

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

| | | |
|---|---|----------------------|
| In re: Applications For An Amendment |) | |
| Of Certificate For An Extension |) | |
| Of Territory And For an Original |) | |
| Water And Wastewater Certificate |) | Docket No. 992040-WS |
| (for a utility in existence and charging |) | |
| for service) |) | |
| <hr/> | | |
| In re: Application by Nocatee Utility |) | |
| Corporation for Original Certificates for |) | |
| Water & Wastewater Service in Duval |) | Docket No. 990696-WS |
| and St. Johns Counties, Florida |) | |
| <hr/> | | |

INTERVENOR TESTIMONY OF

M. L. FORRESTER

ON BEHALF OF INTERCOASTAL UTILITIES, INC.

DOCUMENT NUMBER-DATE

03449 MAR 17 8

FPSC-RECORDS REPORTING

Intervenor's Testimony of M.L. Forrester

1
2
3 Q: Please state your name and professional qualifications for the record.

4 A: My name is M.L. Forrester. I received an Associate in Arts Degree in a Pre-
5 Law course of study from Jacksonville University in 1958 with later non-
6 degree courses in accounting and economics. I was certified as a Class B
7 Practitioner by the Fla. Public Commission on February 6, 1989. From 1984
8 to the present, I have been employed by Jax Utilities Management, Inc., and
9 I am presently a Vice President of that firm. During this employment I have
10 participated in the planning of water and wastewater systems for our clients,
11 as well as their permitting, construction, operations, management, and
12 certification before regulatory bodies, including this Commission. From
13 1971 to 1984, I was employed by The City Jacksonville Water and Sewer
14 Division in several capacities including that of Commercial Planning and
15 Development Coordinator, Special Utility Service Advisor, Utility Planning
16 Officer, Utility Programs Controller, and Management Planning and Controls
17 officer. While at the city my responsibilities included service planning to new
18 Developments, water and sewerage rate studies management, Federal and
19 State Legislation reviews, water and sewerage municipal code modifications,
20 administration of the division accounting office, and private Utility
21 acquisition analysis. Some of my special assignments during that
22 employment included that of City Council sub-committee member for private
23 utility acquisition negotiations, and membership in the Fort George Island
24 Carrying Capacity Study Group. I was also listed as a significant contributor
25 to the 1972 Water Quality Management Plan for Duval County; and I was one

1 of three Co-authors of the original 1972 Eight Phase City of Jacksonville
2 Master Water and Sewer Improvement Program which outlined the city's
3 water and sewerage service needs to the year 2002. From October 1965 to
4 April 1971, I was the General Manager of the Jacksonville Division for
5 Southern States Utilities Inc. At that time my responsibilities included
6 direction of the utility systems operations, analysis of proposed systems
7 acquisitions, integration of new acquisitions, liaison with regulatory agencies,
8 rate case management, and management of the company owned office
9 building in Jacksonville. From April of 1959 to October of 1965 I was
10 employed by Stevens Enterprises Inc. which included assignments as
11 draftsman, estimator, and construction coordinator for Stevens Southern
12 Company [a utility construction company], also as purchasing agent for Dixie
13 Wholesale Distributors [a wholesaler of utility supplies]; and finally as
14 manager of AFS Water Service Company. In addition to those duties, I also
15 implemented the company's first electronic data processing system and was
16 responsible for the utility billing system and general accounting. I also
17 functioned as an assistant to the president of all three firms, Mr. A.F.
18 Stevens.

19 Q. Have you ever qualified as an expert?

20 A. Yes, I have appeared numerous times before the Duval County and St. Johns
21 County Commissions, the Florida Public Service Commission and Duval
22 County Circuit Court; and have been qualified as an expert in utility
23 operations and management, service territory and rate matters, and utility
24 valuation.

25 Q: Have you reviewed the documentation filed by DDI and NUC on February 11,

1 2000?

2 A: Yes, as well as quite a bit of other information and documentation.

3 Q: What is the purpose of your testimony?

4 A: The purpose of my testimony is to support Intercoastal's position that NUC's
5 application should be denied and that the application of Intercoastal should
6 be granted. While it might seem a bit unusual to provide testimony
7 supporting the proposal of Intercoastal within the "intervenor's testimony",
8 the fact is that these two proceedings are consolidated and that this
9 proceeding is, at least to some extent, a comparative review of the two
10 utilities' proposals and applications for certification. Therefore, it is
11 impossible to talk about why NUC's application should be denied without
12 addressing why Intercoastal's application should be granted at the same
13 time.

