THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY & EXHIBITS

OF

ZACHARY J. PAYNE

MARCH 12, 2018

DOCKET NO. 2017-292-WS

Application of Carolina Water Service, Incorporated for Approval of an Increase in Its Rates for Water and Sewer Services

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1 **DIRECT TESTIMONY OF**

2 **ZACHARY J. PAYNE**

3 **ON BEHALF OF**

4 **THE OFFICE OF REGULATORY STAFF**

5 **DOCKET NO. 2017-292-WS**

6 **IN RE: APPLICATION OF CAROLINA WATER SERVICE,**

7 **INCORPORATED FOR APPROVAL OF AN INCREASE IN ITS RATES FOR**

8 **WATER AND SEWER SERVICES**

9

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

11 **A.** My name is Zachary J. Payne. My business address is 1401 Main Street, Suite

12 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of

13 Regulatory Staff ("ORS") in the Audit Department as a Senior Auditor.

14 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

15 **A.** I received a Bachelor of Science Degree in Business Administration with a double

16 major in Accounting and Economics from the University of South Carolina in May 2013.

17 I began employment with ORS in March 2015 and since have worked on cases dealing

18 with the regulation of nuclear waste, natural gas, water and wastewater companies.

19 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE**

20 **COMMISSION OF SOUTH CAROLINA ("PSC" OR "COMMISSION")?**

21 **A.** Yes.

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

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A. The purpose of my testimony is to set forth my findings and recommendations resulting from ORS's examination of the application of Carolina Water Service, Inc. ("CWS" or "Company") in this docket, 2017-292-WS. The application was filed on November 10, 2017.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF THE APPLICATION OF CWS.

A. ORS's examination of the Company's application consisted of three major steps. In step one, ORS verified that the operating experience, reported by CWS in its application, was supported by CWS's accounting books and records for the twelve months ending August 31, 2017 ("test year"). In the second step, ORS tested the underlying transactions in the books and records for the test year to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. Lastly, ORS's examination consisted of adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base, in accordance with generally accepted regulatory principles and prior Commission orders.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the Company's application:

- Audit Exhibit ZJP-1: Operating Experience, Rate Base, and Rate of Return for Combined Operations – Water and Sewer Service Territory 1 & 2
- Audit Exhibit ZJP-2: Operating Experience, Rate Base, and Rate of Return for Water Service Territory 1

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- Audit Exhibit ZJP-3: Operating Experience, Rate Base, and Rate of Return for Water Service Territory 2
- Audit Exhibit ZJP-4: Operating Experience, Rate Base, and Rate of Return for Sewer Service Territory 1 and 2
- Audit Exhibit ZJP-5: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit ZJP-6: Depreciation and Amortization Expense Adjustments
- Audit Exhibit ZJP-7: Computation of Income Taxes
- Audit Exhibit ZJP-8: Cash Working Capital Allowance
- Audit Exhibit ZJP-9: Return on Equity

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

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

A. Audit Exhibit ZJP-1 details the Company's operating experience, rate base, and rate of return for combined water and sewer operations for the test year ended August 31, 2017. The exhibit's format is designed to reflect the application per books and ORS's proposed accounting and pro forma adjustments to normalize the results of the Company's test year operations and to reflect the proposed increase as recalculated by ORS.

Column (1) details the application per books provided by CWS for the test year ended August 31, 2017. ORS verified total operating revenue of $21,119,639, total operating expenses of $18,426,000 and net income for return of $2,783,247 to the

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1 Company's books and records. The per books rate base of $56,701,397 produced a return
2 on rate base of 4.91%. As shown on Audit Exhibit ZJP-9, the resulting return on equity
3 was 3.36%.

4 Column (2) details ORS's proposed accounting and pro forma adjustments
5 designed to normalize the application per books. An explanation of each adjustment is
6 contained in Audit Exhibit ZJP-5.

7 Column (3) details ORS's results for a normalized test year for CWS by adding
8 columns (1) and (2). After the accounting and pro forma adjustments, net income for
9 return of $2,522,414 was computed using total operating revenues of $19,941,672, less
10 total operating expenses of $17,443,706, plus customer growth of $24,448. Total rate base
11 of $54,135,016 produced a return on rate base of 4.66%. As shown on Audit Exhibit ZJP-
12 9, the resulting return on equity was 2.88%.

13 Column (4) details the Company's proposed increase recalculated by ORS and the
14 calculation of taxes and customer growth associated with the proposed increase. An
15 explanation of each adjustment is contained in Audit Exhibit ZJP-5.

16 Column (5) details the effect of the Company's proposed rate increase by adding
17 columns (3) and (4). Net income for return of $6,045,965 was computed using total
18 operating revenues of $24,610,475, less total operating expenses of $18,626,941, plus
19 customer growth of $62,431. Total Rate Base of $54,135,016 produced a return on rate
20 base of 11.17%. As shown on Audit Exhibit ZJP-9, the resulting return on equity was
21 15.42%.

22 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT ZJP-5.**

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A. For comparative purposes, ORS's and the Company's adjustments are both presented in Audit Exhibit ZJP-5.

Adjustment 1 – Service Revenues - Water – The ORS Utility Rates Department proposes to annualize water service revenues for the test year. Details of the annualized water service revenues are reflected in the direct testimony and exhibits of ORS Utility Rates witness Matthew Schellinger.

Adjustment 2 – Service Revenues - Sewer – The ORS Utility Rates Department proposes to annualize sewer service revenues for the test year. Details of the annualized sewer service revenues are reflected in the direct testimony and exhibits of ORS Utility Rates witness Matthew Schellinger.

Adjustment 3 – Miscellaneous Revenues – The ORS Utility Rates Department proposes to adjust miscellaneous revenues for the test year. Details of the miscellaneous revenues are reflected in the direct testimony and exhibits of ORS Utility Rates witness Matthew Schellinger.

Adjustment 4 – Uncollectible Accounts – ORS and the Company propose to adjust uncollectible accounts. ORS proposes to adjust uncollectible accounts associated with the Company's revenues after ORS's proposed accounting and pro forma adjustments. The percentages used to calculate uncollectible accounts were provided by ORS Utility Rates witness Matthew Schellinger.

Adjustment 5 – Maintenance Salaries & Wages – ORS and the Company propose to adjust operators' salaries. ORS proposes to adjust operators' salaries by annualizing the latest available salary information as of November 2017 and accounting for changes due to the removal of the I-20 sewer plant business unit ("BU"). Each operator's total salary is

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1 allocated to water territory 1, water territory 2 and sewer territory based on its percentage
2 of Equivalent Residential Connections ("ERC"). The ERC percentage is calculated by
3 dividing the number of ERCs served by each territory by the total number of ERCs
4 served by all subsidiaries to which the employee is assigned. ORS recalculated the ERC's
5 to reflect the removal of the I-20 sewer system before allocating salaries. ORS also
6 removed salaries booked directly to the I-20 sewer system during the test year. ORS
7 computed annualized maintenance salaries of $2,699,723, less per book maintenance
8 salaries of $2,565,425, for an adjustment of $134,298. The difference between ORS's and
9 the Company's adjustments is primarily due to the inclusion of the salary for the new
10 president of CWS whose hiring occurred after the filing of the application. ORS included
11 this new salary as a known and measurable out of test year change in expenses.
12 Adjustment 6 – Capitalized Time – ORS and the Company propose to adjust capitalized
13 time. ORS proposes to adjust capitalized time by calculating the test year percentage of
14 capitalized time removed from salaries and applying it to pro-forma salaries calculated in
15 adjustments 5 and 14. ORS verified each operator's hourly rate and sampled time sheets
16 used to calculate test year capitalized time. ORS computed pro-forma capitalized time of
17 ($541,688), less the per book amount of ($525,777), for an adjustment of ($15,911).
18 Adjustment 7 – Purchased Power – ORS and the Company propose to adjust purchased
19 power expense to remove expenses charged to the I-20 sewer plant BU during the test year.
20 The Company no longer owns and operates this unit. The amount of test year purchased
21 power expense to remove is $75,032.
22 Adjustment 8 – Purchased Water & Sewer – ORS and the Company propose to adjust
23 purchased water and sewer. ORS proposes to adjust purchased water and sewer expense

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1 by $598,804 to reflect a going forward expense level. This adjustment is comprised
2 primarily of three components. First, it annualizes various rate increases from CWS's bulk
3 water suppliers based on the twelve months of supplier water bills through January 2018.
4 Second, it adjusts purchased water expense to reflect two BUs that converted to purchased
5 water systems, using the BU's test year consumption data and applicable purchased water
6 rates. Third, it adjusts purchased water expense to account for a water loss adjustment
7 recommended by ORS Utility Rates Department witness Matthew Schellinger.

8 Adjustment 9 – Maintenance and Repair – ORS proposes a total maintenance and repair
9 adjustment of ($32,474). This adjustment is comprised of the following maintenance and
10 repair adjustments:

11 Adjustment 9a – Deferred Maintenance – ORS and the Company propose to adjust
12 maintenance and repairs for deferred maintenance expenses. ORS's and the Company's
13 adjustments allocate deferred maintenance expenses directly to the water and sewer rate
14 territories based on the BU. ORS proposes to adjust maintenance and repair expense by
15 ($13) to reflect total adjusted deferred maintenance expenses of $62,985. ORS's review of
16 supporting documentation provided by the Company indicates that ORS's and the
17 Company's adjustment calculations are the same. However, the Company's reporting of
18 this adjustment as filed in the application contained an error.

19 Adjustment 9b – Removing I-20 Sewer Maintenance and Repair – ORS and the Company
20 propose to adjust maintenance and repair expense to remove expenses charged to the I-20
21 sewer plant BU during the test year. The Company no longer owns and operates this unit.
22 The amount of test year maintenance and repair expense to remove is $116,131.

