallons	\$17.92	\$19.72	\$24.33	\$19.07	
8,000 Gallons	\$22.57	\$24.76	\$30.00	\$24.20	
10,000 Gallons	\$25.63	\$28.12	\$33.78	\$28.48	

Indiantown Company, Inc.			Schedule No. 4-B		
Wastewater Monthly Service Rates			Docket No. 040450-WS		
Test Year Ended 12/31/03					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	Four-year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$16.93	\$18.75	\$24.22	\$19.79	\$0.28
Gallage Charge - Per 1,000 gallons					
Gallage Cap 6,000 gallons	\$3.66	\$4.05	\$5.03		
Gallage Cap 10,000 gallons				\$3.70	\$0.05
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$16.93	\$18.75	\$24.22	\$19.79	\$0.28
1"	\$42.34	\$46.90	\$60.55	\$49.48	\$0.71
1-1/2"	\$84.68	\$93.79	\$121.10	\$98.95	\$1.41
2"	\$135.49	\$150.07	\$193.76	\$158.32	\$2.26
3"	\$254.04	\$281.37	\$363.30	\$316.64	\$4.53
4"	\$423.40	\$468.96	\$605.50	\$494.75	\$7.08
6"	\$846.81	\$937.92	\$1,211.00	\$989.50	\$14.14
8"	\$1,353.84	\$1,499.51	\$1,937.60	\$1,583.20	\$22.64
8" Turbo	\$1,524.25	\$1,688.25	\$2,179.80	\$1,781.10	\$25.47
Gallage Charge, per 1,000 Gallons	\$4.39	\$4.86	\$5.91	\$4.45	\$0.06
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
5,000 Gallons	\$35.23	\$39.00	\$49.37	\$38.29	
8,000 Gallons	\$38.89	\$43.05	\$54.40	\$49.39	
10,000 Gallons	\$38.89	\$43.05	\$54.40	\$56.79	
(Wastewater Gallage Cap - Increased to 10,000 Gallons)					



Attachment A

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 040450-WS - Indiantown Company, Inc.

1) Firm Reliable Capacity of Plant	1,231,000	gallons per day
2) 5 Maximum Day Average From Maximum Month (January 05)	832,000	gallons per day
3) Average Daily Flow	667,000	gallons per day
4) Fire Flow Capacity	240,000	gallons per day
5) Growth (5B x 5C x [3 / 5A])	31,968	ERCs
A) Test Year Customers in ERCs	1,617	Begin
B) Customer Growth in ERCs	15.5	
C) Statutory Growth Period	5	Years
6) Excessive Unaccounted Water	33,500	gallons per day
A) Total Unaccounted for Water	100,050	gallons per day
B) Reasonable Amount (10% x 3)	66,700	gallons per day

USED AND USEFUL FORMULA

$$[(2)+(4)+(5)-(6)]/(1) = 86.97\%$$

Attachment B

WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA

Docket No. 040450-WS – Indiantown Company, Inc.

1)	Permitted Capacity of Plant (3-Maximum Monthly Average Daily Flow)	750,000	Gallons per day
2)	3-Month Average Daily Flow for Maximum Month May, June & July 2003	567,333	Gallons per day
3)	Growth (3b x 3c) x 2/3a	25,200	Gallons per day
a)	Test Year Average ERCs	1,576	ERCs
b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	14	ERCs
c)	Statutory Growth Period	5	Years
	(b) x (c) x [2/(a)] =	25,200	
4)	Excessive Infiltration or Inflow (I&I)	38,591	Gallons per day
a)	Allowable I&I	108,176	Gallons per day
b)	Est. I&I treated (less return)	146,795	Gallons per day
c)	Percentage of excess of wastewater treated	6.67	Percent

