

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-94-1452-FOF-WU ) ISSUED: November 28, 1994 )

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING INCREASED RATES AND CHARGES

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

Hobe Sound Water Company (Hobe Sound or utility) is a Class A utility which provides service to approximately 1252 customers in Martin County. The service area includes customers both in Hobe Sound and on Jupiter Island. The South Florida Water Management District has determined this area to be a critical water usage area.

The utility uses wells for its source of raw water. Treatment includes aeration, chlorination, and softening. Hobe Sound is currently experiencing a supply problem because three of its eleven wells are off line due to the effects of saltwater intrusion (elevated chloride levels). Under the provisions of an emergency order issued by South Florida Water Management District (SFWMD), Hobe Sound is adding two wells which will have limited consumptive usage due to their location in a wetland area. The utility is currently seeking new well sites and other supply sources. In addition the utility is cutting demand through emphasis on conservation.

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FPSC-RECORDS/REPORTING

The last rate case proceeding was 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 across the intercostal waterway at a cost of approximately \$2,000,000; and begun the process of adding two new wells at a projected cost of \$76,000.

On June 10, 1994, the utility filed the minimum filing requirements (MFRs) for a rate increase. The MFRs were accepted, and that date was established as an official date of filing. The test year for final rate determination was accepted as the projected year ending December 31, 1994, based on the historical year ending December 31, 1993. The utility requested that this case be processed pursuant to the proposed agency action procedure as provided for in Section 367.081(8), Florida Statutes.

The utility requested interim water rates consisting of a two-tier structure with the break at 10,000 gallons. This was the same as the previously approved rate structure with approximately the same increase (31 percent) for both tiers. The requested rates were designed to generate \$1,527,463 in annual revenues or a 30.84 percent increase. By Order No. PSC-94-1044-FOF-WU, issued August 25, 1994, we suspended the utility's requested rate increase and approved an interim rate increase, that was designed to yield annual revenues of \$1,417,647, or an increase of \$286,680 (25.35 percent).

The utility requested approval of final water revenues of \$1,527,809, for an increase of \$439,871 over test year revenues or a 40.43 percent increase. The utility proposed final rates comprised of a three-tiered structure with breaks at 10,000 and 40,000 gallons. The requested increase for the first two tiers was 25 percent and 18 percent respectively, with the top tier increasing by 48 percent.

Our staff conducted a customer meeting on August 31, 1994 in Hobe Sound's service territory, in order to allow customer comment with respect to the proposed increase and the quality of service.

#### QUALITY OF SERVICE

Our analysis of the overall quality of service provided by the utility is based upon the quality of the utility's product, the operational conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. We have also considered customer comments, sanitary surveys, outstanding citations, violations, and consent orders on file with the

Department of Environmental Protection (DEP) and County Health Department over the preceding three year period.

#### Quality of the Product

After conferring with both West Palm Beach offices of DEP and SFWMD and the local Martin County Public Health Unit in Stuart, in addition to a site visit, no problems with the product quality were discovered. Hobe Sound meets all applicable standards for water quality.

#### Operational Conditions

The staff engineer conducted a field inspection of the water treatment plant and well field on August 31, 1994. These facilities were found to be in good working order and well maintained.

#### Customer Satisfaction

Approximately 21 customers attended the customer meeting on August 31, 1994 held in the service territory. Ten customers spoke at the meeting. The majority of the discussion centered around the saltwater intrusion and its impact on their raw water supply. All but two of the customers who spoke indicated the water and service were very good. The two dissatisfied customers were neighbors residing on a remote dead end distribution link. Those customers were concerned about water turbidity and the presence of sediment. Hobe Sound is implementing a regular line flushing to remedy this problem.

Based upon our consideration of this data, we conclude that the quality of service provided by the utility is satisfactory.

#### RATE BASE

Our calculation of the appropriate rate base for this proceeding is attached as Schedule No. 1-A. The adjustments to the rate base are attached as Schedule No. 1-B. Those adjustments which are self-explanatory or which are essentially mechanical are reflected on those schedules without any further discussion in the body of this Order. The major adjustments are discussed below.

#### Actual Plant Additions

In its application, Hobe Sound projected \$76,000 in plant additions during the 1994 projected test year. This related to the cost of installing two new wells, which the utility projected would go into service in July, 1994. Our audit revealed that the

utility's actual plant additions were \$151,872, resulting in a year-end difference of \$75,872. According to the utility, it had to install two emergency wells to replace two existing wells deemed unusable due to salt water intrusion. At this time, the utility still needs more well sites to meet existing demands for water.

