

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for rate increase)	DOCKET NO. 900656-WU
in Martin County by Hobe Sound Water)	ORDER NO. 24048
Company)	ISSUED: 1/31/91
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The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
 BETTY EASLEY
 GERALD L. GUNTER
 FRANK S. MESSERSMITH
 MICHAEL McK. WILSON

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

BY THE COMMISSION:

CASE BACKGROUND

Hobe Sound Water Company (Hobe Sound or Utility) is a Class B utility which provides water service in Martin County to customers located in Hobe Sound and Jupiter Island, Florida. It is a wholly-owned subsidiary of the Hobe Sound Company.

As of December 31, 1989, the Utility had approximately 1,107 water customers. On November 21, 1990, the Utility filed its minimum filing requirements (MFRs) for a rate increase and that date was established as the official date of filing. The test year for final rate determination is the projected twelve-month period ended December 31, 1990. The interim test period is the twelve months ended December 31, 1989. The Utility has requested that this case be processed as proposed agency action, pursuant to Section 367.081(8), Florida Statutes.

Hobe Sound has requested final water rates designed to generate annual revenues of \$1,280,927. These revenues exceed test year revenues by \$507,536, or 65.62 percent. The Utility states that its existing rates are insufficient to provide a fair return on its investment in property used and useful in the public service. Hobe Sound has replaced substantially all the original treatment and storage facilities in December, 1989 at a cost of approximately \$1.6 million. The Utility is currently adding 4 new wells and implementing saltwater monitoring at an estimated cost of approximately \$450,000 in 1990. In order to fully recover these investments, Hobe Sound is requesting approval of a year-end rate base for final rate determination.

DOCUMENT NUMBER-DATE

00939 JAN 31 1991

FPSC-RECORDS/REPORTING

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SUSPENSION OF PROPOSED RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the Utility shall become effective within 60 days after filing unless we withhold consent to the implementation of the rates. Further, Section 367.081(8), Florida Statutes, requires that this Commission vote on the proposed agency action within 5 months of the official filing date, or the requested rates may be placed into effect.

A review of Hobe Sound's filing indicates that it has made substantial rate base additions since rate base was last established. In addition, the Utility has proposed numerous adjustments to its rate base, capital structure, and operating statements. We have considered the proposed rates, the amount of the additional revenues sought thereunder and the supporting data which has been submitted. We believe that it is reasonable and necessary to require further amplification, explanation and corroboration of the data filed by the Utility. Accordingly, we find it appropriate to suspend Hobe Sound's proposed rates.

INTERIM RATES

Hobe Sound has requested interim water rates designed to generate \$1,004,907 in annual revenues. These revenues exceed interim test year revenues by \$248,970, or 32.94 percent. Based upon our review of the information filed in the application, we find that it is appropriate, on an interim basis, to provide the Utility with the opportunity to increase its annual water revenues by \$227,163, which will provide \$1,000,075 on an annual basis.

Accounting schedules are attached to this Order and by reference incorporated herein, which illustrate our rate base calculation, capital structure, and test year operating income statement. The rate base and adjustments thereto are shown on Schedules Nos. 1-A and 1-B, respectively. The capital structure is reflected on Schedule No. 2. The statement of water operations and adjustments thereto are shown on Schedules Nos. 3-A and 3-B, respectively. The major adjustments are discussed below.

Rate Base

The only adjustment necessary to rate base is to determine working capital using the balance sheet approach instead of the

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formula approach. According to Section 367.082, Florida Statutes, interim rate adjustments should be made which are consistent with the Utility's most recent rate case. In Hobe Sound's last rate case, Docket No. 800776-W, the balance sheet approach was used. Using the balance sheet submitted in the MFRs, we calculate a working capital allowance of \$33,696, thereby decreasing the Utility's requested allowance by \$31,079. After this adjustment, we find the appropriate rate base for interim purposes to be \$1,737,582.

Cost of Capital

In its application, the Utility used a 13.50 percent return on equity to determine its interim cost of capital. On its interim cost of capital schedule, the Utility shows a midpoint of return on equity of 14.50 percent, purportedly derived from Docket No. 800776-W. However, Order No. 10368, which established the Utility's last authorized return on equity in that same docket, set a midpoint of 15.75 percent, with a zone of reasonableness of plus or minus 1 percent. Section 367.082(5)(b)(3), Florida Statutes, requires that the minimum of the last authorized rate of return be utilized to establish the appropriate cost of equity for interim rates. Therefore, the correct cost of equity to establish these interim rates is 14.75 percent. This equates to an overall cost of capital of 12.87 percent for interim purposes.

