

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a ) DOCKET NO. 960192-WU  
limited proceeding to include ) ORDER NO. PSC-96-0870-FOF-WU  
groundwater development and ) ISSUED: July 2, 1996  
protection costs in rates in )  
Martin County by Hobe Sound )  
Water Company. )  
\_\_\_\_\_ )

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION  
ORDER INCREASING WATER RATES TO INCLUDE  
GROUNDWATER DEVELOPMENT AND PROTECTION COSTS

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Hobe Sound Water Company (Hobe Sound or utility) is a Class A utility located in Martin County which provides water service to approximately 1265 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.

On September 8, 1977, SFWMD issued Water Use Permit 43-00076-W to Hobe Sound authorizing the withdrawal of ground water from the surficial aquifer for a period of ten years. The permit was renewed on July 14, 1988, for an abbreviated duration of five years. This permit increased the utility's withdrawal allocation from 1.61

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FPRC-RECORDS/REPORTING

million gallons per day (mgd) to 2.92 mgd and required a salt water tracking program. A tracking program was submitted to SFWMD and initiated.

By Order No. PSC-94-1452-FOF-WU, issued December 20, 1994, in Docket No. 940475-WU, the utility's last rate case proceeding, the Commission approved the utility's current rate structure. This structure is unique in that it is a three tier increasing block rate, designed to encourage conservation in an area where usage per capita is extremely high. The consumption under this rate is down approximately seven percent since the 1993 high in spite of a one percent increase in customers.

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 February 16, 1996, Hobe Sound filed the instant request for a limited proceeding. By this filing, the utility requests 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.

By motion filed May 13, 1996, the Town of Jupiter Island requested leave to intervene in this docket. By Order No. PSC-96-0768-PCO-WU, issued June 14, 1996, in this docket, that motion was granted in part and denied in part.

#### QUALITY OF SERVICE

##### Quality of the Product

Department of Environmental Protection (DEP) officials have advised us that there is a problem with excessive iron levels in water drawn from the new supply wells west of Highway US-1. The utility is in the process of addressing this problem with an iron filtration project which is not a part of this rate proceeding.

Full documentation of this project was supplied to us, and the iron filtration project is currently underway.

#### Operational Conditions

DEP officials have further indicated to us that the plant and facilities were found to be in good working order, and no violations were noted.

#### Customer Satisfaction

A customer meeting was held on March 20, 1996, in the Hobe Sound Elementary School cafeteria. This meeting was attended by approximately eighteen persons, nine of whom testified. Four customers expressed water quality concerns relating to high iron levels. This problem is being addressed by the utility.

In consideration of the foregoing, we find the overall quality of service to be satisfactory.

#### CAPITAL PROJECTS REQUESTED FOR INCLUSION IN RATE BASE

Because of threat of salt water intrusion, SFWMD required the utility to revise its monitoring program. As part of this program, the utility was required to install new monitoring wells. SFWMD endorsed the other two projects, new supply wells and an emergency interconnect, as viable solutions to supply problems brought on by the occurrence of salt water intrusion into supply wells east of Highway US-1.

The salt water monitor program which the utility implemented in 1994 was ineffective, as shown by the undetected intrusion of salt water into the east well field. Because of the threat of further salt water intrusion, a new, more effective monitor system was required.

Because of the contaminated supply wells, the utility installed the emergency interconnect with Hydratech as a short term solution. Next, new supply wells were installed, tested, permitted, and connected in a timely manner. Although the Hydratech interconnect was a temporary solution, it was economically the most viable option, and serves as a supply backup should some problem arise.

In consideration of the foregoing, and after a review of the associated costs, we find that these projects are prudent and necessary. We therefore include the costs of these projects in rate base.

REVENUE REQUIREMENT INCREASE

In its application, the utility requests a \$232,234 (15.76%) increase. The utility's proposed increase is made up of several component increases to rate base with specific adjustments to operating expense. The components that Hobe Sound included in rate base were interconnection and production wells, and unamortized balance of the Consent Agreement and groundwater monitoring wells. The adjustments to operating expenses included rate case expense, amortization of the Consent Agreement and ground monitoring wells, and property taxes. The utility's revenue increase is comprised of return on rate base items plus the increase in operating expenses and gross-up for taxes.

Based on our review of the application and supporting documentation, we hereby adjust the requested revenue increase from \$232,234 (15.76%) to \$175,531 (11.91%) over test year revenues. Our revenue requirement calculation is shown on the attached Schedule 1. Our adjustments are discussed below and are shown on Schedule 2. Schedule 3 contains the components for revenue requirement and depreciation calculations.

