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August 12, 1996

BY HAND DELIVERY

Ms. Blanca S. Bayó  
Director, Records & Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Docket No. 951056-WS

Dear Ms. Bayó:

Enclosed for filing on behalf of Dunes Community Development District (Dunes) is the original and 15 copies of Dunes' Post-Hearing Brief, together with a WordPerfect 5.1 disk containing the document.

By copy of this letter this document has been provided to the parties on the attached service list.

Very truly yours,

Richard D. Melson

RDM/cc  
Enclosures  
cc: Parties of Record

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Application by PALM COAST ) Docket No. 951056-WS  
UTILITY CORPORATION for rate )  
increase in Flagler County ) Filed: August 12, 1996  
\_\_\_\_\_)

**DUNES COMMUNITY DEVELOPMENT DISTRICT  
POST-HEARING BRIEF**

Dunes Community Development District (Dunes) hereby submits its Post-Hearing Brief in the above-captioned docket.

**EXECUTIVE SUMMARY**

Dunes is a special-purpose unit of local government that owns, operates and maintains the major infrastructure for the Hammock Dunes Community in Flagler County, Florida. This infrastructure includes the Hammock Dunes Bridge, and the potable water, wastewater, and effluent utility for lands within the District.

Dunes has embraced the public policy in favor of reuse. Dunes requires residents within the District to use effluent for irrigation of their residential and commercial lawns. Dunes also supplies effluent irrigation for road rights-of-way and medians, as well as for a golf course within the District.

Dunes is the only customer of Palm Coast Utility Corporation's (PCUC's) bulk water service. Dunes also is the only party who takes effluent from PCUC for purposes of reuse. As such, Dunes has an interest in both the proposed bulk water rate and in the proposed new class of effluent service.

With respect to water rates, the final rates and rate structure approved by the Commission should equitably treat all water purchasers. The current bulk water rate for Dunes is lower than PCUC's General Service rate to reflect the fact that Dunes made "advance capacity payments" for water treatment capacity which paid 100% of PCUC's investment in the water facilities needed to provide service to Dunes. To preserve the appropriate relationship between the bulk water rate and the general service rates, Dunes agrees with the utility that, if a water rate increase is approved, all water rates should be increased by the same percentage amount.

With respect to effluent service, the Commission should deny PCUC's proposal to create a new class of effluent service and to begin imposing a charge for unfiltered effluent. Dunes is the utility's only reuse customer. Under the Effluent Agreement between Dunes and PCUC, PCUC supplies Dunes with "unfiltered effluent." That unfiltered effluent is treated to the same level that PCUC is required to treat all of its wastewater whether or not there is any reuse. The unfiltered effluent is not suitable for application to public access areas without further filtration and chlorination. Under the Effluent Agreement, Dunes incurs all of the incremental capital and operating cost associated with transporting the unfiltered effluent to Dunes' wastewater treatment plant site and performing the additional treatment required to make the effluent suitable for use in public access areas. PCUC incurs no incremental cost for delivering unfiltered effluent to Dunes. In fact, the Effluent Agreement provides a benefit to PCUC by enabling it to avoid the costs of additional effluent disposal capacity and/or additional wastewater treatment facilities which would be incurred absent the agreement.

In this situation, the imposition of an effluent charge on Dunes would be contrary to the public interest. The effluent rate proposed by PCUC for unfiltered effluent which is not suitable

for use in public areas is over 2-1/2 times the highest rate the Commission has ever approved in situations where a utility supplies effluent that is suitable for such public use. The imposition of such a charge on Dunes, and ultimately its irrigation customers (who already pay the cost to transport and treat the effluent to tertiary standards), would discourage reuse and cause Dunes to explore less costly options for meeting its irrigation water needs.

The approval of a rate for unfiltered effluent in this case would also violate Section 367.081(2)(a), which requires that rates must be "just, reasonable, compensatory, and not unfairly discriminatory" and which requires the Commission in setting rates to consider "the value and quality of the service and the cost of providing the service." The unfiltered effluent provided by PCUC has only limited value since the quality of the effluent makes it unsuitable for irrigation use without further, costly treatment. PCUC incurs no incremental cost in providing the service; all costs are borne directly by Dunes. Approval of the PCUC's requested charge in this situation would result in a rate that is unjust, unreasonable, unfairly discriminatory, and that would provide excessive compensation to the utility.

