

State of Florida



## Public Service Commission

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

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

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**DATE:** November 23, 2004

**TO:** Director, Division of the Commission Clerk & Administrative Services (Bayó)

**FROM:** Division of Economic Regulation (Fletcher, G. Edwards, Maurey, Merchant, Willis)  
Office of the General Counsel (Jaeger)

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

**AGENDA:** 12/07/04 – Regular Agenda – Decision on Suspension of Rates and on Interim Rates – Participation is at Discretion of the Commission

**CRITICAL DATES:** 60-Day Suspension Date: 1/1/05

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\040450.RCM.DOC

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### Case 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. Indiantown is a wholly-owned subsidiary of Postco, Inc. (Postco). 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.

On August 18, 2004, Indiantown filed the Application for Rate Increase at issue in the instant docket. Staff had found several deficiencies in the Minimum Filing Requirements (MFRs). However, the utility corrected those deficiencies, and the official filing date was established as November 2, 2004. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year

established for interim and final rates is the historical twelve-month period ended December 31, 2003.

Indiantown requested interim rates designed to generate annual water revenues of \$736,087 and wastewater revenues of \$1,113,471. This represents a revenue increase on an annual basis of \$124,838 (20.42%) for water and \$242,419 (27.83%) for wastewater. The utility requested final rates designed to generate annual water revenues of \$801,014 and wastewater revenues of \$1,209,823. This represents a revenue increase of \$189,765 (31.05%) for water and \$338,771 (38.89%) for wastewater.

Indiantown extended the sixty-day statutory deadline for the suspension of its requested final rates and the consideration of its interim rate request to January 1, 2005. This recommendation addresses the suspension of Indiantown's requested final rates and the utility's requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

### **Discussion of Issues**

**Issue 1:** Should the utility's proposed final water and wastewater rates be suspended?

**Recommendation:** Yes. Indiantown's proposed final water and wastewater rates should be suspended. (Fletcher)

**Staff Analysis:** Section 367.081(6), Florida Statutes (F.S.), provides that the Commission may, for good cause, withhold consent to the implementation of the requested rates by a vote to that effect within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff has reviewed the filing and has considered the information filed in support of the rate application and the proposed final rates. Staff recommends that it is necessary to require further investigation of this information, including on-site investigations by staff accountant and engineers. Based on the foregoing, staff recommends that it is appropriate to suspend the utility's proposed rate increase.

**Issue 2:** Should an interim revenue increase be approved?

**Recommendation:** Yes. On an interim basis, the utility should be authorized to collect annual water and wastewater revenues as indicated below: (Fletcher)

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$611,249	\$56,022	\$667,271	9.17%
Wastewater	\$871,052	\$93,702	\$964,754	10.76%

**Staff Analysis:** The utility has filed rate base, cost of capital, and operating statements to support its requested water and wastewater increases. Pursuant to Section 367.082(5)(b)1., F. S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the utility's most recent rate proceeding and annualizing any rate changes. Staff has reviewed the utility's interim request, as well as Order No. PSC-00-2054-PAA-WS, in which the Commission last established rate base. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedules are labeled as Nos. 1-A and 1-B, with adjustments shown on No. 1-C. The capital structure schedule is No. 2, and the operating income schedules for water and wastewater, respectively, are labeled as Nos. 3-A and 3-B, with the adjustments shown on No. 3-C.

#### RATE BASE

Based on analysis of the MFRs and a prior Commission order, staff believes that adjustments are necessary to the utility's rate base.

#### Non-Used and Useful Component

In its filing, Indiantown calculated a used and useful (U&U) percentage of 97% for its wastewater treatment plant. The utility's wastewater treatment plant has a Florida Department of Environmental Protection permitted capacity of 750,000 gallons per day (GPD) on a three-month average daily flow (TMADF). This U&U percentage was derived by taking the utility's test year TMADF of 724,000 GPD divided by the permitted plant capacity of 750,000 GPD. Staff notes that no growth allowance or adjustments for excessive infiltration were made by Indiantown. The utility further 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.