Using a thirteen-month average, we find it appropriate to increase plant in service by \$66,189, with a corresponding increase to accumulated depreciation and depreciation expense in the amount of \$4,097 and \$8,195, respectively.

#### Correction of Accounting Errors

The audit of Hobe Sound in this proceeding revealed that the utility made several accounting errors that require adjustments to plant in service, accumulated depreciation and depreciation expense.

First, the utility did not correctly record a retirement for a gasoline storage tank replaced in 1991. The cost of the storage tank retired was \$10,051. The audit also revealed that the utility included the cost for the removal of the tank in the plant account at \$4,316. According to the Uniform System of Accounts, when a retirement unit is retired from utility plant, the book cost should be credited to the appropriate plant account and charged to accumulated depreciation. The cost of removal should also be charged to accumulated depreciation.

Therefore, we have reduced plant in service and accumulated depreciation by \$10,051. Accumulated depreciation has been decreased by \$4,316 to reflect the cost for the removal of the tank. Accordingly, depreciation expense has been decreased by \$898.

Secondly, our audit revealed that the utility used the incorrect depreciation rate for Transmission and Distribution Mains from 1991 through 1993. The utility had been depreciating Account No. 331 over a 33-year period instead of 43 years as required by Rule 25-30.140(2)(a), Florida Administrative Code. To correct this error, we find it appropriate to reduce accumulated depreciation by \$12,824.

Thirdly, the utility made a duplicate accounting entry. In the utility's last rate case, we required Hobe Sound to record an adjustment to increase plant in service and accumulated depreciation by \$2,398 and \$792, respectively. (Order No. 24485, issued May 7, 1991) The utility made this adjustment twice: once to the 1991 general ledger and again in the MFRs for this case. To

remove this duplicate entry, plant (Account No. 331) shall be reduced by \$2,398, with corresponding adjustments to reduce accumulated depreciation and depreciation expense by \$966 and \$56, respectively.

These corrections reduce plant in service by \$16,765, accumulated depreciation by \$28,157, and depreciation expense by \$1,054.

#### Loan Closing Costs

In 1993, the utility assigned \$9,126 in loan closing costs to a plant in service account. This expenditure should be included in Account 181: Unamortized Debt Discount and Expense. Therefore, we find it appropriate to reduce plant by \$9,126, and increase debt issue charges by the same amount. Accordingly, accumulated depreciation has been decreased by \$175 and depreciation expense has been decreased by \$212.

A corresponding adjustment is also necessary to correctly reflect the effective interest rate for long-term debt. Amortization of the \$9,126 loan issue cost over the 15-year term of the associated debt account increases the effective interest rate from 6.50 percent to 6.55 percent.

#### Used and Useful

Water plant used and useful percentages are calculated by adding the maximum daily flow (5.601 MGD) to the required fire flow (.350 MGD) and to the margin reserve (negligible in this case) minus any excessive unaccounted for water (.035 MGD) divided by the capacity of the plant (6.036 MGD). This results in a used and useful percentage of 98.2 percent, which is rounded off to 100 percent. The capacity of the plant, 6.036 MGD, was derived by a non-standard method: Although DEP has permitted the water plant for 7.2 MGD the SFWMD has restricted consumptive use to 6.42 MG per maximum day and 2.9 MG per average day due to anticipated drawdown of nearby wetlands. The value used (6.036 MGD) in the calculation is based on actual plant capacity (Storage + Supply (Existing Well) Capacities).

The used and useful determination for the distribution system is based upon the average number of test year ERC's (3,185) plus the margin reserve (30.6 ERCs) divided by the potential capacity (3,237 ERCs). This results in a used and useful percentage of 99.2 percent, which is rounded off to 100 percent.

Hobe Sound anticipates minimal growth in the future and is at the limit of its plant and distribution system capacity. Based upon our calculations and existing conditions, we find the used and useful percentage to be 100 percent.

#### Margin Reserve

A margin of reserve is incorporated in the used and useful calculation to compensate for plant capacity needed for growth. Margin reserve is calculated by multiplying the average yearly customer growth in ERCs for the most recent five years by the construction time for additional capacity. The utility has average 30.6 new ERCs each year, and the construction time for additional capacity is 1 year. Because the plant is operating close to capacity the margin of reserve is essentially zero. However, based upon our calculations, we find it appropriate to approve a margin reserve of 30.6 ERCs for the distribution system.

