

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation of Rates) DOCKET NO. 960011-WS
of Indiantown Company, Inc. in) ORDER NO. PSC-96-0169-FOF-WS
Martin County for Possible) ISSUED: FEBRUARY 6, 1996
Overearnings)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

ORDER INITIATING INVESTIGATION INTO RATES AND CHARGES,
SUBJECTING REVENUES TO REFUND,
AND REQUIRING SECURITY

BY THE COMMISSION:

BACKGROUND

Indiantown Co. Inc. (Indiantown or utility) is a Class B utility providing water and wastewater service for approximately 1,677 water and 1,585 wastewater customers in Martin County. The utility's systems are located in the St. Johns River Water Management District Water Conservation Area, which is a designated critical water use area. For the test year ended December 31, 1994, the utility reported water operating revenues of \$449,029 and a net operating income of \$82,218. For the same year, the utility's wastewater operating revenues were \$502,022 with a net operating income of \$61,486.

We last set Indiantown's rates and charges in Order No. 11891, issued on April 27, 1983, in Docket No. 810037-WS. In that order, we determined the utility's rate base and authorized an overall rate of return of 9.87%. In Order No. PSC-95-1328-FOF-WS, issued on November 1, 1995, in Docket No. 950371-WS, we re-established the utility's return on equity at 10.43%. The utility was granted index increases in 1986, 1987, 1988, 1989, 1993 and 1994, and a pass-through increase in 1991.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

INITIATION OF INVESTIGATION INTO RATES AND CHARGES

Based on a desk audit of the utility's 1994 annual report, our staff began an informal investigation into potential overearnings. The 1994 annual report indicated that Indiantown's water system was earning an achieved overall rate of return of 67.27%. Our staff thereupon conducted an audit of the utility's books for the test year ended December 31, 1994. That audit suggests that the utility is earning an overall rate of return of 111.91% for the water system. Accordingly, we find it appropriate that this docket be opened to investigate the possibility of overearnings. Furthermore, we find it appropriate to re-establish the utility's water and wastewater rate bases.

REVENUES SUBJECT TO REFUND

We have attached accounting schedules to illustrate the interim water and wastewater rate bases, Schedules 1-A and 1-B; capital structure, Schedule 2; and statements of water and wastewater test year operations, Schedules 3-A and 3-B. We have not attached schedules explaining adjustments as they are either per audit, self-explanatory or described below. These schedules reflect the test year average balances per audit, as well as specific audit adjustments. There was no filing on the part of the utility and, therefore, the amounts per audit do not reflect the utility's position. These balances do not include any utility calculations for working capital or the overall cost of capital.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Working Capital

Section 367.082(5)(b)1, Florida Statutes requires that, in calculating interim rates, adjustments be made consistent with those in the utility's last rate proceeding. Consistent with the treatment allowed in Indiantown's last rate proceeding, we find that the working capital balances are \$44,349 for water and \$44,349 for wastewater using the balance sheet method.

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We find that rate base for interim purposes is \$93,219 for water and \$766,838 for wastewater.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

As noted above, in Order No. PSC-95-1328-FOF-WS, Indiantown's return on equity was established at 10.43%, with a range of 9.43% to 11.43%. Consistent with Section 367.082(2)(b), Florida Statutes, the appropriate rate of return on equity for interim refund purposes was calculated using the maximum of the range of the last authorized rate of return on equity. We have established an overall rate of return of 9.61% for interim purposes.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, and our adjustments are itemized on Schedules Nos. 3-A and 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

We have adjusted the audit test year balances to properly allocate test year income tax expense. Accordingly, we have increased income tax expense by \$6,334 for water and decreased it by \$6,340 for wastewater.

REVENUE REQUIREMENT

Water operating revenues are \$455,366. This amounts to an 89.39% overall rate of return. We have determined a revenue requirement of \$328,587 for the interim test year, a decrease of \$126,779. Thus, we find it appropriate that \$126,779, or 27.84%, of test year water revenues shall be held subject to refund pending our final determination of the utility's water revenue requirement, pursuant to Section 367.082(2)(b), Florida Statutes. The wastewater system is earning an overall rate of return of 6.40%, which is less than the minimum of the range of authorized overall rates of return.

