

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate increase )	DOCKET NO. 900656-WU
in Martin County by Hobe Sound Water )	ORDER NO. 24485
Company )	ISSUED: 5-7-91
_____ )	

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman  
 J. TERRY DEASON  
 BETTY EASLEY  
 GERALD L. GUNTER

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING FINAL RATES AND CHARGES  
AND REQUIRING REPORTS

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

On November 21, 1990, Hobe Sound Water Company (Hobe Sound or the utility) filed its minimum filing requirements (MFRs) for a rate increase. The MFRs were accepted as complete and that date was established as the official date of filing. The test year for final rate determination is the projected twelve-month period ended December 31, 1990, based on the historical year ended December 31, 1989. The utility requested that this case be processed pursuant to the proposed agency action process as provided for in Section 367.081(8), Florida Statutes.

The utility also requested interim water rates designed to generate \$1,004,907 in annual revenues. These revenues exceed test year revenues by \$248,970 for an increase of 32.94 percent. By Commission Order No. 24048, issued on January 31, 1991, Hobe Sound was granted interim water rates which would exceed test year revenues by \$227,163 for an increase of 29.39 percent.

DOCUMENT NUMBER-DATE

04432 MAY-7 1991

FPSC-RECORDS/REPORTING

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 2

In its application, Hobe Sound has requested final water rates designed to generate annual revenues of \$1,280,927. These revenues exceed test year revenues by \$507,536, representing an increase of 65.62 percent.

#### QUALITY OF SERVICE

Our analysis of the overall quality of service provided by the utility is based upon our evaluation of the utility's compliance with the rules of the Department of Environmental Regulation (DER) and Health Department water standards, the quality of the water produced by the utility, the operational conditions of the utility's plant and customer satisfaction.

Hobe Sound is a Class B utility which provides water service in Martin County to customers located in Hobe Sound and Jupiter Island, Florida. The utility provides water service to 1,131 residential and 79 commercial customers. Treatment of raw water obtained from several wells within the area includes chlorination and aeration.

On-site inspection of the utility plant and distribution system indicated that the water treatment plant and distribution system were operating satisfactorily and were receiving adequate maintenance. Also, the utility is in compliance with DER operating standards and no complaints or orders have been filed with this Commission against Hobe Sound.

On January 24, 1991, a customer meeting was conducted by our staff in the utility service area to gather information from the customers regarding quality of service and other matters. Approximately five customers attended. During the meeting, none of the customers had any comments. Afterwards, one of the customers expressed his satisfaction with the utility's quality of service.

Upon consideration of the above, we find that the quality of service provided by Hobe Sound in treating and distributing water is satisfactory.

#### RATE BASE

Our calculations of the appropriate water rate base are attached to this Order as Schedule No. 1-A. Our adjustments are attached as Schedule No. 1-B. Those adjustments which are self-explanatory or essentially mechanical in nature are set forth in those schedules without any further discussion in the body of this Order. The major adjustments are discussed below.

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 3

#### Margin Reserve

Margin reserve is the concept whereby the Commission recognizes certain costs the utility incurs in providing capacity sufficient to meet short term growth without impairing the utility's ability to provide safe and adequate service to existing customers. However, in this case the utility did not request any margin reserve, so none was included.

#### Used and Useful

We calculated the used and useful percentages for the water treatment plant by adding the maximum daily flow of 4,582,000 gallons per day (gpd) and the required fire flows of 360,000 gallons less excessive unaccounted for water of 60,795 gpd, then dividing by the total plant capacity of 4,420,000 gpd. The utility did not request margin reserve, so margin reserve is not included in this calculation. Based on the calculation above, we find the appropriate used and useful level of the water treatment plant to be 100 percent.

According to the MFRs filed by the utility, the water distribution system is 100 percent used and useful based on population density. However, we have adjusted this used and useful calculation based on our practice of using the number of existing lots, 1220, plus margin reserve (none, as the utility did not request one) by the total number of potential lots, 1435 (1220 + 215). Therefore, we find the appropriate used and useful level of the water distribution system to be 85 percent.

#### Non-used and Useful

Based on our policy, the non-used and useful portion of the plant was removed from rate base. Therefore, we decreased the utility plant-in-service account by \$90,972, with a corresponding reduction to accumulated depreciation of \$51,316 and to depreciation expense of \$2,756. Property tax expense associated with this plant adjustment was decreased by \$738.

#### Composite Adjustments

Composite adjustments to utility plant-in-service, land, accumulated depreciation, and depreciation expense have been made. These corrections are discussed below.

We increased plant-in-service to reflect the purchase of a car telephone for the operations supervisor incorrectly charged to the

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 4

communication expense account. Therefore, communication expense was decreased by \$837 and utility plant-in-service was increased by \$837, with a corresponding increase to accumulated depreciation and depreciation expense of \$38 in each account.

The utility land account was adjusted for several incorrect additions made since 1981. The utility was unable to provide documentation supporting \$5,738 added in 1981, or a miscellaneous credit of \$830, for a net addition of \$4,908. A 1985 net addition of \$2,398 represented a May journal entry for road engineering for \$3,743.60, which should have been classified as plant improvements, and an undocumented credit of \$1,345.70. The 1981 land addition was disallowed due to a lack of adequate support and the 1985 road engineering charge was reclassified to structures and improvements per the 1984 NARUC Account Distribution Index for Water Utilities. The two miscellaneous credits were also disallowed due to lack of documentation. The net effect of our adjustments is a reduction to land by \$7,306, an increase in utility plant-in-service of \$2,398, an increase in accumulated depreciation of \$792, and an increase depreciation expense of \$233.

Hobe Sound's MFRs and books did not reflect the adjustments to utility plant-in-service and accumulated depreciation that were made in a previous rate case, in Docket No. 800776-W, Order No. 10368, issued on November 2, 1981. The utility stated that \$13,000 removed from plant and a corresponding \$758 removed from accumulated depreciation were in error; therefore, the amounts were not removed from rate base. However, the utility could not provide support for its position that the amounts should be included in rate base. An additional \$6,537 of accumulated depreciation disallowed by this Commission in the same order was uncontested by the utility. Therefore, we reduced plant-in-service by \$13,000, reduced accumulated depreciation by \$15,633, and depreciation expense by \$394.

A reduction of \$2,000 to both utility plant-in-service and to accumulated depreciation was made for a standpipe no longer in use.

#### Removal of Allowance for Funds Used During Construction (AFUDC)

Hobe Sound accrued AFUDC from April through December, 1989, without requesting an approved rate. Because the AFUDC charged during that period was not approved by us, it must be removed. Therefore, we find that utility plant-in-service should be reduced by \$68,198 to reflect the removal of AFUDC that was accrued without Commission approval. Corresponding reductions should be made of

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 5

\$4,340 to accumulated depreciation and \$2,067 to depreciation expense.

#### Rate Base Treatment

The utility requested a projected year-end rate base because it replaced substantially all of the original treatment and storage facilities in 1989, at a cost of approximately \$1.6 million, and because it was in the process of adding four new wells and implementing saltwater monitoring at an estimated cost of \$450,000 in 1990. The improvements made in 1989 are fully recognized in rate base.

We analyzed the effect of utilizing a year-end rate base in this case. We determined that the rate base would be at its highest point at the end of 1990. The utility's growth rate is less than two percent and the utility is near build-out. It has already replaced its water plant. Due to the effects of accumulated depreciation, the rate base will decline after 1990, unless further major construction takes place. In response to our inquiry, the utility informed us that it has no present plans for such construction. We find that the utility failed to make the requisite showing of extraordinary circumstances, such as extraordinary growth, in order for us to approve the use of a year-end rate base.