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1 Adjustment 9c – Purchased Water Deferral Amortization – ORS and the Company propose
2 to adjust maintenance and repair for deferred purchased water expenses. ORS proposes to
3 adjust maintenance and repair expense by $191,034. This adjustment represents the
4 increase in purchased water expense the Company has deferred since their last rate case,
5 recovered over three years. The Company provided ORS with bills from suppliers who had
6 increased their purchased water rates since CWS's last rate case. ORS calculated the
7 difference between the purchased water rates charged by suppliers to CWS and the rates
8 CWS charged its customers per Order No. 2015-876. ORS calculated a total deferral
9 balance as of January 10, 2018, of $573,101.
10 Adjustment 9d – Sludge Hauling – ORS proposes to adjust maintenance and repair expense
11 by ($96,892). This adjustment is to normalize sludge hauling expense for two BUs that
12 experienced abnormally large increases in sludge hauling expenses during the test year
13 compared to prior years and were under consent order agreements with the South Carolina
14 Department of Health and Environmental Control ("DHEC") during the test year. ORS
15 calculated the two BU's average monthly sludge hauling expense over the three-year
16 period ended August 31, 2017, and multiplied that average by twelve months to calculate
17 its allowable sludge hauling expense and adjustment.
18 Adjustment 9e – Expenses Reclassified to Rate Base – ORS proposes to adjust
19 maintenance and repair expense by ($10,472) to remove from expenses costs that should be
20 classified as plant rather than operating expenses. These costs have been included in
21 ORS's calculation of gross plant in service and in the calculation of depreciation expense.
22 Adjustment 10 – Maintenance Testing – ORS and the Company propose to adjust
23 maintenance testing expense to remove expenses charged to the I-20 sewer plant BU

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1 during the test year. The Company no longer owns and operates this unit. The amount of
2 test year maintenance testing expense to remove is $8,831.
3 Adjustment 11 – Meter Reading – ORS and the Company propose to adjust meter reading
4 expense to remove expenses charged to the I-20 sewer plant BU during the test year. The
5 Company no longer owns and operates this unit. The amount of test year meter reading
6 expense to remove is $25.
7 Adjustment 12 – Chemicals – ORS and the Company propose to adjust chemicals expense
8 to remove expenses charged to the I-20 sewer plant BU during the test year. The Company
9 no longer owns and operates this unit. The amount of test year chemicals expense to
10 remove is $87,780.
11 Adjustment 13 – Transportation – ORS proposes a total transportation adjustment of
12 ($1,065). This adjustment is comprised of the following transportation adjustments:
13 Adjustment 13a – Removing I-20 Sewer Transportation – ORS and the Company propose
14 to adjust transportation expense to remove expenses charged to the I-20 sewer plant BU
15 during the test year. The Company no longer owns and operates this unit. The amount of
16 test year transportation expense to remove is $26.
17 Adjustment 13b – Sale of Utility Property Related Expenses – ORS proposes to adjust
18 transportation expenses by ($1,039) to remove expenses incurred as a result of the sale of
19 utility property. During the test year, CWS sold Company owned vehicles and incurred
20 towing expenses and seller's fees of $1,039 as part of the transaction. The Company did
21 not net the expenses and fees against the proceeds received from the sale of the vehicles.
22 The removal of the proceeds from the sale of the vehicles is included in adjustment 28.

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1 Adjustment 14 – Office Salaries & Wages – ORS and the Company propose to adjust
2 office salaries. ORS proposes to adjust Company office salaries by annualizing the latest
3 available salary information as of November 2017 and accounting for changes due to the
4 removal of the I-20 sewer plant BU. Each office employee's total salary is allocated to
5 water territory 1, water territory 2 and sewer territory based on its percentage of ERCs. The
6 ERC percentage is calculated by dividing the number of ERCs served by each territory by
7 the total number of ERCs served by all subsidiaries to which the employee is assigned.
8 ORS recalculated the ERCs to reflect the removal of the I-20 sewer plant BU before
9 allocating salaries. ORS computed annualized general salaries of $627,460, less per book
10 general salaries of $700,280, for an adjustment of ($72,820). The difference between
11 ORS's and the Company's adjustments for office salaries is primarily due to the change
12 in ERCs from the removal of the I-20 sewer plant BU. Utilities Inc. corporate salaries are
13 allocated to its subsidiaries using ERCs. The removal of the I-20 sewer plant BU reduced
14 CWS's ERC count, thereby reducing CWS's share of the allocation of salaries from
15 Utilities, Inc.
16 Adjustment 15 – Office Supplies and Other Office Expense – ORS proposes a total office
17 supplies and other office expense adjustment of ($112,585). This adjustment is comprised
18 of the following office supplies and other office expense adjustments:
19 Adjustment 15a – Non-Recoverable Items – ORS and the Company propose to remove all
20 penalties and fines of $95,241 from test year expenses.
21 Adjustment 15b – Removing I-20 Sewer Office Supplies and Other Office Expense – ORS
22 and the Company propose to adjust office supplies and other office expense to remove
23 expenses charged to the I-20 sewer plant BU during the test year. The Company no longer

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1 owns and operates this unit. The amount of test year office supplies and other office
2 expense to be removed is $17,344.

3 Adjustment 16 – Regulatory Commission Expense - Rate Case Expenses – ORS and the
4 Company propose to adjust for rate case expenses. ORS proposes an adjustment to rate
5 case expenses of ($229,367). This adjustment reflects current rate case expenses plus
6 unamortized prior rate case expenses, amortized over a three-year period. ORS included
7 expenses for which the Company provided supporting documentation as of February 1,
8 2018 to calculate current rate case expenses of $47,546. ORS calculated the unamortized
9 prior rate case expense balance, as of May 31, 2018, to be $146,790. ORS calculated
10 current rate case expenses of $47,546, plus unamortized rate case expenses of $146,790,
11 resulting in total rate case expenses of $194,336, and an annual amortization expense of
12 $64,779. The Company's per book rate case expense amount was $294,145, resulting in an
13 ORS adjustment of ($229,367). The Company's adjustment used estimated current rate
14 case expenses of $150,000 and unamortized prior rate case expenses that included costs not
15 related to the current or prior rate case. ORS removed expenses not related to the current or
16 prior rate case.

17 Adjustment 17 – Pension and Other Benefits – ORS and the Company propose to adjust
18 pension and other benefits. ORS proposes an adjustment to annualize pension and other
19 benefits associated with the ORS pro forma salary adjustments for full-time operators and
20 office employees. ORS removed non-allowable benefits including employee awards,
21 verified that benefits were only applied to full-time employees, and verified all benefit
22 amounts and percentages. ORS computed pro-forma pension and other benefits of
23 $819,258, less the per book amount of $763,625, resulting in an adjustment of $55,633.

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1 Adjustment 18 – Rent – ORS and the Company propose to adjust rent expense to remove
2 expenses charged to the I-20 sewer plant BU during the test year. The Company no longer
3 owns and operates this unit. The amount of test year rent expense to remove is $178.
4 Adjustment 19 – Insurance – ORS and the Company propose to adjust insurance expense to
5 longer owns and operates this unit. The amount of test year insurance expense to remove is
6 $20,955.
7 Adjustment 20 – Office Utilities – ORS and the Company propose to adjust office utilities
8 expense to remove expenses charged to the I-20 sewer plant BU during the test year. The
9 Company no longer owns and operates this unit. The amount of test year office utilities
10 expense to remove is $59,574.
11 Adjustment 21 – Outside Services – ORS and the Company propose to adjust outside
12 services expense to remove expenses charged to the I-20 sewer plant BU during the test
13 year. The Company no longer owns and operates this unit. The amount of test year outside
14 services expense to remove is $8,435.
15 Adjustment 22 – Miscellaneous Expense – ORS proposes a total miscellaneous expense
16 adjustment of ($114,681). This adjustment is comprised of the following miscellaneous
17 expense adjustments:
18 Adjustment 22a – Removing I-20 Sewer Miscellaneous Expense – ORS and the Company
19 propose to adjust miscellaneous expense to remove expenses charged to the I-20 sewer
20 plant BU during the test year. The Company no longer owns and operates this unit. The
21 amount of test year miscellaneous expense to remove is $844.
22 Adjustment 22b – Non-Allowable Expenses – ORS proposes an adjustment of ($113,837)
23 for expenses ORS identified as non-allowable for ratemaking purposes. The non-allowable

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1 expenses ORS identified include costs for a public relations firm, expenses outside of the
2 test year, a reserve account for which no support was provided, and CWS's portion of a
3 Utilities, Inc. sponsored retreat for Company leaders.

4 Adjustment 23 – Depreciation – ORS and the Company propose to adjust depreciation
5 expense. ORS proposes an adjustment to annualize depreciation expense and adjust for net
6 plant additions, vehicles, and computers. The details of the depreciation expense
7 adjustment are shown in Audit Exhibit ZJP-6. ORS's total depreciation expense amounted
8 to $1,634,435, less the per book amount of $1,717,514, for a total adjustment of ($83,079).

9 Adjustment 24 – Amortization of Contributions in Aid of Construction ("CIAC") – ORS
10 and the Company propose to adjust the amortization of CIAC. The details of the ORS
11 amortization of CIAC adjustment of $10,505 are shown on Audit Exhibit ZJP-6. ORS's
12 total CIAC amortization expense amounted to ($405,850), less the per book amount of
13 ($416,355), for a total adjustment of $10,505.

14 Adjustment 25 – Taxes Other than Income – ORS proposes a total taxes other than income
15 adjustment of $101,876. This adjustment is comprised of the following taxes other than
16 income adjustments:

17 Adjustment 25a – Payroll Taxes – ORS and the Company propose to adjust payroll taxes.
18 ORS proposes to adjust payroll taxes associated with the ORS pro-forma salary
19 adjustments. ORS calculated payroll taxes include Social Security, Medicare and
20 unemployment taxes which were updated using current rates. ORS computed payroll taxes
21 of $271,068, less the per book amount of $242,180, resulting in an adjustment of $28,888.