SECURITY

Pursuant to Section 367.082, Florida Statutes, when revenues are held subject to refund, the utility is authorized to continue collecting the previously authorized rates. We have determined the amount of potential overearnings for the water system to be \$126,779 on an annual basis. On May 13, 1994, the utility implemented a price index annualized of \$8,713 for the water system. Section 367.081(4)(d) Florida Statutes, provides that an index is subject to refund for up to fifteen months after the date of filing of the annual report for the year the index was implemented. The utility filed its 1994 annual report on May 9, 1995. Since the index is already subject to refund, the utility shall be required to collect only \$118,066 in annual revenues subject to refund with interest. Based on a nine-month period to determine the utility's final water revenue requirement, we find that the potential refund amounts are \$92,428.

The Division of Auditing and Financial Analysis has advised that a corporate undertaking signed by an appropriate representative of the utility will be sufficient to protect the potential refunds. Therefore, the utility shall provide a corporate undertaking in the amount of \$92,428 as a guarantee of any potential refund of water revenues collected under interim conditions.

Also, by no later than the twentieth day of each month, the utility shall file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

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

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that an investigation of the water rates and charges of Indiantown Company, Inc., shall be initiated. It is further

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

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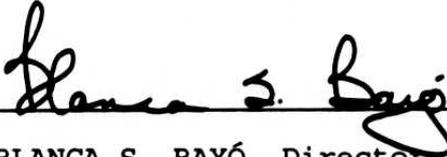
ORDERED that Indiantown Company, Inc., shall collect water service revenues of \$118,066 on an annual basis subject to refund with interest in accordance with Rule 25-30.360, Florida Administrative Code, to the extent set forth in the body of this Order. It is further

ORDERED that Indiantown Company, Inc., shall provide the Commission with a corporate undertaking in the amount of \$92,428 as a guarantee of any potential refund of water revenues collected under interim conditions. It is further

ORDERED that by no later than the twentieth day of each month, Indiantown Company, Inc., shall file a report with the Commission showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this 6th day of February, 1996.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) 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. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

INDIANTOWN COMPANY, INC. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/94			SCHEDULE NO. 1-A DOCKET NO. 960011-WS			
COMPONENT	TEST YEAR PER AUDIT	AUDIT ADJUSTMENTS	BALANCE PER AUDIT	COMMISSION ADJUSTMENTS	COMM. ADJ AVERAGE BALANCE	
1 UTILITY PLANT IN SERVICE	\$ 1,338,954	\$ 31,502	\$ 1,370,456	\$ 0	1,370,456	
2 LAND & LAND RIGHTS	4,469	0	4,469	0	4,469	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	(703,669)	0	(703,669)	0	(703,669)	
5 CIAC	(554,484)	(47,114)	(601,598)	0	(601,598)	
6 AMORTIZATION OF CIAC	154,212	0	154,212	0	154,212	
7 ACQUISITION ADJUSTMENTS - NET	0	0	0	0	0	
8 ADVANCES FOR CONSTRUCTION	(175,000)	0	(175,000)	0	(175,000)	
9 UNFUNDED POST-RETIRE. BENEFITS	0	0	0	0	0	
10 DEFERRED TAXES	0	0	0	0	0	
11 WORKING CAPITAL ALLOWANCE	0	31,255	31,255	13,094	44,349	
12 OTHER	0	0	0	0	0	
RATE BASE	\$ 64,482	\$ 15,643	\$ 80,125	\$ 13,094	\$ 93,219	

INDIANTOWN COMPANY, INC. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/94			SCHEDULE NO. 1-B DOCKET NO. 960011-WS		
COMPONENT	TEST YEAR PER AUDIT	AUDIT ADJUSTMENTS	BALANCE PER AUDIT	COMMISSION ADJUSTMENTS	COMM. ADJ. AVERAGE BALANCE
1 UTILITY PLANT IN SERVICE	\$ 2,454,386	\$ (27,931)	\$ 2,426,455	\$ 0	2,426,455
2 LAND	383	0	383	0	383
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(974,317)	0	(974,317)	0	(974,317)
5 CIAC	(893,905)	47,402	(846,503)	0	(846,503)
6 AMORTIZATION OF CIAC	232,471	0	232,471	0	232,471
7 ACQUISITION ADJUSTMENTS - NET	0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION	(116,000)	0	(116,000)	0	(116,000)
9 UNFUNDED POST-RETIRE. BENEFITS	0	0	0	0	0
10 DEFERRED TAXES	0	0	0	0	0
11 WORKING CAPITAL ALLOWANCE	0	38,924	38,924	5,425	44,349
12 OTHER	0	0	0	0	0
RATE BASE	\$ 703,018	\$ 58,395	\$ 761,413	\$ 5,425	766,838

