THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

CHRISTINA STUTZ

JUNE 29, 2011

DOCKET NO. 2011-24-S

Application of Palmetto Utilities, Inc. for Adjustment of Rates and Charges for, and Modifications to Certain Terms and Conditions Related to, the Provision of Sewer Service

1 **DIRECT TESTIMONY OF CHRISTINA STUTZ**

2 **FOR**

3 **THE OFFICE OF REGULATORY STAFF**

4 **DOCKET NO: 2011-24-S**

5 **IN RE: APPLICATION OF PALMETTO UTILITIES, INC. FOR ADJUSTMENT**

6 **OF RATES AND CHARGES FOR, AND MODIFICATIONS TO CERTAIN**

7 **TERMS AND CONDITIONS RELATED TO, THE PROVISION OF SEWER**

8 **SERVICE**

9

10 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**

11 **OCCUPATION.**

12 **A.** My name is Christina Stutz. My business address is 1401 Main Street,

13 Suite 900, Columbia, South Carolina, 29201. I am employed by the South

14 Carolina Office of Regulatory Staff ("ORS") as an Auditor.

15 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**

16 **EXPERIENCE.**

17 **A.** I received a Bachelor of Science degree with a major in Accounting and

18 minor in Criminal Justice from the University of South Carolina in 2004. In April

19 2005, I began my employment with ORS. I have performed several audits of

20 utility companies, which included water and wastewater rate cases, and have

21 testified before this Commission.

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**

23 **PROCEEDING?**

1 **A.** The purpose of my testimony is to set forth my findings and
2 recommendations resulting from ORS's examination of the application of Palmetto
3 Utilities, Inc. ("PUI" or "Applicant") in this docket. The application was filed on
4 March 15, 2011.

5 **Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE**
6 **EXAMINATION OF THE APPLICATION OF PALMETTO UTILTIES,**
7 **INC.**

8 A. ORS's examination of the Company's application for Adjustments of
9 Rates and Charges consisted of three major steps. In step one, ORS verified that
10 the operating experience, reported by the utility in its application, were supported
11 by the Company's accounting books and records for the test year. In the second
12 step, ORS tested the underlying transactions in the books and records for the same
13 period to ensure that the transactions were adequately supported, had a stated
14 business purpose, were allowable for ratemaking purposes, and were properly
15 recorded. Lastly, our examination consisted of adjusting, as necessary, the
16 revenues, expenditures, and capital investments to normalize the Company's
17 operating experience and operating margin, in accordance with generally accepted
18 regulatory principles and Commission orders.

19 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR**
20 **TESTIMONY.**

21 **A.** I have attached the following exhibits to my testimony relating to the
22 Application of Palmetto Utilities, Inc.:

23 • Audit Exhibit CAS-1: Operating Experience and Operating Margin

- Audit Exhibit CAS-2: Explanation of Accounting and Pro forma Adjustments
- Audit Exhibit CAS-3: Computation of Depreciation and Amortization Expense
- Audit Exhibit CAS-4: Computation of Income Taxes

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for wastewater utility rate cases. These exhibits show various aspects of PUI's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT CAS-1 AND ELABORATE ON THE CALCULATIONS.

A. Audit Exhibit CAS-1 shows PUI's operating experience for wastewater operations for the test year ended April 30, 2010. The exhibit's format is designed to reflect the Application per books, ORS's proposed accounting and pro forma adjustments necessary to normalize the results of PUI's test year operations, and to calculate the impact of the Company's proposed increase on the normalized test year.

Column (1) shows the Application per books calculated by PUI for the test year ended April 30, 2010.

Column (2) shows ORS's proposed accounting and pro forma adjustments designed to normalize the Application per books. An explanation of each adjustment is contained in Audit Exhibit CAS-2.

Column (3) shows ORS's result of a normalized test year for PUI by adding columns (1) and (2). After the accounting and pro forma adjustments, Net Income

for Margin of $611,097 was computed using Total Utility Operating Revenues of $5,914,943, less Total Operating Expenses of $5,263,899, subtracting interest expense of $55,887, and adding customer growth of $15,940. An Operating Margin of 10.33% was computed using Net Income for Margin divided by Total Utility Operating Income.

Column (4) shows Applicant's proposed increase recalculated by ORS and the calculation of late fees, taxes, and customer growth associated with the proposed increase. An explanation of each adjustment is contained in Audit Exhibit CAS-2.

Column (5) shows the effect of the Applicant's proposed rate increase by adding columns (3) and (4). Net Income for Margin of $1,687,515 was computed using Total Operating Revenues of $7,646,818, less Total Utility Operating Expenses of $5,945,080, subtracting interest expense of $55,887, and adding customer growth of $41,664. An operating Margin of 22.07% was computed using Net Income for Margin divided by Total Utility Operating Income.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT CAS-2.

A. For comparative purposes, ORS and Applicant's adjustments are both presented in Audit Exhibit CAS-2.

<u>Adjustment 1-3</u> – The ORS Water and Wastewater Department proposes to normalize wastewater revenues for residential, commercial, and industrial customers during the test year. Billing adjustments already accounted for in service revenues are also being removed. Details of these adjustments are discussed in the direct testimony of ORS witness, Hannah Majewski.