Groundwater Monitoring Wells

In the application, the utility included \$59,009 in groundwater monitoring costs to be amortized over five years. It included a simple average of the beginning year balance and the first year's unamortized balance as an increase to rate base. The utility identified the \$59,009 in groundwater monitoring costs as preliminary survey and investigation (PS&I) charges. According to the accounting instructions of the National Association of Regulatory Commissioners (NARUC), if construction results, plant accounts should be charged the amount of expenditures for PS&I which are determined to contribute directly and immediately to the construction, without duplication. Based on our analysis, these PS&I charges are appropriately related to the construction of the monitoring wells.

In consideration of the foregoing, the groundwater monitoring costs of \$59,009 shall be capitalized to the wells and springs plant account. Accordingly, accumulated depreciation and depreciation expense shall be increased by \$4,297 and \$1,975, respectively. Also, amortization expense shall be decreased by \$11,802.

### Consent Agreement

The primary, overall intent of the Consent Agreement is to resolve an on-going SFWMD enforcement action and also provide a legal mechanism for the utility to continue to provide water for its public water supply customers. It was also designed to provide the SFWMD maximum assurances that the water resources will be protected during the interim period in which the Consent Agreement is effective. The charges related to the Consent Agreement consist of legal and engineering fees. In its application, the utility amortized the total amount of \$221,032 over three years. As such, it included \$73,677 as annual amortization. As with the groundwater monitoring costs, the utility also included a simple average of the beginning year balance of the Consent Agreement and the first year's unamortized balance as an increase to rate base.

The Consent Agreement, which was designed to be in effect for three years, states that an extension may be granted if the utility, in good faith, attempts to implement the requirements contained therein. The Consent Agreement may be extended for a maximum two-year duration only if, in SFWMD's reasonable discretion, good faith efforts of the utility are adequately documented. The duration of the Consent Agreement shall not, including any extensions, exceed a duration of five years from the effective date. Based on the language of the Consent Agreement, it appears that the burden is on the utility to make a good faith effort to comply therewith. Regardless, we find that a five-year amortization period is appropriate. This is also consistent with Rule 25-30.433(8), Florida Administrative Code, regarding non-recurring expenses. Therefore, we hereby reduce the amortization of the legal and engineering fees associated with the Consent Agreement from \$73,677 to \$44,206.

We also find that it is inappropriate to include a simple average of the first year of unamortized balance in the rate base. A more appropriate balance to include is the average unamortized balance over the five-year life of the Consent Agreement that incorporates a normalized balance for return to be based upon. If the first year average were allowed, the customers would be paying the highest return for the remaining four years. Accordingly, only 50% of the total cost or \$110,516 shall be included as an addition to rate base.

### Rate Case Expense

In its application, the utility originally requested recovery of \$60,000 in rate case expense for the instant limited proceeding. Upon our staff's request, the utility provided support for current

rate case expense and an estimate to complete the case. The revised total submitted on May 13, 1996, was \$40,288. Based on our review, the requested amount of legal expenses appear reasonable. However, the total number of estimated hours to complete for the consulting firm was 91 hours (51 hours for the principle, 40 hours for the financial analyst). We have compared this estimate to complete the limited proceeding with other estimates to complete full rate increase cases. We find that the estimate to complete for this limited proceeding is excessive, and that 40 hours is a more reasonable estimate (24 hours for the principle, 16 hours for the financial analyst). Based on the foregoing, rate case expense shall be reduced to \$30,948.

#### Other Adjustments

In addition to the above adjustments, corresponding adjustments have been made to depreciation expense, property taxes, and interest expense (debt return). The total revenue increase also reflects a gross-up for income taxes and regulatory assessment fees.

Based on the foregoing, the appropriate revenue increase for Hobe Sound is \$175,531.

#### RATES

The permanent rates requested by the utility are designed to allow the utility to generate additional revenues of \$232,234 for water. The requested revenues represent an increase of 15.76% for water service.

We hereby approve rates for the utility which are designed to allow the utility the opportunity to generate additional annual revenues of \$175,531, which is an increase of 11.91% for water rates.

The approved rates shall be effective for service rendered on or after the stamped approval date of the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The utility shall be required to file and obtain our staff's approval of the revised tariff sheets. The utility shall also be required to file and obtain approval of a proposed customer notice, pursuant to Rule 25-22.0407(10), Florida Administrative Code, prior to implementing the new rates. The utility shall provide proof of the date the notice was given within ten days after the date of the notice.

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A comparison of the utility's original rates, requested rates, and our approved rates is shown on Schedule No. 4.

RECOVERY OF RATE CASE EXPENSE

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years, and that rates be reduced immediately following the expiration of the four year period by the amount of rate case expense previously included therein. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, grossed-up for regulatory assessment fees, which is \$8,102. The removal of rate case expense will result in the reduction of rates as shown on Schedule No. 5.

