

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase  
in rates in Martin County by  
Hobe Sound Water Company.

DOCKET NO. 970164-WU  
ORDER NO. PSC-97-0839-FOF-WU  
ISSUED: JULY 14, 1997

The following Commissioners participated in the disposition of this matter:

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

ORDER SUSPENDING PROPOSED RATES AND  
APPROVING INTERIM RATES 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 water service only to approximately 1,268 customers. The service area includes customers both in Hobe Sound and on Jupiter Island. South Florida Water Management District (SFWMD) has determined this area to be a critical water usage area. The water company is a wholly-owned subsidiary of the Hobe Sound Water Company operating under the provisions of Certificate No. WU-43.

By Order No. PSC-94-1452-FOF-WU, issued December 20, 1994, in Docket No. 940475-WU, the utility's last full rate case proceeding, the Commission approved the utility's current rate structure. This current structure is unique in that it is a three-tiered increasing block rate, which was designed to encourage conservation in an area where usage per capita is extremely high.

After Hobe Sound's 1994 rate increase, salt water intruded into the well field east of Highway US-1. Despite the monitor system, there was no advanced warning of this occurrence. The loss of supply wells resulted in a critical supply problem. Hobe Sound's response to this problem was to institute an emergency interconnect with Hydratech Utilities, Inc. (Hydratech), as well as an accelerated supply program on the west side of Highway US-1.

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REG. DIV. OF REPORTING

On June 19, 1995, the utility and SFWMD entered into a Consent Agreement whereby the utility agreed to (1) improve ground water monitoring; (2) incorporate operation restraints when any salt water intrusion is detected; (3) investigate interconnect options; and (4) pay civil penalties. On September 11, 1995, Hobe Sound signed a Consent Agreement with the Florida Department of Environmental Protection (DEP) whereby Hobe Sound agreed to correct alleged violations of maximum contaminant levels established for iron and manganese in drinking water.

We last established rates for this utility in a limited proceeding in Docket No. 960192-WU. In that filing, the utility requested to recover expenses and increased costs associated with the supply wells and interconnect with Hydratech, as well as the costs of developing and implementing the Consent Agreement with SFWMD and an improved ground water program with new monitor wells. Pursuant to Order No. PSC-96-0870-FOF-WU, issued July 2, 1996, we allowed the utility to recover those costs, as well as the costs of developing and implementing the Consent Agreement with SFWMD and an improved ground water program with new monitor wells.

On April 3, 1997, the utility filed the instant application for increased water rates pursuant to Sections 367.081 and 367.082, Florida Statutes, and Rule 25-30.436, Florida Administrative Code. The utility has indicated in its filing that the requested rate increase is driven by the costs of installing a new iron manganese removal filtration facility as required by DEP. The utility satisfied the minimum filing requirements (MFRs) for a rate increase on May 2, 1997, and that date was designated as the official filing date pursuant to Section 367.083, Florida Statutes. The utility has requested that this case be processed pursuant to the proposed agency action (PAA) procedure as provided for in Section 367.081(8), Florida Statutes.

In its application, the utility requested an interim test year ending June 30, 1997. However, inconsistent with that request, in its MFRS, Hobe Sound provided interim schedules based upon the historical period ended June 30, 1996. Hobe Sound's requested test period for final rates is the projected year ending June 30, 1998. The utility has requested rate relief designed to increase annual water revenues in the amount of \$424,226 or 25.33%.

SUSPENSION OF RATES AND CHARGES

Section 367.081(6), Florida Statutes, provides that the rates proposed by the utility shall become effective within sixty days after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, permits the proposed rates to go into effect, under bond and subject to refund, at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

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 conclude that it is 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 will include on-site investigations by staff accountants, engineers, and rate analysts. Based on the foregoing, we find it appropriate to suspend the utility's proposed rate increase.

INTERIM RATE REQUEST

In its application, Hobe Sound requested that we approve increased interim rates using the test year ending June 30, 1997. However, the interim schedules included in the MFRs and referenced in the application are based on the historical test year ended June 30, 1996. We are unable to find any reference to a "projected test year" in the utility's application. Moreover, although the Net Operating Schedule (NOI) reflects a June 30, 1995 test year, the amounts are the same as reported in Schedule B-1, page 3 of 3, for the test year ended June 30, 1996. It appears to us that the utility's request for a June 30, 1997, test year was merely a typographical error. For the foregoing reasons, we interpret the utility's request as a request for a 1996 historical test year for interim purposes.

