THE OFFICE OF REGULATORY STAFF

SURREBUTTAL TESTIMONY AND EXHIBITS

OF

WILLIE J. MORGAN

DOCKET NO. 2006-97-WS

Application of Tega Cay Water Service, Inc. for Adjustment of Rates and Charges and Modifications to Certain Terms and Conditions for the Provision of Water and Sewer Service

SURREBUTTAL TESTIMONY OF WILLIE J. MORGAN

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-97-WS

IN RE: TEGA CAY WATER SERVICE, INC.

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

A. My name is Willie J. Morgan, and my business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina, Office of Regulatory Staff ("ORS") as the Program Manager for the Water and Wastewater Department.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY FOR THIS PROCEEDING?

A. The purpose of my testimony is to respond on behalf of ORS to portions of the rebuttal testimony of Tega Cay Water Service, Inc. ("Tega Cay"). Specifically, I will focus on the water supplied to Tega Cay by its bulk water supplier and the service life information included in Tega Cay's rebuttal testimony.

Q. GIVEN THE INFORMATION PROVIDED IN THE TESTIMONY OF MR. BRUCE HAAS AND UPON REVIEW OF COMMISSION ORDER NO. 91-

1090 IN DOCKET NO. 90-287-W/S, HAS YOUR POSITION CHANGED CONCERNING WATER LOSS FOR TEGA CAY?

A. Yes it has. Due to the different practices of calculating "unaccounted for water," I agree with Mr. Haas that the terms defined and adopted by the Commission in Order No. 91-1090 in Docket No. 90-287-W/S "more accurately describe the potential uses of water produced or purchased by a water utility." The fundamental advantage of these terms is that all drinking water can be accounted for, via metering or estimation, as either a form of consumption or a loss. Therefore, "unaccounted for water" is not the best term to use in describing the disposition of water purchased by Tega Cay.

Utilizing the terms defined and adopted by the Commission in Order No. 91-1090 in Docket No. 90-287-W/S, the water balance in Exhibit WJM-12 and the terms defined in Exhibit WJM-13 can be used to illustrate the water uses for Tega Cay. Given this description and water balance approach, the "Utility Water Use" and the "Water Losses" added together would equate to approximately 13.4% (18,920,130 gallons) of the "Purchased Volume from York County." This is well above the EPA acceptable allowance of 8%. The 8% allowance is consistent with Commission Order No. 2000-0354 in Docket No. 1999-344-W/S which "allowed 7.5% as a reasonable percentage for lost water" and Order No. 91-231 in Docket No. 90-124-W/S (See Exhibit WJM-14). As stated in my direct testimony, the current "loss of more than 12% requires priority attention and corrective action."

Q HOW DID YOU DETERMINE THE PURCHASED WATER QUANTITY FOR TEGA CAY?

A. The amount of water purchased by Tega Cay was provided to ORS by Tega Cay in response to First Continuing Data Request No. 1.31 (Exhibit WJM-15). The amount of water "Purchased" by Tega Cay for the test year is listed as 141,195,000 gallons. The amount of water "Sold" to the registered customers was 111,537,250 gallons. While the 111,537,250 gallon amount is greater than the 110,867,190 gallon consumption amount that was reported to York County during the test year, the amount listed as "Sold" water is consistent with the audited consumption amount that was billed and collected from the registered customers of Tega Cay. As stated on page 4 of Exhibit WJM-6, Tega Cay's agreement with York County specifies that "[t]he County Charge to Utility will include the cost of all water provided to Utility through the County master meter." It is our understanding that Tega Cay's elevated storage tank is located at a point on Tega Cay's water system after York County's master meter. Any "system leakage" associated with Tega Cay's mains (after York County's master meter) and utility service lines, including the storage tank would be the responsibility of Tega Cay and not York County. This water loss by Tega Cay would count toward the "purchased volume from York County." Therefore, Tega Cay should operate its elevated storage tank and all other parts of the system that it owns in a manner that limits any leakage and overflows. Furthermore, this would limit the demand on York County's system and potentially reduce wholesale rate increases due to capital improvement needs because of increased water loss.

Q. WHAT IS YOUR UNDERSTANDING OF HOW THE YORK COUNTY PORTION OF A CUSTOMER BILL IS DETERMINED?

A. To clearly understand how a Tega Cay customer's bill is determined, a general understanding of the system must be presented. Exhibit WJM-16 is an overview of the Tega Cay water distribution system and depicts some of the uses of the water that is purchased from York County. The document provided in Mr. Haas's testimony, BTH Rebuttal Exhibit No. 2, provides an allowance for water that is: 1) registered by York County's master meter; 2) used by Tega Cay and; 3) not recorded on the customer meters. As presented in BTH Rebuttal Exhibit No. 2, "[e]xamples of such water are main breaks, hydrant flushing, and normal leakage." This amount is limited per agreement with York County to "115% of the gallons registered on retail customer meters." With the 115% amount that is identified in the agreement, Tega Cay is given a 15% (16,730,588 gallons) cushion for water use before additional charges are incurred from York County.