In Citizens of Florida v. Hawkins, 356 So.2d 254 (Fla. 1978), the Court opined, "It is apparent, however, that the average rate base approach can produce a distorted picture of future conditions when the company is experiencing extraordinary growth due to rapidly increasing demands for its services, as in periods of great population influx, or when other factors are forcing investment costs upward without a concomitant increment in revenues. This latter phenomenon, commonly referred to as 'attrition', is principally the by-product of inflation." 356 So.2d at 256. The Court goes on to say, "Our review of the record indicates that the Commission's concern for the erosive effect of attrition on the company's ability to earn its fair rate of return is indeed well-founded. We do not, however, conclude from that fact alone, as the Commission did, that a year-end rate base 'is the most practical way by which to alleviate the problem.' Rather, we hold that a separate attrition allowance is the appropriate tool. For one thing, attrition is more easily quantifiable than growth." Id. at 258. The Court admonished the Commission, stating "in future rate cases, and on remand here, these uncertainties will be eliminated by having the Commission predicate its decision regarding the use of a year-end rate base solely on considerations of extraordinary

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 6

growth, and by requiring all adjustments for attrition to be encompassed within a separate allowance." Id.

Although we are denying the utility's request for rate base treatment, we do find that a pro forma adjustment should be made to depreciation expense to mitigate the effect of the half-year depreciation convention, which caused the utility to include only half of its depreciation expense on the new plant additions in the test year. This adjustment allows the utility to recover its full depreciation expense during the years in which the rates will be in effect. We find the appropriate adjustment is an increase to depreciation expense of \$9,873.

#### Plant Additions

Hobe Sound projected that it would complete \$463,308 in plant additions during 1990. The actual figure was \$600,417 for a difference of \$137,109. Using the half-year convention, the adjustment to accumulated depreciation and depreciation expense would be an increase of \$2,077 to both items.

The utility requested that the rates should be based upon actual information as it becomes available, in place of projections. Thus, if the utility incurred capital expenditures in excess of those projected, that excess should be an addition to rate base. We concur. This results in an increase of \$68,555 to utility plant-in-service, and \$1,039 to accumulated depreciation, with an increase of \$2,077 to depreciation expense. We find these adjustments to be appropriate.

#### Capitalized Labor

Hobe Sound does not capitalize labor for the installation of meters. The NARUC Uniform System of Accounts, Account Number 334, meters and meter installations, states that "It shall also include the cost of labor employed, materials used and expenses incurred in connection with the original installation of customer meters. . ." Since the last rate case, 494 meters have been installed. We calculated the cost of meter installations since the last rate case, based on information provided by the utility, to be \$5,545. This amount has been added to utility plant-in-service. The associated accumulated depreciation is \$1,189 for all years since 1980, and the depreciation expense, using half-year convention, to be included in the test year is \$10. Salaries expense and benefits in the test year amount to \$371, and payroll tax is \$27.

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 7

Hobe Sound also does not capitalize labor associated with construction. NARUC Uniform System of Accounts Accounting Instruction 19 requires that the cost of labor be included in the utility plant accounts. Labor is defined as "the pay and expense of employees of the utility engaged on construction work, and related worker's compensation insurance, payroll taxes and similar items of expense."

The construction period for the Hobe Sound water plant addition was the last half of 1989 and the first half of 1990. Our analysis of payroll showed that the total salaries expense at 1990 rates would be \$233,397. The actual per the utility, including overtime and construction bonuses, is \$245,880. The MFRs showed salaries expense of \$259,565. The \$13,685 by which MFR salaries exceed actual are discussed below. We find that the \$12,483 by which actual salaries for the test year exceed regular salaries excluding overtime and construction bonuses, is properly capitalized as utility plant-in-service. The associated benefits of \$1,750 and payroll tax of \$1,067 should also be capitalized for an average total increase of \$7,650 to utility plant-in-service with corresponding decreases to the appropriate expense accounts. Using the half-year convention, accumulated depreciation should be increased by \$129.

The following total adjustments were made: utility plant-in-service was increased by \$13,195 and salaries expense and related benefits decreased by \$14,604 to recognize labor costs which were expensed rather than capitalized. Corresponding adjustments were made to decrease payroll tax by \$1,094 and to increase accumulated depreciation by \$1,317 and depreciation expense by \$267.

#### Working Capital

The utility used the formula method for calculating working capital, which is based on one-eighth of operation and maintenance expense (O & M). Hobe Sound calculated its allowance for working capital based upon its adjusted amount of O & M expenses. However, we have made adjustments to their requested O & M expenses, which are discussed in a subsequent portion of this order. Accordingly, using the formula method, we find the appropriate working capital allowance to be \$67,616. This represents a reduction of \$6,508 in the requested working capital allowance.

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 8

### Rate Base

Using the simple average method and based on our decisions and adjustments herein, we find that the appropriate test year rate base is \$2,693,537.

### COST OF CAPITAL

#### Capital Structure

As previously stated, Hobe Sound used a projected test year ended December 31, 1990, in preparing its MFRs. Subsequently, actual information has become available. We have compared the actual information in the utility's audited financial statements for the year ended October 31, 1990, and the trial balances ended December 31, 1989 and 1990, to the MFRs. Based on the analysis of this information, we have decreased long term debt by \$2,514, increased common equity by \$203,761, and increased deferred income taxes by \$2,000.

#### Intercompany Short-term Debt

Hobe Sound did not include short-term debt in its capital structure. In examining the filing, we discovered that the utility made an upward adjustment to reconcile its capital structure to the rate base. Clearly, some element of the utility's financing is missing from its proposed capital structure. Our analysis showed that the utility had intercompany payables on its books at December 31, 1989 of \$207,979, and at December 31, 1990 of \$240,238. This represents 8.67 percent of the capital structure. Based on the materiality of the amount, and the fact it appears to be relatively constant, we have concluded that the payables are being used as financing by the utility. It is the utility's position that it has no interest bearing notes or other instruments other than the construction loan from Sun Bank. Accordingly, we have assigned a cost of zero to the payables and have included short term debt of \$224,109 in the utility's capital structure at zero cost.

#### Return on Equity

Commission practice is to use the leverage formula in effect at the time of our vote when establishing a return on equity. Therefore, using the mid-point of the current leverage formula contained in Order No. 24246, effective April 9, 1991, we find the appropriate return on equity to be 12.35 percent, with a range of 11.35 percent to 13.35 percent.



ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 9

### Deferred Taxes

Hobe Sound has included deferred taxes in its cost of capital at 11.39 percent. It is Commission policy that deferred taxes represent a cost-free source of funds. Therefore, we find the appropriate cost of deferred taxes to be zero.

### Overall Rate of Return

Based on our decisions herein, we find the appropriate overall rate of return to be 10.23 percent, with a range of 9.70 percent to 10.75 percent. The capital structure is shown on Schedule No. 2-A, with our adjustments to the capital structure shown as Schedule No. 2-B.

### 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.

### Implementation of Pass-Through of Regulatory Assessment Fee

Subsequent to the filing of the rate proceeding, Hobe Sound requested implementation of a pass-through of regulatory assessment fees pursuant to Chapter 367.081(4)(b), Florida Statutes. The request was approved, effective on or after January 5, 1991. No mention was made of this pass-through in the MFRs. Therefore, we have adjusted test year revenue to reflect the resulting revenue increase of \$13,220.

### 1990 Actual Expenses

We have compared the actual information in the utility's audited financial statements for the year ended October 31, 1990, and the trial balances ended December 31, 1989 and 1990, to the MFRs. Many of the O & M expense accounts differ from projected amounts, with some higher than projected and some lower. The decrease is primarily due to the fact that the utility did not hire an operator which it had included in its MFRs. This is discussed further below. The primary difference in taxes other than income is that property taxes paid in November 1990 were substantially lower than projected. Based on the analysis of this information,

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 10

we have increased operation and maintenance expenses by \$13,726, and decreased taxes other than income by \$27,351.

#### Personal Use of Water and Purchased Power

The utility operations supervisor lives in a house at the water treatment site. The house is just behind and overlooking the water plant. The utility provides water and electricity to the house. The utility does not recognize revenue associated with the supervisor's personal consumption of water. The electricity expense is included in purchased power.

The issue of the supervisor's house in rate base was addressed by the Commission in the last rate case where it was decided that the plant security provided by having someone on the property twenty-four hours a day warranted leaving the house in rate base. However, the utilities associated with the house were not addressed in the previous rate case.

The utility contends that since it requires the operations supervisor to live at this facility, it provides not only the structure, but also the utilities required to maintain the structure. Because the employee provides twenty-four hour per day security, there is effectively "no personal use" of utilities. In response to further inquiry, the utility stated that it is not a condition of the plant supervisor's employment that he live in the house. If he were unable to do so, another employee would occupy the premises and provide the required security. We find that while it is the intent of the utility to use the house for additional security, the supervisor is not required to live there. The employee receives a benefit from the arrangement, as well as the utility, so it is not unreasonable for the employee to be expected to provide his own utilities.