#### Working Capital

In accordance with Rule 25-30.433(2), Florida Administrative Code, the working capital for Hobe Sound shall be calculated by using the balance sheet approach. The utility's requested \$119,526 provision is based upon projected balances in 1994. That amount includes \$82,517 for unamortized rate case charges.

Consistent with Commission practice, the provision for deferred rate case costs should reflect the average balance over the 4 year amortization period. As discussed in this Order, we have approved \$86,105 for rate case charges. Therefore, on average, the unamortized balance shall be \$43,052, or a \$39,465 reduction to the requested amount. Based upon this adjustment, we find it appropriate to approve a \$80,061 provision for working capital.

#### Test Year Rate Base

Based upon the approved test year and the adjustments made herein, we find that the appropriate rate base amount for Hobe Sound is \$4,578,388.

#### COST OF CAPITAL

Our calculation of the appropriate cost of capital is depicted on Schedule No. 2-A, and our adjustments are contained in Schedule No. 2-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.

#### Return on Equity

Based upon the components of the adjusted capital structure, as shown on Schedule No. 2-A, the equity ratio for Hobe Sound is 38.63 percent. Using the current leverage formula approved in Order No. PSC-94-1051-FOF-WS, issued August 29, 1994, the appropriate return on equity is 11.34 percent. Pursuant to the same order, the appropriate range for the return on equity is 10.34 percent to 12.34 percent.

#### Overall Cost of Capital

Based upon adjustments made in this Order, we find it appropriate to approve an overall cost of capital of 8.57 percent, with a range of 8.19 percent to 8.95 percent.

#### NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3-A, and our adjustments are contained in Schedule No. 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.

#### Adjustment to Salaries, Benefits and Payroll Taxes

Mr. Nathaniel A. Reed is the president of both the Hobe Sound Water Company and its parent, the Hobe Sound Company. None of Mr. Reed's time is charged to the utility. However, a \$17,472 expense for Mr. Reed's secretary is charged to the utility. In the utility's last rate case, Order No. 24485, issued May 7, 1991, we disallowed the salary expense for the secretary who works directly for Mr. Reed. Since Mr. Reed spent most of his time on non-utility matters, we deemed the same would be true for his secretary and removed all related expenses.

During the audit for this case, our auditors noted that the secretary performed only personal duties for the president, none of which were utility-related. Further, normal secretarial duties for the utility were performed by the utility bookkeeper. Although the utility responded to the audit by stating that a disallowance of the entire salary would be unreasonable, the utility did not provide an estimate of hours or even a percentage of how much of the secretary's time is spent on utility-related work.

Accordingly, we find it appropriate to reduce salary expense by \$17,472, with a corresponding reduction to payroll taxes and employee benefits of \$1,511 and \$3,197, respectively for this non-utility employee.

#### Expenses Related to Reduction in Consumption

In 1993, the utility's customers purchased 647,561,000 gallons of water. The utility estimates that consumption in 1994 will fall to 616,933,000 gallons as a consequence of increased rates on residential consumption beyond 10,000 gallons. This is equivalent to a 4.73 percent reduction relative to 1993 consumption levels.

Because the utility predicts that less water would be sold, we find it appropriate to reduce certain operating expenses to reflect reduced consumption. Using the 4.73 percent estimate applied to consumption and the projected provisions for chemicals (\$17,028) and purchased power (\$87,431), we find it appropriate to reduce those expenses by \$4,940.

#### Rate Case Expense

The utility's application includes separate provisions for current rate case costs and the unamortized balance associated with its last rate filing. The projected cost for this application was \$86,105 in the original filing. An additional \$44,189 was reported for unamortized prior rate case charges resulting from Docket No. 900656-WU. The utility added those two numbers together and requested amortization of the \$130,294 amount over four years for a yearly expense of \$32,574.

Recently, the utility reported that rate case charges in this proceeding may reach \$121,124, which is \$35,019 more than the \$86,105 originally requested amount. Our review does not disclose any undue complications associated with this case that would justify a 40 percent increase beyond the initial estimate. After a review of the information supplied by Hobe Sound, we find that \$86,105 is a sufficient allowance for rate case charges for this proceeding. Therefore, we find it appropriate to allow the amount included in the original application. Amortization of that amount over 4 years results in an annual expense of \$21,526.

The utility's request to amortize prior costs is not consistent with statutory requirements. In the prior docket, we approved an annual expense of \$18,712 for amortization of rate case charges. Based upon the actual implementation of that prior rate adjustment, that \$18,712 annual expense will be fully amortized on



May 31, 1995. At that time, the utility will be required to reduce its rates by the prescribed amount.

