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May 2, 1997

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VIA HAND DELIVERY

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Application for Increased Water Rates by Hobe Sound
Water Company (HSWC) in Martin County, Docket No.
970164-WU

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of The Hobe Sound Water Company's ("Hobe Sound"'s) Supplement to Volume IV of the attachments to its Application for a General Rate Increase. This Supplement is filed in response to Charles H. Hill's correspondence of April 14, 1997 and April 21, 1997 regarding information required to be filed by Rule 25-30.437(e), Florida Administrative Code. The Supplement includes:

- | | | | |
|-----|----------|----|--|
| ACK | _____ | 1. | Hobe Sound's justification for the method or basis used for projections made to each account included in the working capital allowance calculation; |
| AFA | <u>1</u> | | |
| APP | _____ | | |
| CAF | _____ | 2. | Hobe Sound's justification for the method used to restructure salaries for the 1998 test year; |
| CMU | _____ | | |
| CTR | _____ | | |
| EAG | _____ | 3. | Hobe Sound's justification for the method used to escalate purchased power, building rent, office supplies and computer supplies, for the new office in 1997 and 1998; and |
| LEG | <u>2</u> | | |
| LIN | <u>5</u> | | |
| OPC | _____ | | |
| RCH | _____ | | |
| SEC | <u>1</u> | | |
| WAS | <u>1</u> | | |
| OTH | _____ | | |

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FPSC BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
04380 MAY-25
FPSC-RECORDS/REPORTING

Blanca S. Bayo
May 2, 1997
Page 2

4. Hobe Sound's method or basis used to project long and short term debt, common equity and deferred taxes for 1997 and 1998.

For purpose of our records, please acknowledge your receipt of this filing on the enclosed copy of this letter.

Thank you for your consideration in this matter.

Sincerely,

HOLLAND & KNIGHT LLP



D. Bruce May

Enclosure
DBM/kdw

cc: Charles H. Hill
Lila Jaber, Esq.
Michael Carfine
John F. Guastella
Gary White

TAL-107079

THE HOBE SOUND WATER COMPANY

DOCKET NO. 970164 - WU

APPLICATION TO INCREASE RATES AND CHARGES

IN

MARTIN COUNTY, FLORIDA

SUPPLEMENT TO

VOLUME IV

GUASTELLA ASSOCIATES, INC.

DOCUMENT NUMBER-DATE

04380 MAY-25

FPSC-RECORDS/REPORTING

Line No.	(1) Description	(2) 07/31/97	(3) 08/31/97	(4) 09/30/97	(5) 10/31/97	(6) 11/30/97	(7) 12/31/97	(8) 01/31/98	(9) 02/28/98	(10) 03/31/98	(11) 04/30/98	(12) 05/31/98	(13) 06/30/98	(14) Total
	Revenue	143,033	143,449	143,761	143,969	166,969	167,328	167,566	167,925	168,283	168,521	168,760	169,000	1,918,445
	Advances from Assoc Companies	0	0	0	0	0	0	0	0	0	0	0	0	0
	O & M Expenses	69,466	69,466	69,466	69,466	69,466	69,466	69,466	69,466	69,466	69,466	69,466	69,466	833,591
	Taxes, Other (ACCRUAL)	0	0	0	0	0	0	0	0	0	0	0	0	0
	Interest Expense	20,905	20,905	20,905	20,905	20,905	20,905	20,905	20,905	20,905	20,905	20,905	20,905	250,866
	Debt Payment	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	225,000
	Equity Distributions	30,000	30,000	30,000	30,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	520,000
	Plant Investment	890	765	765	375	250	445	250	445	640	375	375	443	6,018
	Pre-Tax Cash Flow	3,022	3,563	3,875	4,473	7,568	7,762	8,195	8,399	8,522	9,025	9,264	9,318	82,989
	Taxes, Other	18,422	18,441	18,465	18,484	19,499	19,515	19,528	19,542	19,558	19,569	19,580	19,585	230,158
	Description	07/31/98	08/31/98	09/30/98	10/31/98	11/30/98	12/31/98	01/31/99	02/28/99	03/31/99	04/30/99	05/31/99	06/30/99	Total
	Revenue							140,641	140,745	140,853	141,161	141,265	141,473	1,687,931
	Advances from Assoc Companies							0	0	0	0	0	0	(14,926)
	O & M Expenses							56,323	50,285	69,483	54,583	50,085	52,485	823,613
	Taxes, Other (ACCRUAL)							0	0	0	0	0	0	92,391
	Interest Expense							21,262	21,262	21,262	20,905	20,905	20,905	265,833
	Debt Payment							22,487	22,487	22,487	18,750	18,750	18,750	254,322
	Plant Investment							121	121	311	311	121	240	60,668
	Pre-Tax Cash Flow							40,447	43,590	27,410	46,612	42,403	49,092	176,180
	Taxes, Other							18,314	18,319	18,328	18,338	18,342	18,352	202,385