USED AND USEFUL FORMULA

$$[(2) + (3)-(4)] / (1) = 73.86\% \text{ Used and Useful}$$

INDIANTOWN COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2003

ATTACHMENT C
Page 1 of 3

ANALYSIS OF UTILITY'S RAINFALL DATA

- Background:**
- (1) As contained in the utility's January 21, 2005 supplemental response to our staff's first data request, the utility proposed an adjustment to its wastewater used and useful calculation based on greater than average rainfall during the 2003 test year. The rainfall data, totaling 67.5 inches, was collected on a monthly basis from the wastewater treatment plant during 2003. (However, the utility excluded the rainfall months of January and February from its proposed used and useful adjustment.)
 - (2) The utility compared its 2003 rainfall data to a historical annual average rainfall figure for Indiantown of 55.2 inches, obtained from a website located at www.worldclimate.com (World Climate).
 - (3) Because the utility's 2003 rainfall data was not supplied by an independent, third-party source, our staff analyzed the utility's rainfall data to determine its reasonableness and credibility.
- Problems With World Climate:**
- (4) World Climate's average annual rainfall listing for Indiantown of 55.2 inches is based on a compilation of 6 years' of data, from 1962-1968, in order to prepare a 4-year average.
 - (5) Average annual rainfall calculations are generally based on 30 years or more of data. Compiling data that is spread throughout 6 years in order to prepare an average that is only 4 years in duration is not a reliable indicator of average rainfall at that location.
 - (6) Upon our staff's investigation of the World Climate website, it was discovered that the website "is the part-time creation of one person" and that the website "only gets a small share of his time." The website's disclaimer states "DO NOT RELY ON THIS DATA FOR ANY PROFESSIONAL OR IMPORTANT PURPOSE." Furthermore, the disclaimer states that the entire risk as to the quality and performance of the website and data is borne by the user.
 - (7) Based on the foregoing, we do not believe that any information obtained from the World Climate website should be relied upon by us in this case.
- Staff's Analysis of Rainfall Data:**
- (8) The utility relied on a comparison of World Climate's average annual rainfall for Indiantown, plus the reported rainfall at the utility's wastewater treatment plant, in order to propose an adjustment to its wastewater used and useful calculation. Based on a comparison of these rainfall figures, Indiantown was approximately 22% wetter than normal in 2003.
 - (9) Because the utility's proposed adjustment is based on a wetter than normal test year, it is reasonable to expect surrounding cities or weather reporting stations to have also have experienced a wetter than normal year in 2003.

ANALYSIS OF UTILITY'S RAINFALL DATA (cont.)

- Analysis of Rainfall Data (cont.)**
- (10) Our staff obtained the latitude and longitude coordinates of all cities and South Florida Water Management District (SFWMD or District) rain measurement stations within a 0.5 degree square area around Indiantown's coordinates. To address the utility's concern that sites be near Indiantown, staff narrowed its search to all locations to within a 0.2 degree square area around Indiantown. This resulted in the selection of four locations. Two locations (Stuart and Okeechobee HRCN Gate 6) represent cities selected from the Southeastern Regional Climate Center's CIRRUS database. Our staff also selected two SFWMD rain measurement sites (S 135 and S 80) from the District's DBHYDRO database.
 - (11) For each of the four sites examined, our staff compared the 2003 historical rainfall to each location's corresponding 30-year average annual rainfall. The results of this analysis are shown in Table A below.

TABLE A

[A] ANALYSIS OF RAINFALL DATA: SELECTED REPORTING STATIONS CLOSE TO INDIANTOWN RAINFALL DATA

<u>City or Reporting Station</u>	<u>Inches of Rainfall</u>		<u>2003 Rainfall Deviation From 30-Year Average</u>	
	<u>Recent 30-Year Average</u>	<u>2003</u>	<u>Amount</u>	<u>Percent</u>
Indiantown WWTP (A)	55.2	67.5	12.3	22.3%
S 135 (SFWMD)	43.9	38.0	(5.9)	-13.5%
S 80 (SFWMD)	59.5	53.4	(6.1)	-10.3%
Stuart	57.2	56.8	(0.4)	-0.7%
Okeechobee HRCN Gate 6	45.7	46.1	0.4	0.9%

(A) As reported by the utility. Indiantown's average represents a compilation of six years' of data from 1962-1968 into a four-year average. The Indiantown weather reporting station has been inactive for a number of years.

Source: Southeastern Regional Climate Center, CIRRUS database; South Florida Water Management District, DBHYDRO database.

INDIANTOWN COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2003

ATTACHMENT C
Page 3 of 3

ANALYSIS OF UTILITY'S RAINFALL DATA (cont.)