INDIANTOWN COMPANY, INC.
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/94

SCHEDULE NO. 2
 DOCKET NO. 960011-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY 1994							
1 LONG TERM DEBT	\$ 0	\$ 0	\$ 0	0	0.00%	0.00%	0.00%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
6 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 ADJUSTMENT FOR GAS	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	\$ 0	\$ 0	\$ 0	0	0.00%		0.00%
PER COMMISSION 1994							
10 LONG TERM DEBT	\$ 307,402	\$ 0	(276,072)	31,330	3.64%	10.74%	0.39%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	1,233,500	0	(1,107,783)	125,717	14.62%	6.00%	0.88%
13 COMMON EQUITY	5,947,507	0	(5,341,345)	606,162	70.48%	11.43%	8.06%
14 CUSTOMER DEPOSITS	41,673	0	0	41,673	4.85%	6.00%	0.29%
15 DEFERRED INCOME TAXES	55,175	0	0	55,175	6.42%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 OTHER	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	\$ 7,585,257	\$ 0	\$ 6,725,209	860,057	100.00%		9.61%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.43%	11.43%
OVERALL RATE OF RETURN	8.21%	9.61%

INDIANTOWN COMPANY, INC.
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/94

SCHEDULE NO. 3-A
DOCKET NO. 960011-WS

DESCRIPTION	TEST YEAR PER AUDIT	AUDIT ADJUSTMENTS	BALANCE PER AUDIT	COMMISSION ADJUSTMENTS	COMM. ADJ. AVERAGE BALANCE	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 449,029	\$ 6,337	\$ 455,366	\$ 0	\$ 455,366	(126,779)	\$ 328,587
OPERATING EXPENSES:						-27.84%	
2 OPERATION AND MAINTENANCE	\$ 253,488	(3,428)	\$ 250,040	\$ 0	\$ 250,040		\$ 250,040
3 DEPRECIATION	38,122	11,510	49,632	0	49,632		49,632
4 AMORTIZATION	(15,682)	(9,193)	(24,875)	0	(24,875)		(24,875)
5 TAXES OTHER THAN INCOME	45,303	0	45,303	0	45,303	(5,705)	39,598
6 INCOME TAXES	45,600	0	45,600	6,334	51,934	(46,704)	5,229
7 TOTAL OPERATING EXPENSES	\$ 306,811	(1,111)	\$ 305,700	\$ 6,334	\$ 372,034	(52,409)	\$ 319,624
8 OPERATING INCOME	\$ 82,218	\$ 7,448	\$ 89,666	(6,334)	\$ 83,332	(74,370)	\$ 8,963
9 RATE BASE	\$ 64,482		\$ 80,125		\$ 93,219		\$ 93,219
RATE OF RETURN	127.51%		111.91%		89.39%		9.61%

INDIANTOWN COMPANY, INC.
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED 12/31/94

SCHEDULE NO. 3-B
DOCKET NO. 960011-WS

DESCRIPTION	TEST YEAR PER AUDIT	AUDIT ADJUSTMENTS	BALANCE PER AUDIT	COMMISSION ADJUSTMENTS	COMM. ADJ AVERAGE BALANCE	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 502,022	\$ 4,681	\$ 506,703	\$ 0	\$ 506,703	\$ 0	\$ 506,703
OPERATING EXPENSES						0.00%	
2 OPERATION AND MAINTENANCE	\$ 312,859	(1,467)	\$ 311,392	\$ 0	\$ 311,392	\$	\$ 311,392
3 DEPRECIATION	62,321	46,546	108,867	0	108,867		108,867
4 AMORTIZATION	(22,913)	(21,018)	(43,931)	0	(43,931)		(43,931)
5 TAXES OTHER THAN INCOME	54,369	(669)	53,701	0	53,701	0	53,701
6 INCOME TAXES	33,900	0	33,900	(6,340)	27,560	0	27,560
7 TOTAL OPERATING EXPENSES	\$ 440,536	\$ 23,393	\$ 463,929	(6,340)	\$ 457,589	\$ 0	\$ 457,589
8 OPERATING INCOME	\$ 61,466	(18,712)	\$ 42,774	6,340	\$ 49,114	\$ 0	\$ 49,114
9 RATE BASE	\$ 703,018		\$ 761,413		\$ 766,836		\$ 766,836
RATE OF RETURN	8.75%		5.62%		6.40%		6.40%