

FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

FEBRUARY 5, 1998

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FPSC - Records/Reporting

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF WATER AND WASTEWATER (XANDERS, VON FOSSEN, *EX*)
MCROW (ALONZO, CHASE) *gc*
DIVISION OF LEGAL SERVICES (GERVASI) *rg*
RE: DOCKET NO. 960288-SU: APPLICATION FOR APPROVAL OF REUSE
PROJECT PLAN BY ALAFAYA UTILITIES, INC.
COUNTY: SEMINOLE

AGENDA: FEBRUARY 17, 1998 - REGULAR AGENDA - PROPOSED AGENCY
ACTION EXCEPT ISSUE NO. 6 - INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: STATUTORY DEADLINE UNDER SECTION 367.0817(2), F.S.
WAIVED UNTIL MARCH 11, 1998

SPECIAL INSTRUCTIONS: NONE

FILE LOCATION: I:\PSC\WAW\WP\960288.RCM

CASE BACKGROUND

Alafaya Utilities, Inc. (Alafaya or Utility), a subsidiary of Utilities, Inc., is a Class A wastewater only utility located in Seminole County. Water service is provided in the area by the City of Oviedo (City). As of December 31, 1996, Alafaya was serving approximately 4,300 ERCs in five different developments in the Oviedo area: Alafaya Woods, Twin Rivers/Riverside, Big Oaks, Lake Rogers and Little Creek. Additionally, Alafaya has been granted an expansion to its service area to include currently undeveloped property, which is located adjacent to the existing wastewater service area. At build out of this new territory, it is expected that Alafaya will serve an additional 5,700 customers.

On March 6, 1996, the utility filed an application for approval of a reuse project plan pursuant to Section 367.0817, Florida Statutes. The utility currently provides reuse to one customer, an 18-hole golf course, and is planning to substantially expand its reuse system as a means to dispose of all future treated effluent from the wastewater plant. Additional reuse/disposal

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capacity is needed to provide service into the recently amended additional territory which will allow the utility to more fully utilize its existing wastewater treatment plant. Within its filing the utility provided details, including cost estimates, of five reuse/disposal options. This case is unique in that it is the first case before this Commission that addresses rates and charges for residential reuse service.

INFORMAL CUSTOMER MEETING

On November 5, 1997, staff held an informal customer meeting in Alafaya's service area to discuss the reuse options for this utility. The meeting was attended by utility customers, Commission staff, utility personnel, and representatives from the Department of Environmental Protection (DEP) and the St. Johns River Water Management District (SJRWMD), who were in attendance to respond to questions if needed. Twenty customers attended the meeting. Staff described the five reuse/disposal options as well as the utility's proposed rates and charges. During this presentation, staff advised the customers that two of the four options would include reuse service only to the newly added territory where reuse lines are required to be installed during development. Staff also explained both the proposed agency action and hearing processes.

Following staff's presentation, 10 customers commented on the provision of reuse service and the associated rates and charges. Three customers stated that the City was prepared to provide reuse to their development (Alafaya Woods). However, the customers contended that this was "blocked" by Alafaya. Under the company's proposal, Alafaya Woods will not be among the first developments to receive reuse service from Alafaya. Accordingly, the customers asked why they could not receive reuse service from the City. One of these customers stated that he did not believe he had received enough information regarding the proposed reuse plan. He suggested that the utility conduct a survey to determine which customers truly wanted to receive reuse service. He also invited the utility to a homeowners' association meeting to discuss the proposal. These concerns will be addressed in Issue 5.

Three customers stated that they did not agree with the proposed reuse availability fee because it does not make sense to them to charge a fee to customers simply because they have declined reuse. The proposed reuse availability fee is discussed in Issue 3. Two customers stated that they do not want reuse due to concerns with odor. According to the customers, a street in their development is irrigated with reuse and that area has a bad odor whenever it is irrigated. It was later explained to the customers by a utility representative and a DEP staff member that there is no reuse in that area and the water they smell is from irrigation

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wells owned by the homeowners' association. One of the customers also stated that he already received two bills for water and wastewater and did not want to receive a third for reuse.

Two customers, including the president of a homeowners' association in the area, stated that several customers had not received notice of the customer meeting. The homeowners' association president stated that he would not have known about the meeting if he had not been told by one of the members of his association. However, Alafaya filed an affidavit of mailing, indicating that, on October 28, 1997, the utility mailed, by U.S. Mail, the staff-approved notice of the customer meeting to each of its customers, to the City and to various developers.

Certain customers requested more detail as to how their neighborhood would be retrofitted should they receive reuse in the future. The issue of reuse service provided in the future to existing customers is discussed in Issue 5.

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DISCUSSION OF ISSUES

ISSUE 1: Is reuse the most prudent option for increasing effluent disposal capacity to serve additional customers?

RECOMMENDATION: Yes. (LINGO, MCROY)

STAFF ANALYSIS: Alafaya's wastewater treatment plant has a plant capacity of 2.4 million gallons per day (mgd). Alafaya currently utilizes two separate effluent disposal sites within its service area, with a combined rated capacity of 1.1 mgd. The first site consists of 9 rapid rate percolation ponds, and the second site consists of slow rate public access level spray irrigation on an 18-hole golf course (Ekana Golf Course). The current wastewater flows of the existing customer base is approximately .8 mgd; therefore, there is sufficient disposal capacity in place to serve the existing customer base. However, the DEP has limited the inflow capacity of the treatment plant to 1.1 mgd as well, even though the plant could treat 2.4 mgd. Therefore, the utility is not able to more fully utilize its wastewater treatment plant without increasing its effluent disposal capacity.

Alafaya was granted a significant territory expansion by the Commission in Docket No. 951419-SU. (See Order No. PSC-96-1281-POF-SU, issued October 15, 1996. This order was appealed by the City of Oviedo, and the First District Court of Appeal affirmed the Commission's order. City of Oviedo v. Clark, 699 So. 2d 316 (Fla. 1st DCA 1997)) As a result of that territory amendment, the utility can ultimately serve an additional 5,700 homes. The utility has current treatment plant capacity in place to serve this new area; however, additional effluent disposal capacity will be needed in order to utilize that treatment plant.

Although Alafaya has two disposal options available (percolation ponds and an increase in the reuse system), staff does not believe percolation ponds are a viable, long-term disposal option for this utility. While the DEP has not mandated that Alafaya's percolation ponds be phased out of service, the DEP encourages wastewater utilities, during the course of the permit renewal process, to, when possible, discontinue the use of percolation ponds as the primary means of effluent disposal in favor of reuse. Based on Alafaya's circumstances, it is unlikely that the DEP would permit the construction of additional ponds.

The utility has a pending application with the DEP to expand its reuse permit. Staff has been advised by the DEP that the application is in its final review stage, and should be issued within a short time. It is the DEP's position that both Sections 403.064 and 373.250, Florida Statutes, establish the encouragement

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and promotion of reuse of reclaimed water as state objectives and, therefore, reuse is in the public interest. Further, when a utility located within a water resource caution area determines that reuse is feasible, Section 403.064, Florida Statutes, requires the utility to implement a reuse system. SJRWMD has designated its entire district as a water resource caution area, and strongly encourages reuse for this utility.

