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January 17, 1996

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BY HAND DELIVERY

Susan F. Clark, Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

96 0071-WU

Re: Hobe Sound Water Company - Martin County
Request for Test Year Approval

Dear Chairman Clark:

The Hobe Sound Water Company intends to file an application to increase its rates and charges for water service in Martin County.

The utility respectfully requests approval to use a projected test year ending June 30, 1996 for permanent rates, with the year ended June 30, 1995 as the historical base year.

The utility also requests approval to use an historical test year ended June 30, 1995 for interim rates, and to use a year-end rate base for interim rate purposes.

The utility plans to request that the rate application be handled under the Commission's proposed agency action (PAA) procedures as provided for in Section 367.081(8), Florida Statutes.

The use of a projected test year for permanent rates will be more representative of the utility's operations than a historical period. The utility installed additional production and monitoring wells during 1994-1995 in response to salt water intrusion. These facilities, along with the installation of an emergency interconnection line with a neighboring utility, have cost the utility in excess of five hundred thousand dollars (\$500,000). The

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use of a projected test year will enable the full cost of these facilities to be reflected in the rates on a going-forward basis.

In addition to these costs incurred since the time of the last rate filing, it is anticipated that a major investment in treatment facilities will occur in the near future. The construction of an iron and manganese removal facility is currently scheduled for completion in early 1997. The cost of this utility plant addition is estimated at one million dollars (\$1,000,000). The cost of this project will not be included in this rate filing. However, the utility hopes to have sufficient rates and projected earnings to enable it to obtain reasonable financing terms for those future capital requirements.

The only known pro forma adjustment will be to include the full cost (approximately \$150,000) of additional monitoring facilities installed as part of the groundwater modeling programs and other obligations incurred under a Consent Agreement with the South Florida Water Management District. These capital improvements were completed during the test year, and the utility believes that it is appropriate to consider the full amount of these costs for ratemaking purposes, rather than just the test year average amount.

If you or your staff have any questions regarding this request, please call.

Very truly yours,



Richard D. Melson

RDM/cc

cc: Charles Hill
Marshall Willis
Michael Carfine (Hobe Sound)
Gary White (Guastella Associates)