

State of Florida



Public Service Commission

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RECORDS AND REPORTING

**DATE:** FEBRUARY 17, 2000  
**TO:** DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)  
**FROM:** DIVISION OF WATER AND WASTEWATER (BETHEA, GOLDEN, RIEGER) *mas*  
DIVISION OF LEGAL SERVICES (CROSSMAN) *JS*  
**RE:** DOCKET NO. 990684-SU - NOTICE OF FILING TARIFF SHEET NO. 13.1 TO IMPLEMENT REUSE SERVICE IN SUMTER COUNTY BY LITTLE SUMTER UTILITY COMPANY.  
COUNTY: SUMTER

**AGENDA:** FEBRUARY 29, 2000 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** THE EIGHT MONTH STATUTORY DEADLINE HAS BEEN WAIVED

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\WAW\WP\990684B.RCM

CASE BACKGROUND

Little Sumter Utility Company (LSU or utility) is a newly constructed water and wastewater utility located in Sumter County. The utility began providing service in 1997, and its customer base is rapidly growing. LSU is currently a Class C utility, but it is anticipated that it will be a Class A utility at build-out. According to the utility's 1998 annual report, at year end the utility had connected 1,524 water customers and 1,341 wastewater customers. In its 1998 annual report, the utility reported revenues of \$261,368 and \$231,470, for water and wastewater, respectively. Additionally, the utility reported a net operating income of \$17,393 for water, and a net loss of \$99,163 for wastewater.

By Order No. PSC-96-1132-FOF-WS, issued September 10, 1996, in Docket No. 960305-WS, the Commission granted LSU's original water

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and wastewater certificates. According to the utility's master plan, wastewater effluent would be reused as much as possible via golf course irrigation, consistent with the requirements of the Southwest Florida Water Management District (SWFWMD). According to the utility's certificate application, it was estimated that six golf courses would ultimately be constructed in the LSU service area. Accordingly, the utility's proposed facilities were designed to utilize effluent reuse as the primary method of effluent disposal, and to treat wastewater to levels acceptable for public-access reuse via golf course irrigation. Backup disposal to percolation ponds is intended to be used only during periods of wet weather or when effluent criteria is not met for golf course irrigation.

Although the utility planned to provide reuse service in the future, it did not propose a reuse rate in its certificate application. Because the utility's facilities would not be fully operational and capable of providing reclaimed water service until early 1999, the Commission determined that it would be premature to establish a reuse rate in the original certificate proceeding. The Commission instructed the utility to explore whether and how much the end users should be charged for the reuse irrigation service. Also, the Commission put the utility on notice that prior to providing any reuse service, it must file a proposed reuse rate with the Commission.

Additionally, in light of Section 367.0817(3), Florida Statutes, stating that reuse benefits water, wastewater and reuse customers, the Commission also required LSU to include an analysis of whether and how much of the costs associated with the reuse facilities should be spread to its water customers, and the impact this would have on the utility's wastewater rates.

As required by Order No. PSC-96-1132-FOF-WS, on May 25, 1999, LSU submitted a tariff filing to implement reuse service at a zero rate. Also, the utility requested that it be authorized to provide the reclaimed water service on a temporary basis pending staff's review of the tariff application. Accordingly, by Order PSC-99-1392-PCO-SU, issued July 19, 1999, the Commission suspended the utility's proposed tariff pending further investigation, but authorized the utility to provide the reclaimed water service at a zero rate on a temporary basis pending final determination by the Commission. The utility also provided its justification that reuse costs should not be spread to water customers at this time. The following is staff's recommendation on the utility's petition.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should Little Sumter Utility Company's proposed tariff reflecting a zero rate for a new class of service to provide reclaimed water be approved?

**RECOMMENDATION:** Yes. In accordance with Rule 25-30.475, Florida Administrative Code, the rate should be effective for services rendered on or after the stamped approval date of the tariff sheets, provided the reclaimed water service customers have received notice. The utility should provide proof that the customers have received notice within ten days after the date of notice. (BETHEA, GOLDEN, RIEGER)

**STAFF ANALYSIS:** As discussed in the case background, Order No. PSC-96-1132-FOF-WS, issued September 10, 1996, in Docket No. 960305-WS, required that LSU file a proposed reuse rate with the Commission prior to providing any reuse service. The Order required that the utility's reuse rate filing include justification for the requested rate, including a reuse cost analysis, as well as a discussion of both the utility's alternatives for effluent disposal and irrigation alternatives available to the potential reuse customers. As stated in Section 367.0817(3), Florida Statutes, "the Legislature finds that reuse benefits water, wastewater, and reuse customers." In light of this statute, the utility was also required to include an analysis of whether and how much of the costs associated with the reuse facilities should be spread to its water customers, and the impact this would have on the utility's wastewater rates.