As presented in both documents, the payment amount to York County is calculated on an annual basis. The York County component of a customer's bill is comprised of two elements: a water supply charge and a base charge. See Exhibit WJM-17. The sample bill presented in the application on page 1 of Exhibit D clearly shows the two charges that are set by York County. The water supply charge is a set rate that is established by York County for all of its wholesale customers. The York County base charge is a variable rate. As stated in BTH Rebuttal Exhibit No. 2, "[t]he County shall render to Utility an accounting of all water sold through the master meter and compare the amount so delivered with the gallonage paid for by Utility over the twelve month period term." Tega Cay is then responsible for remitting to York County a payment for

all water billed by York County "within fifteen days of receipt of the County's annual billing." Therefore, any amount over the specified 115% allowance (128,267,838 gallons) is eventually borne by the customers of Tega Cay. During the test year the 115% was 128,267,838 gallons and the amount over 115% was 12,927,162 gallons.

Q. DO YOU HAVE ANY CONCERNS ABOUT THE ENGINEERING OPERATION OF TEGA CAY WATER SYSTEM?

A. From Exhibit WJM-16, it is easy to see that Tega Cay becomes responsible for system maintenance and operations after the York County master meter. Any water loss or water use between the York County master meter and the customer's meter is the responsibility of Tega Cay. This includes the storage tank and distribution system. Therefore, Tega Cay should not allow the overflow system to the water storage tank to be used as a relief point for York County's booster system. Given today's technology, booster systems can be designed to protect from failure and damage to the water system while providing customers with adequate and quality service. It is ORS opinion that the booster pump is the responsibility of York County. Furthermore, York County and Tega Cay's agreement information provided to ORS does not include Tega Cay's protection of the booster pump system owned by York County.

Q. HAS YOUR POSITION CHANGED CONCERNING YOUR RECOMMENDATION OF A WATER AUDIT IN YOUR INITIAL TESTIMONY?

A. No. According to the American Water Works Association (AWWA) Manual of Water Supply Practices, Water Audits and Leak Detection, 2nd Ed., page 2, "Water audits should be performed annually to help managers adjust priorities, monitor progress, identify new areas of system losses, and establish new maintenance goals." Therefore, I continue to support my earlier position of recommending a water audit. Water audits can achieve substantial benefits, including reduced water losses, financial improvement, increased knowledge of the distribution system, more efficient use of existing supplies, safeguarding public health and property, improved public relations, reduced legal liability, and reduced disruption to customers.

Q. DOES THAT CONCLUDE YOUR SURREBUTAL TESTIMONY?

A. Yes it does.

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-97-WS

Application of Tega Cay Water Service, Incorporated for Adjustment of Rates and Charges and Modifications to Certain Terms and Conditions for the Provision of Water and Sewer Service

WILLIE J. MORGAN SURREBUTTAL TESTIMONY

EXHIBIT INDEX

EXHIBIT NO.	EXHIBIT TYPE	PREPARED BY
WJM-12	Water Balance for Tega Cay	ORS
WJM-13	Components and Definitions of Water Balance	ORS
WJM-14	Commission Orders No. 2000-0354 and 91-231	PSC
WJM-15	Response to First Continuing Data Request 1.31	Tega Cay
WJM-16	Tega Cay Water Distribution System Overview	ORS
WJM-17	Tega Cay Customer Bill Code Schedule	Tega Cay

TEGA CAY WATER SERVICE, INC. **Exhibit WJM-12**

2006-97-WS

WATER BALANCE FOR TEGA CAY (All data in volume for the test year period)

<table>
<tr><td rowspan="9">Purchased Volume from York County
141,195,000 gallons</td><td rowspan="6">Authorized Water Uses</td><td rowspan="4">Account Water (Billed Authorized Consumption)</td><td rowspan="4">Billed Metered Consumption</td><td rowspan="4">Revenue Water
111,537,250 gallons
(79%)</td></tr>
<tr></tr>
<tr></tr>
<tr></tr>
<tr><td rowspan="2">Unbilled Authorized Consumption</td><td>Unbilled Metered Consumption*
10,746,013 gallons
(7.6%)</td><td rowspan="7">Non Account Water
29,657,750 gallons
(21%)</td></tr>
<tr><td>Utility Water Use
(i.e., flushing, system work, testing, etc.)</td></tr>
<tr><td rowspan="3">Water Losses</td><td rowspan="3">Administrative Losses</td><td>Unauthorized Consumption</td></tr>
<tr><td>Customer Metering Inaccuracies</td></tr>
<tr><td>Data Handling Errors</td></tr>
<tr><td rowspan="3">System Leakage (Real Losses)</td><td>Leakage on Transmission and Distribution Mains</td></tr>
<tr><td>Leakage and Overflows at Tega Cay's Storage Tank</td></tr>
<tr><td>Leakage on Service Connections up to point of Customer metering</td></tr>
</table>