**Analysis of
Rainfall Data
(cont.)**

- (12) As shown in Table A, although the utility in 2003 reported rainfall 22% above normal, none of the sites located within a 0.2 degree square area around Indiantown's latitude and longitude coordinates experienced greater than average rainfall. To the contrary, the sites were either: a) greater than 10% below normal; or b) were within 1% of normal.
- (13) Our staff also selected two SFWMD regions -- the Martin/St. Lucie region and the Lake Okeechobee region -- in order to compare each region's 2003 rainfall to its overall average rainfall. Indiantown is located in the Martin/St. Lucie region, while the Lake Okeechobee region is adjacent to Indiantown. The results of this analysis indicate that the Martin/St. Lucie region reported its 2003 rainfall was 88% of normal (or 12% below normal). The corresponding figures reported by the Lake Okeechobee region are 95% of normal (or 5% below normal).

**Conclusion
Regarding the
Utility's Rainfall
Data:**

In 2003, the utility reported that rainfall was 22% above normal. However, as shown in Table A on the previous page and discussed in (13) above, none of the sites examined (other than Indiantown) experienced a wetter than average rainfall year during 2003. Therefore, we do not believe the utility's reported rainfall of 67.5 inches during 2003 is a credible or reliable figure. Based on the foregoing, Indiantown's 2003 rainfall data shall be neither used nor relied upon in its proposed adjustment to its wastewater used and useful calculation.

INDIANTOWN COMPANY, INC.
HISTORICAL TEST YEAR ENDED 12/31/03

Attachment D
Page 1 of 4

DETERMINATION OF APPROPRIATE RATE STRUCTURES

CURRENT RATES:

- (1) The utility's current water rate structure consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure. The BFC is \$10.33, and the gallonage charge is \$1.53 for each 1,000 gallons (kgal) used. The corresponding wastewater rate structure also consists of a BFC / gallonage charge rate structure. The BFC is \$16.93. The general service gallonage charge is \$ \$4.39 per kgal for all kgals used, while the residential service gallonage charge is \$3.66 per kgal, capped at 6 kgal of use per month.

DETERMINATION OF WATER RATE STRUCTURE:

PRIOR ORDERS AND PRACTICES WITH WATER MANAGEMENT DISTRICTS:

- (2) The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts, which has been adopted as a practice of the Commission, is to set the BFC charges such that they recover no more than 40% of the revenues to be generated from monthly service rates.
- (3) The Commission's preferred rate structure had traditionally been the BFC/uniform gallonage charge rate structure. However, over the past several years, based in large part on requests made by the Water Management Districts, the Commission has been implementing the inclining-block rate structure as the rate structure of choice. (See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003 in Docket No. 020407-WS, In Re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., pp. 31-32; Order No. PSC-00-0248-PAA-WU, issued February 7, 2000 in Docket No. 990535-WU, In Re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System), p. 37; Order No. PSC-01-0327-PAA-WU, issued February 6, 2001 in Docket No. 000295-WU, In Re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc., p. 25; Order No. PSC-02-1733-PAA-WU, issued December 9, 2002 in Docket No. 011677-WU, In Re: Application for staff-assisted rate case in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company, p. 19.)
- (4) The utility is located in the South Florida Water Management District (SFWMD or District). Per Limiting Condition No. 22 of the utility's Water Use Permit, plus Section 2.6.1 of the District's Basis of Review of the utility's Water Use Permit, the utility is required to implement a conservation-oriented rate structure. The rate structure, as outlined by the District, "should include at least one of the following alternative components: increasing block rates, seasonal rates, quantity-based surcharges and/or time of day pricing as a means of reducing demands."
- (5) The utility's residential customers consume approximately 8.3 kgal of water per month. It is Commission practice to implement an inclining block rate structure when average monthly consumption is at this level. (See Order No. PSC-01-1162-PAA-WU, issued May 22, 2001 in Docket No. 001118-WU, In Re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company), p. 37; Order No. PSC 01-0323-PAA-WU, issued February 5, 2001 in Docket No. 000580-WU, In Re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works) p. 24.)

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

**THEORY BEHIND
INCLINING BLOCK
RATE
STRUCTURES:**

- (6) The goal of the inclining block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage blocks will be more elastic (responsive to price) than demand in the first usage block.
- (7) There are several factors to consider when designing inclining block rates, including, but not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and c) usage block rate factors.