14 Q: Focusing solely on the DDI proposal to create NUC, why is it better to have
15 Intercoastal provide services to this proposed territory?

16 A: Intercoastal is an existing utility, with the experience and capabilities to
17 provide all of the services needed by this new territory. It simply is not
18 necessary to create a new utility for the same purpose.

19 Q: Is it more or less beneficial to the public for an existing utility, such as
20 Intercoastal, to expand its operations and provide those services?

21 A: It is more beneficial to the public, particularly where the existing utility has
22 a sizeable and established customer base, has a record of providing efficient
23 service, and demonstrates that it is capable of serving both its existing
24 service area and the proposed territory in a cost effective manner.
25 Intercoastal already has a large, regional operation providing services to over

1 5000 water and 4000 wastewater (meter equivalent) ERCs at year-end 1999.
2 If Intercoastal's application is approved, there would be benefits to
3 Intercoastal's existing and future customers in both its present service area
4 and its proposed territory. For 16 years Intercoastal has constantly
5 reorganized, consolidated, and refined its operations to more effectively and
6 efficiently meet the service demands of its growing service area, producing a
7 steadily increasing economy of scale. That economy of scale has allowed
8 Intercoastal to expand its systems and sustain its operations for nearly 10
9 years now without a major increase in water rates and also produced the
10 same effect in its wastewater operations for 8 years, before environmental
11 conditions required a significant change in its treatment process which
12 forced a 1998 increase in wastewater rates to cover the added capital
13 investment. Even with that wastewater rate increase, Intercoastal's current
14 service charges are reasonable and still lower than those levied by the St.
15 Johns County government utility.

16 Approving Intercoastal's expansion of its operations into this proposed
17 territory will ensure its future growth, provide a larger systems base in which
18 to expand its use of automation for better deployment and utilization of its
19 manpower, improve its purchasing power, and provide the opportunity to
20 further consolidate its production and treatment facilities and, therefore,
21 continue to improve Intercoastal's present economy of scale. In fact,
22 Intercoastal's long range projections demonstrate that the effect of such
23 continued growth on consumer service rates will initially act to stabilize
24 Intercoastal's current rates, and subsequently will actually begin exerting
25 a downward pressure on those rates for all of Intercoastal's customers, in

1 both its present and proposed service areas. Conversely, NUC's rates show
2 no advantage over Intercoastal for future customers in the proposed territory
3 and, obviously, service by NUC to its proposed territory cannot possibly
4 produce any future service or rate benefit for the thousands of Intercoastal's
5 present customers. I believe this strongly supports my contention that
6 approval of Intercoastal's application will be in the greater public interest and
7 that NUC's application should be denied.

8 Q: Can Intercoastal Utilities plan and provide facilities for the future service
9 needs of developments within the proposed territory in an environmentally
10 sensitive, effective and efficient manner?

11 A: Absolutely. In fact, Intercoastal is uniquely qualified for, and has
12 considerable experience in, accomplishing those very objectives.
13 Intercoastal's corporate officers have decades of development planning
14 experience in creating large projects which meet or exceed very exacting
15 environmental and community planning standards. A prime example of that
16 experience is their management of the Pace Island project in Clay County,
17 the first of only 18 DRI-level undertakings in the state to receive the Florida
18 Quality Development designation for outstanding planning, governmental
19 cooperation, protection of Florida's resources, and protection of Florida's high
20 quality of life. That level of developmental concern for ecological and
21 environmental issues has been integrated into Intercoastal's utility planning
22 to ensure compatibility and coordination with the plans, objectives and
23 schedules of development projects connecting to Intercoastal's regional
24 systems.

25 Q: There was some talk by Mr. Doug Miller, the engineer for NUC, that they

1 intend to utilize stormwater to meet twenty percent of the reuse demand. Do
2 you have any comments in this regard?

3 A. It should be noted that the type of stormwater supplementation Mr. Miller is
4 referring to is not really even an utility issue. He is not talking about
5 blending treated sewage effluent reuse water with stormwater, but simply
6 utilizing stormwater where it is available on common areas and golf courses.
7 Normally this is a developer-owned and operated system and not an utility
8 issue. Intercoastal has within its service territory a system currently utilizing
9 stormwater for irrigation purposes within The Plantation development. This
10 is a system owned and operated by the developer and not by the utility
11 company. Even if utilization of stormwater in this separate manner was an
12 utility issue, I believe Intercoastal is in at least a good a position, if not a
13 better position, to operate, design and manage such a system. Certainly, the
14 principals of JUM have experience in such matters since several of them were
15 involved in the stormwater system currently operating within Intercoastal's
16 service territory.