#### Removal of Franchise Costs

Hobe Sound pays \$460 per year per well to Martin County in compliance with the Wellfield Protection Ordinance. In 1993, the utility had ten wells in operation and made rate base adjustments to include two new wells in 1994. However, the utility requested recovery of an additional \$1,380 in franchise costs for three new wells (\$460 x 3 wells). Because the utility overstated its franchise costs by the fee for one well, \$460 shall be removed from taxes other than income.

#### Test Year Operating Income

Based on the adjustments addressed herein, we find that the test year operating income before any provision for increased revenues is \$131,232.

#### REVENUE REQUIREMENT

Based upon our review of the utility's application and the adjustments discussed herein, we find that the appropriate annual revenue requirement is \$1,526,267. This revenue requirement represents an annual increase in revenues of \$438,329, or 40.29 percent. These revenue amounts will allow the utility the opportunity to recover its allowed level of expenses and to earn a 8.57 percent rate of return on its investment in rate base.

#### RATES AND CHARGES

The final rates are designed to produce annual revenues of \$1,526,267. The utility's rates prior to filing, the currently approved interim rates, the requested final rates and approved final rates are shown on Schedule No. 4-A.

#### Rate Structure

The utility's current rate structure consists of a base facility and gallonage charge rate structure. General service customers are charged a flat gallonage rate, while the residential customers are charged based on a two-tiered inclining (inverted) block rate. In its filing, the utility proposed to further invert its rate structure by adding a third tier or usage block to its residential gallonage charge.

We approved the two-tiered rate structure in Hobe Sound's last rate case in Docket No. 900656-WU. In that case, the per capita consumption of Hobe Sound's customers was approximately 500 gallons per day. In Order No. 24485, issued May 7, 1991, this Commission recognized that the utility's proposed conservation (inclining or inverted block) rates would be considered part of an overall conservation plan. Therefore, by the aforementioned order, we granted the utility's request for inverted block residential rates, with the second usage block set at consumption over 10,000 gallons per month.

The utility's requested rate structure in the instant docket took conservation a step further by separating its current second tier monthly usage block into two blocks: a second block for usage of 10,001 to 40,000 gallons; and a third block for usage greater than 40,000 gallons. The utility believed that the additional usage block would send the appropriate price signals with regards to conservation, and would allow the utility to recover the cost of the additional transmission main to Jupiter Island through the consumption revenues generated from the third tier.

The utility used a multi-step process with regard to the calculation of its requested rates. First, the utility calculated cost-based rates of \$16.23 for the base facility charge (BFC) and \$1.46 for the gallonage charge. Next, the utility made a "conservation adjustment", whereby 25 percent of the BFC costs were shifted to the gallonage component for the residential class. This lowered the BFC to \$12.21.

Hobe Sound then separated the portion of revenue attributable to residential gallonage charges from the total revenue requirement to determine the revenue that must be generated through the residential inverted (conservation) gallonage charges. The utility proposed that a factor of 2.0 times the initial block rate be used for monthly consumption in the 10,001 to 40,000 gallons tier, and a factor of 2.5 times the initial block rate be used for monthly consumption in excess of 40,000 gallons. These factors were the basis for the calculation of the factored number of gallons. The "conservation adjustment" of 25 percent and the calculation of factored gallons resulted in the utility's requested residential rates for the three tiers of \$.90 for the first usage block, \$1.80 for the second block and \$2.25 for the third block.

We find it appropriate to approve the utility's proposed block structure. However, we have made adjustments to the rate factors within the structure in order to lower the rate for the first usage block and increase the rates in the second and third blocks. Our

review of the utility's proposals and our determinations are set forth below.

### Conservation Adjustment

Based on the approved revenue requirement, cost-based rates would be \$16.19 for the BFC for a 5/8" x 3/4" meter and \$1.46 for the general service gallonage charge. The relatively low gallonage rate as compared to the BFC is due mainly to the unusually high consumption levels of Hobe's residential customers. Therefore, in order to mitigate this disparity, as well as shift more of the burden of cost recovery to the gallonage charge in order to promote conservation, some "conservation adjustment" for the residential customer class is appropriate. However, all general service customers will pay \$1.46 per 1,000 gallons. In this manner, the general service customers do pay their fair pro rata share. The overall rate increase should promote some conservation by the general service customers.

An important consideration in the selection of an appropriate conservation adjustment factor is that the resulting rates not be unduly discriminatory. However, shifting 25 percent of the BFC costs to the residential gallonage component does not result in unduly discriminatory rates. Therefore, we find it appropriate to approve the utility's "conservation adjustment" of 25 percent. This adjustment lowers the requested BFC to \$12.14.