#### ISSUE-BY-ISSUE ANALYSIS

The following is a brief statement of Dunes' position on the three issues in which it has a direct interest. Except for these three issues, Dunes takes "No position" on all of the other issues in this proceeding.

ISSUE 66: In light of Section 367.0817, Florida Statutes, should any revenue requirement associated with reuse be allocated to the water customers of PCUC?

**\*\*DUNES**: No. PCUC has no incremental revenue requirement associated with reuse, since all of the incremental investment and expenses are incurred by Dunes. Therefore there are no costs to be allocated to water customers or, for that matter, to Dunes.\*\*

Section 367.0817, Florida Statutes, authorizes the Commission to approve a utility's "reuse project plan" and to allow the utility to recover the costs of such a plan from its water, wastewater, or reuse customers, or any combination thereof. That section is inapplicable to PCUC at this time. PCUC has not submitted a "reuse project plan" for approval. While PCUC does provide unfiltered effluent to Dunes pursuant to an Effluent Agreement, that effluent is not suitable for reuse in public access areas without further treatment. Further, PCUC has incurred no treatment costs related to effluent reuse beyond those required as part of its normal secondary wastewater treatment and effluent disposal requirements. It is therefore inappropriate to recover any portion of PCUC's normal wastewater treatment and disposal plant investment, or operating costs, from either its water customers or from Dunes, which in effect serves as a cost-free effluent disposal site for PCUC. (See Issue 67 for further discussion related to PCUC's proposed effluent rate.)

ISSUE 67: Should a new class of effluent service be approved and, if so, what are the appropriate rates, if any, for effluent service?

**\*\*DUNES:** No. The unfiltered effluent provided by PCUC is not suitable for reuse without further treatment and there is no general demand for such service. If a new class of service is approved, the rate should be set at zero, since Dunes already incurs all of the incremental cost associated with treating and disposing of the unfiltered effluent. \*\*

Dunes is PCUC's only reuse "customer" and today there is no charge to Dunes for the effluent that it receives from PCUC. (Guastella, T 297) PCUC proposes in this case to establish a rate of \$0.67 per thousand gallons for effluent provided to Dunes. (Guastella, T 297) That effluent is "unfiltered." This means that it has been treated to the secondary wastewater standards necessary for disposal at non-public access sites, such as a typical utility sprayfield,

but has not undergone the advanced (tertiary) treatment required before it can be reused for irrigation on public access areas such as residential lawns, roadway medians, or golf courses. (Guastella, T 297-299; Milian, T 444; see Martin, T 586-7)

In the unique factual circumstances presented in this case -- where all of the incremental cost of treating the effluent to the standards required for reuse in public areas is borne by the reuse customer (Dunes) -- it is totally inappropriate to establish a new class of service or to impose a rate or charge for the provision of unfiltered effluent. (Milian, T 456) Such a charge would violate the statutory requirement that utility rates be "just, reasonable, compensatory, and not unfairly discriminatory" and that they be set taking into account the value, quality and cost of service. §367.081(2)(a), Florida Statutes.

#### **History of the Effluent Reuse Agreement**

The first Effluent Agreement between Dunes and PCUC was dated February 23, 1990. (Ex. 21, GLM-2) Under the 1990 agreement, Dunes installed, at its own expense, a pump station located at PCUC's wastewater treatment plant site. (Moyer, T 412) Dunes also installed a 12" effluent transmission main approximately 19,400 feet in length to transport unfiltered effluent from the PCUC wastewater treatment plant, across the Intracoastal Waterway, to Dune's advanced wastewater treatment facility. (Moyer, 412) Under the 1990 Agreement, Dunes is responsible for paying the entire cost of operating and maintaining the pumping station at the PCUC plant site.

In its order reviewing the 1990 Agreement, and denying approval of a new class of effluent service, the Commission stated:

The utility proposes no charge for the effluent, which seems appropriate, because the utility appears to incur no cost to provide it.