Based on the foregoing, staff recommends that reuse is the most prudent option for increasing effluent disposal capacity for this utility in order to serve future customers.

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ISSUE 2: Which of the proposed reuse plans should be approved?

RECOMMENDATION: Residential Scenario No. 4 contained in the utility's engineering study should be approved. (VON FOSSEN)

STAFF ANALYSIS: As mentioned in the previous issue, Alafaya presently has wastewater treatment capacity of 2.4 mgd and effluent disposal capacity of 1.1 mgd, consisting of 1.0 mgd going to percolation ponds and .1 mgd going to the Ekana golf course for spray irrigation. In Docket No. 951419-SU, the utility amended its service area to include new territory which, when built out, will include an additional 5,700 homes. While the amendment will allow the utility to more fully utilize its present treatment capacity, it necessitates additional effluent disposal capacity.

Alafaya proposes to meet this need through expansion of its existing reuse facilities. Along with its application, the utility provided an engineering study detailing five reuse options. These include an institutional scenario as well as four residential scenarios. The institutional scenario involves providing irrigation service to nine locations. However, due to the small acreage involved, it is estimated this option would provide only 239,000 gpd of additional reuse capacity resulting in the highest cost per gallon of all the reuse options. Therefore, staff has excluded the institutional scenario as a non-viable option. An overview of the residential scenarios is presented in Table 2-1.

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RESIDENTIAL SCENARIO	AREAS SERVED	EXISTING OR NEW	RETROFIT REQUIRED	CUSTOMERS/ LOTS	CAPITAL COST/REUSE CAPACITY
1	ALAFAYA WOODS	EXISTING	YES	1,692	\$2,811,000 1.0 mgd
2	TWIN RIVERS/RIVER SIDE	EXISTING	YES	1,692	\$2,464,000 1.0 mgd
3	LITTLE CREEK	EXISTING	NO	449	\$1,631,000 1.288 mgd
3	EKANA GREEN	EXISTING	NO	82	
3	FLYING SEMINOLE RANCH	NEW	NO	1,300	
4	LITTLE CREEK	EXISTING	NO	449	\$3,990,000 2.0 mgd
4	EKANA GREEN	EXISTING	NO	82	
4	FLYING SEMINOLE RANCH	NEW	NO	1,300	
4	LIVE OAK PUD	NEW	NO	1,000	
4	RIVER OAKS/ESTES TRUST	NEW	NO	800	
4	UNDEVELOPED TRACT	NEW	NO	2,500	

TABLE 2-1

The engineering study filed with the petition contains maps of the various reuse options.

In evaluating the scenarios in Table 2-1, staff considered that the primary goal of the reuse system is to allow the utility

to dispose of its effluent through buildout of its existing plant capacity. An initial cost consideration is whether retrofitting of an existing subdivision would be necessary to provide reuse. By ordinance, the City now requires all new developments to install reuse distribution systems at the time of construction. These on-site reuse distribution lines will be constructed and donated by developers. Conversely, if the more costly retrofit is required, this cost would be borne by the utility.

As noted in Table 2-1, Residential Scenarios Nos. 1 and 2 apply to existing subdivisions in which reuse lines would have to be installed. We believe it is prudent for the utility to avoid these costs when a greater level of effluent disposal can be achieved in the new territory with the developer assuming the cost and risk of constructing the on-site reuse systems. All developments included in Scenarios Nos. 3 and 4 either have or will have residential reuse distribution systems which will be paid for by the developer and donated to the utility. However, only Scenario No. 4 would allow all customers access to reuse in developments where reuse lines are required and increase the utility's reuse capacity to 2.0 mgd. Through Scenario No. 4, the utility will invest in the additional filters, pumps, storage facilities and trunk mains to expand the reuse capacity to serve the new territory. As development occurs, construction of the residential reuse distribution system will coincide with increased wastewater flows to the utility's plant.

Additionally, we looked at the cost per gallon per day (gpd) of the utility providing additional reuse capacity. As shown in Table 2-2, while Scenario No. 4 requires the highest capital cost it represents the lowest cost per gpd and provides a reuse system with over twice the capacity of the other scenarios.

SCENARIO	ESTIMATED CAPITAL COST	ADDITIONAL CAPACITY (MGD-AADF*)	COST/GPD
INSTITUTIONAL	\$1,265,800	0.239	\$5.30
RESIDENTIAL - 1	\$2,811,000	0.437	\$6.43
RESIDENTIAL - 2	\$2,464,000	0.437	\$5.64
RESIDENTIAL - 3	\$1,631,000	0.456	\$3.57
RESIDENTIAL - 4	\$3,990,000	1.531	\$2.60

*AADF = Average Annual Daily Flow

TABLE 2-2

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It should be noted, however, that staff is not recommending that this is the only scenario the utility should explore in the future. As noted in Issue 5, we believe the utility should develop a long range reuse plan for its service area, including if and when it will be providing reuse to the customers in the existing subdivisions that would require retrofitting reuse distribution lines.

Based upon the above discussion, staff believes that Scenario No. 4 maximizes reuse capacity in the most cost effective manner. Therefore, staff recommends that Scenario No. 4 should be approved for the utility to provide the needed disposal capacity to serve the additional territory.

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ISSUE 3: Should a reuse availability fee be approved?

RECOMMENDATION: Yes, a reuse availability fee should be approved applicable only in the new territory where there are no existing customers. The utility should be required to put the developers on notice of the reuse availability fee through the developer agreements so that developers may notify potential homebuyers of the fee. Further, the utility's application for wastewater service for the applicable areas should contain a statement advising the customers of the availability of reuse service and that they will be required to pay the reuse availability fee if they choose not to receive reuse service for irrigation. The utility should be required to file proposed language for the wastewater application consistent with this decision for approval by staff. (XANDERS, GERVASI)

STAFF ANALYSIS: The utility has proposed a reuse availability fee of \$5.00 per month which would be charged to those customers who have a reuse line in front of their home, but choose not to take the reuse service. The purpose of this charge is to offset the cost of installing the main trunk line to the developments and to encourage the use of reuse for irrigation. The reuse distribution lines within the subdivisions will be constructed and donated to the utility by the developers. The Commission has the authority to approve such a fee pursuant to Section 367.0817(3), Florida Statutes, which requires all prudent costs of a reuse project to be recovered in rates and requires the Commission to "allow a utility to recover the costs of a reuse project from the utility's water, wastewater, or reuse customers or any combination thereof as deemed appropriate by the [C]ommission."

The Commission has never before approved a "reuse availability fee"; however, staff is aware of similar fees charged by Pinellas County and the City of Altamonte Springs. According to Jim Nelson, Reclaimed Water Administrator in Pinellas County, if reuse is available to customers, they pay \$7.00 per month, regardless of whether they choose to take reuse. This fee covers the cost of the construction of the reuse distribution lines. If they choose to take reuse, they pay \$9.00 per month. These customers do not pay a service availability charge to connect to the reuse system, however, the wastewater rates have increased in order to pay for a portion of the reuse transmission system. According to Mr. Nelson, the rationale behind approving the reuse availability fee is that reclaimed water is a benefit to the community similar to garbage pickup. Not every customer will place garbage at their curb on each pickup date; however, everyone is asked to pay for the service. Asking everyone within a community to pay for a service such as reuse or garbage, even if they do not use it, helps keep

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the rates lower, thus enabling a community to provide a service that may otherwise be cost prohibitive.