Employee	1996 Hourly Rate	1997 Hourly Rate (b)	1998 Hourly Rate (c)	07/01/96 - 05/31/97 Wages	05/01/97 - 05/30/97 Wages	Projected Wages	07/01/97 - 05/31/98 Wages	05/01/98 - 05/30/98 Wages	Projected Wages
Carlino	28.85	30.00	31.20	55,392.00	4,800.00	60,192.00	57,600.00	4,992.00	62,592.00
Foley	11.50	12.00	12.50	22,080.00	1,920.00	24,000.00	23,040.00	2,000.00	25,040.00
Brown	10.58	11.00	11.45	20,313.60	1,760.00	22,073.60	21,120.00	1,832.00	22,952.00
Talley	23.70	24.50	25.50	45,504.00	3,920.00	49,424.00	47,040.00	4,080.00	51,120.00
Diaz	14.00	14.50	15.00	26,880.00	2,320.00	29,200.00	27,840.00	2,400.00	30,240.00
Thomas	15.90	16.40	16.90	30,528.00	2,624.00	33,152.00	31,488.00	2,704.00	34,192.00
Hopkins	10.50	11.00	11.50	20,160.00	1,760.00	21,920.00	21,120.00	1,840.00	22,960.00
Shipman	14.40	14.90	15.40	27,848.00	2,384.00	30,032.00	28,608.00	2,464.00	31,072.00
White	11.90	12.40	12.90	22,848.00	1,984.00	24,832.00	23,808.00	2,064.00	25,872.00
Hamrick	13.20	13.70	14.20	25,344.00	2,192.00	27,536.00	26,304.00	2,272.00	28,576.00
Annual Wages (a)				296,697.60	25,694.00	322,391.60	307,968.00	26,648.00	334,616.00
						15.18%			3.80%
Average Operations - Field Rate	13.32	13.82	14.32			12 Mos Ending 05/30/96			(d)

(a) Wages estimated for 2,080 hours per year

(b) 1997 wage increase effective June 1, 1997.

(c) 1998 wage increase effective June 1, 1998

(d) Difference between payroll projection and pro forma expense represents capitalized labor.

e) Mr. Carlino's 5/11/96 wage increase reflects his full-time duties and responsibilities associated with the 'stand alone' status of the utility.

Employee	Hourly To 5/10/96	07/01/96 - 05/10/96 Wages	05/11/96 - 05/30/96 Wages	Annual Wages 06/30/96	Estimated	Per Book
Carlino	17.85	32,130.00	8,078.00	40,208.00		
Foley	10.80	19,440.00	3,220.00	22,660.00		
Brown	8.90	16,020.00	2,962.40	18,982.40	81,850	78,311
Talley	23.00	41,400.00	6,636.00	48,036.00		3539.4
Diaz	0.00	0.00	0.00	0.00		
Wilson	14.45	17,340.00	0.00	17,340.00		
Thomas	15.45	27,810.00	4,452.00	32,262.00		
Hopkins	10.00	18,000.00	2,940.00	20,940.00		
Shipman	13.90	25,020.00	4,032.00	29,052.00		
White	11.40	20,520.00	3,332.00	23,852.00		
Hamrick	12.70	22,860.00	3,696.00	26,556.00	196,038	187,401
Annual Wages (a)		240,540.00	39,348.40	279,888.40	279,888	265,712
Overtime		0 hours		0.00		
Total Payroll				279,888.40		
Average Operations - Field Rate	12.98333					

Company: The Hobe Sound Water Company
 Docket No. 970164-WU
 Schedule Year Ended: June 30, 1998

Explanation: To estimate the annual expense impacts of the Company's office relocation and stand alone status.