Additionally, the utility filed a year-end rate base for both interim and final. However, in the case of Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978), the Court found that in the absence of the most extraordinary of conditions, the Commission should apply average investment during the test year in determining rate base. Based on the utility's rate base amount in the MFRs, we calculated an approximate 1.5% increase going from a 13-month

average to year-end treatment. We do not believe that this small difference represents extraordinary conditions. Further, the MFRs show a decline in customer growth for 1996. We therefore find it appropriate to use a 13-month average to determine the utility's rate base and capital structure for interim purposes.

Hobe Sound requested interim rates designed to generate annual revenues of \$1,766,551. This represents a revenue increase of \$81,879 (or 4.87%). The utility filed rate base, cost of capital, and operating statements to support its requested rate increase based on a June 30, 1996 test year.

We find it appropriate to increase Hobe Sound's rates on an interim basis as set forth below and in the schedules attached hereto, which are incorporated herein by reference.

#### RATE BASE

We have reviewed the utility's filing and have made certain adjustments thereto as required by Section 367.082(5) (b) (1), Florida Statutes, which provides that the achieved rate of return shall be calculated by applying appropriate adjustments consistent with those which were used in the utility's most recent individual rate proceeding and by annualizing any rate changes occurring during such period. Our adjustments are described below.

As previously noted, we have made adjustments to reflect a 13-month average rate base. However, because the utility calculated working capital based on a 13-month average balance rather than on a year-end balance, we find that no adjustment is necessary in that regard. Based on our review of the orders issued in the utility's most recent limited proceeding and rate case, we find that no other rate base adjustments are necessary.

#### COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is shown on Schedule No. 2. 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 arriving at our approved overall rate of return, we made two adjustments to the utility's filing. We substituted a 13-month average capital structure for the year-end capital structure

requested by the utility and corrected an error made in the utility's rate of return on equity (ROE).

The utility requested an 11.34% return on equity for interim purposes, which is the mid-point of its last authorized ROE. Pursuant to Section 367.082(5)(a), Florida Statutes, the ROE for interim rate determinations is calculated by using the lower end of the range of the utility's last authorized return on equity. By Order No. PSC-94-1452-FOF-WU, issued December 20, 1994, Hobe Sound's rate of return on equity was most recently set at 11.34%, with a range of 10.34% to 12.34%. Accordingly, we have made an adjustment to reduce the return on equity for interim to 10.34%.

The net effect of these changes is a slight reduction in the overall cost of capital of 9.40% requested by the utility to the approved return of 9.04%. Schedule No. 2 shows the components, amounts, cost rates, and weighted average cost of capital associated with the interim test year capital structure.

#### NET OPERATING INCOME

Our calculation of net operating income is shown 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.

#### Operating Revenues

By Order No. PSC-96-0870-FOF-WU, the Commission allowed the utility to recover increased costs through a limited proceeding. These rates became effective on August 1, 1996, subsequent to the interim test period used in this proceeding. In its application, Hobe Sound made an adjustment to increase revenues by \$195,786 to annualize its revenues related to the limited proceeding. Because the limited proceeding was implemented after the interim test year, we find it appropriate to remove the annualized revenues from test year revenues. However, based upon our review of the MFRs, it appears that the utility's recorded revenues were different from the calculated revenues. No explanation of this difference was offered in the MFRs. Therefore, we find it appropriate to make an adjustment to increase revenues by \$18,194 to reflect calculated

revenues using actual billing determinants. We have also made corresponding adjustments to income taxes and taxes other than income to remove taxes associated with the revenue adjustments discussed above.

#### Annualized Expenses

In its MFRs, Hobe Sound included several adjustments to annualize its operation and maintenance (O&M) expenses. Annualization adjustments were made to salaries and wages, purchased power, building rent, and office supplies. As previously noted, in this docket, Hobe Sound opted to use the historical test year ended June 30, 1996. This Commission has consistently interpreted the achieved rate of return, as defined in Section 367.082(5)(b)(1), Florida Statutes, to mean actual expenses incurred, with adjustments made consistent with those made in the utility's last rate proceeding. Section 367.082(1), Florida Statutes, provides that upon request by a utility, the Commission may use a projected test year. In this case, the utility did not make such a request. For the foregoing reasons, we find it appropriate to remove the \$47,328 in annualized expenses.

