BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2006-97-WS

RECEIVED
JUL 26 2006
PSC SC
MAIL / DMS

IN RE: Application of Tega Cay Water Service, Inc. for adjustment of rates and charges and modifications to certain terms and conditions for the provision of water and sewer service.	))))))))	**REBUTTAL TESTIMONY OF BRUCE T. HAAS**

Q. ARE YOU THE SAME BRUCE T. HAAS THAT HAS PREFILED DIRECT TESTIMONY IN THIS CASE?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING, MR. HAAS?

A. The purpose of my rebuttal testimony is to respond on behalf of Tega Cay Water Service, Inc., or "TCWS", to portions of the pre-filed direct testimony of Willie J. Morgan on behalf of the South Carolina Office of Regulatory Staff, or "ORS". Additionally, I will address some of the specific and general comments our customers made during the night hearing in this matter.

Q. TO WHAT PORTIONS OF MR. MORGAN'S TESTIMONY DO YOU WISH TO RESPOND?

1 **A.** Let me begin by saying that TCWS appreciates the efforts Mr. Morgan has made to
2 capture complete information in the course of reviewing the business compliance audit
3 and conducting the facilities inspections for this case. The Company's history with the
4 systems serving the Tega Cay area goes back nearly fifteen years and it is difficult for me
5 to recall all of the developments with respect to TCWS's authorized rate schedules,
6 Commission approvals of our interconnection agreement with York County, the
7 meanings and operations of various parts of the rate schedule, and the positions the
8 Company has taken with respect to various matters involving the Department of Health
9 and Environmental Control, or "DHEC". The fact that I am responding to parts of Mr.
10 Morgan's testimony should, therefore, not be taken as any comment by the Company
11 with respect to his efforts. Rather, TCWS simply wants the Commission to have
12 information that is as complete as possible. In that light, there are four topics addressed
13 in Mr. Morgan's testimony that I will discuss. These include water storage capacity,
14 "unaccounted-for water", the pass-through provisions of the company's rate schedule,
15 and leak adjustments. Other aspects of Mr. Morgan's direct testimony will also be
16 addressed in rebuttal testimony to be pre-filed by Mr. Steve Lubertozzi on behalf of
17 TCWS.
18
19 **Q. WHAT IS THE COMPANY'S RESPONSE TO MR. MORGAN'S TESTIMONY**
20 **REGARDING WATER STORAGE CAPACITY?**
21 **A.** In his testimony at pages six and seven, Mr. Morgan describes an unsatisfactory rating
22 the TCWS water system received in a DHEC sanitary survey arising out of a need for

additional water storage capacity to insure adequate fire flow. Included with that report, which is attached to Mr. Morgan's testimony as Exhibit WJM-3, is a cover letter from DHEC which acknowledges that TCWS has asserted to DHEC that the system has "regular overflow issues" and states that "[i]f overflow is **not** an issue additional storage must be obtained." Mr. Morgan notes later in his testimony that the Company has indicated to ORS that there is an overflow issue with York County's supply of potable water to our elevated storage tank. In fact, overflow is an issue which is one of several reasons there is no obligation or need on the part of TCWS to construct additional storage.

Q. WOULD YOU PLEASE DESCRIBE WHY OVERFLOW IS AN ISSUE AT THE COMPANY'S ELEVATED WATER STORAGE FACILITY?

A. Yes. This overflow situation is caused by the configuration and operation of York County's booster pumps, which frequently put to TCWS more water than can be consumed by customers and stored by the Company in our existing elevated storage facility. To eliminate an overflow in these circumstances, one of two things would have to occur: either water must be prevented from entering the Company's elevated storage facility by some sort of shut-off valve or the Company must allow water beyond that needed to fill its elevated storage tank to be introduced into the service lines in Tega Cay. Neither of these are scenarios is acceptable. If a shut-off valve were installed, York County's booster pumps could be burned out because they will be continuously pumping when there is no place for the water to go and could also cause a rupture in the York

County main. On the other hand, if there is more water put to TCWS than our elevated storage tank can hold, the excess would have to be introduced into service lines. This in turn would increase hydrostatic pressure such that our lines could rupture or damage customer premises, including causing hot water heater connections to break. Therefore, the overflow is simply a means of accommodating York County's operation of its bulk water booster pumps without doing damage to the County's system, TCWS's system, or customer premises.

Q. HOW DOES THE EXISTENCE OF AN OVERFLOW BEAR ON THE NEED FOR ADDITIONAL STORAGE FOR FIRE FLOWS?

A. The fact that there are regular overflows indicates that there is not an issue with adequate flow for fire protection as the letter from DHEC recognizes. In other words, as long as there is more water being put to TCWS by York County than is required to meet normal demand and fill the existing elevated storage tank to capacity, then there is adequate fire flow capacity. I would add that, in the years I have been responsible for the TCWS system, there has never been an occurrence involving inadequate flows to fight a fire.

Q. YOU MENTIONED SEVERAL OTHER REASONS WHY ADDITIONAL WATER STORAGE IS NOT NEEDED; WOULD YOU PLEASE DESCRIBE THEM?

A. Yes. There are three of them. The first is that there has been no final determination by DHEC that TCWS is obligated to construct additional storage capacity. As I already

noted, DHEC's letter about this matter recognizes that the presence of an overflow at our elevated storage facility means that there is adequate flow for fire protection and that additional storage is not necessary. Even if DHEC were to determine otherwise, the Company would not be bound by such a determination and would have the ability to seek administrative and judicial review of it. Thus, TCWS does not currently have an environmental compliance requirement pertaining to storage that would have to be satisfied. The second reason is that any issues pertaining to water storage capacity to insure adequate flows are the responsibility of York County under the terms of the contract between TCWS and the County, which is attached to Mr. Morgan's testimony as Exhibit WJM-6. The Commission approved this agreement in its Order Number 93-1121 in Docket Number 93-560-W. Section 2.1 of that agreement obligates York County to supply to TCWS water with adequate pressure and quantity to serve existing and future Utility customers in Tega Cay. TCWS has taken the position with both DHEC and York County that the County's obligation to deliver a supply of water in adequate quantity and with adequate pressure places upon York County the obligation to construct any needed storage facilities. The fact that York County has nearly completed the additional 500,000 gallon elevated storage facility described in Mr. Morgan's testimony is, the Company believes, an implicit acknowledgment that storage capacity is an issue for the County to address. The third additional reason is that the combination of the overflow situation and the newly constructed York County elevated storage facility renders construction of an additional elevated storage facility by TCWS an unnecessary expense which would have to be born exclusively by the residents of our service area.

1 **Q. WHAT IS THE COMPANY'S POSITION WITH RESPECT TO MR. MORGAN'S**
2 **ANALYSIS REGARDING UNACCOUNTED FOR WATER AND WATER LOSS?**
3 **A.** We would respectfully disagree with it for a number of reasons.
4
5 First, use of the term "unaccounted for water" has been discontinued by the Commission
6 with respect to TCWS. In its Order Number 91-1090 in Docket Number 90-287-W/S, a
7 copy of which I attach as BTH Rebuttal Exhibit No. 1, the Commission defined and
8 adopted the terms "account water", "non account water", "authorized water uses", "utility
9 water use" and "system leakage", because they "more accurately describe the potential
10 uses of water produced or purchased by a water utility than does the term 'unaccounted
11 for water.'"
12
13 Second, this analysis could be read to assume that the entire amount of water put to
14 TCWS by York County is water that is purchased by TCWS and therefore is relevant to
15 the analysis. This assumption would not be correct. Although Section 3 of the
16 Company's contract with York County attached to Mr. Morgan's testimony does
17 contemplate that the bulk charge to TCWS will be based upon water passing through the
18 County's master meter, that same section of the contract also provides that TCWS's
19 payments to the County will be "based on the water usage registered on all Utility
20 customer's meters within the Water Service Area." York County has always interpreted
21 the contract to require that TCWS pay only for water provided that is actually sold by the
22 Company to customers unless the amount of non account water reaches the total which is

derived by multiplying the water usage registered at customer meters by 115%. Documentation of the County's acknowledgment in that regard is attached hereto as BTH Rebuttal Exhibit No. 2. Thus, in the test year, the Company was charged by York County for water based upon the amount metered at customer premises. Since "non account water", as defined by the Commission in Order Number 91-1090 only includes the water that is purchased by TCWS and not billed to a customer account, there was no non account water in the test year.

Third, Mr. Morgan's analysis assumes that the total amount of water that is put to TCWS by York County is properly attributable as "water supplied" to TCWS. I would have to take issue with that assumption since a substantial amount of the water that is pumped to the Company by York County never enters our service lines due to the overflow situation I have previously discussed. This assumption is also inconsistent with the definition of non account water applicable to TCWS under Commission Order number 91-1090. Even assuming that the amount of overflow should be taken into account in the analysis of "water loss" as proposed by Mr. Morgan, a reliable estimate of that amount could be made and accounted for as both an "authorized water use" and "utility water use" since the overflow prevents damage to the York County booster pumps, our customer's property and water service lines.

Fourth, I have to take issue with Mr. Morgan's assertion that "water loss on the system indirectly impacts the customers when York County raises wholesale rates to its

customers." While it is true that York County can adjust its rates simply by action of its council, TCWS has never been informed that a York County rate increase resulted from "water loss." To the contrary, it is my understanding from the testimony given by York County Manager Al Greene in Docket Number 2004-357-WS that York County has increased its rates since 1995 by 5% on four separate occasions in 1995, 1996, 1997 and 2002 and that of these four rate increases, the first three were made to meet debt service payments on the County's bonds and the fourth to defray capital improvement costs. A copy of Mr. Greene's testimony to the Commission in that regard is attached hereto as BTH Rebuttal Exhibit No. 3. Furthermore, by virtue of its agreement with the Company, York County has already determined that non account water at the TCWS system will only become an issue for the County when the amount of bulk water metered exceeds 115% of the amount of water we sell to customers. To date, that has never occurred. And in the event that it did, York County would be able to simply increase its charge to TCWS and there would be no need for an increase in the County's wholesale rate. Finally, and as is recognized in Commission Order Number 93-1121 in Docket Number 93-560-W, the Company's agreement with York County specifically entitles the Company to a wholesale rate that is no greater than that charged by York County for any of its other wholesale customers. Given these facts, I cannot agree that "the cost of any water loss on the system is borne by the customers through higher wholesale rates" as asserted by Mr. Morgan.

1 **Q. DO YOU AGREE WITH MR. MORGAN'S CONTENTION THAT THE**
2 **COMPANY HAD A WATER LOSS OF OVER 12% IN THE TEST YEAR?**
3 A. No, I do not. In light of the definitions adopted in Commission Order Number 91-1090,
4 there was no non account water in the test year since York County did not charge TCWS
5 for any amount of water in excess of that metered at customer premises.
6
7 Moreover, it is not reasonable to attribute to TCWS water that was never introduced into
8 the Company's system for delivery to customers as that water could not have constituted
9 "system leakage" as defined by the Commission. Because Mr. Morgan's analysis
10 considers "water loss" in view of the amount of water passing through York County's
11 master meter, the starting point for a determination of exactly how much water the
12 Company loses due to system leakage is inflated.
13
14 Furthermore, given that York County did not impose a charge for bulk water in the test
15 year in excess of the amount metered at customer premises, it must be assumed that the
16 amount of overflow was not less than 12,927,162 gallons. This is so because 115% of
17 the 111,537,250 gallons billed to our customers is 128,267,838 gallons. As Mr. Morgan
18 has acknowledged, TCWS can account for 111,537,250 gallons of the water which
19 passed through the York County master meter as being metered and used at customer
20 premises and for another 10,746,013 gallons of the water which passed through the York
21 County master meter as being metered and used at the Company's three wastewater
22 treatment facilities. This totals 122,283,263 gallons. If no more than 128,267,838

gallons of the water passing through the York County master meter entered the Company's system, this means that approximately 5,984,575 gallons cannot be accounted for as account water, authorized water uses, or utility water uses as defined in Order Number 91-1090. That works out to be about 4.6% in "system leakage", which is acceptable under the standard adopted by Mr. Morgan for "water loss."