17 Q: Would large-scale development in this territory adversely affect Intercoastal's
18 planning capability or its capacity to manage the provision of services to
19 multiple development projects simultaneously?

20 A: Not at all. The Intercoastal management and consulting teams together
21 possess literally hundreds of man-years of professional, technical, and
22 practical experience in planning, design, construction and management of
23 investor-owned and municipal water and wastewater systems, concurrently
24 creating services for large-scale and multiple-project developments. This
25 includes effectively and efficiently coordinating design work, permitting, and

1 construction schedules of the developments and utilities simultaneously as
2 well as resolving the ecological considerations and environmental concerns
3 of both throughout those processes. Intercoastal's growth alone has averaged
4 several hundred ERC's per year, with dozens of projects active and in
5 production at any one given time. Moreover, the management procedures and
6 systems to handle that work are already in place and a part of Intercoastal's
7 daily operations and could, if necessary, be quickly expanded to
8 accommodate any level of development activity arising in this proposed
9 territory.

10 Q: Are there other examples of Intercoastal's commitment to protection of the
11 environment in a cost effective and efficient manner?

12 A: Yes. Some technological examples include Intercoastal's decision to convert
13 its wastewater treatment facilities to a Sequencing Batch Reactor (SBR)
14 process, in order to meet the FDEP standards for discharge to the
15 Intracoastal Waterway. Conversion of those facilities, while maintaining daily
16 operations, was a difficult but economically and environmentally rewarding
17 project. Besides providing the nutrient removal required, the overall
18 treatment efficiency and operational reliability was vastly improved, at much
19 less cost, as a result of innovative design and the use of existing structures.
20 When the new high-level disinfection rules came into effect a few years ago,
21 Intercoastal was one, if not the first, in the state to install disk filters to
22 control Total Suspended Solids, which has proven to be an excellent and cost
23 effective tertiary treatment method. Intercoastal is now committed to adding
24 another new and more economical treatment process which will produce a
25 much more environmentally desirable, class "A" sludge, while other

1 comparable facilities are satisfied with meeting the class "B" sludge
2 standards. Intercoastal's Sawgrass wastewater plant was also one of the
3 state's pioneers in reuse of reclaimed water for irrigation of golf courses. Very
4 definitely, Intercoastal has been and continues to be sensitive to
5 environmental needs, and takes steps to satisfy those needs by means that
6 are both efficient and cost effective.

7 Q: If Intercoastal is granted the authority to serve this proposed territory, would
8 developers still have the ability to protect the local ecology from adverse
9 utility impacts?

10 A: Yes. Within actual development centers Intercoastal, like most utilities,
11 requires the developer to engineer, permit, construct and dedicate to the
12 utility the onsite water distribution and wastewater collection lines and
13 appurtenances. In doing so, developers are free to invest in whatever designs
14 or construction materials and methods are required to accommodate and
15 protect the ecology of their development areas so long as those local systems
16 meet the minimum standards of the utility, and do not compromise utility
17 functions or increase future operating costs of the utility to an unreasonable
18 degree.

19 Q: Would Intercoastal also protect the offsite ecology from the impacts of its
20 utilities?

21 A: Of course it would. Normal utility design permitting procedures and
22 approvals provide a large degree of that protection. But in a more general
23 sense, protecting the ecology and the environment are universal standards
24 of the utility industry. Intercoastal has the motivation, experience and
25 capability to achieve and maintain those standards in the proposed territory

1 as well or better than any other utility entity. In the case of very large
2 developments, such as those planned for this territory, most of the highly
3 sensitive tracts are "set aside" from actual development centers. In those
4 areas, utility lines and facilities are generally not required and therefore don't
5 affect the ecology. Good utility planning and engineering design attempts to
6 avoid contacting wetlands and preserves, and where contact is unavoidable
7 crossings are made at the narrowest points and employ high quality
8 construction methods and materials to minimize even those minor impacts.
9 Like any prudent utility, Intercoastal takes advantage of major
10 thoroughfares, local streets and development connector rights of way for
11 transmission line installations to avoid exacerbating the normal ecological
12 impacts of development. Given a cooperative attitude on the part of the
13 developer, Intercoastal plans in accord with and to support the ecological and
14 environmental objectives of their projects as opposed to in isolation from, or
15 in opposition to, those objectives.