In its last rate proceeding, the Commission determined that the utility's wastewater treatment plant was 64.6% U&U, with no adjustment for excessive infiltration. Since its last rate case, Indiantown has only added 18 wastewater customers, or approximately 1%. Given this significantly low growth rate, staff believes that either erroneous meter readings or excessive infiltration have caused the utility's U&U percentage to be substantially greater than the U&U percentage approved in its last rate case.

Indiantown utilized the months of August through October in the test year to calculate its TMADF of 724,000 GPD. Staff notes that the wastewater gallons treated for those months are greater than the gallons of water sold, with more than 10 million gallons in excess for one month. Staff notes that on MFR Schedule F-4, the utility stated that there is no record that the peak flow for the month of August, 2003 was influenced by any abnormal infiltration. However, on its revised MFR Schedule F-2, Indiantown 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.

Given the numerous problems and inconsistencies with the utility's U&U calculation, staff believes that the same U&U percentage in the last case of 64.6% should be used in the instant case for interim purposes. Thus, staff recommends that the non-U&U component for interim purposes should be \$317,426. Accordingly, depreciation expense and property taxes should be reduced by \$32,830 and \$5,965, respectively.

#### Working Capital

The utility used the formula approach (1/8 of operation and maintenance (O&M) expenses) to calculate working capital. Based on staff's recommended adjustment to O&M expenses, staff recommends that the working capital should be \$65,518 for water and \$89,417 for wastewater. Staff's recommended working capital amounts represent reductions of \$5,963 for water and \$7,655 for wastewater.

Based on the above adjustments, staff recommends that Indiantown's interim water rate base should be \$335,562. The utility's wastewater rate base should be \$760,245.

#### COST OF CAPITAL

In its interim request, Indiantown used an 8.46% return on equity (ROE), which is the minimum of the range of its last authorized ROE from Order No. PSC-00-2054-PAA-WS. In the utility's last case, the Commission removed non-utility investment directly from equity before it reconciled the capital structure to rate base, pursuant to Rule 25-30.433(12), Florida Administrative Code. In this case, Indiantown made a non-utility investment adjustment of \$310,265 to equity for interim purposes. Based on staff's review of the MFRs and the utility's 2003 annual report, the total non-utility investment for the test year is \$3,773,812. Thus, consistent with the utility's last rate proceeding, staff recommends that equity should be reduced by an additional \$3,463,547. Based on the above, staff recommends that the interim weighted average cost of capital is 7.94%.

### NET OPERATING INCOME

The utility made revenue adjustments of (\$6,876) for water and (\$14,654) for wastewater to correct a billing error. Since there were no rate changes that occurred during the interim test year, staff recommends that no other revenue adjustments are necessary. However, based on further review, staff is recommending several adjustments to operating expenses.

First, Indiantown reflected \$75,000 of sludge hauling expense for interim purposes. According to the utility's last rate case, the utility requested \$75,000 in sludge hauling expenses, but the Commission found that amount to be unreasonable and allowed only \$60,225. Consistent with the last rate proceeding, staff recommends that sludge hauling expenses be reduced by \$14,775.

Second, for interim purposes, Indiantown reflected \$22,931 of allocated affiliate billing costs each for water and wastewater. In the utility's last rate proceeding, the Commission made several adjustments to the allocated billing costs and approved \$10,874 each for water and wastewater. Based on the information provided in the utility's MFRs, staff is unable to determine whether Indiantown's requested billing costs are consistent with those approved in its last rate proceeding. As such, staff recommends that the billing costs should be reduced to the level approved in the last rate proceeding, which represents a decrease of \$12,057 for both water and wastewater.

Third, in the utility's last rate case, the Commission reduced allocated affiliate management fees to \$53,950 each for water and wastewater. For interim purposes, Indiantown reflected \$77,449 for each system, after some utility adjustments were made to comply with the Commission-ordered amounts. However, since the last rate case, there have been several new expense types and some expenses that no longer exist. Due to the numerous changes in the allocation of management fees, staff cannot determine whether the utility's adjusted management fee allocation is consistent with the amount approved in the last rate case. As such, staff believes that the same level of expense approved in the last case should be utilized for interim purposes. Thus, staff recommends that the affiliate charges for management fees should be reduced by \$23,499 for both water and wastewater.