Net Operating Income

In its application, the Utility requested interim recovery of the 4.5 percent regulatory assessment fee factor which went into effect on July 1, 1990. Since the interim rate determination must, by statute, be made on a historical basis, this known change cannot be allowed in this interim proceeding. The Utility may recover this expense in a pass-through rate adjustment. Therefore, we have reduced taxes other than income to reflect the 2.5 percent regulatory assessment fee in determining interim rates.

An adjustment is necessary to correct test year revenues. The Utility reported revenues of \$755,937 for the water system. Its billing analysis, however, indicates that total revenue is \$772,912. We have, therefore, increased test year revenues by \$16,975 to equal the billing analysis revenue calculation. The only other adjustments to operating income are to reflect income

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taxes and regulatory assessment fees related to revenue adjustments.

Revenue Requirement

Based upon recovery of the actual operating expenses for the year ended December 31, 1989, and a 12.87 percent return on rate base, we find that it is appropriate, on an interim basis, to increase the Utility's annual revenue requirement by \$227,163, or 29.39 percent. This results in a total annual revenue requirement of \$1,000,075.

Interim Rates

In order to allow Hobe Sound the opportunity to generate the approved revenue requirement, we hereby approve the rates set forth below which we find to be fair, just and reasonable. The Utility's current rates, proposed interim rates, and our approved interim rates are shown for comparison. The approved interim rates exceed those calculated by the Utility. The Utility's requested interim rates were based upon a 24.82 percent increase rather than the correct 33 percent increase indicated by the MFRs. However, the approved interim rates result in revenues that are \$21,807 below the revenue requirement requested by the Utility.

SCHEDULE OF RATES

MONTHLY WATER RATES

	<u>Current Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Commission Approved Interim Rates</u>
<u>Base Facility Charge</u>			
<u>Meter Size:</u>			
5/8" x 3/4"	\$ 7.02	\$ 8.76	\$ 9.08
3/4"	10.53	13.14	13.62
1"	17.54	21.89	22.70
1-1/2"	35.10	43.81	45.42
2"	56.14	70.07	72.64
3"	112.60	140.54	145.69
4"	175.47	219.02	227.04

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	<u>Current Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Commission Approved Interim Rates</u>
Gallorage Charge per 1,000 gallons	\$.66	\$.82	\$.85

Effective Date

The interim rates approved herein will be effective for meter readings on or after 30 days from the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that the tariffs are consistent with our decision, the appropriate security has been filed with the Commission, and the proposed customer notice is adequate.

Security for Refund; Customer Notice

Pursuant to Section 367.082(2)(a), Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. In order to guarantee any potential refund, we find it appropriate to require Hobe Sound to provide a bond, letter of credit or escrow agreement in the amount of \$135,000. Also, pursuant to Rule 25-30.360(7), Florida Administrative Code, the Utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Further, Hobe Sound shall submit a proposed customer notice explaining the interim increase and the reasons therefor for prior Commission approval.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the final rate 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 in part, as set forth in the body of this Order. It is further

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

ORDERED that Hobe Sound Water Company shall provide a bond, letter of credit or escrow agreement in the amount of \$135,000 as guarantee for any potential refund of interim water revenues. It is further

ORDERED that during the time that interim rates are in effect, Hobe Sound Water Company shall file a report by the twentieth (20th) day of each month indicating the monthly and total revenues collected subject to refund as required by Rule 25-30.360(6), Florida Administrative Code. It is further

ORDERED that prior to its 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 the Order. It is further

ORDERED that the interim rates approved herein shall become effective for meter readings on or after 30 days from the stamped approval date on the revised tariff sheets. The tariff sheets will be stamped approved upon verification that they are consistent with our decision as reflected herein, that the proposed customer notice is adequate, and that the appropriate security has been provided.

By ORDER of the Florida Public Service Commission this 31st
day of JANUARY, 1991.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

TCP

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 this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) 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. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

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HOBE SOUND WATER COMPANY
 SCHEDULE OF WATER RATE BASE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1989

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

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 2,827,546	\$	0 \$ 2,827,546	\$	0 \$ 2,827,546
2 LAND	11,289	0	11,289	0	11,289
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(910,129)	0	(910,129)	0	(910,129)
5 ACQUISITION ADJUSTMENT -NET	0	0	0	0	0
6 CIAC	(307,802)	0	(307,802)	0	(307,802)
7 AMORTIZATION OF CIAC	82,982	0	82,982	0	82,982
8 DEBIT DEFERRED INCOME TAXES	0	0	0	0	0
9 WORKING CAPITAL ALLOWANCE	64,775	0	64,775	(31,079)	33,696
RATE BASE	\$ 1,768,661	\$	0 \$ 1,768,661	(31,079)	\$ 1,737,582