**PRE-REPRESSION
BFC COST
RECOVERY, USAGE
BLOCKS AND RATE
FACTORS:**

- (8) Approximately 45% of the utility's bills and 49% of the corresponding kgals are captured at 5 kgal or less. The majority of consumption at or below 5 kgal is considered highly nondiscretionary, essential consumption. Therefore, an important rate design goal is to minimize, to the extent possible, the price increases at 5 kgal or less.
- (9) Based upon our staff's site evaluation of the utility's service area, there are, on average, a greater number of persons per household in this case than typically found in other cases. This indicates a greater percentage of nondiscretionary water (and wastewater) usage per household. This explains, in large part, the average monthly consumption of 8.3 kgal in relation to the sizes of the housing units in the service area.
- (10) As shown in column (B) of Table 1 on the following page, without a conservation adjustment to move more cost recovery revenues to the gallonage charge, the BFC allocation is 48%. The resulting percentage price increases, which steadily decrease at increasing levels of consumption, are contrary to the goal of conservation pricing. Furthermore, the percentage price increases at 5 kgal or less are maximized, rather than minimized.
- (11) Based on the proportionally greater level of nondiscretionary water usage per household and the average monthly consumption per customer, we do not believe aggressive rate factors are warranted. Therefore, the rate factors selected for this analysis are 1/1.25/1.5.
- (12) In addition, the first usage block should be set below average monthly consumption. Therefore, we have selected two combinations of monthly usage blocks to examine: a) 0-5 kgals, 5-10 kgals and in excess of 10 kgals; and b) 0-8 kgals, 8-15 kgals and in excess of 15 kgals. Combinations of conservation adjustments, usage blocks and rate factors were analyzed. The results are shown in Table 1 on the following page.

INDIANTOWN COMPANY, INC.
 HISTORICAL TEST YEAR ENDED 12/31/03

Attachment D
 Page 3 of 4

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

TABLE 1

PRE-REPRESSION PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS (CA), USAGE BLOCKS (UB) AND USAGE BLOCK RATE FACTORS (RF)						
Conservation Adjustment Percentages and Resulting BFC Allocations Plus Varying Usage Blocks and Usage Block Rate Factors						
(A)	(B)	(C)	(D)	(E)	(F)	
Monthly Consumption	CA 0% BFC 48% UB 0, RF 0	CA 18%, BFC 40% UB 5 / 10 / 10+ RF 1 / 1.25 / 1.5	CA 18%, BFC 40% UB 8 / 15 / 15+ RF 1 / 1.25 / 1.5	CA 28%, BFC 35% UB 5 / 10 / 10+ RF 1 / 1.25 / 1.5	CA 28%, BFC 35% UB 8 / 15 / 15+ RF 1 / 1.25 / 1.5	
0 kgal	24.1%	1.8%	1.8%	-9.4%	-9.4%	
1 kgal	21.6%	1.9%	2.8%	-6.8%	-6.0%	
3 kgal	18.1%	2.1%	4.1%	-3.3%	-1.3%	
5 kgal	15.8%	2.2%	4.9%	-0.9%	1.8%	
10 kgal	12.4%	10.0%	9.5%	10.7%	9.9%	
20 kgal	9.5%	26.4%	24.6%	31.3%	28.9%	
30 kgal	8.2%	33.9%	35.3%	40.6%	41.6%	

PRE-REPRESSION BFC COST RECOVERY, USAGE BLOCKS AND RATE FACTORS (cont):

- (13) As shown in Table 1, the BFC cost recovery of 35% results in price decreases at nondiscretionary levels of consumption. It is a goal to minimize the price increases at these levels; however, as discussed in number (8) on the previous page, the utility has almost one-half of its bills and kgal at 5 kgal or less. Therefore, for revenue sufficiency and revenue stability purposes, it is not appropriate to have price decreases below 5 kgal. This eliminates BFC cost recovery percentages of less than 40% (e.g., columns (E) and (F)) from consideration. The 40% BFC cost recovery is within the rate structure guideline of the WMDs and is consistent with Commission practice.
- (14) A comparison of columns (C) and (D) in Table 1 indicate similar pre-repression price increases. However, we find that the combination in column (D) provides the best pattern of price increases, because at 5 kgal or less, they are slightly greater in column (D). This better addresses the revenue sufficiency concern than the rate design combination in column (C) above.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

CONCLUSION:

Therefore, a continuation of the utility's current rate structure is not appropriate. The rate structure shall be changed to a three-tier inclining block rate structure. The usage blocks shall be set for consumption at: a) 0 – 8 kgal; b) 8.001 – 15 kgal; and c) for usage in excess of 15 kgal. The appropriate usage block rate factors are 1.0, 1.25 and 1.5, respectively, with the base facility charge (BFC) cost recovery set at 40%.