We find that 1000 KWH per month is the more appropriate usage for electricity, and that the utility's average water bill should be used to calculate the water revenue, and we have calculated its adjustment accordingly. We find these calculations are a reasonable approximation of the revenues and expenses. Therefore, water revenue was increased by \$634 and purchased power expense was decreased by \$922 to reflect the personal use of these items by the operations supervisor.

#### Removal of Non-Utility Employee

The MFRs include the salary of one employee whose duties are non-utility. This employee is a secretary who works for the

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 11

president of the water company. The president of the water company is also Director of the Hobe Sound Company, which is the parent company of the utility. The utility believes that since the president is active in organizations associated with water, such as the South Florida Water Management District, his secretary's salary should be charged to the utility. However, he charges no time to the water company's operations. We find that the time for his secretary should be charged to the utility in the same proportion as his own time. Further, it is apparent from information provided by the utility that the secretary will not be needed by the utility in the future. Therefore, salaries expense was reduced by \$15,860, with a corresponding reduction to payroll taxes and employee benefits of \$1,313 and \$2,234 respectively for the non-utility employee.

#### Reduction of Salary Expense

The MFRs contained an adjustment to replace the current part-time certified operator with a full-time operator. A discussion with the utility manager disclosed that Hobe Sound has no firm plans to stop employing the part-time operator until the utility is required to hire a full-time operator. At the present time, DER rules do not require that Hobe Sound's treatment plant have a full time operator.

The utility requested an increase of \$21,600 to salaries expense to replace the part-time operator with a full-time operator. However, no payroll tax was requested in the MFRs. Because the utility has no plans to hire the requested operator, this amount of salaries should be excluded. Since this amount was already eliminated in adjusting salaries expense to actual, no further adjustment was made.

#### Removal of Non-Utility Expenditures

The utility purchased a pig at the Martin County Fair 4-H and FFA Swine Sale and charged this non-utility expenditure to materials and supplies. Therefore, we have reduced materials and supplies by \$975.

#### Unaccounted For Water

In its MFRs, the utility reports unaccounted for water for 1990 as being 11.33 percent. This percentage was partially based on the projected usage of four months from September 1990 to December 1990. After obtaining the actual amounts for these months, the unaccounted for water was recalculated to be 12.40

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 12

percent. The reasonable amount of unaccounted for water is considered by the Commission to be 10 percent, and we find that the utility's unaccounted for water is excessive by 2.4 percent. An adjustment of \$2,675 was made to chemical and purchased power expenses used to treat the excessive unaccounted for water.

Further, we find that the utility should reduce its amount of unaccounted for water. During 1987, 1988, and 1989 the utility had unaccounted for water of 7.76 percent, 7.00 percent, and 8.87 percent respectively. However, in 1990, the percentage of unaccounted for water jumped to 12.40 percent, a difference of almost 4 percent.

#### Rate Case Expense

In its application Hobe Sound requested \$48,423 in rate case expense. The utility has provided receipts through February 28, 1990, and an estimate of remaining costs to complete the case. The revised request totals \$80,886. Since the utility had not had a rate case in about 10 years, it requested assistance from the consultants after the filing. This resulted in more participation by the consultants than originally anticipated, and thus a higher charge of rate case expense to the utility.

The actual cost through February 28, 1990, included \$63,013 for rate case consultant fees for preparation of the MFRs, the petition and other documentation in the filing, \$327 for engineering fees for information provided to the consultants regarding the water conservation plan, \$900 for filing fees, and \$1,050 for printing. After reviewing the individual invoices for each item, we find these expenses to be reasonable with the following exceptions.

First, we determined that \$5,066 of the legal expense in 1990 and \$162 in 1989 were rate case consultant fees. We also determined that \$1,775 for preparation of tax schedules was included in O & M expenses. Therefore, we have removed \$6,841 from test year O & M expenses for these items and have included the above amounts in rate case expense.

Second, a portion of the rate case consultant fees was determined to pertain to a previous request for a test year ended October 31, 1990. That request was subsequently withdrawn. The utility states that all data and schedules prepared for use in that case were reused for this filing, with the exception of one schedule on which the consultant worked for two and one-half hours at \$125 per hour. This results in a reduction of \$313.

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 13

Third, in examining the invoices which the utility has provided we find that the one for the period ended February 28, 1991 states that it is for review of the staff audit report and preparation for a response. The total is \$2,404. The utility responded to five of nineteen audit exceptions and disclosures. We find this charge to be excessive, and have reduced this item by \$1,000.

Fourth, in its estimate to complete the case, the utility requested an additional \$6,175. Of this amount, \$575 is to review the audit report and prepare a response. As discussed above, this item is excessive and therefore, we find the additional expense should be disallowed.

Fifth, the utility has also requested an additional \$2,000 for printing and postage for the customer notices, but has not justified why this should be added to the amount already requested in the MFRs. Accordingly, it is also disallowed.

Sixth, the utility included travel costs to meet with staff to discuss the recommendation and to attend the agenda conference, at \$1,100 per trip. It is not common practice for the utility to meet with staff after the filing of a recommendation. We encourage the utility to point out to staff what it believes to be errors or omissions; however, such matters are often handled by telephone conference call or fax. We have removed the charges of \$1,100 for this trip from rate case expense.

We find that total rate case expense of \$75,898 appropriate. The four year amortization will be \$18,712. This results in an increase to rate case expense as requested in the MFRs of \$6,606.

#### Guideline Depreciation Rates

Hobe Sound has requested approval to change its depreciation to guideline depreciation rates pursuant to Rule 25-30.140, Florida Administrative Code. The intent of depreciation under the rule is to provide for recovery of invested capital and to match that recovery as nearly as possible to the useful life of the depreciable investment. We find it is appropriate for the company make this change. The utility has already reflected this change in its application, therefore no adjustments are necessary.

#### Income Tax Expense

The utility requested income tax expense of \$113,298. This included current tax of \$122,830 and deferred tax of (\$9,532).

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 14

We recalculated the income tax expense based on our approved net operating income. We also made adjustments to deferred income taxes for changes to depreciation expense which effected the timing differences.

As previously stated, Hobe Sound is a subsidiary of The Hobe Sound Company. Rule 25-14.004, Florida Administrative Code, requires the income tax expense of a regulated company to "...be adjusted to reflect the income tax expense of the parent debt that may be invested in the equity of the subsidiary where a parent-subsidiary relationship exists and the parties to the relationship join in the filing of a consolidated income tax return." An examination of the audited October, 1990, financial statements of the parent show that it has no debt. Therefore, a parent debt adjustment has not been made.

Based on these facts, we find the total income tax expense of \$96,301 to be appropriate.

#### Operating Income

Based on our previous adjustments, we find the appropriate operating income to be \$275,479 for the water system.

#### REVENUE REQUIREMENT

Based upon Hobe Sound's application and our adjustments made herein, we find the appropriate annual revenue requirement to be \$1,147,506. This represents an annual increase of \$359,900 or 45.70 percent. This will allow the utility the opportunity to recover its expenses and earn an 10.23 percent return on its investment in rate base.

#### Apportionment of Rate Case Expense

In complying with Section 367.0815, Florida Statutes, the new statute regarding the apportionment of rate case expense, we have made several calculations to determine if an adjustment is required. First, we calculated the revenue requirement including the approved amount of prudent rate case expense. We then compared the approved revenue increase to the amount requested by the utility, and derived a percentage based on these figures. This percentage represents the proportion of rate case expense to be included in O & M expenses. We applied the percentage to the amount of prudent rate case expense approved to determine the amount to be removed. Because the utility has used the formula method to calculate its working capital allowance, a corresponding

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 15

reduction was made to rate base. To calculate the total revenue effect, we combined the adjustments to rate case expense and to net operating income due to the effect on rate base, including the tax effect. We then escalated this amount for regulatory assessment fees. The resulting number represents the total decrease in revenue due to the adjustment of rate case expense.