Fourth, for interim purposes, Indiantown reflected annual rate case expense of \$12,153 for water and \$10,916 for wastewater. These amounts represent rate case expense from the utility's last rate case which was completely amortized as of October 27, 2004. Because the utility has fully recovered this prior rate case expense, staff believes that it should be removed for interim purposes. Thus, staff recommends that rate case expense be reduced by \$12,153 for water and \$10,916 for wastewater.

Fifth, in Indiantown's last rate proceeding, the Commission made adjustments to include the amortization of contributed taxes that the utility failed to include in its MFRs. Indiantown failed to include any amortization of contributed taxes in the instant proceeding. Thus, staff recommends that the amortization of \$3,388 for water and \$2,454 for wastewater should be used as an offset to expense.

Finally, in its filing, the utility calculated a parent debt adjustment of \$6,712, which it allocated \$1,573 to water and \$5,139 to wastewater. In its last rate case, long-term debt was not specifically identified and the utility's retained earnings were excluded. However, in its parent debt adjustment calculation, the utility specifically identified long-term debt and included Indiantown's retained earnings. Thus, staff recommends that the utility's parent debt adjustment should be increased by \$4,016 for water and \$7,524 for wastewater.

Based on the above adjustments, staff recommends that the appropriate test year operating income, before any revenue increase, for water is a loss of \$6,734 and a profit of \$4,531 for wastewater.

#### REVENUE REQUIREMENT

Based on the above adjustments, staff recommends revenue requirements of \$667,271, and \$964,754 for water and wastewater, respectively. This represents an interim increase in annual revenues of \$56,022 (or 9.17%) for water and \$93,702 (or 10.76%) for wastewater. This will allow the utility the opportunity to recover its operating expenses and earn a 7.94% return on its rate base.

**Issue 3:** What are the appropriate interim water and wastewater rates?

**Recommendation:** The service rates for Indiantown in effect as of December 31, 2003, should be increased by 9.58% for water and 10.76% for wastewater to generate the recommended revenue increases for the interim period. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1)(a), Florida Administrative Code. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission decision, the proposed customer notice is adequate, and the required security has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice. (Fletcher)

**Staff Analysis:** Staff recommends that interim service rates for Indiantown be designed to allow the utility the opportunity to generate annual operating revenues of \$667,271 and \$964,754 for water and wastewater operations. This reflects increases of \$56,022 for water, and \$93,702 for wastewater, or 9.17% and 10.76%, respectively, before removal of miscellaneous revenues. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. The calculation is as follows:

	<u>Water</u>	<u>Wastewater</u>
1 Total Test Year Revenues	\$611,249	\$871,052
2 Less: Miscellaneous Revenues	<u>26,722</u>	<u>183</u>
3 Test Year Revenues from Service Rates	\$584,527	\$870,869
4 Revenue Increase	<u>\$56,022</u>	<u>\$93,702</u>
5 % Service Rate Increase (Line 4/Line 3)	<u>9.58%</u>	<u>10.76%</u>

The interim rate increases of 9.58% for water and 10.76% for wastewater should be applied as an across the board increase to the service rates in effect as of December 31, 2003. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission decision, the proposed customer notice is adequate, and the required security has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice.

The utility's test year, present, and proposed interim and final rates, and staff's recommended interim rates are shown on Schedules Nos. 4-A and 4-B. Staff notes that the present rates reflect a price index rate adjustment approved in February 2004, and are shown for informational purposes only.

**Issue 4:** What is the appropriate security to guarantee the interim increase?

**Recommendation:** The utility should be required to open an escrow account, file a surety bond or a letter of credit to guarantee any potential refund of revenues collected under interim conditions. If the security provided is an escrow account, the utility should deposit \$12,477 into the escrow account each month. Otherwise, the surety bond or letter of credit should be in the amount of \$75,793. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. (Maurey, Fletcher)

**Staff Analysis:** Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 3, the total annual interim increase is \$149,723, or \$56,022 for the water system and \$93,702 for wastewater system on an annual basis. Staff has calculated the potential refunds of water and wastewater revenues and interest collected, in accordance with Rule 25-30.360, Florida Administrative Code, under interim conditions to be \$75,793. This amount is based on an estimated six months of revenue being collected from staff's recommended interim rates over the previously authorized rates shown on Schedules Nos. 4-A and 4-B.