22 Adjustment 25b – Utility Commission Taxes – ORS and the Company propose to adjust
23 gross receipts and utility/Commission taxes. ORS proposes to adjust gross receipts and

utility/Commission taxes after the ORS accounting and pro forma adjustments proposed for revenues. A PSC/ORS factor of .00524169, was used to compute this adjustment. ORS proposes to adjust gross receipts and utility/Commission taxes by $23,787.

Adjustment 25c – Pro Forma Property Taxes – ORS and the Company propose to adjust property taxes. ORS's proposed adjustment to property tax expense for known and measurable changes since the end of the test year was comprised of two steps. The first step was to obtain and verify the Company's actual property tax expense for the 2017 tax year, since test year property taxes were based on the 2016 tax year. A portion of the 2017 property tax expense needed to be allocated, since it was related to property that was allocated between multiple BUs. ORS calculated the allocation factors to calculate property taxes for each BU based on the property values of the BUs. ORS used property value to determine the allocation percentages for property taxes rather than using ERCs, since taxes are assessed on property value, not ERCs. The second step was to calculate the increase in property tax expense as a result of pro forma plant additions. ORS calculated total pro forma property taxes of $2,732,757, less per books property tax expense of $2,446,584, for an adjustment of $286,173. The company used the same two steps in calculating its pro forma property tax expense in the application. However, the Company used estimates, since the 2017 tax year property tax and actual pro forma plant additions were not known at the time of the filing of the application. The Company also allocated property tax expense for allocated property to BUs using ERCs. The Company's property tax adjustment also differs from the ORS property tax adjustment in that it accounted for the removal of the I-20 sewer plant BU property tax expense. ORS addresses the removal of I-20 sewer plant BU property tax expense in adjustment 25d.

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1 Adjustment 25d – Removing I-20 Sewer Taxes Other than Income – ORS proposes to
2 adjust taxes other than income to remove property taxes of $236,972 associated with the I-
3 20 sewer plant BU. The Company no longer owns and operates this BU. ORS calculated
4 pro forma property tax expense of $236,972 associated with the I-20 sewer plant BU in
5 adjustment 25c.

6 Adjustment 26 – Income Taxes - State – ORS and the Company propose to adjust state
7 income taxes after accounting and pro forma adjustments. ORS used a 5% rate for state
8 income taxes. Details of the ORS computation of income taxes are shown in Audit Exhibit
9 ZJP-7.

10 Adjustment 27 – Income Taxes - Federal – ORS and the Company propose to adjust
11 federal income taxes after accounting and pro forma adjustments. ORS used a 21% rate for
12 its calculation of federal income taxes. This rate takes into account known and measurable
13 changes from the Tax Cut and Jobs Act that will be in effect for the Company's future
14 federal income tax filings. Details of the computation of income taxes are shown in Audit
15 Exhibit ZJP-7.

16 Adjustment 28 – Sale of Utility Property – ORS and the Company propose an adjustment
17 of $29,323 to remove income associated with the sale of utility property for ratemaking
18 purposes. The income was mostly from the sale of Company owned vehicles. ORS
19 removed expenses associated with the sale in adjustment 13b.

20 Adjustment 29 – Amortization of Plant Acquisition Adjustment ("PAA") – ORS and the
21 Company propose to adjust the amortization of the PAA. ORS's adjustment reflects the
22 amortization of gross PAA after the removal of the I-20 sewer BU PAA. ORS's total

amortization of PAA expense is ($15,373) less the per book amount of ($17,129), for a total adjustment of $1,756. See Audit Exhibit ZJP-6 for further detail.

Adjustment 30 – Customer Growth – ORS proposes to adjust customer growth after the accounting and pro forma adjustments. The growth factors of 1.5662% for water territory 1, 0.4166% for water territory 2, and 1.1023% for sewer were provided by ORS Utility Rates witness Matthew Schellinger. The total ORS adjustment was $24,448.

Adjustment 31 – Interest During Construction – ORS and the Company propose an adjustment of $89,608 to remove per book interest during construction for ratemaking purposes.

Adjustment 32 – Gross Plant in Service – ORS proposes a total gross plant in service adjustment of ($6,274,846). The adjustment is comprised of the following gross plant in service adjustments:

Adjustment 32a – Vehicles and Computers – ORS proposes to adjust gross plant in service by ($84,429) to reflect changes in allocation factors, useful lives, and general ledger activity for vehicles and computers. ORS adjusted allocation factors to update ERCs for the removal of the I-20 sewer plant BU. ORS used eight-year useful lives for all computers and computer equipment, while the Company used different useful lives for hardware, software, etc. ORS used six-year useful lives for vehicles in previous CWS rate cases, but ORS used a five-year useful life in this docket, to better match the Company's vehicle purchasing practices.

Adjustment 32b – Excess Book Value – ORS and the Company propose to adjust gross plant in service for excess book value. ORS proposes to adjust gross plant in service to remove excess book value of ($1,937,905) as approved in prior CWS rate cases. ORS

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1 also proposes to remove the accumulated amortization of excess book value of
2 $1,417,544 in adjustment 33b, resulting in net excess book value of ($520,361) removed
3 from plant in service and excluded from the ORS calculation of depreciation expense and
4 rate base. The Company removed net excess book value of ($493,722).

5 Adjustment 32c – General Ledger Additions and Retirements – ORS and the Company
6 propose to adjust gross plant in service for general ledger additions, pro forma plant and
7 pro forma retirements. ORS proposes to adjust gross plant in service for net plant
8 additions of $2,922,554 as of February 12, 2018. ORS reviewed supporting
9 documentation for the proposed plant additions and retirements and included only the
10 plant additions that were known and measurable and providing service to customers.

11 Adjustment 32d – DHEC Consent Order Costs – ORS proposes to adjust gross plant in
12 service to remove costs of $306,552 incurred as a result of DHEC consent orders. ORS
13 identified costs included in projects during the test year that ORS believes the Company
14 would not have incurred without the consent orders. In addition, ORS identified plant costs
15 associated with consent orders in the pro-forma plant additions that ORS did not include in
16 gross plant in service as part of adjustment 32c.

17 Adjustment 32e – Removing I-20 Sewer Gross Plant in Service – ORS and the Company
18 propose to adjust gross plant in service to remove the amount associated with the I-20
19 sewer plant BU. The Company no longer owns and operates this unit. The amount of gross
20 plant in service to remove is $6,868,514.

21 Adjustment 33 – Accumulated Depreciation – ORS proposes a total accumulated
22 depreciation adjustment of $2,949,621. This adjustment is comprised of the following
23 accumulated depreciation adjustments:

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1 Adjustment 33a – Accumulated Depreciation – Current Depreciation, Vehicles,
2 Computers and Prior Rate Case Adjustments – ORS proposes to adjust accumulated
3 depreciation by $453,963. This adjustment includes the depreciation expense adjustment
4 calculated in ORS adjustment 23. It also reflects changes to vehicle and computer
5 accumulated depreciation resulting from the change in useful life, vehicle and computer
6 general ledger additions and retirements, and changes to ERC allocation factors to reflect
7 the removal of the I-20 sewer system. This adjustment also includes accumulated
8 depreciation resulting from extraordinary retirements ordered in prior CWS rate cases.
9 Adjustment 33b – Excess Book Value – ORS proposes to adjust accumulated
10 depreciation by $1,417,544. This adjustment is to remove the accumulated amortization
11 of the excess book value that was removed from gross plant in service in adjustment 32b,
12 in accordance with prior Commission orders.
13 Adjustment 33c – Removing I-20 Facility Accumulated Depreciation – ORS and the
14 Company propose to adjust accumulated depreciation to remove the amount associated
15 with the I-20 sewer plant BU. The Company no longer owns and operates this unit. The
16 amount of accumulated depreciation removed is $1,078,114.
17 Adjustment 34 – Cash Working Capital – ORS and the Company propose to adjust cash
18 working capital after accounting and pro forma adjustments. ORS and the Company used
19 a 45-day allowance or 1/8 of expenses for the working capital adjustment. ORS proposes
20 an adjustment of ($6,372). Details of this adjustment are included in Audit Exhibit ZJP-8.
21 Adjustment 35 – Contributions in Aid of Construction – ORS and the Company propose
22 to adjust CIAC. ORS proposes to adjust net CIAC to reflect the amortization of CIAC
23 expense in adjustment 24, pro forma CIAC additions, and the removal of the I-20 sewer

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1 plant BU CIAC. The adjustment to net CIAC is $732,675. See Audit Exhibit ZJP-6 for
2 further details.

3 Adjustment 36 – Plant Acquisition Adjustment – ORS and the Company propose to adjust
4 the net plant acquisition adjustment balance to reflect the removal of the I-20 sewer plant
5 BU. The Company no longer owns and operates this unit. The amount of net plant
6 acquisition adjustment removed is $32,541.

7 Adjustment 37 – Interest Expense – ORS and the Company propose to adjust interest
8 expense. ORS proposes an adjustment to synchronize allowable interest expense with
9 rate base after accounting and pro forma adjustments, using the capitalization ratio of
10 48.11% for long-term debt and 51.89% for equity, with a cost of debt of 6.58%. As noted
11 in the recent order for Palmetto Utilities (Order No. 2018-155), the Commission
12 generally disallowed utilities' long-term interest as an expense prior to its adoption of
13 interest synchronization. Interest synchronization has been accepted as a proper
14 methodology to allow utilities to recover from its ratepayers the portion of its long-term
15 debt expenses which has been incurred to finance plant. ORS computed an adjustment of
16 ($38,520) to the per book amount of $1,752,211, resulting in allowable interest expense
17 of $1,713,691. See Audit Exhibit ZJP-9 for ORS's computation of interest expense.
18 Details of the capital structure used by ORS can be found in the testimony of ORS
19 witness Dr. Douglas H. Carlisle.