The City of Altamonte Springs charges all residents where reuse is available a monthly \$3.00 availability charge. Those choosing to connect to the system pay an additional \$7.00 per month. The purpose of this charge is to recover the maintenance of the reuse lines. The charge has been in effect since 1989 and currently 75% of the customers who have reuse available to them take the reuse.

Staff believes that the reuse availability fee should be viewed as a mechanism for encouraging the use of reclaimed water. The Legislature has stated that the reuse of reclaimed water benefits the citizens of the State of Florida. Sections 373.250 and 403.064, Florida Statutes, state that "[t]he encouragement and promotion of water conservation, and reuse of reclaimed water... are state objectives and are considered to be in the public interest." Section 367.0817(3), Florida Statutes, states that "[t]he Legislature finds that reuse benefits water, wastewater, and reuse customers." Approving the reuse availability fee should motivate customers to use reclaimed water since the rate to receive a quality source of irrigation water will be slightly higher than the reuse availability charge. In addition, the reuse availability fee will help keep the reuse rate below the cost of potable water. Further, the use of reclaimed water will benefit the entire development since the homeowners' properties may be enhanced by the availability of reclaimed water. Accordingly, we believe a reuse availability fee is appropriate.

As mentioned previously, three customers at the customer meeting spoke against the proposed availability fee. According to these customers, it does not make sense to charge a reuse availability fee to customers simply because they have declined reuse. One customer stated "If I don't want cable, I'm not charged a fee for the cabling in front of my home." Another customer made a similar comparison with phone service. Staff notes that these are existing customers of the utility and live in areas where reuse will not be available under staff's recommended option discussed in Issue 2. Although current customers may disagree with the reuse availability charge, we believe that the charge is appropriate. The charge will apply only to those future customers who will be residing in the areas considered in Scenario No. 4 and not to the current customers. In addition, as discussed below, the future customers will be made aware of the charge before they move into the development. We believe that whether an availability fee is appropriate for the customers in the existing service areas should be addressed at the time reuse becomes available to these areas.

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In order to address the issue of adequate notice to the future residents of these developments, staff recommends that the utility be required to put the developers on notice through the developer agreements of the reuse availability fee so that developers may notify potential homebuyers of the fee. The utility's application for wastewater service should also contain a statement advising the new customers that they will be required to pay the reuse availability charge if they choose not to take the service.

Therefore, staff recommends that the reuse availability fee be approved only for the proposed developments in Scenario No. 4 discussed in the previous issue. The amount of the availability fee will depend on the Commission's vote in the next issue addressing the appropriate reuse rates and additional service availability charges.

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ISSUE 4: What are the appropriate rates and charges for implementation of the reuse plan?

RECOMMENDATION: The rates and charges shown as "Staff Recommended Option 1" in Table 4-1 are appropriate. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the existing reuse customer, the Ekana Golf Course, has received notice. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice. The service availability charges should be effective for connections made on or after the stamped approval date of the tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code. Further, the utility should be required to place a clause in the application for reuse service stating that if, in the future, service is provided under a metered rate structure, the customer is responsible for the cost of the meter. (VON FOSSEN, XANDERS, LINGO)

STAFF ANALYSIS: Within its initial filing, the utility provided only engineering estimates of the construction costs and associated capacities of the various reuse scenarios. Subsequently, staff requested and received additional accounting information which the utility used to develop its initial revenue requirements for all 5 reuse scenarios. These initial revenue requirements were calculated based on the assumption that the entire cost of the reuse project would be recovered solely from an increase in wastewater rates for service. However, at that point, the utility advised that it would work with staff to develop appropriate rates and charges to allocate and recover the additional cost of the reuse system.

Once staff determined that it would recommend Scenario No. 4 be approved, we worked with the utility to develop preliminary rates and charges to be noticed and presented to customers at the customer meeting. These rates and charges were based upon staff's adjustments to the accounting data provided by the utility as well as a change in how the revenue requirement should be collected. It is staff's belief, for reasons discussed below, that the costs associated with this revenue requirement should be collected from future customers and reuse customers, and not through an increase in the current wastewater rates for service. Since the utility was in agreement with that philosophy and the resulting rates, those rates are shown as PROPOSED in Table 4-1, which is presented later in this analysis.

As previously mentioned in staff's discussion of comments received at the customer meeting, existing customers, especially those in the Alafaya Woods subdivision, do not believe they should

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help pay for the reuse system if they cannot use reuse for irrigation. Staff notes that even at buildout of the original service area, the existing percolation ponds and reuse system can adequately handle the wastewater plant's effluent. Obviously then, the need for the additional effluent disposal provided by the expanded reuse system is created by anticipated customer growth in the amended territory. Further, although existing customers are only utilizing approximately 35% of the treatment plant capacity, according to the utility's 1996 Annual Report they are providing an 8% rate of return through the current wastewater rates. Therefore, we believe it is appropriate that existing customers do not share in the cost of the reuse system through an increase in wastewater rates.

Based on the above, staff is recommending that future customers pay for the expanded reuse system through a combination of reuse rates and increased service availability charges. As discussed in the previous issue, unique to this proposal is a reuse availability fee whereby homeowners with a reuse line available to their property would pay a charge for the availability of reuse even if they choose not to receive reuse service.

It is estimated that it will take approximately 17 years to reach buildout in the new territory. Additionally, it will take approximately two years to construct and place the expanded reuse system in service. Therefore, the utility has no immediate reuse customer base upon which to recoup the costs. Accordingly, staff has developed initial rates and service availability charges for inclusion of the upgraded reuse system in the same manner that we develop rates and charges in original certificate applications. In original certificate cases, staff calculates rates which will allow the utility to earn a fair rate of return on investment when the plant reaches 80% of capacity based on projections of plant cost, expenses and customer growth.

In this case, staff has projected utility plant in service, operation and maintenance expenses, and customer growth and usage to the year 2013, and designed reuse rates and increased service availability charges based upon this analysis. Consistent with what is done in original certificate cases, staff has developed proforma schedules of rate base, capital structure, and operating income to be used as a tool to determine initial reuse rates and charges. Because of the projected nature of this analysis, staff does not believe that rate base and revenue requirement for the proposed reuse system should be formally approved in this docket.

Rate Base

The utility requested \$3,990,000 for Utility Plant in Service (UPIS) associated with Scenario No. 4. Staff made two adjustments to the utility's requested UPIS amounts to remove a total of \$715,000. This amount is comprised of \$236,000 for General Requirements and \$479,000 for a 15% contingency allowance. According to the utility, the item referred to as "General Requirements" is the amount the contractor budgets for general administration of the construction to include items such as insurance, bonds, administration, mobilization and demobilization. Staff removed the General Requirements and the 15% contingency allowance because of the projected nature of this case. These plant numbers are based on preliminary engineering estimates of the plant needed to complete the reuse project for Scenario No. 4. The amounts have not been supported by any invoices or contracts since it is premature to go to this level of detail. Staff believes the 10% Engineering contingency allowance already included in the cost estimate is sufficient for purposes of establishing initial rates and charges.

