

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for approval
of reuse project plan in
Seminole County by Alafaya
Utilities, Inc.

DOCKET NO. 960288-SU
ORDER NO. PSC-98-0291-FOF-SU
ISSUED: March 16, 1998

The following Commissioners participated in the disposition of
this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

ORDER DIRECTING INVESTIGATION INTO REUSE SERVICE ISSUES
AND
NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING REUSE PROJECT PLAN AND REUSE RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein approving a reuse project plan and reuse rates and charges is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

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 Oveido (City). As of December 31, 1996, Alafaya was serving approximately 4,300 equivalent residential connections (ERCs) in five different developments in the Oveido area: Alafaya Woods, Twin Rivers/Riverside, Big Oaks, Lake Rogers and Little Creek. Additionally, by Order No. PSC-96-1281-FOF-SU, issued October 15, 1996, in Docket No. 951419-SU, Alafaya's service area was amended to include currently undeveloped property which is located adjacent to the existing wastewater service area. The order was appealed by

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FPSC RECORDS/REPORTING

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FPSC REG. AND REPORTING

the City, and was affirmed by the First District Court of Appeal. City of Oveido v. Clark, 699 So. 2d 316 (Fla. 1st DCA 1997). 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 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, our 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 and utility personnel. Representatives from the Department of Environmental Protection (DEP) and the St. Johns River Water Management District (SJRWMD) were also in attendance, to respond to questions if needed. Twenty customers attended the meeting. Our staff described the five reuse/disposal options, as well as the utility's proposed rates and charges. The customers were advised that two of the four options would include reuse service only to the newly amended territory, where reuse lines are required to be installed during development.

Ten 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 effort was blocked by Alafaya. Since under the utility's proposal, Alafaya Woods will not be among the first developments to receive reuse service from Alafaya, the customers asked why they could not receive reuse service from the City. One customer 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.

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. 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 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 wells owned by the homeowners' association. One of the customers stated that he already receives two bills for water and wastewater and did not want to receive a third for reuse. Certain customers requested more detail as to how their neighborhood would be retrofitted should they receive reuse in the future.

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.

PRUDENCY OF REUSE SERVICE

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 nine 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, 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.

As noted above, Alafaya was granted a significant territory expansion by the Commission in Docket No. 951419-SU. 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), we find that percolation ponds are not a viable, long-term disposal option for this utility. While DEP has not mandated that Alafaya's percolation ponds be phased out of service, DEP encourages wastewater utilities to, when possible, discontinue the use of percolation ponds as the primary means of effluent disposal in favor of reuse during the course of the permit renewal process. Based on Alafaya's circumstances, it is unlikely that DEP would permit the construction of additional ponds.

The utility has a pending application with DEP to expand its reuse permit. We have been advised by DEP that the application is in its final review stage, and should be issued within a short time. It is DEP's position that both Sections 403.064 and 373.250, Florida Statutes, establish the encouragement and promotion of reuse of reclaimed water as state objectives and that 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, we find that reuse is the most prudent option for increasing effluent disposal capacity for this utility in order to serve future customers.

APPROVAL OF REUSE PROJECT PLAN

As mentioned above, 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

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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, we find that the institutional scenario is a non-viable option. An overview of the residential scenarios is presented in Table 2-1, below.

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, we consider 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

Based upon the foregoing, we find that scenario no. 4 maximizes reuse capacity in the most cost effective manner. Therefore, we hereby approve the utility's request to provide the needed disposal capacity to serve the additional territory under scenario no. 4.

REUSE AVAILABILITY FEE

The utility has proposed a reuse availability fee of \$5 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. Our authority to approve such a fee is derived from Section 367.0817(3), Florida Statutes, which requires all prudent costs of a reuse project to be recovered in rates and requires us 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 we deem appropriate.

This Commission has never before approved a "reuse availability fee." However, we are 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 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 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 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 availability charge. Those choosing to connect to the system pay an additional \$7 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.

We view the implementation of a reuse availability fee 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 find it appropriate to approve a reuse availability fee for this utility.