The utility shall be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

This order will become final if a protest is not received from a substantially affected person within twenty-one days of its issuance. If no protest is filed, this docket shall be closed administratively at the conclusion of the protest period and upon our staff's approval of the revised tariff sheets.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Hobe Sound Water Company's request for a limited proceeding to include certain groundwater development and protection costs in rates 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 to this order are incorporated herein by reference. It is further

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ORDERED that the rates approved herein shall be effective for service rendered on or after the stamped approval date of the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that Hobe Sound Water Company shall file and obtain approval of a proposed customer notice, pursuant to Rule 25-22.0407(10), Florida Administrative Code, prior to implementing the new rates. It is further

ORDERED that Hobe Sound Water Company shall provide proof of the date the notice was given to customers within ten days after the date of the notice. It is further

ORDERED that Hobe Sound Water Company shall apportion rate case expense for recovery over a four year period, and shall reduce rates immediately following the expiration of the four year period by the amount of rate case expense previously included therein, pursuant to Section 367.0816, Florida Statutes, as set forth in the body of this order. It is further

ORDERED that Hobe Sound Water Company shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction, and a proposed customer notice setting forth the lower rates and the reason for the reduction, as set forth in the body of this order. It is further

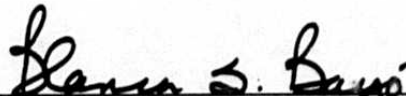
ORDERED that the provisions of this order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this order becomes final, this docket shall be closed administratively upon our staff's approval of the tariff sheets.



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By ORDER of the Florida Public Service Commission, this 2nd  
day of July, 1996.



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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

RGC

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 23, 1996.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

**HOBE SOUND WATER COMPANY - Docket No. 960192-WU**

**SCHEDULE NO. 1**

**REVENUE REQUIREMENT CALCULATION (Limited Proceeding)**

Return on Equity	\$30,305	
Equity with Tax Gross-up		\$48,589
O & M Expense	7,737	
Depreciation	19,561	
Amortization	44,206	
Property Taxes	10,440	
Debt Return	37,099	
RAFs	7,899	
		<u>126,942</u>
Revenue Deficiency		175,531
Adjusted Revenue At Existing Rates		1,473,744
<b>Rate Increase Required</b>		<b>11.91%</b>

**Calculation of Equity Return:**

Limited Proceeding Rate Base Items	\$720,364
Weighted Cost of Equity	4.21%
Return on Equity	30,305

**Calculation of Regulatory Assessment Fee:**

Equity w/ Tax Gross-up (Line 1 x 1.60333)	48,589
O & M Expense	7,737
Depreciation	19,561
Amortization	44,206
Property Taxes	10,440
Debt Return (Line 1 x 0.0515)	<u>37,099</u>
	167,632
Divided By: (1 - Regulatory Assessment Fee)	<u>95.50%</u>
Revenue Requirement	<u>175,531</u>

**PROOF:**

175,531 X 4.50% = 7,899

**HOBE SOUND WATER COMPANY - Docket No. 960192-WU**

**SCHEDULE NO. 2**

**ADJUSTMENT SCHEDULE**

	Per Utility's Schedules	Commission Adjustments	Per Commission's Schedules
Consent Order	184,194	(73,678)	110,516
UPIS Additions	149,713	59,009	208,722
Accum. Depr. on Above	(2,330)	(4,297)	(6,627)
Groundwater Monitoring	53,108	(53,108)	0
UPIS Additions	420,687	0	420,687
Accum. Depr. on Above	(12,926)	(8)	(12,934)
Increase in Rate Base	<u>792,446</u>	<u>(72,082)</u>	<u>720,364</u>
<b>Expenses &amp; Return</b>			
O & M Expense	15,000	(7,263)	7,737
Depreciation	17,586	1,975	19,561
Amortization	85,479	(41,273)	44,206
Property Taxes	9,461	979	10,440
Debt Return	40,807	(3,708)	37,099
RAFs	10,451	(2,552)	7,899
Subtotal	178,784	(51,842)	126,942
Equity w/Tax Gross-up	53,450	(4,861)	48,589
Revenue Increase	<u>232,234</u>	<u>(56,703)</u>	<u>175,531</u>
Test Year Revenue	1,473,744		1,473,744
Rate Increase Percentage*	<u>15.76%</u>		<u>11.91%</u>

\*Revenue Increase divided by Test Year Revenue

**HOBE SOUND WATER COMPANY - Docket No. 960192-WU**

SCHEDULE NO. 3

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**Components of Revenue Requirement Calculation**