20 Adjustments 38 – Proposed Service Revenues - Water – Based upon ORS Utility Rates
21 Department calculations, the Company's proposed rates would produce additional revenues
22 of $2,394,421 for water operations. Details of this adjustment are shown in the direct
23 testimony of ORS Utility Rates witness Matthew Schellinger.

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1 Adjustments 39 – Proposed Service Revenues - Sewer – Based upon ORS Utility Rates
2 Department calculations, the Company's proposed rates would produce additional revenues
3 of $2,292,098 for sewer operations. Details of this adjustment are shown in the direct
4 testimony of ORS Utility Rates witness Matthew Schellinger.

5 Adjustment 40 – Proposed Miscellaneous Revenue – ORS proposes to adjust
6 miscellaneous revenue for the Company's proposed rate increase. Details of the
7 adjustment for $35,576 are shown in the direct testimony of ORS Utility Rates witness
8 Matthew Schellinger.

9 Adjustment 41 – Uncollectible Accounts – ORS proposes to adjust uncollectible accounts
10 associated with the Company's proposed revenues after ORS's proposed accounting and
11 pro forma adjustments. The adjustment of ($53,292) was provided by ORS Utility Rates
12 witness Matthew Schellinger.

13 Adjustment 42 – Taxes Other than Income – ORS proposes to adjust gross receipts and
14 utility/commission taxes for the Company's proposed rate increase. A PSC/ORS factor of
15 .00524169, was used to compute this adjustment. ORS proposes to adjust gross receipts
16 taxes by $24,473.

17 Adjustment 43 – Income Taxes - State – ORS proposes to adjust state income taxes for the
18 Company's proposed rate increase. ORS used a 5% rate for state income taxes. Details of
19 the computation of income taxes are shown in ZJP-7.

20 Adjustment 44 – Income Taxes - Federal – ORS proposes to adjust state income taxes for
21 the Company's proposed rate increase. ORS used a 21% rate for federal income taxes.
22 This rate takes into account known and measurable changes from the Tax Cut and Jobs Act

that will be in effect for the Company's future federal income tax filings. Details of the computation of income taxes are shown in Audit Exhibit ZJP-7.

Adjustment 45 – Customer Growth – ORS proposes to adjust customer growth after the proposed increase. The growth factors of 1.5662% for water territory 1, 0.4166% for water territory 2 and 1.1023% for sewer were provided by ORS Utility Rates witness Matthew Schellinger.

Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

A. Audit Exhibit ZJP-6 details the computation of ORS's depreciation and amortization expense adjustments. Audit Exhibit ZJP-7 details the computation of income taxes. Audit Exhibit ZJP-8 details the calculation of the cash working capital allowance and Audit Exhibit ZJP-9 details the calculation of return on equity.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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Carolina Water Service, Inc.
Operating Experience, Rate Base and Rate of Return
Combined Operations - Water and Sewer Service Territory 1 & 2
Docket No. 2017-292-WS
Test Year Ended August 31, 2017

Description	(1) Application Per Books $	(2) Accounting & Pro Forma Adjustments $		(3) After Accounting & Pro Forma Present $	(4) Proposed Increase $		(5) After Proposed Increase $
Operating Revenues							
Service Revenues - Water	10,351,801	445,276	(1)	10,797,077	2,394,421	(38)	13,191,498
Service Revenues - Sewer	10,602,605	(1,660,950)	(2)	8,941,655	2,292,098	(39)	11,233,753
Miscellaneous Revenues	474,882	22,313	(3)	497,195	35,576	(40)	532,771
Uncollectible Accounts	(309,649)	15,394	(4)	(294,255)	(53,292)	(41)	(347,547)
Total Operating Revenues	21,119,639	(1,177,967)		19,941,672	4,668,803		24,610,475
Maintenance Expenses							
Salaries and Wages	2,565,425	134,298	(5)	2,699,723	0		2,699,723
Capitalized Time	(525,777)	(15,911)	(6)	(541,688)	0		(541,688)
Purchased Power	895,192	(75,032)	(7)	820,160	0		820,160
Purchased Water and Sewer	3,313,014	598,804	(8)	3,911,818	0		3,911,818
Maintenance and Repair	2,232,236	(32,474)	(9)	2,199,762	0		2,199,762
Maintenance Testing	265,450	(8,831)	(10)	256,619	0		256,619
Meter Reading	110,205	(25)	(11)	110,180	0		110,180
Chemicals	487,720	(87,780)	(12)	399,940	0		399,940
Transportation	206,630	(1,065)	(13)	205,565	0		205,565
Operating Exp. Charged to Plant	0	0		0	0		0
Total Maintenance Expenses	9,550,095	511,984		10,062,079	0		10,062,079
General Expenses							
Salaries and Wages	700,280	(72,820)	(14)	627,460	0		627,460
Office Supplies & Other Office Exp	416,692	(112,585)	(15)	304,107	0		304,107
Regulatory Commission Exp.	318,145	(229,367)	(16)	88,778	0		88,778
Pension & Other Benefits	763,625	55,633	(17)	819,258	0		819,258
Rent	25,580	(178)	(18)	25,402	0		25,402
Insurance	312,963	(20,955)	(19)	292,008	0		292,008
Office Utilities	599,990	(59,574)	(20)	540,416	0		540,416
Outside Services	281,034	(8,435)	(21)	272,599	0		272,599
Non-Utility Misc Income	0	0		0	0		0
Miscellaneous	34,173	(114,681)	(22)	(80,508)	0		(80,508)
Total General Expenses	3,452,482	(562,962)		2,889,520	0		2,889,520
Depreciation	1,717,514	(83,079)	(23)	1,634,435	0		1,634,435
Amortization of CIAC	(416,355)	10,505	(24)	(405,850)	0		(405,850)
Taxes Other Than Income	2,925,145	101,876	(25)	3,027,021	24,473	(42)	3,051,494
Income Taxes - State	177,733	(125,484)	(26)	52,249	232,218	(43)	284,467
Income Taxes - Federal	1,074,691	(866,213)	(27)	208,478	926,544	(44)	1,135,022
Sale of Utility Property	(29,323)	29,323	(28)	0	0		0
Amort. Investment Tax Credit	(8,853)	0		(8,853)	0		(8,853)
Amortization of PAA	(17,129)	1,756	(29)	(15,373)	0		(15,373)
Total Other Expenses	5,423,423	(931,316)		4,492,107	1,183,235		5,675,342
Total Operating Expenses	18,426,000	(982,294)		17,443,706	1,183,235		18,626,941
Net Operating Income	2,693,639	(195,673)		2,497,966	3,485,568		5,983,534
Customer Growth	0	24,448	(30)	24,448	37,983	(45)	62,431
Interest During Construction	(89,608)	89,608	(31)	0	0		0
Net Income (Loss) For Return	2,783,247	(260,833)		2,522,414	3,523,551		6,045,965
Original Cost Rate Base:							
Gross Plant In Service	101,446,033	(6,274,846)	(32)	95,171,187	0		95,171,187
Accumulated Depreciation	(15,938,540)	2,949,621	(33)	(12,988,919)	0		(12,988,919)
Net Plant In Service	85,507,493	(3,325,225)		82,182,268	0		82,182,268
Deferred Charges	0	0		0	0		0
Cash Working Capital	1,625,322	(6,372)	(34)	1,618,950	0		1,618,950
Contributions In Aid of Construction	(21,662,799)	732,675	(35)	(20,930,124)	0		(20,930,124)
Accumulated Deferred Income Taxes	(7,539,471)	-		(7,539,471)	0		(7,539,471)
Customer Deposits	(336,522)	-		(336,522)	0		(336,522)
Advances in Aid of Construction	0	-		0	0		0
Plant Acquisition Adjustment	(892,626)	32,541	(36)	(860,085)	0		(860,085)
Total Rate Base	56,701,397	(2,566,381)		54,135,016	0		54,135,016
Return on Rate Base	4.91%			4.66%			11.17%
Operating Margin	4.88%			4.06%			17.60%
Interest Expense	1,752,211	(38,520)	(37)	1,713,691	0		1,713,691

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Carolina Water Service, Inc.
Operating Experience, Rate Base and Rate of Return
Water Service Territory 1
Docket No. 2017-292-WS
Test Year Ended August 31, 2017

