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JUNE 12, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (MONIZ, GALLOWAY, RENDELL) *MONIZ* *SM* *CG*
DIVISION OF LEGAL SERVICES (CAPELESS) *AL*

RE: DOCKET NO. ~~970164~~-WU - THE HOBE SOUND WATER COMPANY -
APPLICATION FOR RATE INCREASE
COUNTY: MARTIN

AGENDA: JUNE 24, 1997 - REGULAR AGENDA - DECISION ON INTERIM
RATES - PARTICIPATION IS LIMITED TO COMMISSIONERS AND
STAFF

CRITICAL DATES: 60-DAY SUSPENSION DATE: JULY 1, 1997

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\970164WU.RCM

DOCUMENT NUMBER-DATE

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FPSC - RECORDS/REPORTING

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

CASE 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.

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.

The Commission last established rates for this utility in a limited proceeding in Docket No. 960192-WU. In that filing, Docket No. 960192-WU, 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, the Commission allowed the utility to recover the costs stated above, as well as the costs of developing

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

and implementing the Consent Agreement with SFWMD and an improved ground water program with new monitor wells.

On April 3, 1997, the utility filed this current application for increased water rates pursuant to Chapters 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%.

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

DISCUSSION OF ISSUES

ISSUE 1: Should the utility's proposed rates be suspended?

RECOMMENDATION: Yes. Hobe Sound's proposed water and wastewater rates should be suspended. (MONIZ)

STAFF ANALYSIS: Sections 367.081(6), Florida Statutes, provides that the rates proposed by the utility shall become effective within sixty (60) days after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, states that the utility may implement its requested rates (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.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. We believe 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 by staff will include on-site investigations by staff accountants, engineers and rate analysts. Based on the above, staff recommends that the utility's proposed final rates be suspended.

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

ISSUE 2: What is the appropriate test year to be used for interim purposes?

RECOMMENDATION: The appropriate test year to be used for interim is the 13-month average test year ended June 30, 1996. (MONIZ)

STAFF ANALYSIS: In its application, Hobe Sound requested authority for 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. To further complicate the matter, the Net Operating Schedule (NOI) reflects a June 30, 1995 test year, not June 30, 1996. The amounts are the same as reported in Schedule B-1, page 3 of 3, for the test year ended June 30, 1996. Staff believes that the utility's request for a June 30, 1997, test year was merely a typographical error, as we have been unable to find any reference to a "projected test year" in its application and because the interim schedules are based on the historical test year ended June 30, 1996. As such, staff has interpreted that the utility actually requested a 1996 historical test year for interim.

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, staff 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. Based on the foregoing discussion and analysis, we recommend that the Commission use a 13-month average to determine the utility's rate base and capital structure for interim purposes.

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

ISSUE 3: Should an interim revenue increase be approved?

RECOMMENDATION: Yes. On an interim basis, the utility should be authorized to collect \$1,690,541 in annual water revenues. This represents an annual increase of \$183,461 (or 12.17%) for the test year ended June 30, 1996. (MONIZ, RENDELL)

STAFF ANALYSIS: 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. As discussed in Issue 2, staff has recommended that the Commission utilize a 13-month average for the interim test year ended June 30, 1996. Staff has attached accounting schedules to illustrate our recommended rate base, capital structure, and test year operating income amounts. The rate base schedules and adjustments are numbered 1-A and 1-B. The capital structure schedule is Schedule No. 2. Schedule No. 3-A is the operating statement and Schedule 3-B reflects the adjustments to the operating statement.

Section 367.082(5) (b) (1), Florida Statutes, states that the achieved rate of return shall be calculated by applying appropriate adjustments consistent with those which were used in the most recent individual rate proceeding of the utility or regulated company and annualizing any rate changes occurring during such period. Consistent with this, staff has reviewed the filing and recommends the adjustments described below.

RATE BASE

As discussed above, staff has made adjustments to reflect a 13-month average rate base. However, since the utility calculated working capital based a 13-month average balance rather than a year-end balance, no adjustment was necessary. Based on our review of the utility's orders for the last limited proceeding and last rate case, no other rate base adjustments are necessary.

COST OF CAPITAL

In arriving at our recommended overall rate of return, staff made two adjustments to the utility's filing. We substituted a 13-month average capital structure for the year-end capital structure requested in the utility's filing and corrected an error made in the utility's rate of return on equity (ROE).

