BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in rates in Martin County by Hobe Sound Water Company.	DOCKET NO. 970164-WU ORDER NO. PSC-97-1225-FOF-WU ISSUED: OCTOBER 10, 1997

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES AND CHARGES

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 only to approximately 1,268 customers. The service area includes customers both in Hobe Sound and on Jupiter Island. The South Florida Water Management District (SFWMD) has determined this area to be a critical water usage area. The utility is a wholly-owned subsidiary of the Hobe Sound Water Company, and operates under the provisions of Certificate No. WU-43.

The utility's last full rate case was processed in Docket No. 940475-WU. In addition to approving a rate increase, by Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in that docket, the Commission approved the utility's current rate structure. This rate structure features a unique, three-tiered increasing block rate, which was designed to encourage conservation in an area where usage per capita is extremely high.

After the approval of Hobe Sound's 1994 rate increase, salt water intruded into the well field east of Highway US-1. Despite the utility's 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 entered into 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.

On February 16, 1996, Hobe Sound filed an application for a limited proceeding to recover expenses and increased costs as agreed to by the Consent Agreement. In addition to the supply wells and the interconnect with Hydratech, the costs of developing and implementing the Consent Agreement with SFWMD, and an improved ground water program including new monitor wells were also included in that filing. By Order No. PSC-96-0870-FOF-WU, issued July 2, 1996, in Docket No. 960192-WU, we allowed the utility to recover the above-described costs.

On April 3, 1997, the utility filed the current application for increased water rates pursuant to Chapters 367.081 and 367.082, Florida Statutes, and Rule 25-30.436, Florida Administrative Code. In its filing, the utility indicates 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 our proposed agency action (PAA) procedure, pursuant to Section 367.081(8), Florida Statutes.

In its application, the utility requested an interim test year ending June 30, 1997. In its MFRS, Hobe Sound provided interim schedules based upon the historical period ended June 30, 1996, which did not agree with the test year requested in the application. By Order No. PSC-97-0839-FOF-WU, issued July 5, 1997, we suspended the utility's requested rate increase and approved an interim water rate increase based on the historical test year ended June 30, 1996. Annual revenues of $1,417,647 were approved, resulting in an increase of $286,680 or 25.35%. The annualized revenues based on the limited proceeding rates which went into effect after the interim test year, as approved by Order No. PSC-96-0870-FOF-WU, were then compared with the approved interim revenues. This resulted in a revenue increase of less than 1% or $5,870 over the current rates approved by the limited proceeding. Because of the nominal increase, the utility decided not to implement the approved interim rates.

Hobe Sound's requested test period for final rates is the projected 13-month average test year ending June 30, 1998. The utility has requested final water revenues of $2,099,115. This results in an annual increase of $424,226 or 25.33%.

QUALITY OF SERVICE

In accordance with Rule 25-30.433(1), Florida Administrative Code, our evaluation of the overall quality of service provided by the utility is based upon our analysis of the quality of the utility's product, the operating conditions of the utility's plant and facilities, and customer satisfaction. We have also considered customer comments, sanitary surveys, outstanding citations, violations, and consent orders on file with the DEP and the County Health Department over the preceding three year period.

Quality of the Product

Hobe Sound's facilities consist of a well field with eight wells, two storage tanks, and a treatment plant. Current treatments consist of aeration and chlorination to which an iron and manganese filtration system is currently being added.

A customer meeting was held on June 25, 1997, in the Parish Hall of St. Christopher's Church in Hobe Sound. Twenty customers were in attendance. The main customer concerns involved the conditions caused by the high levels of iron in the water, which the filtration system will alleviate when it becomes operational in late August to early September of 1997.

Although the iron levels have exceeded those allowable by DEP, a Consent Agreement was signed (OGC Case No. 95-1586). As previously noted, under the terms of the Consent Agreement, the utility initiated a project to install filters which will reduce the iron levels.

Operating Conditions

On July 24-25, 1997, our staff engineer conducted a field inspection of the Hobe Sound facilities, including the iron filtration project site. The facilities were found to be clean and in good working condition. Although slightly behind schedule due to a permitting delay, the iron filtration project was found to be well-organized and proceeding according to the plans.

Customer Satisfaction

As noted above, at the customer meeting, the majority of concerns voiced by the customers involved problems resulting from the excessive iron levels in the water. When completed, the filtration system will alleviate these problems. The utility was well represented at the meeting and made special efforts to address customer concerns and problems at the conclusion of the meeting.

Based on the foregoing, we find that the quality of service provided by Hobe Sound is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for this proceeding is attached as Schedule No. 1-A. The adjustments to the rate base are attached as Schedule No. 1-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without any further discussion in the body of this Order. The major adjustments are discussed below.

Plant-In-Service

Our audit of the utility's books and records revealed that the utility booked several items to operation and maintenance expenses (O&M) that should have been capitalized. In its response to the audit report, the utility recognized that $6,585 related to the preliminary engineering work for the new catalytic filtration facility, and $2,071 in engineering fees related to a new well, should have been capitalized. The utility also agreed that a $795 saw should have been capitalized. These amounts were included in the utility's June 30, 1996, test year expenses. However, the utility escalated these amounts by 1.0252% for its June 30, 1997, intermediate year and its June 30, 1998, projected test year. Consequently, the amounts which the utility included in the MFRs for the June 30, 1998, projected test year are greater than the June 30, 1996, amounts presented above. The amounts included for the projected test year are $2,176 in engineering fees related to the well, $6,921 in engineering costs related to the catalytic filtration facility, and $832 for the saw.

We agree that the above-described items should be capitalized. Moreover, our staff discussed the utility's capitalization policy with the utility manager, who agreed that the utility mistakenly expensed these items, as it is the utility's policy to capitalize items with a service life longer than a year and a cost basis greater than $500.

Based on the foregoing, and the 13-month average plant balances, we find it appropriate to increase plant-in-service and accumulated depreciation by $7,684 and $703, respectively. Test year depreciation shall be increased by $350 and O&M shall be decreased by $6,921, for fees related to the filtration facility. The increase to plant-in-service is greater than the O&M reduction, as we have applied an Allowance for Funds Used During Construction (AFUDC) to the original amount. The costs were incurred in November and December of 1996 and the facility was not added to plant-in-service until June 1996. Therefore, we find that the utility is entitled to accrue AFUDC on the costs during the construction period.

We also find it appropriate to increase plant-in-service by $2,070 and $795, to increase accumulated depreciation by $178 and $120, to increase depreciation expense by $69 and $50 and to decrease O&M by $2,176 and $832 for costs related to constructing the well and for the costs related to the purchase of the saw, respectively.

Accordingly, based on the 13-month average balances, we find it appropriate to increase plant-in-service and accumulated depreciation by $10,549 and $1,001, respectively. Adjustments shall also be made to increase test year depreciation and to decrease O&M by $468 and $9,929, respectively.

Used and Useful

The maximum flow capacity of the filtration system is 5.990 million gallons per day (mgd), and the maximum daily demand is 5.601 mgd. A comparison of these flow rates yields a 93.51% used and useful percentage.

5.601 mgd / 5.99 mgd X 100% = 93.51%

Because this is a modular-type system with three filter tanks, a smaller two-tank system would not have provided adequate flow capacity. Therefore, we find that the newly constructed filtration system, along with the distribution system and water plant, are 100% used and useful.

Working Capital

Rule 25-30.433(2), Florida Administrative Code, requires Class A utilities to use the balance sheet method to compute working capital. Using this methodology and a 13-month average, Hobe Sound requested $301,124 as a working capital allowance.

We have reviewed the utility's balance sheet and its calculation of working capital, and we find that several adjustments are necessary to the utility's requested amounts, as discussed below.

Cash

The utility included a 13-month average cash balance of $150,281 in its working capital calculation. According to the utility, $7,300 of this amount is being held in an interest-bearing account. Generally, interest-bearing funds are excluded from working capital. See, e.g., Order No. 11498, issued January 11, 1983, in Docket No. 820150, wherein the Commission excluded Gulf Power's temporary cash investments from working capital to prevent subsidization of the company by the ratepayers. Based on the foregoing, we find it appropriate to remove $7,300 in interest bearing funds from the working capital calculation.