Q. DO YOU AGREE WITH MR. MORGAN'S SUGGESTION THAT THE COMPANY CONDUCT A WATER AUDIT?

A. No, I do not. This suggestion assumes that there is a water loss that "is costing the utility and its customers." As I have previously discussed, under the Company's agreement with York County there was no effect on bulk rates imposed by the County or collected by TCWS from customers during the test year that would justify this assumption. Nor can there be any such effect unless TCWS exceeds the 115% non account limit allowed by York County which, to date, has never occurred. As I also mentioned, York County's reasons for increasing rates in the past have been attributed to debt service and other financial issues and the rate applicable to TCWS can be no different than the rate charged all York County wholesale customers. And, as I have also explained above, the amount of non account water in the test year is well within the limit referenced by Mr. Morgan. In light of the foregoing, the expense of a water audit which would have to be passed on to customers in the form of higher rates does not appear to be warranted.

1 **Q. WHAT IS THE COMPANY'S RESPONSE TO ORS'S SUGGESTION THAT**
2 **TCWS NEGOTIATE A PROVISION IN FUTURE BULK SERVICE**
3 **AGREEMENTS WHICH WOULD PROVIDE RELIEF TO CUSTOMERS FOR**
4 **LEAKS WHICH CAN BE DOCUMENTED AND ARE TIMELY STOPPED?**
5 **A.** The Company can certainly raise that issue when it enters into negotiations with York
6 County or other potential bulk suppliers at the end of our contract term in 2013. Of
7 course, the Company does not have any ability to force a bulk supplier to make such an
8 agreement. I do not recall any customer complaining about leakage adjustments at the
9 night hearing in this case and ORS does not assert that the Company should itself give
10 leak adjustments. As I understand it, Commission Regulation 103-742 places on
11 customers the burden of maintaining their service lines and plumbing so that any loss of
12 water through leakage is kept to a reasonably small amount. The Company's policy of
13 not giving leak adjustments is consistent with the Commission's regulation and
14 recognizes the fact that "courtesy adjustments" by the Company itself would result in
15 water costs going unrecovered.
16
17 **Q. WHAT CUSTOMER CONCERNS EXPRESSED AT THE NIGHT HEARING DO**
18 **YOU WISH TO RESPOND TO, MR. HAAS?**
19 **A.** Two of our customers complained of recent incidences of low water pressure. The
20 reason these customers experienced low pressure was that the Company took its elevated
21 storage facility off-line so that it could be painted. While we do regret the inconvenience,
22 the painting was necessary to maintain the system.

1 Two of our customers complained about faulty meter readings and inconsistent billing
2 dates. There were in fact occasions during the test year when personnel employed by our
3 contract meter reader did not perform their duties in a timely and proper manner. At the
4 Company's behest, our contractor discharged its personnel who were responsible and I
5 believe the problem has been resolved. Of course, we have adjusted the bills of
6 customers who were affected by erroneous meter readings and regret the inconvenience
7 that it caused.
8
9 Three of our customers complained about water clarity or particles. As the Commission
10 is aware, the Company purchases bulk water from York County. Occasionally, line
11 flushing can introduce particles which create an unpleasant appearance that cannot be
12 avoided. Our water meets all DHEC and EPA standards for consumption. Whenever a
13 customer complains about the appearance of the water and we have not been flushing
14 lines, we do investigate.
15
16 Two of our customers complained about sanitary sewer overflows, or SSOs. One
17 customer stated that the Company had thirteen SSOs in an eighteen month period and
18 asserted that York County only had 5 SSOs and Fort Mill none during that same period.
19 This customer also suggested that the SSOs were endangering the health of residents. I
20 would like to address these issues by explaining to the Commission what constitutes an
21 SSO, how DHEC regulates them, and why the comparisons made are not valid. An SSO
22 occurs whenever there is an unauthorized discharge of wastewater. These can occur from

1 lift stations, manholes or mains. However, an SSO is only required to be reported to
2 DHEC in one of two circumstances, which are when the discharge exceeds five hundred
3 gallons or when the discharge reaches a stream or other body of water. As the
4 Commission may have noticed when it visited Tega Cay for the night hearing, the
5 topography is very hilly and the property is situated on the shores of Lake Wylie. The
6 majority of the Company's main sewer lines and lift stations are located between the
7 residences and the shore lines. Accordingly, whenever an overflow occurs, there is a
8 good chance that the wastewater will reach the lake, resulting in a reportable discharge.
9 Based upon my knowledge of York County, neither the York County nor Fort Mill
10 systems have such proximity to a stream or other body of water. In fact, the customer
11 testifying on this point stated that York County's spills were from a force main on
12 Highway 49 and one in a residential development the County serves located some
13 distance from the lake. Additionally, although York County has a larger number of lift
14 stations than does TCWS, they are not concentrated in a single, hilly area like the lift
15 stations serving Tega Cay which makes immediate access for repairs difficult. So, I do
16 not believe that the comparison this customer seeks to draw is valid. With respect to the
17 putative health issues, I would note that none of these SSOs resulted in a fine of the
18 Company by DHEC. As this customer noted, ten of the thirteen SSOs were caused by
19 line blockages. Most of these were a combination of roots or grease. Grease collection
20 and root intrusion into lines are usually not discovered until an SSO occurs unless it is
21 revealed in the course of television inspection of our lines. We try to televise 10% of our
22 lines every year. Regarding our alarm systems for overflows, we have installed telemetry

1 devices at our lift stations to supplement the audible and visual alarms. And, as one of the
2 customers noted, we have instituted a voice reach program that contacts customers
3 telephonically to alert them whenever there is a problem on the system and that program
4 is working.
5
6 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**
7 **A.** Yes, it does.

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 90-287-W/S - ORDER NO. 91-1090

DECEMBER 10, 1991

IN RE: Application of TCU, Inc. for Approval of a New Schedule of Rates and Charges for Water and Sewer Service Provided to Tega Cay, South Carolina.	))))	ORDER ON REHEARING

This matter is before the Public Service Commission of South Carolina (the Commission) upon the rehearing ordered by the Commission pursuant to Order No. 91-535 (July 3, 1991). As specified by Order No. 91-535, TCU, Inc's (the Company's or TCU's)[1] claim that its 14.1% unaccounted for water rate during the test year was reasonable was not supported by the evidence of record from the original hearing.[2] Accordingly, the Commission granted the Intervenor Consumer Advocate for the State of South Carolina's (the Consumer Advocate's) Petition for Reconsideration on the issue of TCU's unaccounted for water.

A rehearing for the purpose of presenting evidence concerning TCU's unaccounted for water was held on October 29, 1991, in the Commission's hearing room. Pursuant to S.C. Code Ann.§58-3-95

---

1. By Order No. 91-1052 (November 22, 1991), the Commission approved the transfer of TCU's assets and its Certificate of Public Convenience and Necessity to Tega Cay Water Service, Inc.

2. A public hearing concerning the matters asserted in the Company's Application was held on April 18 and April 25, 1991.

(Supp. 1990), a panel of three Commissioners, Commissioner Bowers (presiding), Commissioner Mitchell, and Commissioner Yonce, was designated to rule on this matter. Mitchell M. Willoughby, Esquire, represented TCU; Carl F. McIntosh, Esquire, represented the Consumer Advocate; and Gayle B. Nichols, Staff Counsel, represented the Commission Staff. TCU presented the testimony of Carl Daniel, Vice President and Regional Director of Operations of Carolina Water Service, Inc. of North Carolina and Tega Cay Water Service, Inc. Mr. Daniel explained that Tega Cay Water Service had applied to the Commission for approval to transfer TCU's franchise and that Tega Cay Water Service, Inc. had been operating the water and sewer facilities at Tega Cay for the past two months. The Commission Staff (the Staff) presented the testimony of Charles A. Creech, Chief of the Commission's Water and Wastewater Department. Although Intervenor Albert K. Stebbins, III, was not present at the hearing, all parties agreed that his pre-filed direct testimony should be placed into the record as if sworn and testified to at the hearing. (Tr., Vol. 6, p. 27, lines 1-14). No other parties appeared or testified at the hearing.[3]

Upon thorough consideration of the evidence presented and the applicable law, the Commission makes the following findings of fact and conclusions of law:

3. All other parties, Intervenors Anthony Tarulli, the City of Tega Cay, Carol D. Higgins, and the Property Owners Association of Tega Cay, had been duly notified of the hearing.

FINDINGS OF FACT

1. After completion of an audit conducted after the issuance of Order No. 91-535, Mr. Daniel testified the Company determined it had produced 20,165,000 gallons of water that it had not sold. Mr. Daniel explained that this volume of water produced an unaccounted for rate of 18.3% which it considered acceptable. (Tr., Vol. 6, p. 10, lines 7-22; p. 12, lines 19-24).

2. Of the initial 20,165,000 gallons of unaccounted for water, Mr. Daniel testified the Company located the use of 20,075,000 gallons. Approximately 8,085,000 gallons had been used for chlorination and dechlorination of the wastewater treatment plant effluent to meet South Carolina Department of Health and Environmental Control (DHEC) guidelines; 4,840,000 gallons had been used to flush water mains to remove iron and manganese sediment; and an additional 50,000 gallons of water had been used to flush sewer mains. (Tr., Vol. 6, p. 10, line 28-p. 7, line 2).

3. Mr. Daniel testified that of the initial 20,165,000 gallons of unaccounted for water, the Company determined that 3,240,000 gallons had been used by a customer for irrigation, that 300,000 gallons had been used to fill a customer's swimming pool, that 100,000 gallons had been used by the fire department, and that 50,000 gallons had been used to wash the City of Tega Cay's streets and drains. (Tr., Vol. 6, p. 10, lines 28-36). Daniel admitted the Company should have charged its customers for the use of this water and that these charges would have increased TCU's revenues. (Tr., Vol. 6, p. 19, lines 15-24; p. 22, lines 14-23).

Mr. Daniel stated that, on a prospective basis, the Company intended to charge the appropriate customers for these water uses. (Tr., Vol. 6, p. 22, line 24-p. 23, line 16).

4. Mr. Daniel testified that, at the conclusion of TCU's water audit, the Company was unable to locate 3.18% of its originally unaccounted for water. (Tr., Vol. 6, p. 25, lines 5-11). Mr. Daniel testified the Company attributed the remaining 3.18%, or 3,500,000 gallons, of the initial 20,165,000 gallons to water leaks. (Tr., Vol. 6, p. 24, lines 14-18).

5. Mr. Daniel testified that it was the Company's opinion that the rates approved by the Commission in Order No. 91-367 (May 17, 1991) were appropriate and that the Company's unaccounted for water should not result in a reduction of those rates. (Tr., Vol. 6, p. 14, lines 5-9).

6. Mr. Stebbins testified that the Commission should reduce the Company's approved commodity charge from $2.50 to $2.40 per thousand gallons to approximate the Company's authorized water use for which it had not billed or collected revenue. Mr. Stebbins stated that this $.10 reduction in rates should be applied retroactively. (Tr., Vol. 6, p. 28, lines 11-16).