*** Unbilled Metered Consumption is water used at Tega Cay's three (3) wastewater treatment facilities.**

TEGA CAY WATER SERVICE, INC. **Exhibit WJM-13**

2006-97-WS

COMPONENTS AND DEFINITIONS OF WATER BALANCE FOR TEGA CAY

Water Balance Component	Definition
Purchased Volume from York County	The test year volume input to the water supply system through the master meter
Authorized Water Uses	All water uses known and approved or authorized by the utility. These uses include all metered uses and reliale estimates of all other approved uses; such as: public, fire, system, operational, or paid-for uses.
Water Losses	The difference between Purchased Volume from York County and Authorized Consumption, consisting of Administrative Losses plus System Leakage
Administrative Losses	Unauthorized Consumption, all types of metering inaccuracies and data handling errors
System Leakage (Real Losses)	All water that is lost from the system through leaks, and breaks and includes all unavoidable leaks, and breaks and includes all unavoidable leaks and all recoverable leaks and breaks.
Revenue Water	Those components of Purchased Volume from York County which are billed and produce revenue (registered customer metered consumption)
Non Account Water	The sum of water that is produced or purchased by a company that is not covered by the term "Account Water"
Account Water	All water for which an account exists. The water is metered, and the account is billed.
Utility Water Use	The water which is removed from the distribution system by the utility for the purpose of maintaining and operating the system. This should include both the metered and unmetered water removed, with those unmetered uses being reliably estimated.

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 1999-344-W/S - ORDER NO. 2000-0354

APRIL 17, 2000

DW

IN RE: Application of Pinebrook of Spartanburg for Approval of an Increase in its Rates and Charges for Water and Sewer Services.	)))	ORDER

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Pinebrook of Spartanburg (Pinebrook or the Company) for approval of an increase in its water and sewer rates. Pinebrook serves the Pinebrook Mobile Home Community in Spartanburg County, South Carolina. Pinebrook was established as a water and sewer utility in 1983 by this Commission. The Company has 63 customers, and is presently operating under rates set by this Commission in Order No. 94-479 issued on May 23, 1994, and Order No. 94-520 issued on June 6, 1994.

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing, one time, in newspapers of general circulation in the Company's service area, and served a copy of said Notice on all affected customers in the service area. The Company furnished affidavits to show that it had complied with the instructions of the Executive Director. No Petitions to Intervene were received.

Accordingly, a hearing was held on April 5, 2000 at 10:30 AM in the offices of the Commission. As per State law, a panel, consisting of Commissioners Carruth, Mitchell, and Clyburn heard the case. Commissioner Carruth acted as Chairman. J.P. Hellams, Jr. appeared pro se for the Company. The Commission Staff (the Staff) was

represented by F. David Butler, General Counsel. The Staff presented the testimony of Sharon G. Scott and William O. Richardson.

J.P. Hellams, Jr. testified on behalf of the Company. Hellams is seeking an increase from $7.00 per month for water and $7.00 per month for sewer for the first 4 units of each, and a commodity charge of $2.00 per unit over the first four units to a rate of $20.00 per month for water and $20.00 for sewer (each including 4 units), and a commodity charge of $4.00 per unit over the four units. (There are 750 gallons in a unit.) Hellams testified that even if these rates are granted, he will still be losing approximately $24,610, based on projected expenses. Hellams noted that he based his request on a 1998 calendar year test year. Hellams noted that he had an average of 63 spaces filled in his park for the year. During that time, Pinebrook received $13,839.70 total for water and sewer services from the Company's customers. However, his expenses for the same period were $52,354.99, which represents a loss of $38,515.29. Hellams stated that each year, his expenses keep increasing due to general maintenance and service requirements. Hellams states that he maintains the system and lines, handling breaks and repairs himself. He does not pay himself a salary. Hellams notes that he cannot continue to operate at the losses sustained by him in the past.

Sharon G. Scott of the Commission's Audit Department testified for the Commission Staff. Ms. Scott noted that the Audit Staff reviewed the Application for the test year ended December 31, 1998. Staff proposed a number of accounting adjustments. First, the Company's cost to purchase water increased from $1.76 to $1.91 per unit. Staff increased expenses by $437 to reflect this increase. According to Ms. Scott, the

Company's cost to purchase sewer services increased in conjunction with the increase to purchased water. The increase in sewer charges went from $1.088 to $1.185 per unit. The Staff's adjustment was $283 accordingly.

With regard to expenses for materials, Staff proposes to increase expenses by $400. The Company also proposed to increase various expenses, such as office supplies, labor, electrical expenses, and telephone expenses based on estimates. Since the numbers were not known and measurable, Staff declined to adjust expenses for these estimates.

Staff also proposed various adjustments for an increase in the cost of operating vehicles, vehicle insurance, and postage expenses. Staff also offers other varying adjustments.

Another adjustment is proposed by the Utilities Staff, which proposes that expenses be reduced for unaccounted for water. The Commission historically has allowed 7.5% as a reasonable percentage for lost water. Based on this figure, Staff's adjustment is ($1,976) for water operations and ($1,222) for sewer operations.

According to Scott, even if we grant Pinebrook the entire requested rate increase, it will still have an operating margin of (47.41%) for combined operations.

William O. Richardson, an engineer associate in the Commission's Utilities Department, also testified on behalf of the Staff. Richardson testified that the proposed increase would produce $23,668 in additional revenue, for an overall increase of 171.0%. Richardson related that Staff had received four letters protesting the amount of the increase, but no service complaints. The Commission's Consumer Services Department also received one inquiry with regard to the rate increase request. Richardson noted that

the Company purchased all of its water from Metropolitan Sub-District B Water and Sewer District through a master meter, and then resells the water to the Company's metered customers. Pinebrook is also a wholesale customer of Spartanburg Sanitary Sewer District.