Loan Issuance Costs

The utility included $5,646 in unamortized loan issuance costs in its working capital calculation. The debt associated with the issuance costs has been refinanced and is no longer on the utility's books. Past Commission practice has been to amortize the issuance costs over the life of the loan and to incorporate the amortization in the cost of long-term debt. However, this is not possible to do in this case, as the loan no longer exists. Therefore, we find it appropriate to remove the $5,646 from the working capital calculation.

Other Deferred Debits

As explained herein below, we find it appropriate to amortize the costs to repair the utility's generator over five years, and to include the deferred balance in working capital. Therefore, the unamortized 13-month average balance of $5,560 shall be included in the working capital calculation.

Deferred Rate Case Expense

Consistent with Commission practice, the provision for deferred rate case costs shall reflect the 13-month average unamortized balance for the test year. As discussed herein below, we find it appropriate to approve a $94,328 provision for current rate case charges. Therefore, we find that beginning July 1, 1997, the average unamortized balance of current rate case expense to be considered in the working capital calculation is $84,727. The remaining unamortized balance for the most recent rate case and limited proceeding is $39,719. This results in a $29,295 reduction to the utility's requested amount of $153,742.

Miscellaneous Current and Accrued Liabilities

In discussions with the utility's accounting consultant, our staff discovered that the utility failed to include $8,182 in accrued pension costs in its projected balance sheet. Consequently, this amount was omitted from the utility's working capital calculation. We have reviewed this amount and we find it to be reasonable. Based on the foregoing, we find it appropriate to increase accrued liabilities by $8,182.

Summary

The adjustments addressed above result in an adjusted working capital balance of $256,261. This reduces the utility's requested amount by $44,863. Our adjustments are shown on the following schedule:

Working Capital Balance - Per Utility	$301,124
Approved Adjustments	
1) Cash	$(7,300)
2) Other Misc. Deferred Debits	
Issuance Costs	(5,646)
Unamortized Generator Costs	5,560
3) Deferred Rate Case Exp.	(29,295)
4) Misc Current & Accrued Liab.	(8,182)
Net Decrease Per Commission	($44,863)
Approved Working Capital Allowance	$256,261

Test Year Rate Base

Based upon the approved test year, the adjustments approved herein, and the use of a thirteen-month average, we find that the appropriate rate base amount for Hobe Sound is $6,179,676.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is shown on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on the schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Return on Equity

Based upon the components of the approved capital structure, adjusted as shown on Schedule No. 2, we find that the equity ratio for Hobe Sound is 29.05%. Using the current leverage formula approved by Order No. PSC-97-0660-FOF-WS, issued June 10, 1997, in Docket No. 970006-WS, the appropriate return on equity is 10.46%. The appropriate range for the return on equity is 9.46% to 11.46%.

Overall Cost of Capital

Our approved overall rate of return is based on application of Commission practice and is derived as shown on Schedule No. 2. Based upon the adjustments made herein, we find it appropriate to approve an overall cost of capital of 8.74%, with a range of 8.46% to 9.02%.

NET OPERATING INCOME

Our calculation of net operating income is shown on Schedule No. 3-A, and our adjustments are shown on Schedule No. 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Adjustment to Salaries, Benefits, and Payroll Taxes

In its MFRs, for the 1998 projected test year, the utility included $22,952 in salary expense for Ms. Janet Brown. According to the audit workpapers, Ms. Brown acts as secretary to Mr. Nathaniel A. Reed, president of Hobe Sound Water Company and Land Company. By Order No. PSC-94-1452-FOF-WU, issued in the utility's last rate case, we disallowed the salary expense for the secretary. According to that Order, the secretary performed only personal duties for the president, none of which were utility-related. Further, normal secretarial duties for the utility were performed by the utility bookkeeper and the utility did not provide an estimate of hours or a percentage of how much of the secretary's time was spent on utility-related work. We found that because Mr. Reed spent most of his time on non-utility matters, the same would be true for his secretary. Thus, all related expenses were removed. At the time, the secretary's total salary was $17,472, of which the entire amount was disallowed, as were the related payroll taxes and employee benefits.

The MFRs in this docket reflect $22,952 in annual salary expense for Ms. Brown, $4,235 in benefits, and $1,962 in payroll taxes, for the test year ending June 30, 1998. Ms. Brown works part-time for the utility and receives one half of her annual salary from the water company. Audit Exception No. 5 of the audit report discloses that according to Order No. PSC-94-1452-FOF-WU, the salary for the utility's executive secretary was disallowed, as discussed above. The auditor suggests that the secretary's salary should be removed in this case, since it was disallowed in the utility's last rate case.

In its response to the audit report, the utility contends that although we have disallowed Ms. Brown's salary in the past, her position has changed as a result of the corporate restructuring. Due to the utility operating as a stand-alone entity following corporate restructuring, there no longer exists an opportunity for the utility to share employees with its former parent company. Further, Ms. Brown now acts as a utility officer as well as a secretary to Mr. Reed. She provides the utility president with administrative assistance in performing his vast range of utility policy and management functions and also provides the only coverage the utility has for secretarial and clerical duties which cannot always be handled by the office manager. The other half of her annual compensation, which is not paid by the utility, is for the time devoted to the utility president's other, outside business activities.

We find that the utility has justified a need for someone to act in the absence of the office manager and to perform secretarial duties. However, we do not believe that the utility has justified the amount of salary it has included for the secretary. The office manager is a full-time employee and receives $25,040 in annual compensation (or $12.03 per hour) for 2080 hours per year, while the secretary is part-time and receives $22,952 in annual compensation (or $22.07 per hour) for 1040 hours per year. We find that since the secretary is part-time, her salary should be representative of a part-time secretary's salary. Since time sheets are not kept for the utility's office personnel, the exact amount of time the secretary spends on utility-related matters cannot be determined. However, we do find that it is reasonable for a utility of this size to have a half-time secretary in addition to the office manager. We further find that because the secretary is essentially assisting the office manager, it would be inappropriate to allow an hourly wage for the secretary which is greater than the hourly wage allowed for the office manager. We believe it would be more appropriate to allow an hourly rate equal to the office manager's hourly rate.

Based on the above, we find it appropriate to allow an annual salary of $12,511 ($12.03 x 1040 hours) for the secretary. Accordingly, salary expense shall be reduced by $10,441. Corresponding adjustments shall also be made to reduce payroll taxes and employee benefits by $1,928 and $892, respectively.

Projected Maintenance Expenses

In its MFRs, the utility included projected maintenance expenses for its new catalytic filtration facilities for the test year ending June 30, 1998. Included in the estimate is $2,050 for the replacement of the media which is contained inside the filter, and $2,050 for painting the filter.

In Audit Disclosure No. 1 of the audit report, our auditor notes that the media replacement and filter painting will not occur for ten years. It is the opinion of the auditor that these costs should be removed, as the utility will likely experience another rate proceeding within this time frame and the expenses can be captured at that time.

The catalytic filtration facility's annual cost projection, prepared by the engineering firm of Bishop & Associates, contained $13,000 for a system operator. The utility states that it took a conservative approach when it established its annual pro forma expenses associated with the operation of the filtration facility, as it did not include the costs for the facility operator. However, we have since discovered that the utility does not intend to hire anyone to fill this position. The facility will be operated by Mr. Talley, who is already a full-time employee of the utility, and his salary is already included in test year expenses. Therefore, we do not find it appropriate to consider this cost.

Based on the foregoing, we find that the utility has not justified the costs it included for the filter painting and media replacement, or for the additional operator. Therefore, we find it appropriate to reduce test year Materials and Supplies by $4,100.

Purchased Power

Audit Exception No. 7 reflects that the utility's historical test year included thirteen months of purchased power payments, from June 1, 1995, through June 30, 1996. The auditor asserts that the June 1, 1995, payment of $3,294 should be removed, as it is not part of the test period.

In its response to the audit, the utility had no objection to removing the $3,294 from its test year expenses. Based on the foregoing, and because out-of-period charges shall not be included in test year expenses, we find it appropriate to reduce purchased power by $3,294.

Equipment Rental

During the audit investigation, the auditors discovered that the utility failed to remove $2,400 in computer rental charges that were previously allocated from the parent company. The auditor also reported that the utility did not provide support for this amount.

In its response to the audit report, the utility reported that the $2,400 was an equipment-sharing charge from its parent company incurred prior to the reorganization. The utility contends that this amount was not removed because its new office arrangement, following the corporate restructuring, may require the rental of non-computer related equipment.

