

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for rate increase in Martin County by HOBE SOUND WATER COMPANY.) DOCKET NO. 940475-WU
) ORDER NO. PSC-94-1044-FOF-WU
) ISSUED: August 25, 1994
)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
DIANE K. KIESLING

ORDER SUSPENDING PROPOSED RATES AND
GRANTING INTERIM RATE INCREASE SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Hobe Sound Water Company (Hobe Sound or utility) is a Class A Utility located in Martin County which provides service to approximately 1,252 customers. The service area includes customers both on Hobe Sound and Jupiter Island. The South Florida Water Management District has determined that this area is a critical water usage area. The utility is a wholly-owned subsidiary of the Hobe Sound Company.

Hobe Sound's last rate proceeding was assigned Docket No. 900656-WU, which resulted in the current rate structure (Order No. 24485, issued May 7, 1991). Since that time the utility has added approximately 25 customers, constructed a new transmission main crossing the Intracoastal Waterway at an approximate cost of \$2,000,000, and proposes to add two new wells at a projected cost of \$76,000.

On June 10, 1994, the utility filed and met the minimum filing requirements (MFRs) for a rate increase. That date was established as the official date of filing. The test year for final rate purposes is the projected year ending December 31, 1994. The historical year ended December 31, 1993, is used for interim purposes. The utility requested that this case be processed using to the proposed agency action procedure pursuant to Section 367.081(8), Florida Statutes.

The utility's requested interim water rates are based upon a two-tier structure, with a break occurring at 10,000 gallons, and all rates increased by 31.6 percent, yielding a requested \$1,472,148 revenue total.

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

The utility's proposed final rates involve a three-tier structure with breaks occurring at 10,000 and 40,000 gallons, with a 25 percent increase for the first level, an 18 percent increase for the second level, a 48 percent increase above 40,000 gallons and a 55 percent increase for all base facility charges.

It is essential that parties before the Commission be aware of and abide by the rules of the Florida Bar and this Commission regarding representation. According to Rule 25-22.008, Florida Administrative Code, to practice law before the Commission an individual must be licensed to practice law, or be certified by the Commission as a Class B practitioner. The filing of a pleading or application before the Commission constitutes the practice of law. At our August 2, 1994, Agenda Conference, we expressed concern that the utility's original filing was signed by an individual who was neither an attorney, a Class B practitioner, or the owner of the utility. However, an attorney has subsequently filed a notice of appearance on behalf of the utility, and the company's president has filed an affidavit stating that the individual was authorized to file the petition on behalf of the utility.

SUSPENSION OF RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within sixty (60) days after filing unless the Commission votes to withhold consent to implementation of the requested rates.

We have reviewed the filing and have considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. We find it to be reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination by our staff will include on-site investigations by accountants, engineers and rate specialists. In consideration of the above, we find it appropriate to suspend the proposed rate increase.

REQUEST TO USE YEAR-END RATE BASE

The utility has requested our approval to use a year-end rate base for the period ended December 31, 1993, to establish the interim revenue requirement. Pursuant to Section 367.082(5)(a), Florida Statutes, the Commission shall determine the interim revenue deficiency (or excess) by comparing a utility's achieved return and its required rate of return using either an average investment rate base or an end-of-period investment rate base. It is accordingly within our discretion to determine whether interim

rates should be established under year-end conditions rather than average test year conditions. In determining this matter, we normally examine whether conditions have changed so substantially at year-end that using an average test year would materially understate the utility's revenue requirement.

A material difference in the relative revenue requirements must be shown to justify use of a year-end basis. Typically, a year-end basis for rate setting purposes must be preceded by a showing of extraordinary growth in investment and/or expenses. In December of 1993, the utility installed a new transmission main crossing the Intracoastal Waterway at an approximate cost of \$2,000,000. Since this investment was not added until December, an average rate base calculation (13-month average) would only include about 7.7 percent (1/13) of this substantial new investment. Since the utility's requested rate base is \$4,511,835 (measured on a year-end basis), removing 92.3 percent of the \$2,000,000 investment related to the transmission main would reduce rate base by about \$1,850,000. Thus, the principle reason for the requested rate increase would be barely considered during the interim period. Since that investment will exist throughout the interim collection period, failure to include the full investment would clearly understate the rate of return requirement. Because this \$2,000,000 million investment is an extraordinary growth consideration that justifies the year-end determination, we hereby approve the utility's request to employ a year-end rate base amount. The calculation of the test year is depicted on Schedule 1-A.

INTERIM RATE REQUEST

Hobe Sound filed rate base, cost of capital, and operating statements to support its requested rate increase. The utility requested an interim revenue amount of \$1,472,148, resulting in an increase of \$347,021 or 30.84 percent. We find it appropriate to approve a reduced interim revenue requirement and allow Hobe Sound to collect interim rates as set forth below and in the schedules attached hereto which are incorporated by reference.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2-A. 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.