Richardson noted that an inspection of the Company's water system did not reveal any obvious leaks and the pressure was within the limits required by the Commission's rules and regulations. Richardson finally noted that the Company's lost water is around 15%, whereas the Commission has historically used 7.5% as the standard of reasonableness as a percentage for lost water.

FINDINGS OF FACT

1. Pinebrook of Spartanburg is a water and sewer utility under the jurisdiction of the Commission, and it serves the Pinebrook Mobile Home Community in Spartanburg County, South Carolina. (See testimony of Hellams.)

2. Pinebrook is seeking a rate increase in both its water and sewer charges. The Company's present rates are $7.00 for the first four units (3,000 gallons) each of water and sewer, with a $2.00 per unit commodity charge for amounts used above 4 units. The Company's proposed rates are $20.00 for the first four units each of water and sewer, with a $4.00 per unit commodity charge for amounts used above 4 units. (See testimony of Hellams and Richardson.)

3. The system presently has 63 customers. (See testimony of Hellams and Richardson.)

4. The system has had no service complaints during the test year. (See testimony of Richardson.)

5. The Commission Staff's adjustments should be adopted in toto, and are appropriate as explained in the discussion above, and as noted in Staff testimony. Even after adoption of all adjustments, if the Commission granted the entire rate increase request of the Company, the operating margin would be (47.41%). (See testimony of Scott and Richardson.)

6. The testimony presented justifies our granting of the entire rate increase requested by the Company, since it is clear that Pinebrook is presently operating, and will continue to operate at a loss, even with the granted increase.

CONCLUSIONS OF LAW

1. Pinebrook of Spartanburg is a water and sewer utility providing service to the Pinebrook Mobile Home Community in Spartanburg County, South Carolina.

2. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10 et seq (1976) as amended.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff is appropriate and each is hereby adopted by the Commission, based on the reasoning as stated above. (See testimony above.)

4. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water and sewer utility whose rate base has been substantially reduced by customer

donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

5. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the water treatment, the quality of the water service, and the effect of the proposed rates upon the consumers. We note that customers of the system had no service complaints.

6. Based upon all of these considerations, the Commission determines that the Company should have the opportunity to earn a (47.41%) operating margin on its water and sewer operations. In order to have a reasonable opportunity to earn a (47.41%) operating margin, the Company will need to produce $37,508 in total annual operating revenues.

TABLE A

OPERATING MARGIN

Operating Revenues	$37,508
Operating Expenses	55,289
Net Loss for Return	(17,781)
Operating Margin	(47.41%)

7. In order to earn the operating revenues necessary to earn an operating margin of (47.41%), the Company must earn revenues of $37,508. In order to earn these revenues, we hold that the rate of $20.00 monthly per customer for the first four units of water (3,000 gallons) is approved, along with a $4.00 per unit commodity charge for all use over 4 units. Likewise, we approve a rate of $20.00 monthly per customer for the first four units of sewer (3,000 gallons), along with a $4.00 per unit commodity rate for all use over 4 units.

8. Accordingly, it is ordered that the rates attached in Appendix A are hereby approved for service rendered on or after the date of this Order.

9. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

10. It is further ordered that the Company maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for water and sewer utilities as adopted by this Commission.

11. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Chairman

ATTEST:

Executive Director

(SEAL)

APPENDIX A

PINEBROOK OF SPARTANBURG
100 DAYTONA DRIVE #1
SPARTANBURG, SC 29303
864-503-0823

FILED PURSUANT TO:

DOCKET NO. 1999-344-W/S

ORDER NO. 2000-0354

EFFECTIVE DATE: APRIL 17, 2000

RESIDENTIAL SERVICE

(1 UNIT =100 CUBIC FEET = 750 GALLONS)

MONTHLY WATER SERVICE

BASE CHARGE (INCLUDES 4 UNITS) $20.00

ALL OVER 4 UNITS.....$4.00 PER UNIT

MONTHLY SEWER SERVICE

BASE CHARGE (INCLUDES 4 UNITS).....$20.00

ALL OVER 4 UNITS.....$4.00 PER UNIT

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 90-124-W/S - ORDER NO. 91-231

APRIL 1, 1991

IN RE: Application of Heater of Seabrook, Inc., for approval of adjustments in its rates and charges for water and sewer services.	))))	ORDER APPROVING RATES AND CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application of Heater of Seabrook, Inc. (the Company) for approval of a new schedule of rates and charges for its water and sewer customers on Seabrook Island in Charleston County, South Carolina. The Company's October 1, 1990, application was filed pursuant to S.C. Code §58-5-240 (1976), as amended, and R.103-821 of the Commission's Rules of Practice and Procedure.

By letter dated October 17, 1990, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's application. The Notice of Filing indicated the nature of the Company's application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to notify directly all customers affected by the proposed rates and charges.