We do not agree with the utility's rationalization as to why the $2,400 should remain in test year expenses. Because the utility no longer has a parent and the costs are no longer being incurred, we find it appropriate to remove them. Accordingly, equipment rental expenses shall be reduced by $2,400.

Rate Case Expense

In its original filing, Hobe Sound estimated rate case expense to be $131,084 for this proceeding. The breakdown is shown below.

Guastella & Associates (Engineering & Accounting Fees)	$95,000
Holland & Knight (Legal Fees)	30,000
Mark Veil (Tax Schedules)	2,000
Printing & Postage (MFRs & Customer Notification)	2,084
Florida Public Service Commission (Filing Fee)	2,000
TOTAL	$131,084

In addition to the rate case expense for this proceeding, Hobe Sound included unamortized expenses in the amount of $56,145 associated with two prior rate proceedings processed in Dockets Nos. 940475-WU and 940475-WU. In total, Hobe Sound requested rate case expense of $187,229 to be amortized over four years, for an annual expense of $46,807.

On August 19, 1997, the utility submitted its update of current rate case expense, with supporting documentation and an estimate to complete the PAA proceeding. The utility's current rate case expense and estimate to complete the PAA proceeding produced a revised rate case expense of $103,405. In our review, we have found several areas in which adjustments are necessary, as discussed below.

Legal

We have reviewed the requested amount of legal fees incurred in connection with this rate case. According to the utility, only $19,739 was actually incurred and remaining to process the case through the PAA process. We have determined that the revised request for legal fees appears to be prudent and reasonable. Therefore, we hereby approve $19,739 for legal fees. This is a $10,264 reduction to the utility's original request.

Engineering & Accounting

In the utility's rate case analysis in its MFRs, the engineering and accounting fees were combined. In its revised request, the utility separated these charges. The breakdown is shown below.

GUASTELLA ASSOCIATES, INC.				
Description	**Avg. Hourly Rate**	**Amount Billed**	**Estimate to Complete**	**Total By Category**
Engineering	$197	$28,158	$4,800	32,958
Accounting	$107	38,237	2,640	40,877
Travel		2,549	1,450	3,999
Support Staff		3,216	152	3,368
Fed. Ex. & Other		278	50	328
Total		$72,438	$9,092	$81,530

Engineering: Mr. Guastella, the principal engineer hired by the utility to work on the rate case, billed the utility $28,158 for his services through July 31, 1997. He estimated his additional charges to be $4,800 to complete the rate case, through the PAA process. Mr. Guastella charged the utility for 167 hours at an average hourly rate of $197 an hour. We reviewed several past rate proceedings in an attempt to determine what hourly rates have been allowed by the Commission. From our review, we find that in water and wastewater cases, the Commission generally has accepted hourly rates for engineers ranging from $75 to $140 per hour. Based on this review, we find that Mr. Guastella's hourly rate is excessive.

We believe that Hobe Sound's decision to retain Mr. Guastella for his expertise is reasonable. However, we do not believe that the customers should have to bear the full costs for his services. We note that we have broad discretion with respect to allowance of rate case expense. Florida Crown Util. Servs., Inc. v. Utility Regulatory Bd. of Jacksonville, 274 So. 2d 597, 598 (Fla. 1st DCA 1973). Nevertheless, it would constitute an abuse of discretion for us to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rehearing denied, 529 So. 2d 694 (Fla. 1988). Based on the foregoing court decisions and past Commission decisions, we find it appropriate to adjust rate case expense to an hourly rate which we believe to be more reasonable for the ratepayers of Hobe Sound.

We find that a more appropriate hourly rate for Mr. Guastella would be the rate which we approved in the Palm Coast Utility Corporation rate case proceeding. By Order No. PSC-96-1338-FOF-WS, issued November 7, 1996, in Docket No. 951056, we found that an hourly rate of $140 was a more appropriate rate for Mr. Guastella's expertise. Accordingly, we find it appropriate to reduce Mr. Guastella's hourly rate to $140. We hereby approve $23,380 in rate case expense for Mr. Guastella ($140 x 167 hours). This is a $9,578 reduction to the amount requested by the utility.

Accounting: Guastella Associates billed the utility $38,238 for 328 hours of accounting work related to this rate case. In its update, the utility included the support for the above and also its estimate to complete for $2,640. We have reviewed the supporting documentation and believe these charges to be reasonable. We have also compared the accounting hourly rate to the rates allowed in previous rate cases, and we find that it falls within the Commission-allowed hourly rate for accounting fees. Therefore, we hereby approve the $40,877 in accounting fees included in the utility's revised requests.

Support Staff, Travel, and Miscellaneous Charges: We have reviewed the amounts included in the utility's rate case expense revision for Guastella Associates' administrative charges. We believe these amounts to be reasonable. Therefore we make no adjustments to the utility's requests.

Summary

Based on the above adjustments, we find it appropriate to approve $71,952 in rate case expense for Guastella Associates. Accordingly, rate case expense reported in the MFRs shall be reduced by $23,048.

Tax Preparation

The utility initially estimated that the costs to prepare the MFR tax schedules would be $2,000. The utility's update revealed that the actual charges were only $935. After our review of the supporting invoices, we find that these charges appear to be reasonable. Accordingly, we shall allow the utility to recover the $935 in tax preparation charges included in its revised request. Consequently, this reduces the amount included in the MFRs by $1,065.

Miscellaneous

In its filing, the utility requested recovery of $2,084 for printing and customer noticing. In its update, the utility revised its requests to include $415 for printing and $786 for mailing customer notices. We have reviewed the update and the supporting documentation and believe the utility has justified its revised request. Therefore, we find it appropriate to allow the utility $1,201 in miscellaneous rate case expense. This reduces the utility's original request by $883.

FPSC Filing Fee

The utility included $2,000 for the FPSC filing fee in its original request. In its update, it failed to include any amount for filing its rate case. Regardless, on June 12, 1997, we received a $4,500 check, which is the amount required by Rule 25-30.020(e)(4), Florida Administrative Code, for filing a rate case for this size utility. Accordingly, we find it appropriate to allow the utility to recover the full $4,500 filing fee.

Prior Rate Case Expense

As noted above, Hobe Sound added $56,145 to its current rate case expense for prior unamortized rate case expense. In the utility's two prior rate proceedings, the Commission approved annual expenses of $21,526, by Order No. PSC-94-0870-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, and $7,737, by Order No. PSC-96-0870-FOF-WU, issued July 2, 1996, in Docket No. 960192-WU.

According to Section 367.0815, Florida Statutes, and the above-cited orders, the resulting rates will be reduced on December 20, 1998, for Docket No. 940475-WU, and on August 1, 2000, for Docket No. 960192-WU. If the unamortized balance of prior rate case expense were to be added to the current balance and reamortized over the next four years, the utility would be penalized when the four-year rate reductions take place. Therefore, we find it appropriate to remove the $56,145 in unamortized rate case expense, and to include the amount of annual rate case expense amortization for each prior docket. Accordingly, we find it appropriate to include $29,263 in prior rate case expense in test year expenses.

Summary

Based on our adjustments, $98,327 shall be allowed as reasonable rate case expense. Our adjustments are shown below.

Current Rate Case Expense (Per MFRs)		$131,084
Adjustment per Utility		(27,679)
Total Revised Rate Case Exp. per Utility		103,405
Commission-Approved Adjustments:		
Guastella Associates	(9,578)	
FPSC Filing Fee	4,500	5,078
Total Commission-Approved Rate Case Exp.		98,327
Current Rate Case Expense Per MFRs	131,084	
Prior Unamortized Rate Case Exp per MFRs	56,145	
Total Amount Requested Per MFRs		187,229
Utility's Annualized MFR Request		46,807
Approved Current Rate Case Exp.	98,327	
Divide by four	4	
Approved Current Annual Amort.	24,582	
Prior Rate Case Expense Amortization	29,263	
Approved Rate Case Expense		53,845
Commission-Approved Net Adjustment		7,038

Amortization of Costs to Repair Generator

According to Audit Exception No. 8, the utility's generator was struck by lightening and subsequently cost $22,994 to repair. The company had insurance to cover the cost, minus a $10,000 deductible. This $10,000 amount was charged to Regulatory Commission Expenses - Other, in December 1995. An offsetting entry for $733 was credited to Materials and Supplies, leaving a balance of $9,267 in O&M. This amount was included as an expense in the MFRs for each of the test years: June 30, 1996, June 30, 1997, and June 30, 1998.