16 Q: Will Intercoastal's plans for regional water production facilities adversely
17 affect the environment of this proposed territory?

18 A: No. In fact, those effects would be at the very most benign. Groundwater
19 withdrawals are the issue in terms of environmental impact. However, the
20 current District Water Supply Plan (DWSP) of the St. Johns River Water
21 Management District (WMD or District) notes that there are no known
22 regional adverse groundwater withdrawal impacts in this area. The DWSP
23 cites a lack of current, detailed studies on which to base an evaluation of the
24 ultimate capacity of water resources in this area. Due to that perceived
25 "uncertainty", and the projected high growth of its overall planning area, the

1 DWSP advises that further studies are required and that strong well
2 monitoring programs are needed to guide careful future planning, supported
3 by judicious application of water conservation efforts and the implementation
4 of reclaimed water reuse programs. Intercoastal's planning will meet all of
5 those needs. Moreover, recent detailed water resource studies conducted for
6 the Nocatee development in this particular portion of the DWSP planning
7 area virtually remove that uncertainty for the disputed area, concluding that
8 groundwater resources are adequate to meet the projected potable water
9 demands. Intercoastal's engineering consultants have reviewed those studies
10 and concur with their findings. Therefore, based on the most recent and
11 reliable information available, Intercoastal's plans for regional water facilities
12 in the proposed service area present no reasonably quantifiable disadvantage
13 to its environmental resources. I believe that same lack of environmental
14 resource impact is why DDI has agreed to provide JEA with both water plant
15 and well sites "...as may be reasonably necessary to service the (Nocatee)
16 property." (Clarification added).

17 Q: You said that Intercoastal's water plans would meet the needs identified by
18 the DWSP for resource monitoring, water conservation programs and reuse.
19 What are some of the ways those needs will be met?

20 A: Intercoastal will construct state of the art water production facilities in this
21 new area, which will include a well water quality and quantity computer
22 monitoring and control system. That system will be coupled with an
23 automated meter reading system, feeding data to not only consumer billing
24 processes but also water consumption data analysis programs. Intercoastal
25 intends to retrofit its existing service area for use of those same systems.

1 The information and control provided by those mechanisms will give
2 Intercoastal the capability to provide the best possible planning for, as well
3 as operation and management of, water resources and consumer demands
4 throughout its combined service areas. The eventual interconnection of these
5 new water facilities with the existing Intercoastal water system will increase
6 the flexibility of Intercoastal's control over resource utilization in response to
7 demands, thus improving its management of these important environmental
8 resources. The new plants will be designed to become an integral part of the
9 region's environmental focus, accommodating public tours to serve as part
10 of an expanded public water conservation education and demonstration
11 program. The plant areas will include landscape installation and reuse
12 irrigation system operation instruction areas, and will add a media center for
13 public education in water conservation practices and reuse system use
14 safety, and for the training of utility personnel in system operations.
15 Intercoastal's proposed areawide reclaimed water reuse system and
16 conservation programs will become models of the DWSP water resource
17 protection guidelines and a source of pride for residents of the service area.

18 Q: Will Intercoastal's plans for installation of regional wastewater facilities
19 within the territory adversely affect the area environment or the marketability
20 of the area developments?

21 A: No, to the contrary, we intend that installation of new regional treatment
22 facilities will be an asset to the environment of this territory and the
23 community at large. Given the public's interest in the environment and the
24 utility's role in its protection, these modern and very effective installations
25 will be a valuable marketing tool for developers. Intercoastal's new