Petitions to Intervene were filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate) and the Town of Seabrook. The Commission, by Order No. 90-1202, allowed the intervention out of time of the Seabrook Island Property Owners Association (POA).

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The other parties likewise conducted their discovery in the rate filing of Heater of Seabrook, Inc.

A public hearing relative to the matters asserted in the Company's application was held on February 6, 1991, at the Hearing Room of the Commission at 111 Doctor's Circle, Columbia, South Carolina. Pursuant to §58-3-95, of the S.C. Code, a panel of three Commissioners composed of Commissioners Yonce, Butler, and Fuller was designated to hear and rule on this matter. Darra W. Cothran, Esquire, and Edward L. Flippin, Esquire, represented the Company; Carl F. McIntosh, Esquire, represented the Consumer Advocate; Robert T. Bockman, Esquire, appeared on behalf of the Town of Seabrook and the POA; and Marsha A. Ward, General Counsel, and Gayle B. Nichols, Staff Counsel, represented the Commission Staff.

The Company presented the testimony of William E. Grantmyre, President of the Company; Freda Hilburn, Director of Regulatory Accounting; Jerry W. Tweed, Director of Regulatory Affairs; and David Parcell, Vice President/Senior Economist of Technical Association, Inc. to explain the services being provided by

the Company, the financial statements and accounting adjustments submitted, the reasons for the requested rates, and the cost of capital requirements. The Consumer Advocate presented the testimony of Philip E. Miller, Riverbend Consulting, who analyzed the Company's application and revenue requirements. The Town of Seabrook Island presented the testimony of Mayor Joel W. Thompson and the POA presented the testimony of Robert N. Giuffreda who both testified to the concerns of the customers regarding the proposed increase. The Commission Staff presented the testimony of Raymond C. Sharpe, Public Utilities Rate Analyst and I. Curtis Price, III, Public Utilities Accountant.

FINDINGS OF FACT

1. The Company is a wholly-owned subsidiary of Heater Utilities, Inc.[1] The Company is a water and sewer utility operating in the State of South Carolina and is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 (1976) et seq. Application of Company; Grantmyre testimony.

2. The Company provides water service to 1,690 customers and sewer service to 1,630 customers on Seabrook Island, Charleston, South Carolina. Hearing Exhibit No. 9.

3. The Company purchases its water from St. Johns Water Company, Inc. The Company has a 550,000 gallon storage tank and chlorine is the only chemical additive used in the water as

1. Heater Utilities is wholly owned by the Topeka Group, Inc. The Topeka Group, Inc. is a wholly owned subsidiary of Minnesota Power and Light Company.

required by DHEC. The Company maintains a sewerage treatment plant and 21 lift stations. Hearing Exhibit No. 9.

4. The Company's present rates and charges were approved by Order No. 88-126, dated February 1, 1988, in Docket No. 86-368-W/S. Hearing Exhibit No. 9; files of the Commission.

5. At present, the Company charges a basic facility charge of $6.00 per single family equivalent and a commodity charge of $1.20 per 1,000 gallons used. For sewer service, the Company charges a residential monthly charge of $16.00. Its commercial sewer rate is $16.00 per month per single family equivalent. The Company also charges a water service connection charge of $200.00 per single family equivalent and a water plant impact fee per single family equivalent of $300.00. Similar charges also apply for sewer service. The Company does not propose to change these non-recurring connection charges. The Company does not propose to change its reconnection fee of $40.00 for water service and customer account charge of $25.00 for water service. The Company proposes to increase its residential water rate to $10.00 per month for meters less than one inch[2] (most residential units have a three-quarter inch meter), plus a commodity charge of $2.78 per 1,000 gallons. Based on the actual average consumption of 6,225 gallons, the residential and commercial water increase amounts to 102.75%. The Company proposes to increase its residential sewer rate to $26.00 per month. The Company proposes to change its

2. This charge graduates as the meter size increases beyond one inch.

commercial sewer rate to a basic facility charge of 2.6 times the water basic facility charge, plus a commodity charge of $2.61 per 1,000 gallons of water consumed. This amounts to a residential sewer increase of 62.50% and a commercial sewer increase of 385.97%. The Company also proposed to decrease the golf course irrigation from 25¢ to 10¢ per 1,000 gallons. Hearing Exhibit No. 9; Application of Company.

6. The Company asserts this requested rate increase is required because the Company has experienced substantial increases in purchased water costs, property tax expense, testing fees for the wastewater treatment plant and DHEC required monitoring wells. The Company has experienced a revenue shortfall of $137,000.00 from the annual operating revenues of $832,779.00 which the Commission found to be the fair and reasonable requirement in the last rate case order. The primary component of the revenue shortfall was the reduction in metered water revenues caused by a sharp reduction in gallons sold. Since acquiring the water and wastewater systems from Utilities Services, Inc. in 1988, Heater of Seabrook, Inc. has invested funds for capital improvements totaling more than $1,000,000.00. The major capital plant additions or renovations were the wastewater treatment plant expansion of .55 million gallons per day, replacement of pumping equipment, renovations of sewer lift stations, meter installations and replacements, wastewater effluent monitoring wells, communications equipment and controls for the water booster pumps, and elevated storage tank. The Company asserts that the rate increase is necessary in order

for it to earn a fair rate of return on its investments, which is necessary to maintain the financial integrity of the Company. The rate increase will enable the Company to maintain the quality of service to the customers and maintain customer satisfaction. Grantmyre testimony.