In its determination of rate base for this reuse project, staff included accumulated depreciation as of the year 2013, based on the adjusted UPIS and depreciation rates as contained in Commission rules. In addition, staff included projected contributions in aid of construction (CIAC) to the year 2013 as well as the related amortization of CIAC. The projected CIAC represents the collection of the staff recommended increase in the plant capacity charge, as discussed in a later section of this analysis. Based on the above adjustments, staff believes that the appropriate rate base for determining initial reuse rates is \$619,085. Staff's calculation of rate base appears on Schedule No. 1 and the adjustments on Schedule 1-A.

Capital Structure

The utility's capital structure is based on that of its parent company, Utilities, Inc., which is 49.38% common shareholders' equity and 50.62% long-term debt. The common shareholders' equity consists of common stock, treasury shares, paid in capital and retained earnings. The long-term debt consists of collateral trust notes and mortgage notes.

The utility's capital structure was adjusted to reflect reconciliation to staff's adjusted rate base and to the most recent return on equity. Staff calculated the range of return on common equity to be 9.06%-11.06% using the current Commission approved

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leverage formula, authorized by Order No. PSC-97-0660-FOF-WS, issued June 10, 1997. The adjusted proforma capital structure appears on Schedule No. 2.

Statement of Operations

- Operation & Maintenance (O&M) Expenses

The utility's proposed O&M expenses were adjusted to reflect reasonable accounting and engineering costs. The utility requested \$112,000 for staffing and administration of the reuse project. However, staff believes that \$95,440 is appropriate based on the following calculations: \$11/hr for a Class C Operator*16 hrs/day*365 days) + (\$15/hr for a Class B Operator*8hrs/day*5 days/wk*52 wks/yr). Staff based these calculations on data found in the Wastewater Permit Application and staff's recommended rates per hour.

The utility requested \$63,520 for electricity, \$4,500 for a filter media and \$1,490 for chlorine. According to the utility, these requests were based on the additional chemicals needed for high level disinfection and additional electricity needed for the high service pumps. Staff believes these amounts appear reasonable, and, no adjustments to these expenses were made.

The utility also requested \$125,570 for equipment repair and replacement. According to the utility, the analysis to determine this amount was based on 5% per year of the construction costs required for repair and replacement. In addition, the value is based on the utility engineer's experience that mechanical equipment such as the pumps, tertiary filters and other associated equipment have an average service life of 20 years. Staff has reduced this amount to \$75,342, including an adjustment to remove replacement costs, which should be capitalized rather than expensed, and to lower the percentage for equipment repair to 3%, which we believe is a more reasonable level.

- Regulatory Commission Expense

The utility's application did not include a request for recovery of expenses associated with this proceeding. The utility was requested to provide staff with the detailed billing records supporting the actual expenses as of November 24, 1997, as well as a detailed estimate of the expenses necessary to complete this Proposed Agency Action proceeding. In response to staff's request, the utility requested recovery of \$57,120, and provided documentation in support of its request. However, staff discovered an error in the utility's request, which results in a corrected requested amount of \$59,600.

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As discussed previously, this is but the second case filed under the reuse statute (Section 367.0817, Florida Statutes), and, therefore, staff looked to the circumstances in Docket No. 950615-SU, the Aloha Utilities, Inc. case (the first case filed under the reuse statute) for guidance in this matter. Similarly, Aloha's initial filing did not include a request for recovery of regulatory commission expense. However, staff subsequently asked Aloha to provide this information, and, ultimately, Aloha was allowed recovery of its prudently incurred rate case expenses, amortized over a four-year period.

In general, staff believes utilities (especially Class A utilities) know or should know that if a rate case or limited proceeding filing does not include a request for recovery of expenses associated with the proceeding, the utility's recovery of those expenses will not be approved, regardless of whether the expense information is subsequently provided. We note that Section 367.0817, Florida Statutes, is silent with respect to recovery of rate case expenses. The statute neither prohibits nor expressly authorizes such recovery. Consistent with the approach used by the Commission in the Aloha case, we recommend that Alafaya be allowed to recover its prudently incurred expenses associated with this proceeding.

Staff has analyzed the utility's documentation, and several adjustments were made. A summary of the utility's request, staff's adjustments and staff's recommended amounts are discussed below.

	<u>Utility Requested</u>	<u>Staff Adjustments</u>	<u>Staff Recommended</u>
Legal fees	\$ 12,670	\$(1,322)	\$ 11,348
Engineering fees	30,038	(1,905)	28,133
In-house personnel	16,892	0	16,892
TOTAL	\$ 59,600	\$(3,227)	\$ 56,373

A review of the documents provided to support legal fees revealed billings for services rendered in the Utility's litigation versus the City. These expenses were removed. Staff reviewed the remaining documentation associated with legal fees, and we believe the remaining expenses of \$11,348 are reasonable. A review of the engineering-related invoices revealed that one of the invoices contained a bill for services rendered in the Utility's litigation versus the City. Therefore, these expenses were removed; staff believes the remaining engineering-related expenses of \$28,133 are reasonable. The utility has requested expense recovery of approximately \$17,000 associated with the time spent by in-house

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personnel on the instant case. Staff has reviewed these expenses and believe they are reasonable.

The appropriate mechanism of expense recovery gave staff pause, as we do not believe it is appropriate to classify these expenses as rate case expense. Although this is a reuse case and was filed under the reuse statute, the circumstances and subsequent ratemaking in this instance represent a hybrid of reuse and original certificate cases. (As discussed previously, this reuse system represents new construction based on projected costs, and new, unconstructed developments represent the planned customer base. As such, the methodology for setting staff's recommended rates resembles how rates are set in original certificate cases.)

In original certificate cases, the regulatory costs associated with the utility's filing of its case before this Commission are not considered rate case expense; rather, they are recorded in plant in service as organizational costs and amortized over the life of the utility. However, the costs in this filing cannot be considered organizational costs because the utility already has its certificate from the Commission. Nor do we believe it is appropriate to classify these costs as rate case expense (as we did in the Aloha case), because to do so would require a four-year amortization period, with a subsequent, statutorily-required automatic rate reduction at the end of that four-year period. As mentioned above, there are currently no customers on-line or receiving service, and there is some degree of uncertainty as to when construction of both the reuse system and the adjacent developments will be complete. Therefore, we do not believe that the utility will fully recover these expenses in the four-year period.

We believe an appropriate ratemaking treatment of these expenses is to treat them as a regulatory asset, defined in the Uniform System of Accounts as follows:

"Regulatory Assets and Liabilities" are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, or gains or losses that would have been included in determination of net income in any period under the general requirements of the Uniform System of Accounts but for it being probable that: 1) such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or 2) in the case of regulatory liabilities,

that refunds to customers, not provided for in other accounts, will be required. Regulatory assets and liabilities can also be created in reconciling differences between the requirements of generally accepted accounting principles, regulatory practice and tax laws.

Based on the above definition, we believe it is appropriate to classify the expenses as a regulatory asset, with the annual amortization of such to be recorded as regulatory commission expense.