1 Sequencing Batch Reactor (SBR) Advanced Wastewater Treatment (AWT)
2 facilities in its existing service area are producing reclaimed water of
3 outstanding quality and are expected to be a model for new regional facilities
4 in this proposed territory. The production and reuse of such high quality
5 reclaimed water throughout the area, as proposed by Intercoastal, is the
6 most desirable overall environmental improvement possible. Even older,
7 existing "municipal" treatment facilities are not likely to match, much less
8 exceed, the reclaimed water quality produced by such new technology as
9 Intercoastal proposes. Even on those rare occasions when reuse needs
10 decline, and a "wet weather" discharge is necessary (which occurs in any
11 reuse system), the quality of Intercoastal's SBR/AWT-produced reclaimed
12 water will most likely exceed that of the receiving stream ("background")
13 characteristics, resulting in a benign effect upon, if not an actual
14 enhancement of, the area's waters. A major advantage of Intercoastal's
15 wastewater plan is that the consumers will receive the safest, highest
16 possible quality of reclaimed water for their use, produced by new, state of
17 the art, computer controlled and continuously monitored advanced waste
18 treatment facilities. Public acceptance and utilization of areawide reuse will
19 largely depend on providing those assurances. We are convinced that the
20 utility's customers and the public are acutely interested in their utility
21 services and want the availability of some access to its operations. Areawide
22 reuse service will undoubtedly and significantly raise that level of interest.
23 With the treatment facilities locally available for public tours, as part of
24 Intercoastal's community participation and education focus, area residents
25 will have that access to the operations. This will provide a large part of

1 those assurances and will promote community pride in their utility's efforts
2 to supply quality services and environmental protection.

3 Q. Does Intercoastal propose an innovative reuse service demand solution
4 regarding the use of reclaimed water from Intercoastal's eastern service area
5 to meet demands in the proposed western service area?

6 A. Intercoastal's revised (3/2000) Conceptual Master Plan includes a very
7 innovative environmental improvement and reuse service demand solution
8 for facilities to transfer excess reclaimed water from Intercoastal's eastern
9 service area westward across the Intercoastal Waterway. This effectively
10 converts the existing discharge of reclaimed water (into the Intercoastal
11 Waterway) to a reuse water resource for the proposed western service
12 territory.

13 Those same facilities will serve "double-duty" as a wet weather discharge
14 mechanism for both the east and west wastewater treatment systems.

15 At an appropriate point in the development of the west area treatment
16 facilities, these same "transfer facilities" may be converted (again) to phase-
17 out the east service area (Sawgrass) treatment plant assuming, of course, a
18 concurrent and cost-effective capacity increase in the west area plant. This
19 would further consolidate Intercoastal's operations, escalate the utility's
20 economy of scale, and remove an existing treatment facility from the midst
21 of a heavily populated area.

22 If Intercoastal determines that the pursuit of wholesale service for this
23 territory would be cost-effective, that same eastern system phase-out
24 planning would still be feasible, and would still add value to Intercoastal's
25 role (versus that of NUC) to provide retail service to this proposed territory.

1 Q: With the absence of adverse environmental impacts of Intercoastal's plans
2 and the advantages of service by Intercoastal, why do you believe another
3 utility entity and other methods of service are being proposed for the Nocatee
4 development?

5 A: First of all, from my review of documents made available to Intercoastal in
6 these proceedings, it appears that Intercoastal was never even considered as
7 a potential service provider to Nocatee. Certainly, Intercoastal was never
8 approached by any of the planners or principals of Nocatee to submit a
9 proposal for service. In fact, as I said in prior testimony, 16 months before
10 Nocatee was announced, one of Intercoastal's board of directors contacted
11 DDI's president to invite discussion of DDI's possible need for future services,
12 with the result that the invitation was rebuffed. Even later, when DDI's
13 attorney submitted a formal objection to Intercoastal's notice of application
14 for certification to St. Johns County (pronouncing any need for area service
15 to be merely speculative; a little more than 2 months prior to the Nocatee
16 announcement), Intercoastal requested, in writing, a meeting with DDI to
17 discuss that objection and the advantages of service to the entire territory by
18 Intercoastal. To the best of my knowledge, that request letter was never even
19 acknowledged. Only after Intercoastal submitted its original certificate
20 application was the Nocatee development finally announced, which
21 (according to a media article) included a report that the developer would
22 apply for its own certificate to provide water and wastewater services to the
23 Nocatee development area alone. From all of those facts, I would have to
24 conclude that DDI did not want to even acknowledge Intercoastal's
25 availability or capability to provide service, much less have on record an

1 Intercoastal service proposal that might prevent the creation of its own utility
2 which, in turn, would nullify the possibility of a sale of that utility system to
3 JEA in accordance with the letter of intent between DDI and JEA.

4 Q: Do you consider the sale of NUC to JEA a real possibility?

5 A: The documents I have reviewed raise such a sale from the level of possibility
6 to one of high probability, at least with respect to the intent of the Nocatee
7 developers. However, without documentation of a JEA offer to purchase, such
8 a sale of NUC becomes just another possible scenario to be considered in
9 these proceedings.

