

FLORIDA PUBLIC SERVICE COMMISSION  
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MEMORANDUM

AUGUST 6, 1997

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FPSC - Records/Reporting

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (XANDERS)  
DIVISION OF LEGAL SERVICES (VACCARO) *over [signature] bl*

RE: DOCKET NO. ~~970530~~-WU: REQUEST TO ESTABLISH RECLAIMED  
WATER RATE FOR THE H&S GROVE IN BREVARD COUNTY BY FLORIDA  
CITIES WATER COMPANY - BAREFOOT BAY DIVISION

AGENDA: AUGUST 18, 1997 - REGULAR AGENDA - TARIFF FILING -  
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: JANUARY 5, 1998

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\970530b.RCM

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DOCUMENT NUMBER-DATE

07942 AUG-6 97

FPSC-RECORDS/REPORTING

CASE BACKGROUND

Florida Cities Water Company, Barefoot Bay Division, (FCWC or utility) is a Class A utility providing water and wastewater service to approximately 4,458 water and 4,440 wastewater customers in a predominately residential area of Barefoot Bay, Florida. The utility's most recent rate case, Docket No. 951258-WS, was filed on November 6, 1995 with a test year ended June 30, 1996. In this rate case, the Commission granted annual water revenues of \$118,058 and wastewater revenues of \$955,549, representing increases of 14.87% for the water system and 106.97% for the wastewater system. The docket remains open pending the verification of the wastewater refund required by Order No. PSC-97-0516-POF-WS, issued May 5, 1997. The Barefoot Bay system is in an area that the St. Johns River Water Management District (SJRWMD) has designated as a water resource caution area.

Prior to implementing reuse, the Department of Environmental Protection (DEP) required FCWC to pursue alternative methods of disposal that would result in the elimination of discharges to surface water bodies. FCWC now disposes of all of its effluent through the reuse of reclaimed water. It has applied for a permit for limited surface discharge in wet weather situations. The permit is expected to be approved. The reuse disposal sites are a 40 acre sprayfield owned by the utility, the H&S Groves property and the Barefoot Bay Golf Course. The approved reuse rate for the golf course is \$.13/1,000 gallons.

According to testimony in the last rate case, when the utility was pursuing alternative methods of disposal, the only options available were an injection well and reuse. FCWC originally pursued the injection well option. The well was permitted by the DEP, however, the SJRWMD opposed injection wells because of the risks of groundwater pollution and the loss of reusable water. Accordingly, when FCWC applied for a SJRWMD permit for the well, the SJRWMD delayed a decision on the permit so that FCWC could explore a reuse option where FCWC would use a nearby tract of land as a sprayfield. This option would not have required FCWC to upgrade its treatment plant.

This sprayfield reuse option was held up because of permit challenges by nearby landowners. After a hearing, the hearing officer from the Division of Administration Hearings recommended that the DEP issue the permits to FCWC for the reuse option. DEP issued a final order directing issuance of the permits. Since the final order was appealed by the landowners, FCWC put this option on hold and entered into an agreement with the DEP to upgrade its wastewater treatment plant and dispose of its effluent through reuse.

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After the DEP agreement was executed, FCWC attempted to find reuse customers. It attempted to enter into contracts with nearby orange grove owners, but was unsuccessful. As a last resort, FCWC purchased the H&S Groves, an inactive orange grove, to be used as a disposal site. In the rate case, the Commission considered whether any revenue for the sale of effluent on the H&S Groves should be imputed. This was an issue because there was a possibility that the utility could lease the land to an agricultural interest and receive additional revenues from that lease in the form of lease payments and possibly reuse revenues. Since it appeared that the land would not be generating any revenue for some time, by Order No. PSC-96-1147-FOF-WS, issued September 12, 1996, no revenue was imputed and the utility was ordered to file status reports that would inform the staff as to the progress toward any leases.

Since the issuance of Order No. PSC-96-1147-FOF-WS, the utility has filed the required reports and by letter dated April 30, 1997, the utility informed the Commission staff that it had found an agricultural interest to lease the land. Included with the letter was a tariff sheet for a reclaimed water rate for the provision of reuse service to the agricultural interest. Therefore, this docket was opened in order to process FCWC's requested tariff sheet. By Order No. PSC-97-0782-FOF-WU, issued July 1, 1997, the Commission suspended FCWC's proposed tariff sheet pursuant to Section 367.091(5), Florida Statutes pending further investigation and analysis of FCWC's filing.

DISCUSSION OF ISSUES

ISSUE 1: Should Florida Cities Water Company's proposed tariff sheet reflecting the utility's request for a zero reclaimed water rate for the H&S Groves be approved?

RECOMMENDATION: Yes, Florida Cities Water Company's proposed tariff sheet reflecting the utility's request for a zero reclaimed water rate for the H&S Groves should be approved. (XANDERS)

STAFF ANALYSIS: As stated in the Case Background, FCWC disposes of its effluent through the reuse of reclaimed water on a 40-acre sprayfield, the Barefoot Bay Golf Course and the H&S Groves property. The utility has entered into a 5-year lease agreement with South Florida Sod, Inc. (SF Sod). This agreement requires SF Sod to lease the H&S Groves from the utility and use the land for agricultural purposes such as growing citrus and sod. The lease also requires SF Sod to use reclaimed water from the utility to irrigate the crops. FCWC has requested a reuse rate of zero for this service.