As discussed previously, we have projected build-out of the reuse system will take 17 years. Accordingly, we believe it is appropriate to amortize the regulatory asset over that same period. Therefore, staff recommends that a regulatory asset be created in the amount of \$86,373, which, amortized over a seventeen-year period, results in an annual regulatory commission expense of \$3,316.

Based on the above, staff has calculated Operation & Maintenance Expenses to be \$243,608.

- Depreciation Expense

The utility requested \$174,239 in depreciation expense. Staff reduced this amount to account for the items removed from UPIS and to reflect the amortization of CIAC. Based upon these adjustments, the appropriate depreciation expense is \$103,745.

- Taxes Other Than Income

The utility requested \$7,915 in property taxes. This amount was based on the value of the treatment and disposal equipment multiplied by Seminole County's ad valorem tax rate, or, \$418,000*.018935. A review of the utility's tax records from the last three years shows that the amount requested by the utility is comparable to what the utility has paid for ad valorem taxes in the past. Consistent with our previous adjustments, this amount was reduced to reflect staff's adjustments to UPIS, resulting in an amount for property taxes of \$6,497. In addition, staff added regulatory assessment fees in the amount of \$20,042 based on 4.5% of the calculated revenue requirement for the reuse project.

- Revenue Requirement

Based on the above, staff calculated a revenue requirement for establishing initial reuse rates of \$445,370, which will allow the utility the opportunity to earn a 9.52% overall rate of return on

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the reuse plant additions when it reaches 80% buildout in the new territory. The Statement of Operations appears on Schedule No. 3 and staff's adjustments appear on Schedule No. 3-A.

As mentioned previously, due to the projected nature of the information, the schedules of rate base, capital structure and statement of operations discussed above are being presented only as a tool to aid the Commission in establishing initial reuse rates and are not intended to establish the reuse rate base or associated revenue requirement. This is consistent with Commission policy in original certificate applications.

SERVICE AVAILABILITY

Based upon the adjusted plant cost of \$3,275,000 for Residential Scenario No. 4, staff has calculated a plant capacity charge associated with the reuse project of \$230.00. This capacity charge is designed to recover 75% of the cost of the reuse system by the year 2015, net of depreciation. This charge would be added to the existing plant capacity charge of \$410.00 and recovered from all new wastewater customers throughout the utility's entire service area. This results in a total plant capacity charge of \$640.00, which is recommended and shown in Table 4-1. We believe this is a reasonable plant capacity charge for wastewater service.

In addition to the plant capacity charge, it may be appropriate that new customers bear the cost of connecting their property to the reuse system. At this time, the cost of such connection and which party would bear which portion of the cost is unclear. The utility had initially proposed a meter installation charge of \$150.00. This was based upon the initial consideration of providing reuse under a metered rate. As discussed later, staff is not recommending a metered rate at this time. Therefore, no meter installation charge is appropriate at this time.

In response to a staff data request regarding the costs associated with connecting to the reuse distribution line, the utility stated that it anticipates a typical service connection would include a corporation stop, meter, backflow preventer and associated service line piping. The utility estimates these costs to be \$500.00. However, staff has learned that while backflow prevention devices may be required on potable water connections of reuse customers, they are generally not required on reuse connections. Additionally, while developers will construct and donate the on-site reuse distribution systems, since there are no developer agreements yet in the new territory, it is unknown to what extent the developer will construct and donate the service line piping. Since it is anticipated that it will take

approximately two years for the expanded reuse system to be operational, we believe it is premature to develop these costs until the utility gains experience in knowing what is required for a service connection, the cost of the connection and what, if any, of this cost will be borne by the developer. Once these costs are known, a reuse connection charge can be established in a future tariff filing.

REUSE RATES

Regarding the monthly reuse rate for service, staff recognizes the need to promote reuse, but also recognizes that although reuse is lower quality than potable water it is still a valuable water source which should not be wasted. From the standpoint of effluent disposal, it is necessary that the reuse system be used to the extent needed to dispose of effluent. However, the provision of irrigation as a separate service highlights the fact that only a limited amount of reuse is available. To set rates in this docket, staff has used the estimates provided by the utility's engineer that 50% of the wastewater customers will use reuse and use 500 GPD. Only time will tell if these estimates are valid. However, should the participation rate or usage be understated, in the future, the utility may not be able to provide sufficient reuse to all customers desiring irrigation service.

Since this is our initial case involving a residential reuse system, staff has contacted several Florida cities and counties which presently have residential systems. While a majority of these utilities use a flat rate for residential reuse service, several have stated that metering would be desirable to curtail excessive irrigation usage. However, if needed, these utilities, which also provide water service, can supplement their reuse systems with potable water. There is an obvious tradeoff between the impact metering has on conservation and the cost of meters and administering a metered rate. The utility has stated that it will take approximately two years to upgrade its reuse system. Staff believes it is important to get the reuse system up and running in anticipation of increased effluent flows. It is anticipated that the new territory may not be built out for 17 years. Therefore, in the initial years of operation of the reuse system, the utility can, if needed, use effluent from its existing customers to meet the demand on the reuse system.

Staff's recommended reuse rates are shown on Table 4-1, which is presented later in this analysis. In order to encourage customers to take reuse and assure adequate effluent disposal, we believe it is appropriate to begin residential reuse service under a flat rate, which we have calculated to be \$9.00 per month. However, in the future, should it become necessary to meter reuse

to lessen the per customer usage, we believe the utility should reserve the right to meter reuse service with the customer bearing the cost as would be the case if meters were initially installed. In its customer application for reuse service the utility should specifically state that, if, in the future, service is provided under a metered rate structure, the customer will be responsible for the cost of the meter. In this way, all customers would be aware from the onset of the potential of metered rates and the associated meter installation charge.

For general service customers we believe a metered rate is appropriate, and we have calculated a rate of \$.60 per 1,000 gallons. This rate would be applicable to any future non-residential reuse customer as well as to the existing Ekana Golf Course. Presently, the golf course is receiving 100,000 gpd of reuse pursuant to a contract. This is a long term contract signed in 1988 which will expire in the year 2048 and states that reuse will be provided at no charge. Nevertheless, the Commission is not bound by this agreement. FPSC v. Lindahl, 613 So. 2d 63 (Fla. 2d DCA 1993). Staff notes that the environment in which the agreement was negotiated has changed. The Alafaya service area is now within a water resource caution area and reuse is a valuable water resource. It is fair and equitable to charge the golf course the same as residential customers if such action does not compromise the utility's effluent disposal capability. The golf course was noticed of the customer meeting and the notice specified that existing reuse customers may be subject to the reuse rate. Representatives of the golf course did not attend the meeting and have contacted neither the utility nor the Commission regarding the charge.

Alafaya's wastewater and reuse customers are provided potable water from the City. The City's water rates are as follows:

Minimum Charge	\$5.30 (includes 3,000 gallons)
3001-10,000 gallons	\$1.00/1000 gallons
10,001-15,000 gallons	\$1.50/1000 gallons
15,001-30,000 gallons	\$2.00/1000 gallons
over 30,000 gallons	\$2.50/1000 gallons

Using the utility's estimate of 15,000 gallons/month for irrigation usage, a majority of the usage, above normal household consumption, would be billed at either \$1.50 or \$2.00 per 1,000 gallons. Based upon the staff recommended \$9.00 residential flat rate, 15,000 gallons would equate to \$.60 per 1,000 gallons. Therefore, we believe this rate is reasonable and provides an incentive to use reuse when compared to the City's water rate.