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

The utility requested an 11.34% return on equity for interim, which is the mid-point of its last authorized ROE. Pursuant to Section 367.082, Florida Statutes, the ROE for interim rate determinations should be calculated 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%. In accordance with the above statute, staff has 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 return of 9.04% recommended by staff. 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

Operating Revenues

By Order No. PSC-96-0870-FOF-WU, issued July 2, 1996, the Commission allowed the utility to recover increased costs through a limited proceeding. These rates became effective on August 1, 1996, which was subsequent to the interim test period in this current 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, the annualized revenues should be removed from test year revenues. However, based upon staff's 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, staff made an adjustment to increase revenues by \$18,194 to reflect calculated revenues using actual billing determinants. Corresponding adjustments were also made 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 & wages, purchased power, building rent, and office supplies. 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

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

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. As such, staff believes that the \$47,328 in annualized expenses should be removed.

REVENUE REQUIREMENT

The utility requested approval of interim rates designed to generate annual water revenues of \$1,766,551. These revenues exceed staff's adjusted test year revenues by \$259,471. Based upon staff's proposed recommendations with regard to the underlying rate base, cost of capital, and operating income issues, we recommend a revenue requirement of \$1,690,541. This represents an annual increase of \$183,461 (or 12.17%). Although we are recommending a higher interim revenue increase than requested, the total interim revenue recommended is less than the total interim revenue requested. This result is due to the annualizing constraints mandated by the interim statute, as explained in Issue 4 of this recommendation. Further, the overall rate of return for interim is also less than the utility's requested overall rate of return for interim.

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

ISSUE 4: What are the appropriate interim water service rates?

RECOMMENDATION: The interim service rates for Hobe Sound Water Company should be designed to allow the utility the opportunity to generate annual operating revenues of \$1,688,631 for its water system, excluding miscellaneous revenues. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Section 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice. (GALLOWAY, RENDELL)

STAFF ANALYSIS: Staff recommends that interim rates should be designed to allow the utility the opportunity to generate interim revenues of \$1,688,631, excluding miscellaneous service revenues. This recommended amount represents 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 limited proceeding, this recommended 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 stated in the case background and in Issue 3, pursuant to Order No. PSC-96-0870-FOF-WU, issued July 2, 1996, 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, as well as the costs associated with developing and implementing the 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 Statute, (the interim statute), 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, commonly due to an index or pass-through filing, or as in the present docket, due to the limited proceeding referenced above. The reason for the confusion is that an interim increase, under these circumstances, will appear to be greater than

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

it actually is when complying with the interim statute. That is, when rate changes which occurred after the end of the test year are eliminated 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.

Staff believes 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 the 1997 legislative package. However, it was not passed by the Legislature during the Spring 1997 Legislative Session.

Therefore, 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 ratepayer's current base facility charge is an increase of approximately \$.03 and on the gallonage charge is an increase of approximately \$.01. Staff believes 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. Therefore, staff notes that it is at the discretion of the company 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, issued July 2, 1996, during the pendency of the rate case proceeding.

If the utility decides to implement the recommended interim rate increase, the corresponding interim rates should be effective

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the proposed notice to the customers of the approved increase is adequate, and that the required security discussed under Issue 5 has been filed.

The utility's rates prior to the implementation of the limited proceeding referenced above and its current rates, requested interim rates, and staff's recommended interim rates are shown on Schedule No. 4.

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

ISSUE 5: What is the appropriate security to guarantee the interim increase?

RECOMMENDATION: The utility should be required to file a bond, letter of credit or escrow agreement as security to guarantee any potential refunds of water revenues collected under interim conditions. Pursuant to Rule 25-30.360(6), 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. (GALLOWAY)

STAFF ANALYSIS: Staff has calculated the total amount of potential refunds associated with the interim water revenue increase to be \$126,873. Staff has calculated the amount pursuant to Section 367.082, Florida Statutes, which states that the excess of interim rates over previously authorized rates shall be collected under guarantee subject to refund with interest.

Based on the financial analysis by the Division of Auditing and Financial Analysis, the utility cannot support 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 recommend that the utility 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 should be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should 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 should occur without the prior approval of the Commission through the Director of the Division of Records and Reporting, that the account should be interest bearing, that information concerning the escrow account should 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.

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

The utility should 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 should be distributed to the customers. If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.

If the security provided is a bond or a letter of credit, said instrument should be in the amount of \$126,873. If the utility chooses a bond as security, the bond should state that it will be released or should 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 should 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.

Irrespective of the type of security provided, the utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

ISSUE 6: Should the Commission order Hobe Sound to show cause, in writing within twenty days, why it should not be fined for violation of Rule 25-22.0407(4), Florida Administrative Code?

RECOMMENDATION: No. Show cause proceedings should not be initiated. However, the utility should be put on notice that failure to meet further noticing requirements will not be tolerated. (CAPELESS)

STAFF ANALYSIS: 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 staff prior to distribution.

The utility's official date of filing is May 2, 1997. However, 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. 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 MFR's have been placed.