After calculating the total revenue effect of the adjustment, we had to determine whether the reduction in rate case expense would reduce the utility's return on equity below the range of reasonableness. We interpret the statute to mean that if the reduction would cause the utility's return on equity to drop below its authorized range, the apportionment should not be made. The approved range of the overall rate of return is 9.70 percent to 10.75 percent. Based on our calculations, with the adjustment to rate case expense, the utility's achieved rate of return will remain within the approved range of reasonableness. Therefore, consistent with our interpretation of the statute, we find it appropriate to reduce rate case expense by \$5,443. Schedule No. 4 reflects our calculation of this adjustment.

#### RATE AND RATE STRUCTURE

##### Conservation Rates

Hobe Sound has requested to be allowed to implement water conservation rates. The rate structure requested is designed so that a large water user will pay more than a small water user. Hobe Sound has already implemented a public information campaign to educate customers on water use, which the utility believes has contributed to water conservation in that the utility experienced a .5 percent decrease in water consumption between 1989 and 1990.

While we recognize conservation rates are not the complete answer to water conservation, this utility has designed an overall water conservation plan, which includes the conservation rates structure. The implementation of water conservation rates may vary from utility to utility. The determinations made in developing conservation rates for this utility are unique and may or may not be applicable to subsequent cases.

The utility's plan for conservation rates proposed an increased gallonage charge for any usage over 50,000 gallons per month. We find that usage of 50,000 gallons per month should not be encouraged and would not be effective for conservation. We find the appropriate break-point should be 10,000 gallons per month based on the per month calculation of gallons of usage for an

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 16

equivalent residential connection, as defined in Rule 25-30.515(8)(a), Florida Administrative Code. Thus, we will approve a conservation rate structure, but the increased gallonage charge will apply to usage over 10,000 gallons per month, not 50,000 gallons per month.

Without a detailed examination of the types and needs of general service customers, we find that it is appropriate to apply conservation rates to residential customers only.

There is a need to evaluate the effects of the conservation rates structure, and to that end, we find it appropriate to require the utility to submit the following data.

First, the utility should describe each of the six meter reading books by area. For example, Book 1 - Mainland (Banner Lake) or Book 1 - Island. Secondly, the utility should provide the total number of customer bills, gallons billed, and revenue billed for each of the six meter reading books during each month from January 1987 through December 1988 and from January 1991 to the present. No additional information is needed for 1989. Only the number of bills and revenue are needed for 1990. Attachment No. 1 appended to this Order is an example. Third, after the conservation rate structure becomes effective, the utility should submit quarterly reports containing the number of customer bills, gallons billed, and revenue billed. These reports should be submitted for a period of 18 months. Attachment No. 2 appended to this Order is an example of the billing analysis required. Additionally, the utility shall make available at staff's request, customer billing records from January 1987 forward. Periodically, audits of individual customer records will be conducted to gain additional conservation data.

#### Billing Analysis Adjustments

We have adjusted the projected 1990 gallons to reflect actual consumption and we have also adjusted the 1990 gallons to reflect the reduced consumption level expected to occur following implementation of the conservation rates. The adjustment to reflect actual 1990 consumption increases revenue by \$361. In determining the appropriate adjustment to reflect the effect of implementation of the conservation rates, we have relied on the Martin County Comprehensive Growth Management Plan of 1989 and methodology of the South Florida Water Management District to determine the consumption reduction desired. We find it appropriate that the driving force behind conservation rates should be the desired consumption level. We did not have enough



ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 17

information to rely on the price and usage relationship as requested by the utility.

The goal of the Martin County Comprehensive Growth Management Plan is to reduce per capita water use to 110 gallons per capita per day by 1995. Using the South Florida Management District's methodology, per capita consumption of Hobe Sound customers is approximately 500 gallons per day. We determined that to achieve the goal of 110 gallons per day per capita by 1995, Hobe Sound consumption would have to be reduced by 24 percent in 1991. We then reduced the total gallons over the 10,000 gallon per month level by 24 percent. The gallons below 10,000 were not reduced because those gallons represent usage not targeted for conservation. We have not adjusted the projected 1990 bills.

#### Rates

The permanent rates requested by the utility are designed to produce annual revenues of \$1,280,927, which represents an increase of \$493,321 (62.64 percent). We have determined that the annual revenue requirement is \$1,141,706, as shown on Schedule No. 3-A, using the base facility charge rate design with a residential conservation gallonage charge structure and a traditional general service gallonage charge. This represents the revenue requirement after removal of the adjustment for statutory rate case expense. It is Commission policy to use the base facility charge structure for setting rates because of its ability to track costs and to give the customers some control over their water bills. Each customer pays his pro rata share of the related costs necessary to provide service through the base facility charges and only the actual usage is paid for through the gallonage charge.

The conservation rate calculation is composed of three parts. First, the portion of revenue attributable to residential gallonage charges was separated from the total revenue. This allowed us to see the amount of revenue that must be generated through the residential conservation gallonage charge. Second, the appropriate gallons were determined. As discussed above, total residential gallons below 10,000 were not adjusted to reflect expected conservation. The total residential gallons over 10,000 were, however, decreased by 24 percent. The third component is the percentage increase from the first gallonage charge to the second charge. We calculated a number of different combinations of rates. We determined that the first gallonage charge should be kept as close to the current rate as possible in order to create enough contrast in the two rate levels to promote conservation.

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 18

The only difference in the "traditional" and "conservation" rates is the gallonage charge. In the traditional structure, all customers pay \$1.08 per 1,000 gallons. In the conservation structure, all residential customers pay \$.69 for the first 10,000 gallons and \$1.51 for all remaining gallons used over the 10,000 gallon per month level. All general service customers pay \$1.08 per 1,000 gallons. In this manner, the general service customers are still paying their fair pro rata share. The same revenue is generated through the gallonage charge assessed to general service customers under either scenario. We find that the overall rate increase should be enough to promote some conservation by the general service customers. We find the following rates to be fair, just and reasonable.

The approved rates will be effective for meter readings on or after thirty days from the stamped approval date of the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the protest period has expired, and the proposed customer notice is adequate.

The comparison of the utility's original rates, interim rates, requested rates, and the final approved rates are set forth below for comparison.

RATE SCHEDULE

WATER  
MONTHLY RATES

	<u>Current</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Commission Approved Final</u>
Residential and General Service Base Facility Charge				
<u>Meter Size</u>				
5/8" x 3/4"	\$ 7.17	\$ 9.23	\$ 9.91	\$ 7.84
3/4"	10.75	13.84	14.87	11.76
1"	17.91	23.07	24.78	19.60
1 1/2"	35.83	46.15	49.55	39.20
2"	57.31	73.81	79.28	62.72
3"	114.95	148.04	158.56	125.44
4"	179.14	230.71	247.75	196.00

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 19

	<u>Current</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Commission Approved Final</u>
Residential Gallonage				
Charge per 1,000 G.				
Up to 10,000 gallons	\$ .67	\$ .86	\$ .97	\$ .72
10,001 to 49,999 gallons	.67	.86	.97	1.52
50,000 gallons and over	.67	.86	1.42	1.52
General Service Only				
Gallonage Charge per				
1,000 gallons				
up to 49,999	\$ .67	\$ .86	\$ .97	\$ 1.09
50,000 gallons and over	.67	.86	1.42	1.09

#### Rate Case Expense Apportionment

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately thereafter by the amount of rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989. Accordingly, we find that the water rates should be reduced by \$13,894 as shown in Schedule No. 7. This is the appropriate amount of rate case expense after removal of the statutory adjustment to rate case expense. The revenue reductions reflect the annual rate case amounts amortized (expensed) plus the gross-up for regulatory assessment fees.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also shall file a proposed customer letter setting forth the lower rates and the reason for the reduction. 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 the reduction in the rates due to the amortized rate case expense.

#### Service Availability Charges

The utility's existing service availability policy was grandfathered in under Order No. 10368 in Docket No. 800776-W on November 2, 1981, in conjunction with the issuance of the utility's original certificate. Hobe Sound does not have any service availability charges other than a meter installation fee. The utility has never collected a plant or main capacity charge and has

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 20

not requested approval of any charges in this rate case. The meter installation fee serves as a cost recovery item which includes the cost of the meter and the installation and tap-in cost. As of December 31, 1990, the utility's contribution level was 6.4 percent for water. This level is not within the guidelines of Rule 25-30.580, Florida Administrative Code.