7. The Company proposes that the appropriate test period to consider its requested increase is the twelve-month period ending May 25, 1990. Hilburn testimony. The Staff concurred in using the same test year for its accounting and pro forma adjustments. Price testimony. The Town of Seabrook and the POA objected to the use of the May 25, 1990, test year. Thompson testimony; Giuffreda testimony.

8. Under its presently approved rates, the Company states its operating margin after interest and after accounting and pro forma adjustments is (63.53%) for water and (30.19%) for its sewer operations. Application of Company, p. 2 and Exhibit S. The Company seeks an increase in its rates and charges for water and sewer service which would result in operating margins of 10.88% for water operations and 13.72% for sewer operations. Application of Company, p. 2 and Exhibit S.

9. Under the Company's presently approved rates, the Company states that its operating revenues for the test year, after accounting and pro forma adjustments, are $695,446.00. The Company seeks an increase in its rates and charges for water and sewer service in a manner which would increase its operating revenues by $580,865.00. Application of Company, Exhibit C.

10. Under the Company's presently approved rates, the Staff found that the Company's per book operating revenues for the test year were $691,743.00 after accounting and pro forma adjustments. The Staff calculated the proposed increase to be in the amount of $591,584.00. The Staff proposed that the Company should have collected $21,420.00 less due to the billing and consumption data and the abnormal amount of non-recurring late payment fees and due to the reclassification of spray irrigation. The Commission Staff also adjusted the Company's uncollectibles by $400.00 which was applied to the proposed increase. Hearing Exhibit No. 9.

11. The Company asserts that under its presently approved rates, its total operating expenses for the test year, after accounting and pro forma adjustments are $792,661.00. Application of Company, Exhibit C. Staff concluded that the Company's operating expenses for the test year, after accounting and pro forma adjustments, are $766,160.00. Hearing Exhibit No. 9. Staff arrived at this proposal after making the following adjustments to the Company's expenses:

(A) Purchased Water Adjustment

The Company and the Staff proposed to adjust purchased water based on actual test year consumption at prices effective March 1, 1991. The Consumer Advocate did not propose an adjustment to encompass the increase in the rates charged by St. Johns Water Company, the wholesale supplier to the Company. The Consumer Advocate did not propose an adjustment because St. Johns Water Company would not put the increase into effect until March 1, 1991,

which, according to witness Miller violates the test year concept. Miller testimony. The Staff's adjustment does include the March 1, 1991, increase but also includes an adjustment for unaccounted for water at the rate of 7.54%, for a total adjustment of $2,941.00 as an increase to Operation and Maintenance (O&M) Expenses. Hearing Exhibit No. 9; Sharpe testimony; Price testimony. The Company's adjustment of $12,551.00 includes unaccounted for water at a rate of 14% and the increase in the wholesale rate from St. Johns Water Company, effective March 1, 1991. Tweed rebuttal testimony.

(B) Rate Case Expenses

The Company proposed to amortize its estimated rate case expenses of $30,636.00 over a three-year period. The Company's adjustment to O&M Expenses was $10,212.00. Neither the Staff, nor the Consumer Advocate proposed an adjustment for rate case expenses. Miller testimony; Hearing Exhibit No. 9.

(C) Depreciation

Both the Staff and the Company proposed to annualize depreciation expense based on the end-of-period plant. The Company proposed to increase depreciation expense by $36,181.00. Application of Company, Exhibit C. The Commission Staff proposed to increase depreciation expense by $29,504.00. Staff's adjustment reflects a change in the life of some of the assets from seven years to ten years and accounts for the availability fees received by the Company. Hearing Exhibit No. 9.

(D) Hugo Expenses and Bankruptcy Legal Fees

Both the Company and the Staff concurred in their adjustments to General Expenses of $3,516.00. The Company and the Staff proposed to amortize Hurricane Hugo Expenses over a five-year period. Also included in General Expenses in this adjustment, are legal fees relating to the Seabrook Island Ocean Club bankruptcy proceedings. These legal fees were amortized over a three-year period. Hearing Exhibit No. 9. The Consumer Advocate proposed to include both Hugo Expenses and the Seabrook Island Ocean Club bankruptcy legal fees, but proposed an amortization period of five years. Miller testimony.

(E) Salaries and Wages

Both the Company and the Staff agreed to adjust O&M Expenses in the amount of $762.00 to annualize the salaries and wages. This reflects a salary increase that was annualized for the test year. Also, the Company and the Staff proposed to adjust general expenses in the amount of $1,035.00 to annualize the office salaries and wages for the test year. Concomitantly, the Company and the Staff proposed to adjust pensions and employee benefits to reflect group medical and long term disability insurance costs at year-end wage levels, which amounted to $729.00 in general expenses. Hearing Exhibit No. 9. The Consumer Advocate did not propose an adjustment to recognize any salary increases. The Consumer Advocate questioned the reasonableness of these salaries and wages and, therefore, did not propose any adjustment to the pensions and employee benefits. Miller testimony. The Company addressed the Consumer Advocate's

position on rebuttal. Grantmyre Rebuttal Testimony.

