



Public Service Commission

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

DATE: JULY 27, 1999
 TO: CHAIRMAN GARCIA
 FROM: DAN HOPPE, DIRECTOR, DIVISION OF WATER AND WASTEWATER *and*
 ROSANNE GERVASI, BUREAU CHIEF, DIVISION OF LEGAL SERVICES
 RE: DOCKET NO. 990939-WS, APPLICATION OF INDIANTOWN COMPANY, INC.
 FOR AN INCREASE IN WATER AND WASTEWATER RATES IN MARTIN
 COUNTY - TEST YEAR APPROVAL

By letter dated July 16, 1999, Indiantown Company, Inc. (Indiantown) has requested approval to use an historical test year ended June 30, 1999 for a rate case filing. The company has indicated that for the year ended December 31, 1998, both the water and wastewater systems were significantly underearning with no operating income and a negative return on equity. Staff has also confirmed by telephone that the utility will file its application using the Proposed Agency Action provision in Section 367.081(8), Florida Statutes. Further, the utility will request interim rates using an historical test year. The utility has not chosen a specific test year for interim purposes at this time.

Indiantown states the test year ended June 30, 1998 is representative of the utility's current operations, as no operational changes have occurred and customer growth has not been and is not expected to be significant in the future. The utility states that there are no major plant expansions requested in this case. However, it does intend to request recovery a new emergency generator to benefit current customers. Further, the utility states that it will request recovery for two pro forma adjustment to the test year. The first is for recovery of increased maintenance expenses associated with the mediated settlement of a dispute with a developer. The second group of pro forma adjustments relates to costs required by the Florida Department of Environmental Protection permit renewal of the wastewater treatment plant. These costs include additional testing and monitoring costs, pond cleaning costs, increased electrical and maintenance costs, installation of two meters, costs to modify its surge tank, installation of additional plant equipment, and the construction of a lime silo and slurry mixing basin. The utility states that these pro forma costs will be incurred after the test year and will not distort or make the test year unrepresentative to establish rates on a perspective basis.

The utility's last rate case was in Docket No. 810037-WS, which established rates and charges in Order No. 11891, issued on April 27, 1983. By Order No. PSC-95-1328-FOF-WS, issued on November 1, 1995 (Docket No. 950371-WS), the Commission reestablished Indiantown's return on equity to 10.43%. In Docket No. 960011-WS, the Commission initiated an overearnings investigation for Indiantown. By Order No. PSC-96-0657-FOF-WS, issued on May 10, 1996, the Commission established rate base for both the water and wastewater systems and required a refund and rate reduction of the 1994 price index adjustment.

Staff believes that the requested test year will be representative because of the reasons stated above. Staff has reviewed the utility's annual reports for the calendar years 1996 through 1998. Based on our review, we believe that the requested test year should

- AFA
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- CTR
- EAG
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FPSC-RECORDS/REPORTING

MEMO TO CHAIRMAN () RCIA
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be approved. Receipt of the application by November 30, 1999, will be acceptable.

The test year letter filename is I:\PSC\WAW\WP\FPUC-TYA.PWM

c: Dr. Mary Bane, Deputy Executive Director/Technical
Division of Water and Wastewater (Willis, Crouch, Merchant)
Division of Legal Services (Gervasi)
Division of Records and Reporting
Jackie Edwards