We have determined that the utility plant is 100 percent used and useful and that the distribution and transmission lines are 85 percent used and useful. The utility is virtually built-out at this time. Additionally, the utility's growth rate is very low and is on a downward trend. The 1990 growth rate was 1.8 percent and is expected to drop to 1.56 percent for 1991. This equates to less than 15 additional customers per year after 1991. The establishment of service availability charges at this late stage in the utility's development would result in the last 10 to 15 percent of the customers paying the full 100 percent of customer contributions. Therefore, we find that the application of Rule 25-30.580(2), Florida Administrative Code is appropriate in this rate proceeding and we will exempt the utility from the requirement of implementing a service availability charge. The utility should continue to collect the existing meter installation and tap-in fees.

#### Miscellaneous Service Charges

The purpose of miscellaneous service charges is to provide a means by which the utility can recover its costs of providing miscellaneous services from those customers who require the services. Thus, costs are more closely borne by the cost causer rather than the general body of ratepayers. The only miscellaneous service charge which is currently assessed by Hobe Sound is a \$50.00 initial connection charge. This charge was grandfathered in when the utility was issued its certificate. The new charges proposed by this utility are reasonable and thus are approved. They are designed to defray the costs associated with each of the services provided, as discussed below. The following table provides the present and the approved service charges.

	<u>WATER</u>	
	<u>Present</u>	<u>Approved</u>
Initial Connection	\$ 50.00	\$ 15.00
Normal Reconnection	N/A	15.00
Violation Reconnection	N/A	15.00
Premises Visit	N/A	10.00

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 21

For clarification, a description of each service for which there is a charge follows:

INITIAL CONNECTION - This charge would be levied for service initiation at a location where service did not exist previously.

NORMAL RECONNECTION - This charge would be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.

VIOLATION RECONNECTION - This charge would be levied prior to reconnection of an existing customer disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

PREMISES VISIT CHARGE (IN LIEU OF DISCONNECTION) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The new miscellaneous service charges should be effective for service provided after the effective date of this Order.

Allowance for Funds Used During Construction (AFUDC)

Hobe Sound has requested approval of an AFUDC rate in conjunction with this rate proceeding. The application is the first request by this utility for approval of a rate. The utility did not request retroactive approval in its petition, but has done so subsequently by letter. The rate requested in the petition is 0.9487 percent per month, however, Schedule H-1 of the MFRs shows the rate calculated at .009645 per month.

Review of the capital structure used to calculate the AFUDC rate shows that it is comprised of equity, long term debt, and deferred income taxes. It is based upon a twelve-month average projected test year ended December 31, 1990. Rule 25-30.116 (2)(a), Florida Administrative Code, requires the use of the most recent twelve-month average embedded cost of capital and subsection (b) specifies the use of the midpoint of the last allowed rate of return on common equity, the end of period cost of long term debt,

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 22

and a zero cost rate for deferred income taxes to calculate the AFUDC rate. The utility calculated a rate of 11.58 percent in accordance with the rule, except that it used a cost rate of 11.58 percent for deferred taxes. It also used a cost rate of 13.02 percent for its common equity which is neither its last authorized rate of return on equity, nor the requested rate in this case.

We have adjusted the twelve-month average capital structure to reflect the actual amounts for the year ended December 31, 1990, based on information provided by the utility. We have also included intercompany payables in the capital structure. The appropriate rate of return on equity is 12.35 percent. Deferred taxes are set at zero. Using these adjustments, we calculated a rate of 10.23 percent, with a monthly rate of 0.814960 percent. Our calculations of AFUDC are attached to this Order as Schedule No. 5.

As stated in Rule 25-30.116(5), Florida Administrative Code, the effective date for the AFUDC rate should be the month following the end of the twelve-month period used to establish the rate. The utility has asked for retroactive approval of its AFUDC rate subsequent to filing this case. We will not authorize retroactive application. However, since the period used for the calculation of AFUDC was the twelve months ended December 31, 1990, the effective date for accrual of AFUDC is January 1, 1991.

Therefore, we find that the appropriate AFUDC rate is 10.23 percent, to be effective for projects as of January 1, 1991 that are eligible to accrue AFUDC.

#### Allowance for Funds Prudently Invested (AFPI)

An AFPI charge is designed to allow the utility to recover a fair rate of return on the portion of the plant facilities which were prudently constructed, but exceed the amount necessary to serve current customers. As discussed previously, Hobe Sound requested an AFPI charge for the non-used and useful portion of its water transmission and distribution lines. We have previously found that the transmission and distribution lines are 85 percent used and useful. Therefore, we find it appropriate to approve AFPI charges.

We have calculated the accrued charges for five years, a time period which is in accordance with Commission practice. While this does not prevent the utility from collecting the charge after five years, the amount remains fixed at the five-year level. Our

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 23

calculations of AFPI are attached to this Order as Schedules 6-A through 6-D.

We find that the AFPI charges should begin at \$2.73 and accumulate to \$190.85 over a five year period. After the utility collects these charges from 537 water ERCs, the charge should be discontinued.

#### MONITOR STATUS

This docket shall remain open and shall be placed in monitor status for the purpose of reviewing the revenue and consumption data under the new rate structure. This docket shall remain in monitor status until eighteen months worth of data has been submitted by the utility, at which time it may be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Hobe Sound Water Company for an increase in its water rates and charges in Martin County is approved as set forth in the body of this Order. 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 body of this Order and in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that the provisions of this Order, are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Hobe Sound Water Company is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after thirty (30) days after the stamped approval date on the revised tariff pages. It is further

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 24

ORDERED the miscellaneous service charges approved herein shall be effective for services rendered on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Hobe Sound Water Company shall submit and have approved a proposed notice to its customers of the increased rates and charges and the reasons therefor. The notice will be approved upon Staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Hobe Sound Water Company shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the pages are consistent with our decision herein and that the protest period has expired. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall also file a customer notice. It is further

ORDERED that Hobe Sound is authorized to accrue allowance for funds used during construction at 10.23 percent effective for eligible projects as of January 1, 1991. It is further

ORDERED that Hobe Sound is hereby authorized to accrue allowance for funds prudently invested over a five year period as set forth in the body of this Order. It is further

ORDERED that the utility shall file reports related to implementation of conservation rates as set forth in the body of this Order. It is further

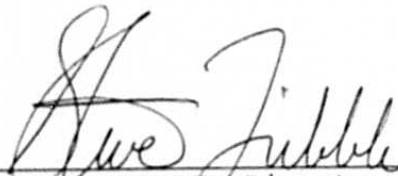
ORDERED that this docket shall remain open to monitor the effects of implementation of conservation rates until eighteen months of data has been collected at which time the docket may be closed administratively. It is further

ORDERED that if it is determined that the utility is overearning because of implementation of the conservation rates, the amount of overearnings shall be held in escrow.



ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 25

By ORDER of the Florida Public Service Commission this 7th  
day of MAY, 1991.

  
\_\_\_\_\_  
STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

CB

Commissioner Deason being in favor of the balance sheet approach, dissents as to the calculation of working capital using the formula method.

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 26

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 at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on MAY 28, 1991.

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 adversely 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 sewer 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.