(Order 23372 at 3)

The 1990 Agreement was subsequently amended by an Addendum dated May 13, 1994. (Ex. 21, GLM-3) In 1994, PCUC needed additional effluent disposal capacity and additional wet weather effluent storage capacity while additions to its own disposal and storage facilities (the 1.0 MGD rapid infiltration basin, or RIB, and the 6.0 MG effluent storage tank) were under construction. (Moyer, T 412-3) Dunes provided this assistance to PCUC under the 1994 Addendum, in which Dunes agreed to provide PCUC with up to 1 MGD of wet weather storage capacity for up to seven consecutive days, or a total of 7 MG of storage capacity. (Moyer, T 413, 430; Ex. 21, GLM-3) As consideration to support this agreement -- which the utility admitted provided a benefit to PCUC, but no benefit to Dunes (Guastella, T 1117) -- PCUC made "lease" payments to Dunes of \$3,341 per month. (Moyer, T 431) By its own terms, that Addendum expired on March 31, 1995. (Ex. 21, GLM-3 at IV.A)

The current Effluent Agreement between Dunes and PCUC was entered into on September 20, 1995, to replace the prior agreements. (Moyer, T 413; Ex. 21, GLM-4) That agreement requires Dunes to take a minimum of 300,000 gpd of effluent each and every day, to take a minimum of 600,000 gpd of effluent on an annual average basis, and to use its best efforts to take 1.6 MGD on an annual average basis.<sup>1</sup> (Moyer, T 414; Ex. 21, GLM-4) These provisions in effect allow PCUC to use the agreement as part of its effluent disposal system.

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<sup>1</sup> As under the prior agreement, Dunes continues to pay all costs of operating and maintaining its effluent pump station at the PCUC plant site and its effluent transmission line.

(Moyer, T 414) In fact, Mr. Guastella agreed that he viewed the Dunes reuse system, along with PCUC's own RIBs and sprayfield site, as parts of a single, integrated effluent disposal system. (Guastella, T 298, 370)

The importance to PCUC of using Dune's reuse system to support PCUC's wastewater permit was confirmed by Mr. Jeff Martin of the Florida Department of Environmental Protection, who testified that Dunes is identified as a 1.0 MGD effluent disposal site in PCUC's current wastewater permit.<sup>2</sup> (Martin, T 584; Ex. 27) Mr. Martin also testified that without this access to the Dunes' reuse system, PCUC's wastewater permit would be downrated by a corresponding amount. (Martin, T 585)

This means that without Dunes, PCUC would have to incur the cost of an additional 1.0 MGD of effluent disposal capacity (e.g. RIBs or sprayfields) in order to maintain its current wastewater treatment plant rating.<sup>3</sup> This would be a significant investment, since PCUC's last 0.75 MGD of effluent disposal capacity -- the new RIB -- cost \$1,970,000.<sup>4</sup> (Guastella, T 300-01) The ability to avoid this additional capital investment is a significant benefit provided to PCUC by the Effluent Agreement. (Milian, T 445)

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<sup>2</sup> This 1.0 MGD corresponds to the annual average amount of unfiltered effluent that Dunes took from PCUC during 1995. (See, Guastella, T 371-2; Ex. 17)

<sup>3</sup> This would leave PCUC without sufficient disposal capacity to handle near term growth, and would likely result in the imposition by DEP of a moratorium on new connections.

<sup>4</sup> The new RIB is referred to throughout PCUC's filing as a 1.0 MGD facility. DEP has permitted the facility for only 0.75 MGD of disposal capacity, however, which apparently represents the RIB's actual disposal capacity, as opposed to its original design capacity. (Compare Ex. 27 with Ex. 5)



### **Benefits of Effluent Reuse**

The provision of unfiltered effluent by PCUC to Dunes at no charge provides benefits to both parties. (Wilkening, T 490; Milian, T 447-9)