Staff has reviewed the financial data of the utility and its parent company, Postco. The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The 2001, 2002, and 2003 annual reports of Indiantown were used to determine the financial condition of the utility. Indiantown has adequate liquidity and equity capitalization. However, the utility has negative interest coverage and has experienced significant net losses each of the last three years. In addition, Indiantown has non-utility investments recorded on its books equal to approximately 82% of its reported equity balance. Further, according to staff's review of Postco's financials, the utility's parent is in a weaker financial position than its subsidiary. Based upon this analysis, staff recommends that neither Indiantown nor Postco can support a corporate undertaking in the amount of \$75,793. Therefore, staff recommends that the utility provide a letter of credit, bond, or escrow agreement to guarantee the funds collected subject to refund. Staff notes that this brief financial analysis is only appropriate for deciding if the utility can support a corporate undertaking in the amount proposed and should not be considered a finding regarding staff's position on other issues in the rate case.

If the security provided is an escrow account, said account should be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: that the account is established at the direction of this Commission for the purpose set forth above; that no withdrawals of funds shall occur without the prior approval of the Commission through the Director of the Division of the Commission Clerk and Administrative Services; that the account shall be interest bearing; that information concerning that escrow account shall be available from the institution to the Commission or its representative at all times; that the amount of revenue



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subject to refund shall be deposited in the escrow account within seven days of receipt; and that pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla 3d DCA 1972), escrow accounts are not subject to garnishments.

The utility should deposit \$12,477 into the escrow account each month for possible refund. The escrow agreement should also state the following: that if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers; and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the utility.

If the security provided is a surety bond or a letter of credit, said instrument should be in the amount of \$75,793. If the utility chooses a surety bond as security, the surety bond should state that it will be released or should terminate only upon subsequent order of the Commission. If the utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the utility or requiring a refund.

Irrespective of the type of security provided, the utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

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**Issue 5:** Should the docket be closed?

**Recommendation:** No. The docket should remain open pending the Commission's final action on the utility's requested rate increase. (Fletcher, Jaeger)

**Staff Analysis:** The docket should remain open pending the Commission's final action on the utility's requested rate increase.

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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	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$2,955,679	(\$5,350)	\$2,950,329	\$0	\$2,950,329
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)	(34,018)	(1,547,297)	0	(1,547,297)
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 Working Capital Allowance	<u>75,984</u>	<u>(4,503)</u>	<u>71,481</u>	<u>(5,963)</u>	<u>65,518</u>
8 <b>Rate Base</b>	<u>\$428,476</u>	<u>(\$86,951)</u>	<u>\$341,525</u>	<u>(\$5,963)</u>	<u>\$335,562</u>

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<b>Indiantown Company, Inc.</b>		<b>Schedule No. 1-B</b>			
<b>Schedule of Wastewater Rate Base</b>		<b>Docket No. 040450-WS</b>			
<b>Test Year Ended 12/31/03</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$4,532,950	(\$5,350)	\$4,527,600	\$0	\$4,527,600
2 Land and Land Rights	383	0	383	0	383
3 Non-used and Useful Components	0	0	0	(317,426)	(317,426)
4 Accumulated Depreciation	(2,306,374)	(57,650)	(2,364,024)	0	(2,364,024)
5 CIAC	(2,055,280)	0	(2,055,280)	0	(2,055,280)
6 Amortization of CIAC	954,488	(74,913)	879,575	0	879,575
7 Working Capital Allowance	<u>104,166</u>	<u>(7,094)</u>	<u>97,072</u>	<u>(7,655)</u>	<u>89,417</u>
<b>8 Rate Base</b>	<u>\$1,230,333</u>	<u>(\$145,007)</u>	<u>\$1,085,326</u>	<u>(\$325,081)</u>	<u>\$760,245</u>