In its application, Hobe Sound requested a 7.48 percent interest rate for long-term debt and a 10.00 percent cost rate for short-term, intercompany debt. The utility did not provide information to support its reported 7.48 percent interest rate for long-term debt and our review indicates that it may be incorrect. The reported cost rate for long-term debt is 6.5 percent per the utility's annual report. The projected interest rate for final rates is also 6.5 percent. Therefore, we included a 6.5 percent interest rate in our calculation of interim rates. As to the rate for short-term debt, we approved a zero cost rate for intercompany debt in the utility's last rate proceeding. Consistent with treatment employed in the last rate proceeding, we have used a zero cost for short-term debt. These changes reduce the interim cost of capital from 9.07 percent to 7.91 percent.

NET OPERATING INCOME

Our calculations and adjustments for the net operating income for this utility are depicted on Schedule Nos. 3A and 3B. 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.

Revenue Requirement

Based upon recovery of actual operating expenses for the year ended December 31, 1993, and receipt of a 7.91 percent return on rate base, we hereby approve a \$286,680 interim revenue increase for resulting annual revenues of \$1,417,647.

Interim Rates

The interim rates for the Hobe Sound Water Company are designed to allow the utility the opportunity to generate annual operating revenues of \$1,417,647 for its water operations. This results in an increase of 25.35 percent in existing water rates.

The interim rates shall be implemented for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with this Order, that the proposed notice to the customers of the approved increase is adequate, and that the required security discussed herein has been filed within ten days of notice to the customers. The utility shall provide proof of the date that the notice was given.

The utility's current rates, its proposed interim and final rates, and the approved interim rates are listed below:

WATER

MONTHLY RATES

RESIDENTIAL AND GENERAL SERVICE

<u>Base Facility Charge:</u> <u>Meter Size:</u>	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Utility Proposed Final Rates</u>	<u>Commission Approved Interim</u>
5/8" X 3/4"	\$ 7.84	\$ 10.26	\$ 12.21	\$ 9.83
3/4"	11.76	15.39		14.74
1"	19.60	25.65	30.53	24.57
1 1/2"	39.20	51.30	61.05	49.15
2"	62.72	82.08	97.68	78.63
3"	125.44	164.16	195.36	157.26
4"	196.00	256.50	305.25	245.73
Gallonage Charge				
(Per 1,000 Gallons)				
Up to 10,000 gals.	\$ 0.72	\$ 0.94	\$ 0.90	\$ 0.90
10,001 gals. & over	1.52	1.99		1.91
10,001 gals. to 40,000			1.80	
Over 40,000 gal.			2.25	
Average Bill	\$ 68.56	\$ 89.73	\$ 96.80	\$ 86.05
GENERAL SERVICE ONLY	\$ 1.09	\$ 1.43	\$ 1.46	\$ 1.37
(Per 1,000 gallons)				

SECURITY FOR REFUND

Pursuant to Section 367.082, Florida Statutes, the utility shall collect the interim rate subject to refund with interest. This increase must be guaranteed by the utility. Based upon our financial analysis, we find that the utility cannot support a corporate undertaking due to inadequate liquidity and declining profitability. Therefore, the utility shall provide a letter of credit, bond, or escrow agreement to guarantee the funds collected subject to refund.

If the security provided is an escrow account, said account shall be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission shall be a party to the written escrow agreement and a signatory to the escrow account. The account shall be interest-bearing. The written escrow agreement shall state the following: "that the account is established at the direction of this Commission for the purpose set forth above, that no withdrawals of funds shall occur without the prior approval of the Commission through the Director of the Division of Records and Reporting, that the account shall be interest bearing, that information concerning the escrow account shall be available from the institution to the Commission or its representative at all times, and that pursuant to Consentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments."

The utility shall deposit the funds to be escrowed, \$31,535, into the escrow account each month, pending the completion of the rate case proceeding. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

If the security provided is a bond or a letter of credit, said instrument shall be in the amount of \$157,674. If the utility chooses a bond as security, the bond shall state that it will be released or should terminate upon subsequent order of this Commission addressing overearnings or requiring a refund. If the utility chooses to provide a letter of credit as security, the letter of credit shall state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered addressing overearnings or requiring a refund.

Irrespective of the type of security provided, the utility shall keep an accurate and detailed account of all monies it receives. By no later than the twentieth (20th) day after each monthly billing, the utility shall file a report showing the amount of revenues collected each month, the amount of revenues collected to date relating to the interim increase and recommended herein. 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 should 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 the final rates and schedules proposed by Hobe Sound Water Company are hereby suspended in accordance with Section 367.081(6), Florida Statutes. It is further

ORDERED that the request for an interim increase in water rates by Hobe Sound Water Company is hereby granted as set forth in the body of this Order. It is further

ORDERED that the difference between the interim rates granted herein and Hobe Sound Water Company's previously authorized rates shall be collected subject to refund, with interest. It is further

ORDERED that Hobe Sound Water Company shall provide a bond or letter of credit in the amount of \$157,674 or an escrow agreement as guarantee for any potential refund or interim water revenues. It is further

ORDERED that the approved interim rates shall become effective for service rendered on or after the stamped approval date on the tariff sheets. It is further

ORDERED that, prior to the implementation of the interim rates approved herein, Hobe Sound Water Company shall file and have approved tariff pages revised in accordance with the provisions of this Order, appropriate security for the refund, a proposed customer notice, and proof that the customers have received notice of the rate increase. It is further

ORDERED that the tariff sheets will be stamped approved upon verification that they are consistent with our decision herein, that the proposed customer notice is adequate, and that the appropriate security is provided. It is further

ORDERED that Hobe Sound Water Company shall provide proof of the date that the notice was given, which must be not more than ten days after the date of the notice. It is further

ORDERED that, during the time the interim rates are in effect, Hobe Sound Water Company shall file a report by the twentieth day of each month indicating the monthly and total revenue collected subject to refund, pursuant to Rule 25-30.360(6), Florida Administrative Code.