Description	(1) Application Per Books	(2) Accounting & Pro Forma Adjustments		(3) After Accounting & Pro Forma Present	(4) Proposed Increase		(5) After Proposed Increase
	$	$		$	$		$
Operating Revenues							
Service Revenues - Water	5,452,075	346,907	(1)	5,798,982	1,376,052	(38)	7,175,034
Miscellaneous Revenues	77,994	38,775	(3)	116,769	5,679	(40)	122,448
Uncollectible Accounts	(74,834)	(4,612)	(4)	(79,446)	(23,464)	(41)	(102,910)
Total Operating Revenues	5,455,235	381,070		5,836,305	1,358,267		7,194,572
Maintenance Expenses							
Salaries and Wages	734,418	147,974	(5)	882,392	0		882,392
Capitalized Time	(152,357)	(22,727)	(6)	(175,084)	0		(175,084)
Purchased Power	98,484	0	(7)	98,484	0		98,484
Purchased Water and Sewer	1,584,518	507,467	(8)	2,091,985	0		2,091,985
Maintenance and Repair	238,310	157,941	(9)	396,251	0		396,251
Maintenance Testing	47,105	0	(10)	47,105	0		47,105
Meter Reading	27,157	0	(11)	27,157	0		27,157
Chemicals	171,165	0	(12)	171,165	0		171,165
Transportation	65,923	(338)	(13)	65,585	0		65,585
Operating Exp. Charged to Plant	0	0		0	0		0
Total Maintenance Expenses	2,814,723	790,317		3,605,040	0		3,605,040
Salaries and Wages	223,895	(3,616)	(14)	220,279	0		220,279
Office Supplies & Other Office Exp	140,296	(1)	(15)	140,295	0		140,295
Regulatory Commission Exp.	89,055	(61,357)	(16)	27,698	0		27,698
Pension & Other Benefits	244,150	21,219	(17)	265,369	0		265,369
Rent	882	0	(18)	882	0		882
Insurance	100,059	0	(19)	100,059	0		100,059
Office Utilities	171,113	0	(20)	171,113	0		171,113
Outside Services	93,301	0	(21)	93,301	0		93,301
Non-Utility Misc Income	0	0		0	0		0
Miscellaneous	10,937	(35,694)	(22)	(24,757)	0		(24,757)
Total General Expenses	1,073,688	(79,449)		994,239	0		994,239
Depreciation	408,320	3,174	(23)	411,494	0		411,494
Amortization of CIAC	(153,614)	(11,458)	(24)	(165,072)	0		(165,072)
Taxes Other Than Income	941,798	(386,708)	(25)	555,090	7,120	(42)	562,210
Income Taxes - State	57,365	(48,303)	(26)	9,062	67,558	(43)	76,620
Income Taxes - Federal	352,610	(316,451)	(27)	36,159	269,554	(44)	305,713
Sale of Utility Property	(9,565)	9,565	(28)	0	0		0
Amort. Investment Tax Credit	(3,746)	0		(3,746)	0		(3,746)
Amortization of PAA	(13,504)	341	(29)	(13,163)	0		(13,163)
Total Other Expenses	1,579,664	(749,840)		829,824	344,232		1,174,056
Total Operating Expenses	5,468,075	(38,972)		5,429,103	344,232		5,773,335
Net Operating Income	(12,840)	420,042		407,202	1,014,035		1,421,237
Customer Growth	0	6,378	(30)	6,378	15,881	(45)	22,259
Interest During Construction	(37,304)	37,304	(31)	0	0		0
Net Income (Loss) For Return	24,464	389,116		413,580	1,029,916		1,443,496
Original Cost Rate Base:							
Gross Plant In Service	23,487,720	457,867	(32)	23,945,587	0		23,945,587
Accumulated Depreciation	(4,854,113)	672,263	(33)	(4,181,850)	0		(4,181,850)
Net Plant In Service	18,633,607	1,130,130		19,763,737	0		19,763,737
Deferred Charges	0	0		0	0		0
Cash Working Capital	486,051	88,859	(34)	574,910	0		574,910
Contributions In Aid of Construction	(8,705,515)	(293,006)	(35)	(8,998,521)	0		(8,998,521)
Accumulated Deferred Income Taxes	(2,037,503)	0		(2,037,503)	0		(2,037,503)
Customer Deposits	(96,794)	0		(96,794)	0		(96,794)
Advances in Aid of Construction	0	0		0	0		0
Plant Acquisition Adjustment	(639,510)	0	(36)	(639,510)	0		(639,510)
Total Rate Base	7,640,336	925,983		8,566,319	0		8,566,319
Return on Rate Base	0.32%			4.83%			16.85%
Operating Margin	-8.44%			2.44%			16.29%
Interest Expense	484,978	(213,804)	(37)	271,174	0		271,174

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Audit Exhibit ZJP-3

Carolina Water Service, Inc.
Operating Experience, Rate Base and Rate of Return
Water Service Territory 2
Docket No. 2017-292-WS
Test Year Ended August 31, 2017

Description	(1) Application Per Books	(2) Accounting & Pro Forma Adjustments		(3) After Accounting & Pro Forma Present	(4) Proposed Increase		(5) After Proposed Increase
	$	$		$	$		$
Operating Revenues							
Service Revenues - Water	4,899,726	98,369	(1)	4,998,095	1,018,369	(38)	6,016,464
Miscellaneous Revenues	87,878	29,988	(3)	117,866	8,203	(40)	126,069
Uncollectible Accounts	(97,600)	(1,862)	(4)	(99,462)	(22,128)	(41)	(121,590)
Total Operating Revenues	4,890,004	126,495		5,016,499	1,004,444		6,020,943
Maintenance Expenses							
Salaries and Wages	605,795	98,618	(5)	704,413	0		704,413
Capitalized Time	(121,565)	(15,005)	(6)	(136,570)	0		(136,570)
Purchased Power	174,030	0	(7)	174,030	0		174,030
Purchased Water and Sewer	698,309	91,377	(8)	789,686	0		789,686
Maintenance and Repair	393,248	41,193	(9)	434,441	0		434,441
Maintenance Testing	91,976	0	(10)	91,976	0		91,976
Meter Reading	44,640	0	(11)	44,640	0		44,640
Chemicals	45,389	0	(12)	45,389	0		45,389
Transportation	43,956	(218)	(13)	43,738	0		43,738
Operating Exp. Charged to Plant	0	0		-	0		-
Total Maintenance Expenses	1,975,778	215,965		2,191,743	0		2,191,743
Salaries and Wages	147,808	(5,357)	(14)	142,451	0		142,451
Office Supplies & Other Office Exp	72,002	(4,004)	(15)	67,998	0		67,998
Regulatory Commission Exp.	61,841	(41,702)	(16)	20,139	0		20,139
Pension & Other Benefits	161,182	45,872	(17)	207,054	0		207,054
Rent	22,222	0	(18)	22,222	0		22,222
Insurance	66,064	0	(19)	66,064	0		66,064
Office Utilities	172,712	0	(20)	172,712	0		172,712
Outside Services	51,922	0	(21)	51,922	0		51,922
Non-Utility Misc Income	0	0		-	0		-
Miscellaneous	7,191	(24,950)	(22)	(17,759)	0		(17,759)
Total General Expenses	762,944	(30,141)		732,803	0		732,803
Depreciation	381,084	22,272	(23)	403,356	0		403,356
Amortization of CIAC	(6,917)	95	(24)	(6,822)	0		(6,822)
Taxes Other Than Income	595,630	303,066	(25)	898,696	5,265	(42)	903,961
Income Taxes - State	48,377	(34,459)	(26)	13,918	49,959	(43)	63,877
Income Taxes - Federal	285,967	(230,433)	(27)	55,534	199,336	(44)	254,870
Sale of Utility Property	(5,714)	5,714	(28)	0	0		0
Amort. Investment Tax Credit	0	0		0	0		0
Amortization of PAA	1,564	0	(29)	1,564	0		1,564
Total Other Expenses	1,299,991	66,255		1,366,246	254,560		1,620,806
Total Operating Expenses	4,038,713	252,079		4,290,792	254,560		4,545,352
Net Operating Income	851,291	(125,584)		725,707	749,884		1,475,591
Customer Growth	0	3,023	(30)	3,023	3,124	(45)	6,147
Interest During Construction	(1,227)	1,227	(31)	0	0		0
Net Income (Loss) For Return	852,518	(123,788)		728,730	753,008		1,481,738
Original Cost Rate Base:							
Gross Plant In Service	21,172,722	345,700	(32)	21,518,422	0		21,518,422
Accumulated Depreciation	(2,943,316)	(35,802)	(33)	(2,979,118)	0		(2,979,118)
Net Plant In Service	18,229,406	309,898		18,539,304	0		18,539,304
Deferred Charges	0	0		0	0		0
Cash Working Capital	342,340	23,228	(34)	365,568	0		365,568
Contributions In Aid of Construction	(340,937)	(1,566)	(35)	(342,503)	0		(342,503)
Accumulated Deferred Income Taxes	(2,015,134)	0		(2,015,134)	0		(2,015,134)
Customer Deposits	(90,218)	0		(90,218)	0		(90,218)
Advances in Aid of Construction	0	0		0	0		0
Plant Acquisition Adjustment	(131,612)	0	(36)	(131,612)	0		(131,612)
Total Rate Base	15,993,845	331,560		16,325,405	0		16,325,405
Return on Rate Base	5.33%			4.46%			9.08%
Operating Margin	6.95%			4.22%			16.03%
Interest Expense	512,661	4,134	(37)	516,795	0		516,795

Carolina Water Service, Inc.
Operating Experience, Rate Base and Rate of Return
Sewer Service Territory 1 and 2
Docket No. 2017-292-WS
Test Year Ended August 31, 2017