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The utility's present and proposed reuse and service availability charges, are shown in Table 4-1 on the following page. Staff has presented two sets of rates and charges dependent upon the Commission's decision in Issue 3 regarding approval of the availability fee. As shown in Staff Recommended 2 of Table 4-1, if the availability fee is not approved, that revenue is reallocated resulting in a monthly residential reuse rate of \$13.70.

CHARGE	PRESENT	PROPOSED	STAFF RECOMMENDED 1	STAFF RECOMMENDED 2
METER INSTALLATION	N/A	\$150.00	N/A	N/A
PLANT CAPACITY CHARGE	\$410.00	\$640.00	\$640.00	\$640.00
REUSE SERVICE (RESIDENTIAL/MONTH)	N/A	\$ 9.00	\$9.00	\$ 13.70
REUSE SERVICE (GENERAL SERVICE/MONTH/PER 1000 GALLONS)	ZERO	\$.60	\$.60	\$.72
AVAILABILITY FEE (MONTH)	N/A	\$ 5.00	\$5.00	N/A

TABLE 4-1

The utility should be required to file revised tariff sheets and a proposed customer notice to the existing golf course. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the reuse customer has received notice. The rates should not be implemented until proper notice has been received. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice. The service availability charges should be effective for connections made on or after the stamped approval date of the tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code.

ALAFAYA UTILITIES, INC
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1
 DOCKET NO. 960288-SU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
UTILITY PLANT IN SERVICE	\$ 3,990,000	\$ 3,990,000	(715,000) A	\$ 3,275,000
LAND	0	0	0	0
NON-USED & USEFUL COMPONENTS	0	0	0	0
CONSTRUCTION WORK IN PROGRESS	0	0	0	0
ACCUMULATED DEPRECIATION	0	0	(1,815,548) B	(1,815,548)
CIAC	0	0	(1,063,520) C	(1,063,520)
AMORTIZATION OF CIAC	0	0	223,153 D	223,153
ADVANCES FOR CONSTRUCTION	0	0	0	0
WORKING CAPITAL ALLOWANCE	0	0	0	0
RATE BASE	\$ 3,990,000	\$ 3,990,000	(3,370,915)	\$ 619,085

ALAFAYA UTILITIES, INC
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 960288-SU
PAGE 1 OF 1

EXPLANATION	WASTEWATER
A UTILITY PLANT IN SERVICE a) To remove contingency fee and general requirements	\$ (715,000)
B ACCUMULATED DEPRECIATION a) To include accumulated depreciation.	\$ (1,815,548)
C CIAC a) To include CIAC	\$ (1,063,520)
D ACCUMULATED AMORTIZATION OF CIAC a) To include amortization of CIAC	\$ 223,153

ALAFAYA UTILITIES, INC
CAPITAL STRUCTURE - WASTEWATER

SCHEDULE NO. 2
DOCKET NO. 960288-SU

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	\$ 44,414,964	\$ 0	\$ 0	44,414,964	50.62%	8.98%	4.55%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	9.00%	0.00%
3 PREFERRED STOCK	0	0	0	0	0.00%	9.00%	0.00%
4 COMMON EQUITY	43,329,406	0	0	43,329,406	49.38%	11.27%	5.57%
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	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	\$ 87,744,370	\$ 0	\$ 0	87,744,370	100.00%		10.11%
PER STAFF							
10 LONG TERM DEBT	\$ 44,414,964	\$ 0	\$(44,101,592)	313,372	50.62%	8.98%	4.55%
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	43,329,406	0	\$(43,023,693)	305,713	49.38%	10.06%	4.97%
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%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	\$ 87,744,370	\$ 0	\$(87,125,285)	619,085	100.00%		9.52%

RANGE OF REASONABLENESS

AUTHORIZED RETURN ON EQUITY
OVERALL RATE OF RETURN

LOW	HIGH
9.06%	11.06%
9.02%	10.01%

ALAFAYA UTILITIES, INC
STATEMENT OF WASTEWATER OPERATIONS

SCHEDULE NO. 3
DOCKET NO. 960288-SU

DESCRIPTION	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE ADJUSTMENTS	REVENUE REQUIREMENT
OPERATING REVENUES	\$ 1,069,973				
OPERATING EXPENSES		\$ (1,069,973) A	\$ 0	\$ 445,370 F	\$ 445,370
OPERATION AND MAINTENANCE	\$ 307,080	\$ (63,472) B	\$ 243,608		\$ 243,608
DEPRECIATION	174,239	(70,494) C	103,745		103,745
AMORTIZATION	0	0	0		0
TAXES OTHER THAN INCOME	7,915	(1,418) D	6,497	20,042 G	26,539
INCOME TAXES	0	(110,777) E	(110,777)	123,345 H	12,568
TOTAL OPERATING EXPENSES	\$ 489,235	\$ (246,161)	\$ 243,073	\$ 143,387	\$ 386,459
OPERATING INCOME	\$ 580,738	\$ (823,812)	\$ (243,073)	\$ 301,983	\$ 58,910
RATE BASE	\$ 3,990,000		\$ 619,085		\$ 619,085
RATE OF RETURN	14.55%		-39.26%		9.52%

ALAFAYA UTILITIES, INC
 ADJUSTMENTS TO OPERATING STATEMENTS

SCHEDULE NO. 3-A
 DOCKET NO. 960288-SU
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EXPLANATION	WASTEWATER
A OPERATING REVENUES	
a) Reverse utility's proposed revenue increase	\$ (1,069,973)
B OPERATION AND MAINTENANCE EXPENSES	
a) To adjust Staffing & Administration	\$ (16,560)
b) To adjust Equipment Repair & Replacement	(50,228)
c) To include Regulatory Commission Expense	3,318
	\$ (63,472)
C DEPRECIATION EXPENSE	
a) To reduce depreciation expense based on staff's adjustment to UPIS	\$ (39,754)
b) To include annual amortization of CIAC	(30,740)
	\$ (70,494)
D TAXES OTHER THAN INCOME TAXES	
a) To adjust property taxes	\$ (1,418)
E INCOME TAXES	
To remove income taxes associated with company's revenues	\$ (110,777)
F OPERATING REVENUES	
To include revenue which allows the utility to earn a 9.52% overall rate of return	\$ 445,370
G TAXES OTHER THAN INCOME TAXES	
Regulatory assessment fees on revenue requirement	\$ 20,042
H INCOME TAXES	
Income taxes related to approved income amount	\$ 123,345

ISSUE 5: Should the utility be required to file a long-range plan for the provision of reuse service within its certificated wastewater territory?