1 Adjustment 4 – ORS does not propose to adjust purchased power associated with
2 pumping expenses for PUI's estimated increases in costs.
3 Adjustment 5-7 – ORS proposes to remove other contractual pumping services of
4 ($407,063) which will be provided by Utility Group of South Carolina, LLC
5 (UGSC) under a new contract, remove capitalized wages of ($10,843), and
6 include UGSC contract costs of $254,000. This portion of the UGSC contract
7 covers base services, maintenance and operation of the wastewater treatment
8 plant, and maintenance of the collection system for PUI. The total adjustment
9 amounted to ($163,906).
10 Adjustment 8 – ORS proposes to adjust contractual services related to the Right of
11 Way (ROW) program based on known and measurable costs incurred by PUI in
12 2011. The program costs include manhole maintenance, clearing rights of way,
13 equipment rentals, and camera inspection of sewer lines. In 2011, PUI spent
14 $20,695 over three months for the maintenance. ORS proposes to annualize these
15 costs since it will be an on-going project for a total adjustment of $82,780.
16 Adjustment 9 - ORS proposes to remove salaries for treatment and disposal
17 employees who will be replaced by the UGSC contract for a total adjustment of
18 ($136,014).
19 Adjustment 10 - ORS proposes to remove pension and other benefits associated
20 with the treatment and disposal salary adjustment for operators and office
21 employees for a total adjustment of ($334).
22 Adjustment 11 – ORS does not propose to annualize sludge removal for estimated
23 expenses.

1 Adjustment 12-14 – ORS proposes to remove the per book amount of ($170,000)
2 for contractual services that will be performed by UGSC under its new contract,
3 remove capitalized wages of ($16,263), and include UGSC contract costs of
4 $381,000. This portion of the UGSC contract covers base services, maintenance
5 and operation of the wastewater treatment plant, and maintenance of the
6 collection system for PUI. The total adjustment amounted to $194,737.
7 Adjustment 15 - ORS proposes to remove the per book amount of ($77,720) for
8 contractual services that will be performed by UGSC under its new contract.
9 Adjustment 16 – ORS proposes to remove transportation expenses for vehicles
10 sold by PUI, resulting in an adjustment of ($39,864).
11 Adjustment 17 – ORS proposes to adjust materials and supplies to remove
12 nonallowable expenses of ($3,065) due to lack of proper documentation.
13 Adjustment 18-19 – ORS proposes to adjust customer account services by
14 removing the per book amount of ($115,667) that will be replaced with UGSC
15 contract work of $414,000. This portion of the UGSC contract covers billing and
16 collection services. The total adjustment amounted to $298,333.
17 Adjustment 20 – ORS proposes to adjust for bad debt expense at a rate of .8%
18 applied to pro forma service revenues of $5,627,047. ORS computed bad debt
19 expense of $45,016, less the per book amount of $14,672, for a total adjustment of
20 $30,344.
21 Adjustment 21 - ORS proposes to adjust salaries for administrative and general
22 employees by annualizing the test year payroll information. One terminated
23 employee's salary was removed in its entirety. The remaining employee's salary

1 was allocated based on the Equivalent Residential Customers (ERCs) between
2 PUI and Palmetto Wastewater Reclamation (PWR). Ni America, PUI's parent
3 company, is in the process of acquiring PWR. The ERC percentage is calculated
4 as the total number of customers actively served by PUI divided by the number of
5 customers actively served by both PUI and PWR. Since the acquisition of PWR
6 was approved in Order No. 2001-320, this employee has spent time working on
7 both companies, and therefore, the associated salary should be allocated to both
8 companies. ORS computed annualized salaries of $45,141, less per book salaries
9 of $123,079, for an adjustment of ($77,938).
10 Adjustment 22-23 - ORS proposes to adjust the account for officers, directors, and
11 majority shareholders salaries by annualizing the test year payroll information and
12 removing capitalized salaries. The employee listed under this category also
13 shares responsibilities for PWR and salaries are allocated based on ERCs between
14 both companies. ORS computed a total adjustment of ($118,415), of which
15 ($52,913) is related to allocated salaries and ($65,502) is for capitalized salaries.
16 Adjustment 24-25 - ORS proposes to annualize pension and other benefits
17 associated with the adjusted test year salaries and capitalized salaries. Total ORS
18 computed pension and other benefits was $10,825, less the per book amount of
19 $92,636, resulting in an adjustment of ($81,811). Capitalized salaries were also
20 adjusted by ($6,478) for a total adjustment of ($88,289).
21 Adjustment 26 – ORS proposes to adjust administration and general expenses to
22 remove nonallowable expenses of ($356) due to their lack of proper
23 documentation.