Description	(1) Application Per Books	(2) Accounting & Pro Forma Adjustments		(3) After Accounting & Pro Forma Present	(4) Proposed Increase		(5) After Proposed Increase
	$	$		$	$		$
Operating Revenues							
Service Revenues - Sewer	10,602,605	(1,660,950)	(2)	8,941,655	2,292,098	(39)	11,233,753
Miscellaneous Revenues	309,010	(46,450)	(3)	262,560	21,694	(40)	284,254
Uncollectible Accounts	(137,215)	21,868	(4)	(115,347)	(7,700)	(41)	(123,047)
Total Operating Revenues	10,774,400	(1,685,532)		9,088,868	2,306,092		11,394,960
Maintenance Expenses							
Salaries and Wages	1,225,212	(112,294)	(5)	1,112,918	0		1,112,918
Capitalized Time	(251,855)	21,821	(6)	(230,034)	0		(230,034)
Purchased Power	622,678	(75,032)	(7)	547,646	0		547,646
Purchased Water and Sewer	1,030,187	(40)	(8)	1,030,147	0		1,030,147
Maintenance and Repair	1,600,678	(231,608)	(9)	1,369,070	0		1,369,070
Maintenance Testing	126,369	(8,831)	(10)	117,538	0		117,538
Meter Reading	38,408	(25)	(11)	38,383	0		38,383
Chemicals	271,166	(87,780)	(12)	183,386	0		183,386
Transportation	96,751	(509)	(13)	96,242	0		96,242
Operating Exp. Charged to Plant	0	0		0	0		-
Total Maintenance Expenses	4,759,594	(494,298)		4,265,296	0		4,265,296
Salaries and Wages	328,577	(63,847)	(14)	264,730	0		264,730
Office Supplies & Other Office Exp	204,394	(108,580)	(15)	95,814	0		95,814
Regulatory Commission Exp.	167,249	(126,308)	(16)	40,941	0		40,941
Pension & Other Benefits	358,293	(11,458)	(17)	346,835	0		346,835
Rent	2,476	(178)	(18)	2,298	0		2,298
Insurance	146,840	(20,955)	(19)	125,885	0		125,885
Office Utilities	256,165	(59,574)	(20)	196,591	0		196,591
Outside Services	135,811	(8,435)	(21)	127,376	0		127,376
Non-Utility Misc Income	0	0		-	0		-
Miscellaneous	16,045	(54,037)	(22)	(37,992)	0		(37,992)
Total General Expenses	1,615,850	(453,372)		1,162,478	0		1,162,478
Depreciation	928,110	(108,525)	(23)	819,585	0		819,585
Amortization of CIAC	(255,824)	21,868	(24)	(233,956)	0		(233,956)
Taxes Other Than Income	1,387,717	185,518	(25)	1,573,235	12,088	(42)	1,585,323
Income Taxes - State	71,991	(42,722)	(26)	29,269	114,701	(43)	143,970
Income Taxes - Federal	436,114	(319,329)	(27)	116,785	457,654	(44)	574,439
Sale of Utility Property	(14,044)	14,044	(28)	0	0		0
Amort. Investment Tax Credit	(5,107)	0		(5,107)	0		(5,107)
Amortization of PAA	(5,189)	1,415	(29)	(3,774)	0		(3,774)
Total Other Expenses	2,543,768	(247,731)		2,296,037	584,443		2,880,480
Total Operating Expenses	8,919,212	(1,195,401)		7,723,811	584,443		8,308,254
Net Operating Income	1,855,188	(490,131)		1,365,057	1,721,649		3,086,706
Customer Growth	0	15,047	(30)	15,047	18,978	(45)	34,025
Interest During Construction	(51,077)	51,077	(31)	0	0		0
Net Income (Loss) For Return	1,906,265	(526,161)		1,380,104	1,740,627		3,120,731
Original Cost Rate Base:							
Gross Plant In Service	56,785,591	(7,078,413)	(32)	49,707,178	0		49,707,178
Accumulated Depreciation	(8,141,111)	2,313,160	(33)	(5,827,951)	0		(5,827,951)
Net Plant In Service	48,644,480	(4,765,253)		43,879,227	0		43,879,227
Deferred Charges	0	0		0	0		0
Cash Working Capital	796,931	(118,459)	(34)	678,472	0		678,472
Contributions In Aid of Construction	(12,616,347)	1,027,247	(35)	(11,589,100)	0		(11,589,100)
Accumulated Deferred Income Taxes	(3,486,834)	0		(3,486,834)	0		(3,486,834)
Customer Deposits	(149,510)	0		(149,510)	0		(149,510)
Advances in Aid of Construction	0	0		0	0		0
Plant Acquisition Adjustment	(121,504)	32,541	(36)	(88,963)	0		(88,963)
Total Rate Base	33,067,216	(3,823,924)		29,243,292	0		29,243,292
Return on Rate Base	5.76%			4.72%			10.67%
Operating Margin	10.69%			5.00%			19.26%
Interest Expense	754,572	171,150	(37)	925,722	0		925,722

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
Accounting and Pro Forma Adjustments				
Operating Revenues				
(1) Service Revenues - Water				
To adjust water service revenues to reflect test year customer billings.				
Per ORS	445,276	346,907	98,369	0
Per CWS	173,476	149,827	23,649	0
(2) Service Revenues - Sewer				
To adjust sewer service revenues to reflect test year customer billings.				
Per ORS	(1,660,950)	0	0	(1,660,950)
Per CWS	(1,692,502)	0	0	(1,692,502)
(3) Miscellaneous Revenues				
To adjust miscellaneous revenues for the test year.				
Per ORS	22,313	38,775	29,988	(46,450)
Per CWS	(17,433)	0	0	(17,433)
(4) Uncollectible Accounts				
To adjust uncollectible accounts to reflect accounting and pro forma adjustments to service revenues.				
Per ORS	15,394	(4,612)	(1,862)	21,868
Per CWS	15,498	(2,078)	(466)	18,042
Maintenance Expenses				
(5) Salaries & Wages				
To annualize operators' salaries for the test year and account for the removal of the I-20 sewer system.				
Per ORS	134,298	147,974	98,618	(112,294)
Per CWS	67,880	68,588	51,935	(52,643)
(6) Capitalized Time				
To adjust capitalized time based on pro-forma salaries and account for the removal of the I-20 sewer system.				
Per ORS	(15,911)	(22,727)	(15,005)	21,821
Per CWS	(4,788)	(9,560)	(7,077)	11,849

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
(7) Purchased Power				
To adjust purchased power for removal of I-20 facility.				
Per ORS	(75,032)	0	0	(75,032)
Per CWS	(75,032)	0	0	(75,032)
(8) Purchased Water and Sewer				
To adjust purchased water & sewer expense to reflect a going forward expense level.				
Per ORS	598,804	507,467	91,377	(40)
Per CWS	587,002	484,280	102,762	(40)
(9) Maintenance and Repair				
(9a) To increase maintenance and repair for deferred maintenance.				
Per ORS	(13)	4,696	3,404	(8,113)
Per CWS	8,100	4,696	3,404	0
(9b) To remove expenses associated with I-20 facility.				
Per ORS	(116,131)	0	0	(116,131)
Per CWS	(116,131)	0	0	(116,131)
(9c) To increase maintenance and repair for deferred purchased water expenses.				
Per ORS	191,034	153,245	37,789	0
Per CWS	230,386	186,306	44,080	0
(9d) To decrease maintenance and repair to normalize abnormal sludge hauling expense due to consent orders with DHEC.				
Per ORS	(96,892)	0	0	(96,892)
Per CWS	0	0	0	0
(9e) To decrease maintenance and repair for reclassifying certain expenses to rate base.				
Per ORS	(10,472)	0	0	(10,472)
Per CWS	0	0	0	0
(9) Total Maintenance and Repair Per ORS	(32,474)	157,941	41,193	(231,608)
Total Maintenance and Repair Per CWS	122,355	191,002	47,484	(116,131)

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
(10) Maintenance Testing				
To remove expenses associated with I-20 facility.				
Per ORS	(8,831)	0	0	(8,831)
Per CWS	(8,831)	0	0	(8,831)
(11) Meter Reading				
To remove expenses associated with I-20 facility.				
Per ORS	(25)	0	0	(25)
Per CWS	(25)	0	0	(25)
(12) Chemicals				
To remove expenses associated with I-20 facility.				
Per ORS	(87,780)	0	0	(87,780)
Per CWS	(87,780)	0	0	(87,780)
(13) Transportation				
(13a) To remove expenses associated with I-20 facility.				
Per ORS	(26)	0	0	(26)
Per CWS	(26)	0	0	(26)
(13b) To remove expenses associated with sale of utility property.				
Per ORS	(1,039)	(338)	(218)	(483)
Per CWS	0	0	0	0
(13) Total Transportation Per ORS	(1,065)	(338)	(218)	(509)
Total Transportation Per CWS	(26)	0	0	(26)
General Expenses				
(14) Salaries & Wages				
To annualize office salaries for the test year.				
Per ORS	(72,820)	(3,616)	(5,357)	(63,847)
Per CWS	(34,819)	(7,503)	(7,871)	(19,445)
(15) Office Supplies & Other Office Expense				
(15a) To remove nonrecoverable items.				
Per ORS	(95,241)	(1)	(4,004)	(91,236)
Per CWS	(95,241)	(1)	(4,004)	(91,236)

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
(15b) To remove expenses associated with I-20 facility.				
Per ORS	(17,344)	0	0	(17,344)
Per CWS	(17,344)	0	0	(17,344)
(15) Total Office Supplies & Other Office Expense Per ORS	(112,585)	(1)	(4,004)	(108,580)
Total Office Supplies & Other Office Expense Per CWS	(112,585)	(1)	(4,004)	(108,580)
(16) Regulatory Commission Expense				
To amortize current and unamortized prior rate case expenses over a three-year period.				
Per ORS	(229,367)	(61,357)	(41,702)	(126,308)
Per CWS	(133,357)	(31,154)	(33,388)	(68,815)
(17) Pension & Other Benefits				
To annualize pension and other benefits associated with pro-forma salaries.				
Per ORS	55,633	21,219	45,872	(11,458)
Per CWS	81,636	22,950	50,302	8,384
(18) Rent				
To remove expenses associated with I-20 facility.				
Per ORS	(178)	0	0	(178)
Per CWS	(178)	0	0	(178)
(19) Insurance				
To remove expenses associated with I-20 facility.				
Per ORS	(20,955)	0	0	(20,955)
Per CWS	(20,955)	0	0	(20,955)
(20) Office Utilities				
To remove expenses associated with I-20 facility.				
Per ORS	(59,574)	0	0	(59,574)
Per CWS	(59,574)	0	0	(59,574)
(21) Outside Services				
To remove expenses associated with I-20 facility.				
Per ORS	(8,435)	0	0	(8,435)
Per CWS	(8,435)	0	0	(8,435)

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
(22) Miscellaneous				
(22a) To remove expenses associated with I-20 facility.				
Per ORS	(844)	0	0	(844)
Per CWS	(844)	0	0	(844)
(22b) To remove additional non-allowable expenses identified by ORS.				
Per ORS	(113,837)	(35,694)	(24,950)	(53,193)
Per CWS	0	0	0	0
(22) Total Miscellaneous Per ORS	(114,681)	(35,694)	(24,950)	(54,037)
Total Miscellaneous Per CWS	(844)	0	0	(844)
(23) Depreciation Expense				
To annualize depreciation expense for known and measurable plant in service including extraordinary retirements. See Audit Exhibit ZJP-6.				
Per ORS	(83,079)	3,174	22,272	(108,525)
Per CWS	(73,958)	18,316	(18,873)	(73,401)
(24) Amortization of Contributions in Aid of Construction (CIAC)				
To annualize the amortization of CIAC expense. See Audit Exhibit ZJP-6.				
Per ORS	10,505	(11,458)	95	21,868
Per CWS	14,935	(12,020)	86	26,869
(25) Taxes Other Than Income				
(25a) To adjust payroll taxes associated with adjusted salaries.				
Per ORS	28,888	10,117	16,723	2,048
Per CWS	32,858	5,106	13,879	13,873
(25b) To adjust gross receipts and utility/commission taxes after the accounting and pro forma adjustments using a factor of .00524169.				
Per ORS	23,787	7,766	5,756	10,265
Per CWS	(8,198)	809	128	(9,135)
(25c) To adjust for pro-forma property taxes.				
Per ORS	286,173	(404,591)	280,587	410,177
Per CWS	25,627	64,475	32,709	(71,557)