(F) Contractual Services

Both the Company and the Staff proposed to annualize contractual services for engineering, accounting, legal and other service contracts. This adjustment reduced General Expenses by $13,906.00. The Consumer Advocate was of the opinion that the adjustment is understated because the Company over allocates accounting costs and amortizes the legal costs over too short of a period of time. The Consumer Advocate was of the opinion that $1,534.00 should be allocated to Heater of Seabrook, Inc. which would represent its portion of an auditing fee of $17,650.00 allocated to Heater of Seabrook, Inc. Instead, the Company allocated $5,081.00 of the total auditing fee to Heater of Seabrook, Inc. Miller testimony. The Company supported its adjustment and provided information concerning the allocation of the expense to Heater of Seabrook, Inc. Hilburn Rebuttal Testimony.

(G) Other Adjustments

The Company and the Staff proposed to adjust the purchased power account to reflect annualized amounts related to operations, excluding office electricity. This adjustment amounted to increasing O&M expenses by $3,999.00. No other party objected to this adjustment. The Company and the Staff proposed to adjust transportation expenses to include operating expenses of a vehicle transferred to Seabrook during the test year. This adjustment had the effect of increasing O&M Expenses by $5,180.00. No party

opposed this adjustment. The Company and the Staff proposed to adjust treatment and disposal expense to reflect an annualized level of quarterly testing. This adjustment amounted to increasing O&M Expenses by $2,730.00. No party objected to this adjustment. The Company and the Staff proposed to adjust purchased power to reclassify office electricity expense. This adjustment increased General Expenses by $2,813.00. No party opposed this adjustment. The Company and the Staff proposed to reclassify materials and supplies related to Hurricane Hugo. This had the effect of decreasing General Expenses by $832.00. No party opposed this adjustment. The Company and the Staff proposed to annualize Rent Expense. This decreased General Expenses by $1,495.00. No party opposed this adjustment. Both the Company and the Staff proposed to reclassify Transportation Expense to O&M Expense. This adjustment decreased General Expenses by $4,843.00. No party objected to this adjustment. The Company and the Staff proposed to adjust insurance to reflect decreases in premiums, effective June 1, 1990, for General Liability and Workman's Compensation Insurance. This adjustment decreased General Expenses by $2,935.00. No one objected to this adjustment. The Company and the Staff proposed to reclassify miscellaneous expenses associated with Hurricane Hugo. This adjustment increased General Expenses by $3,943.00. No party objected to this adjustment. The Company and the Staff proposed to reclassify Penalty Expense as a non-ratemaking item. This decreased General Expenses by $130.00. No party objected to this adjustment. The Company and the Staff

proposed to adjust Taxes Other than Income Taxes to annualize Property Taxes, Payroll Taxes and Franchise Taxes. This adjustment decreased Taxes Other than Income by $39,190.00. No party objected to this adjustment. Both the Company and the Staff proposed to eliminate per book negative income taxes. This had the effect of increasing State Income Taxes by $9,928.00 and increasing Federal Income Taxes by $68,274.00.

12. The Company's records reflect that after accounting and pro forma adjustments to its operating revenues and expenses, its total income for return is ($97,215.00). Company's Application, Exhibit C. The Staff calculated the Company's total income for return, after accounting and pro forma to be ($74,417.00). Hearing Exhibit No. 9.

13. The Company has applied for rates which will result in returns on rate base of 11.34% for water operations (Company's application, Exhibit Q) and 11.32% for sewer operations (Company's application, Exhibit R). Heater of Seabrook, Inc. requested the Commission to set its rates and charges based upon the return on rate base methodology. Company's Application, Page 2; Grantmyre testimony; Parcel testimony; and Tweed testimony. The applied-for rates would result in operating margins after interest of 10.88% for water operations and 13.72% for sewer operations, according to the Company. Company's application, Exhibit S.

14. The Commission Staff calculated the rate of return on rate base to be 11.52% and the operating margin, after interest, to be 19% under the proposed rates and assuming Staff's adjustments.

Hearing Exhibit No. 9.

CONCLUSIONS OF LAW

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

2. A fundamental principle of the ratemaking process is the establishment of an historical test year with the basis for calculating a utility's rate base and, consequently, the validity of the utility's requested rate increase. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburg v. Pennsylvania Public Utility Commission, 187 P.A. Super. 341, 144 A.2d 648 (1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E.2d 278 (1978).

3. The Company chose the test year ending May 25, 1990. The Commission Staff used the same test year in calculating its adjustments. Witness Miller for the Consumer Advocate expressed some concern about the test year chosen and in particular, the impact that this test year has upon the Company's operating

revenues. Mayor Thompson, testifying for the Town of Seabrook, expressed the customers' concerns concerning the test year chosen by the Company. He pointed out that the test year was affected by Hurricane Hugo and the bankruptcy of the Seabrook Island Ocean Club. He requested that either the test year be changed or that pro forma adjustments to water and sewer revenues be applied as has been done for other revenues and costs in the application.