#### REVENUE REQUIREMENT

Based upon our review of the utility's books and records and based upon the adjustments discussed above, we find that the appropriate annual revenue requirement for this utility is \$1,690,541. This revenue requirement represents an annual increase in revenue of \$183,461 (12.17%). The utility requested approval of interim rates designed to generate annual water revenues of \$1,766,551. These revenues exceed our approved adjusted test year revenues by \$259,471.

Although we have approved a higher interim revenue increase than requested, the total approved interim revenue is less than the total requested interim revenue. This result is due to the annualizing constraints mandated by the interim statute, as explained below. Further, the overall rate of return for interim is also less than the utility's requested overall rate of return for interim.

#### INTERIM RATES

We find it appropriate that Hobe Sound's interim rates be designed to allow the utility the opportunity to generate interim

revenues of \$1,688,631, excluding miscellaneous service revenues. This results in an increase of \$5,870 or 0.35% over the utility's annualized water revenues under the current rates. However, compared to the revenues generated prior to the implementation of the utility's most recent limited proceeding, this amount represents an increase to the water revenues of \$183,461 or 12.19%, excluding miscellaneous service revenues. It is the latter percentage which is applied to the rates in place during the interim test year ending June 30, 1996.

As previously noted, pursuant to Order No. PSC-96-0870-FOF-WU, the Commission allowed the utility to recover costs associated with additional supply wells, an interconnection with Hydratech, an improved ground water program with new monitor wells, and costs associated with developing and implementing a Consent Agreement with SFWMD. The approved rates from that order became effective on August 1, 1996. The utility, however, requested an interim test period ending June 30, 1996.

According to Section 367.082(5)(b)(1), Florida Statutes, rate changes may only be annualized if they occurred within the interim test year. Confusion therefore results when a utility has had a rate change subsequent to the end of the interim test year. Such rate changes are commonly due to an index or pass-through filing, or as in the present docket, the limited proceeding referenced above. The reason for the confusion is that under these circumstances, when rate changes which occurred after the end of the test year are eliminated pursuant to the interim statute, and the interim percentage increase is applied to rates which are no longer in effect, the interim increase granted in most cases appears to be more than it actually is. Applying the interim percentage increase to rates which are no longer in effect has the effect of nullifying any increase which occurred subsequent to the interim test year. Yet, to do otherwise would allow the utility to collect revenues higher than previously approved.<sup>1</sup>

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<sup>1</sup>We believe that the problem could be corrected by changing the language in the interim statute to require that revenues be annualized for any rate changes occurring prior to the official date of filing for the rate case. This proposed change to the language in the interim statute was included in our 1997 legislative package, but was not passed by the Legislature during the Spring 1997 Legislative Session.

The interim increase percentage for this docket will appear greater than it actually is due to the annualizing constraints mandated by the interim statute. Had the utility requested an interim test period which included the last rate increase, such as year ended December 31, 1996, this false impression would not exist.

Comparing the annualized revenues based on rates currently in effect, as approved by Order No. PSC-96-0870-FOF-WU, and the utility's requested interim revenues, results in a revenue increase of less than 1% or \$5,870 over current rates. The actual effect on the ratepayers' current base facility charge is an increase of approximately \$.03 and on the gallonage charge is an increase of approximately \$.01. We believe that the costs associated with implementing the actual interim increase may equal, if not exceed, the increase. To implement the interim increase, the utility must comply with customer noticing requirements, tariff revision requirements, and provide security. The utility may choose not to implement such a small increase given the costs associated with such implementation. The utility could choose to continue charging the current rates, which were approved by Order No. PSC-96-0870-FOF-WU, during the pendency of the rate case proceeding.

If the utility decides to implement the interim rate increase approved herein, the corresponding interim rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision herein, that the proposed notice to the customers of the approved increase is adequate, and that the required security discussed below has been filed.

The utility's rates prior to the implementation of its most recent limited proceeding and its current rates, requested interim rates, and approved interim rates are shown on Schedule No. 4.

#### SECURITY FOR REFUND

Pursuant to Section 367.082, Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. According to our calculations, the appropriate amount to be held subject to refund is \$126,873.