10 Q: Are you aware of any conflict in the planning of the Nocatee development
11 with the present proposal of DDI to create a separate utility for service to
12 Nocatee?

13 A: In my opinion, there are references in the Nocatee development documents
14 which reflect a clear conflict with that present proposal. In the Nocatee
15 proposed Comprehensive Plan Amendments, filed with St. Johns County in
16 January, 2000, Nocatee, responding to an "infrastructure and services
17 needs" question says "Nocatee is more of an infill project than a development
18 in isolation, as it is in close proximity to Development Areas to the east and
19 south. Since these Development Areas are **served** by central utilities, the
20 extension of infrastructure and services will be efficient and cost effective."
21 (Emphasis added). Intercoastal Utilities serves the developed areas
22 immediately east of Nocatee. Developed areas to the south of Nocatee are
23 miles away. Also, in response to an "urban sprawl" issue, Nocatee says
24 "First, the development is contiguous or very close to existing urbanized
25 areas (Development Areas) and public infrastructure/services." The only

1 urbanized development areas and services contiguous or very close to
2 Nocatee are those of Intercoastal. In my mind, those statements create
3 considerable conflict with the developer's apparent past actions to "stonewall"
4 Intercoastal Utilities from any involvement with Nocatee and its present
5 proposal to create a duplicate service entity for the furnishing of water and
6 wastewater services to the Nocatee development.

7 Q: Is Intercoastal's service area adjacent to the Nocatee development, and would
8 service to Nocatee by Intercoastal result in continuity with Intercoastal's
9 present operations?

10 A: Of course Intercoastal's service area is adjacent to Nocatee. Yes, service to
11 Nocatee would be a logical outgrowth and expansion of Intercoastal's present
12 operations and, strangely enough, the Nocatee developers would appear to
13 agree with that concept. Referring again to Nocatee's proposed
14 Comprehensive Plan Amendments package, Nocatee says "Nocatee is
15 adjacent to the urbanized area of Ponte Vedra Beach/Palm Valley. In a sense,
16 Nocatee is a rational extension or outgrowth of this area...". That statement
17 is offered by Nocatee to refute any perception of "urban sprawl" which is in
18 context with the prior quotations I cited from this same document. However,
19 it isn't necessary to rely on statements by Nocatee to support the adjacency
20 of Intercoastal's service area, or the continuity of Intercoastal's operations
21 with service to Nocatee. Those are, plainly and simply, common sense
22 conclusions which I (and most likely, others) can reach by reasonable
23 envisioning of on-going regional service operations to the entire area
24 presently and proposed to be served by Intercoastal Utilities.

25 Q: Does the possible availability of wholesale water and wastewater services by

1 JEA, for service to Nocatee, in any way change your conclusion that
2 Intercoastal's operations should be expanded to provide services to its
3 proposed territory which includes the Nocatee area?

4 A: No, it does not change my conclusion. I believe the issue is whether another
5 **new** utility entity is needed for the provision of services to Nocatee. I also
6 believe the facts in this case demonstrate that Intercoastal can and should
7 provide those services to Nocatee, and that a new utility is not needed. The
8 possible availability of wholesale service is simply an alternative resource
9 Intercoastal should consider in its evaluation of providing the most effective,
10 efficient, and economical service to this territory. I believe I said in prior
11 testimony that if Intercoastal's application is approved by the Commission,
12 Intercoastal would renew its original contact with JEA for the purpose of
13 evaluating that alternative. This would include consideration of the
14 advantages and disadvantages of wholesale services by JEA in conjunction
15 with Intercoastal's plans for service to its proposed territory. However,
16 wholesale services from another utility, whose rates are not under
17 Commission jurisdiction, and whose rates are set by a governmental entity
18 in Duval County which may not be responsive to St. Johns County's end
19 consumers, carries the risk of becoming an uncontrollable, increasing cost
20 resource to Intercoastal in the future.