In accordance with Rule 25-30.433(8), Florida Administrative Code, non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. In its response to the audit report, the utility indicated that it does not object to amortizing the costs over five years. However, it does suggest that the unamortized portion should be included in rate base.

Based on the foregoing, we find it appropriate to require the generator repair costs of $9,267 to be amortized over five years, beginning in December 1995. This results in a net reduction to test year expenses of $7,414 ($9,267 - $1,853). In addition, an adjustment shall be made to increase the working capital allowance to include the 13-month average unamortized balance of $5,560. This adjustment is discussed elsewhere in the body of this Order.

Test Year Operating Income

Based on the adjustments discussed herein, we find that the test year operating income before any provision for increased revenues is $334,796. The schedule for operating income is attached as Schedule No. 3-A and the adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

Based upon our review of the utility's application and the adjustments discussed herein, we find that the appropriate annual revenue requirement is $2,019,226. This revenue requirement represents an annual increase in revenues of $344,337, or 20.56%. These revenue amounts will allow the utility the opportunity to recover its allowed level of expenses and to earn a 8.74% rate of return on its investment in rate base.

RATES AND CHARGES

The final rates are designed to produce annual revenues of $2,019,226. The utility's rates prior to this filing, the approved interim rates, the requested final rates, and the approved final rates are shown on Schedule No. 4.

Projected ERCs and Gallons

As discussed herein, the utility's projected test year ends June 30, 1998, based on a historical test year ended June 30, 1996. In order to arrive at its total projected number of bills, ERCs and gallons (billing determinants), the utility projected the increases or decreases to these respective billing determinants it anticipated during the July 1, 1996 through June 30, 1998 period, and added these changes to the corresponding historical test year figures. Our calculations of projected bills and ERCs, average consumption reductions, and projected total consumption are shown on Attachment A at 1-3. A summary comparison of the utility's projections of customer bills, ERCs and consumption, along with our corresponding projections is shown on Attachment A at 4. A discussion of the utility's projections follows.

Projected ERCs

The utility projected that a total of 54 additional connections would be added between the period of July 1, 1996 and June 30, 1998. The utility explained the anticipated growth in terms of the general subdivisions or areas served, as follows:

	Projected Additional Connections
Jupiter Island - North	10
Jupiter Island - South	4
Olympia #1	38
Olympia #4	2
	54

It is projected that neither Hobe Sound nor the Eaglewood subdivision would experience any additional connections. As an independent check of these projections, our staff discussed Hobe Sound's projected customer growth in the various subdivisions with an official of the Martin County Property Appraiser's office. Based on the foregoing, we find that the utility's customer growth projections are reasonable.

As shown in the MFRs, the utility projected that 446 additional bills would result from the addition of the 54 projected additional connections. However, there appears to be an error in the MFRs, as our recalculation of the workpaper, as shown on Attachment A at 1, yields 497 additional bills, rather than 446 bills. These additional 51 bills (497 bills minus 446 bills) results in a projection of 72 ERCs greater than that proposed by the utility. However, as shown on Attachment A at 4, the utility's total projected ERCs are within 0.2% of our corresponding calculation. Therefore, we find that no adjustment is necessary to the utility's projection.

Projected Consumption

Anticipated Reduction in Average Consumption per ERC: The utility's projected total consumption assumes an annual average reduction in consumption of 2.54% per ERC. In the MFRs, the utility states that this decrease assumes that future usage will react similarly to the impacts of weather, conservation measures, and rate increases. The utility requested and was granted a similar adjustment in its last full rate case. In that proceeding, consumption figures used to calculate rates reflected an average annual decline in consumption of 5.46% over the 1989 through 1993 period.

The utility's support for its request in the instant proceeding is included on page 18 (meter and ERC analysis workpaper) of Volume IV of the MFRs. Based on our review of the utility's analysis, we agree that the data indicates an average annual decline in average consumption per ERC of at least 2.54%. In order to further analyze the utility's request in this regard, we performed an independent analysis of the change in average consumption per ERC from December 31, 1993, to the end of the historical test period ended June 30, 1996. This analysis was performed, in part, based on data provided by the utility in its monthly reports that have been filed with the Commission. The utility was ordered to file these reports as a result of its rate case processed in Docket No. 940475-WU, by Order No. PSC-94-1452-FOF-WU.

The results of this analysis are included on Attachment A at 2. As shown on the attachment, the overall average consumption per meter equivalent for the twelve-month period ended December 31, 1993, was 17,159 gallons per day (gpd), and had declined to 16,022 gpd at the end of the twelve-month period ended June 30, 1996, representing an average annual reduction of approximately 2.7%. Therefore, based on this analysis in conjunction with the support provided by the utility, we find that the utility's requested reduction of 2.54% is reasonable.

Calculation of Projected Consumption: The utility applied the 2.54% anticipated annual consumption reduction per ERC to its historical test year consumption to arrive at total projected test year consumption of 587,717 thousand gallons. We have reviewed this calculation, and we find that the utility appropriately applied the anticipated reduction to arrive at its projected total consumption.

A comparison of the utility's projections of bills, ERCs, and consumption versus our corresponding calculations is presented on Attachment A at 4. Although the utility's consumption projection is less, its total projected gallons are within 0.2% of our corresponding calculation. Therefore, we find that no adjustment to the utility's projection is necessary.

Conclusion

As shown on Attachment A at 4, the utility's total projections of customer bills, ERCs, and consumption are all within 0.3% of our corresponding projections. Therefore, we find that the utility's projections of 15,662 bills, 38,221 ERCs, and 587,717 thousand gallons for the projected test year ending June 30, 1998, are reasonable, and they are hereby approved.

Rate Structure

The utility's current rate structure consists of a base facility charge (BFC) and gallonage charge rate structure. Standard BFCs apply to both the residential and general service customers. However, general service customers are charged a uniform gallonage charge rate, while the residential customers are charged based on a conservation-oriented, three-tiered inclining block rate.

The utility was first granted an inclining block (conservation) rate structure in Docket No. 900656-WU. In that case, the per capita consumption of Hobe Sound's customers was approximately 500 gpd. By Order No. 24485, issued May 7, 1991, the Commission recognized that the utility's proposed conservation rates would be considered as part of an overall conservation plan. Therefore, the Commission granted the utility's request for inclining-block residential rates, with the second usage block set at consumption greater than 10,000 gallons per month (gpm). A factor of approximately 2.1 times the initial block rate was approved for consumption greater than 10,000 gpm.

The utility's current rate structure was granted in Docket No. 940475-WU. In that case, the Commission: 1) separated the second tier monthly usage block into two blocks, resulting in usage blocks of 0 - 10,000 gpm, 10,001 - 40,000 gpm, and usage in excess of 40,000 gpm; 2) approved a conservation adjustment of 25%, whereby 25% of the BFC costs were shifted to the gallonage charge; and 3) approved a factor 2.25 times the initial block rate to be used for monthly consumption in the 10,001 - 40,000 gpm tier, and a factor of 3.0 times the initial block rate to be used for monthly consumption in excess of 40,000 gpm. In recognition of the need to evaluate the effects of this unique rate structure, the Commission also ordered Hobe Sound to compile monthly reports containing detailed billing data with regards to bills, consumption and revenues, separated by customer class, meter size, and by customers on the mainland versus those customers on Jupiter Island.

A summary of the utility's history with regard to conservation-oriented rates is presented in the table below:

	COMMISSION-APPROVED		
	Usage Blocks (kgals)	**Usage Block Rate Factors**	**Conservation Adjustment**
Docket No. 900656-WU	0 - 10 Over 10	1.0 2.1	None
Docket No. 940475-WU	0 - 10 10 - 40 Over 40	1.0 2.25 3.0	25%

In the instant proceeding, the utility proposed to continue its current three-tiered rate structure. The utility used a multi-step process with regard to the calculation of its requested rates. First, based on the utility's requested revenue requirement, cost-based rates of $23.24 for the BFC and $2.06 for the gallonage charge were calculated. Next, the utility made a conservation adjustment, whereby 20% of the BFC costs were shifted to the gallonage component for the residential class. This lowered the BFC to $18.68.