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 that if he does not want cable, he is not charged a fee for the cabling in front of his home. Another customer made a similar comparison with phone service. We note that these are existing customers of the utility who live in areas where reuse will not be available under the approved scenario no. 4. 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 would be appropriate for the customers in the existing service areas is an issue which should be addressed at the time reuse becomes available to these areas.

In order to address the issue of adequate notice to the future residents of these developments, the utility shall put the developers on notice of the reuse availability fee through the developer agreements so that developers may notify potential homebuyers of the fee. The utility's application for wastewater service shall 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.

Based on the foregoing, we hereby approve the reuse availability fee only for the proposed developments included in scenario no. 4, discussed above. The amount of the availability fee is addressed below.

REUSE RATES AND CHARGES

Within its initial filing, the utility provided only engineering estimates of the construction costs and associated capacities of the various reuse scenarios. Subsequently, we received additional accounting information which the utility used to develop its initial revenue requirements for all five 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 our staff to develop appropriate rates and charges to allocate and recover the additional cost of the reuse system.

Our staff 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 adjustments to the accounting data provided by the utility as well as a change in how the revenue requirement should be collected. For the reasons discussed below, we find it appropriate for the utility to collect the costs associated with this revenue requirement from future customers and reuse customers, and not through an increase in the current wastewater rates for service. Since the utility advised our staff that it was in agreement with this philosophy and the resulting rates, those rates are shown as PROPOSED in Table 4-1 of this order.

As previously noted, existing customers, especially those in the Alafaya Woods subdivision, do not believe they should help pay for the reuse system if they cannot use reuse for irrigation. 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 do not believe that it would be appropriate for existing customers to share in the cost of the reuse system through an increase in wastewater rates.

Based on the foregoing, we find it appropriate to require future customers to pay for the expanded reuse system through a combination of reuse rates and increased service availability charges. As discussed above, unique to this proposal is a reuse availability fee whereby homeowners with a reuse line available to their property will 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 seventeen 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, we have 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, we

calculate rates which will allow the utility the opportunity 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, we have projected utility plant-in-service (UPIS), 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, we have developed pro forma 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, we shall not approve a rate base or revenue requirement for the proposed reuse system in this docket.

Rate Base

The utility requested \$3,990,000 for UPIS associated with scenario no. 4. We find it appropriate to make 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. We shall remove 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. We find that the 10% engineering contingency allowance already included in the cost estimate is sufficient for purposes of establishing initial rates and charges.

In our estimation of rate base for this reuse project, we have included accumulated depreciation as of the year 2013, based on the adjusted UPIS and depreciation rates as contained in our rules. In addition, we have 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 increase approved herein in the plant capacity charge, as discussed below. Based on the above adjustments, we find that the

appropriate rate base for determining initial reuse rates is \$619,085.

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 the adjusted rate base and to the most recent return on equity. We have calculated the range of return on common equity to be 9.06%-11.06% using the current, approved leverage formula, as authorized by Order No. PSC-97-0660-FOF-WS, issued June 10, 1997.

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. We hereby find 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). We base these calculations on data found in the Wastewater Permit Application and on the rates per hour approved herein.

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. Because we find these amounts to be reasonable, we make no adjustments to these expenses.

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 twenty years. We have reduced this amount to \$75,342, including an adjustment to remove replacement costs, which we find should be capitalized rather than expensed, and to lower the percentage for equipment repair to 3%, which we find 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. We requested the utility to provide 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 this request, the utility requested recovery of \$57,120, and provided documentation in support of its request. However, we discovered an error in the utility's request, which results in a corrected requested amount of \$59,600.

As discussed previously, this is but the second case filed under Section 367.0817, Florida Statutes. Therefore, we looked to the circumstances in Docket No. 950615-SU, the Aloha Utilities, Inc. (Aloha) case, which was the first case filed under Section 367.0817, Florida Statutes, for guidance in this matter. Similarly, Aloha's initial filing did not include a request for recovery of regulatory commission expense. However, we 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, we believe that 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 in the Aloha case, we find it appropriate to allow Alafaya to recover its prudently incurred expenses associated with this proceeding.

We have analyzed the utility's documentation and have made several adjustments. A summary of the utility's request, our adjustments, and the amounts approved herein are discussed below.