For PCUC, the agreement represents a cost-free method of effluent disposal for an average of 1.0 MGD today, and up to 1.6 MGD in the future as the demands on Dunes' reuse system continue to grow. The agreement enables PCUC to avoid the capital investment and operating costs associated with providing an equivalent amount of effluent disposal capacity through its own facilities. (Milian, T 445-8) It also eliminates PCUC's requirement to provide wet weather storage facilities for the 1.0 MGD annual average effluent delivered to Dunes. (Milian, T 448)

For Dunes, the agreement provides a more cost-effective supply of irrigation water than the potable water previously purchased from PCUC for irrigation purposes. (Moyer, T 429) Of course, if the cost to Dunes of the agreement is increased -- for example, by the imposition of PCUC's requested charge of \$0.67 per thousand gallons -- Dunes would be required to examine the feasibility of other irrigation water supply alternatives which have not previously been explored. This would include such things as obtaining nonpotable surface or groundwater supplies from west of the Intracoastal Waterway, or installing a reverse osmosis plant. (Moyer, T 426-7)

### **Costs of Effluent Reuse**

In prior cases involving effluent rates, the Commission has applied a principle that where effluent reuse benefits both parties, the parties should share the incremental cost associated with the effluent reuse. (See the cases discussed under "Appropriate Ratemaking Policy" below.)

That principle would not support an effluent rate in this case -- where Dunes already pays a 100% "share" of those incremental costs.

Dunes has directly paid or incurred 100% of the incremental cost of effluent reuse. Dunes has a capital investment of over \$4,000,000 in effluent reuse facilities. (Moyer, T 411) These include: the pumping station at PCUC's plant site; the 12" effluent transmission main across the Intracoastal Waterway; a 1.6 MGD advanced wastewater treatment plant which provides the filtration and chlorination (high level disinfection) necessary to make the effluent suitable for use in public access areas; the effluent storage ponds necessary to provide wet weather storage for its 1.6 MGD advanced wastewater treatment plant; and the reuse irrigation system throughout Phase I of the Hammock Dunes development. (Moyer, T 411; Milian, T 447-8) In addition, Dunes pays the cost of operating and maintaining the pump station, including about \$26,500 in annual electric costs, and reimburses PCUC for any costs incurred on behalf of Dunes, down to such minor items as fuses. (Moyer, T 420, 434; Ex. 23)

PCUC, on the other hand, has incurred no incremental cost whatsoever in providing unfiltered effluent to Dunes under the Effluent Agreement. (Guastella, T 369) All of PCUC's existing wastewater treatment facilities are needed to treat its wastewater to the secondary standards required for disposal at its own sprayfield and RIB sites. (Guastella, T 297-8; Moyer, T 415-6) All of PCUC's existing disposal facilities -- the 0.6 MGD sprayfield, the new 0.75 MGD RIB, and the old 1.0 MGD RIB -- are required to meet PCUC's effluent disposal requirements. These facilities would have been built whether or not Dunes was an effluent customer of PCUC. (Guastella, T 301) Effluent provided to Dunes never goes through the RIB. (Guastella, T 301)

While there was conflicting testimony regarding PCUC's new 6.0 MG storage tank, the overwhelming weight of the evidence demonstrates that this tank was installed to provide wet weather storage for PCUC's 0.6 MGD sprayfield site, and that it was not required to provide service to Dunes. (Milian, T 450) The most compelling evidence consists of PCUC's own statements in correspondence to, and reports filed with, the Department of Environmental Protection in support of its permit application for expanded wastewater treatment and disposal capacity. As stated in its letter transmitting the permit application to DEP:

Included in the project is also the construction of a 6 million gallon ground storage tank at the WWTP site. *This concrete reservoir will provide for storage of the 0.8 MGD effluent flow to the existing spray irrigation site when irrigation is not feasible during wet weather conditions* or when conditions arise that preclude irrigation at the spray irrigation site.

The wet weather storage requirement for the 1.6 MGD effluent flow to the Hammock Dunes Development has already been met at the Hammock Dunes reuse facility. The Hammock Dunes facility currently provides storage ponds with a total volume of 11.6 million gallons which equals 7.25 days of storage based on the 1.6 MGD flow. *PCU, therefore, will not be providing any additional wet weather storage for the 1.6 MGD flow associated with the Hammock Dunes reuse system* since this storage has already been permitted by the Florida Department of Environmental Protection ("Department") and constructed by Hammock Dunes.