### Usage Blocks

We examined the utility's residential consumption data as part of our review of the utility's requested rate structure and proposed usage blocks. An analysis of this data reveals that approximately 28 percent of usage occurs in the 10,001 to 40,000 gallons per month block, and approximately 52 percent of usage occurs in the over 40,000 gallons per month block. Further, approximately 98 percent of the usage in the proposed third tier is generated from the customers located on Jupiter Island.

As mentioned previously, one of the utility's reasons for proposing a third usage block is to recover from the island customers the cost of the additional transmission main to the island. Since virtually all of the usage in the third tier is generated from island customers, we find that the proposed gallonage level in each usage block is appropriate. In order to effect the greatest conservation possible, we believe that it is appropriate to apply progressively higher rates to inclining usage blocks. Therefore, we find it appropriate to approve the utility's requested three-tier rate structure and the requested usage blocks.

Usage Block Rate Factors

After a review of the utility's requested usage block rate factors of 2.0 and 2.5, we find it appropriate to modify the factors, based upon several reasons. First, monthly usage below 10,000 gallons is not considered excessive, and is less discretionary than usage in subsequent blocks. This is evidenced by the utility's relatively low average monthly residential consumption in the first usage block of 4,147 gallons. Since this usage is relatively nondiscretionary, the rate in this usage block should be kept as low as possible.

As discussed previously, customers' usage in the monthly block of 10,001 to 40,000 gallons account for 28 percent of the utility's total consumption, and usage in the third block of monthly consumption in excess of 40,000 gallons account for an additional 52 percent of the utility's total consumption. Therefore, the combined usage of customers in the second and third tiers accounts for an unusually high 80% of total utility consumption. As a result, it is necessary to send the customers in the second and third tiers stronger price signals than those proposed by the utility.

Therefore, we find it appropriate to approve a rate for the second block that is 2.25 times that of the initial block rate, and a rate for the third block that is 3.0 times the initial block rate. Not only do these approved factors send stronger price signals to high-use customers than the utility's proposed rate factors, but the higher factors have the resulting effect of lowering the rate in the first usage block. As we believe a goal is to keep the rate in the first tier as low as possible, we find that these factors better achieve that goal.

Approximately 31 percent (or \$468,311) of the revenue requirement is recovered through the approved base facility charge. The fixed costs are recovered through the BFC based on the projected number of factored ERCs. The remaining 69 percent of the revenue requirement (or \$1,057,089) represents revenues collected through the gallage charge based on the projected number of gallons consumed during the year ending December 31, 1994.

The utility's projected consumption figures used to calculate rates reflects the average annual decline in consumption of 5.46 percent experienced over the last four years. This decrease assumes future usage will react similarly to the impacts of weather, conservation measures and rate increases. We have reviewed the utility's analysis and agree with this projected decrease in consumption.

### Review of Alternate Rate Structures

As mentioned previously, a driving factor in the instant docket involves the cost recovery of a transmission main that was installed to the island. As an alternative to the inclining block structure, a surcharge could have been placed upon the customers of the island to recover the cost of the main. An appealing aspect of this rate structure is that it would assess the "cost causers" the burden of the associated cost recovery of the main. While this alternative may have initial appeal, further consideration of the issue convinces us otherwise.

One drawback of a surcharge rate structure is that a cost of service study would produce the opposite effect, in that the cost-based gallonage charge for the island customers would be lower than that of the mainland customers because of the higher consumption on the island. Another drawback of a surcharge is its precedential effect in setting what would be tantamount to subdivision-specific rates. This concept is counter to the concept of all of a utility's customers sharing equally in the cost of providing service. Finally, the surcharge would discriminate within the residential customer class. Therefore, we find it more appropriate to capture the cost recovery of the transmission main through the rate structure as discussed above.

### Effective Date

The approved rates will be effective for meter readings on or after the stamped approval date of the tariff. The utility shall file and have approved the revised tariff sheets and the proposed customer notice, pursuant to Rule 25-22.0406(9), Florida Administrative Code, prior to implementing the revised rates. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

### Monthly Reports

In consideration of the need to evaluate the effects of this utility's unique inverted conservation rate structure, we find it appropriate to require the utility to compile monthly reports containing the number of customer bills, gallons billed and revenues collected. This information shall be provided for each customer class, meter size and approved usage block, separated between customers located on the mainland versus those located on Jupiter Island. The utility shall also compile, on a monthly basis, rainfall amounts for both the mainland and the island. In addition, in the event irrigation restrictions are mandated by any governmental or regulatory agency, the utility shall provide

information as to when the restrictions were in place and to what specific areas of the utility's service territory the restrictions applied to. All of the information requested in this issue shall be filed on a quarterly basis for a period of two years, commencing on the first billing cycle the revised rates go into effect.