Accordingly, on May 25, 1999, LSU submitted a tariff filing to implement reclaimed water service at a zero rate. Regarding the utility's alternatives for effluent disposal, the utility's proposed facilities were designed to utilize effluent reuse for golf course irrigation as the primary method of effluent disposal. Although the utility has percolation ponds for backup disposal, they are intended to be used only during periods of wet weather or when effluent criteria is not met for golf course irrigation. Because the utility facilities have already been constructed for this purpose, effluent reuse is necessary for the proper operation of the utility's wastewater treatment and disposal facilities.

At present, LSU is providing reclaimed water service to one golf course. As discussed in the case background, by Order No. PSC-99-1392-PCO-SU, the Commission authorized LSU to provide the reclaimed water service on a temporary basis at a zero rate pending the Commission's final decision on the proposed tariff. At build-

out it is anticipated that LSU will provide reclaimed water service to six golf courses. Regarding the reuse customer's alternatives for irrigation water, staff has been informed by a representative of the SWFWMD that the developer has obtained water use permits (WUPs) for wells to irrigate the golf courses and landscaped areas within the development. Those WUP's require that the developer use the lowest quality water available for irrigation. However, only one-third of the golf courses' irrigation needs can be met through reclaimed water service. The remainder will be supplied by the private wells and through stormwater reuse. Consequently, the reclaimed water service is beneficial to the golf courses, but is not as critical to the operation of the golf courses as it is to the utility's wastewater operations.

Staff has been informed by a representative of the utility that the golf courses in the developer's neighboring development, the Village Center Community Development District (VCCDD), are not charged for reclaimed water service. For informational purposes, it should be noted that the Commission does not regulate the utility facilities within the VCCDD. In order to be consistent throughout the two developments, the utility believes a reclaimed water rate of zero is appropriate in this case as well. Although the golf course would not be charged specifically for the reclaimed water service under the utility's proposed tariff, it should be noted that the golf course does incur expenses related to the distribution of the reclaimed water. Specifically, the utility pumps the effluent into holding ponds on the golf course. At that point the golf course becomes responsible for the pumping and maintenance expenses related to the use of the reclaimed water.

After considering the utility's arguments, staff agrees that a zero rate for reclaimed water is appropriate. Pursuant to SWFWMD requirements, the utility has constructed its facilities such that reuse is the primary means of effluent disposal. The golf courses have alternative irrigation sources, and are incurring pumping and other costs related to the distribution of the reclaimed water. Additionally, neighboring courses are being provided reclaimed water at no charge.

Therefore, staff recommends that the utility's proposed tariff to provide reclaimed water at a zero rate be approved. In accordance with Rule 25-30.475, Florida Administrative Code, the rates should be effective for services rendered on or after the stamped approval date of the tariff sheets, provided the reclaimed water service customers have received notice. The utility should provide proof that the customers have received notice within ten days after the date of notice.

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It should be noted that the Commission's decision in this case does not preclude the Commission from establishing a reuse rate higher than zero for this utility in future proceedings. As discussed in Issue 2, staff is recommending that it is too early in the utility's development to make a decision to spread reuse costs to water customers. Staff is recommending that additional consumption data should be gathered through the year 2002, after which time the issue of reallocating reuse costs will be reevaluated. Establishing a reuse rate higher than zero can be reevaluated at that time as well.

**ISSUE 2:** Should any of the reuse costs be spread to LSU's water customers, and if so, what are the resulting water and wastewater rates?

**RECOMMENDATION:** Reuse costs should not be spread to water customers at this time. However, the utility should file semiannual reports on water consumption, containing the information discussed in the staff analysis, retroactive to April 1999, through the year 2002. The utility also should continue escrowing gallonage revenues, in excess of the gallonage revenue requirement, from the second tier rate, through the year 2002, unless an earlier determination is made to discontinue the escrow requirement. (BETHEA, GOLDEN, RIEGER)

**STAFF ANALYSIS:** As stated in the case background, Order No. PSC-96-1132-FOF-WS required the utility to include an analysis of whether and how much of the costs associated with the reuse facilities should be spread to its water customers, and the impact this would have on the utility's wastewater rates. Reuse costs were not separately identified in the original certificate proceeding. In the instant proceeding, the utility did not provide a reuse cost analysis because of the substantial cost involved in hiring an engineering consultant to break out these costs. The utility estimated that it would cost approximately \$40,000 to prepare the analysis. The utility also stated that reuse can be viewed as a disposal method for the wastewater system or as a groundwater conservation method for the water system. The utility believes that the benefits of effluent reuse are split evenly between the water and wastewater systems and the cost should therefore be divided evenly. However, the utility does not believe any costs should be shifted to the water customers at this time.