<b>Indiantown Company, Inc.</b>		<b>Schedule No. 1-C</b>	
<b>Adjustments to Rate Base</b>		<b>Docket No. 040450-WS</b>	
<b>Test Year Ended 12/31/03</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment.	<u>\$0</u>	<u>(\$317,426)</u>	
<u>Working Capital</u>			
To reflect the appropriate working capital allowance.	<u>(\$5,963)</u>	<u>(\$7,655)</u>	

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		Schedule No. 2 Docket No. 040450-WS						
Indiantown Company, Inc. Capital Structure-Simple Average Test Year Ended 12/31/03								
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$308,216	(\$5,002)	\$303,214	(\$218,341)	\$84,873	5.95%	9.50%	0.57%
2 Short-term Debt	30,367	(15,732)	14,635	(10,495)	4,140	0.29%	4.82%	0.01%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	4,813,931	(310,265)	4,503,666	(3,242,432)	1,261,234	88.39%	8.46%	7.48%
5 Customer Deposits	46,795	0	46,795	0	46,795	3.28%	6.00%	0.20%
6 Deferred Income Taxes	15,135	91,375	106,510	(76,701)	29,809	2.09%	0.00%	0.00%
7 <b>Total Capital</b>	<u>\$5,214,444</u>	<u>(\$239,624)</u>	<u>\$4,974,820</u>	<u>(\$3,547,969)</u>	<u>\$1,426,851</u>	<u>100.00%</u>		<u>8.25%</u>
<b>Per Staff</b>								
8 Long-term Debt	\$303,214	\$0	\$303,214	(\$86,021)	\$217,193	19.82%	9.50%	1.88%
9 Short-term Debt	14,635	0	14,635	(4,152)	10,483	0.96%	4.82%	0.05%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	4,503,666	(3,463,547)	1,040,119	(295,078)	745,041	67.99%	8.46%	5.75%
12 Customer Deposits	46,795	0	46,795	0	46,795	4.27%	6.00%	0.26%
13 Deferred Income Taxes	106,510	0	106,510	(30,216)	76,294	6.96%	0.00%	0.00%
14 <b>Total Capital</b>	<u>\$4,974,820</u>	<u>(\$3,463,547)</u>	<u>\$1,511,273</u>	<u>(\$415,467)</u>	<u>\$1,095,806</u>	<u>100.00%</u>		<u>7.94%</u>
						<b>LOW</b>	<b>HIGH</b>	
				RETURN ON EQUITY		<u>8.46%</u>	<u>9.46%</u>	
				OVERALL RATE OF RETURN		<u>7.94%</u>	<u>8.62%</u>	

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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	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$618,125</u>	<u>\$117,962</u>	<u>\$736,087</u>	<u>(\$124,838)</u>	<u>\$611,249</u>	<u>\$56,022</u> 9.17%	<u>\$667,271</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$607,870	(\$36,020)	\$571,850	(\$47,709)	\$524,141		\$524,141
3 Depreciation	31,006	6,913	37,919	0	37,919		37,919
4 Amortization	0	0	0	(3,388)	(3,388)		(3,388)
5 Taxes Other Than Income	76,969	5,408	82,377	(5,618)	76,759	2,521	79,280
6 Income Taxes	<u>18,223</u>	<u>(2,506)</u>	<u>15,717</u>	<u>(33,165)</u>	<u>(17,448)</u>	<u>20,132</u>	<u>2,684</u>
7 <b>Total Operating Expense</b>	<u>\$734,068</u>	<u>(\$26,205)</u>	<u>\$707,863</u>	<u>(\$89,880)</u>	<u>\$617,983</u>	<u>\$22,653</u>	<u>\$640,636</u>
8 <b>Operating Income</b>	<u>(\$115,943)</u>	<u>\$144,167</u>	<u>\$28,224</u>	<u>(\$34,958)</u>	<u>(\$6,734)</u>	<u>\$33,368</u>	<u>\$26,634</u>
9 <b>Rate Base</b>	<u>\$428,476</u>		<u>\$341,525</u>		<u>\$335,562</u>		<u>\$335,562</u>
10 <b>Rate of Return</b>	<u>-27.06%</u>		<u>8.26%</u>		<u>-2.01%</u>		<u>7.94%</u>

