

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Notice of filing Tariff
Sheet No. 13.1 to implement
reuse service in Sumter County
by Little Sumter Utility
Company.

DOCKET NO. 990684-SU
ORDER NO. PSC-00-0582-TRF-SU
ISSUED: March 22, 2000

The following Commissioners participated in the disposition of
this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
E. LEON JACOBS, JR.
LILA A. JABER

ORDER APPROVING TARIFF FILING FOR A NEW CLASS OF SERVICE TO
PROVIDE RECLAIMED WATER SERVICE

BY THE COMMISSION:

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, we granted LSU's original water 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

DOCUMENT NUMBER-DATE

03614 MAR 22 8

FPSC-RECORDS/REPORTING

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

On May 25, 1999, in accordance with Order No. PSC-96-1132-FOF-WS, LSU submitted a tariff filing to implement reuse service at a zero rate. In addition, the utility requested that it be authorized to provide the reclaimed water service on a temporary basis pending our review of the tariff application. Accordingly, by Order PSC-99-1392-PCO-SU, issued July 19, 1999, we 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.

Tariff Filing

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. The utility has provided a justification to support its belief that reuse costs should not be spread to water customers at this time.

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. Regarding the reuse customer's alternatives for irrigation water, we have been informed by 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.

We have been informed by 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 we do 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.

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 golf courses are being provided reclaimed water at no charge.

Upon considering the utility's request, we find that a zero rate for reclaimed water is appropriate. Therefore, the utility's proposed tariff to provide reclaimed water at a zero rate is hereby approved. In accordance with Rule 25-30.475, Florida Administrative Code, the rates shall become 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 shall provide proof that the customers have received notice within ten days after the date of notice. However, the decision in this case does not preclude us from establishing a reuse rate higher than zero for this utility in subsequent proceedings.

Reuse Cost Allocation

Since Section 367.0817(3), Florida Statutes, states that reuse benefits water, wastewater and reuse customers, we 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.

Reuse costs were not separately identified in the original certificate proceeding, nor did the utility provide a reuse cost analysis in this docket due to the substantial cost involved in hiring an engineering consultant to break down these costs. The utility estimated that the cost to prepare the above analysis would be approximately \$40,000. 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. Further, the utility believes that the benefits of effluent reuse are split evenly between the water and wastewater systems and that the cost should therefore be divided evenly. However, the utility does not believe that 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. Additionally, 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 contends that an adjustment to either the water or wastewater rates is unnecessary at this time.

At this stage in the utility's development, reuse costs are appropriately allocated because the wastewater customers receive the most benefit from the reuse project. In addition, 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. Therefore, we find that this goal is being accomplished, in part, by high water users paying more of the reuse costs in their wastewater bills.

It is premature to determine the need for additional conservation incentives at this stage in the utility's development. We took a new approach in establishing LSU's initial water rates in its original certificate case. Traditionally, we have 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, we 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. We 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. Based on the above, we find that it is premature to make any conclusions regarding the effectiveness of the conservation rates and whether additional conservation incentives are necessary.

With respect to the escrow account, we are 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, we anticipate that future funds will be used for an expanded conservation program including additional investment in reuse facilities to serve the three phases of the development.

Semiannual Reports

Based upon the foregoing, we find that 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 additional conservation incentives are needed. Therefore, the utility shall 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. The utility shall provide the above information for each customer class and meter size and shall file this information retroactive to April 1999, when the filings were discontinued, through the year 2002. At the expiration of the above timeframe, the rate structure shall be reevaluated. The issues of reallocating reuse costs and establishing a reuse rate higher than zero can be reevaluated at that time as well.

Escrow Account

Further, we find that there will be a continued need to escrow revenues from the second-tier rate throughout the evaluation period. Therefore, the utility shall continue to escrow 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.

Provided no timely protest is filed, this tariff shall 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 shall remain in effect pending resolution of the protest. If no timely protest is filed, this docket shall be closed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Little Sumter Utility Company's request to implement a new class of service to provide reclaimed water at a zero rate is approved as set forth in the body of this Order. It is further

ORDERED that the tariff shall become effective on or after the stamped approval date of such tariff pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that Little Sumter Utility Company shall provide proof that the customers have received notice within 10 days after the date of notice. It is further

ORDERED that Little Sumter Utility Company shall submit semiannual reports as set forth in the body of this Order. It is further

ORDERED that Little Sumter Utility Company shall continue to escrow 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. It is further

ORDER NO. PSC-00-0582-TRF-SU
DOCKET NO. 990684-SU
PAGE 8

ORDERED that if no timely protest is filed, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 22nd day of March, 2000.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

SAC

NOTICE OF FURTHER PROCEEDINGS

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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the proposed action files a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the

ORDER NO. PSC-00-0582-TRF-SU
DOCKET NO. 990684-SU
PAGE 9

Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 12, 2000.

In the absence of such a petition, this Order shall become final and effective upon the issuance of a Consummating Order.

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.