LSU provides water-only service to a few miscellaneous landscaped areas within the development that cannot be served by the developer's private irrigation wells. However, the remainder of LSU's residential and general service customers receive both water and wastewater service from LSU. Therefore, most of LSU's customers are currently sharing in the cost of the reuse facilities. The utility states that because its customers receive a single bill for water and wastewater service, and most customers are connected to both systems, it would not be beneficial to alter the water rates to incorporate a portion of the cost to provide reuse. Also, each customer is impacted by the cost to provide reuse based on the amount of water they use. Specifically, because wastewater service is billed based upon a customer's water consumption, customers who use more water will pay a higher share of the reuse costs on the wastewater portion of their bill. The

utility states that an analysis to determine the cost of providing reuse would not be relevant, since it is already fairly applied to each customer's bill. Therefore, LSU believes an adjustment to either the water or wastewater rates is unnecessary at this time.

Staff agrees that the reuse cost recovery should not be shifted to the water customers at this time. The initial wastewater rates approved by the Commission in LSU's original certificate case incorporated recovery of the reuse costs through wastewater rates. As discussed above, effluent reuse is necessary for the proper operation of LSU's wastewater facilities. At this stage in the utility's development, staff believes that reuse costs are appropriately allocated, because the wastewater customers receive the most benefit from the reuse project.

Staff also agrees that the majority of LSU's customers are sharing fairly in the cost of the reuse facilities, since most customers receive both water and wastewater service. However, equally as important as the issue of each customer paying their fair share of the costs is the issue of promoting water conservation. The primary benefit of allocating a portion of the reuse costs to the water rates is to increase the water rates to provide an additional conservation incentive. Staff believes that this goal is being accomplished, in part, by high water users paying more of the reuse costs in their wastewater bills.

Staff also believes that determining the need for additional conservation incentives is premature at this stage in the utility's development. The Commission took a new approach in establishing LSU's initial water rates in its certificate case. Traditionally, the Commission has used the base facility and gallonage charge rate structure when establishing initial rates for a new utility. However, the SWFWMD required that the utility seek approval of an inclining block rate structure as a condition of its WUP. The inclining block rate structure was encouraged as the utility's initial rate structure due to the high water consumption per equivalent residential connection experienced by other developments in that area. Consequently, the Commission established initial rates for LSU using a two-tiered inclining block rate structure.

Moreover, the rates were designed to recover the full water gallonage revenue requirement in the first usage tier and half of the second usage tier. The remaining half of the revenues collected from the second tier were to be escrowed for conservation programs approved by the SWFWMD. The Commission also required the utility to file reports on consumption for two years following

implementation of the rates. After that time, the rate structure was to be reevaluated, as well as the need for the escrow account.

Analysis of the usage data submitted by the utility shows moderate declines in average consumption. However, most homes have been built and occupied within the last two years, and over 100 new customers are being added each month. Consequently, irrigation requirements have been and will continue to be above normal in order to establish new lawns. Above normal consumption has also occurred due to the drought conditions over the last two years. Therefore, it is premature to make any conclusions regarding the effectiveness of the conservation rates and whether additional conservation incentives are necessary.

As to the escrow account, staff is working with the utility and water management district to evaluate the current conservation program and determine if the escrow funds are being applied in the most effective manner. At present the utility has applied the funds mainly to media advertising; however, staff anticipates future funds will be used for an expanded conservation program including additional investment in reuse facilities to serve the three phases of the development.

In consideration of the above, staff believes it is too early in the utility's development to determine if the inclining-block rate structure is producing the desired result. Further evaluation is needed in order to determine whether or not additional conservation incentives are needed. Therefore, the utility should be required to continue filing reports on a semiannual basis containing the following information for each month in the period: the number of customer bills, gallons billed and revenue collected, separated by usage block. This information should be provided for each customer class and meter size. The utility should file this information retroactive to April 1999, when the filings were discontinued, through the year 2002. After that time, the rate structure should be reevaluated. Additionally, staff believes there will be a continued need to escrow revenues from the second-tier rate throughout the evaluation period. Therefore, the utility should continue escrowing gallonage revenues collected from the second tier rate in excess of the gallonage revenue requirement, through the year 2002, unless an earlier determination is made to discontinue the escrow requirement.



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**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** Yes. If Issues 1 and 2 are approved, this tariff should become effective for services rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. If a protest is filed within 21 days of the issuance of the Order, this tariff should remain in effect pending resolution of the protest. If no timely protest is filed, this docket should be closed. (CROSSMAN)

**STAFF ANALYSIS:** If Issues 1 and 2 are approved, this tariff should become effective for services rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. If a protest is filed within 21 days of the issuance of the Order, this tariff should remain in effect pending resolution of the protest. If no timely protest is filed, this docket should be closed.