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July 6, 1998

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

HAND DELIVERY

Re: Undocketed Workshop on Reuse of Reclaimed Water

Dear Ms. Bayo:

Enclosed for filing, in the question and answer format that was sent out, are Florida Cities Water Company's comments to the topics for discussion related to this workshop.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention.

Thank you.

RECEIVED & FILED

[Handwritten Signature]
FPSC DIVISION OF RECORDS

Sincerely,

[Handwritten Signature: B. Kenneth Gatlin]
B. Kenneth Gatlin

BKG/l dv
Enclosures

cc: Joann Chase, Division of Water & Wastewater

DOCUMENT NO.
0699798
July 2

**FLORIDA CITIES WATER COMPANY COMMENTS
WORKSHOP ON REUSE OF RECLAIMED WATER (7/7/98)**

TOPICS FOR DISCUSSION

REUSE TERRITORY

1. Under what conditions should a utility have the exclusive right to provide reuse service within its water or wastewater certificated area?

Response: At a minimum, when reuse of reclaimed water is the only means of effluent disposal available to the utility or when reuse is the most cost effective method of disposal for utility.

2. Should a utility be permitted to provide reuse service outside of its water and wastewater certificated territory?

Response: Yes. Especially when the utility has no other cost effective methods to dispose of effluent within its certificated territory. For example, it may be more economical to provide a large user, such as a golf course or an agricultural customer, which is not within the certificated territory of the utility than it would be to provide residential reuse to individual customers within the certificated territory.

3. Should reuse be considered a separate service apart from the provision of water and wastewater service?

Response: Yes, but not regulated as such. Reuse is a by-product service of wastewater treatment. If a customer is willing to accept the reuse and maybe even agree to pay for it this helps the utility. These are side benefits. However, the customer is not regulated by the PSC and the utility can not force a customer to accept this product.

- a. If so, should there be a separate reuse territory established?

Response: Undecided.

- b. If so, should there be a separate reuse certificate issued?

Response: Undecided.

4. In what forum should reuse territorial disputes between PSC regulated utilities and non-regulated utilities be resolved?

Response: Undecided.

5. What legislative changes are needed to address the reuse territory topics?

Response: Undecided.

6. What noticing requirements and filing requirements would be appropriate if separate reuse service territories are established?

Response: Depends on the amount of reuse customers in the territory.

REVENUE REQUIREMENTS/RATES

7. Should a separate revenue requirement (including plant investment and expenses) be established for reuse service in ratemaking proceedings under Sections 367.081 and 367.0814, Florida Statutes?

Response: No. Given the nature of reuse, this is a market driven product and can not be regulated like water or wastewater service. Any benefit from reuse revenue should be included in overall wastewater revenue since this is a by-product of wastewater treatment

- a. If so, what additional filing requirements would be appropriate?

Response: None.

- b. Should reuse rates be cost-based?

Response: Definitely not. As already stated, this is a market driven product and is usually free or at a low price, such as a few cents per thousand gallons. Given reuse facility plant and distribution costs, a cost-based rate would certainly not generate a rate greater than a few cents per thousand. In fact, in FCWC's North Ft. Myers rate case (Docket No. 950387-SU), FCWC submitted such a cost based calculation (see attached) which generated a rate of \$0.32 per 1,000 gallons. The PSC Order (96-1133-FOF-SU) used Lee County's rate at the time of \$.021 per 1,000 gallons. FCWC argued for

\$0.13. The only potential reuse customer available to accept this reuse refused to accept reuse at \$0.21 per 1,000 gallons, cost-based or otherwise. This situation leaves FCWC in an impossible position. Reuse is mandated as a condition of its water use permit issued by the water management district and full utilization of the wastewater treatment plant's capacity of 1.25 MGD is conditioned on reuse since its surface water discharge is limited to 1.0 MGD. We understand that Lee County has subsequently significantly lowered their reuse rate. In essence, calculating a reuse rate is meaningless if there are no willing reuse customers. In order to encourage reuse of reclaimed water, the Commission should establish as a maximum rate the offsetting cost of operation and maintenance that would be displaced if reclaimed water was used, i.e. the cost of electricity to operate a well pump, maintenance to repair pumps, etc.

8. In evaluating a reuse project plan submitted pursuant to Section 367.0817, F.S., should the Commission consider the earnings posture of the utility's water and/or wastewater systems?

Response: No. If reuse revenues cause an over earnings situation, the PSC can handle that as part of an over earnings docket in the wastewater tariff.

9. What rulemaking is necessary in order to implement Section 367.0817, F.S., including but not limited to filing requirements, noticing requirements, and case synopses?

Response: Undetermined.

10. In determining a revenue requirement associated with reuse, should the applicable rate of return be based on the utility's overall capital structure or the incremental capital costs associated with the reuse facilities?