Based on our review of Hobe Sound's financial data, we have determined that the utility is unable to qualify for a corporate undertaking due to insufficient liquidity, minimal ownership equity, inadequate interest coverage, and a reported net loss for the period in review. These concerns cast doubt on the utility's ability to back a corporate undertaking. Therefore, we find it appropriate to require the utility to 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 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 Cosentino 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, \$15,859, 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 \$126,873. If the utility chooses a bond as security, the bond shall state that it will be released or shall terminate upon subsequent order of the Commission addressing the requirement of 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 the requirement of a refund.

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Irrespective of the type of security provided, the utility shall keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the twentieth of each month indicating the monthly and total revenue collected subject to refund. 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 shall 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.

RULE 25-22.0407(4) VIOLATION

We note that by Rule 25-22.0407(4)(a), Florida Administrative Code, the utility was required to place a copy of its rate case synopsis at all locations where copies of the petition and MFRs were placed, within thirty days after the official date of filing. By Rule 25-22.0407(4)(b), Florida Administrative Code, the utility was required to mail a copy of the synopsis to the chief executive officer of the governing body of each municipality and county within the service areas included in the rate request, also within thirty days after the official date of filing. Rule 25-22.0407(4)(c), Florida Administrative Code, requires, among other things, that the synopsis be approved by our staff prior to distribution.

The utility's official date of filing is May 2, 1997. However, our staff did not receive a draft copy of the synopsis for review and approval until June 4, 1997, two days after the deadline for distribution under the Rule. The staff approved the synopsis that same day. By letter dated June 5, 1997, the utility advised that it would promptly mail the synopsis to Martin County and to the Town of Jupiter Island, which are the entities required to receive it under the Rule. Moreover, the utility would hand-deliver the synopsis to these entities on or before June 6, 1997, and would place it at all locations where the application and MFRs have been placed.

Section 367.161(1), Florida Statutes, authorizes us to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, Florida Statutes, or any lawful rule or order of the Commission.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). By Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the utility had not intended to violate the Rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

We find that Hobe Sound's failure to obtain staff approval of its synopsis and to distribute copies thereof within thirty days after the official date of filing meet the standard for a "willful violation" of Rule 25-22.0407(4), Florida Administrative Code. However, in its letter dated June 5, 1997, the utility explained that it was confused as to the procedural schedule of the case due to the staff data request that it received from staff on May 20, 1997. Evidently, the utility mistakenly believed that the staff data request would operate to extend the official date of filing. Nevertheless, when the utility realized that this was not the case, it fully cooperated with the staff and submitted a draft copy of the synopsis for staff's approval.

We note that distribution of the synopsis will occur only four days later than required by the Rule. Indeed, the entities which are required to receive the synopsis will receive it by hand-delivery at approximately the same time as, and possibly earlier than, they would have had the utility mailed it on the thirtieth day after the official date of filing in accordance with the Rule. Moreover, by the time the utility provides its initial notice of application to the customers within fifty days after the official date of filing and includes therein a statement of the locations where copies of the synopsis are available, pursuant to Rule 25-22.0407(5), Florida Administrative Code, the copies will indeed be available for inspection at those locations.

For the foregoing reasons, we find that the utility's apparent violation of Rule 25-22.0407(4), Florida Administrative Code, does not rise to the level of warranting that a show cause order be issued. Therefore, we shall not order Hobe Sound to show cause why

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it should not be fined for violation of the Rule. However, the utility is hereby put on notice that failure to meet further noticing requirements will not be tolerated.

Based on the foregoing, it is

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 to the extent 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 incorporated herein by reference. 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, provided customers have received notice. 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 \$126,873 or an escrow agreement as set forth in the body of this Order as guarantee for any potential refund of interim revenues. 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

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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 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.

By ORDER of the Florida Public Service Commission, this 14th day of July, 1997.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

  
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Kay Flynn, Chief  
Bureau of Records

( S E A L )

RGC

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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 this order, which is intermediate in nature, may request 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 wastewater utility. Citizens of the State of Florida v. Mayo, 316 So. 2d 262 (Fla. 1975), states that an order on interim rates is not final nor reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