According to the lease, SF Sod has agreed to install and maintain fencing on the property. It has also agreed to maintain the reclaimed water system, repair any damage to the system and post any signs notifying the public that the property is being irrigated with reclaimed water. Further, it has agreed to accept at least 525,000 gallons per day on an annual average daily flow basis. The lease agreement provides that the annual lease payment will be \$1,750. The utility has informed staff that the payment will be recorded by the Barefoot Bay system as Miscellaneous Revenues.

Information provided to staff by the utility indicates that FCWC owns the reuse lines from the plant site to the existing pump stations within the grove site as well as the irrigation system within the groves. As mentioned above, SF Sod will be operating and maintaining the irrigation system within the groves. FCWC will be maintaining the reclaimed water mains from the plant to the pumping sites. No additional wet weather storage will be needed by the utility as a result of executing the lease.

Prior to executing the lease with SF Sod, FCWC considered several options. These options included a sprayfield operated by FCWC, a recreational option, two cattle grazing areas and an orange grove. As shown on Attachment A, to determine the most appropriate option, FCWC evaluated each option using a decision matrix containing seven different factors. According to the utility, the primary controlling factor in the decision matrix was the use which

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yielded sufficient disposal capability. As discussed in the Case Background, FCWC was required by the DEP to eliminate discharges to surface water bodies. This requirement ultimately resulted in FCWC purchasing this land as a reuse site. According to the utility, the decision to lease the land to SF Sod was based on two facts. First, no capital investment or additional operational expenses would be required by FCWC or its customers in the on-site irrigation. In addition, FCWC has determined that a maximum of 525,000 gallons per day can be disposed on the site. Since SF Sod has agreed to take 525,000 gallons per day, SF Sod will be able to accept all the water available to the reuse site.

Staff believes that the proposed tariff sheet reflecting the utility's request for a zero reclaimed water rate should be approved. In this case, the difficulty it experienced in finding reuse customers forced the utility to buy the H&S Groves property. The utility has now found a lessee who is willing to sign an agreement to use all of the available reclaimed water. Approving a reuse rate greater than zero may jeopardize the relationship with this lessee since the lessee would then be responsible for paying for the amount that it takes. It appears from the decision matrix provided by the utility that SF Sod was the optimal choice since it has the ability to take a sufficient amount of water and there is no additional cost to FCWC to provide the service. The other options explored by the utility all involve additional capital investment and additional operational expenses which would be passed to the wastewater customers. In addition, the lease payment received by the utility will be used to help offset expenses incurred in maintaining the reuse mains to the H&S Groves property.

After a review of the agreement, staff believes that the arrangement between SF Sod and FCWC is reasonable and warrants a reuse rate of zero. A reuse rate of zero in the tariff shows that the Commission has evaluated the service and decided that the arrangement between the utility and the reuse customer is a reasonable arrangement. Therefore, based on the above, staff recommends that the tariff sheet reflecting a reuse rate of zero be approved.

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ISSUE 2: Should the docket be closed?

RECOMMENDATION: Yes. If Issue 1 is approved, this tariff should become effective in accordance with Rule 25-30.475(2), Florida Administrative Code. 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. (VACCARO, XANDERS)

STAFF ANALYSIS: If there are no timely objections to the tariff, no further action will be required and the docket should be closed. In the event a timely protest is filed, the tariff should remain in effect pending resolution of the protest.

## H&amp;S SPRAYFIELD OPTIONS

POTENTIAL LESSEES	PURPOSE	DISPOSAL CAPABILITY	APPROXIMATE CAPITAL INVESTMENT IN IRRIGATION SYSTEM	APPROXIMATE OPERATIONAL INVESTMENT	ASSESED VALUE	TERM OF LEASE	POTENTIAL CASH FLOW	ENHANCEMENT OF PROPERTY VALUE
FCWC	Sprayfield	600 K +/-	250K	40k/yr includes staff rqmt., mowing and maintenance	\$4000/acre	Not Applicable	None	Some due to leveling of property.
M. Kingery	Recreational	300K +/-	Upgrade existing system to usable condition 40 K	10k/ yr maintain existing system	\$4000/acre	Monthly	10/yr	None
B. Nidy	Cattle	600K +/-	Install fixed head irrigation system 250 K	10K/ yr maintain fixed head system	\$250/acre	1 Year +	1500/Year	None
R. Chesser	Cattle	600K +/-	Install fixed head irrigation system 250 K	10K/ yr maintain fixed head system	\$250/acre	1 Year +	1500/Year	None
G. Martin/ Auburndale Fruit Company	Grove	Dependent on weather and trees (est. 500K +/-)	75K to install additional microjets and 150k to restore grove.	Maintain existing system and half citrus operating cost (150k av year)	\$1,200/acre	10 Year +	Split income derived from grove, no expected profit until after 13 yrs	Some
W. McCall (SF Sod)	Sod	500 K +/-	0	0	\$400/acre	5 Year +	12,000/yr after 5 years	Some