7. Mr. Creech testified that the Staff verified TCU's records and methodology for determining its water production and distribution for the test year. (Tr., Vol. 6, line 1-6). He explained that of the 18.34% of water produced but not charged for, 11.8% was used for the legitimate purpose of maintaining and operating the water and wastewater system, 3.36% was authorized

for use but the Company should have billed a customer, and 3.18% was lost through system leakage. Mr. Creech testified that, based on his review of the Texas Water Utilities Association's "Manual of Water Utility Operations," the 3.18% of water lost through leaks was reasonable. (Tr., Vol. 6, p. 34, lines 1-6; lines 16-23; p. 37, lines 1-10).

8. Mr. Creech further testified that during the test year the Company had not billed the Tega Cay Fire Department, the City of Tega Cay, and the Tega Cay Clubhouse for certain of their uses of water. Mr. Creech stated that it was his opinion that the Company's general body of ratepayers had been improperly subsidizing these customers. Mr. Creech testified that the Company's revenues would have increased by $9,441 if it had charged these customers for this water. (Tr., Vol. 6, p. 34, line 24- p. 35, line 10).

9. Finally, Mr. Creech testified that he proposed the Commission discontinue use of the term "unaccounted for water" because the term was broad and described a variety of water uses. For instance, Mr. Creech explained that "unaccounted for water" has mistakenly been used to describe water for which there was a known use but for which the utility did not bill a customer. Mr. Creech instead proposed the Commission adopt the following terms and definitions from the American Water Works Association - Research Foundation, "Water and Revenue Losses; Unacccounted - for Water" (December 1987):

> **"ACCOUNT WATER"** is all water for which an account exists. The water is metered, and the account is

billed.

"NON ACCOUNT WATER" is the sum of water that is produced or purchased by a company that is not covered by the term "Account Water."

"AUTHORIZED WATER USES" are all water uses known and approved or authorized by the utility. These uses include all metered uses and reliable estimates of all other approved uses; such as: public, fire, system, operational, or paid-for uses.

"UTILITY WATER USE" is the water which is removed from the distribution system by the utility for the purpose of maintaining and operating the system. This should include both the metered and unmetered water removed, with those unmetered uses being reliably estimated.

"SYSTEM LEAKAGE" is all water that is lost from the system through leaks, and breaks and includes all unavoidable leaks and all recoverable leaks and breaks.

(Tr., Vol. 6, p. 32, line 16- p. 33, line 26).

CONCLUSIONS OF LAW

1. The Company is a water and sewer utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann.§58-5-10, et. seq. (1976).

2. By Order No. 91-367 (May 17, 1991) in this same docket, the Commission approved a 3.34% operating margin for the Company. The Commission determined that in order for the Company to have an opportunity to earn this operating margin, the Company would need to produce $594,554 in total annual operating revenues. Consequently, the Commission approved an increase in the Company's previously approved commodity charge from $1.50 to $2.50 per 1,000 gallons.

3. The Commission concludes that the terms "account water,"

"nonaccount water," "authorized water uses," "utility water use," and "system leakage," as defined on pages 5 and 6 of this Order, more accurately describe the potential uses of water produced or purchased by a water utility than "unaccounted for water." Accordingly, the Commission hereby adopts the use of these terms where possible for all future water utility proceedings. The Commission will refer to these terms in the remainder of this Order.

4. The Commission concludes that the Company produced 20,165,000 gallons of nonaccount water during the test year. Of this volume, the Commission finds that 12,975,000 gallons were reasonably used for utility water purposes.

5. The Commission concludes that the Company had been improperly requiring its general body of ratepayers to subsidize those customers to whom it had authorized the use of 3,690,000 gallons of water without charge. The Commission finds that the Company should have charged the appropriate customers for their actual water use and that the Company should have produced an additional $9,441 in operating revenues.

6. The Commission continues to find that its approval of a 3.34% operating margin in Order No. 91-367 is fair and reasonable. Moreover, the Commission recognizes that there was no testimony at the hearing which suggested that the 3.34% operating margin was unreasonable. Accordingly, in order for the Company to continue to have the opportunity to earn a 3.34% operating margin with its increased revenues of $9,441, it is necessary to reduce the

approved commodity charge by $.10 or from $2.50 to $2.40 per thousand gallons. The Commission concludes that the $.10 reduction in the commodity charge is appropriate.[4]

7. The Commission finds that the Company was unable to locate 3,500,000 gallons of water which produced but was not sold during the test year. The Commission concludes that this loss was appropriately attributed to system leakage and that the loss of 3.18% of the water produced is reasonable.

THEREFORE, the Commission orders as follows:

1. The $2.50 commodity charge approved by Order No. 91-367 (May 18, 1991) is hereby reduced to $2.40 per thousand gallons as reflected on the attached Appendix A.[5] This rate is approved for service rendered on and after the date of this Order. The schedule is deemed to be filed with the Commission pursuant to S.C. Code Ann.§58-5-240(1976).

2. The Company shall maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class A and B Water and Sewer Utilities, as adopted by this Commission. In addition, the Company shall maintain accurate records of its account water and nonaccount

---

4. The $.10 reduction was determined by dividing the imputed revenue of the unbilled water by the total gallons of water that were billed and which should have been billed and then by rounding the result to the nearest cent.

$9,441/93,505,000 =
9.9 cents per 1,000 gallons =
10 cents per 1,000 gallons

5. The attached Appendix A reflects the Company's approved schedule of rates and charges.

water.

3. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Marjorie Amos-Frazier
Chairman

ATTEST:

Executive Director

(SEAL)

TCU, INC.

DOCKET NO. 90-287-W/S - ORDER NO. 91-1090
DECEMBER 10, 1991
Appendix A

RATES AND CHARGES

I. WATER

1. MONTHLY CHARGES

a. Basic Facility Charge — $ 6.00 per single- family equivalent unit

PLUS

b. Commodity Charge (Usage) — $2.40 per 1,000 gallons

c. The basic facility charge is a minimum charge per unit and shall apply even if the equivalency rating is less than one(1). If the equivalency rating is greater than one(1), then the monthly basic facility charge may be obtained by multiplying the equivalency rating by the basic facility charge of $ 6.00.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units served through such meter will be averaged; a bill will be calculated based on the average plus the addition of the basic facility charge per unit and the result multiplied by the number of units served by a single meter.

2. NONRECURRING CHARGES

a. Tap fee includes a water service connection charge and capacity fee per single-family equivalent*** — $600.00

The nonrecurring charges listed above are minimum charges and apply even if the equivalency is less than one. If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for and/or initial connection to the water system is requested.

(***Unless prohibited by contract approved by South Carolina Public Service Commission.)

3. **RECONNECTIONS AND ACCOUNT SET UP CHARGES**

a.	Water reconnection fee	$40.00
b.	Customer account charges (One-time fee to be charged to each new account to defray cost of initiating service)	$30.00

4. **OTHER SERVICES**

a. Fire Hydrant - One Hundred ($100.00) per hydrant per year for water service payable in advance. Any water used should be metered and the commodity charge in Section One (1) above will apply to such usage.

II. SEWER RATE SCHEDULE

1. **MONTHLY CHARGES**

a.	Residential - Monthly charge per single-family house, condominium, villa or apartment unit	$20.00
b.	Commercial - Monthly charge per single-family equivalent	$20.00

c. The monthly charges listed above are minimum charges and shall apply even if the equivalency is less than one (1). If the equivalency is greater than one (1), then the monthly charges may be calculated by multiplying the equivalency rating by the monthly charge of $20.00.

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

2. **NONRECURRING CHARGES**

a. Tap fees (which include sewer service connection charges and capacity charges) $1,200.00

b. The nonrecurring charges listed above are minimum and apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. **NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES**

a. Notification Fee: A fee of $15.00 shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R.103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customer creating the cost.

b. Customer Account Charge: A fee of $20.00 shall be charged as a one-time fee to defray the cost of initiating service. This charge will be waived if the customer is also a water customer.

c. Reconnection Charges: In addition to any charges that may be due, a reconnection fee of $250.00 shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. The amount of the reconnection fee shall be in accordance with R.103.532.4 and shall be charged to conform with said rule, as the rule is amended from time to time.

III. GENERAL PROVISIONS

1. BILLING CYCLE

Recurring charges will be billed monthly in arrears. Nonrecurring charges may be billed and collected in advance of service being provided.

2. LATE PAYMENT CHARGES

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half (1 1/2%) percent each month (or any part of a month) said balance remains unpaid.

3. TAX MULTIPLIER

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by the customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by the customers, builders, developers or others, and properly classified as a contribution or advance in aid of construction in accordance with the uniform system of accounts. Included in this classification are tap fees.

4. TOXIC AND PRETREATMENT EFFLUENT GUIDELINES

The utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DEHC") as a toxic pollutant, hazardous waste, or hazardous substanance, including pollutants falling within the provisions of 40 CRF § § 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CRF § § 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damage and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

5. **LANDLORD/TENANT RELATIONSHIP**

In the case of a landlord/tenant relationship where the tenant is the customer, the Utility may require the landlord to execute an agreement wherein such landlord agrees to be responsible for all charges billed to the premises in accordance with the approved tariffs and the Rules of the Commission, and said account shall be considered the landlord's and tenant's account. In the event the landlord refuses to execute such an agreement, the Utility may not discontinue service to the premises unless and until the tenant becomes delinquent on his account or until the premises are vacated. The Utility may discontinue service pursuant to R.103-535.1 if the account is delinquent or may discontinue service at the time the premises are vacated, and the Utility shall not be required to furnish service thereafter to the premises until the landlord has executed the agreement, and paid the reconnection charges.

6. **CONSTRUCTION STANDARDS**

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed in constructing parts of the water or sewer systems.

7. **SINGLE FAMILY EQUIVALENT**

The list set forth below establishes the minimum equivalency rating for commercial customers applying for or receiving sewer service from the Utility. Where the Utility has reason to suspect that a person or entity is exceeding design loading established by the South Carolina Pollution Control Authority in a publication called "Guidelines for Unit Contributory Loading to Wastewater Treatment Facilities" (1972) , as may be amended from time to time or as may be set forth in any successor publication, the Utility shall have the right to request and receive water usage records from the provider of water to such person or entity. Also, the Utility shall have the right to conduct an "on premises" inspection of the customer's premises. If it is determined that the actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

TCU INC.

