

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into the) DOCKET NO. 950371-WS
Authorized Return on Equity) ORDER NO. PSC-95-1328-FOF-WS
(ROE) of Indiantown Company,) ISSUED: November 1, 1995
Inc. in Martin County)
_____)

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER INITIATING LIMITED PROCEEDING AND
RE-ESTABLISHING AUTHORIZED RATE OF RETURN

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that 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.

BACKGROUND

Indiantown Company, Inc. (Indiantown or utility) is a Class B utility providing water and wastewater service to approximately 1,677 water and 1,585 wastewater customers in Martin County. Indiantown's current authorized rate of return (ROE) of 16.35% was established in Order No. 11891, issued on April 27, 1983, in Docket No. 810037-WS. The current leverage formula, established in Order No. PSC-95-0982-FOF-WS, issued on August 10, 1995, sets the range of equity returns for water and wastewater utilities from 10.18% to 11.88%.

Our staff has on several occasions since October, 1993, discussed with the utility its voluntarily reducing its ROE in line with the current leverage formula. The utility, however, disagrees that its ROE should be established in this way. Rather, the utility believes that the last authorized ROE for its telephone system, 11.80%, is appropriate for the water and wastewater systems. Its telephone system, Indiantown Telephone System, Inc. (ITSI), is a wholly-owned subsidiary of the utility, and is a local exchange telephone company, also regulated by this Commission.

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PSC-RECORDS/REPORTING

LIMITED PROCEEDING

Based on the utility's 1994 annual report, its achieved overall rates of return (ROR) for the water and wastewater systems were 67.27% and 6.78%, respectively, with a combined ROR of 13.96%. According to the capital structure presented in the annual report, the mid-point of the required ROR was 14.18%.

Indiantown has not filed a rate case with the Commission since 1983. It has only utilized yearly price indices and pass-through rate increases since that date. As previously noted, Indiantown's authorized ROE was established as 16.35% in 1983. We find that a ROE of 16.35% is unreasonable in today's economic climate. Considering the length of time since the utility's last rate case, and with no indication of one forthcoming soon, we believe we must at this time lower the utility's authorized ROE. Thus, pursuant to Section 367.0822, Florida Statutes, we find it appropriate to initiate a limited proceeding for the purpose of lowering the utility's ROE in order to reflect a more appropriate rate on a going-forward basis.

AUTHORIZED RATE OF RETURN

Our analysis is based on Indiantown's filed 1994 annual report. Starting with the utility's total capital structure, the investment in ITSI was removed directly from common equity. This is consistent with Rule 25-30.433 (12), Florida Administrative Code, regarding nonutility investment. Using the adjusted year-end capital structure, we find the resulting equity ratio to be 81.95%. Based on the current leverage graph, we determine an authorized ROE for the utility of 10.43%, with a range of 9.43% to 11.43%.

We note that the components of the capital structure used to calculate the ROE in this proceeding are unaudited. If, in any future full investigation of the utility's books and records and quality of service, adjustments are revealed to be necessary, we will not be bound to adjustments made in this proceeding.

The utility agrees that its current ROE is too high. However, we find no support for the utility's contention that the ROE for Indiantown should be the same as ITSI. Moreover, its current authorized ROE of 16.35% was established by means of the leverage formula. Absent evidence supporting an authorized ROE different from that established by the leverage formula, we are required under Section 367.081(4)(f), Florida Statutes, to approve the range of rates of ROE established by the leverage formula.

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In summary, we find it appropriate to reduce the authorized ROE for Indiantown to 10.43%, consistent with the current Water and Wastewater leverage formula. This authorized ROE shall be effective as of the date our order becomes final. It shall be applied to any future proceedings of this utility, including, but not limited to, price indices, interim rates, and overearnings.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that a limited proceeding shall be initiated in order to establish a more appropriate authorized return on equity for Indiantown Company, Inc., on a going-forward basis. It is further

ORDERED that Indiantown Company, Inc.'s authorized rate of return shall be 10.43% plus or minus 100 basis points for all regulatory purposes as of the effective date of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission, this 1st day of November, 1995.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

(S E A L)

CJP

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 22, 1995.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 Records and Reporting and 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 of the effective date 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.