**HOBE SOUND WATER COMPANY  
 SCHEDULE OF WATER RATE BASE  
 HISTORICAL YEAR ENDED 6/30/96**

**SCHEDULE NO. 1-A  
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COMPONENT	PER BOOK BALANCE 06/30/96	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	13TH-MONTH AVG COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$6,974,603	(\$12,800)	\$6,961,803	(\$64,204)	\$6,897,599
2 LAND	\$3,983	\$0	\$3,983	\$0	\$3,983
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$2,117,674)	\$11,985	(\$2,105,689)	\$118,839	(\$1,986,850)
5 CIAC	(\$231,329)	(\$90,020)	(\$321,349)	\$1,209	(\$320,140)
6 AMORTIZATION OF CIAC	\$66,819	\$84,172	\$150,991	(\$4,958)	\$146,033
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	\$283,206	\$283,206	\$0	\$283,206
<b>RATE BASE</b>	<b>\$4,696,402</b>	<b>\$289,343</b>	<b>\$4,972,945</b>	<b>\$50,886</b>	<b>\$5,023,831</b>

HOBE SOUND WATER COMPANY ADJUSTMENTS TO RATE BASE HISTORICAL YEAR ENDED 6/30/96		SCHEDULE NO. 1-B DOCKET NO. 970164-WU
EXPLANATION	WATER	
(1) <u>PLANT IN SERVICE</u> To adjust to 13-month average	<u>(\$64,204)</u>	
(2) <u>ACCUMULATED DEPRECIATION</u> To adjust to 13-month average	<u>\$118,839</u>	
(3) <u>CIAC</u> To adjust to 13-month average	<u>\$1,209</u>	
(4) <u>ACCUMULATED AMORTIZATION OF CIAC</u> To adjust to 13-month average	<u>(\$4,958)</u>	

HOBE SOUND WATER COMPANY  
 CAPITAL STRUCTURE  
 HISTORICAL YEAR ENDED 6/30/96

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DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
<b>PER UTILITY</b>							
1 LONG TERM DEBT	\$ 3,133,637	\$ 0	\$ (114,484)	3,019,153	60.71%	8.67%	5.26%
2 SHORT-TERM DEBT	14,926	0	(545)	14,381	0.29%	10.00%	0.03%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	1,870,852	0	(68,350)	1,802,502	36.25%	11.34%	4.11%
5 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	142,100	0	(5,191)	136,909	2.75%	0.00%	0.00%
9 TOTAL CAPITAL	\$ 5,161,515	\$ 0	\$ (188,570)	4,972,945	100.00%		9.40%
<b>PER COMMISSION</b>							
10 LONG TERM DEBT	\$ 3,106,971	\$ 0	\$ (65,936)	3,041,035	60.53%	8.67%	5.25%
11 SHORT-TERM DEBT	60,675	0	(1,288)	59,387	1.18%	10.00%	0.12%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	1,823,013	0	(38,688)	1,784,325	35.52%	10.34%	3.67%
14 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
17 DEFERRED INCOME TAXES	142,100	0	(3,016)	139,084	2.77%	0.00%	0.00%
18 TOTAL CAPITAL	\$ 5,132,759	\$ 0	\$ (108,928)	5,023,831	100.00%		9.04%
<b>RANGE OF REASONABLENESS</b>					<b>LOW</b>	<b>HIGH</b>	
<b>RETURN ON EQUITY (ROE)</b>					<b>10.34%</b>	<b>12.34%</b>	
<b>OVERALL RATE OF RETURN</b>					<b>9.04%</b>	<b>9.75%</b>	

HOBE SOUND WATER COMPANY STATEMENT OF WATER OPERATIONS HISTORICAL YEAR ENDED 6/30/96			SCHEDULE NO. 3-A DOCKET NO. 970164-WU				
DESCRIPTION	AMOUNT PER BOOKS 06/30/96	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$1,488,886	\$277,665	\$1,766,551	(\$259,471)	\$1,507,080	\$183,461	\$1,690,541
OPERATING EXPENSES:						12.17%	
2 OPERATION AND MAINTENANCE	\$670,521	\$47,328	\$717,849	(\$47,328)	\$670,521		\$670,521
3 DEPRECIATION	\$226,620	(\$2,497)	\$224,123	\$0	\$224,123		\$224,123
4 AMORTIZATION	\$103,572	(\$59,366)	\$44,206	\$0	\$44,206		\$44,206
5 TAXES OTHER THAN INCOME	\$127,592	\$62,109	\$189,701	(\$11,676)	\$178,025	\$8,256	\$186,281
6 INCOME TAXES	\$0	\$123,032	\$123,032	(\$168,417)	\$45,385	\$65,930	\$111,315
7 OPERATING EXPENSES	\$1,128,305	\$170,606	\$1,298,911	(\$227,421)	\$1,162,260	\$74,185	\$1,236,445
8 OPERATING INCOME	\$360,581	\$277,665	\$467,640	(\$32,050)	\$344,820	\$109,275	\$454,096
9 RATE BASE	<u>\$4,696,402</u>		<u>\$4,972,945</u>		<u>\$5,023,831</u>		<u>\$5,023,831</u>
10 RATE OF RETURN	<u>7.68%</u>		<u>9.40%</u>		<u>6.86%</u>		<u>9.04%</u>