RECOMMENDATION: Yes, the utility should be required to prepare a long-range plan as discussed in the Staff Analysis for the provision of reuse service within its wastewater territory. Alafaya should be given six months from the effective date of the order to file the long-range reuse plan. A copy of the long-range plan should be provided to the City for its information. The utility should also be encouraged to meet with its existing customer groups to discuss the results of the plan. (CHASE, LINGO)

STAFF ANALYSIS: As noted in the Case Background, at the informal customer meeting, some customers of the utility's Alafaya Woods service area indicated their desire to obtain reuse service. As discussed in Issue No. 2, staff is recommending that the utility begin expansion of its reuse facilities by implementing Scenario No. 4 of its reuse study, which is the provision of reuse to the new areas to be constructed. A major reason for this choice is that reuse lines will be installed at the time the developments are constructed. In order to provide service to the existing subdivisions, reuse lines would have to be retrofitted, which would add significant costs.

At the customer meeting, some customers indicated that the City is willing to provide reuse service to the area, and has passed a bond issue to pay for installing reuse lines in the existing subdivisions throughout the City. According to the customers, the utility "blocked" the bond issue and kept the City from providing reuse service in the Alafaya Woods subdivision. The customers questioned why they could not receive reuse service from the City since the utility apparently has no plans to provide the service to the existing areas.

For informational purposes, staff notes that the City of Oviedo has a wastewater distribution system serving approximately 400 customers. The City does not have a wastewater treatment plant, but rather has a contractual agreement with Seminole County whereby the effluent is treated at the County's plant. However, the City has adopted a wastewater master plan which includes the provision of reuse service within its municipal boundaries. To staff's knowledge, the City is not providing reuse service at this time.

In a data request sent after the customer meeting, staff asked Alafaya if it had, in fact, attempted to impede the City's efforts

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to issue the bonds. The utility responded in a letter dated December 18, 1997:

Utilities, Inc. entered into an agreement to purchase all of the outstanding stock of Alafaya Utilities, Inc. in September 1994. Prior to that time, apparently, a dispute arose between the utility and the City of Oviedo regarding the right of the City to provide reuse service within Alafaya's PSC authorized territory. In January 1995 Alafaya did challenge the City's bond validation to the extent the City was going to use the proceeds to provide reuse within Alafaya's service area.

However, that dispute was resolved in March 1995 when Alafaya and the City entered into a Memorandum of Intent ("MOI"). In the MOI, Alafaya agreed not to contest the City's validation petition provided that the City agreed not to use any of the proceeds from the bond issue to fund infrastructure for the provision of reuse service within Alafaya's PSC authorized territory. Although Alafaya withdrew its objection it does not appear that the City has chosen to move forward with any reuse project even though the majority of the geographical area of the City is not within Alafaya's service area.

We also questioned whether the utility anticipates impeding any future attempts of the City to issue the bonds. The utility responded as follows:

Alafaya would not oppose the City's plan to provide reuse in any portion of the City that is outside of Alafaya's PSC authorized territory. As stated previously, the City has agreed not to provide reuse within Alafaya's PSC authorized territory. Therefore, Alafaya does not anticipate attempting to impede the City to issue the bonds.

In an effort to address the request of some of the existing customers that reuse service be provided in their areas, staff asked the utility if it has any long-range plan addressing the provision of reuse service within its entire service area. The utility responded as follows:

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Alafaya has looked at the various options for providing reuse throughout its service territory....Alafaya's long range plan is to make reuse service available to as many of its customers as is economically feasible.

The expansion of reuse service to currently developed areas will largely depend on how many customers in the new areas take advantage of the available reuse service. If a significant portion of the homes in the new area take reuse service, there may not be sufficient effluent available for distribution to other areas....

Alafaya does not have a plan for surveying its customers at the present time. However, Alafaya would survey its customers in the currently developed areas prior to, or in conjunction with, an application to the PSC for approval of a plan to retrofit those existing subdivisions.

We believe the customers have a valid concern with regard to obtaining reuse service. While Alafaya is not ready to provide reuse service to the existing areas and has no estimated timetable as to when it will be, the utility is not willing to allow the City to provide the service. The customers have indicated that the City is willing to provide reuse, but has not been able to due to actions of the utility. It appears that the customers are caught in the middle, unable to get reuse service from either entity. As discussed in the following issue, staff does not believe that Alafaya's wastewater certificate carries with it any exclusive right to provide reuse within that territory. However, it appears that the utility has maintained in its discussions with the City that the wastewater certificate does in fact provide that exclusive right.

In addition, staff has received a letter from Hal Wilkening, Assistant Director, Department of Resource Management, of the St. Johns River Water Management District (Attachment 1) expressing concern that Alafaya may not have sufficient effluent flows to provide reuse to all potential customers in its entire service area. According to Mr. Wilkening, the District has made the implementation of reclaimed water reuse and other alternative water supply sources a high priority in its regulatory and water supply planning efforts in this area. While he supports the efforts of Alafaya to implement a reuse program, Mr. Wilkening is concerned that efforts by Alafaya to prohibit another provider from supplying

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additional reclaimed water within the service area may conflict with the District's permitting rules and result in the continued use of potable water for landscape irrigation within Alafaya's service area. In his letter, Mr. Wilkening requests that if Alafaya is unable or unwilling to provide reuse to all available customers within its service area, it not be allowed to prohibit others from providing the service. He states that it would be beneficial for the Commission to clarify as a part of any approval of the reuse project plan that the utility's wastewater service certification does not equate to a "reclaimed water service area". The issue of service areas for the provision of reuse is discussed in the following issue.

Based on the above, staff believes that pursuant to its authority under Section 367.121, Florida Statutes, the Commission should require Alafaya to conduct a long-range reuse service plan addressing a timetable for providing reuse to its entire wastewater territory. This plan should include the results of a survey of the utility's customers, which we believe is crucial to determine whether there is sufficient interest within the existing subdivisions served by the utility to warrant the provision of reuse in those areas. In addition, as noted in the Case Background, one customer, a homeowners association president, offered to arrange a meeting with his association in order to discuss the provision of reuse service in his area. Staff believes such meetings with the various homeowners associations would also help the utility determine the extent of interest of the customers in the existing subdivisions in reuse service.

The long-range plan should also address the feasibility of reuse being provided in the existing subdivisions through a joint partnership between the utility and the City, whereby the City could use its bond issue to fund the installation of the reuse lines in the existing subdivisions, and donate those lines to Alafaya as contributions in aid of construction (CIAC). The utility, of course, would maintain the lines and provide the reuse service. In so doing, the utility would have no investment in the reuse distribution lines, thus resulting in a savings to the existing customers since they would not have to pay for the reuse lines either through service availability fees or higher reuse rates. Ultimately, we believe the utility and the City should endeavor to work together, rather than against one another, to ensure that reuse is provided wherever feasible in Alafaya's service area.

Alafaya should be given six months from the effective date of the order to file the long-range reuse plan. A copy of the long-range plan should be provided to the City for its information. The

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utility should also be encouraged to meet with its existing customer groups to discuss the results of the plan.

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ISSUE 6: Should the Commission direct staff to investigate the need for statutory revisions and rulemaking proceedings regarding the provision of reuse service by utilities under its jurisdiction?