(Ex. 5, page 2; emphasis added)

Despite this statement to DEP by the President of PCUC, Mr. Guastella asserted that the 6.0 MG storage tank would not have been built *but for* the effluent agreement with Dunes:

I know the tank was constructed to serve both Palm Coast's needs as well as the Dunes' needs; in particular the Dunes' needs. If it was just Palm Coast customers, sewer customers, they would not have needed the tank.

(Guastella, T 302; see also, Guastella, T 1092)

Mr. Guastella's assertion is undermined not only by the transmittal letter quoted from above, but also by numerous other documents provided by PCUC to DEP in support of its permit application. The "Preliminary Design Report" dated January 1994 (Ex. 1 at page 16-17), the "Abbreviated Reuse Feasibility Study" dated January, 1994 (Ex. 2 at 3-6 to 3-7), and the "Updated Abbreviated Reuse Feasibility Report" dated May, 1995 (Ex. 3 at 28), all show that the purpose of the 6.0 MG tank is to provide wet weather storage for PCUC's own sprayfield site.<sup>5</sup> Based on her analysis of these reports, the PSC's staff's own engineering witness, Ms. Amaya, concluded that the purpose of the effluent storage tank was to provide wet weather storage for the sprayfield, not to provide any benefit to Dunes. (Amaya, T 605, 637-9)

Without adequate wet weather storage represented by the new 6.0 MG tank, PCUC would not be able to continue to count on its sprayfield disposal capacity to support its wastewater permit. The rationale that this storage tank was constructed primarily, or exclusively, to help provide service to Dunes apparently came later, when PCUC decided to try to allocate part of the cost of this facility to an effluent reuse rate.

The credibility of PCUC's new claim that the storage tank was built to benefit Dunes is also undermined by the fact that PCUC did not consult with Dunes regarding construction of the tank, nor attempt to negotiate reimbursement from Dunes for the cost of the tank. Given the past course of dealings between the parties -- Dunes was required to pay advance capacity charges to recover 100% of the cost, and related tax gross-up, for water plant dedicated to its

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<sup>5</sup> Some of these reports also show that the storage tank will provide an incidental benefit in the form of increased operational flexibility, but this is clearly a side benefit of the tank -- not the reason for its installation.

use; and Dunes was required to pay 100% of the capital investment and operating expenses required to take unfiltered effluent from PCUC -- it is unimaginable that PCUC would have built an \$879,000 storage tank for Dunes' benefit without a prior agreement to recover 100% of its cost. (Moyer, T 421)

### **Appropriate Ratemaking Policy**

This is the first case in which a utility has requested that the Commission establish a rate for unfiltered effluent, that is, effluent which is not suitable for reuse in public access areas. In fact, neither Mr. Guastella, who has over 15 years' experience in utility ratemaking in Florida, nor Mr. Wilkening, the Assistant Director of the St. Johns River Water Management District, was aware of any other situation in which a utility even provides unfiltered effluent to a reuse customer, much less charges for it. (Guastella, T 374; Wilkening, T 491)

In the prior cases in which the Commission has considered a rate for filtered effluent, that is, effluent which is suitable for irrigation use in public access areas, it has established rates ranging from a low of "zero" to a high of \$0.25 per thousand gallons.<sup>6</sup>

Where the effluent reuse arrangement has primarily benefitted the utility, such as by providing a cost-free means of effluent disposal required by the utility, the Commission has set no charge for effluent. See, In re: St. Johns Service Company, Order No. 18551 at 21; In re: Southern States, Order No. PSC-93-0423-FOF-WS at 102-03. Where the effluent reuse arrangement has provided benefits to both parties, such as by providing effluent disposal for the utility and a needed source of irrigation water for the customer, the Commission has set rates

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<sup>6</sup> The rate proposed by PCUC in this case of \$0.67 per thousand gallons for unfiltered effluent is thus over 2-1/2 times the highest rate the Commission has ever approved in the past for filtered effluent. (See Guastella, T 374-5)

that reflect a sharing of the incremental cost of treating the effluent to advanced wastewater treatment standards. See, In re: Marco Island, Order No. 17600 at 14-15, Order No. 18333 at 1-2; Order No. 20257; In re: St. Augustine Shores, Order No. 20017 at 248-9, 269, Order No. 21430; In re: Southern States, Order No. PSC-93-0423-FOF-WS at 102-03.