1 Adjustment 27 – ORS also proposes to adjust accounting services to include a
2 portion of the total rate case expenses. Total rate case expenses amounted to
3 $62,720 amortized over 5 years for an adjustment of $12,544. This account is
4 allocated 48% of the total costs or $6,021.
5 Adjustment 28-29 – ORS proposes to remove legal expenses related to acquisition
6 costs and certain other legal expenses of ($33,342) and include a portion of the
7 total rate case expenses. Total rate case expenses amounted to $62,720 amortized
8 over 5 years for an adjustment of $12,544. This account is allocated 48% of the
9 total costs or $6,021. The total adjustment amounted to ($27,321).
10 Adjustment 30 – ORS proposes to annualize rent for the office building used by
11 PUI, PWR, and UGSC and allocate the correct portion to PUI based on ERCs.
12 Total monthly rent of $5,248 was annualized for yearly costs of $62,976. Of this
13 amount, 34.724% was allocated to PUI for a total cost of $21,868. Total
14 annualized rent of $21,868, less per books rent of $20,993, amounted to an
15 adjustment of $875.
16 Adjustment 31 – ORS proposes to remove ($14,960) for vehicle insurance since
17 PUI no longer owns company vehicles.
18 Adjustment 32-35 – ORS proposes to annualize miscellaneous administrative and
19 general expenses for various adjustments. For Adjustment 32, ORS proposes to
20 remove nonallowable expenses of ($80,767) due to their lack of proper
21 documentation. For Adjustment 33, ORS adjusted overhead costs incurred by
22 PUI's parent company Ni America. The overhead costs were adjusted to remove
23 undocumented expenses, acquisition costs, and unrelated capital management

expenses. ORS computed total annualized overhead costs of $1,438,215, of which 76.857% was allocated to PUI based on ERCs, less the per book amount of $607,321, for an adjustment of $498,047. ORS also proposes to remove capitalized salaries of ($31,484) in Adjustment 34. Also included in adjustment 35 is the remaining portion of rate case expenses of $502. The total ORS computed miscellaneous expenses adjustment totaled $386,298.

Adjustment 36 - ORS proposes to annualize depreciation expense and adjust for known and measurable plant as of December 31, 2010. The details of the depreciation expense adjustment are shown in Audit Exhibit CAS-3. ORS made various adjustments which amounted to ($775,403). ORS's total depreciation expense amounted to $1,969,391, less the per book amount of $2,042,915, for a total adjustment of ($73,524).

Adjustment 37 – ORS proposes to annualize CIAC expense based on known and measurable plant. The details of the CIAC adjustment are shown on Audit Exhibit CAS-3. ORS's total CIAC expense amounted to $1,541,153, less the per book amount of ($1,505,569), for a total adjustment of ($35,584).

Adjustment 38 – ORS proposes to adjust utility regulatory assessment fees. Total pro forma revenues of $5,914,943 were multiplied by the utility/commission tax factor of .0065919 for taxes of $38,991, less the per book amount of $27,925, resulting in an adjustment of $11,066.

Adjustment 39 – ORS proposes to adjust for payroll taxes associated with the adjusted test year salaries. The payroll taxes include FICA and unemployment

1 taxes. ORS computed taxes of $10,364, less the per book amount of $29,504,
2 resulting in an adjustment of ($19,140).
3 Adjustment 40 – ORS proposes to adjust other taxes and licenses for gross receipts
4 and nonallowable items. Total pro forma revenues of $5,914,943 were multiplied
5 by the gross receipts factor of .003 for an assessment of $17,745, less the per book
6 amount of $16,528, resulting in an adjustment of $1,217. Nonallowable items
7 totaling ($1,771) were removed. These items consisted of expenses related to
8 vehicles sold, penalties, and items not related to PUI. The total adjustment for
9 gross receipts and nonallowables was ($554).
10 Adjustment 41-42 – ORS proposes to adjust income taxes after accounting and pro
11 forma adjustments. ORS used a 5% rate for state income taxes and a rate of 35%
12 for federal income taxes. Details of the computation of income taxes are shown in
13 CAS-4.
14 Adjustment 43 – ORS proposes to remove gains on the disposition of non-utility
15 property in the test year of ($175,144).
16 Adjustment 44 – ORS proposes to remove interest and dividend income of
17 ($152,707) from the test year operations.
18 Adjustment 45 – ORS proposes to remove non-utility income of (106,659) from
19 the test year operations.
20 Adjustment 46 – ORS proposes to remove miscellaneous non-utility expenses of
21 ($1,022,703) from the test year operations.
22 Adjustment 47-48 – ORS proposes to synchronize interest expense with PUI's net
23 capital investment in the Company. ORS computed allowable interest expense of

$55,887, less the per book amount of $212,789, for an adjustment of ($156,902). Additionally, ORS proposes to remove the amortization of debt discount and expense related to acquisitions.

Adjustment 49 – ORS proposes to adjust for customer growth after the accounting and pro forma adjustments. The growth factor of 2.44833% was computed by the ORS Water and Wastewater Department. The factor was applied to Total Net Utility Operating Income to compute the customer growth adjustment of $15,940.

Adjustment 50-51 – Based upon ORS Water and Wastewater Department calculations, PUI's proposed rates would produce additional revenues of $1,193,616 for Residential Service Revenues and $523,109 for Commercial Industrial Revenues totaling $1,716,725 for Wastewater Operations. Details of this adjustment are shown in direct testimony of ORS witness, Hannah Majewski.

Adjustment 52 – Based upon ORS Water and Wastewater Department calculations of the Company's proposed increase, late fees should be increased by $15,150. Details of this adjustment are shown in direct testimony of ORS witness, Hannah Majewski.

Adjustment 53 – ORS proposes to adjust for bad debt expense at a rate of .8% applied to the proposed increase revenues of $1,716,725 for a total adjustment of $13,734.

Adjustment 54-55 – ORS proposes to adjust utility/commission taxes associated with the revenues for the proposed increase using a factor of .0065919 for a total adjustment of $11,416 ($1,731,875 x .0065919). ORS also proposes to adjust

gross receipts taxes for the proposed increase using a factor of .003 for a total adjustment of $5,196 ($1,731,875 x .003).