	<u>Utility Requested</u>	<u>Commission Adjustments</u>	<u>Commission Approved</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 against the City. These expenses were removed. We reviewed the remaining documentation associated with legal fees, and we find that the remaining expenses of \$11,348 are reasonable. A review of the engineering-related invoices revealed that one of the invoices also contained a bill for services rendered in the utility's litigation against the City. Therefore, these expenses were removed. However, we find that 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 personnel on the instant case. We have reviewed these expenses and find them to be reasonable.

The appropriate mechanism of expense recovery gave us 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 above, 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 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

noted 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 find that 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 one 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 find it appropriate to classify the expenses as a regulatory asset, with the annual amortization of such to be recorded as regulatory commission expense.

As previously noted, we have projected that build-out of the reuse system will take seventeen years. Accordingly, we find it appropriate to amortize the regulatory asset over that same period. Therefore, we hereby create a regulatory asset in the amount of \$56,373, which, amortized over a seventeen-year period, results in an annual regulatory commission expense of \$3,316.

Based on the foregoing, we have calculated O&M expenses to be \$243,608.

Depreciation Expense

The utility requested \$174,239 in depreciation expense. We have 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 our adjustments to UPIS, resulting in an amount for property taxes of \$6,497. In addition, we have 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 foregoing, we have 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 the reuse plant additions when it reaches 80% buildout in the new territory.

As previously noted, due to the projected nature of the information, the calculations of rate base, capital structure, expenses, and revenue requirement discussed above are presented only as tools to aid us 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, we have calculated a plant capacity charge associated with the reuse project of \$230. This capacity charge is designed to recover 75% of the cost of the reuse system by the year 2015, net of depreciation. This charge will be added to the existing plant capacity charge of \$410 and recovered from

all new wastewater customers throughout the utility's entire service area. This results in a total plant capacity charge of \$640, which is hereby approved and is shown in Table 4-1. We find this to be 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. This was based upon the initial consideration of providing reuse under a metered rate. As discussed below, we are not approving 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 that 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. However, we have 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.

MONTHLY REUSE RATES

We recognize the need to promote reuse. We also recognize that although reuse is of a 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, we have 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, we have 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. We believe it is important to get the reuse system up and running in anticipation of increased effluent flows. As noted above, it is anticipated that the new territory may not be built out for seventeen 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.

Our approved reuse rates are shown on Table 4-1, which is presented below. In order to encourage customers to take reuse and assure adequate effluent disposal, we find that it is appropriate to begin residential reuse service under a flat rate, which we have calculated to be \$9 per month. However, in the future, should it become necessary to meter reuse to lessen the per customer usage, we believe that 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. Therefore, in its customer application for reuse service, the utility shall specify 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 will be aware from the onset of the potential of metered rates and the associated meter installation charge.

We find that a metered rate is appropriate for general service customers, and we have calculated a rate of \$.60 per 1,000 gallons.

This rate will 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). We note 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. We find that it is fair and equitable, and in the public interest, 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 per month for irrigation usage, a majority of the usage, above normal household consumption, would be billed at either \$1.50 or \$2 per 1,000 gallons. Based upon the \$9 residential flat rate approved herein, 15,000 gallons would equate to \$.60 per 1,000 gallons. Therefore, we find that this rate is reasonable and provides an incentive to use reuse when compared to the City's water rate.

The utility's present and proposed reuse and service availability charges and the rates and charges approved herein are shown in Table 4-1, below.

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

TABLE 4-1

The utility shall file revised tariff sheets and a proposed customer notice to the existing golf course. The approved rates shall 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 shall not be implemented until proper notice has been received. The utility shall provide proof to our staff of the date notice was given within ten days after the date of notice. The service availability charges shall 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.

PROVISION OF REUSE SERVICE TO EXISTING CUSTOMERS

As noted above, at the informal customer meeting, some customers of the utility's Alafaya Woods service area indicated their desire to obtain reuse service. By this order, we are approving the implementation of scenario no. 4 of the utility's reuse study, in order for the utility to begin expansion of its reuse facilities 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, we note that the City 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 our knowledge, the City is not providing reuse service at this time.

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

The staff 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, the utility was asked if it has any long-range plan addressing the provision of reuse service within its entire service area. The utility responded as follows:

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....