As the Commission stated when it originally considered PCUC's request in 1990 to establish a new class of service in connection with the provision of unfiltered effluent to Dunes:

In proceedings in which we found the recipient of effluent to be the primary beneficiary of its use for irrigation, we have imposed a charge. On the other hand, where the provision of effluent for spray irrigation is the utility's most cost efficient means of disposal, no charge has been imposed. In proceedings where both the utility and the recipient benefit by the arrangement, we have provided a charge that shares the cost of providing the effluent and is less than a cost based charge.

(Order No. 23372 at 2-3; citations omitted)

When measured against these standards, it is clear that no charge should be imposed in this case. Both parties benefit from the provision of unfiltered effluent to Dunes. Dunes obtains a source of needed irrigation water, and PCUC obtains a needed source of effluent disposal. In this situation, Commission practice would support a rate that reflects a "sharing" of the incremental costs. Given the terms of the Effluent Agreement, there is no need for the Commission to establish a rate in order to give effect to cost sharing. The parties by contract have already negotiated a sharing of the incremental costs -- Dunes shares 100% and PCUC shares nothing. (See Milian, T 449)

By seeking approval of an additional charge of \$0.67 per thousand gallons, PCUC in effect is claiming that this contractual arrangement is not yet sufficiently one-sided. In addition to Dunes' paying 100% of the incremental cost of taking, treating and reusing the effluent,

PCUC now wants Dunes to pay a share of the embedded cost of disposing of the portion of the secondarily treated effluent which Dunes does not take. There is absolutely no basis for imposing such a charge in Commission precedent, in logic, or in sound public policy.

Dunes' retail customers already pay an irrigation rate designed to recover Dunes' \$4 million investment in its effluent treatment and disposal facilities. That rate includes a base facility charge (\$21.25 for a 5/8" x 3/4" meter), plus a commodity charge of \$0.70 per thousand gallons. (Moyer, T 417) If PCUC's proposed effluent charge were approved, Dunes would have to recover that additional cost from its customers. This would effectively double the existing gallonage rate for irrigation water. (Moyer, T 417-1, 421-2)

That type of increase would have two effects. First, it would require Dunes, the utility, to consider the feasibility of other more cost-effective sources of irrigation water. (See Moyer, T 426-428; Milian, T 456-7) Second, it could reduce the demand for irrigation water by Dunes' end-use customers, undermining the public policy in favor of reuse, and leaving PCUC with additional effluent to dispose of by traditional means. (Milian, T 456-8, 461)<sup>7</sup>

### **PCUC's Cost Allocation Study**

PCUC attempts to support its proposed rate of \$0.67 through a cost allocation study prepared by Mr. Guastella. (Ex. 15, JFG-2) That study suffers from one fatal flaw -- it

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<sup>7</sup> PCUC may argue that Dunes would not be able to get the needed consumptive use permits to use other sources of supply for irrigation water. Yet in evaluating the economic feasibility of continued effluent reuse, the SJRWMD would consider not only the rate Dunes was forced to pay PCUC for the effluent, but also the costs incurred by Dunes for further treatment and disposal. (Wilkening, T 491) With these costs included, the continued use of effluent could be prohibitively expensive. (Milian, T 458-9, 460) Of course, PCUC's rate analysis totally ignored the costs incurred by Dunes. (Guastella, T 370-1)

allocates to "effluent reuse" costs that have absolutely nothing to do with the provision of effluent to Dunes. (See Milian, T 445)

The two major contributors to the proposed effluent rate are the cost of the new 0.75 MGD RIB (\$1,970,000), and the cost of the new 6.0 MG effluent storage tank (\$879,000). (Guastella, T 300-01; see, Ex. 15, JFG-2) Yet the evidence shows that the new 0.75 MGD RIB has nothing to do with the provision of effluent to Dunes. The RIB is simply an alternative disposal site for PCUC effluent in excess of Dunes' needs. The evidence also shows that the 6.0 MG storage tank was constructed to provide wet weather storage not for Dunes, which has its own wet weather storage, but for PCUC's own 0.6 MGD sprayfield site. This storage tank has nothing significant to do with the provision of effluent to Dunes.<sup>8</sup>