Adjustment 56-57 – ORS proposes to adjust for income taxes associated with the applicant's proposed rate increase. See Audit Exhibit CAS-4 for the computation of income taxes.

Adjustment 58 – ORS proposes to adjust for customer growth after the Company's proposed increase. The growth factor of 2.44833% was computed by the ORS Water and Wastewater Department. The factor was applied to the Total Net Utility Operating Income for the proposed increase for the customer growth adjustment of $25,724.

Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

A. Audit Exhibit CAS-3 shows the depreciation expense and amortization of CIAC adjustment. Audit Exhibit CAS-4 shows the computation of income taxes.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Operating Experience & Operating Margin
For the Test Year Ended April 30, 2010

Description	(1) Application Per Books $	(2) Accounting & Pro Forma Adjustments $	(3) After Accounting & Pro Forma Adjustments $	(4) Applicant's Proposed Increase $	(5) After Applicant's Proposed Increase $
UTILITY OPERATING INCOME:					
Wastewater Sales Revenue					
Service Revenues - Residential	4,294,516	(382,108) (A)	3,912,408	1,193,616 (MM)	5,106,024
Service Revenues - Commercial & Industrial	1,094,969	619,670 (B)	1,714,639	523,109 (NN)	2,237,748
Billing Adjustments	11,482	(11,482) (C)	0	0	0
Total Service Revenues	5,400,967	226,080	5,627,047	1,716,725	7,343,772
Other Wastewater Revenues					
Late Fees	49,672	0	49,672	15,150 (OO)	64,822
Notification Fees	89,925	0	89,925	0	89,925
Customer Account Change	18,540	0	18,540	0	18,540
Reconnect Fees	26,145	0	26,145	0	26,145
Returned Check Fees	4,371	0	4,371	0	4,371
Tap Fees (non-CIAC portion)	99,243	0	99,243	0	99,243
Total Other Wastewater Revenues	287,896	0	287,896	15,150	303,046
TOTAL UTILITY OPERATING INCOME	**5,688,863**	**226,080**	**5,914,943**	**1,731,875**	**7,646,818**
UTILITY OPERATING EXPENSES:					
Pumping Expenses					
Purchased Power	641,148	0 (D)	641,148	0	641,148
Contractual Services - Other	407,063	(163,906) (E)	243,157	0	243,157
Contractual Services - Other - ROW Program	0	82,780 (F)	82,780	0	82,780
Total Pumping Expenses	1,048,211	(81,126)	967,085	0	967,085
Treatment and Disposal Expenses					
Salaries and Wages - Employees	136,014	(136,014) (G)	0	0	0
Employee Pensions and Benefits	334	(334) (H)	0	0	0
Sludge Removal Expense	211,905	0 (I)	211,905	0	211,905
Chemicals	71,465	0	71,465	0	71,465
Contractual Services - Management Fees	170,000	194,737 (J)	364,737	0	364,737
Contractual Services - Testing	14,624	0	14,624	0	14,624
Contractual Services - Other	77,720	(77,720) (K)	0	0	0
Rental of Equipment	22,347	0	22,347	0	22,347
Transportation Expenses	39,864	(39,864) (L)	0	0	0
Miscellaneous Expenses	12,324	0	12,324	0	12,324
Total Treatment and Disposal Expenses	756,597	(59,195)	697,402	0	697,402
Customer Accounts Expenses					
Materials and Supplies	32,153	(3,065) (M)	29,088	0	29,088
Contractual Services - Management Fees	115,667	298,333 (N)	414,000	0	414,000
Bad Debt Expense	14,672	30,344 (O)	45,016	13,734 (PP)	58,750
Miscellaneous Expenses	56,715	0	56,715	0	56,715
Total Customer Accounts Expenses	219,207	325,612	544,819	13,734	558,553

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Operating Experience & Operating Margin
For the Test Year Ended April 30, 2010