#### Statutory Four Year-Rate Reduction

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of rate case expense previously authorized in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$22,540. The reduction in revenues will result in our approved rates as reflected on Schedule No. 5.

As discussed earlier, the utility will be required to reduce its rates on May 31, 1995, to reflect the annual amortization of rate case expense in Docket No. 900656-WU. Pursuant to Order No. 24485, the utility will be required to file new tariff sheets one month prior to this date reflecting this reduction. Schedule No. 5 reflects the required rate reduction associated with the rate case expense in this instant docket.

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

#### Refund of Interim Rates

By Order No. PSC-94-1044-FOF-WU, issued August 25, 1994, we suspended the utility's proposed rates and approved interim rates subject to refund, pursuant to Sections 367.082, Florida Statutes. The interim increase resulted in annual revenues of \$1,417,647, an increase of \$286,680 or 25.35 percent.

Pursuant to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in

the rate case test period that do not relate to the period interim rates are in effect should be removed.

In this proceeding, the test period for establishment of interim rates was the twelve months ended December 31, 1993. The test period for setting final rates is the twelve months ended December 31, 1994. The approved interim rates did not include any provisions for pro forma consideration of increased operating expenses or increased plant. It was, however, based upon a year-end rate base determination since the principle reason for the interim increase concerned completion of the transmission main that crosses the Intercoastal Waterway. The interim increase was designed to allow recovery of a 7.91% return on the year-end investment, which return included a 11.35% return on the equity investment portion of the capital structure.

The significant differences between the interim revenue requirement and the final revenue calculation are inclusion of a 10 percent interest rate on short-term debt consistent with actual interest rate associated with that debt; inclusion of actual construction costs during the interim collection period; and an allowance for rate case charges for this proceeding. The only element that was not an actual cost during the interim collection period was the added increment for rate case charges, \$21,526. Because the final rate increase of \$435,757 exceeds the interim rate increase of \$286,680 by more than that component, we find that a refund of interim rates is not necessary.

If a protest is not received within 21 days of issuance of this Order, this Order will become final. The docket may be closed upon the utility's filing of and staff's approval of revised tariff sheets. Further, in the event of no protests, the Letter of Credit may be released.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Hobe Sound Water Company's application for increased water rates 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 schedules attached hereto are by reference incorporated herein. 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, prior to its implementation of the rates and charges approved herein, Hobe Sound Water Company shall submit and have approved a proposed customer notice to its customers of the increased rates and charges and reasons therefor. The notice will be approved upon our 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, that the protest period has expired, and that the customer notice is adequate. It is further

ORDERED that Hobe Sound Water Company shall submit monthly reports as set forth in the body of this Order. It is further

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

ORDERED that all 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 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 shall submit a statement of the actual rate case expense incurred as set forth within the body of this Order. It is further

ORDERED that, if no timely protest is received from a substantially affected person, the letter of credit may be released. It is further

ORDERED that this docket shall be closed if no timely protest is received from a substantially affected person, and upon the utility's filing and staff's approval of revised tariff sheets and the customer notice.



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By ORDER of the Florida Public Service Commission, this 28th  
day of November, 1994.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

by: Kay J. Lynn  
Chief, Bureau of Records

( S E A L )

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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.

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, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on December 19, 1994.

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.

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If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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	\$ 6,254,938	\$ 35,163	\$ 6,290,101	\$ 40,298	6,330,399	
2 LAND	3,983	0	3,983	0	3,983	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	(1,574,140)	(98,700)	(1,672,840)	24,235	(1,648,605)	
5 CIAC	(317,801)	(910)	(318,711)	0	(318,711)	
6 AMORTIZATION OF CIAC	126,357	4,904	131,261	0	131,261	
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	119,526	119,526	(39,465)	80,061	
<b>RATE BASE</b>	<b>\$ 4,493,337</b>	<b>\$ 59,983</b>	<b>\$ 4,553,320</b>	<b>\$ 25,068</b>	<b>4,578,388</b>	