21 There is no assurance that, even with continued growth, the present cost of
22 JEA's wholesale service can be maintained, much less reduced, in future
23 years. Economies of scale have their limits. Otherwise, JEA's retail water and
24 wastewater rates would be a size-proportionate fraction of the rates charged
25 by much smaller utilities. Obviously, they are not. Conversely, it is axiomatic

1 that the projected high volume and rate of growth in this proposed service
2 area will produce economies of scale for Intercoastal's proposed regional
3 production and treatment facilities (in like manner and to a similar extent
4 as growth of the Duval County Systems has for JEA and its predecessors)
5 which will reduce Intercoastal's future resource costs to a point equal to or
6 possibly better than wholesaling from JEA. Certainly, such new facilities as
7 proposed by Intercoastal will immediately provide a level and quality of
8 services for this area equal to or better than the use of JEA as a resource
9 provider. Intercoastal would properly identify and weigh all those factors
10 before requesting Commission approval of a wholesale resource agreement
11 which may foreclose the opportunity to furnish more cost efficient service to
12 this proposed territory over the several decades necessary for its
13 development.

14 Q: You expressed a concern that the present cost of JEA's wholesale service may
15 not be maintained in the future. Other than your statement that economies
16 of scale have their limits, did you have a specific concern in mind?

17 A: Yes. The DWSP states that "By far the greatest cost uncertainty for Work
18 Group Area V relates to future water-supply development by JEA. If the 2020
19 deficit is met by construction of a Floridan aquifer wellfield north of the St.
20 Johns River with transport to the south grid service area, then new
21 investment requirements will be substantial. However, if most or all of the
22 increased demand can be met by optimization of freshwater withdrawal
23 locations south of the St. Johns River, then these costs could be
24 substantially reduced. Investigations are ongoing to more accurately
25 determine optimum withdrawal locations and additional facility

1 requirements.” Table 25 of that report listed Utility-specific water supply
2 options identified by work group. For JEA those options also include a
3 surface water supply from the lower Ocklawaha River and seawater desalting.
4 Table 26 reflects estimated costs to meet 2020 public supply needs for
5 northern St. Johns County and southern Duval County (Work Group Area
6 V) public supply utilities. According to Table 26, the JEA Estimated Unit
7 Production Cost \$/1000 gallons is “Up to 0.87”. According to a 2/16/99
8 quotation from JEA to St. Johns County for wholesale water service, JEA’s
9 “lowest rates” for water service are \$0.63 per 1000 gallons. From those data,
10 I would conclude that unless the cost of JEA’s solution to its south grid water
11 woes (which appear to be exacerbated by the intent to serve NUC) is
12 subsidized by all of JEA’s water customers, JEA’s wholesale water rate to
13 this area could rise by as much as 38%, simply to cover that cost. In
14 addition, the testimony of Mr. Jim Miller advises that JEA wastewater service
15 to Nocatee from JEA’s Mandarin facilities will ultimately require expansion
16 of those facilities. In effect, there are peripheral capital and operating costs
17 associated with JEA service to Nocatee. Regardless of how JEA handles the
18 capital impact of such added costs, I believe it is fair to say that the operating
19 costs of those or other solutions (which may be marginally lower, or even
20 higher) will exert upward pressure on JEA’s wholesale rates in the future

21 Q: Earlier we discussed the possibility of a sale of NUC to JEA. If NUC’s
22 application was approved, and such a sale took place, how would that affect
23 service to Nocatee?

24 A: Assuming that NUC proceeded with its plans to initially receive wholesale
25 service from JEA, and also assuming that JEA would not treat service to

1 Nocatee as a separate cost district to fix consumer rates or impose a special
2 surcharge for that service, the Nocatee customer's rates would become the
3 then current retail rates of JEA. Consumers within Nocatee would continue
4 to transmit their wastes into Duval County and receive their water supply
5 from Duval County's resources. Those customers would also receive their
6 reclaimed wastewater, of whatever quality JEA could produce from those
7 Duval County treatment facilities, for their reuse. From a utility standpoint,
8 Nocatee would become a Duval County annex.

9 Q: Do you consider the NUC plan, to wholesale its utility services from JEA, to
10 be environmentally sensitive?

11 A: There is no "environmental magic" in simply connecting a development to
12 central utilities. That is done every day by developments much smaller than
13 Nocatee. And while the intent to provide areawide reuse service can be
14 considered innovative in this area, even that practice is very common in
15 other parts of the state. In the final analysis NUC as an affiliate of the
16 Nocatee developer can provide no more "environmentally sensitive" service
17 than any other such entity and, due to its lack of prior practical experience
18 in this industry, quite likely less. In sharp contrast, I believe that Intercoastal
19 Utilities has demonstrated that it is a very mature utility, which has and will
20 in the future provide quality services at the lowest reasonable cost, in the
21 best interest of the public and the environment.

22 Q: Does this conclude your testimony?

23 A: Yes.
24
25