RECOMMENDATION: Yes, staff should be directed to investigate the issues surrounding the provision of reuse service by regulated utilities, including conducting workshops to determine the need for possible statutory changes and rulemaking. Staff should be instructed to report back to the Commission by January, 1999, so that statutory changes, if needed, can be addressed in the 1999 legislative session. (CHASE, LINGO, GERVASI)

STAFF ANALYSIS: During the processing of this case, it has become clear to staff that Alafaya believes that its wastewater certificated territory is also its authorized reuse territory. However, Chapter 367, Florida Statutes, does not address certification for separate reuse service territory. Reuse has historically been considered primarily a means of effluent disposal. Therefore, in the past, it has been presumed that a utility has the right to provide reuse service within its wastewater certificated territory.

The notion that a utility's wastewater certificated territory should automatically be considered its authorized reuse territory does not recognize the fact that wastewater and reuse are two very different services. The Commission has long recognized that water and wastewater are different services by issuing separate certificates for these services. A utility's water territory might be (and often is) different than its wastewater territory. The same can and will be true of wastewater service and reuse service. Potential reuse customers can be located within a utility's wastewater territory, its water territory, or in some other utility's territory which might be unable to provide reuse to the customer.

As noted earlier in this recommendation, the Legislature has recognized the benefit to the State of reuse and enacted statutory changes to encourage and promote its use. (See, e.g., Sections 403.064(1), 373.250(1) and 367.0817(3), Florida Statutes) As a result, both the DEP and the WMDs have encouraged wastewater utilities to utilize reuse as the chosen means of effluent disposal and a method of water conservation. As more utilities enter the reuse arena or seek to expand their existing reuse customer base, it will be increasingly important that the issue of reuse territory be addressed.

Staff believes that the time is ripe to initiate a generic study on issues involved in reuse service, including whether there should be a separate reuse certificate, or whether it would be more

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appropriate to approve an authorized reuse territory within the utility's wastewater certificate, or even water certificate. An argument for including reuse territory as a subset or part of wastewater territory could be that reuse is a byproduct of the wastewater treatment process and a means of effluent disposal. On the other hand, reuse is a source of water for irrigation and therefore, perhaps should be part of a utility's water certificated territory. Another core issue that should be explored is whether reuse should be considered a separate service apart from either water or wastewater service and what impact that has on regulatory requirements, such as bookkeeping, accounting, annual reports, etc. This study should also explore what legislative action and/or rulemaking might be necessary to properly address the reuse issues. We believe that workshops would be necessary to fully investigate the options and ramifications of this action and to obtain input from the industry, Public Counsel, DEP, WMD, local governments, and other interested parties.

Staff believes that the Commission should direct us to conduct such a generic study and report back to the Commission with our recommendations, including possible statutory action, by January, 1999, so that statutory changes, if needed, can be addressed in the 1999 legislative session.

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ISSUE 7: Should this docket be closed?

RECOMMENDATION: Yes, if no substantially affected person files a protest within 21 days of the order, no further action will be necessary and the docket should be closed. (GERVASI)

STAFF ANALYSIS: If no substantially affected person files a protest within 21 days of the order, no further action will be necessary and the docket should be closed.



ATTACHMENT 1
Page 1 of 2

Henry Dean, Executive Director
John R. Wells, Assistant Executive Director

POST OFFICE BOX 1428 PALATKA, FLORIDA 32178-1428
TELEPHONE 904-329-4800 FAX (Executive) 888-4188
TDD 904-329-4400 (Legal) 888-4188
MUNICIPAL 904-329-4800 TDD BLINDON 888-4400
TDD BLINDON 888-4400 (Administration/Planning) 888-4800
Planning and Acquisition 888-4848

SERVICE CENTERS	
210 E. Dean Street Gainesville, Florida 32601 407-357-4200 TDD 407-357-3000	7775 Stearnswood Way Suite 102 Jacksonville, Florida 32216 904-730-5273 TDD 904-730-7000
PERMITTING 601 East Ohio Maitland, Florida 32751 407-961-4000 TDD 407-961-3800	OPERATIONS 2100 N. Winkler Road Maitland, Florida 32751-0100 407-730-0100 TDD 407-730-0100

February 3, 1998

Ms. Rosanne Gervasi
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 960288-SU, Application for approval of reuse project plan in Seminole County by Alafaya Utilities, Inc.

Dear Ms. Gervasi:

The District would like to provide the following comments regarding the above referenced application before the Public Service Commission (PSC).

The Alafaya Utilities, Inc. service area is located in an area that the District has identified as a "Priority Water Resource Caution Area (PWRCA)" in the District's 1994 Water Supply Needs and Sources Assessment. PWRCA's are areas where the District has identified that potential water resource problems are occurring or will occur by the year 2010 due to increased withdrawals associated with increasing population. In the waste water service area served by Alafaya Utilities, the occurrence of saline water intrusion is of particular concern since Floridan aquifer wells within this area have shown a steady increase in chloride concentration and some have been abandoned as a potable water source due to concentrations increasing above acceptable drinking water standards. As a result of these concerns, the District has made the implementation of reclaimed water reuse and other alternative water supply sources a high priority in our regulatory and water supply planning efforts in this area. We support the effort of Alafaya Utility to implement reuse of reclaimed water.

It is our understanding that potable and residential irrigation water for the entire Alafaya Utilities wastewater service area is currently provided by the City of Oviedo. However, Alafaya Utilities appears to be asserting, through a Memorandum of Intent with the City of Oviedo, that it has the sole right to provide reclaimed water within the boundaries of its wastewater service area. Although it appears that Alafaya Utilities will be able to meet the wastewater treatment requirements of their existing and proposed service areas, the effluent flows generated from the utility are not, and will not be, sufficient to provide reclaimed water to all potential customers in the service area. To our knowledge, Alafaya Utilities has not identified or proposed the use of any other lower water quality sources that may be available, such as the City of Orlando's Iron Bridge reclaimed water facility, in order meet all existing irrigation demands. In light of this

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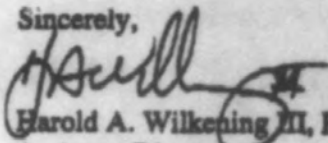
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situation, we are concerned that any effort by Alafaya Utility to prohibit another provider from supplying additional reclaimed water within the service area may directly conflict with the District's consumptive use permitting rules, which require that lower quality sources such as reclaimed water be used whenever feasible, and result in the continued use potable water for landscape irrigation within the wastewater service area.

If Alafaya Utility is unable or unwilling to provide reclaimed to all available customers within its wastewater service area, we request that it not be allowed to prohibit others from providing reclaimed water for reuse. We believe that it would be very beneficial for the FSC to clarify, as a part of any approval for a reuse project, that the wastewater service certification of Alafaya Utility does not equate to a "reclaimed water service area". Such a determination would be very helpful in insuring that reuse of reclaimed water will be maximized within the city of Oviedo and the Alafaya Utility service area. To that end, we stand ready to offer any additional assistance or information needed the PSC in this matter. Thank you for the opportunity to provide comments.

Sincerely,



Harold A. Wilkening III, P.E.

Assistant Director, Department of Resource Management

cc: Dwight Jenkins
Sarah Whitaker
Jennifer Springfield

Christianne Ferrero, P.E., Water Facilities Director, FDEP, Orlando, FL