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		Indiantown Company, Inc.				Schedule No. 3-B			
		Statement of Wastewater Operations				Docket No. 040450-WS			
		Test Year Ended 12/31/03							
	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement	
1	<b>Operating Revenues:</b>	<u>\$885,706</u>	<u>\$227,765</u>	<u>\$1,113,471</u>	<u>(\$242,419)</u>	<u>\$871,052</u>	<u>\$93,702</u>	<u>\$964,754</u>	
							10.76%		
	<b>Operating Expenses</b>								
2	Operation & Maintenance	\$833,329	(\$56,749)	\$776,580	(\$61,247)	\$715,333		\$715,333	
3	Depreciation	91,263	25,831	117,094	(32,830)	84,264		84,264	
4	Amortization	0	0	0	(2,454)	(2,454)		(2,454)	
5	Taxes Other Than Income	103,570	10,275	113,845	(16,874)	96,971	4,217	101,187	
6	Income Taxes	<u>4,276</u>	<u>11,985</u>	<u>16,261</u>	<u>(43,854)</u>	<u>(27,593)</u>	<u>33,673</u>	<u>6,081</u>	
7	<b>Total Operating Expense</b>	<u>\$1,032,438</u>	<u>(\$8,658)</u>	<u>\$1,023,780</u>	<u>(\$157,259)</u>	<u>\$866,521</u>	<u>\$37,890</u>	<u>\$904,411</u>	
8	<b>Operating Income</b>	<u>(\$146,732)</u>	<u>\$236,423</u>	<u>\$89,691</u>	<u>(\$85,160)</u>	<u>\$4,531</u>	<u>\$55,812</u>	<u>\$60,343</u>	
9	<b>Rate Base</b>	<u>\$1,230,333</u>		<u>\$1,085,326</u>		<u>\$760,245</u>		<u>\$760,245</u>	
10	<b>Rate of Return</b>	<u>-11.93%</u>		<u>8.26%</u>		<u>0.60%</u>		<u>7.94%</u>	



<b>Indiantown Company, Inc.</b>		<b>Schedule 3-C</b>	
<b>Adjustment to Operating Income</b>		<b>Docket No. 040450-WS</b>	
<b>Test Year Ended 12/31/03</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Operating Revenues</u>			
Remove requested final revenue increase.	<u>(\$124,838)</u>	<u>(\$242,419)</u>	
<u>Operation and Maintenance Expense</u>			
1 To reflect the appropriate sludge hauling expense.	\$0	(\$14,775)	
2 To reflect the appropriate billing expenses.	(12,057)	(12,057)	
3 To reflect the appropriate management fees.	(23,499)	(23,499)	
4 To remove rate case expense that has been fully amortized.	<u>(12,153)</u>	<u>(10,916)</u>	
Total	<u>(\$47,709)</u>	<u>(\$61,247)</u>	
<u>Depreciation Expense - Net</u>			
To remove net depreciation on non-U&U adjustment above.	<u>\$0</u>	<u>(\$32,830)</u>	
<u>Amortization Expense</u>			
To reflect the amortization of contributed taxes.	<u>(\$3,388)</u>	<u>(\$2,454)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$5,618)	(\$10,909)	
2 To remove property tax on non-U&U adjustment above.	<u>0</u>	<u>(5,965)</u>	
Total	<u>(\$5,618)</u>	<u>(\$16,874)</u>	
<u>Income Taxes</u>			
1 To adjust test year income tax expense.	(\$29,149)	(\$36,330)	
2 To reflect appropriate parent debt adjustment.	<u>(4,016)</u>	<u>(7,524)</u>	
Total	<u>(\$33,165)</u>	<u>(\$43,854)</u>	