RATE BASE

Consent Order - Avg Unamortized Balance	110,516
UPIS Additions	420,687
Accum. Depr. on Above	(12,934)
UPIS Additions	208,722
Accum. Depr. on Above	(6,627)
	<u>\$720,364</u>

EXPENSES

Rate Case Expense-Guastella	25,769	
Rate Case Expense-Melson	<u>5,179</u>	
	30,948	7,737 4 Yr Amort

AMORTIZATIONS

			<u>Avg Unamortized Bal</u>
Consent Order	\$221,032	44,206 5 Yr Amort	110,516 (50%)

PROPERTY TAXES

Mill Rate per \$1000 of UPIS Additions	16.5872	10,440
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WEIGHTED COST OF CAPITAL

Long Term Debt	4.85%
Short Term Debt	0.30%
Equity	<u>4.21%</u>
Weighted Cost of Capital	<u>9.36%</u>

**HOBE SOUND WATER COMPANY - Docket No. 960192-WU**

**SCHEDULE NO. 3**  
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**Depreciation Calculation:**

<u>Account/Description</u>	<u>Depre Rate</u>	<u>Plant Additions</u>	<u>Depre Expense</u>	<u>Accum Depre</u>
304.2 Structures & Improvements	3.03%	14,209	431	
307.2 Wells & Springs	3.33%	107,043	3,565	
309.2 Supply Mains	2.86%	148,014	4,233	
311.2 Pumping Equipment	5.00%	44,104	2,205	
331.4 Transm & Distribution Mains	2.33%	<u>107,317</u>	<u>2,500</u>	
Interconnection & Production Wells (Online 6/95)		420,687	12,934	12,934 1 Yr Depr
307.2 Wells & Springs	3.33%	117,368	3,908	
307.2 Wells & Springs (1)	3.33%	59,009	1,965	
331.4 Transm & Distribution Mains	2.33%	<u>32,345</u>	<u>754</u>	
Monitoring Wells (Online 1/96)		208,722	6,627	6,627 1 Yr Depr

**NOTE:**

(1) Capitalized PS&I charges to plant.

**HOBE SOUND WATER COMPANY**  
**COUNTY: MARTIN**  
**DOCKET NO. 960192-WU**

**Schedule No. 4**

**RATE SCHEDULE**

**WATER**

**Monthly Rates**

	<b>Rates Prior to <u>Filing</u></b>	<b>Utility Requested <u>Final</u></b>	<b>Commission Approved <u>Final</u></b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	\$12.14	\$14.05	\$13.59
3/4"	\$18.21	--	\$20.38
1"	\$30.35	\$35.13	\$33.96
1-1/2"	\$60.69	\$70.25	\$67.92
2"	\$97.11	\$112.41	\$108.68
3"	\$194.22	\$224.83	\$217.35
4"	\$303.46	\$351.28	\$339.60
<b><u>Gallonge Charge, per 1,000 Gallons</u></b>			
<b><u>Residential Service</u></b>			
Gallons 10,000 and under	\$0.78	\$0.90	\$0.87
Gallons 10,001 to 40,000	\$1.76	\$2.04	\$1.96
Gallons over 40,000	\$2.34	\$2.70	\$2.62
<b><u>General Service</u></b>			
Per 1,000 gallons	1.46	1.69	1.63
<b><u>Average Residential Bill - In Each Tier</u></b>			
5M Gallons	\$16.04	\$18.55	\$17.94
20M Gallons	\$47.24	\$54.85	\$52.79
130M Gallons	\$316.34	\$365.05	\$354.19

HOBE SOUND WATER COMPANY  
COUNTY: MARTIN  
DOCKET NO. 960192-WU

Schedule No. 5

**RATE SCHEDULE**

Schedule of Rate Decrease After Expiration of  
Amortization Period for Rate Case Expense

Water

**Monthly Rates**

	<b><u>Commission Approved Rates</u></b>	<b><u>Rate Decrease</u></b>
<b><u>Residential, General Service</u></b>		
Base Facility Charge (meter size):		
5/8"x3/4"	\$13.59	\$0.07
3/4"	\$20.38	\$0.10
1"	\$33.96	\$0.17
1-1/2"	\$67.92	\$0.33
2"	\$108.68	\$0.53
3"	\$217.35	\$1.06
4"	\$339.60	\$1.66
<b><u>Gallage Charge, per 1,000 gallons</u></b>		
<b><u>Residential Service</u></b>		
Gallons 10,000 and under	\$0.87	\$0.00
Gallons 10,001 to 40,000	\$1.96	\$0.01
Gallons over 40,000	\$2.62	\$0.01
<b><u>General Service</u></b>		
Per 1,000 gallons	\$1.63	\$0.01