Line No.	(1) Account No. and Name	(2) 12 Months Ended Jun-96	(3) 6 Months Ended Jun-96	(4) 6 Months Ended Dec-96	(5) Normal 6 Mo. Expense	(6) Annual Expense	(7) Increase Over Base Year
1	601 Salaries & Wages - Employees	265,712	129,309	171,339			
2	603 Salaries & Wages - Officers, Etc.	0	0	0			
3	604 Employee Pensions & Benefits	49,033	23,969	20,376			
4	610 Purchased Water	0	0	0			
5	615 Purchased Power	90,505	44,844	44,661			
6	615 Purchased Power-Other	4,708	2,349	6,716	3,026	6,052	1,344
7	616 Fuel for Power Purchased	0	0	0			
8	618 Chemicals	26,492	14,092	15,088			
9	620 Materials & Supplies	55,023	33,617	49,613			
10	631 Contractual Services - Engr.	26,487	10,036	42,422			
11	632 Contractual Services - Acct.	7,800	3,900	4,300			
12	633 Contractual Services - Legal	3,670	0	0			
13	634 Contractual Services - Mgmt. Fees	0	0	0			
14	635 Contractual Services - Other	0	0	0			
15	641 Rental of Building/Real Prop.	3,000	1,500	4,817	4,817	9,634	6,634
16	642 Rental of Equipment	2,731	1,621	466			
17	650 Transportation Expenses	30,558	18,957	20,882			
18	656 Insurance - Vehicle	9,240	4,620	5,556			
19	657 Insurance - General Liability	13,680	6,840	14,649			
20	658 Insurance - Workman's Comp.	11,260	5,640	8,316			
21	659 Insurance - Other	0	0	12,860			
22	660 Advertising Expense	0	0	0			
23	666 Reg. Comm. Exp. - Rate Case Amort	21,527	10,764	12,181			
24	667 Reg. Comm. Exp. - Other	10,390	390	18,000			
25	670 Bad Debt Expense	658	300	300			
26	675 Misc-Maint & Equipmt	4,406	2,788	5,791			
27	675 Office Supplies & Expense	13,906	7,090	21,634	14,634	29,268	15,362
28	675 Computer Supplies & Expense	1,198	1,198	5,505	5,505	11,010	9,812
29	675 Miscellaneous Expenses	18,517	10,008	9,686			
30	TOTAL	670,521	333,832	495,158			33,157

Note: The relocation of the utility's office occurred mid 1996, therefore column (4) expenses contain some "start-up" costs. Column (5) adjusts and normalizes the office related costs from column (4) and the normal levels are annualized in column (6).

The Hobe Sound Water Company
Assumption for Capital Structure

Work Paper

Long-Term Debt	Reflects the refinancing to consolidate current debt and financing of the Filtration Plant project.
Short-Term Debt	With the sale of The Hobe Sound Company (Parent) and the dissolution of the intercompany relationship, that source of short-term debt is no longer available. No short-term debt is anticipated for projected periods.
Common Equity	Projected levels of common equity reflect the impacts of earnings and future equity distributions. (See cash flow work paper.)
Deferred Taxes	The projection of deferred taxes reflect the balances provided by the Company's independent accounting firm.

THE HOBE SOUND WATER COMPANY
Balance Sheet - Work Paper

<u>Accounts</u>	<u>Basis for Projected Balances</u>
Cash	Reflects cash flow analysis and payments of accrued taxes.
Accounts Receivable	Historical levels adjusted for increased revenue levels.
Materials & Supplies Inventory	Remains at current level.
Deferred Income Tax	Remains at current level.
Unamortized Rate Case Exp	Balance increased for cost of this proceeding and reflects 4 year amortization.
Misc Deferred Debits	Reflects 5 year amortization of deferred balr.ce.
Non-Utility Property	Remains at current level.
Work in Progress	Includes impact of filtration plant project.
Fixed Assets	Reflects "A" schedule balances.
Accumulated Depreciation	Reflects "A" schedule balances.
Accounts Payable	Reflects changes in O & M expense levels.
Notes & Accounts Payable - Assoc. Cos.	Reflects change in corporate structure.
Accrued Taxes	Reflects monthly tax accrual and payments.
Misc. Current & Accrued Liabilities	Reflect changes in historical balances.
Notes Payable	Line of credit debt paid-off in March 1997.
Construction Loan	Reflects consolidation of current debt and financing of capital projects.
Deferred Income Tax	Reflects "C" schedules.
CIAC	Reflects "A" schedule balances.
Amortization of CIAC	Reflects "A" schedule balances.
Capital Stock	Remains at current level.
Other Paid-in Capital	Remains at current level.
Retained Earnings	Reflects earnings and distributions.