Docket No. 040450-WS  
 Date: November 23, 2004

Indiantown Company, Inc. Water Monthly Service Rates Test Year Ended 12/31/03		Schedule No. 4-A Docket No. 040450-WS									
		Rates in Effect at 12/31/03		Present Rates (1)		Utility Requested Interim		Utility Requested Final		Staff Recomm. Interim	
<b><u>Residential and General Service</u></b>											
Base Facility Charge by Meter Size:											
5/8" x 3/4"		\$10.33	\$10.45	\$12.44	\$14.88	\$11.32					
1"		\$25.82	\$26.13	\$31.11	\$37.20	\$28.29					
1-1/2"		\$51.65	\$52.27	\$62.24	\$74.40	\$56.60					
2"		\$82.63	\$83.62	\$99.56	\$119.04	\$90.55					
3"		\$154.94	\$156.80	\$186.70	\$223.20	\$169.79					
4"		\$258.23	\$261.33	\$311.15	\$372.00	\$282.98					
6"		\$516.45	\$522.65	\$622.30	\$744.00	\$565.95					
8"		\$826.32	\$836.24	\$995.68	\$1,190.40	\$905.52					
8" Turbo		\$929.61	\$940.77	\$1,106.85	\$1,339.20	\$1,018.70					
Gallonge Charge, per 1,000 Gallons											
<b><u>Private Fire Protection</u></b>											
Base Facility Charge by Meter Size:											
2"		\$6.90	\$6.98	\$8.31	\$9.92	\$7.56					
3"		\$12.91	\$13.07	\$15.56	\$18.60	\$14.15					
4"		\$21.52	\$21.78	\$25.93	\$31.00	\$23.58					
6"		\$43.03	\$43.55	\$51.85	\$62.00	\$47.15					
8"		\$68.86	\$69.69	\$82.98	\$99.20	\$75.46					
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>											
3,000 Gallons		\$14.92	\$15.10	\$17.99	\$20.55	\$16.36					
5,000 Gallons		\$17.98	\$18.20	\$21.69	\$24.33	\$19.70					
10,000 Gallons		\$25.63	\$25.95	\$30.94	\$33.78	\$28.09					
<b>Note (1): Present rates are shown for informational purposes only.</b>											

Docket No. 040450-WS  
 Date: November 23, 2004

Indiantown Company, Inc. Wastewater Monthly Service Rates Test Year Ended 12/31/03		Schedule No. 4-B Docket No. 040450-WS			
	Rates in Effect at 12/31/03	Present Rates (1)	Utility Requested		Staff Recomm. Interim
			Interim	Final	
<b><u>Residential</u></b>					
Base Facility Charge All Meter Sizes:	\$16.93	\$17.11	\$21.71	\$24.22	\$18.75
Gallonge Charge - Per 1,000 gallons (6,000 gallon cap)	\$3.66	\$3.70	\$4.70	\$5.03	\$4.05
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$16.93	\$17.11	\$21.71	\$24.22	\$18.75
1"	\$42.34	\$42.78	\$54.29	\$60.55	\$46.90
1-1/2"	\$84.68	\$85.57	\$108.59	\$121.10	\$93.79
2"	\$135.49	\$136.91	\$173.74	\$193.76	\$150.07
3"	\$254.04	\$256.71	\$325.76	\$363.30	\$281.37
4"	\$423.40	\$427.85	\$542.93	\$605.50	\$468.96
6"	\$846.81	\$855.70	\$1,085.87	\$1,211.00	\$937.92
8"	\$1,353.84	\$1,368.06	\$1,736.04	\$1,937.60	\$1,499.51
8" Turbo	\$1,524.25	\$1,540.25	\$1,954.55	\$2,179.80	\$1,688.25
Gallonge Charge, per 1,000 Gallons	\$4.39	\$4.44	\$5.63	\$5.91	\$4.86
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$27.91	\$28.21	\$35.81	\$39.31	\$30.90
5,000 Gallons	\$35.23	\$35.61	\$45.21	\$49.37	\$39.00
10,000 Gallons (Wastewater Gallonge Cap - 6,000 Gallons)	\$38.89	\$39.31	\$49.91	\$54.40	\$43.05
<b>Note (1): Present rates are shown for informational purposes only.</b>					