Next, the utility separated the portion of the revenue attributable to general service gallonage charges from the total revenue requirement to determine the revenue that must be generated through the residential increasing-block gallonage charges. The utility proposed that a factor of 2.0 times the initial block rate be used for monthly consumption in the 10,001 - 40,000 gpm tier, and a factor of 2.5 times the initial block rate be used for monthly consumption in excess of 40,000 gpm. (These factors are referred to as usage block rate factors, or rate factors.) These rate factors were the basis for the calculation of the factored number of gallons. The utility's requested revenue requirement, the conservation adjustment of 20%, and the calculation of factored gallons resulted in the utility's requested residential rates for the three tiers of $1.20 for the first usage block, $2.40 for the second usage block, and $3.00 for the third usage block.

The utility's rate design proposals in the instant proceeding are summarized below:

UTILITY'S PROPOSALS			
	Usage Blocks (kgals)	**Usage Block Rate Factors**	**Conservation Adjustment**
Docket No. 970164-WU	0 - 10 10 - 40 Over 40	1.0 2.0 2.5	20%

As discussed above, there are several steps involved in evaluating and calculating an inclining-block rate structure including, but not limited to, determining: 1) the appropriate usage blocks; 2) the appropriate conservation adjustment, if any; and 3) the appropriate usage block rate factors. We agree in part and disagree in part with the utility's proposed rate structure and methodology of calculating its requested rates. There are several unique aspects of the utility's rate structure, as addressed below.

Usage Blocks

We have examined the utility's historical residential consumption data for the period ended June 30, 1996, as part of our review of the utility's request to continue its current three-tiered rate structure. Our analysis reveals that approximately 45% of total residential bills are accounted for in the first usage block. Approximately 79% of total residential bills are captured within the first two usage blocks, while the third usage block accounts for the remaining 21% of total residential bills. We find that the current first two usage blocks capture an appropriate and representative portion of the utility's residential population.

Therefore, we find that no change to the utility's current usage blocks is necessary.

Conservation Adjustment

As noted above, the utility proposed to shift 20% of the BFC costs to the gallonage charge. A conservation adjustment of 25% was requested and approved in Docket No. 940475-WU, the utility's last full rate case. In order to evaluate the need for such an adjustment in this case, based on our approved revenue requirement, we calculated cost-based rates of $21.16 for the BFC for a 5/8" x 3/4" meter and $2.06 for the general service gallonage charge. The relatively low gallonage rate as compared to the BFC is due mainly to the unusually high consumption levels of Hobe Sound's residential customers. Therefore, in order to mitigate this disparity, as well as to shift more of the burden of cost recovery to the gallonage charge in order to promote conservation, we find that some conservation adjustment is appropriate. However, the utility's proposal contemplates that all general service customers would pay $2.06 per 1,000 gallons. We find that the overall rate increase is enough to promote some conservation by the general service customers.

The magnitude of the proposed 20% conservation adjustment is less than what was proposed and approved in the utility's last rate case, and the utility offered no explanation as to why it is proposing to reduce the magnitude of the adjustment. We question the reasoning behind Hobe Sound's proposal to lower the magnitude of the conservation adjustment in this proceeding when, as will be discussed in greater detail below, the utility's customers' consumption patterns since the last rate case indicate a need for more aggressive conservation measures. Therefore, we find it appropriate to deny the utility's requested conservation adjustment of 20%, in favor of the higher, current conservation adjustment of 25%.

Usage Block Rate Factors

In the instant proceeding, the utility requested a change in its usage block rate factors from the current factors of 1.0, 2.25, and 3.0 to lower factors of 1.0, 2.0, and 2.5. In response to an inquiry as to how it had used the information contained in the monthly reports filed with the Commission when formulating its anticipated 2.54% consumption reduction and its proposed gallonage charge rate block factors of 1.0, 2.0 and 2.5, the utility stated that the information was not used for the formulation of the consumption reduction or the block rate factors. The utility explained that it is not seeking to change the block rate structure from that proposed and accepted in the last rate order, and that it therefore used the factors consistent with that filing. Curiously, the utility's responses seems to indicate not only a disregard of the importance of monitoring its approved conservation-oriented rate structure, but a lack of analysis with regard to its rate design proposals.

We disagree with the utility's request to lower its rate factors to 1.0, 2.0, and 2.5 for numerous reasons, several of which are interrelated. First, monthly usage below 10,000 gallons is not considered excessive, and is less discretionary than usage in subsequent blocks. For example, 56% of all bills rendered to the utility's typical residential customers on 5/8" x 3/4" meters are captured in the 0 - 10,000 gallon usage block. In fact, 34% of these customers' bills are captured in usage of 5,000 gallons or less. Because usage below 10,000 gpm is relatively nondiscretionary, we believe that the rate in this usage block should be kept as low as possible.

Second, as discussed previously, residential customers' usage in the monthly block of 10,001 - 40,000 gallons accounts for 27% of the utility's total residential consumption, and usage in the third block (monthly consumption in excess of 40,000 gallons) accounts for 51% of the utility's total residential consumption. Therefore, the combined usage of customers in the second and third tiers accounts for an unusually high 78% of total residential consumption. As a result, we find it necessary to send the customers in the second and third tiers stronger price signals than those generated by the currently approved rate factors of 1.0, 2.25, and 3.0, and certainly stronger than those proposed by the utility.

Our finding in this regard is further supported by our analysis of the monthly reports filed by Hobe Sound as required by Order No. PSC-94-1452-FOF-WU. These monthly reports provide greater detail of the utility's customers' consumption patterns. For example, the utility's residential mainland customers, over 98% of whom have 5/8" meters, account for over 50% of the utility's total system bills, but account for only 16% of all gallons sold. Conversely, the utility's Jupiter Island customers account for approximately 35% of the utility's entire customer base, but these customers consume over 60% of all water sold by Hobe Sound. In fact, the number of gallons sold to those customers in the third usage block alone represents over 35% of total gallons sold. This analysis supports our finding that more stringent rate factors are necessary.

Third, an analysis of similar residential data from Docket No. 940475-WS reinforces this point. In that case: 1) residential customers' usage in the second tier accounted for 28% of total residential consumption; 2) usage in the third tier accounted for an additional 52% of total residential consumption; and 3) combined second and third tier consumption accounted for 80% of the utility's total residential consumption. The percentages of total residential consumption captured in the second and third tiers in the instant proceeding are virtually identical to those corresponding percentages in the utility's last rate case. This suggests that more, not less, aggressive rate factors are appropriate in this instance.

In order to further evaluate the utility's proposed usage block rate factors and to evaluate other rate factor options as well, we used a combination of different rate factors in conjunction with conservation adjustments of 20% and 25%, and calculated the resulting gallonage charge rates based on our approved revenue requirement. Consumption charges (charges excluding the BFC) were then calculated at different usage levels, and the resulting increase in those bills over the current rates were also calculated. A representative sample of this analysis is shown on Attachment B.

Based on the analysis on Attachment B, our final area of disagreement with the utility's rate design proposal is that it shifts a portion of the revenue recovery burden from the high consumption customers to the low consumption customers. This is illustrated in column (b) of Attachment B, which presents the gallonage charge rates resulting from the utility's proposed 20% conservation adjustment and rate factors of 1.0, 2.0, and 2.5. As shown in column (b), the percentage increase in the consumption charges for a low-use customer using 5,000 gpm is 35.6%, while the corresponding percentage increase for a high-use customer using 100,000 gpm is only 15.5%, or less than one-half the percentage increase for the customer using 5,000 gpm. This indicates that the utility's proposal shifts a portion of the revenue recovery burden from the high use customers to the low use customers.

Based on the foregoing, we find that the utility's rate design proposal sends weaker, and therefore inappropriate, pricing signals to the customers in the second and third usage blocks. As indicated previously, we find that stronger price signals are appropriate for the second and third usage blocks. Therefore, we disagree with the utility's proposed usage block rate factors.

As mentioned previously, Attachment B also presents a representative sample of our analysis of other rate factor combinations. Consistent with our finding that stronger than current price signals are appropriate for the second and third usage blocks, columns © through (e), and (g) through (I) of Attachment B present our analysis, based on our recommended revenue requirement, of three rate factor combinations that are more stringent than the current rate factors of 1.0, 2.25, and 3.0. The analysis in columns (g) through (I) is based on our approved conservation adjustment of 25%. The analysis in columns © through (e) is based on the utility's proposed conservation adjustment of 20%. Because we herein approve a conservation adjustment that is different than what was proposed by Hobe Sound, the information in these columns is presented for comparative purposes only.