DOCKET NO. 90-287-W/S - ORDER NO. 91-1090
DECEMBER 10, 1991
APPENDIX A
PAGE SIX

TYPE OF ESTABLISHMENT	EQUIVALENCY RATING
1. Airport	
(a) Each Employee	.025
(b) Each Passenger	.0125
2. Apartments	1.0
3. Bars	
(a) Each Employee	.025
(b) Each Seat (Excluding Restaurant)	.1
4. Boarding House (Per Resident)	.125
5. Bowling Alley	
(a) Per Lane (No Restaurant)	.3125
(b) Additional for Bars and Cocktail Lounges (Per Seat or Person)	.0075
6. Camps	
(a) Resort (Luxury) (Per Person)	.25
(b) Summer (Per Person)	.125
(c) Day (With Central Bathhouse) (Per Person)	.0875
(d) Per Travel Trailer Site	.4375
7. Churches (Per Seat)	.0075
8. Clinics	
(a) Per Staff	.0375
(b) Per Patient	.0125
9. Country Club (Each Member)	.125
10. Factories	
(a) Each Employee (No Showers)	.0625
(b) Each Employee (With Showers)	.0875
(c) Each Employee (With Kitchen Facilities)	.1
11. Fairgrounds (Per Person Based on Average Attendance)	.0125
12. Food Service Operations	
(a) Ordinary Restaurant (Up to 12 Hours) (Per Seat)	.175
(b) Over 12 Hour Restaurant (Per Seat)	.25
(c) Curb Service (Drive in) (Per Seat)	.25
(d) Vending Machine Restaurant (Per Person)	.175
13. Hospitals	
(a) Per Bed	.5
(b) Per Resident Staff	.25

14. Hotels (Per Bedroom - No Restaurant)..... .25

15. Institutions (Per Resident)..... .25

16. Laundries (Self Service - Per Machine)..... 1.0

17. Mobile Homes..... 1.0

18. Motels (Per Unit - No Restaurant)..... .25

19. Nursing Homes
    (a) Per Bed (No Laundry)..... .25
    (b) Per Bed (With Laundry)..... .375

20. Offices (Per Person - No Restaurant)..... .0625

21. Picnic Parks (Average Daily Attendance)
    (Per Person)..... .025

22. Residences (Single Family)..... 1.0

23. Rest Homes
    (a) Per Bed (No Laundry)..... .25
    (b) Per Bed (With Laundry)..... .375

24. Schools
    (a) Per Person (No Showers, Gym, Cafeteria) .025
    (b) Per Person With Cafeteria
    (No Gym, Shower)..... .0375
    (c) Per Person With Cafeteria, Gym & Shower. .05

25. Service Stations
    (a) Each Car Served (Per Day)..... .025
    (b) Each Car Washed (Per Day)..... .1875
    (c) First Bay..... 2.5
    (d) Each Additional Bay..... 1.25

26. Shopping Centers (Per 1,000 sq. ft. Space-
    No Restaurants)..... .5

27. Stadiums (Per Seat - No Restaurants)..... .005

28. Swimming Pools (Per Person _ With Sanitary
    Facilities and Showers)..... .025

29. Theatres
    (a) Drive in (Per Stall)..... .0125
    (b) Indoor (Per Seat)..... .0125

BTH Rebuttal
Exhibit No. 2

TEGA CAY WATER SERVICE, INC.

AN AFFILIATE OF
UTILITIES, INC.

Corporate Offices:
2335 Sanders Road
Northbrook, IL 60062-6196
708/498-6440
FAX 708/498-2066

Regional Offices:
5701 Westpark Dr., Suite 101
P.O. Box 240705
Charlotte, NC 28224
(803) 548-0821

Mr. J. Clay Killian
Interim County Manager
County of York
P.O. Box 66
York, S.C. 29745

Dear Mr. Killian:

Tega Cay Water Service, Inc. (The "Utility") and York County (the "County") are entering into an agreement providing for the County to sell wholesale water to the Utility for use in the Utility's Tega Cay water service area. The Agreement, a copy of which is attached hereto as Exhibit A, provides for the County to bill the Utility on a bi-monthly basis for wholesale water based upon retail customer meter readings within the City limits of Tega Cay.

It is agreed by both the County and the Utility that the County will include as part of the County supply charge for wholesale water, a specified percentage that will pay for all non-account water. Such water is defined as water that is registered by the County's master meter, used by the Company, and not recorded on the retail customer meters. Examples of such water are main breaks, hydrant flushing, and normal leakage.

To limit the County's risk in accepting the payment method described above, Tega Cay Water Service, Inc. hereby guarantees that it will annually pay for all water registered on the County master meter, over and above the water registered on the retail customer meters, for all water recorded on County master meter exceeding 115% of the gallons registered on retail customer meters.

The determination of the amount of payment shall be on an annual basis, commencing with the anniversary date of the first day service is provided. The County shall render to Utility an accounting of all water sold through the master meter and compare the amount so delivered with the gallonage paid for by Utility over the twelve month period term. Utility will remit payment to County for all water so billed to Utility within fifteen days of receipt of the County's annual billing.

The Utility retains the right to obtain monthly readings from the County master meter and to check on the accuracy of said meter readings from time to time, at the sole cost of Utility.

Agreed

Dave R Romano 6/22/93
Tega Cay Water Service, Inc. Date

Agreed

4/22/93
York County Date

1 **CROSS EXAMINATION BY MR. HOEFER:**

2 Q Mr. Johnston, my name is John Hoefer. I'm the attorney
3 for Carolina Water Service.

4 A Could I have the county manager to address that subject?

5 Q I apologize. I didn't hear your question, Mr. Johnston.

6 CHAIRMAN MITCHELL: Yes, sir. He needs
7 to be sworn in. He can come around and get
8 sworn.

9 MR. HOEFER: Mr. Chairman, I was wrong.
10 I apologize.

11 CHAIRMAN MITCHELL: Okay. Thank you,
12 sir.

13 A I would like for Mr. Green to respond to that, please.

14 **WHEREUPON, Al Greene,** first being
15 duly sworn, assumes the stand and
16 testifies as follows:

17 **STATEMENT BY AL GREENE:**

18 A My name is Al Greene. I live at 15 [INAUDIBLE] Avenue,
19 York, South Carolina. I'm sorry sir, I didn't hear your
20 question.

21 **CROSS EXAMINATION BY MR. HOEFER:**

22 [INAUDIBLE—MICROPHONE PROBLEMS]

23 Q The question is, isn't it correct that your county
24 [INAUDIBLE] in the last couple of years?

25 A No, sir, that's not correct.

1 Q How many times —
2 A One time, 2002, by 5%.
3 Q You haven't measured it since then?
4 A No, sir.
5 Q Did you [INAUDIBLE] in 2001?
6 A No, sir. To the best of my knowledge, in 1995, York County
7 incurred $19 million worth of debt to connect this area
8 up to [INAUDIBLE] water and sewer supply and to provide
9 other improvements [INAUDIBLE] Township. At that time, we
10 initiated three 5% increases, one in 1995, one in 1996,
11 one in 1997, to cover the debt service payments on that
12 $19 million. We incurred additional debt in 2002 for
13 further major capital improvements just to maintain our
14 system, and basically the high demand on our system, I
15 believe there was a 5% increase that year. To the best of
16 my knowledge, those are the only increases York County
17 has imposed since 1995.
18 Q So, if I understand your answer correctly, the County has
19 increased in the last four years. Is that correct?
20 A To the best of my knowledge, yes, sir, that's correct.
21 Q Do you know what percentage of a water/sewer bill that is
22 submitted to a customer at River Hills, that total, how
23 much?
24 A I have no idea because I don't know how much the rates
25 are, your base charges or anything else.

BEFORE

THE PUBLIC SERVICE COMMISSION

SOUTH CAROLINA

DOCKET NO. 2006-97-WS

RECEIVED
JUL 26 2006
PSC SC
MAIL / DMS

IN RE Application of Tega Cay Water Service, Inc. for adjustment of rates and charges for the provisions of water and sewer service	)	REBUTTAL TESTIMONY OF STEVEN M. LUBERTOZZI ON BEHALF OF APPLICANT

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Steven M. Lubertozzi. I am employed as the Chief Regulatory Officer of Utilities, Inc. and my business address is 2335 Sanders Road, Northbrook, Illinois 60062.

Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from Indiana University in 1990, and I am a Certified Public Accountant. I have been employed by Utilities, Inc., or "UI," since June of 2001. Prior to joining Utilities, Inc., I had four years of public accounting/financial analysis experience. In my work with Utilities, Inc. I have been involved in many phases of rate-making in several regulatory jurisdictions. I have previously testified before the South Carolina Public Service Commission and I have testified before the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Florida Public Service

1 Commission, the New Jersey Board of Public Utilities, the North Carolina Utilities
2 Commission, and the New Mexico Public Regulation Commission. I am a member of
3 the American Institute of Certified Public Accountants. I have successfully completed
4 the utility regulation seminar sponsored by NARUC and other regulatory seminars
5 sponsored by PricewaterhouseCoopers and the American Water Works Association.

6 **Q. PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UTILITIES, INC.**

7 A. My responsibilities encompass all aspects of state utility commission regulation in
8 sixteen of the seventeen states where UI subsidiaries operate (Georgia does not
9 regulate water and sewer utilities). These duties include preparation of rate case
10 applications, coordinating Commission audits, developing and delivering testimony
11 before state utility regulatory bodies and obtaining approvals for territory expansions.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to respond on behalf of Tega Cay Water
14 Service, Inc., or TCWS, to certain aspects of the testimony and exhibits which have
15 been pre-filed by the Office of Regulatory Staff, or ORS.

16 **Q. MR. LUBERTOZZI HAVE YOU REVIEWED THE PRE-FILED TESTIMONY**
17 **OF DANIEL SULLIVAN ON BEHALF OF THE OFFICE OF REGULATORY**
18 **STAFF IN THIS MATTER?**

19 A. Yes, I have reviewed his testimony and the Audit Department Report he attached to
20 his testimony.

21 **Q. ARE THERE ANY ADJUSTMENTS DETAILED IN MR. SULLIVAN'S**
22 **TESTIMONY AND THE ORS AUDIT REPORT WITH WHICH YOU**
23 **AGREE?**

1 A. Yes, I agree with quite a few of them, although I do qualify certain of our agreements
2 in this regard . Specifically, the Company accepts the following adjustments
3 proposed by ORS:
4 Number 1 Taxes Other than Income – Tega Cay Water Service, Inc. (TCWS) agrees with
5 the $3,000 real estate tax adjustment for wells no longer in service.
6 Number 4 Gross Plant in Service associated with wells no longer in service – TCWS
7 agrees with the $352,044 adjustment to remove the wells no longer in service. This
8 adjustment was proposed by TCWS in the original filing.
9 Number 5 Accumulated Depreciation associated with wells no longer in service – TCWS
10 agrees with the $90,318 adjustment to remove accumulated depreciation associated
11 with the wells no longer in service. This adjustment was proposed by TCWS in the
12 original filing.
13 Number 8 Operating Revenues – TCWS agrees with the $1,866 adjustment to operating
14 revenues to correspond to test year consumption data.
15 Number 10 Deferred Maintenance Charges – TCWS agrees with the removal of the
16 $24,960 amortization expense associated with deferred operations and maintenance
17 charges.
18 Number 18 Tax Accrual for Property Charges – TCWS agrees with the removal of $81,529
19 for a tax accrual to reflect actual test year expense. This adjustment was proposed by
20 TCWS in the original filing.
21 Number 23 Interest During Construction – TCWS agrees with the elimination of the $80 in
22 IDC costs for rate making purposes. This adjustment was proposed by TCWS in the
23 original filing.

1 Number 24 Customer Growth – TCWS agrees with the calculation methodology used by
2 ORS to arrive at its proposed $1,377 customer growth adjustment. However, the
3 Company does not agree that the adjustment itself is warranted given that the City of
4 Tega Cay in 1998 adopted a resolution which precludes the Company from serving
5 new customers in the portions of our service area where service lines did not then
6 exist. I have attached as SML Rebuttal Exhibit No. 1 a copy of this resolution. Also,
7 should the Commission accept this adjustment, I would note that the growth
8 adjustment will change as other revenue and expense items are adjusted
9 Number 29 Contributions in Aid of Construction – TCWS agrees with the $42,642
10 adjustment to the accumulated amortization account of CIAC to reflect the difference
11 in amortization using a 1.5% amortization rate versus a 2% amortization rate. I would
12 add that, for the same reason, the Company also agrees with ORS's proposed
13 adjustment Number 22.
14 Number 36 Customer Growth – Again, TCWS agrees with the calculation methodology for
15 the customer growth adjustment for the effect of the proposed increase proposed by
16 ORS. However, and for the same reason I described in addressing Adjustment
17 Number 24, the Company opposes the adjustment. And, since the proposed revenue
18 increase per TCWS differs from the proposed revenue increase per Staff, this
19 adjustment would vary in dollars if accepted.
20 **Q. ARE THERE ANY ADJUSTMENTS DETAILED IN THE ORS AUDIT**
21 **REPORT AND TESTIMONY THAT YOU DISAGREE WITH?**
22 A. Yes, there are thirteen specific adjustments proposed by ORS with which we do not
23 agree. Also, these proposed adjustments would affect certain other fallout, or related

item adjustments, such as taxes, cash working capital, etc. Therefore, the Company would disagree with these fallout adjustments as well.