Description	(1) Application Per Books $	(2) Accounting & Pro Forma Adjustments $	(3) After Accounting & Pro Forma Adjustments $	(4) Applicant's Proposed Increase $	(5) After Applicant's Proposed Increase $
Administrative and General Expenses					
Salaries and Wages - Employees	123,079	(77,938) (P)	45,141	0	45,141
Salaries and Wages - Officers, Directors, and Majority Stockholders	174,446	(118,415) (Q)	56,031	0	56,031
Employee Pension and Benefits	92,636	(88,289) (R)	4,347	0	4,347
Purchased Power	4,590	0	4,590	0	4,590
Materials and Supplies	767	(356) (S)	411	0	411
Contractual Services - Engineering	31,092	0	31,092	0	31,092
Contractual Services - Accounting	68,556	6,021 (T)	74,577	0	74,577
Contractual Services - Legal	68,221	(27,321) (U)	40,900	0	40,900
Rental of Building/Real Property	51,475	875 (V)	52,350	0	52,350
Insurance - Vehicle	14,960	(14,960) (W)	0	0	0
Insurance - General Liability	25,110	0	25,110	0	25,110
Insurance - Workman's Compensation	5,742	0	5,742	0	5,742
Insurance - Other	23,875	0	23,875	0	23,875
Miscellaneous Expenses (includes Corporate Overhead)	795,440	386,298 (X)	1,181,738		1,181,738
Total Administrative and General Exp.	1,479,989	65,915	1,545,904	0	1,545,904
TOTAL OPERATING EXPENSES	3,504,004	251,206	3,755,210	13,734	3,768,944
Depreciation and Amortization					
Depreciation Expenses	2,042,915	(73,524) (Y)	1,969,391	0	1,969,391
Amortization of Regulatory Liabilities (CIAC)	(1,505,569)	(35,584) (Z)	(1,541,153)	0	(1,541,153)
Total Depreciation and Amortization	537,346	(109,108)	428,238	0	428,238
Taxes Other Than Income Taxes					
Utility Regulation Assessment Fees	34,751	11,066 (AA)	45,817	11,416 (QQ)	57,233
Property Taxes	284,317	0	284,317	0	284,317
Payroll Taxes	29,504	(19,140) (BB)	10,364	0	10,364
Other Taxes and Licenses	40,917	(554) (CC)	40,363	5,196 (RR)	45,558
Total Taxes Other Than Income Taxes	389,489	(8,628)	380,861	16,612	397,473
Income Taxes					
Federal Income Taxes	86,304	344,200 (DD)	430,504	565,758 (SS)	996,262
State Income Taxes	21,990	42,747 (EE)	64,737	85,077 (TT)	149,814
Deferred Federal Income Taxes	204,349	0	204,349	0	204,349
Total Income Taxes	312,643	386,947	699,590	650,835	1,350,425
TOTAL UTILITY OPERATING EXPENSES	**4,743,482**	**520,417**	**5,263,899**	**681,181**	**5,945,080**
TOTAL NET UTILITY OPERATING INCOME (LOSS)	945,381	(294,337)	651,044	1,050,694	1,701,738
Other Operating Income (Loss)					0
Gains (Losses) from Disposition of Utility Property	175,144	(175,144) (FF)	0	0	0
Total Other Operating Income (Loss)	175,144	(175,144)	0	0	0

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Operating Experience & Operating Margin
For the Test Year Ended April 30, 2010

Description	(1) Application Per Books	(2) Accounting & Pro Forma Adjustments	(3) After Accounting & Pro Forma Adjustments	(4) Applicant's Proposed Increase	(5) After Applicant's Proposed Increase
	$	$	$	$	$
Other Income and Deductions					
Interest and Dividend Income	152,707	(152,707) (GG)	0	0	0
Non-Utility Income	106,659	(106,659) (HH)	0	0	0
Miscellaneous Non-Utility Expenses	(1,022,703)	1,022,703 (II)	0	0	0
Total Other Income and Deductions	(763,337)	763,337	0	0	0
Interest Expense					
Interest on Long-Term Debt	212,789	(156,902) (JJ)	55,887	0	55,887
Amortization of Debt Discount and Expense	17,243	(17,243) (KK)	0	0	0
Total Interest Expense	230,032	(174,145)	55,887	0	55,887
Add: Customer Growth	0	15,940 (LL)	15,940	25,724 (UU)	41,664
NET INCOME (LOSS) FOR MARGIN	**127,156**	**483,941**	**611,097**	**1,076,418**	**1,687,515**
Operating Margin	12.57%		10.33%		22.07%

Note: The Company's application did not include the calculation of an Operating Margin. For comparison purposes, ORS computed the Per Books operating margin using Net Utility Operating Income less Interest Expense divided by Total Utility Operating Income.

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Explanation of Accounting and Pro forma Adjustments
For the Test Year Ended April 30, 2010

	ORS Adj.#	PUI Adj.#	Description	$ ORS	$ Applicant
Accounting and Pro forma Adjustments					
Utility Operating Income:					
(A) Service Revenues - Residential	1	10	To adjust residential revenues to reflect test year customer billings.	(382,108)	(601)
(B) Service Revenues - Commercial & Industrial	2	10	To adjust commercial and industrial revenues to reflect test year customer billings.	619,670	49
(C) Billing Adjustments	3		To remove billing adjustments already accounted for in revenues.	(11,482)	0
Utility Operating Expenses:					
Pumping Expenses:					
(D) Purchased Power	4	2	ORS does not propose to adjust for anticipated increases in purchased power.	0	45,202
(E) Contractual Services - Other	5		To remove expenses now replaced with UGSC contract.	(407,063)	0
	6	12	To remove capitalized wages.	(10,843)	(10,843)
	7	1	To add contract labor for UGSC.	254,000	254,000
			Total Contractual Services - Other	(163,906)	243,157
(F) Contractual Services - Other - ROW Program	8	4	To annualize costs associated with the right of way clearing project.	82,780	241,211
Treatment and Disposal Expenses:					
(G) Salaries and Wages - Employees	9	1	To remove wages now replaced with UGSC contract.	(136,014)	(136,014)
(H) Employee Pension and Benefits	10	1	To remove benefits associated with adjusted wages.	(334)	(334)
(I) Sludge Removal Expense	11	3	ORS does not propose to increase sludge removal costs based on estimated increases.	0	18,344
(J) Contractual Services - Management Fees	12	1	To remove expenses now replaced with UGSC contract work.	(170,000)	(170,000)
	13	12	To remove capitalized wages.	(16,263)	(16,263)
	14	1	To add contract labor for UGSC.	381,000	381,000
			Total Contractual Services - Management Fees	194,737	194,737
(K) Contractual Services - Other	15		To remove expenses now replaced with contract work.	(77,720)	0
(L) Transportation Expenses	16	1	To remove vehicles sold.	(39,864)	(39,864)
Customer Accounts Expenses:					
(M) Materials and Supplies	17		To remove nonallowable expenses.	(3,065)	0
(N) Contractual Services - Management Fees	18	1	To remove expenses now replaced with UGSC contract.	(115,667)	(115,667)
	19	1	To add contract labor for UGSC.	414,000	414,000
			Total Contractual Services - Management Fees	298,333	298,333