DETERMINATION OF WASTEWATER RATE STRUCTURE:

COMMISSION PRACTICE:

- (15) It is Commission practice to set the residential wastewater gallonage cap such that approximately 80% of the kgal are captured at or below the cap.
- (16) The utility's current residential wastewater gallonage cap of 6 kgal captures approximately 55% of billed usage, which is well below Commission-practice level. Setting a cap at this level would be typical for a service area comprised entirely of manufactured housing units, or in situations in which there are very few people per household. These circumstances do not exist for Indiantown.
- (17) Based on the utility's wastewater billing analysis, 80% of residential kgal is captured at 12 kgal. Since the maximum residential wastewater gallonage cap set by the Commission is 10 kgal, we find it is appropriate to increase the residential wastewater cap to that level. Increasing the residential wastewater gallonage cap to 10 kgal would capture approximately 74% of billed usage.
- (18) By increasing the residential wastewater gallonage cap to 10 kgal, approximately 53% of residential bills would be less than the corresponding bills at the current 6 kgal cap.

CONCLUSION:

The residential wastewater gallonage cap shall be increased to 10 kgal. This will recognize the greater number of people per household in the service area, and, correspondingly, the greater percentage of nondiscretionary water usage that is returned to the wastewater system.

ANALYSIS OF APPROPRIATE REPRESSION ADJUSTMENT

[A] PRICE ELASTICITY CALCULATION FOR INDIANTOWN SYSTEM

Avg Consumption (kgal) – Prior Rate Case: 9.595
 Long-Run Avg Consumption (kgal) 2001 – 2002: 8.502
 Chg Amt: -1.093
 Chg Pct: -11.4%

	<u>Previous</u>	<u>Approved</u>
BFC	\$7.54	\$9.81
Gal Chg	\$1.08	\$1.45

Avg Price (PRIOR Consump, Previous Rates) \$17.90
 Avg Price (PRIOR Consump, Approv Rates) \$23.72
 Chg Amt \$5.82
 Chg Pct 32.5%

$$PE = \frac{\% \text{ Chg Q Demanded}}{\% \text{ Chg P}} = \frac{-11.4\%}{32.5\%} = -35.0\%$$

PE = -35.0% = PRICE ELASTICITY FOR INDIANTOWN

[B] ANTICIPATED CHANGE IN QUANTITY DEMANDED – CURRENT CASE

	<u>Previous</u>	<u>Rec – Before Repr</u>	<u>Avg Consumption (kgal)</u>
BFC	\$10.33	\$10.52	Current 8.344
Gal Chg	\$1.53	\$1.67 0-8 kgal \$2.09 8-15 kgal \$2.51 15+ kgal	

Avg Price (CURR Consump, CURR Rates) \$23.10
 Avg Price (CURR Consump, Approved Rates) \$24.60
 Chg Amt \$1.50
 Chg Pct 6.5%

$$\text{Indiantown PE} = -35.0\% = \frac{\% \text{ Chg Q Demanded}}{6.5\%}$$

% Chg Q Demanded = -35.0% x 6.5% = -2.3%

INDIANTOWN COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2003

Attachment E
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ANALYSIS OF APPROPRIATE REPRESSION ADJUSTMENT (cont.)

[C]	WATER REPRESSION		WASTEWATER REPRESSION	
	Curr RS Consump	160,975	Curr RS Consump (1)	116,326
% Chg Q Demand	-2.3%	% Chg Q Demand	-2.3%	
Ratesetting Kgals	157,309	Ratesetting Kgals	113,676	
Kgals Repressed	3,666	Kgals Repressed	2,650	

(1) (reflects cap at 10 kgal)