Column (g) presents our analysis of the price signals that would result from a rate factor combination of 1.0, 2.25, and 3.75. As shown in the lower portion of column (g), the percentage increase in consumption charges over current levels for customers at usage levels of 5,000 gallons, 10,000 gallons, and 25,000 gallons is a uniform 4.6%. Therefore, we eliminated this rate factor combination from consideration. We find that customers using 25,000 gallons should receive a greater percentage increase than those customers at the lower consumption levels. Column (h) presents our analysis of a rate factor combination of 1.0, 2.5, and 3.75. As shown in the lower portion of column (h), the consumption charges for customers at usage levels greater than 10,000 gallons are progressively higher than the 2.3% increase that would be experienced by the customers with usage of 10,000 gallons or less. Column (I) presents our corresponding analysis of a rate factor combination of 1.0, 2.75, and 4.0. This combination was also eliminated from consideration, as the customers in the first usage block (0 - 10,000 gallons) would experience a 4.6% decrease in their consumption charge.

Based on the above analysis, we find it appropriate to approve a rate for the second block which is 2.5 times that of the initial block rate, and a rate for the third block that is 3.75 times the initial block rate. Not only do these approved factors send stronger price signals to high-use customers than the utility's proposed rate factors, but the factors send even stronger price signals to those high-use customers than the factors approved in Docket No. 940475-WU. Finally, our approved higher factors have the resulting effect of a lower rate in the first usage block than would be achieved using the utility's proposed factors. We believe it a goal to keep the rate in the first tier as low as possible, without going below the current rate in that tier, and we find that our approved factors better achieve this goal.

Rates

The permanent rates requested by the utility are designed to produce revenues of $2,099,115 for water service. The requested revenues represent an increase of $424,226, or 25.33%. We find it appropriate to approve final rates for the utility which are designed to produce revenues of $2,017,316 (excluding miscellaneous service charge revenues), which is an increase of $344,337, or 20.56%.

Approximately 30% (or $606,563) of the revenue requirement is recovered through the approved base facility charge. The fixed costs are recovered through the BFC based on the projected number of factored ERCs. The remaining 70% of the revenue requirement (or $1,410,753) represents revenues collected through the gallonage charge based on the projected number of gallons consumed during the projected year ending June 30, 1998.

Effective Date

The utility shall file revised tariff sheets and a proposed customer notice to reflect the rates approved herein. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

Monthly Reports

As previously noted herein, in consideration of the need to evaluate the effects of the utility's increasing-block rate structure approved by Order No. PSC-94-1452-FOF-WU, the Commission ordered the utility to compile and submit monthly reports containing the number of customer bills, gallons billed, and revenues billed. This information was ordered for each customer class, meter size, and usage block, separated between customers located on the mainland versus those customers located on Jupiter Island.

We find that there is a need to continue to monitor the effects of this utility's rate structure. To that end, we find it appropriate to require the utility to continue to prepare monthly reports containing the number of customer bills, gallons billed, and revenues billed. This information shall be provided for each customer class, meter size, and usage block, separated between customers located on the mainland versus those customers located on Jupiter Island. The monthly reports shall be filed with the Commission on a quarterly basis for a period of two years, commencing on the first billing cycle in which the revised rates go into effect.

Statutory Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of rate case expense previously authorized in the rates. The reduction will reflect the removal of water revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees, which is $98,327. The removal of rate case expense will reduce rates as shown on Schedule No. 5.

The utility shall file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and 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 removal of the amortized rate case expense.

Refund of Interim Rates

By to Order No. PSC-97-0839-FOF-WU, issued July 14, 1997, we suspended the utility's proposed rates. The annualized revenues based on the limited proceeding rates which went into effect after the interim test year, as approved by Order No. PSC-96-0870-FOF-WU, were compared with the approved interim revenues. This comparison resulted in a revenue increase of less than 1% or $5,870 over current limited proceeding rates. The utility decided not to implement the approved rates because of the nominal impact which would result therefrom. We find that because the interim rate increase was not implemented, no refund is required.

AFUDC Rates

We have herein approved an 8.74% weighted cost of capital. Therefore, we find it appropriate to approve an annual AFUDC rate of 8.74% and a discounted rate of 0.728204%, consistent with Rule 25-30.116, Florida Administrative Code. In accordance with the rule, the new AFUDC rate shall be effective the month following the end of the twelve-month period used to establish that rate. Therefore, since the end of the utility's test year is June 30, 1998, the effective date shall be July 1, 1998.

Docket Closure

If a protest is not received within twenty-one days of issuance of this Order, this Order will become final and the docket may be closed upon the utility's filing of and staff's approval of revised tariff sheets.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Hobe Sound Water Company's application for increased water rates is approved as 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 herein, whether set forth in the body of this Order or in the attachments and schedules attached hereto, are incorporated herein by reference. It is further

ORDERED that the increased rates and charges approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, in accordance with Rule 25-30.475, Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Hobe Sound Water Company shall submit and have approved a proposed customer notice of the increased rates and charges and the reasons therefor. The notice will be approved upon our staff's verification that it is consistent with our decision herein. It is further

ORDERED that the rates and charges approved herein shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. Consistent with our decision herein, the utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Hobe Sound Water Company shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our staff's verification that the pages are consistent with our decision herein, that the protest period has expired, and that the customer notice is adequate. It is further

ORDERED that Hobe Sound Water Company shall submit monthly reports as set forth in the body of this Order. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice of the rate decrease and the reason therefor. It is further

ORDERED that all provisions of this Order are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that this docket shall be closed if no timely protest is received from a substantially affected person, and upon the utility's filing and staff's approval of the revised tariff sheets and the customer notice, as set forth herein.

By ORDER of the Florida Public Service Commission this 10th day of October, 1997.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

RG

Commissioners Deason and Garcia dissented from the Commission's decision to change the utility's usage block rate factors from 1.0, 2.25, and 3.0 to 1.0, 2.5, and 3.75 for 0 - 10,000, 10,001 - 40,000, and 40,001 - above gallons of consumption, respectively, for residential usage without making a corresponding increase to the 2.54% of projected annual reduction in consumption approved by the majority.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

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 October 31, 1997.

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.

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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

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 October 31, 1997.

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.

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. 970164-WU
HISTORICAL TEST PERIOD ENDED JUNE 30, 1996 FOR PROJECTED TEST PERIOD ENDING JUNE 30, 1998

ATTACHMENT A
Page 1 of 4

RECALCULATION OF PROJECTED BILLS AND ERCs

	(a)	(b)	(c) = (a) x (b)	(d)	(e) = (a) x (d)	
		RESIDENTIAL 5/8" METERS		RESIDENTIAL 1" METERS		
	Mos	Util Proj Growth in Custs 7/01/96 Thru 6/30/98	Resulting Additional Bills 7/01/96 Thru 6/30/98	Util Proj Growth in Custs 7/01/96 Thru 6/30/98	Resulting Additional Bills 7/01/96 Thru 6/30/98	
Jul-96	24					
Aug-96	23					
Sep-96	22					
Oct-96	21					
Nov-96	20	1	20			
Dec-96	19	1	19	1	19	
Jan-97	18	1	18			
Feb-97	17	1	17			
Mar-97	16	1	16	1	16	
Apr-97	15	1	15	1	15	
May-97	14	1	14			
Jun-97	13	2	26			
Jul-97	12	4	48	2	24	
Aug-97	11	3	33	2	22	
Sep-97	10	3	30	2	20	
Oct-97	9	3	27			
Nov-97	8	2	16			
Dec-97	7	2	14	1	7	
Jan-98	6	2	12			
Feb-98	5	2	10	1	5	
Mar-98	4	2	8	2	8	
Apr-98	3	3	9			
May-98	2	3	6			
Jun-98	1	2	2	1	1	
TOTALS:						
ADDL CONNECTS		40		14		= 54 Addl Connections
ADDL BILLS			360		137	= 497 Addl Bills
TOTAL ADDL ERCs			360		343	= 703 Total ERCs

GRAND TOTAL ADDL 5/8" BILLS:		GRAND TOTAL ADDL 1" BILLS:		
Recalculation	360	Recalculation	137	
Utility	323	Utility	123	
Diff to Increase	37	Diff to Increase	14	= 51 Bills Commission > Utility