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Explanation of Accounting and Pro forma Adjustments
For the Test Year Ended April 30, 2010

	ORS Adj.#	PUI Adj.#	Description	$ ORS	$ Applicant
(O) Bad Debt Expenses	20		To include bad debt expense based on adjusted revenues.	30,344	0
Administrative and General Expenses:					
(P) Salaries and Wages - Employees	21	1	To remove terminated employee and allocate salaries among various companies.	(77,938)	(56,129)
(Q) Salaries and Wages - Officers, Directors, and Majority Shareholders	22	11	To remove salaries allocated to various companies.	(52,913)	554
	23	12	To remove capitalized salaries.	(65,502)	(65,502)
			Total Salaries and Wages	(118,415)	(64,948)
(R) Employee Pension and Benefits	24	1	To annualize pension and other benefits associated with the adjusted test year salaries.	(81,811)	(76,104)
	25	12	To remove capitalized salaries.	(6,478)	(6,478)
			Total Employee Pension and Benefits	(88,289)	(82,582)
(S) Materials and Supplies	26		To remove nonallowable expenses.	(356)	0
(T) Contractual Services - Accounting	27		To amortize a portion of rate case expenses over a five-year period.	6,021	41,667
(U) Contractual Services - Legal	28	5	To remove non-utility expenses.	(33,342)	231,697
	29	14	To include a portion of amortized rate case expenses.	6,021	41,667
			Total Contractual Services - Legal	(27,321)	273,364
(V) Rental of Building/Real Property	30		To annualize rent costs and allocate correct portion to PUI.	875	0
(W) Insurance - Vehicle	31	1	To remove vehicle insurance for sold fleet.	(14,960)	(14,960)
(X) Miscellaneous Expenses (Includes Corporate Overhead)	32		To remove nonallowables from expenses.	(80,767)	0
	33		To annualize overhead costs after removing nonallowable expenses.	498,047	0
	34	12	To remove capitalized wages.	(31,484)	(31,484)
	35	14	To include a portion of amortized rate case expenses.	502	3,381
			Total Miscellaneous Expenses	386,298	(28,103)
Depreciation and Amortization					
(Y) Depreciation Expenses	36	8,9	To update depreciation costs after removing undocumented expenses, salaries already expensed in prior years, non-utility expenses, etc. See Exhibit CAS-3 for details.	(73,524)	20,743
(Z) Amortization and Regularity	37	8	To reflect correct CIAC amount.	(35,584)	(27,185)

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Explanation of Accounting and Pro forma Adjustments
For the Test Year Ended April 30, 2010

	ORS Adj.#	PUI Adj.#	Description	$ ORS	$ Applicant
Taxes Other Than Income:					
(AA) Utility Regulatory Assessment Fees	38		To adjust utility/commission taxes after the accounting and pro forma adjustments using a factor of .0065919.	11,066	0
(BB) Payroll Taxes	39	1	To adjust payroll taxes associated with the adjusted test year salaries.	(19,140)	(5,061)
(CC) Other Taxes and Licenses	40		To remove nonallowable items and update license fees after adjusted revenues.	(554)	0
Income Taxes:					
(DD) Federal Income Taxes, Utility Operating Income	41	15	To adjust federal income taxes after accounting and pro forma adjustments. See Audit Exhibit CAS-4.	344,200	(69,468)
(EE) State Income Taxes, Utility Operating Income	42	15	To adjust state income taxes after accounting and pro forma adjustments. See Audit Exhibit CAS-4.	42,747	(10,113)
Other Operating Income (Loss):					
(FF) Gains (Losses) from Disposition of Utility Property	43	6	To remove gains/(losses) on non-utility property from the test year.	(175,144)	(175,144)
Other Income and Deductions:					
(GG) Interest and Dividend Income	44	7	To remove non-utility interest and dividend income.	(152,707)	(152,707)
(HH) Non-Utility Income	45	7	To remove non-utility income.	(106,659)	(106,659)
(II) Miscellaneous Non-Utility Expenses	46	5,6,9	To remove miscellaneous non-utility expenses.	1,022,703	1,022,703
Interest Expense:					
(JJ) Interest on Long-Term Debt	47		To remove non-allowable interest expense.	(156,902)	0
(KK) Amortization of Debt Discount and Expense	48		To remove amortization of debt expense associated with acquisitions.	(17,243)	0
Customer Growth:					
(LL) Customer Growth	49		To adjust for customer growth after the accounting and pro forma adjustments. The growth factor of 2.44833% was computed by the Water and Wastewater Department.	15,940	0
Applicant's Proposed Increase					
(MM) Service Revenues - Residential	50	13	To adjust sewer service revenues for ORS's recalculation of the Company's proposed rate increase.	1,193,616	1,310,006
(NN) Service Revenues - Commercial & Industrial	51	13	To adjust sewer service revenues for ORS's recalculation of the Company's proposed rate increase.	523,109	334,068
(OO) Late Fees	52		To adjust for late fees associated with the proposed increase.	15,150	0
(PP) Bad Debt Expense	53		To include bad debt expense associated with the Company's proposed rate increase.	13,734	0
(QQ) Utility Regulatory Assessment Fees	54		To adjust utility/commission taxes associated with the Company's proposed increase using a factor of .0065919 for PSC/ORS.	11,416	0