Section 367.161(1), Florida Statutes, authorizes the Commission 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). In Order No. 24306, issued April

DOCKET NO. 970164-WU
DATE: JUNE 12, 1997

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.

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 letter that it received from staff on May 20, 1997. Evidently, the utility mistakenly believed that the staff data request which it received, dated May 20, 1997, would operate to extend the official date of filing. Nevertheless, when the utility realized that this was not the case, it fully cooperated with staff and submitted a draft copy of the synopsis for staff's approval.

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, staff does not believe that the utility's apparent violation of Rule 25-22.0407(4), Florida Administrative Code, rises to the level of warranting that a show cause order be issued. Therefore, staff recommends that the Commission not order Hobe Sound to show cause why it should not be fined for violation of the Rule. However, the utility should be put on notice that failure to meet further noticing requirements will not be tolerated.

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

**SCHEDULE NO. 1-A
DOCKET NO. 970164-WU**

COMPONENT	PER BOOK BALANCE 06/30/96	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	12TH-MONTH AVG STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$6,974,803	(\$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
RATE BASE	\$4,696,402	\$289,343	\$4,972,945	\$50,886	\$5,023,831

**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) PLANT IN SERVICE To adjust to 13-month average	<u>(\$64,204)</u>
(2) ACCUMULATED DEPRECIATION To adjust to 13-month average	<u>\$118,839</u>
(3) CIAC To adjust to 13-month average	<u>\$1,209</u>
(4) ACCUMULATED AMORTIZATION OF CIAC To adjust to 13-month average	<u>(\$4,958)</u>

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

SCHEDULE NO. 2
DOCKET NO. 970164-WU

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
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	\$(5,181)	136,909	2.75%	0.00%	0.00%
9 TOTAL CAPITAL	\$ 5,161,515	\$ 0	\$(188,570)	4,972,945	100.00%		9.40%
PER STAFF							
10 LONG TERM DEBT	\$ 3,108,971	\$ 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%
RANGE OF REASONABLENESS					LOW	HIGH	
RETURN ON EQUITY (ROE)					10.24%	12.24%	
OVERALL RATE OF RETURN					9.04%	9.75%	

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	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE REQUIREMENT	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$1,488,086	\$277,665	\$1,765,551	(\$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	\$228,820	(\$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	\$127,582	\$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	\$170,608	\$1,298,911	(\$227,421)	\$1,162,290	\$74,185	\$1,236,465
8 OPERATING INCOME	\$359,581	\$277,665	\$637,640	(\$32,050)	\$344,820	\$109,275	\$454,095
9 RATE BASE	\$4,696,402		\$4,972,945		\$5,023,831		\$5,023,831
10 RATE OF RETURN	7.65%		9.40%		6.86%		9.04%

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

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

EXPLANATION	WATER
(1) OPERATING REVENUES	
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>
(2) OPERATION & MAINTENANCE EXPENSES	
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>
(3) TAXES OTHER THAN INCOME	
a) Adjustment of RAFs to coincide with STAFF's adjusted revenues.	<u>(\$11,676)</u>
(4) INCOME TAXES	
a) Adjustment to show income taxes consistent with adjusted test year year income	<u>(\$166,417)</u>
(5) OPERATING REVENUES	
a) To reflect recommended revenue increase.	<u>\$163,461</u>
(6) TAXES OTHER THAN INCOME	
a) To reflect taxes other than income pertaining to recommended revenues.	<u>\$6,256</u>
(7) INCOME TAXES	
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

Rates As of 06/30/96	Rates as of 8/01/96	Utility Requested Interim	Staff Recommended Interim
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Residential and General Service

Base Facility Charge:

Meter Size:

5/8"x3/4"	\$12.14	\$13.59	\$14.25	\$13.62
3/4"	\$30.35	\$20.38	\$21.37	\$34.05
1"	\$60.69	\$33.96	\$35.61	\$38.09
1-1/2"	\$97.11	\$67.92	\$71.22	\$108.95
2"	\$194.22	\$108.68	\$113.97	\$217.90
3"	\$303.46	\$217.35	\$227.93	\$340.45
4"	\$211.27	\$339.60	\$356.12	\$237.02

Residential Gallonage Charge

(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

General Service Gallonage Charge

(per 1,000 gallons)

All gallons	\$1.46	\$1.63	\$1.71	\$1.64
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Typical Residential Bills

5/8" x 3/4" meter

3,000 Gallons	\$14.48	\$16.20	\$16.98	\$16.26
5,000 Gallons	\$16.04	\$17.94	\$18.80	\$18.02
10,000 Gallons	\$19.94	\$22.29	\$23.35	\$22.42