**HOBE SOUND WATER COMPANY  
 ADJUSTMENTS TO OPERATING STATEMENTS  
 HISTORICAL YEAR ENDED 6/30/96**

**SCHEDULE NO. 3-B  
 DOCKET NO. 970164-WU**

EXPLANATION	WATER
<b>(1) OPERATING REVENUES</b>	
a) To reverse the utility's proposed revenue increase.	(\$81,879)
b) To remove to historic test year revenues for period ended 6/30/96	(\$195,786)
c) To reflect calculated revenues using actual billing determinants	\$18,194
	<u>(\$259,471)</u>
<b>(2) OPERATION &amp; MAINTENANCE EXPENSES</b>	
a) To remove annualized salary adjustment	(\$14,176)
b) To remove utility's adjustment to annualize purchase power	(\$1,344)
c) To remove utility's adjustment to annualize building rent for new office	(\$6,634)
d) To remove utility's adjustment to annualize office expenses	(\$15,362)
e) To remove utility's adjustment to annualize computer supplies	(\$9,812)
	<u>(\$47,328)</u>
<b>(3) TAXES OTHER THAN INCOME</b>	
a) Adjustment of RAFs to coincide with COMMISSION's adjusted revenues.	<u>(\$11,676)</u>
<b>(4) INCOME TAXES</b>	
a) Adjustment to show income taxes consistent with adjusted test year year income	<u>(\$168,417)</u>
<b>(5) OPERATING REVENUES</b>	
a) To reflect recommended revenue increase.	<u>\$183,461</u>
<b>(6) TAXES OTHER THAN INCOME</b>	
a) To reflect taxes other than income pertaining to recommended revenues.	<u>\$8,256</u>
<b>(7) INCOME TAXES</b>	
a) Income taxes related to adjusted revenues	<u>\$65,930</u>

**THE HOBE SOUND WATER COMPANY**  
**DOCKET NO. 970164-WU**  
**TEST YEAR ENDED: JUNE 30, 1996**

**SCHEDULE NO. 4**

**RATE SCHEDULE**

**WATER**

Monthly Rates

	<u>Rates As of 06/30/96</u>	<u>Rates as of 8/01/96</u>	<u>Utility Requested Interim</u>	<u>Commission Approved Interim</u>
<b><u>Residential and General Service</u></b>				
<i>Base Facility Charge:</i>				
Meter Size:				
5/8"x3/4"	\$12.14	\$13.59	\$14.25	\$13.62
3/4"	\$18.21	\$20.38	\$21.37	\$20.43
1"	\$30.35	\$33.96	\$35.61	\$34.05
1-1/2"	\$60.69	\$67.92	\$71.22	\$68.09
2"	\$97.11	\$108.68	\$113.97	\$108.95
3"	\$194.22	\$217.35	\$227.93	\$217.90
4"	\$303.46	\$339.60	\$356.12	\$340.45
<i>Residential Gallonage Charge</i>				
(per 1,000 gallons)				
0 to 10,000 gal	\$0.78	\$0.87	\$0.91	\$0.88
10,001 to 40,000 gal	\$1.76	\$1.96	\$2.06	\$1.97
Over 40,000 gal.	\$2.34	\$2.62	\$2.75	\$2.63
<i>General Service Gallonage Charge</i>				
(per 1,000 gallons)				
All gallons	\$1.46	\$1.63	\$1.71	\$1.64

**Typical Residential Bills**

<b>5/8" x 3/4" meter</b>				
<b>3,000 Gallons</b>	\$14.48	\$16.20	\$16.98	\$16.26
<b>5,000 Gallons</b>	\$16.04	\$17.94	\$18.80	\$18.02
<b>10,000 Gallons</b>	\$19.94	\$22.29	\$23.35	\$22.42