GRAND TOTAL ADDL 5/8" ERCs:		GRAND TOTAL ADDL 1" ERCs:		
Recalculation	360	Recalculation	343	
Utility	323	Utility	308	
Diff to Increase	37	Diff to Increase	35	= 72 ERCs Commission > Utility

Source:
(b), (d) Hobe Sound Water Company, Docket No 970164-WU, MFR vol IV, p 16 (customer growth workpaper)

HOBE SOUND WATER COMPANY
DOCKET NO. 970164-WU
HISTORICAL PERIOD ENDED JUNE 30, 1996 FOR PROJECTED TEST PERIOD ENDING JUNE 30, 1998

ATTACHMENT A
Page 2 of 4

ANNUAL PERCENTAGE CHANGE IN MONTHLY CONSUMPTION PER ERC

		(a)	(b)	(c) = {[(b) - (a)] / (a)} / 30 mos x 12 mos
			---- Per Monthly Reports Filed with PSC ----	
		Average Monthly Consumption per ERC @ 12/31/93	Average Monthly Consumption per ERC @ 6/30/96	Annual Percentage Change in Monthly Cons per ERC
RESIDENTIAL	Mainland	12,164	11,938	-0.7%
	Jupiter Island	16,374	16,045	-0.8%
	Subtotal	15,270	14,975	-0.8%
GENERAL SERVICE	Mainland	13,792	10,272	-10.2%
	Jupiter Island	37,498	31,878	-6.0%
	Subtotal	26,791	21,250	-8.3%
TOTAL RESIDENTIAL AND GENERAL SERVICE		17,159	16,022	-2.7%

Sources:
(a) Hobe Sound Water Company, Docket No. 940475-WU, response to Staff's informal data request received from Guastella Associates on 10/07/94
(b) Hobe Sound Water Company, monthly reports filed in compliance with Order No. PSC-94-1452-FOF-WU.

HOBE SOUND WATER COMPANY
DOCKET NO. 970164-WU
HISTORICAL TEST PERIOD ENDED JUNE 30, 1996 FOR PROJECTED TEST PERIOD ENDING JUNE 30, 1998

ATTACHMENT A
Page 3 of 4

RECALCULATION OF PROJECTED CONSUMPTION

	(a)	(b)	(c)	(d) = (c) / (b)	(e)	(f) = (d) x (e)	(g) = (c) + (f)
	PER UTILITY: PROJECTED TEST PERIOD ENDING 6/30/98				RECALCULATED PROJECTED CONSUMPTION		
	Bills	ERCs	(000) Gallons	(000) Gals/ERC	Recalc Adjustment to Projected ERCs	Recalc Adjust to Proj Gals @ 6/30/98	(000) Recalculated Gals @ 6/30/98
Residential							
5/8"	8,507	8,507	106,097	12,472	37	461	106,558
1"	2,355	5,888	107,316	18,228	35	629	107,945
1 1/2"	1,752	8,760	128,824	14,706			128,824
2"	1,020	8,160	116,676	14,299			116,676
Sub	13,634	31,315	458,913	14,655	72	1,090	460,003
General Service							
5/8"	732	732	8,251	11,272			8,251
1"	612	1,530	21,656	14,154			21,656
1 1/2"	504	2,520	36,174	14,355			36,174
2"	108	864	6,581	7,617			6,581
3"	60	960	5,366	5,590			5,366
4"	12	300	50,777	169,257			50,777
Sub	2,028	6,906	128,805	18,651		0	128,805
TOTALS:	15,662	38,221	587,718	15,377		1,090	588,808

Sources:
(a) - (c) Hobe Sound Water Company, Docket No. 970164-WU, MFR vol. IV, p. 15 (Rates III workpaper)
(e) Attachment A, p. 1

HOBE SOUND WATER COMPANY
DOCKET NO. 970164-WU
HISTORICAL TEST YEAR ENDED JUNE 30, 1996 FOR PROJECTED TEST YEAR ENDING JUNE 30, 1998

COMPARISON OF PROJECTED BILLS, ERCs AND CONSUMPTION:

UTILITY V. COMMISSION

	(a)	(b)	(c) = (b) - (a)	(d) = (c) / (a)
	Projected Test Year Ending June 30, 199		Difference: Commission in Excess of Utility	
	Per Utility	Per Commission	Amount	Percent
Customer Bills	15,662	15,713	51	0 3%
ERCs	38,221	38,293	72	0 2%
Consumption (000)	587,717	588,807	1,090	0 2%

Sources:
(a) Hobe Sound Water Company, Docket No 970164-WU, MFR vol IV, p 15 (Rates III workpaper)
(b) Attachment A, pp 1, 3

HOBE SOUND WATER COMPANY
DOCKET NO 970164-WU
HISTORICAL TEST YEAR ENDED JUNE 30, 1996 FOR THE PROJECTED TEST YEAR ENDING JUNE 30, 1998

ATTACHMENT B

SELECTION OF COMMISSION-APPROVED USAGE BLOCK RATE FACTORS

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		CONSUMPTION CHARGES WITH CONSERVATION ADJUSTMENT @ 20%				CONSUMPTION CHARGES WITH CONSERVATION ADJUSTMENT @ 25%			
	Current Rates								
0-10 kgal	$0.87	$1.18	$0.88	$0.86	$0.80	$1.23	$0.91	$0.89	$0.83
10 - 40kgal	1.96	2.36	1.98	2.15	2.20	2.46	2.05	2.23	2.28
40 + kgal	2.82	2.95	3.30	3.23	3.20	3.08	3.41	3.34	3.32
Consumption (kgal)	Consump Charges	1.0/2.0/2.5	1.0/2.25/3.75	1.0/2.5/3.75	1.0/2.75/4.0	1.0/2.0/2.5	1.0/2.25/3.75	1.0/2.5/3.75	1.0/2.75/4.0
5	$4.35	$5.90	$4.40	$4.30	$4.00	$6.15	$4.55	$4.45	$4.15
10	8.70	11.80	8.80	8.60	8.00	12.30	9.10	8.90	8.30
25	38.10	47.20	38.50	40.85	41.00	49.20	39.85	42.35	42.50
50	83.70	112.10	101.70	105.40	106.00	116.90	104.70	109.20	109.90
75	159.20	185.85	183.70	186.15	186.00	193.90	189.95	192.70	192.90
100	224.70	250.80	266.20	266.90	266.00	270.90	275.20	278.20	275.90

	% CHG IN CONSUMP CHARGES WITH CONSERVATION ADJUSTMENT @ 20%				% CHG IN CONSUMP CHARGES WITH CONSERVATION ADJUSTMENT @ 25%			
Consumption (kgal)	1.0/2.0/2.5	1.0/2.25/3.75	1.0/2.5/3.75	1.0/2.75/4.0	1.0/2.0/2.5	1.0/2.25/3.75	1.0/2.5/3.75	1.0/2.75/4.0
5	35.6%	1.1%	-1.1%	-8.0%	41.4%	4.6%	2.3%	-4.6%
10	35.6%	1.1%	-1.1%	-8.0%	41.4%	4.6%	2.3%	-4.6%
25	23.9%	1.0%	7.2%	7.6%	29.1%	4.6%	11.2%	11.5%
50	19.6%	8.0%	12.5%	13.1%	24.8%	11.7%	16.5%	17.3%
75	16.7%	15.4%	16.9%	16.8%	21.8%	19.3%	21.0%	21.2%
100	15.5%	18.5%	18.8%	18.4%	20.6%	22.5%	22.9%	22.8%

LEGEND:

☐ = new rate is less than the current rate in that usage block
1.0/2.0/2.5 = usage block differentials of 1.0 for the first usage block, 2.0 times the initial block rate for the second usage block, and 2.5 times the initial block rate for the third usage block
1.0/2.25/3.75 = usage block differentials of 1.0 for the first usage block, 2.25 times the initial block rate for the second usage block, and 3.75 times the initial block rate for the third usage block
1.0/2.5/3.75 = usage block differentials of 1.0 for the first usage block, 2.5 times the initial block rate for the second usage block, and 3.75 times the initial block rate for the third usage block
1.0/2.75/4.0 = usage block differentials of 1.0 for the first usage block, 2.75 times the initial block rate for the second usage block, and 4.0 times the initial block rate for the third usage block