Q. WOULD YOU PLEASE DISCUSS THE FIRST ORS ADJUSTMENT WITH WHICH YOU DISAGREE?

A. Yes. It is Adjustment Number 6 dealing with Plant Acquisition Adjustment.

Q. WHAT IS A PLANT ACQUISTION ADJUSTMENT?

A. Basically, a utility Plant Acquisition Adjustment, or PAA, is reflected in Uniform System of Account Number 114 and is used to record the differences, both negative and positive, between the cost of the utility plant acquired and its original cost rate base. The Company's expert accounting witness Converse Chellis will provide the Commission with an in-depth description of a PAA in his testimony.

Q. HAS THE COMMISSION PREVIOUSLY ACCEPTED PLANT ACQUISITION ADJUSTMENTS FOR RATEMAKING PURPOSES?

A. Yes. In the last two rate cases involving Carolina Water Service, Inc. before this Commission, which were in Docket Numbers 2000-207-W/S and 2004-357-W/S, the Commission accepted, in both rate base and expenses, negative and positive plant acquisition adjustments. I testified on behalf of the utility in the 2004 case.

Q. WOULD YOU PLEASE EXPLAIN HOW THE COMMISSION ACCEPTED BOTH A NEGATIVE AND POSITIVE PLANT ACQUISITION ADJUSTMENT FOR RATEMAKING PURPOSES IN THE CASE IN WHICH YOU TESTIFIED?

A. Yes. In Docket Number 2004-357, the utility included in its application for a rate increase a net PAA of ($482,719). This ($482,719) included both negative and

1 positive plant acquisition adjustments, netting out to a negative, or credit, balance and
2 is shown in Table C of Commission Order Number 2005-328. This allowed the utility
3 to earn a return on a positive PAA. In addition, the utility included a reduction to
4 gross plant to account for PAA for depreciation expenses and amortization purposes in
5 Docket Number 2004-357. This reduction again included both positive and negative
6 acquisition adjustments. The Commission's acceptance of this reduction to
7 depreciation and amortization expense is embedded in the net PAA of ($482,719) in
8 that case and thus allowed the utility to earn a return of a positive acquisition
9 adjustment.

10 **Q. TO YOUR KNOWLEDGE, IS THIS THE FIRST TIME THAT THE**
11 **COMMISSION HAS ACCEPTED A RETURN ON AND RETUN OF A**
12 **POSITIVE ACQUISITION ADJUSTMENT?**

13 A. No, it is not. In Docket No. 2000-207-W/S, Order No. 2001-887 the Commission
14 ordered the utility to include for ratemaking purposes a PAA of ($525,890). This net
15 PAA consisted of both positive and negative PAAs. By including this adjustment the
16 Commission allowed the utility to earn a return on and of a positive acquisition
17 adjustment.

18 **Q. WHY DOES THE COMPANY SUPPORT THE ACCEPTANCE OF POSITIVE**
19 **AND NEGATIVE PAA'S IN THIS CASE?**

20 A. We believe it to be appropriate in this case because it is consistent with the manner in
21 which asset acquisitions were treated for ratemaking purposes in the two cases I just
22 described. Further, it reflects the actual economics involved in asset acquisitions.
23 When the purchase price a utility pays for an asset is less than its book value, a

negative adjustment prevents customers from having to pay rates based upon an investment that was not made. In the case of a positive adjustment, which arises when the utility pays a purchase price that is more than the book value of the asset, customers are only paying rates based upon actual investment.

Q. PLEASE EXPLAIN THE PAA IN THIS CASE.

A. The gross PAA adjustment in the amount of $347,356 represents actual dollars invested in the state of South Carolina, above the original cost rate base. As of 9/30/05, the net of amortization PAA balance is $284,833 and is included in SML Rebuttal Exhibit No.2.

Q. DO YOU BELIEVE THAT TEGA CAY'S CUSTOMERS BENEFITED FROM UI ACQUIRING THE UTILITY AND THE RESULITNG PAA?

A. Yes. The Company's customers benefit because they are part of a large organization that solely focuses on water and wastewater operation that strives to provide high quality water and wastewater service, while exercising economies of scale and operational efficiencies. If Tega Cay continued to exist as a developer operated stand alone entity all of the services that are provided by UI and Water Service Corp. ("WSC"), including accounting, management, operations, regulatory, environmental and payroll, would have to be outsourced at a market rate. It is highly unlikely that a standalone developer owned utility could provide the quality and level of services that UI and WSC provides. Tega Cay customers also benefit from the Company's ability, through UI, to attract capital at more competitive rates. This capital allows the Company to make necessary repairs and upgrades and to comply with regulatory requirements.

1 **Q. SHOULD THE COMMISSION ALLOW A PAA IN THIS CASE?**

2 A. Yes. By allowing a PAA is this case the Commission would encourage future sales of
3 developer owned and operated facilities, which would serve the public interest. The
4 Commission has discretion whether or not to grant a PAA. In doing so the
5 Commission encourages future consolidation. If it a PAA is not allowed, future
6 transactions involving utility systems could be frustrated. Contrary to the suggestion
7 made by Mr. Sullivan in his testimony, the plant acquisition adjustment was not
8 removed from rate base in the Company's last rate case since there was no effort on
9 the Company's part to obtain rate base treatment. However, Mr. Chellis will discuss
10 this in more detail in his rebuttal testimony addressing the purchase acquisition
11 adjustment.

12 **Q. WHAT IS THE NEXT ORS ADJUSTMENT WITH WHICH YOU DISAGREE?**

13 A. I disagree with ORS's Adjustment Number 9 pertaining to operators' salaries. ORS's
14 adjustment only includes a portion of the operators' salaries. Their adjustment totals
15 $3,876 and represents the annualized salaries as of 9/30/05 without salary increases.
16 All operators received salary increases as of 7/1/06 and the salary increase adjustment
17 totals $7,666, for a total salary adjustment of $11,542. Every year UI's operating
18 subsidiaries reviews all operators and office personnel and makes annual salary
19 adjustments. ORS has proposed no salary increase adjustment to operators' salaries on
20 the basis that "these amounts were not known and measurable at the end of the audit."
21 The increase in the operators' salaries is a known and measurable expense which we
22 have documented with external source documents. In *The Regulation of Public*
23 *Utilities* (1993 Ed.), Dr. Charles F. Phillips, Jr., elaborates on post test year changes at

page 196 by noting: "'Philosophically, the strict test year assumes the past relationship among revenues, costs and net investment **during the test year** will continue into the future.' To the extent that these relationships are not constant, the actual rate of return earned by a utility may be quite different from the rate allowed by the commission. For many years, commissions have adjusted test-year data for 'known changes'; that is, a change that actually took place **during or after the test period**."

Q. WHAT IS THE NEXT ORS ADJUSTMENT WITH WHICH YOU DISAGREE?

A. I also disagree with ORS Adjustment Number 11 pertaining to Operating Expense Charged To Plant. ORS has proposed to adjust the operating expense charged to plant by ($662). This total does not include the operators' salaries increase and increase in benefits & payroll taxes stemming from the increase in salaries. I used 12.53% to calculate the operating expense charged to plant. This percentage was used by ORS to calculate its adjustment as well. The adjustment for operating expense charged to plant amounts to ($1,093). For the same reason, I also disagree with ORS Adjustment Number 26.

Q. WHAT IS THE NEXT ORS ADJUSTMENT WITH WHICH YOU DISAGREE?

A. It is ORS Adjustment Number 12 which addresses Office Salaries. ORS's adjustment only includes a portion of the office salaries. This adjustment totals $8,561 and it represents annualized salaries as of 9/30/05 without the annual merit salary increases. Office employees received salary increases as of 7/1/06 and the salary increase adjustment totals $1,624, for a total salary adjustment of $10,185. ORS has proposed no salary increase adjustment in office salaries on the basis that "these amounts were not known and measurable at the end of the audit."

1 **Q. IS THIS THE SAME ANNUAL REVIEW PROCESS THAT YOU**
2 **PREVIOULSY MENTIONED?**
3 A. Yes.
4 **Q. WOULD YOU PLEASE DISCUSS THE NEXT ORS ADJUSTMENT WITH**
5 **WHICH YOU DISAGREE?**
6 A. Yes, it is Adjustment Number 13 for Rate Case Expense. ORS's adjustment does not
7 include the costs necessary to resolve this rate proceeding. There should be no
8 argument that the Company has incurred or will incur additional costs to resolve this
9 case. The Commission should allow these estimated costs to be included in the rate
10 case expense, or in the alternative, allow the actual costs incurred through the hearing
11 date to be included for ratemaking purposes as it has done in past proceedings.
12
13 **Q. WOULD YOU PLEASE DISCUSS THE NEXT ORS ADJUSTMENT WITH**
14 **WHICH YOU DISAGREE?**
15 A. I disagree with ORS Adjustment Number 14 regarding Pension and Other Benefits.
16 ORS's adjustment only includes a portion of the total proposed pension and other
17 benefits. Their adjustment totals $1,810 and does not include the annual merit salary
18 increase for operators and office employees. The increase to Pension and Other
19 Benefits related to the annual merit salary increases for both operators and office
20 employees' totals $650, for a total pension and other benefits adjustment of $2,460
21 **Q. WHAT IS THE NEXT ORS ADJUSTMENT WITH WHICH YOU DISAGREE?**
22 A. That would be ORS Adjustment Number 15 dealing with Non-allowable Expenses.
23 ORS proposes to remove one half of Chamber of Commerce dues and a 7 day

subscription to the Charlotte Observer. The Chamber of Commerce costs consist of a business membership in the Chamber of Commerce in the Tega Cay service area. TCWS is part of the business community and the membership to the Chamber of Commerce is solely for the benefit of and allocated to TCWS. This membership allows the Company to better understand the business needs of the community. The Charlotte Observer is a newspaper in the Tega Cay service area. This subscription is not a personal subscription. The Company obtains information about its service area through the Charlotte Observer. The newspaper enables the Company to be aware of important issues about its Utility's service area and business industry. The total of $403 should not be removed for ratemaking purposes.

Q. WOULD YOU PLEASE DISCUSS THE NEXT ORS ADJUSTMENT WITH WHICH YOU DISAGREE?

A. Yes. It is ORS Adjustment Number 16 pertaining to Depreciation Expense and Adjustment Number 27 – Accumulated Depreciation. The adjustment proposed by ORS only includes the depreciation expense for the additional $70,052 in pro forma plant. Actual pro forma plant totals $74,347. This pro forma figure is based on actual invoices, all dated before or at the assumed agreed upon cut-off date for plant (June 21, 2006). The actual invoices are known and measurable expenditures and represent projects that are currently in service and are provide benefits to the customers of Tega Cay. The additional depreciation expense and accumulated depreciation adjustment in the amount of $64 is computed on the additional pro forma plant of $4,295.