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Explanation of Accounting and Pro forma Adjustments
For the Test Year Ended April 30, 2010

	ORS Adj.#	PUI Adj.#	Description	$ ORS	$ Applicant
(RR) Other Taxes and Licenses	55		To adjust gross receipts associated with the Company's proposed increase using a factor of .003 for SCDOR.	5,196	0
(SS) Federal Income Taxes, Utility Operating Income	56	15	To adjust federal income taxes associated with the Company's proposed increase. See Audit Exhibit CAS-4.	565,758	531,036
(TT) State Income Taxes, Utility Operating Income	57	15	To adjust state income taxes associated with the Company's proposed increase. See Audit Exhibit CAS-4.	85,077	82,204
(UU) Customer Growth	58		To adjust customer growth associated with the Company's proposed increase. The growth factor of 2.44833% for wastewater was provided by the Water and Wastewater	25,724	0

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended April 30, 2010

Description	Cost	Additions	Retirements	Pro forma Cost	Service Life	Rate	Expense
	$	$	$	$	Years	%	$
		Plant in Service					
Collection System - Force							
PVC - 4" to 30"	2,664,051	75,094	-	2,739,145	30	3.33%	91,214
DIP - 4" to 30"	123,337	10,373	-	133,710	30	3.33%	4,453
Air Release Manholes	7,088	5,147	-	12,235	30	3.33%	407
	2,794,476	90,614	-	2,885,090			96,074
Collection System - Gravity							
PVC - 4" to 30"	19,370,040	140,712	-	19,510,752	45	2.22%	433,139
DIP - 4" to 30"	1,529,126	4,574	-	1,533,700	45	2.22%	34,048
Air Release Manholes	8,520,332	86,799	-	8,607,131	30	3.33%	286,617
	29,419,498	232,085	-	29,651,583			753,804
Collection System - Services to Customers							
Services	1,674,493	35,338	-	1,709,831	38	2.63%	44,969
Elder Valves	1,273,984	29,185	-	1,303,169	38	2.63%	34,273
Grease Traps	4,406	8,609	-	13,015	38	2.63%	342
	2,952,883	73,132	-	3,026,015			79,584
Pumping Plant							
Structures & Improvement	3,331,582	2,799	-	3,334,381	32	3.13%	104,366
Pumping Equip - Fully Accrued	216,422	-	-	216,422			**FD**
Pumping Equip	4,504,920	499,579	(102,965)	4,901,534	18	5.56%	272,525
	8,052,924	502,378	(102,965)	8,452,337			376,891
Treatment & Disposal Plant							
Land and Land Rights	136,355	-	-	136,355			N/A
Structures & Improvements	1,425,279	8,387	-	1,433,666	32	3.13%	44,874
Power Generating Equipment	364,486	-	-	364,486	20	5.00%	18,224
Pumping Equip - Fully Accrued	167,410	-	-	167,410			**FD**
Pumping Equip	477,013	-	-	477,013	18	5.56%	26,522
Treat & Disp Equip - Fully Accrued	304,221	-	-	304,221			FD
Treat & Disp Equipment	7,614,004	193,630	(17,053)	7,790,581	18	5.56%	433,156
Plant Sewers	455,466	-	-	455,466	35	2.86%	13,026
Outfall Sewer Lines	1,658,755	-	-	1,658,755	30	3.33%	55,237
Other Plant & Misc Equip	270,194	-	-	270,194			FD
Other Plant and Misc. Equip	1,429,729	-	-	1,429,729	18	5.56%	79,493
	14,302,912	202,017	(17,053)	14,487,876			670,532
General Plant							
Land and Land Rights	520,741	-	-	520,741			**N/A**
Furniture and Equipment							
Furniture and Equipment	26,792	3,226	-	30,018	15	6.67%	2,002
Computers - Fully Accrued	28,799	1,114	-	29,913			**FD**
Computers	81,826	877	-	82,703	6	16.67%	13,787
Transportation Equipment	27,468	-	-	27,468	6	16.67%	4,579
Tools, Shop, and Garage Equipment	108,708	27,585	-	136,293	16	6.25%	8,518
Laboratory Equipment	31,014	1,198	-	32,212	15	6.67%	2,149
Power Operated Equipment	54,917	1,712	-	56,629	12	8.33%	4,717
Communication Equipment	73,918	-	-	73,918	10	10.00%	7,392
Other Tangible Plant	5,513	-	-	5,513	10	10.00%	551
	438,955	35,712	-	474,667			43,695
Total Plant in Service	58,482,389	1,135,938	(120,018)	59,498,309			2,020,580