Other items in the cost allocation study also have nothing to do with the provision of effluent to Dunes. For example, the study allocates to the effluent rate 100% of PCUC's chlorine costs. (Guastella, T 368; Ex. 15, JFG-2 at 9) Yet these costs would be incurred to treat PCUC's wastewater to secondary standards, with or without Dunes. (Guastella, T 368; Milian, T 451) This is *not* the cost of additional chlorination required to meet tertiary standards -- that cost is incurred by Dunes in the operation of its own advanced wastewater treatment facility. Similarly, the study allocates to Dunes various salary and overhead costs which would be incurred with or without the provision of unfiltered effluent to Dunes. (Guastella, T 369)

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<sup>8</sup> The tank does provide PCUC with some flexibility in operating its effluent disposal system, including the provision of effluent to Dunes. It is not required for that purpose, however, and any needed operational flexibility could have been achieved by much less costly means. (Milian, T 455)



Mr. Guastella attempts to justify these allocations on the grounds that ratemaking is an averaging process, and that customer rates are not ordinarily based on the incremental cost of serving a particular customer. (Guastella, T 389, 1092-3) This argument misses the point. Mr. Guastella's study does not average costs across any group of customers -- Dunes is PCUC's only effluent customer now, and for the foreseeable future.<sup>9</sup> This rate methodology also ignores (1) the Commission's policy that effluent reuse rates should be based on a sharing of incremental costs, and (2) Mr. Guastella's *own prior testimony* in which he advocated a sharing of incremental costs as the proper basis to set effluent rates where both parties receive a benefit from the arrangement:

Q. What rate are you proposing for the use of effluent for irrigation purposes?

A. I am proposing a rate of 23 cents per thousand gallons, which represents a sharing of the incremental costs. The reason for the sharing is to recognize that the disposal of effluent provides a benefit to the utility and the use [for] irrigation purposes provides a benefit to the customer.

(Guastella, T. 393, quoting from Ex. 20, his earlier prefiled direct testimony dated February 24, 1992, in Docket No. 911067-WS) The current effluent rate study should be recognized for what it is -- a mere attempt to justify transferring to Dunes a portion of the revenue requirement

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<sup>9</sup> PCUC's own studies state that the provision of effluent to four other area golf courses which represent potential reuse customers is not economically feasible (Ex. 36 at 25-26) -- presumably because PCUC would be required to treat the effluent to higher standards and install transmission mains to deliver it to these customers, the types of costs that it has been able to avoid under its agreement with Dunes.

associated with the provision of plain vanilla wastewater service to PCUC's own retail customers.<sup>10</sup>

PCUC will argue that Dunes' own practice shows that it does not believe that rates must always be based on incremental costs, and it therefore should not expect PCUC to set rates on that basis. As an example, PCUC will cite the monthly lease payment charged by Dunes to PCUC when it provided PCUC with the ability to store effluent in Dunes' preexisting effluent ponds during wet weather conditions. (Moyer, T 412-3, 430-2; Ex. 21, GLM-3) That example is inapposite. The sharing of incremental cost concept has been applied by the Commission when both parties benefit from the reuse of effluent. In the lease situation there was no sharing of benefit, PCUC was the only party to benefit from that agreement. (Guastella, T 1117) In fact, without a payment of some type, there would have been no legal consideration for Dunes' agreement to provide storage capacity, and the resulting contract would have been unenforceable.