1 **Q. WHAT IS THE NEXT ORS ADJUSTMENT YOU DISAGREE WITH?**

2 A. It is ORS Adjustment Number 17 regarding Taxes Other Than Income. ORS's
3 adjustment only includes the payroll taxes for the operators' and office salaries
4 without the impact of salary increase. The increase in payroll taxes due to the annual
5 salary increase previously discussed. The additional increase in payroll tax expense is
6 $649, for a total taxes other than income adjustment of $549

7 **Q. WOULD YOU PLEASE DISCUSS THE NEXT ORS ADJUSTMENT WITH**
8 **WHICH YOU TAKE ISSUE?**

9 A. Yes. It is ORS Adjustment Number 21 regarding Amortization of Plant Acquisition
10 Adjustment. ORS proposes to exclude the amortization of the PAA for the same
11 reason previously discussed for the removal of the rate base portion. The amortization
12 of PAA should be included for rate making purposes for the same reason previously
13 discussed. PAA should be amortized over the same period as other assets, which is 67
14 years. A total of $5,210 in amortization expense based on a 1.5% yearly amortization
15 rate should be included.

16 **Q. PLEASE DISCUSS THE NEXT ORS ADJUSTMENT WITH WHICH YOU**
17 **DISAGREE.**

18 A. I also disagree with ORS Adjustment Number 25, which is to Gross Plant in Service.
19 ORS has included only $70,052 in pro forma plant. The total pro forma plant equals
20 $74,347. The $74,347 is based on actual invoices for pro forma projects incurred and
21 documented. An adjustment in the amount of $4,295 is added to Sewer Rate Base.

1 **Q. WHAT IS THE LAST ORS ADJUSTMENT WITH WHICH YOU HAVE A**
2 **DISAGREEMENT?**
3 A. That would be Staff Adjustment Number 28 dealing with Cash Working Capital. The
4 Company and the ORS agree on the methodology to calculate cash working capital.
5 However, the parties' basis, operation and maintenance expense, for calculating cash
6 working capital differ
7 **Q. HAVE YOU REVIEWED THE TESTIMONY AND EXHIBITS PRE-FILED BY**
8 **MR. WILLIE MORGAN ON BEHALF OF ORS?**
9 A. Yes, I have.
10 **Q. WHAT PORTIONS OF MR. MORGAN'S TESTIMONY DO YOU INTEND TO**
11 **ADDRESS?**
12 A. I intend to address this testimony concerning the level of the Company's bond, test
13 year service revenues, and the pass-through provisions of our current and proposed
14 rate schedules.
15 **Q. REGARDING THE COMPANY'S BOND, WHAT IS YOUR RESPONSE TO**
16 **MR. MORGAN'S TESTIMONY?**
17 A. We will comply with the requirement to increase our bond for our water and sewer
18 utility operations to a minimum of $300,000 and $350,000, respectively. However, it
19 will cost the Company $8,250 more annually to maintain these additional letters of
20 credit. We believe an adjustment to our Miscellaneous Expenses in that amount is
21 known and measurable and we request that the Commission make such an adjustment,
22 if it adopts ORS' recommendation in this regard.

1 **Q. WITH RESPECT TO MR. MORGAN'S TESTIMONY PERTAINING TO**
2 **TEST YEAR SERVICE REVENUES, WHAT COMMENTS DO YOU HAVE?**
3 A. Mr. Morgan correctly points out that there is a discrepancy between gallons of water
4 billed to customers and gallons of water for which York County was paid. This
5 discrepancy most likely results from timing issues with respect to the collection of
6 customer bill amounts and the payment of the York County bulk water charges. As a
7 percentage of test year revenues, as adjusted, the effect of this discrepancy is
8 approximately two tenths of one percent, which is *de minimis*.
9 **Q. WHAT IS THE COMPANY'S RESPONSE TO MR. MORGAN'S COMMENTS**
10 **REGARDING THE PASS-THROUGH PROVISIONS OF THE PROPOSED**
11 **RATE SCHEDULE?**
12 A. The Company believes that some clarification is in order with respect to the existing
13 pass-through provision and the modifications proposed, the effect of the pass-through
14 on our water customers, and the applicability of the Commission's orders in Docket
15 Number 2001-164 to the existing pass-through arrangement for bulk water charges.
16 **Q. HOW LONG HAS THE COMPANY BEEN AUTHORIZED A PASS-**
17 **THROUGH FOR BULK WATER CHARGES?**
18 A. Since 1993. In Order Number 93-602 in Docket Number 92-638-W/S dated July 23,
19 1993, the Commission approved both a distribution charge and a pass-through
20 provision for water. In Order Number 93-1121 in Docket Number 93-560-W, dated
21 December 13, 1993, the Commission approved the bulk water service contract
22 between TCWS and the County.

1 **Q. WOULD YOU PLEASE ELABORATE ON THE MODIFICATIONS**
2 **PROPOSED?**
3 A. Yes. There are two modifications to the language of TCWS's existing pass-through
4 provision for water. A copy of the relevant pages from the existing and proposed rate
5 schedules is attached to my testimony as SML Rebuttal Exhibit No.3 for comparison
6 purposes.
7 The first modification substitutes the word "purchased" for the word "supplied" in the
8 paragraph in Section I.1 containing the pass-through language in the water rate. This
9 change recognizes that TCWS customers only pay the amount charged by York
10 County for the water the Company purchases from York County and not the amount
11 supplied by York County.
12 The second modification to the water rate schedule simply articulates a provision of
13 the bulk water contract between the Company and York County that has already been
14 approved by the Commission. In Order Number 93-1121, the Commission approved
15 the Water Supply Agreement between the Company and York County which is
16 attached to Mr. Morgan's testimony as Exhibit WJM-6. Sections 6 and 7 of that
17 contract provide that York County may impose its water connection and tap fees for
18 any lot within our Tega Cay service area which is not contiguous to a water main or
19 which was not already connected to the water system and obligates TCWS to collect
20 such fees. Accordingly, TCWS proposes to add a sentence to in Section I.1 of its water
21 rate schedule to reflect this fact.
22 In addition to these modifications to the water rate schedule, the Company has
23 proposed to include parallel language in the sewer rate schedule in Section II.1.

Although the Company currently provides treatment service through our three wastewater treatment facilities in Tega Cay and thus does not receive bulk sewer service at this time, we thought it appropriate to include a rate schedule provision addressing bulk service arrangements in the event that it ever becomes necessary in Tega Cay.

Q. DO THESE MODIFICATIONS CHANGE THE MANNER IN WHICH BULK WATER CHARGES ARE PASSED THROUGH?

A. No, they do not. The Company will continue to pass through to customers the bulk charges imposed by York County on a pro rata basis without mark-up as has been authorized since 1993.

Q. WHAT IS THE COMPANY'S POSITION WITH RESPECT TO ORS'S PROPOSAL THAT THE PROCEDURE ADOPTED BY THE COMMISSION FOR KIAWAH ISLAND UTILITY, INC. WITH RESPECT TO INCREASES IN PURCHASED WATER COSTS BE ADOPTED FOR TCWS?

A. It is the Company's view that the proposal should not be adopted since TCWS does not incur purchased water costs and has not requested any such modification to its rate schedule. As the Commission is aware, the circumstances present in the proceeding resulting in its Order Numbers 2002-285 and 2002-517 in Docket Number 2001-164 were that the utility was absorbing purchased water costs as part of its operations and maintenance expenses. As a result, that utility was required to seek rate relief whenever the bulk water provider increased its charges for bulk water. To avoid repetitive rate cases to address future increases in this part of the utility's expenses, the

utility proposed and the Commission adopted a procedure whereby future increases or decreases in the utility's purchased water costs could be passed through directly to customers in the form of increases or decreases to the unit price of the water sold by the utility to customers. Thus, the orders in the Kiawah Island Utility case do not provide for a true or complete pass-through to customers since that utility's **existing** purchased water costs, which included an operations and maintenance expense charge allocation from the bulk provider, continued to be recovered in rates and the increases or decreases in purchased water costs were reflected in the utility's consumption charges and not in a line-item pass through. TCWS, on the other hand, does not recover any part of bulk water costs in its operations and maintenance expenses and is already authorized a complete pass-through given that its rate schedule provides for all charges imposed by bulk providers to be passed through to customers on a pro-rata basis without mark-up. Therefore, there is not the potential for TCWS to file repetitive rate cases to deal with increases in bulk water charges that compelled Kiawah Island Utility to seek a partial pass-through provision in its authorized commodity charge. I would also note that the procedure proposed could create a situation where bulk water cost increases might not be fully recovered since it requires sixty day time lag after bulk water charges are increased. Whereas Kiawah Island Utility requested such an arrangement, TCWS submits that imposition of this procedure on it would effect a taking of its property since it would not permit the Company to fully recover bulk water charges.

Q. ARE THERE ANY OTHER ASPECTS OF ORS'S TESTIMONY YOU WISH TO ADDRESS?

1

2 **A.** Yes. I would like to address the Company's actual return on equity, or ROE in light of
3 ORS's proposed adjustments and the range of ROE's proposed by its witness, Dr.
4 Woolridge.

5 **Q. WHAT WOULD THE COMPANY'S ACTUAL NET INCOME FOR RETURN**
6 **AND RETURN ON RATE BASE BE AT PROPOSED RATES IF THE**
7 **COMMISSION WERE TO ACCEPT ALL OF ORS'S ADJUSTMENTS?**

8 A. If the Commission accepts all of ORS's adjustments, the Company's actual net
9 income for return and actual return on rate base at proposed rates would be much
10 lower than the figures set out in Mr. Sullivan's exhibits.

11 **Q. WHAT IS YOUR BASIS FOR THAT STATEMENT?**

12 A. My basis for making that statement is that the exclusion of the PAA and the associated
13 accounting adjustments has the effect of artificially reducing the Company's actual
14 investment and expenses. This, in turn, overstates the Company's actual net income
15 for return and return on rate base.

16 **Q. WOULD YOU PLEASE ELABORATE?**

17 A. Yes. The PAA that ORS proposes to exclude represents actual dollars invested in the
18 state of South Carolina. Excluding the PAA is inconsistent with the manner in which
19 the Commission has treated PAA in the cases I described. By following the
20 Commission's treatment of PAA, the Company is seeking only to have utility system
21 acquisitions treated in a consistent manner. That is to say that where a utility has paid
22 less than book value for a system, it should not be permitted to have rates set based
23 upon book value. Conversely, where a utility has paid more than book value for a

1 system, the total amount of its investment should be recognized for ratemaking
2 purposes. Assuming that the Commission were to accept ORS's proposed exclusion
3 of PAA and related accounting adjustments and were the Commission to adopt the low
4 end of the range of returns on equity proposed by ORS's witness Dr. Woolridge, the
5 ROE the Company would achieve on its actual investment would be below 3.00%.
6 This percentage is significantly lower than what the ORS is proposing. In addition,
7 this actual achieved return on equity is lower than UI's cost of debt.

8 **Q. IN YOUR OPINION HOW WOULD THIS ACHIEVED ROE BE RECEIVED**
9 **BY THE CAPITAL MARKETS?**

10 A. Investors place great importance on the resolution of rate cases and the resulting or
11 achieved ROEs. In this situation, the Utility's actual achieved ROE will be below our
12 cost of debt and coupled with the fact that the top end of the ORS's ROE range is 200
13 basis points below what other Commissions are authorizing as noted by Dr. Skelton in
14 his rebuttal testimony, this situation will strongly influence the capital market's
15 assessments of the regulatory climate in South Carolina. These facts would not be
16 viewed as a cooperative relationship between a utility and its regulators and the other
17 participants in the regulatory process.

18 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

19 A. Yes, it does.

SML Rebuttal
Exhibit No. 1

RESOLUTION 98-2

CITY OF TEGA CAY, SOUTH CAROLINA

WHEREAS, the Tega Cay City Council, in session at which time a quorum was present and voting unanimously, did approve Ordinance No. 147 providing for a referendum on the question of the City owning and thereafter operating a waterworks and sewer system.