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
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For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
(25d) To remove other taxes associated with I-20 facility.				
Per ORS	(236,972)	0	0	(236,972)
Per CWS	0	0	0	0
(25) Total Taxes Other Than Income Per ORS	101,876	(386,708)	303,066	185,518
Total Taxes Other Than Income Per CWS	50,287	70,390	46,716	(66,819)
(26) Income Taxes - State				
To adjust state income taxes after accounting and pro forma adjustments. See Audit Exhibit ZJP-7.				
Per ORS	(125,484)	(48,303)	(34,459)	(42,722)
Per CWS	(160,063)	(84,035)	(25,332)	(50,696)
(27) Income Taxes - Federal				
To adjust federal income taxes after accounting and pro forma adjustments. See Audit Exhibit ZJP-7.				
Per ORS	(866,213)	(316,451)	(230,433)	(319,329)
Per CWS	(957,190)	(529,970)	(132,717)	(294,503)
(28) Sale of Utility Property				
To reflect the removal of sale of utility property for ratemaking purposes.				
Per ORS	29,323	9,565	5,714	14,044
Per CWS	29,323	9,565	5,714	14,044
(29) Amortization of Plant Acquisition Adjustment ("PAA")				
To adjust the amortization of the PAA.				
Per ORS	1,756	341	0	1,415
Per CWS	341	341	0	0
(30) Customer Growth				
To adjust for customer growth after the accounting and pro forma adjustments. The growth factors of 1.5662% for water territory 1, 0.4166% for water territory 2, and 1.1023% for sewer were computed by the Utility Rates Department.				
Per ORS	24,448	6,378	3,023	15,047
Per CWS	0	0	0	0

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
(31) Interest During Construction ("IDC")				
To eliminate IDC for rate making purposes.				
Per ORS	89,608	37,304	1,227	51,077
Per CWS	89,608	37,304	1,227	51,077
(32) Gross Plant in Service				
(32a) To adjust plant in service for changes in allocations and service lives of vehicles and computers.				
Per ORS	(84,429)	86,378	111,346	(282,153)
Per CWS	0	(24,798)	45,267	(20,469)
(32b) To adjust for excess book value per prior Commission orders.				
Per ORS	(1,937,905)	(930,194)	0	(1,007,711)
Per CWS	(493,722)	(208,836)	0	(284,886)
(32c) To adjust for pro-forma general ledger additions, pro-forma plant, and pro-forma retirements.				
Per ORS	2,922,554	1,301,683	234,354	1,386,517
Per CWS	2,742,356	965,253	229,046	1,548,057
(32d) To adjust for the removal of DHEC consent order consulting.				
Per ORS	(306,552)	0	0	(306,552)
Per CWS	0	0	0	0
(32e) To adjust gross plant in service for removal of I-20 facility.				
Per ORS	(6,868,514)	0	0	(6,868,514)
Per CWS	(6,868,514)	0	0	(6,868,514)
(32) Total Gross Plant in Service Per ORS	(6,274,846)	457,867	345,700	(7,078,413)
Total Gross Plant in Service Per CWS	(4,619,880)	731,619	274,313	(5,625,812)
(33) Accumulated Depreciation				
(33a) To adjust accumulated depreciation for current depreciation, vehicles, computers, and prior rate case adjustments.				
Per ORS	453,963	(8,158)	(35,802)	497,923
Per CWS	245,171	135,339	(99,028)	208,860

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
(33b) To adjust accumulated depreciation for excess book value.				
Per ORS	1,417,544	680,421	0	737,123
Per CWS	0	0	0	0
(33c) To adjust accumulated depreciation for removal of I-20 facility.				
Per ORS	1,078,114	0	0	1,078,114
Per CWS	1,078,114	0	0	1,078,114
(33) Total Accumulated Depreciation Per ORS	2,949,621	672,263	(35,802)	2,313,160
Total Accumulated Depreciation Per CWS	1,323,285	135,339	(99,028)	1,286,974
(34) Cash Working Capital				
To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit ZJP-8.				
Per ORS	(6,372)	88,859	23,228	(118,459)
Per CWS	38,664	89,825	25,018	(76,179)
(35) Contributions in Aid of Construction ("CIAC")				
To adjust CIAC to reflect the amortization of CIAC expense, pro-forma CIAC additions, and the removal of I-20 CIAC. See Audit Exhibit ZJP-6.				
Per ORS	732,675	(293,006)	(1,566)	1,027,247
Per CWS	1,377,162	5,128	30	1,372,004
(36) Plant Acquisition Adjustment ("PAA")				
To adjust the PAA to reflect the removal of the I-20 facility.				
Per ORS	32,541	0	0	32,541
Per CWS	32,541	0	0	32,541
(37) Interest Expense				
To adjust interest on debt using a 48.11% and 51.89% debt to equity ratio and 6.58% cost of debt. ORS computed allowable interest expense after accounting and pro forma adjustments. See Audit Exhibit ZJP-9.				
Per ORS	(38,520)	(213,804)	4,134	171,150
Per CWS	(10,737)	(211,875)	1,471	199,667

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
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For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
Proposed Increase				
(38) Service Revenues - Water				
To adjust water service revenues for ORS's recalculation of the Company's proposed rate increase.				
Per ORS	2,394,421	1,376,052	1,018,369	0
Per CWS	2,312,034	1,317,240	994,794	0
(39) Service Revenues - Sewer				
To adjust sewer service revenues for ORS's recalculation of the Company's proposed rate increase.				
Per ORS	2,292,098	0	0	2,292,098
Per CWS	2,284,616	0	0	2,284,616
(40) Miscellaneous Revenues				
To adjust miscellaneous revenues for ORS's recalculation of the Company's proposed rate increase.				
Per ORS	35,576	5,679	8,203	21,694
Per CWS	0	0	0	0
(41) Uncollectible Accounts				
To adjust for uncollectible accounts associated with the Company's proposed rate increase.				
Per ORS	(53,292)	(23,464)	(22,128)	(7,700)
Per CWS	(85,236)	(17,693)	(21,426)	(46,117)
(42) Taxes Other Than Income				
To adjust gross receipts and utility/commission taxes associated with the Company's proposed increase using a factor of .00524169.				
Per ORS	24,473	7,120	5,265	12,088
Per CWS	24,810	7,110	5,369	12,331
(43) Income Taxes -State				
To adjust state income taxes associated with the Company's proposed increase. See Audit Exhibit ZJP-7.				
Per ORS	232,218	67,558	49,959	114,701
Per CWS	224,330	64,622	48,400	111,308

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Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
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For the Test Year Ended August 31, 2017

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
(44) Income Taxes - Federal				
To adjust federal income taxes associated with the Company's proposed increase. See Audit Exhibit ZJP-7.				
Per ORS	926,544	269,554	199,336	457,654
Per CWS	1,491,795	429,735	321,859	740,201
(45) Customer Growth				
To adjust for customer growth after proposed increase. The growth factors of 1.5662% for water territory 1, 0.4166% for water territory 2, and 1.1023% for sewer were computed by the Utility Rates Department.				
Per ORS	37,983	15,881	3,124	18,978
Per CWS	0	0	0	0

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Carolina Water Service, Inc.
Depreciation and Amortization Expense Adjustments
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

	Combined Operations	Water Terr. 1 Operations	Water Terr. 2 Operations	Sewer Operations
	$	$	$	$
Depreciation Expense				
Gross Plant @ 8-31-17	101,446,033	23,487,720	21,172,723	56,785,590
Add:				
ORS Net Plant Additions Adjustment	(6,274,846)	457,867	345,700	(7,078,413)
Less:				
Organization @ 8/31/17	334,859	84,616	213,814	36,429
Land @ 8/31/17	702,610	325,067	271,444	106,099
Engineering Expenses over 10 years (Ends 2026)	28,264	0	0	28,264
Vehicles @ 2/12/18 (ORS Adjusted Per Books)	1,782,232	577,034	446,046	759,152
Computers @ 2/12/18 (ORS Adjusted Per Books)	3,474,416	1,219,711	788,782	1,465,923
Net Plant @ 2/12/18	88,848,806	21,739,159	19,798,337	47,311,310
Plant Depreciation @ 1.5% (66.67 years)	1,332,732	326,087	296,975	709,670
Vehicles @ 2/12/18	1,782,232	577,034	446,046	759,152
Less: Fully Depreciated Vehicles	1,019,584	336,746	256,508	426,330
Net Vehicles @ 2/12/18	762,648	240,288	189,538	332,822
Vehicle Depreciation @ 20.00% (5 years)	152,530	48,058	37,908	66,564
Computers @ 2/12/18	3,474,416	1,219,711	788,782	1,465,923
Less: Fully Depreciated Computers	2,706,042	949,970	614,342	1,141,730
Net Computers @ 2/12/18	768,374	269,741	174,440	324,193
Computer Depreciation @ 12.5% (8 years)	96,048	33,718	21,805	40,525
Indian Pines Extraordinary Retirement (Ends 2029)	54,441	54,441	0	0
Indian Pines Depr. @ 6.67% (15 years)	3,631	3,631	0	0
Purdy Shores & Foxwood Retirement (Ends 2024)	466,682	0	466,682	0
PS & Foxwood @ 10% (10 years)	46,668	0	46,668	0
Engineering Expenses over 10 Years (Ends 2026)	28,264	0	0	28,264
Engineering Expense Depr. @ 10.00% (10 years)	2,826	0	0	2,826
ORS Total Depreciation	1,634,435	411,494	403,356	819,585
Less: Per Books Depreciation	1,717,514	408,320	381,084	928,110
ORS Depreciation Adjustment # 23	**(83,079)**	**3,174**	**22,272**	**(108,525)**
Company's Adjustment	(73,959)	18,316	(18,873)	(73,402)