HOBE SOUND WATER COMPANY
SCHEDULE OF WATER RATE BASE
PROJECTED TEST YEAR ENDING 6/30/98

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

COMPONENT	PER BOOK BALANCE 06/30/98	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$8,558,650	$3,373	$8,562,023	$10,549	[illegible]
2 LAND	$3,963	$0	$3,963	$0	[illegible]
3 NON-USED & USEFUL COMPONENTS	$0	$0	$0	$0	$0
4 ACCUMULATED DEPRECIATION	($2,341,449)	($150,457)	($2,491,906)	[illegible]	[illegible]
5 CIAC	($322,964)	[illegible]	[illegible]	$0	[illegible]
6 AMORTIZATION OF CIAC	[illegible]	[illegible]	$166,054	$0	[illegible]
7 ACQUISITION ADJUSTMENTS (NET)	$0	$0	$0	$0	[illegible]
8 ADVANCES FOR CONSTRUCTION	$0	$0	$0	$0	[illegible]
9 DEFERRED TAXES	$0	$0	$0	$0	$0
10 WORKING CAPITAL ALLOWANCE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RATE BASE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HOBE SOUND WATER COMPANY
ADJUSTMENTS TO RATE BASE
PROJECTED TEST YEAR ENDING 6/30/98

SCHEDULE NO 1-B
DOCKET NO 970164-WU

EXPLANATION	WATER
(1) PLANT IN SERVICE To capitalize items expensed by the utility	$10 549
(2) ACCUMULATED DEPRECIATION To reflect above adjustment to capitalize items	($1 001)
(3) Working Capital To reflect adjustments to working capital	($44 663

HOBE SOUND WATER COMPANY
CAPITAL STRUCTURE
PROJECTED TEST YEAR ENDING 6/30/98

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	$	4,331,250 $	0 $	(84,447) $	4,246,803	68.33%	8.51%	5.82%
2 SHORT-TERM DEBT		0	0	0	0	0.00%	10.00%	0.00%
3 PREFERRED STOCK		0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY		1,773,626	0	(34,581)	1,739,045	27.98%	11.88%	3.32%
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		233,700	0	(4,557)	229,143	3.69%	0.00%	0.00%
9 TOTAL CAPITAL	$	6,338,576 $	0 $	(123,585) $	6,214,991	100.00%		9.14%
PER COMMISSION								
10 LONG TERM DEBT	$	4,331,250 $	0 $	(108,579) $	4,222,671	68.33%	8.51%	5.82%
11 SHORT-TERM DEBT		0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK		0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY		1,773,626	0	(44,462)	1,729,164	27.98%	10.46%	2.93%
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		233,700	0	(5,859)	227,841	3.69%	0.00%	0.00%
18 TOTAL CAPITAL	$	6,338,576 $	0 $	(158,900) $	6,179,676	100.00%		8.74%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY (ROE)	9.46%	11.46%
OVERALL RATE OF RETURN	8.46%	9.02%

HOBE SOUND WATER COMPANY
STATEMENT OF WATER OPERATIONS
PROJECTED TEST YEAR ENDING 6/30/98

SCHEDULE NO. 3-A
DOCKET NO. 970164-WU

DESCRIPTION	AMOUNT PER BOOKS 06/30/96	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$1,674,493	$424,622	$2,099,115	($424,226)	$1,674,889	$344,337	$2,019,226
OPERATING EXPENSES						20.56%	
2 OPERATION AND MAINTENANCE	$823,755	$9,836	$833,591	($31,432)	$802,159		$802,159
3 DEPRECIATION	$290,742	$0	$290,742	$468	$291,210		$291,210
4 AMORTIZATION	$44,206	$0	$44,206	$0	$44,206		$44,206
5 TAXES OTHER THAN INCOME	$218,276	$20,010	$238,286	($21,018)	$217,268	$15,495	$232,763
6 INCOME TAXES	($33,578)	$157,909	$124,331	($109,580)	($14,751)	$123,743	$108,993
7 OPERATING EXPENSES	$1,343,401	$187,755	$1,531,156	($161,562)	$1,340,093	$139,238	$1,479,331
8 OPERATING INCOME	$331,092	$424,622	$567,959	($262,664)	$334,796	$205,099	$539,895
9 RATE BASE	$6,248,955		$6,214,991		$6,179,676		$6,179,676
10 RATE OF RETURN	5.30%		9.14%		5.42%		8.74%

HOBE SOUND WATER COMPANY
ADJUSTMENTS TO OPERATING STATEMENTS
PROJECTED TEST YEAR ENDING 6/30/98

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

	EXPLANATION	WATER
(1)	**OPERATING REVENUES**	
	To reverse the utility's proposed revenue increase	($424,226)
(2)	**O & M Expenses**	
	a) To reduce secretary's salary	($10,441)
	b) To reduce employee benefits	($892)
	c) To disallow projected maintenance expenses for new catalytic filtration facility	($4,100)
	d) To reduce purchased power for out of period charges	($3,294)
	e) Net adjustment to reduce materials & supplies & amortize generator repair costs for 5 years	($7,414)
	f) To reduce equipment rental for computer related expenses	($2,400)
	g) Net rate case expense adjustment	$7,038
	h) To reduce O&M per capitalized expense adjustment	($9,929)
		($31,432)
(3)	**DEPRECIATION EXPENSE**	
	To reflect adjustment to capitalized expenses	$468
(4)	**TAXES OTHER THAN INCOME**	
	a) To reduce payroll taxes associated with reduction to salaries	($1,928)
	b) Adjustment to remove RAF's related to revenue increase	($19,090)
		($21,018)
(5)	**INCOME TAXES**	
	Adjustment to show income taxes consistent with adjusted test year year income	($109,560)

UTILITY: HOBE SOUND WATER COMPANY
COUNTY: MARTIN COUNTY
DOCKET NO. 970164-WU

SCHEDULE 4

RATE SCHEDULE

WATER

Monthly Rates

	Rates As of 06/30/96	Rates as of 8/01/96	Utility Requested Interim	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Residential and General Service						
Base Facility Charge:						
Meter Size:						
5/8"x3/4"	$12.14	$13.59	$14.25	$13.62	$18.68	$15.87
3/4"	$18.21	$20.38	$21.37	$20.43	$28.02	$23.81
1"	$30.35	$33.96	$35.61	$34.05	$46.70	$39.68
1-1/2"	$60.69	$67.92	$71.22	$68.09	$93.40	$79.35
2"	$97.11	$108.68	$113.97	$108.95	$149.44	$126.96
3"	$194.22	$217.35	$227.93	$217.90	$298.88	$253.92
4"	$303.46	$339.60	$356.12	$340.45	$467.00	$396.75
Residential Gallonage Charge						
(per 1,000 gallons)						
0 to 10,000 gal	$0.78	$0.87	$0.91	$0.88	$1.20	$0.89
10,001 to 40,000 gal	$1.76	$1.96	$2.06	$1.97	$2.40	$2.23
Over 40,000 gal.	$2.34	$2.62	$2.75	$2.63	$3.00	$3.34
General Service Gallonage Charge						
(per 1,000 gallons)						
All gallons	$1.46	$1.63	$1.71	$1.64	$2.06	$2.06

Typical Residential Bills

5/8" x 3/4" meter						
5,000 Gallons	$16.04	$17.94	$18.80	$18.02	$24.68	$20.32
10,000 Gallons	$19.94	$22.29	$23.35	$22.42	$30.68	$24.77
25,000 Gallons	$46.34	$51.69	$54.25	$51.97	$66.68	$58.22
50,000 Gallons	$96.14	$107.29	$112.65	$107.82	$132.68	$125.07
75,000 Gallons	$154.64	$172.79	$181.40	$173.57	$207.68	$208.57

UTILITY: HOBE SOUND WATER COMPANY
COUNTY: MARTIN COUNTY
DOCKET NO. 970164-WU

Schedule 5

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

RESIDENTIAL & GENERAL SERVICE	Commission Approved Final Rates	Commission Approved Deacrease
Base Facility Charge		
5/8"x3/4"	$15.87	$0.53
3/4"	$23.81	$0.80
1"	$39.68	$1.33
1-1/2"	$79.35	$2.65
2"	$126.96	$4.24
3"	$253.92	$8.48
4"	$396.75	$13.25
Residential Gallonage Charge		
(per 1,000 gallons)		
0 to 10,000 gal	$0.89	$0.02
10,001 to 40,000 gal	$2.23	$0.05
Over 40,000 gal.	$3.34	$0.08
General Service Gallonage Charge		
(per 1,000 gallons)		
All gallons	$2.06	$0.05