WHEREAS, the referendum was held on November 4, 1997 and the overwhelming decision by the voters was in favor of the question.

WHEREAS, the City has been exploring the various options available to accomplish the mandate of the citizens including, but not limited to, purchase of the present system or construction of a new distribution system.

WHEREAS, the City has advised York County and the Town of Fort Mill that we are negotiating with Charlotte-Mecklinburg Utility Department for the possible purchase of water.

WHEREAS, the City also has approached Utilities Inc. concerning the sale and is in the process of preparing an offer to purchase the system.

NOW THEREFORE BE IT RESOLVED that the Tega Cay City Council has determined it to be in our best interests to limit and restrict any future growth of Tega Cay Water Service, Inc. by resolving that Tega Cay Water Service, Inc. is prohibited from laying any new water/sewer lines or serving any new customers in any tracts or parcels of land that have not been approved through the subdivision process as required by Ordinance No. 50, Tega Cay Land Development Code, specifically, but not limited to, those tracts known as Sections 22, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 31 Phase II, Section 27-A, and 9 A in the City as of the date of passage of the resolution; the only exception being where with City Council's express permission, service may be extended for the public good. Reference the Official Zoning Map of the City of Tega Cay as adopted on June 26, 1989 and amendments dated June 17, 1996 and February 16, 1998.

Done this 16th day of February, 1998 by the Tega Cay Council, duly held with a quorum of Councilmembers present.

Stephen M. Hamilton, Mayor

ATTEST:

Jean C. Varner, City Administrator

[illegible]

Tega Cay Water Service, Inc.
Docket No. 2006-97-WS
Index to Exhibits

SML Rebuttal Exhibit No. 2

Line No.	Title	Schedule No.
(1)	Rate base & net operating income water and sewer combined	1
(2)	Rate base & net operating incomewater operations	1-1
(3)	Rate base & net operating income sewer operations	1-2
(4)	Uncollectibles	2
(5)	Calculation of salary and benefits [Confidential - not attached]	3
(6)	Calculation of operating expense charged to plant	4
(7)	Calculation of taxes other than income	5
(8)	Calculation of income taxes	6
(9)	Capital structure	7
(11)	Pro forma plant	8
(12)	Calculation of working capital	9
(13)	Calculation of proposed rates	10

Tega Cay Water Service, Inc.
Combined Operations
Docket No. 2006-97-WS

Schedule 1

	Per ORS	TCWS Pro Forma Adjustments		Total Pro Forma Present	Proposed Increase	Pro Forma Proposed
Operating Revenues						
Service Revenues - Water	$ 346,818	$ -		$ 346,818	$ -	$ 346,818
Service Revenues - Sewer	601,950	-		601,950	131,850	733,800
Miscellaneous Revenues	14,148	-		14,148	-	14,148
Uncollectible Accounts	(3,158)	-		(3,158)	(441)	(3,599)
Total Operating Revenues	$ 959,758	$ -		$ 959,758	$ 131,409	$ 1,091,167
Operating Expenses						
Maintenance Expenses	$ 391,466	$ 6,573	[a][j]	$ 398,039		$ 398,039
General Expenses	218,748	19,593	[c][i][k][l][m]	238,341		238,341
Depreciation	209,526	64	[g]	209,590	-	209,590
Taxes Other Than Income	122,240	649	[h]	122,889	1,481	124,370
Income Taxes - Federal	25,639	-		25,639	28,847	54,486
Income Taxes - State	3,855	-		3,855	4,338	8,193
Amortization of PAA	-	5,210	[e]	5,210	-	5,210
Amortization of CIAC	(129,140)	-		(129,140)	-	(129,140)
Total Operating Expenses	$ 842,334	$ 32,090		$ 874,424	$ 34,667	$ 909,091
Total Operating Income	$ 117,424	$ (32,090)		$ 85,334	$ 96,742	$ 182,076
Growth adjustment	1,377	(1,377)	[o]	-	-	-
Interest During Construction	-	-		-	-	-
Net Income	$ 118,801	$ (32,090)		$ 85,334	$ 96,742	$ 182,076

Original Cost Rate Base:	Per ORS	Pro Forma Adjustments		As Adjusted	Proposed Increase	As Adjusted
Gross Plant In Service	$ 11,932,695	$ 4,295	[a]	$ 11,936,990	$ -	$ 11,936,990
Accumulated Depreciation	(2,766,250)	(64)	[b]	(2,766,314)	-	(2,766,314)
Net Plant In Service	9,166,445	4,231		9,170,676		9,170,676
Cash Working Capital	76,277	3,271	[d]	79,548		79,548
Contributions In Aid of Construction	(6,857,786)	-		(6,857,786)		(6,857,786)
Accumulated Deferred Income Taxes	(504,319)	-		(504,319)		(504,319)
Customer Deposits	(58,630)	-		(58,630)		(58,630)
Plant Acquisition Adjustment	-	284,833	[c]	284,833		284,833
Water Service Corporation	17,871	-		17,871		17,871
General Ledger Additions		-		-		-
Capitalized Time Additions		-		-		-
Excess Book Value	-	-		-		-
Pro Forma Plant		-		-		-
Pro Forma Plant Retirements	-	-		-		-
Total Rate Base	$ 1,839,858	$ 292,335		2,132,193	$ -	$ 2,132,193
Return on Rate Base	6.46%			4.00%		8.54%
Operating Margin	5.10%			0.46%		9.27%
Interest Expense	69,809			80,887		80,887
Return on Equity	6.51%			0.51%		11.60%

Tega Cay Water Service, Inc.
Water Operations
Docket No. 2006-97-WS

Schedule 1-1

	Per ORS	TCWS Pro Forma Adjustments		Pro Forma Present	Proposed Increase	Pro Forma Proposed
Operating Revenues						
Service Revenues - Water	$ 346,818	$ -		$ 346,818	$ -	$ 346,818
Service Revenues - Sewer	-	-		-		-
Miscellaneous Revenues	6,343	-		6,343		6,343
Uncollectible Accounts	(1,146)	-		(1,146)	-	(1,146)
Total Operating Revenues	$ 352,015	$ -		$ 352,015	$ -	$ 352,015
Operating Expenses						
Maintenance Expenses	$ 112,943	$ 3,391	[a][j]	$ 116,334		$ 116,334
General Expenses	112,895	10,337	[c][i][k][l][m]	123,232		123,232
Depreciation	67,012	-	[g]	67,012		67,012
Taxes Other Than Income	60,031	334	[h]	60,365	-	60,365
Income Taxes - Federal	9,370	-		9,370	(5,429)	3,941
Income Taxes - State	1,409	-		1,409	(816)	593
Amortization of PAA	-	716	[e]	716	-	716
Amortization of CIAC	(31,859)	-		(31,859)	-	(31,859)
Total Operating Expenses	$ 331,801	$ 14,779		$ 346,580	$ (6,245)	$ 340,334
Total Operating Income	$ 20,214	$ (14,779)		$ 5,435	$ 6,245	$ 11,681
Customer Growth Adjustment	230	(230)	[o]	-	-	-
Interest During Construction	-	-		-	-	-
Net Income	$ 20,444	$ (14,779)		$ 5,435	$ 6,245	$ 11,681

Original Cost Rate Base:	Per ORS	Pro Forma Adjustments		As Adjusted	Proposed Increase	As Adjusted
Gross Plant In Service	$ 2,673,985	$ -	[a]	$ 2,673,985	$ -	$ 2,673,985
Accumulated Depreciation	(636,069)	-	[b]	(636,069)	-	(636,069)
Net Plant In Service	2,037,916	-		2,037,916		2,037,916
Cash Working Capital	28,230	1,716	[d]	29,946		29,946
Contributions In Aid of Construction	(1,697,019)	-		(1,697,019)		(1,697,019)
Accumulated Deferred Income Taxes	(273,990)	-		(273,990)		(273,990)
Customer Deposits	(30,259)	-		(30,259)		(30,259)
Plant Acquisition Adjustment	-	39,157	[c]	39,157		39,157
Water Service Corporation	9,223	-		9,223		9,223
General Ledger Additions		-		-		-
Capitalized Time Additions		-		-		-
Excess Book Value	-	-		-		-
Pro Forma Plant		-		-		-
Pro Forma Plant Retirements	-	-		-		-
Total Rate Base	74,101	$ 40,873		114,974	$ -	114,974
Return on Rate Base	27.59%			4.73%		10.16%
Operating Margin	5.01%			0.31%		2.08%
Interest Expense	2,812			4,362		4,362
Return on Equity	58.18%			2.28%		15.56%

Tega Cay Water Service, Inc.
Sewer Operations
Docket No. 2006-97-WS

Schedule 1-2

	Per ORS	TCWS Pro Forma Adjustments		Pro Forma Present	Proposed Increase	Pro Forma Proposed
Operating Revenues						
Service Revenues - Water	$ -	$ -		$ -	$ -	$ -
Service Revenues - Sewer	601,950	-		601,950	131,850	733,800
Miscellaneous Revenues	7,805	-		7,805	-	7,805
Uncollectible Accounts	(2,012)	-		(2,012)	(441)	(2,453)
Total Operating Revenues	$ 607,743	$ -		$ 607,743	$ 131,409	$ 739,152
Operating Expenses						
Maintenance Expenses	$ 278,523	$ 3,181	[a][j]	$ 281,704		$ 281,704
General Expenses	105,853	9,257	[c][i][k][l][m]	115,110		115,110
Depreciation	142,514	64	[g]	142,578		142,578
Taxes Other Than Income	62,209	315	[h]	62,524	1,481	64,005
Income Taxes - Federal	16,269	-		16,269	34,276	50,545
Income Taxes - State	2,446	-		2,446	5,155	7,601
Amortization of PAA	-	4,494	[e]	4,494	-	4,494
Amortization of CIAC	(97,281)	-		(97,281)	-	(97,281)
Total Operating Expenses	$ 510,533	$ 17,312		$ 527,845	$ 40,912	$ 568,757
Net Operating Income	$ 97,210	$ (17,312)		$ 79,898	$ 90,497	$ 170,396
Growth Adjustment	1,147	(1,147)	[o]	-	-	-
Interest During Construction	-	-		-	-	-
Net Income	$ 98,357	$ (17,312)		$ 79,898		$ 170,396

Original Cost Rate Base:	Per ORS	Pro Forma Adjustments		As Adjusted	Proposed Increase	As Adjusted
Gross Plant In Service	$ 9,258,710	$ 4,295	[a]	$ 9,263,005	$ -	$ 9,263,005
Accumulated Depreciation	(2,130,181)	(64)	[b]	(2,130,245)	-	(2,130,245)
Net Plant In Service	7,128,529	4,231		7,132,760		7,132,760
Cash Working Capital	48,047	1,555	[d]	49,602		49,602
Contributions In Aid of Construction	(5,160,767)	-		(5,160,767)		(5,160,767)
Accumulated Deferred Income Taxes	(230,329)	-		(230,329)		(230,329)
Customer Deposits	(28,371)	-		(28,371)		(28,371)
Plant Acquisition Adjustment	-	245,676	[c]	245,676		245,676
Water Service Corporation	8,648	-		8,648		8,648
						-
Total Rate Base	1,765,757	$ 251,462		2,017,219	$ -	2,017,219
Return on Rate Base	5.57%			3.96%		8.45%
Operating Margin	5.16%			0.55%		12.70%
Interest Expense	66,997			76,526		76,526
Return on Equity	4.34%			0.41%		11.38%

Explanation of Adjustments to Income Statement

[a] Salary adjustment based on current salary increases as of 7/18/2006.