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HOBE SOUND WATER COMPANY
ADJUSTMENTS TO RATE BASE
INTERIM TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 1-B
PAGE 1 OF 1
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EXPLANATION	WATER
<hr style="border-top: 1px dashed black;"/>	
(1) WORKING CAPITAL ALLOWANCE	
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To reflect the use of the balance sheet method, consistent with the last rate case.	(38,859) *****

HOBE SOUND WATER COMPANY
 CAPITAL STRUCTURE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 2
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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	\$ 500,000	32.95%	9.92%	3.27%	\$ 73,739	\$ 573,739	33.02%	9.69%	3.20%
2 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
3 ADVANCES FROM PARENT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4 CUSTOMER DEPOSITS	0	0.00%	8.00%	0.00%	0	0	0.00%	8.00%	0.00%
5 COMMON EQUITY	993,173	65.45%	13.50%	8.84%	146,470	1,139,643	65.59%	14.75%	9.67%
6 INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
7 DEFERRED TAXES	24,200	1.59%	0.00%	0.00%	0	24,200	1.39%	0.00%	0.00%
8 TOTAL CAPITAL	\$ 1,517,373	100.00%		12.11%	\$ 220,209	\$ 1,737,582	100.00%		12.87%

RANGE OF REASONABLENESS

LOW HIGH

RETURN ON EQUITY

13.75% 15.75%

OVERALL RATE OF RETURN

12.22% 13.53%

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HOBE SOUND WATER COMPANY
STATEMENT OF WATER OPERATIONS
INTERIM TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 3-A
DOCKET NO. 900656-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	\$ 755,937	\$ 248,970	\$ 1,004,907	\$ (231,995)	\$ 772,912	\$ 227,163	\$ 1,000,075
OPERATING EXPENSES						29.39%	
2 OPERATION AND MAINTENANCE	518,196	0	518,196	0	518,196		518,196
3 DEPRECIATION	90,625	0	90,625	0	90,625		90,625
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	61,547	26,323	87,870	(25,899)	61,971	5,679	67,650
INCOME TAXES	10,337	83,782	94,119	(77,554)	16,565	83,345	99,910
6 TOTAL OPERATING EXPENSES	\$ 680,705	\$ 110,105	\$ 790,810	\$ (103,453)	\$ 687,357	\$ 89,024	\$ 776,381
7 OPERATING INCOME	\$ 75,232	\$ 138,865	\$ 214,097	\$ (128,542)	\$ 85,555	\$ 138,140	\$ 223,694
8 RATE BASE	\$ 1,768,661		\$ 1,768,661		\$ 1,737,582		\$ 1,737,582
9 RATE OF RETURN	4.25%		12.11%		4.92%		12.87%

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HOBE SOUND WATER COMPANY
 ADJUSTMENTS TO OPERATING STATEMENTS
 INTERIM TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 3-B
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EXPLANATION	WATER
<hr/>	
(1) OPERATING REVENUES	
<hr/>	
A) To correct test year revenues to billing analysis.	16,975
B) To remove the utility's test year revenue request.	(248,970)
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TOTAL	(231,995)
	<hr/>
(2) TAXES OTHER THAN INCOME	
<hr/>	
A) To remove the utility's adjustment to reflect a 4.5% regulatory assessment fee (RAFs).	(15,119)
B) To correct RAFs on revenue adj 1A above.	424
C) To remove RAFs on the requested revenue increase.	(11,204)
	<hr/>
TOTAL	(25,899)
	<hr/>
(3) INCOME TAX EXPENSE	
<hr/>	
A) To remove the utility's income tax adjustment related to the adjustment to reflect 4.5% RAF.	5,689
B) To increase income tax expense on billing analysis adj.	6,228
C) To remove the utility's income tax adjustment related to the increase in revenues.	(89,471)
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TOTAL	(77,554)
	<hr/>
(4) OPERATING REVENUES	
<hr/>	
To adjust to reflect the level generated using the minimum of the last authorized return on equity.	\$ 227,163
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(5) TAXES OTHER THAN INCOME	
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To reflect RAFs (2.5%) on the revenue increase.	\$ 5,679
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(6) INCOME TAXES	
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To reflect income tax expense on the increase in revenues (Adj 4).	\$ 83,345
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