HOBE SOUND WATER COMPANY  
 ADJUSTMENTS TO RATE BASE  
 TEST YEAR ENDED DECEMBER 31, 1994

SCHEDULE NO. 1-B  
 DOCKET NO. 940475-WU  
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EXPLANATION	WATER
<b>(1) UTILITY PLANT IN SERVICE</b>	
a) To correct utility's double booking error	\$ (2,398)
b) To recognize actual plant additions for 1994	66,189
c) Adjustment to retire storage tank.	(10,051)
d) Adjustment to remove error in booking cost to retire storage tank	(4,316)
e) Adjustment to remove loan closing cost from plant	(9,126)
	<u>\$ 40,299</u>
<b>(2) ACCUMULATED DEPRECIATION</b>	
a) Adjustment to correct utility's double booking error	\$ 966
b) To recognize accum. dep. associated with 1994 actual plant additions	(4,097)
c) To remove accum. dep. associated with retirement and cost to retire tank	14,367
d) To reflect correct depreciation rate	12,824
e) To remove depreciation associated with loan closing cost	175
	<u>\$ 24,235</u>
<b>(3) WORKING CAPITAL</b>	
a) Adjustment to agree with approved balance	<u>\$ (39,465)</u>

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	\$ 2,328,135	51.13%	6.50%	3.32%	\$ 12,017	\$ 2,340,952	51.13%	6.55%	3.35%	
2 SHORT TERM DEBT	417,248	9.16%	10.00%	0.92%	2,297	419,545	9.16%	10.00%	0.92%	
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	1,727,955	37.95%	11.07%	4.20%	9,513	1,737,468	37.95%	11.34%	4.30%	
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	79,983	1.76%	0.00%	0.00%	440	80,423	1.76%	0.00%	0.00%	
9 TOTAL CAPITAL	\$ 4,553,321	100.00%		8.44%	\$ 25,067	\$ 4,578,388	100.00%		8.57%	
RANGE OF REASONABLENESS							LOW	HIGH		
							-----	-----		
							RETURN ON EQUITY	10.34%	12.34%	
							-----	-----		
							OVERALL RATE OF RETURN	8.19%	8.95%	
							-----	-----		

HOBE SOUND WATER COMPANY ADJUSTMENTS TO CAPITAL STRUCTURE TEST YEAR ENDED DECEMBER 31, 1994			SCHEDULE NO. 2-B DOCKET NO. 940475-WU		
DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT	
1 LONG TERM DEBT	\$	\$	\$ 12,817	\$ 12,817	
2 INTERCOMPANY PAYABLES			2,297	2,297	
3 PREFERRED STOCK			0	0	
4 COMMON EQUITY			9,513	9,513	
5 CUSTOMER DEPOSITS			0	0	
6 ACCUM. DEFERRED INCOME TAX			0	0	
7 OTHER (Explain)			440	440	
8 TOTAL CAPITAL	\$	0 \$	0 \$ 25,067	\$ 25,067	

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

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

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 1,087,938	\$ 439,871	\$ 1,527,809	\$(439,871)	\$ 1,087,938	\$ 438,329	1,526,267
OPERATING EXPENSES:		40.43%				40.29%	
2 OPERATION AND MAINTENANCE	\$ 587,378	\$ 67,804	\$ 655,182	\$(17,945)	\$ 637,237	\$	637,237
3 DEPRECIATION NET OF CIAC AMORT.	188,220	1,608	189,828	7,029	196,857		196,857
4 INTEREST ON CUSTOMER DEPOSITS	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	157,593	25,430	183,023	(21,766)	161,257	19,725	180,982
6 PROVISION FOR INCOME TAXES	17,192	97,916	115,108	(153,754)	(38,646)	157,521	118,874
7 TOTAL OPERATING EXPENSES	\$ 950,383	\$ 192,758	\$ 1,143,141	\$ 2,099,847	\$ 956,706	\$ 177,246	1,133,951
8 OPERATING INCOME	\$ 137,555	\$ 247,113	\$ 384,668	\$(2,539,718)	\$ 131,232	\$ 261,083	392,316
9 RATE BASE	\$ 4,493,337		\$ 4,553,320		\$ 4,578,388		\$ 4,578,388
RATE OF RETURN	3.06%		8.45%		2.87%		8.57%