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended April 30, 2010

Description	Cost	Additions	Retirements	Pro forma Cost	Service Life	Rate	Expense
	$	$	$	$	Years	%	$
ORS Adjustments:							
Stan Jones Capitalized Salary 1999-2010				(662,392)		3.40%	(22,521)
2002 Undocumented Expenses & Sample				(20,350)		3.40%	(692)
Engineering Salaries				(222,000)		3.40%	(7,548)
Capitalized Salaries (Adj. 11, 19, 33, 35, 47)				130,570		3.40%	4,439
Non-Utility Expenses							(24,825)
Furniture				(1,231)		3.40%	(42)
Total Adjustments				(775,403)			(51,189)
Adjusted Plant in Service				58,722,906			1,969,391
Less: Per Books Amount							2,042,915
Total Adjustment to Depreciation							**(73,524)**
Contributions in Aid of Construction							
Collection System - Force							
PVC - 4" to 30"	(2,253,973)	(75,094)	-	(2,329,067)	30	3.33%	(77,558)
DIP - 4" to 30"	(120,840)	(10,373)	-	(131,213)	30	3.33%	(4,369)
Air Release Manholes	(3,215)	(5,147)	-	(8,362)	30	3.33%	(278)
	(2,378,028)	(90,614)	-	(2,468,642)			(82,205)
Collection System - Gravity							
PVC - 4" to 30"	(16,222,238)	(138,485)	-	(16,360,723)	45	2.22%	(363,208)
DIP - 4" to 30"	(1,519,371)	(4,574)	-	(1,523,945)	45	2.22%	(33,832)
Manholes	(8,122,635)	(86,799)	-	(8,209,434)	30	3.33%	(273,374)
	(25,864,244)	(229,858)	-	(26,094,102)			(670,414)
Collection System - Services to Customers							
Services	(1,618,083)	(35,338)	-	(1,653,421)	38	2.63%	(43,485)
Elder Valves	(1,214,072)	(29,185)	-	(1,243,257)	38	2.63%	(32,698)
Grease Traps	-	(8,609)	-	(8,609)	38	2.63%	(226)
	(2,832,155)	(73,132)	-	(2,905,287)			(76,409)
Pumping Plant:							
Structures and Improvements	(3,027,244)	-	-	(3,027,244)	32	3.13%	(94,753)
Pumping Equipment - Fully Accrued	(60,281)	-	-	(60,281)			**FD**
Pumping Equipment	(3,680,322)	(380,629)	80,032	(3,980,919)	18	5.56%	(221,339)
	(6,767,847)	(380,629)	80,032	(7,068,444)			(316,092)
Treatment and Disposal Plant							
Land and Land Rights	(60,845)	-	-	(60,845)			**N/A**
Structures and Improvements	(766,601)	(8,387)	-	(774,988)	32	3.13%	(24,257)
Power Generating Equipment	(190,541)	-	-	(190,541)	20	5.00%	(9,527)
Pumping Equipment - Fully Accrued	(30,412)	-	-	(30,412)			**FD**
Pumping Equipment	(285,056)	-	-	(285,056)	18	5.56%	(15,849)
Treat & Disp Equip - Fully Accrued	(44,345)	-	-	(44,345)			**FD**
Treat & Disp Equip	(4,897,808)	(192,966)	13,348	(5,077,426)	18	5.56%	(282,305)
Plant Sewers	(328,117)	-	-	(328,117)	35	2.86%	(9,384)
Outfall Sewer Lines	(268,739)	-	-	(268,739)	30	3.33%	(8,949)
Other Plant & Misc Equip - Fully Accrued	(39,385)	-	-	(39,385)			**FD**
Other Plant and Misc Equip	(823,056)	-	-	(823,056)	18	5.56%	(45,762)
	(7,734,905)	(201,353)	13,348	(7,922,910)			(396,033)
Total CIAC - Plant in Service	(45,577,179)	(975,586)	93,380	(46,459,385)			(1,541,153)
Less: Per Books Amount							(1,505,569)
Total Adjustment to CIAC							**(35,584)**

Palmetto Utilities, Inc.
Docket No. 2011-24-S
Computation of Income Taxes
For the Test Year Ended April 30, 2010

After Accounting & Pro Forma Adjustments

	$ Wastewater Operations
Operating Revenues	5,914,943
Operating Expenses	4,564,309
Net Operating Income Before Taxes	1,350,634
Less: Annualized Interest Expense	55,887
Taxable Income - State	1,294,747
State Income Tax %	5.0%
State Income Taxes	64,737
Less: State Income Taxes Per Book	21,990
Adjustment to State Income Taxes	**42,747**
Taxable Income - Federal	1,230,010
Federal Income Taxes %	35.0%
Federal Income Taxes	430,504
Less: Federal Income Taxes Per Book	86,304
Adjustment to Federal Income Taxes	**344,200**
Total Adjustment to Income Taxes	**386,947**

After Applicant's Proposed Increase

	$ Wastewater Operations
Operating Revenues	7,646,818
Operating Expenses	4,594,655
Net Operating Income Before Taxes	3,052,163
Less: Annualized Interest Expense	55,887
Taxable Income - State	2,996,276
State Income Tax %	5.0%
State Income Taxes	149,814
Less: State Income Taxes As Adjusted	64,737
Adjustment to State Income Taxes	**85,077**
Taxable Income - Federal	2,846,462
Federal Income Taxes %	35.0%
Federal Income Taxes	996,262
Less: Federal Income Taxes As Adjusted	430,504
Adjustment to Federal Income Taxes	**565,758**
Total Adjustment to Income Taxes	**650,835**