Response: The revenue associated with reuse should be included as Other wastewater revenue and be used to reduce the revenue requirement for wastewater customers. A separate rate base and rate of return calculation to determine the stand-alone revenue requirement for reuse is meaningless since this commodity is market driven.

- a. If the incremental capital structure should be used, how should this be treated in the utility's next rate proceeding, filed pursuant to Sections 367.081 or 367.0814, F.S.?

Response: Should not be.

- b. Should Chapter 367, F.S., be amended to clarify whether a utility's overall capital structure or incremental capital structure should be used in determining a revenue requirement associated with reuse?

Response: No.

11. Should Chapter 367, F.S., be amended to specify that the Commission may approve a reuse availability fee, which is a fee applicable to all potential reuse customers who choose not to take it?

Response: How could such a fee be charged and collected? Not a bad idea, but would it work because the *potential* reuse customer probably will not pay this fee and the utility can not "turn-off" service that does not exist. Would the PSC or the utility have any recourse for non-payment by a non-customer. How can a potential reuse customer be forced into becoming a customer?

Reclaimed water can only be mandated to a certain extent via a user's consumptive use permit. Generally those permits require reuse to be *both technically and economically feasible*. The cost of using reclaimed water should be minimized to encourage its use. It is paramount that the Commission recognize that the reuse of reclaimed water is a method of effluent disposal as well as for conservation and not a new revenue source for the utility to lessen the wastewater rate.

- a. If so, how do you determine when reuse is available and when the reuse availability fee is applicable?

Response: Undetermined.

12. Should Chapter 367, F.S., be amended to specify that the Commission may approve reuse service availability charges?

Response: Undetermined.

13. Should the Commission have the statutory authority to by rule establish standards and procedures whereby rates and charges for the provision of reuse service may be set using criteria other than those set forth under traditional rate base/rate of return regulation?

Response: Yes. As stated before, reuse rates are market driven. This must be understood. Rates that are established, either cost based or otherwise.

must not fail in their purpose, enable reuse.

ANNUAL REPORT

14. How should the revenue from reuse service be reported in a utility's annual report and accounted for in a utility's earnings review?

Response: Reuse revenue should be reported as Other wastewater revenue and be treated like miscellaneous revenue. It should be included in total wastewater revenue for earnings review purposes.

15. Is there any additional information about the reuse system that should be contained in the utility's wastewater annual report?

Response: No.

16. Should there be separate reporting requirements and earnings reviews for reuse service?

Response: Undetermined.

USED AND USEFUL

17. Should the Commission use the definition of reuse contained in the rules of the Department of Environmental Protection, or should there be a separate definition of reuse for ratemaking purposes?

Response: For consistency the Commission should use the definition contained the FDEP's rules. These are the rules that the utility are required to meet from an environmental perspective.

- a. If so, what should be the definition of reuse for ratemaking purposes?

Response:

18. Should reuse facilities be considered 100% used and useful in order to encourage the reuse of reclaimed water?

Response: Yes. As set forth in the Statutes and confirmed by the District Court in the recent Florida Water Services opinion.

19. Under what circumstances should wastewater treatment plant be considered part of the

reuse facilities for purposes of determining the used and useful plant?

Response: If public access reuse is being provided, equipment and facilities required beyond secondary treatment, i.e. filters, chemical addition equipment, monitoring equipment, reuse mains, meters, valves, chlorination equipment, reject ponds, reclaimed water storage, etc., should be considered part of the reuse facilities.

20. Under what circumstances should the effluent disposal system be considered part of the reuse facilities for purposes of determining the used and useful plant?

Response: Reuse is another method of effluent disposal. Increasingly it is the only method of effluent disposal. As stated above it is paramount that the Commission recognize this fact and act to encourage reuse in those systems by setting a zero rate or a rate as low as possible. In some cases, such as AWT plants that discharge to surface waters, the effluent disposal system and the reuse system are one and the same, obviously in such a case "the reuse system" should be considered effluent disposal.

21. Should utilities be required to submit a reuse project plan to the Commission prior to permitting to determine prudency, and if so, what legislative changes are necessary?

Response: No.

22. What legislative changes or rulemaking are necessary in order to address the used and useful analysis for reuse facilities?

Response: The statute as it exists today should be viewed as making all prudent costs of a reuse project 100% used and useful. The Commission has not taken this view. In light of the Commission's stance a legislative change that says all reuse facilities are 100% used and useful in that many words would eliminate any uncertainty that the Commission may have in regards to whether reuse facilities are 100% used and useful. The goal is to encourage the use of reclaimed water, blindly applying some used and useful formula that leads to non used and useful reuse facilities in no way encourages reuse, quite the opposite. Perhaps this has been settled to the satisfaction of the Commission and all parties by the recent Florida Water Services opinion by the District Court.