### **Conclusion**

This case is unique. PCUC provides effluent that is not suitable for reuse without further treatment. Dunes provides that treatment at its own expense, in addition to paying all the costs of transporting the effluent from PCUC's plant site across the Intracoastal Waterway to its advanced wastewater treatment system. As Mr. Milian aptly observed:

I have never seen an effluent reuse arrangement so clearly beneficial to the utility since disposal of the effluent is

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<sup>10</sup> PCUC proposes to reduce its wastewater revenue requirement by the amount of revenues that the proposed effluent rate is projected to produce. That reduction is based on projected reuse of 0.8 MGD, however, rather than the 1.0 MGD level experienced during 1995. (Guastella, T 243, 244-5) In the event the Commission approves any effluent rate (which Dunes vigorously opposes), it should take the actual test year level of usage into account in determining the offsetting reduction to PCUC's wastewater revenue requirement.

accomplished solely at the expense of the recipient of the effluent. Usually the utility must pay for most of the investment associated with effluent reuse, including pumps, main and additional treatment equipment. (T 448)

In this situation, neither Commission precedent, logic, nor public policy supports establishing a rate for effluent service. All that such a rate would do is improperly transfer revenue requirement from PCUC's wastewater customers to Dunes and its effluent customers. This would cause Dunes and its customers to reduce their effluent usage or to seek a more cost-effective source of irrigation water. None of this is in the public interest (Milian, T 443-4), nor does it comply with the statutory requirement that the rates set by the Commission be "fair, just, compensatory, and not unfairly discriminatory."

ISSUE 68: What is the appropriate bulk water rate for PCUC?

**\*\*DUNES**: The bulk water rate for Dunes should reflect the same percentage increase that is applied to all other water rates in order to ensure equitable treatment. The current bulk rate reflects the fact that Dunes' advance capacity payments refunded 100% of the investment in water facilities required to serve it.\*\*

Dunes is the only bulk water customer of PCUC. (Seidman, T 215) Dunes has reserved 200,000 gpd of water capacity on the PCUC system. (Moyer, T 419) Under its bulk water agreement with PCUC, Dunes paid PCUC an advance capacity charge of \$1,050,390 for its initial capacity purchase of 100,000 gpd in 1988. (Moyer, T 409) In August, 1995, Dunes paid another advance capacity charge of \$1,125,000 for purchase of an additional 100,000 gpd of capacity. (Moyer, T 410) These "contribution" amounts were calculated to offset 100% of the utility's investment in the water plant required to serve Dunes, and included a "gross-up" of the related CIAC. (Moyer, T 409; Seidman, T 215; PSC Order No. 21606 at pages 4-6)

Because Dunes paid in advance the entire cost of the plant needed to serve it, the Commission in 1989 approved a bulk water rate for Dunes that did not include return on investment, depreciation, or income tax components. (Seidman, T 216; PSC Order No. 21606 at pages 6-7) This results in a monthly rate that is lower than that paid by other customers whose contributions pay for less than 100% of the plant required to serve them.

To maintain the correct relationship between the rates paid by Dunes and the rates paid by other customers, PCUC proposed in this case to apply the same percentage increases to the bulk water rate that it proposed to apply across-the-board to other water rates.<sup>11</sup> (Seidman, T 214-5) Assuming a water rate increase is approved, Dunes supports an equal percentage increase methodology, since it results in a fair allocation of the water rate increase among all water customers.<sup>12</sup> (Moyer, T 410, 419)

### CONCLUSION

For the reasons set forth above, Dunes urges the Commission:

1. To apply any approved water rate increase to all classes on water service on an equal percentage basis;
2. To reject PCUC's request for approval of a new class of effluent service or, in the alternative, to set a rate of zero for PCUC's provision of unfiltered effluent to Dunes under the Effluent Agreement; and

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<sup>11</sup> This is the same manner in which PCUC's price-indexing rate increases have been applied. (Seidman, T 219)

<sup>12</sup> Note that Dunes does not take a position on the appropriate water revenue requirement. (Moyer, T 410) Dunes is concerned only about ensuring that an equitable method is used to allocate any increase in revenue requirement to the various water rates.

3. To refrain from allocating to water or effluent customers any portion of PCUC's cost of the wastewater treatment and disposal facilities needed to provide wastewater service.

RESPECTFULLY SUBMITTED this 12th day of August, 1996.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished by  
U.S. Mail this 12th day of August, 1996, to the following:

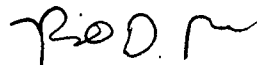
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