HOBE SOUND WATER COMPANY  
ADJUSTMENTS TO OPERATING STATEMENTS  
TEST YEAR ENDED DECEMBER 31, 1994

SCHEDULE NO. 3-B  
DOCKET NO. 940475-WU  
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EXPLANATION	WATER
(1) <u>OPERATING REVENUES</u>	\$ <u>(439,871)</u>
a) Reverse utility's requested rate increase	
(2) <u>OPERATING &amp; MAINTENANCE</u>	\$ (20,669)
a) To remove salary and related benefits of a non-utility employee	(4,135)
b) To remove electricity expenses related to reduced consumption	(805)
c) To remove chemical expenses related to reduced consumption	(11,047)
d) Remove requested provision for amortization of prior rate case expense	18,712
e) Add provision for amortization of prior rate case costs	\$ <u>(17,945)</u>
(3) <u>DEPRECIATION EXPENSE</u>	\$ (56)
a) To remove dep. expense related to utility double booking error	8,195
b) To reflect dep. expense associated with actual 1994 plant additions	(898)
c) To remove dep. expense related to cost of retired storage tank	(212)
d) To remove dep. expense associated with loan closing costs	\$ <u>7,029</u>
(4) <u>TAXES OTHER THAN INCOME TAXES</u>	\$ (19,794)
a) To remove Regulatory assessment fees related to revenue adjustment.	(460)
b) To remove utility's inclusion of an extra well	(1,511)
c) To remove payroll taxes associated with non-utility employee	\$ <u>(21,765)</u>
(5) <u>PROVISION FOR INCOME TAXES</u>	\$ <u>(153,754)</u>
a) To reflect adjusted test year provision for income taxes	
(6) <u>OPERATING REVENUES</u>	\$ <u>438,329</u>
a) Adjustment to reflect approved revenue requirement	
(7) <u>TAXES OTHER THAN INCOME TAXES</u>	\$ <u>19,725</u>
a) Regulatory assessment taxes on additional revenues	
(8) <u>PROVISION FOR INCOME TAXES</u>	\$ <u>157,521</u>
a) To reflect income taxes related to approved revenue increase	



HOBE SOUND WATER COMPANY

SCHEDULE NO. 4

WATER

MONTHLY RATES

RESIDENTIAL AND GENERAL SERVICE

<u>Base Facility Charge:</u> <u>Meter Size:</u>	<u>Utility Rates</u> <u>Prior to Filing</u>	<u>Commission Approved</u> <u>Interim Rates</u>	<u>Utility Proposed</u> <u>Final Rates</u>	<u>Staff Recommended</u> <u>Final Rates</u>
5/8" x 3/4"	\$ 7.84	\$ 9.83	\$ 12.21	\$ 12.14
3/4"	11.76	14.74	-	13.21
1"	19.60	24.57	30.53	30.35
1 1/2"	39.20	49.15	61.05	60.69
2"	62.72	78.63	97.68	97.11
3"	125.44	157.26	195.36	194.22
4"	196.00	245.73	305.25	303.46

Gallonage Charge:

Residential Service

(Per 1,000 Gallons)				
Up to 10,000 gals.	\$ 0.72	\$ 0.90	\$ 0.90	\$ 0.78
10,001 gals. & over	1.52	1.91		
10,001 gals. to 40,000			1.80	1.75
Over 40,000 gals.			2.25	2.34

General Service Only

(Per 1,000 gallons)	\$ 1.09	\$ 1.37	\$ 1.46	\$ 1.46
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Average Residential Bill - In Each Proposed Tier

5M gals.	\$ 11.44	\$ 14.33	\$ 16.71	\$ 16.04
20M gals.	\$ 38.24	\$ 48.03	\$ 48.21	\$ 37.49
130M gals.	\$ 236.84	\$ 297.45	\$ 353.55	\$ 331.75

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HOBE SOUND WATER COMPANY

SCHEDULE NO. 5

Rate Schedule  
Water  
Schedule of Staff Recommended  
Rates and Rate Decrease in  
Four Years

Monthly Rates

Residential and General Service

	Staff Recommended Rates	Rate Decrease
Base Facility Charge:		
Meter Size:		
5/8" x 3/4"	\$ 12.14	\$ 0.18
3/4"	\$ 18.21	\$ 0.27
1"	\$ 30.35	\$ 0.45
1/2"	\$ 60.69	\$ 0.90
2"	\$ 97.11	\$ 1.43
3"	\$ 194.22	\$ 2.87
4"	\$ 303.46	\$ 4.48
6"	\$ 606.93	\$ 8.96
8"	\$ 971.08	\$ 14.34

Gallage Charged (Per 1,000 gallons)

Residential Service:

Up to 10,000 gals.	\$ 0.78	\$ 0.01
10,001 gals. to 40,000	\$ 1.76	\$ 0.03
Over 40,000 gals.	\$ 2.34	\$ 0.03

General Service: \$ 1.46 \$ 0.02