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 27

THE HOBE SOUND WATER COMPANY  
SCHEDULE OF WATER RATE BASE  
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 1-A  
DOCKET NO. 900656-WU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 3,890,593	\$ (11,553)	\$ 3,879,040	\$ 1,787	\$ 3,880,827
2					
3 LAND	11,289	0	11,289	(7,306)	3,983
4					
5 NON-USED & USEFUL COMPONENTS	0	0	0	(90,972)	(90,972)
6					
7 C.W.I.P.	0	0	0	0	0
8					
9 C.I.A.C.	(312,572)	0	(312,572)	0	(312,572)
10					
11 ACCUMULATED DEPRECIATION	(1,022,778)	4,426	(1,018,352)	70,103	(948,249)
12					
13 AMORTIZATION OF C.I.A.C.	92,905	0	92,905	0	92,905
14					
15 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
16					
17 WORKING CAPITAL ALLOWANCE	0	74,124	74,124	(6,508)	67,616
18					
19 RATE BASE	\$ 2,659,437	\$ 66,997	\$ 2,726,434	\$ (32,897)	\$ 2,693,537
20	*****	*****	*****	*****	*****

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 28

THE HOBE SOUND WATER COMPANY  
ADJUSTMENTS TO RATE BASE  
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 1-B  
PAGE 1 OF 1  
DOCKET NO. 900656-WU

EXPLANATION	ADJUSTMENTS
-----	
1 UTILITY PLANT IN SERVICE	
2 A. To reflect composite adjustment as determined by staff.	\$ (11,765)
3	
4 B. To remove AFUDC accrued without a Commission-approved	
5 rate.	(68,198)
6	
7 C. To increase plant to reflect average actual 1990	68,555
8 expenditures.	
9	
10 D. To capitalize salaries expense associated with	
11 meter installations and plant construction.	13,195
12	-----
13 NET ADJUSTMENT	\$ 1,787
14	-----
15	
16 LAND	
17 A. To reflect composite adjustments as determined by staff.	\$ (7,306)
18	-----
19	
20 NON-USED AND USEFUL PLANT	
21 A. To adjust for non-used and useful plant.	(90,972)
22	-----
23	
24	
25 ACCUMULATED DEPRECIATION	
26 A. To remove accumulated depreciation associated	
27 with non-used and useful plant.	\$ 51,316
28	
29 B. To reflect composite adjustments as determined by Staff.	16,803
30	
31 C. To remove accumulated depreciation associated	4,340
32 with AFUDC.	
33	
34 D. To recognize accumulated depreciation associated with	
35 actual 1990 plant additions.	(1,039)
36	
37 E. To record accumulated depreciation associated	
38 with capitalized salaries.	(1,317)
39	-----
40 NET ADJUSTMENT	\$ 70,103
41	-----
42	
43 WORKING CAPITAL ALLOWANCE	
44 A. To adjust the working capital allowance to	
45 staff's calculation.	\$ (6,508)
46	-----

THE HOBE SOUND WATER COMPANY  
 CAPITAL STRUCTURE  
 TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 2-A  
 DOCKET NO. 900656-WU

ORDER NO. 24485  
 DOCKET NO. 900656-WU  
 PAGE 29

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COST	COMMISSION ADJUSTMENTS TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
LONG TERM DEBT	\$ 987,717	45.81%	9.92%	4.54%	\$ 39,489	\$ 1,027,206	38.14%	9.92%	3.78%
SHORT TERM DEBT	0	0.00%	0.00%	0.00%	233,664	233,664	8.67%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	1,144,123	53.07%	12.66%	6.72%	261,227	1,405,350	52.17%	12.35%	6.44%
INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
DEFERRED INCOME TAXES	24,200	1.12%	11.39%	0.13%	3,117	27,317	1.01%	0.00%	0.00%
OTHER CAPITAL	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
TOTAL CAPITAL	\$ 2,156,040	100.00%		11.39%	\$ 537,497	\$ 2,693,537	100.00%		10.23%

RANGE OF REASONABLENESS

	LOW	HIGH
EQUITY	11.35%	13.35%
OVERALL RATE OF RETURN	9.70%	10.75%

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 30

THE HOBE SOUND WATER COMPANY  
ADJUSTMENTS TO CAPITAL STRUCTURE  
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 2-B  
DOCKET NO. 900656-WJ

DESCRIPTION	ADJUST OUT PARENT ITEMS	ADJUST FOR ERROR	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 0	\$ (2,514)	\$ 42,003	\$ 39,489
2				
3 SHORT TERM DEBT	0	224,109	9,555	233,664
4				
5 CUSTOMER DEPOSITS	0	0	0	0
6				
7 PREFERRED STOCK	0		0	0
8				
9 COMMON EQUITY	0	203,761	57,466	261,227
10				
11 INVESTMENT TAX CREDITS	0	0	0	0
12				
13 DEFERRED INCOME TAXES	0	2,000	1,117	3,117
14				
15 OTHER CAPITAL	0		0	0
16				
17 TOTAL CAPITAL	\$ 0	\$ 427,356	\$ 110,141	\$ 537,497
18	=====	=====	=====	=====

THE HOBE SOUND WATER COMPANY  
 STATEMENT OF WATER OPERATIONS  
 TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-A  
 DOCKET NO. 900656-WJ

ORDER NO. 24485  
 DOCKET NO. 900656-WJ  
 PAGE 31

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE COMMISSION (DECREASE)	COMMISSION REVENUE REQUIREMENT	ADJ FOR STATUTORY RC EXP	ADJUSTED REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 774,588	\$ 506,339	\$ 1,280,927	\$ (493,321)	\$ 787,606	\$ 359,900	\$ 1,147,506	\$ (5,800)	\$ 1,141,706
2									
3 OPERATING EXPENSES						45.70%			44.96%
4									
5 OPERATION AND MAINTENANCE	\$ 562,716	\$ 30,278	\$ 592,994	\$ (52,068)	\$ 540,926	\$	\$ 540,926	\$ (5,443)	\$ 535,483
6									
7 DEPRECIATION	128,900	(381)	128,519	7,111	135,630		135,630		135,630
8									
9 AMORTIZATION	0		0	0	0		0		0
10									
11 TAXES OTHER THAN INCOME	112,789	22,785	135,574	(52,695)	82,879	16,196	99,074	(261)	98,813
12									
13 INCOME TAXES	0	113,298	113,298	(185,043)	(71,745)	168,072	96,327	(26)	96,301
14									
15									
16 TOTAL OPERATING EXPENSES	\$ 804,405	\$ 165,980	\$ 970,385	\$ (282,695)	\$ 687,690	\$ 184,268	\$ 871,957	\$ (5,730)	\$ 866,227
17									
18									
19 OPERATING INCOME	\$ (29,817)	\$ 340,359	\$ 310,542	\$ (210,626)	\$ 99,916	\$ 175,633	\$ 275,549	\$ (70)	\$ 275,479
20									
21									
22 RATE BASE	\$ 2,659,437		\$ 2,726,434		\$ 2,693,537		\$ 2,693,537		2,692,567
23									
24									
25 RATE OF RETURN	-1.12%		11.39%		3.71%		10.23%		10.23%
26									

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 32

THE HOBE SOUND WATER COMPANY  
ADJUSTMENTS TO OPERATING STATEMENT  
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-B  
PAGE 1 OF 3  
DOCKET NO. 900656-WU

EXPLANATION	ADJUSTMENTS
-----	-----
1 OPERATING REVENUES	
2 A. To remove utility's requested increase.	\$ (507,536)
3	
4 B. To reflect actual 1990 gallons per	
5 rate analyst.	361
6	
7 C. To adjust for 1990 pass-through of regulatory	
8 assessment fees.	13,220
9	
10 D. To increase revenue for personal use	
11 of the plant operator.	634
12	-----
13 NET ADJUSTMENT	\$ (493,321)
14	=====
15	
16 OPERATION AND MAINTENANCE EXPENSE	
17 A. To reflect composite adjustments as determined	
18 by staff.	\$ (837)
19	
20 B. To adjust 1990 expenses to actual.	(13,726)
21	
22 C. To remove payroll and benefits more properly	
23 capitalized.	(14,604)
24	
25 D. To reduce purchased power for the water	
26 supervisor's personal consumption.	(922)
27	
28 E. To remove salary and related benefits of a	
29 non-utility employee from salaries expense.	(18,094)
30	
31 G. To remove a non-utility item from materials and	
32 and supplies.	(975)
33	
34 H. To adjust chemicals and purchased power for	
35 unaccounted-for water.	(2,675)
36	
37 I. To remove rate case expense from O&M expenses.	(6,841)
38	
39 J. To adjust rate case expense to staff calculation.	6,606
40	-----
41 NET ADJUSTMENT	\$ (52,068)
42	=====
43	
44 DEPRECIATION EXPENSE	
45 A. To remove depreciation expense associated with	
46 non-used and useful plant.	\$ (2,756)
47	
48 B. To reflect composite adjustments as determined	
49 by staff.	(283)
50	



ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 33

THE HOBE SOUND WATER COMPANY  
ADJUSTMENTS TO OPERATING STATEMENT  
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-B  
PAGE 2 of 3  
DOCKET NO. 900656-WU

EXPLANATION	ADJUSTMENTS
1 C. To remove depreciation expense associated with	(2,067)
2 AFUDC.	
3	
4 D. To include pro form depreciation expense associated	
5 with plant additions.	9,873
6	
7 E. To recognize depreciation expense associated with	
8 actual plant expenditures made in 1990.	2,077
9	
10 F. To recognize depreciation expense associated with	
11 capitalized salaries.	267
12	-----
13 NET ADJUSTMENT	\$ 7,111
14	=====
15 TAXES OTHER THAN INCOME	
16 A. To remove regulatory assessment fees	
17 related to requested revenues.	\$ (22,839)
18	
19 B. To increase regulatory assessment fees	
20 associated with staff adjustment to revenues.	640
21	
22 C. To remove property tax associated with	
23 non-used & useful plant.	(738)
24	
25 D. To remove payroll tax expense more properly	
26 capitalized.	(1,094)
27	
28 E. To adjust taxes other than income to 1990 actual.	(27,351)
29	
30 F. To remove payroll tax associated with	
31 non-utility employee.	(1,313)
32	-----
33 NET ADJUSTMENT	\$ (52,695)
34	=====
35	
36 INCOME TAXES	
37 A. To remove income tax expense associated with	
38 requested revenues.	\$ (185,043)
39	=====
40	
41 OPERATING REVENUES	
42 A. To adjust to revenues which allow a	
43 fair rate of return.	\$ 359,900
44	=====
45 TAXES OTHER THAN INCOME	
46 A. To reflect regulatory assessment fees	
47 related to staff adjustment to revenues.	\$ 16,196
48	=====
49 INCOME TAXES	
50 A. To reflect income tax expense	
51 related to staff adjustment to revenues.	\$ 168,072
	=====

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 34

THE HOBE SOUND WATER COMPANY  
ADJUSTMENTS TO OPERATING STATEMENT  
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-8  
PAGE 3 of 3  
DOCKET NO. 900656-WU

EXPLANATION	ADJUSTMENTS
-----	-----
1 OPERATION AND MAINTENANCE EXPENSE	
2 A. To adjust to statutory rate case expense.	(5,443)
3	=====
4	
5 OPERATING REVENUES	
6 A. To adjust for decrease in statutory rate	
7 case expense.	(5,800)
8	=====
9	
10 TAXES OTHER THAN INCOME	
11 A. To adjust for decrease in statutory rate	
12 case expense.	(261)
13	=====
14	
15 INCOME TAXES	
16 A. To adjust for decrease in statutory rate	
17 case expense.	(26)
18	=====
19	

ORDER NO. 24485  
 DOCKET NO. 900656-WU  
 PAGE 35

THE HOBE SOUND WATER COMPANY  
 RATE CASE EXPENSE REDUCTION PER  
 SECTION 367.0815, FLORIDA STATUTES  
 TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE 4

-----  
 CALCULATION OF ADJUSTMENTS  
 -----

DESCRIPTION	WATER
-----	
REV INCREASE	359,900
REV INCREASE REQUESTED	507,536
% OF INCREASE REC TO AMT REQ	70.91%
PRUDENT RATE CASE EXP AMORT	18,713
	70.91%
STATUTORY LEVEL OF RC EXP	13,269
TOTAL REDUCTION TO RC EXP	5,443
EFFECT ON RATE BASE (1/8 O&M)	680
RETURN REDUCTION ASSOC W/RB	70
INCOME TAX EFFECT ON RB	26
TOTAL EXPENSE ADJUSTMENT	5,539
GROSS-UP FOR RAF	95.50%
TOTAL REVENUE ADJUSTMENT	5,800
TOTAL RAF ADJUSTMENT	261
TOTAL INCOME TAX EXPENSE ADJUSTMENT	26
-----	
TEST FOR FLOOR OF RETURN ON EQUITY	
AUTHORIZED NOI	275,549
LESS: RATE CASE EXPENSE ADJUSTMENT	(5,539)
ADD BACK TAX EFFECT OF REDUCTION IN NOI	2,084
ADJUSTED NOI	272,094
ADJUSTED RATE BASE	2,692,567
GENERATED ROR	10.11%

THE HOBE SOUND WATER COMPANY  
AFUDC Rate  
12-Month Period Ended December 31, 1990

Schedule No. 5  
Docket No. 900656-WU

Class of Capital	Average Capital Structure	Commission Adjustments	Adjusted Capital Structure	Percent of Capital	Cost Rates	Weighted Cost	Discounted Monthly Rate
Common Equity	1,141,949	284,807	1,426,756	53.32%	12.35%	6.59%	
Long-Term Debt	987,717	(3,804)	983,913	36.77%	9.92%	3.65%	
Short-Term Debt	0	239,798	239,798	8.96%	0.00%	0.00%	
Customer Deposits	0	0	0	0.00%	0.00%	0.00%	
Tax Credits - Zero Cost	0	0	0	0.00%	0.00%	0.00%	
Deferred Income Taxes	24,200	1,000	25,200	0.94%	0.00%	0.00%	
<b>Total</b>	<b>2,153,866</b>	<b>521,801</b>	<b>2,675,667</b>	<b>100.00%</b>		<b>10.23%</b>	<b>0.814960%</b>

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 37

THE HOBE SOUND WATER COMPANY  
900656-WU

Schedule 6-A

Allowance for Funds Prudently Invested  
Calculation of Carrying Costs for Each ERC

-----  
Information Needed

1. Cost of Qualifying Assets	\$	90,972
2. Capacity of Qualifying Assets		0 GPD
3. Number of Future Customers		537 ERC
4. Annual Depreciation Expense	\$	2,756
5. Rate of Return		10.23%
6. Weighted Cost of Equity		6.44%
7. Federal Income Tax Rate		34.00%
8. State Income Tax Rate		5.50%
9. Annual Property Tax	\$	738
10. Other Costs	\$	0
11. Depreciation Rate of Assets		3.03%
12. Test Year		1990

-----

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 38

THE HOBE SOUND WATER COMPANY  
900656-WU

Schedule 6-B

Allowance for Funds Prudently Invested  
Calculation of Carrying Costs for Each ERC:

Cost of Qualifying Assets:	\$ 90,972	Annual Depreciation Expense:	\$ 2,756
Divided By Future ERC:	537	Future ERC's:	537
	-----		-----
Cost/ERC:	\$ 169.41	Annual Depr. Cost per ERC:	\$ 5.13
Multiply By Rate of Return:	10.23%		-----
	-----		
Annual Return Per ERC:	\$ 17.33	Annual Property Tax Expense:	\$ 738
	-----	Future ERC's:	537
Annual Reduction in Return:	\$ 0.53		-----
(Annual Depreciation Expense	-----	Annual Prop. Tax per ERC:	\$ 1.37
per ERC Times Rate of Return)	-----		-----
Federal Tax Rate:	34.00%	Weighted Cost of Equity:	6.44%
Effective State Tax Rate:	3.63%	Divided by Rate of Return:	10.23%
	-----		-----
Total Tax Rate:	37.63%	% of Equity in Return:	62.95%
	-----		-----
Effective Tax on Return:	23.69%	Other Costs:	\$ 0
(Equity % Times Tax Rate)	-----	Future ERC's:	537
			-----
Provision For Tax:	37.98%	Cost per ERC:	\$ 0.00
(Tax on Return/(1-Total Tax Rate))	-----		-----

THE HOBE SOUND WATER COMPANY  
 900656-WU

Schedule 6-C

Allowance for Funds Prudently Invested  
 Calculation of Carrying Cost Per ERC Per Year:

