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February 5, 1997

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Florida Public Service Commission
Division of Water and Wastewater

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VIA HAND DELIVERY

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Ms. Julia L. Johnson, Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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

Dear Chairman Johnson:

The purpose of this letter is to request your approval of a test year pursuant to Rule 25-30.430, Florida Administrative Code, for a forthcoming application for increased rates for water service provided in Martin County by Hobe Sound Water Company ("Hobe Sound"). The reason for such application is that the rates currently being charged will not cover both the costs of providing service and a fair return on Hobe Sound's projected investment in utility property.

For purposes of its application, Hobe Sound proposes using a projected test year ending June 30, 1998 for permanent rates, with a historical base year ended June 30, 1996. This projected period will be representative of Hobe Sound's investment and operating costs for the period of time when the adjusted rates will be placed into effect.

Subsequent to the end of the base year, Hobe Sound will construct an iron and manganese removal facility (the "Facility"). The Facility is currently scheduled for completion in mid-1997. In order to construct the Facility, Hobe Sound will incur capital expenditures of approximately \$1.4 million. In addition, Hobe Sound will incur increased operation and maintenance costs associated with the Facility. The combination of these capital costs and operating expenses will have a significant impact on Hobe Sound's revenue requirement.

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Hobe Sound is currently in the process of obtaining the additional financing needed to construct the Facility. Thus, Hobe Sound's rates and projected revenues must be sufficient to satisfy Hobe Sound's capital requirements. The use of a projected test year ending June 30, 1998 is necessary so that the full cost of the Facility will be reflected in Hobe Sound's rate base. A material portion of Hobe Sound's investment in the Facility has been required by agency rule, regulation, order or other regulatory directive, and such supporting information will be supplied to the Florida Public Service Commission (the "Commission") in Hobe Sound's application and MFRs as required by Rule 25-30.4415, Florida Administrative Code.

Hobe Sound intends to ask that its application be processed under the Commission's proposed agency action procedures.

Thank you for your attention to this matter. Please let me know if you have any questions.

Sincerely,

HOLLAND & KNIGHT LLP



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