REFILM

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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 apparently 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 below, we do 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 Mr. Harold A. Wilkening III, P.E., Assistant Director, Department of Resource Management at SJRWMD, 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 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 below.

We expect the utility to work with the City to reach an agreement or memorandum of understanding indicating that if the City were prepared to provide reuse service within the utility's existing wastewater service territory, and if the utility were not ready, willing, and able to provide the service at that time or within a reasonable time thereafter, then the utility would not object to the City providing such reuse service. We recognize that the circumstances present at the time will necessarily dictate the outcome of a decision on which entity should provide the service. However, it should not be conceded in any way that Alafaya's wastewater certificate entitles it to be the sole reuse provider within its certificated territory. As discussed below, this issue will be among the issues explored during an investigation into matters concerning reuse service.

We also expect the utility to address with the City 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 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, 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.

INVESTIGATION INTO REUSE SERVICE ISSUES

During the processing of this case, it has become clear to us 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 above, 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.

We believe that the time is ripe to initiate a generic study on all issues involved in reuse service, including, but not limited to, whether there should be a separate reuse certificate, or whether it would be more 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, the WMDs, local governments, and other interested parties. It is also necessary to explore the appropriate noticing requirements for the reuse applications, and whether rulemaking is in order for any other facets involved in the implementation of Section 367.0817, Florida Statutes.

We hereby direct our staff to conduct such a generic study and report back to us with its recommendations, including possible statutory action, by January, 1999, so that potential statutory changes, if needed, can be addressed in the 1999 legislative session.

DOCKET CLOSURE

If no substantially affected person files a protest to a proposed agency action issued herein within twenty-one days of the order, no further action will be necessary and this docket shall be closed.

It is, therefore,

ORDERED by the Florida Public Service Commission that residential scenario no. 4 of Alafaya Utilities, Inc.'s, reuse project plan, is hereby approved as set forth in the body of this order. It is further

ORDERED that each of the findings contained in the body of this order is hereby approved in every respect. It is further

ORDERED that Alafaya Utilities, Inc., shall implement the approved rates and charges for reuse service, including a reuse availability fee, as set forth in the body of this order. It is further

ORDERED that Alafaya Utilities, Inc., shall include language in its developer agreements placing developers on notice of the reuse availability fee approved herein so that developers may notify potential homebuyers of the fee. It is further

ORDERED that Alafaya Utilities, Inc., shall include a statement in its application for wastewater service advising new customers that they will be required to pay the reuse availability fee approved herein if they choose not to take the reuse service that is available to them. It is further

ORDERED that in its customer application for reuse service, Alafaya Utilities, Inc., shall specify that if, in the future, service is provided under a metered rate structure, the customer will be responsible for the cost of the meter.

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ORDERED that, prior to the implementation of the rates and charges approved herein to the existing customer, Alafaya Utilities, Inc., shall submit, and have approved, revised tariff sheets and a customer notice. The revised tariff sheets will be approved upon staff's verification that they are consistent with this decision and that the proposed customer notice is adequate. It is further

ORDERED that Alafaya Utilities, Inc., shall provide proof of the date notice was given within ten days after the date of the notice. It is further

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

ORDERED that Alafaya Utilities, Inc., shall work with the City of Oveido to reach an agreement or memorandum of understanding concerning the provision of reuse service within Alafaya Utilities, Inc.'s certificated territory, as set forth in the body of this order. It is further

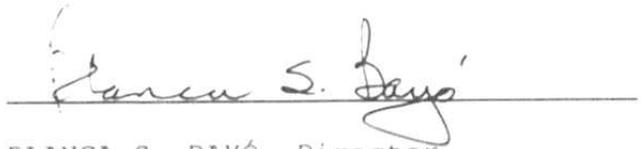
ORDERED that our staff shall investigate all issues concerning the provision of reuse service, shall conduct workshops on the matter, and shall report its recommendations to us by January, 1999. It is further

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

ORDERED that in the event this order becomes final, this docket shall be closed.

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By ORDER of the Florida Public Service Commission this 16th
day of March, 1998.


BLANCA S. BAYO, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action approving a reuse project plan and reuse rates and charges is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 6, 1998. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

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

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.