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By ORDER of the Florida Public Service Commission, this 25th
day of August, 1994.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

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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 the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) 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 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 after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

HOBE SOUND WATER COMPANY SCHEDULE OF WATER RATE BASE TEST YEAR ENDED DECEMBER 31, 1994			SCHEDULE NO. 1-A DOCKET NO. 940475-WU		
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 6,260,062	\$ (5,124)	\$ 6,254,938	\$ 0	\$ 6,254,938
2 LAND	3,983	0	3,983	0	3,983
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(1,619,870)	45,730	(1,574,140)	0	(1,574,140)
5 CIAC	(227,043)	(90,758)	(317,801)	0	(317,801)
6 AMORTIZATION OF CIAC	42,689	83,668	126,357	0	126,357
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
9 DEFERRED TAXES	0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE	0	18,498	18,498	0	18,498
RATE BASE	\$ 4,459,821	\$ 52,014	\$ 4,511,835	\$ 0	\$ 4,511,835

HOBE SOUND WATER COMPANY CAPITAL STRUCTURE TEST YEAR ENDED DECEMBER 31, 1994					SCHEDULE NO. 2-A DOCKET NO. 940475-WU					
DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION	
1 LONG TERM DEBT	\$ 2,414,200	53.51%	7.48%	4.00%	\$ 0	\$ 2,414,200	53.51%	6.50%	3.48%	
2 SHORT TERM DEBT	285,800	6.33%	10.00%	0.63%	0	285,800	6.33%	0.00%	0.00%	
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	1,760,946	39.03%	11.35%	4.43%	0	1,760,946	39.03%	11.35%	4.43%	
5 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
7 DEFERRED ITC'S	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
8 ACCUM. DEFERRED TAX	50,889	1.13%	0.00%	0.00%	0	50,889	1.13%	0.00%	0.00%	
9 TOTAL CAPITAL	\$ 4,511,835	100.00%		9.06%	\$ 0	\$ 4,511,835	100.00%		7.91%	
RANGE OF REASONABLENESS							LOW	HIGH		
RETURN ON EQUITY							11.35%	13.35%		
OVERALL RATE OF RETURN							7.91%	8.69%		

HOBE SOUND WATER COMPANY
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED DECEMBER 31, 1994

SCHEDULE NO. 3-A
 DOCKET NO. 940475-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 1,125,127	\$ 347,021	\$ 1,472,148	(\$ 341,181)	\$ 1,130,967	\$ 286,680	\$ 1,417,647
OPERATING EXPENSES:		30.84%				25.35%	
2 OPERATION AND MAINTENANCE	\$ 613,785	(\$ 19,604)	\$ 594,181	\$ 0	\$ 594,181	\$	\$ 594,181
3 DEPRECIATION NET OF CIAC AMORT.	173,383	63	173,446	0	173,446		173,446
4 INTEREST ON CUSTOMER DEPOSITS	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	130,831	44,251	175,082	(15,353)	159,729	12,901	172,629
6 PROVISION FOR INCOME TAXES	32,000	88,296	120,296	0	120,296	0	120,296
7 TOTAL OPERATING EXPENSES	\$ 949,999	\$ 113,006	\$ 1,063,005	\$ 2,110,657	\$ 1,047,652	\$ 12,901	\$ 1,060,552
8 OPERATING INCOME	\$ 175,128	\$ 234,015	\$ 409,143	(\$ 2,451,838)	\$ 83,315	\$ 273,779	\$ 357,095
9 RATE BASE	\$ 4,459,821		\$ 4,511,835		\$ 4,511,835		\$ 4,511,835
RATE OF RETURN	3.93%		9.07%		1.85%		7.91%

HOBE SOUND WATER COMPANY ADJUSTMENTS TO OPERATING STATEMENTS TEST YEAR ENDED DECEMBER 31, 1994		SCHEDULE NO. 3-B DOCKET NO. 940475-WU PAGE 1 OF 1
EXPLANATION	WATER	
(1) OPERATING REVENUES		
a) Reverse utility's proposed rate increase	\$	(347,021)
(b) Adjustment to reflect annualized revenues per COMMISSION rate analyst.		5,840
	\$	<u>(341,181)</u>
(2) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment fees related to revenue adjustment.	\$	<u>(15,353)</u>
(3) OPERATING REVENUES		
a) Adjustment to reflect recommended revenue requirement	\$	<u>286,680</u>
(4) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment taxes on additional revenues	\$	<u>12,901</u>