[c] Salary adjustment based on current salary increases as of 7/18/2006.

[e] PAA amortized at 1.5%.

[f] Interest on debt has been computed using a 59.1%/40.9% debt/equity ratio and a 6.42% cost of debt.

[g] 1.5% depreciation on additional plant in service.

[h] Increase in payroll taxes based on increase in salaries.

[i] Increase in benefits based on increase in salaries.

[j] Increase in operating expenses charged to plant based on the increase in maintenance salaries.

[k] The additional LOC will cost 1.5% of the additional $550,000 [allocated between water & sewer].

[l] Additional $26,000 in rate case expenses amortized over 3 years are included up to the hearing date.

[m] Adjusting subscription expense by $208 for water and $195 for sewer operations based on Audit Exhibit DFS-4.

[o] Removing customer growth adjustment.

Explanation of Adjustments to Rate Base and Rate of Return

[a] Gross plant in service is adjusted to account for additional pro forma plant and g/l additions.

[b] Accumulated depreciation is adjusted to reflect the increase in gross plant in service, actual and estimated capitalized time, actual and estimated general ledger additions, pro forma plant, and pro forma plant retirements.

[c] Plant Acquisition Adjustment remains in rate base.

[d] Cash working capital is calculated based on 1/8 of maintenance and general expenses.

Tega Cay Water Service, Inc.
Uncollectible Accounts
Docket No. 2006-97-WS

Schedule 2

	Water	Sewer	Total
Test Year / Present Revenues	$ 346,818	$ 601,950	$ 948,768
Uncollectible Accounts	$ 1,146	$ 2,012	$ 3,158
Uncollectible %	0.33%	0.33%	
Proposed Revenues	$ 346,818	$ 733,800	
Uncollectible %	0.33%	0.33%	
Uncollectible Accounts	$ 1,146	$ 2,453	$ 3,599

Tega Cay Water Service, Inc.
Calculation of Pro Forma Operating Expense Charged to Plant
Docket No. 2006-97-WS

Schedule 4

		W	S
Total Operating Expense Charged to Plant per Books	$(17,957)		
Total Operating Expense charged to Plant (from Schedule 3) * 12.53%	(19,712)		
Percentage of Pro Forma Salaries, Taxes, and Benefits to Charge to Plant	$ (1,755)		
Total Operating Adjustment to Plant per ORS	$ (662)		
Net rebuttal adjustment charged to Plant	$ (1,093)	$ (564)	$ (529)
	[j]	[j]	[j]

Tega Cay Water Service, Inc.
Calculation of Taxes Other Than Income Taxes
Docket No. 2006-97-WS

Schedule 5

	Water	Sewer	Total
Pro Forma Adjustments			
Payroll Tax Increase	$ 334	$ 315	$ 649
Adjustment	**$ 334**	**$ 315**	**$ 649**
Proposed Increase Adjustments			
Revenue Increase	$ -	$ 131,850	$ 131,850
Utility/Commission Tax	0.82%	0.82%	0.82%
Gross Receipts Tax	0.30%	0.30%	0.30%
Adjustment	**$ -**	**$ 1,481**	**$ 1,481**

Tega Cay Water Service, Inc.
Calculation of Income Taxes
Docket No. 2006-97-WS

Schedule 6

WATER	Pro Forma Proposed
State Income Taxes	
Total Revenue	$ 352,015
Maintenance Expense	116,334
General Expense	123,232
Depreciation & Amortization	35,869
Taxes Other Than Income	60,365
Interest Expense	4,362
Taxable Income	$ 11,853
State Tax Rate	5.0%
Total State Income Taxes	$ 593
Federal Taxes	
Taxable Income before taxes	$ 11,853
Less: State I/T	593
Federal Taxable Income	11,260
Federal Tax Rate	35%
Total Federal Taxes	$ 3,941

SEWER	Pro Forma Proposed
State Income Taxes	
Total Revenue	$ 739,152
Maintenance Expense	281,704
General Expense	115,110
Depreciation & Amortization	49,791
Taxes Other Than Income	64,005
Interest Expense	76,526
Taxable Income	$ 152,016
State Tax Rate	5.0%
Total State Income Taxes	7,601
Federal Taxes	
Taxable Income before taxes	$ 152,016
Less: State I/T	7,601
Federal Taxable Income	$ 144,415
Federal Tax Rate	35%
Total Federal Taxes	$ 50,545

UTILITIES, INC. AND SUBSIDIARIES
Capital Structure at September 30, 2005

Schedule 7

	September, 30 2005	Annual Interest Expense	Capital Structure
COMMON SHAREHOLDERS' EQUITY:			
Common shares, $.10 par value; authorized and issued 1,000 shares, respectively 0 shares reserved for stock options, respectively	$ 100		
Paid-in capital	24,261,656		
Retained earnings ($42,152,239 restricted at December 31, 2003)	73,467,650		
Note receivable from parent	(2,650,000)		
Other Comprehensive Income	(427,551)		
Total Common Shareholder's Equity	$ 94,651,855		40.90%
LONG-TERM DEBT:			
Collateral trust notes -			
5.41%, $7,142,857 due in annual installments beginning in 2006 through 2012	$ 50,000,000	2,705,000	
9.16%, $1,000,000 due in annual installments through 2006	1,000,000	91,600	
9.01%, $1,500,000 due in annual installments through 2007	4,500,000	405,450	
8.42%, $5,857,143 due in annual installments beginning in 2009 through 2015	41,000,000	3,452,200	
4.55%, $4,000,000 due in annual installments beginning in 2008 through 2012	20,000,000	910,000	
4.62%, $4,000,000 due in annual installments beginning in 2008 through 2012	20,000,000	924,000	
Other long-term debt -			
8.10% to 8.96% promissory notes payable to bank due in monthly installments through 2017	289,858	25,000	
Amortization of Debt and Acquisition Expense		266,781	
Total Long-Term Debt	$ 136,789,858	$ 8,780,031	59.10%
TOTAL CAPITALIZATION	$ 231,441,713		100.00%
COST OF DEBT	6.42%		

	Ratio	Cost	Weighted Cost
Long-Term Debt	59.10%	6.42%	3.79%
Common Equity	40.90%	11.60%	4.75%
	100.00%		8.54%

Pro Forma Interest Expense

	Water	Sewer	Total
Pro Forma Present Rate Base	114,974	2,017,219	2,132,193
Debt Ratio	59.10%	59.10%	59.10%
Embedded Cost of Debt	6.42%	6.42%	6.42%
Pro Forma Interest Expense	4,362	76,526	80,887

Tega Cay Water Service, Inc. **Schedule 8**
Calculation of Taxes Other Than Income Taxes
Docket No. 2006-97-WS

1. Project 116-04-02

Invoice Date	Amount
1/31/2006	5,525.00
1/31/2006	9,075.00
4/17/2006	12,410.00
	27,010.00

2. Project 116-05-01

Invoice Date	Amount
3/31/2006	6,000.00

3. Project 116-04-03

Invoice Date	Amount
6/21/2006	19,000.00

4. Projet 1007

Invoice Date	Amount
3/31/2006	14,937.97

5. Project 1023

Invoice Date	Amount
6/16/2006	907.66
5/22/2006	5,171.32
	6,078.98

6. Miscellaneous projects

6/6/2006	1,320.00
	1,320.00

	Total
	74,346.95
Per ORS	(70,052.00)
Adjustment	4,294.95

Tega Cay Water Service, Inc.
Calculation of Working Capital
Docket No. 2006-97-WS

Schedule 9

			Water
Pro Forma Present			
Maintenance Expenses		$	116,334
General Expenses			123,232
Total		$	239,566
Working Capital	45/360	$	29,946

			Sewer
Test Year			
Maintenance Expenses		$	281,704
General Expenses			115,110
Total		$	396,814
Working Capital	45/360	$	49,602

Tega Cay Water Service, Inc.
Combined Operations
Docket No. 2006-97-WS
Calculation of Proposed Rates

Schedule 10

WATER

Bill code	Description	Gallonage	Usage Charge	Units	BFC	Revenues
48501	5/8" Residential Distribution	109,384,911	$ 1.69	19,623	$ 7.50	$ 332,131
48502	5/8" Commercial Distribution	1,340,439	1.69	224	7.50	3,946
48505	1" Commercial Distribution	444,700	1.69	83	7.50	1,374
48506	2" Commercial Distribution	367,200	1.69	72	7.50	1,161
48540	Hydrant Rental	-	-	984	8.33	8,201
	Total	111,537,250		20,986		$ 346,813

SEWER

Bill code	Description	Gallonage	Usage Charge	Units	Rate	Revenues
48521	5/8" Residential	-	-	19,490	$ 36.68	$ 714,910
48522	5/8" Coml Sewer	-	-	96	36.68	3,521
48523	1" Coml Sewer	-	-	23	36.68	844
48524	2" Coml Sewer	-	-	396	36.68	14,525
						-
	Total	-		20,005		$ 733,800

APPENDIX A

TEGA CAY WATER SERVICE, INC.
5701 WEST PARK DR.
SUITE 101
PO BOX 240705
CHARLOTTE, NC 28224-0705
PHONE NO. 704-525-7990

DOCKET NO. 96-137-W/S - ORDER NO. 1999-191

SCHEDULE OF RATES AND CHARGES

EFFECTIVE DATE March 16, 1999

I. WATER

1. CHARGE FOR WATER DISTRIBUTION ONLY

Where water is purchased from a government body or agency or other entity for distribution by the Company, the following rates apply:

a.	Basic Facility Charge	$7.50 per single - family equivalent unit

PLUS

b.	Commodity Charge: (Usage)	$1.69 per 1,000 gallons

The Utility will also charge for the cost of water supplied by the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing water will be charged to the Utility's affected customers on a pro rata basis without markup.

c. The basic facility charge is a minimum charge per unit and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly basic facility charge may be obtained by multiplying the equivalency rating by the basic facility charge of $7.50.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter. Consumption of all units served through such meter will be averaged; a bill will be calculated based on that average plus the addition of the basic

EXHIBIT A

TEGA CAY WATER SERVICE, INC.

PROPOSED SCHEDULE OF RATES AND CHARGES

I. WATER

1. CHARGE FOR WATER DISTRIBUTION ONLY

Where water is purchased from a government body or agency or other entity for distribution by the Company, the following rates apply:

Residential

Basic Facilities Charge per single family house, condominium, mobile home or apartment unit:	$8.03 per unit*
Commodity charge:	$2.07 per 1,000 gallons or 134 cft

*Residential customers with meters of 1" or larger will be charged commercial rate

Commercial

Basic Facilities Charge	$8.03 per single family equivalent (SFE)
Commodity charge:	$ 2.07 per 1,000 gallons or 134 cft

The Utility will also charge for the cost of water purchased from the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing the water supply will be charged to the Utility's affected customers on a pro rata basis without markup. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that

entity, such tap/connection/impact fees will also be charged to the Utility's affected customers on a pro rata basis, without markup.

Commercial customers are those not included in the residential category above and include, but are not limited to hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units, which is served by a master water meter or a single water connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

2. Nonrecurring Charges

Tap Fees	$600 per SFE*

3. Account Set-Up and Reconnection Charges

a. Customer Account Charge - for new customers only $30.00

b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of Forty dollars ($40.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected. The reconnection fee shall also be due prior to reconnection if water service has been disconnected at the request of the customer.

4. Other Services

Fire Hydrant – One Hundred ($100.00) per hydrant per year for water service payable in advance. Any water used should be metered and the commodity charge in Section One (1) above will apply to such usage.