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Carolina Water Service, Inc.
Depreciation and Amortization Expense Adjustments
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

	Combined Operations $	Water Terr. 1 Operations $	Water Terr. 2 Operations $	Sewer Operations $
Amortization of CIAC Adjustment				
Gross CIAC @ 8/31/17	(28,342,338)	(10,700,360)	(453,420)	(17,188,558)
Remove I-20 WWTP Gross CIAC	1,913,189	0	0	1,913,189
Pro Forma CIAC Additions (as of 2/12/18)	(627,585)	(304,465)	(1,470)	(321,650)
ORS Adjusted Gross CIAC	(27,056,734)	(11,004,825)	(454,890)	(15,597,019)
Accumulated Amortization of CIAC @ 8/31/17	6,679,540	1,994,846	112,482	4,572,212
Remove I-20 WWTP CIAC Accumulated Amortization	(542,425)	0	0	(542,425)
ORS Amortization Adjustment #24	(10,505)	11,458	(95)	(21,868)
ORS Adjusted CIAC Accumulated Amortization	6,126,610	2,006,304	112,387	4,007,919
ORS Adjusted Net CIAC	(20,930,124)	(8,998,521)	(342,503)	(11,589,100)
Less: Per books CIAC	(21,662,799)	(8,705,515)	(340,937)	(12,616,347)
ORS Net CIAC Adjustment # 35	**732,675**	**(293,006)**	**(1,566)**	**1,027,247**
CIAC Amortization @ 1.5% (66.67 years)	(405,851)	(165,072)	(6,823)	(233,956)
Less: Per Books Amortization of CIAC	(416,356)	(153,614)	(6,918)	(255,824)
ORS CIAC Amortization Adjustment # 24	**10,505**	**(11,458)**	**95**	**21,868**
Company's Adjustment	14,935	(12,020)	86	26,869
Amortization of PAA Adjustment				
Gross PAA @ 2/12/18	(1,024,823)	(877,546)	104,292	(251,569)
PAA Amortization @ 1.5% (66.67 years)	(15,373)	(13,163)	1,564	(3,774)
Less: Per Books Amortization of PAA	(17,129)	(13,504)	1,564	(5,189)
ORS Amortization of PAA Adjustment #29	**1,756**	**341**	**0**	**1,415**

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Audit Exhibit ZJP-7

Carolina Water Service, Inc.
Computation of Income Taxes
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

After Accounting & Pro Forma Adjustments

	$ Combined Operations	Water Terr. 1 Operations	Water Terr. 2 Operations	$ Sewer Operations
Operating Revenues	19,941,672	5,836,305	5,016,499	9,088,868
Less: Operating Expenses	17,182,979	5,383,882	4,221,340	7,577,757
Net Operating Income Before Taxes	2,758,693	452,423	795,159	1,511,111
Less: Annualized Interest Expense	1,713,691	271,174	516,795	925,722
Taxable Income - State	1,045,002	181,249	278,364	585,389
State Income Tax %	5.0%	5.0%	5.0%	5.0%
State Income Taxes	52,249	9,062	13,918	29,269
Less: State Income Taxes Per Book	177,733	57,365	48,377	71,991
ORS State Income Tax Adjustment #23	**(125,484)**	**(48,303)**	**(34,459)**	**(42,722)**
Taxable Income - Federal	992,753	172,187	264,446	556,120
Federal Income Taxes %	21.0%	21.0%	21.0%	21.0%
Federal Income Taxes	208,478	36,159	55,534	116,785
Less: Federal Income Taxes Per Book	1,074,691	352,610	285,967	436,114
ORS Federal Income Tax Adjustment #24	**(866,213)**	**(316,451)**	**(230,433)**	**(319,329)**

After Applicant's Proposed Increase

	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
Operating Revenues	24,610,475	7,194,572	6,020,943	11,394,960
Less: Operating Expenses	17,207,452	5,391,002	4,226,605	7,589,845
Net Operating Income Before Taxes	7,403,023	1,803,570	1,794,338	3,805,115
Less: Annualized Interest Expense	1,713,691	271,174	516,795	925,722
Taxable Income - State	5,689,332	1,532,396	1,277,543	2,879,393
State Income Tax %	5.0%	5.0%	5.0%	5.0%
State Income Taxes	284,467	76,620	63,877	143,970
Less: State Income Taxes As Adjusted	52,249	9,062	13,918	29,269
ORS State Income Tax Adjustment #43	**232,218**	**67,558**	**49,959**	**114,701**
Taxable Income - Federal	5,404,865	1,455,776	1,213,666	2,735,423
Federal Income Taxes %	21.0%	21.0%	21.0%	21.0%
Federal Income Taxes	1,135,022	305,713	254,870	574,439
Less: Federal Income Taxes As Adjusted	208,478	36,159	55,534	116,785
ORS Federal Income Tax Adjustment #44	**926,544**	**269,554**	**199,336**	**457,654**

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Audit Exhibit ZJP-8

Carolina Water Service, Inc.
Cash Working Capital Allowance
Docket No. 2017-292-WS
For the Test Year Ended August 31, 2017

After Accounting & Pro Forma Adjustments

Description	$ Combined Operations	$ Water Terr. 1 Operations	$ Water Terr. 2 Operations	$ Sewer Operations
Maintenance Expenses	10,062,079	3,605,040	2,191,743	4,265,296
General Expenses	2,889,520	994,239	732,803	1,162,478
Total Expenses for Computation	12,951,599	4,599,279	2,924,546	5,427,774
Allowable Rate	12.50%	12.50%	12.50%	12.50%
Computed Cash Working Capital	1,618,950	574,910	365,568	678,472
Less: Cash Working Capital - Application Per Books	1,625,322	486,051	342,340	796,931
ORS Cash Working Capital Adjustment #34	**(6,372)**	**88,859**	**23,228**	**(118,459)**
Company's Cash Working Capital Adjustment	38,664	89,825	25,018	(76,179)

Carolina Water Service, Inc.
Return on Equity
Docket No. 2017-292-WS
Capital Structure at August 31, 2017

Combined Operations

Description	(Note) Capital Structure	Ratio	Application Per Books (Note 1) Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Accounting and Pro forma Adjustments Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Applicant's Proposed Increase Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	$ 221,748,924	48.11%	$ 27,278,598	6.58%	3.17%	$ 1,794,932	$ 26,043,932	6.58%	3.17%	$ 1,713,691	$ 26,043,932	6.58%	3.17%	$ 1,713,691
Common Equity	239,179,224	51.89%	29,422,799	3.36%	1.74%	988,315	28,091,084	2.88%	1.49%	808,723	28,091,084	15.42%	8.00%	4,332,274
Totals	$ 460,928,148	100.00%	$ 56,701,397		4.91%	$ 2,783,247	$ 54,135,016		4.66%	$ 2,522,414	$ 54,135,016		11.17%	$ 6,045,965

Water Terr. 1 Operations

Description	Capital Structure	Ratio	Application Per Books (Note 1) Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Accounting and Pro forma Adjustments Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Applicant's Proposed Increase Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	$ 221,748,924	48.11%	$ 3,675,706	6.58%	3.17%	$ 241,861	$ 4,121,189	6.58%	3.17%	$ 271,174	$ 4,121,189	6.58%	3.17%	$ 271,174
Common Equity	239,179,224	51.89%	3,964,630	-5.48%	-2.84%	(217,397)	4,445,130	3.20%	1.66%	142,406	4,445,130	26.37%	13.68%	1,172,322
Totals	$ 460,928,148	100.00%	$ 7,640,336		0.33%	$ 24,464	$ 8,566,319		4.83%	$ 413,580	$ 8,566,319		16.85%	$ 1,443,496

Water Terr. 2 Operations

Description	Capital Structure	Ratio	Application Per Books (Note 1) Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Accounting and Pro forma Adjustments Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Applicant's Proposed Increase Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	$ 221,748,924	48.11%	$ 7,694,514	6.58%	3.17%	$ 506,299	$ 7,854,025	6.58%	3.17%	$ 516,795	$ 7,854,025	6.58%	3.17%	$ 516,795
Common Equity	239,179,224	51.89%	8,299,331	4.17%	2.16%	346,219	8,471,380	2.50%	1.30%	211,935	8,471,380	11.39%	5.91%	964,943
Totals	$ 460,928,148	100.00%	$ 15,993,845		5.33%	$ 852,518	$ 16,325,405		4.47%	$ 728,730	$ 16,325,405		9.08%	$ 1,481,738

Sewer Operations

Description	Capital Structure	Ratio	Application Per Books (Note 1) Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Accounting and Pro forma Adjustments Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Applicant's Proposed Increase Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	$ 221,748,924	48.11%	$ 15,908,379	6.58%	3.17%	$ 1,046,771	$ 14,068,719	6.58%	3.17%	$ 925,722	$ 14,068,719	6.58%	3.17%	$ 925,722
Common Equity	239,179,224	51.89%	17,158,837	5.01%	2.60%	859,494	15,174,573	2.99%	1.55%	454,382	15,174,573	14.47%	7.51%	2,195,009
Totals	$ 460,928,148	100.00%	$ 33,067,216		5.77%	$ 1,906,265	$ 29,243,292		4.72%	$ 1,380,104	$ 29,243,292		10.68%	$ 3,120,731

Note 1: The interest expense calculations reflect ORS's capital structure ratios and cost of debt applied to the Company's per book numbers.

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