	90/91	91/92	92/93	93/94	94/95
Unfunded Other Costs:	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Unfunded Annual Depreciation:	5.13	5.13	5.13	5.13	5.13
Unfunded Property Tax:	1.37	1.37	1.37	1.37	1.37
Subtotal Unfunded Annual Expense:	\$ 6.51	\$ 6.51	\$ 6.51	\$ 6.51	\$ 6.51
Unfunded Expenses Prior Year:	0.00	6.51	13.01	19.52	26.03
Total Unfunded Expenses:	\$ 6.51	\$ 13.01	\$ 19.52	\$ 26.03	\$ 32.54
Return on Expenses Current Year:	0.67	0.67	0.67	0.67	0.67
Return on Expenses Prior Year:	0.00	0.67	1.33	2.00	2.66
Return on Plant Current Year:	17.33	16.81	16.28	15.76	15.23
Earnings Prior Year:	0.00	17.33	36.57	57.93	81.61
Compound Earnings from Prior Year:	0.00	1.77	3.74	5.93	8.35
Total Compounded Earnings:	\$ 18.00	\$ 37.24	\$ 58.59	\$ 82.27	\$ 108.51
Earnings Expansion Factor for Tax:	1.38	1.38	1.38	1.38	1.38
Revenue Required to Fund Earnings:	\$ 24.83	\$ 51.38	\$ 80.85	\$ 113.52	\$ 149.73
Revenue Required to Fund Expenses:	6.51	13.01	19.52	26.03	32.54
Subtotal:	\$ 31.34	\$ 64.40	\$ 100.37	\$ 139.55	\$ 182.26
Divided by Factor for Gross Receipts Tax:	0.955	0.955	0.955	0.955	0.955
ERC Carrying Cost for 1 Year:	\$ 32.82	\$ 67.43	\$ 105.10	\$ 146.12	\$ 190.85

ORDER NO. 24485  
 DOCKET NO. 900656-WU  
 PAGE 40

THE HOBE SOUND WATER COMPANY  
 900656-WU

Schedule 6-D

Allowance for Funds Prudently Invested  
 Schedule of Charges:

	90/91	91/92	92/93	93/94	94/95
July	2.73	35.70	70.57	108.52	149.85
August	5.47	38.59	73.71	111.94	153.58
September	8.20	41.47	76.85	115.36	157.31
October	10.94	44.35	79.99	118.77	161.03
November	13.67	47.24	83.13	122.19	164.76
December	16.41	50.12	86.27	125.61	168.49
January	19.14	53.01	89.41	129.03	172.22
February	21.88	55.89	92.54	132.45	175.94
March	24.61	58.78	95.68	135.87	179.67
April	27.35	61.66	98.82	139.29	183.40
May	30.08	64.55	101.96	142.71	187.12
June	32.82	67.43	105.10	146.12	190.85



ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 41

DOCKET NO. 900656-WU  
APRIL 4, 1991

FIRST REVISED 4/15/91  
SCHEDULE NO. 7  
Page 1 of 1

UTILITY: Hobe Sound Water Company

SCHEDULE OF WATER RATES  
AND RATE DECREASE  
IN FOUR YEARS  
-----

Monthly Rates  
-----

	Commission Approved Rates	Rate Decrease
	-----	-----
Residential and General Service -----		
Base Facility Charge:		
Meter Size:		
5/8"x3/4"	\$7.84	\$0.10
3/4"	\$11.76	\$0.14
1"	\$19.60	\$0.24
1-1/2"	\$39.20	\$0.48
2"	\$62.72	\$0.76
3"	\$125.44	\$1.53
4"	\$196.00	\$2.39
Gallage Charge per 1,000 G.		
Up to 10,000 gallons	\$0.72	\$0.01
Over 10,000 gallons	\$1.52	\$0.02
General Service Only	\$1.09	\$0.01

CONSERVATION DATA - 1989

ORDER NO. 24485  
DOCKET NO. 900656-WJ  
PAGE 42

	JANUARY 1989	FEBRUARY 1989	MARCH 1989	APRIL 1989	MAY 1989	JUNE 1989	JULY 1989	AUGUST 1989	SEPTEMBER 1989	OCTOBER 1989	NOVEMBER 1989	DECEMBER 1989	TOTAL 1989
<b>BILLS</b>													
BOOK 1	224	226	226	226	226	225	225	225	225	225	225	225	2703
BOOK 2	195	195	195	195	196	196	196	198	199	198	199	200	2362
BOOK 3	252	253	255	257	257	257	259	259	260	259	260	262	3090
BOOK 4	168	172	172	167	167	167	169	169	169	169	169	169	2027
BOOK 5	40	40	40	40	40	40	40	40	40	40	40	40	480
BOOK 6	268	276	284	287	300	305	305	307	308	307	309	309	3565
TOTAL	1147	1162	1172	1172	1186	1190	1194	1198	1201	1198	1202	1205	14227
<b>GALLONS</b>													
BOOK 1	210518	228558	189874	188308	160320	288450	272555	172720	201530	233125	204408	197586	2547952
BOOK 2	175646	201662	169481	163440	159210	221745	212124	174863	221288	221248	213355	230540	2364602
BOOK 3	38740	45336	47399	51028	41889	59481	53019	50379	48978	52927	44044	47837	581057
BOOK 4	14582	17802	14957	17557	21234	25234	25926	22405	24420	23682	22370	31037	261206
BOOK 5	74255	38558	61102	87694	104454	137961	76112	88001	120720	99966	66189	76220	1031232
BOOK 6	76561	80711	69179	74305	62682	112759	112505	81423	82088	120086	92184	96329	1060812
TOTAL	590302	612627	551992	582332	549789	845630	752241	589791	699024	751034	642550	679549	7846861
<b>REVENUES</b>													
BOOK 1	20,480.73	21,706.47	19,181.35	19,078.02	17,195.71	25,652.30	24,641.81	18,052.67	19,964.72	22,049.95	20,154.57	19,704.35	247,862.65
BOOK 2	18,389.68	20,106.83	17,982.89	17,535.63	17,340.09	21,467.43	19,439.18	18,485.47	21,633.66	21,631.08	21,166.24	22,300.44	237,478.62
BOOK 3	5,210.27	5,652.59	5,802.79	6,056.38	5,453.28	6,614.26	6,201.82	6,027.63	5,942.20	6,202.79	5,630.52	5,911.34	70,705.87
BOOK 4	2,152.35	2,638.18	2,205.11	2,341.58	2,584.32	2,848.31	2,908.04	3,171.83	2,808.66	2,759.96	2,673.33	3,090.06	32,181.73
BOOK 5	8,444.86	3,780.19	5,268.06	7,023.13	8,129.30	10,340.74	6,258.74	7,043.42	9,202.83	7,833.08	5,603.83	6,265.86	85,194.04
BOOK 6	7,302.71	7,632.72	6,927.87	7,287.19	6,611.28	9,951.46	9,934.73	7,897.37	7,948.14	10,463.13	8,621.54	8,895.23	99,473.37
TOTAL	61,980.60	61,516.98	57,368.07	59,321.93	57,313.98	76,874.50	69,384.32	60,678.39	67,500.21	70,939.99	63,850.03	66,167.28	772,896.28

ORDER NO. 24485  
DOCKET NO. 900656-WU  
PAGE 43

Attachment No. 2

HOBE SOUND WATER COMPANY  
DOCKET NO. 900656-WU

QUARTERLY CONSERVATION REPORT

	JANUARY 1989	FEBRUARY 1989	MARCH 1989
<b>BILLS</b>			
BOOK 1	224	226	226
BOOK 2	195	195	195
BOOK 3	252	253	255
BOOK 4	168	172	172
BOOK 5	40	40	40
BOOK 6	268	276	284
<b>TOTAL</b>	<b>1147</b>	<b>1162</b>	<b>1172</b>
<b>GALLONS</b>			
BOOK 1	210518	228558	189874
BOOK 2	175646	201662	169481
BOOK 3	38740	45336	47399
BOOK 4	14582	17802	14957
BOOK 5	74255	38558	61102
BOOK 6	76561	80711	69179
<b>TOTAL</b>	<b>590302</b>	<b>612627</b>	<b>551992</b>
<b>REVENUES</b>			
BOOK 1	20,480.73	21,706.47	19,181.35
BOOK 2	18,389.68	20,106.83	17,982.89
BOOK 3	5,210.27	5,652.59	5,802.79
BOOK 4	2,152.35	2,638.18	2,205.11
BOOK 5	8,444.86	3,780.19	5,268.06
BOOK 6	7,302.71	7,632.72	6,927.87
<b>TOTAL</b>	<b>61,980.60</b>	<b>61,516.98</b>	<b>57,368.07</b>