Witness Tweed, through his rebuttal testimony addressed the issue of the test year. Hearing Exhibit No. 12, Appendix A, shows the test year gallons compared to any other test year which Heater of Seabrook could have picked. The test year consumption depicted on Appendix A does not significantly differ from other potential test years. The average annual consumption for all the test years shown is 165,000,000 gallons compared to 156,000,000 test year gallons, for a difference of 9,000,000 gallons. Additionally, the Company supplied information which indicated that 9,950,000 gallons of water were consumed on an annual basis on accounts which are now inactive. The Commission is of the opinion that the test year ending May 25, 1990, is appropriate based on the information available to the Commission. The test year ending May 25, 1990, is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that the Staff's adjustments to the Company's operating revenues is appropriate. The Staff's adjustments recognize the changes in billing and consumption data, the abnormal amount of late fees, the reclassification of irrigation revenues, and the adjustment to the Company's

uncollectibles account. Accordingly, the Commission finds that the appropriate level of revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments is $691,743.00.

4. The Commission also concludes that the Staff's adjustments to the Company's operating expenses are appropriate with one exception. The Commission makes this conclusion based on the following legal principles and reasoning:

(A) Purchased Water Adjustment

The Commission concludes that Staff's adjustment to recognize the actual test year consumption at prices effective March 1, 1991, is appropriate for ratemaking purposes. Staff included the increase from St. Johns Water Company to Heater of Seabrook because Staff was able to verify the increase during its audit and investigation of the Company. Because this increase was verified by the Staff, it does not violate the test year concept. This is a known and measurable change which will take place and under the terms of the notice, is in effect now. This increase must be recognized for ratemaking purposes. The Commission also concludes that Staff's adjustment recognizing 7.54% of unaccounted for water is appropriate. The Staff's investigation of the unaccounted for or "lost" water led it to believe that the 14% of unaccounted for water verified by the Company was not appropriate for the Seabrook system. As a check, the Commission Staff reviewed data from Kiawah Island Utility, Inc. concerning its unaccounted for water. The Kiawah system was chosen because Kiawah is very similar to

Heater in operations, environment, and both companies purchase water from St. Johns Water Company. The 1989 and 1990 data for Kiawah revealed that Kiawah's rate for unaccounted for water averaged 7.54%. The Commission Staff used this number in making its adjustment. While the Company provided several reasons for the unaccounted for water and did an inquiry of other surrounding utilities as to their unaccounted for water, the Commission finds that Staff's investigation supports the unaccounted for water percentage of 7.54%. Interestingly, even though the Company had access to Staff's investigation concerning the Kiawah system, the Company did not conduct its own survey of Kiawah for its analysis or supply any reasoning why Kiawah was an inappropriate proxy. The companies surveyed by Heater of Seabrook were much older systems and served larger areas. The Commission concludes that Staff's comparison provides adequate support for the adjustment.

(B) Rate Case Expenses

The Commission concludes that it is not appropriate to include estimated rate case expenses for ratemaking purposes. The Company provided an exhibit (Hearing Exhibit No. 13) which did include supporting vouchers, but did not include verification of payment through cancelled checks, etc. The Commission concludes that this type of unverified submittal is not appropriate and should not be included for ratemaking purposes.

(C) Depreciation

The Staff's adjustment to depreciation expense appropriately reflects a change in the life of the assets. The Staff also

recognized the receipt of availability fees by the Company which would offset the rate base and investment of the Company by a similar amount. Therefore, the reduction in rate base should be recognized through reduced depreciation expenses.

(D) Hugo Expenses and Bankruptcy Legal Fees

The Commission concludes that the Hugo Expenses and Bankruptcy Legal Fees should be included as ratemaking expenses. However, the Commission is of the opinion that the amortization period proposed by the Consumer Advocate, which would amortize the legal fees of the Seabrook Island Ocean Club bankruptcy proceedings over five years represents a more reasonable period than the three year period proposed by the Company. This would allow the Company to recover these costs but to share over a five-year period the unamortized portion with its stockholders. The Commission recognizes that both Hurricane Hugo and the bankruptcy proceeding are abnormal and extraordinary occurrences. The Commission is of the opinion that a five-year period is appropriate for the amortization period since such situations should not occur with much frequency.

(E) Salaries and Wages

The Commission concludes that Staff's adjustment to annualize salaries and wages properly reflects salary increases that were annualized for the test year and that the Staff properly annualized office salaries and wages for the test year. By recognizing salaries and wages, the Commission Staff properly recognized the intercompany salary allocations from the parent company, Heater

Utilities, for all customer billing, accounting, payroll, and personnel administration. The Commission Staff properly recognized the addition of a new employee at Seabrook, the annual salary increases, the reduction in the percentage of field salaries capitalized and the upgrading of the level of field personnel qualifications. As a result, the adjustment to pensions and employee benefits made by the Commission Staff is appropriate for ratemaking purposes.

(F) Contractual Services

The rebuttal testimony of witness Hilburn addressed the concerns of the Consumer Advocate concerning the allocation of accounting costs. The Commission concludes that the adjustment made by the Commission Staff properly recognizes the amount included in the current years' financial statements for contractual services--accounting, which relates to the audit of the previous years' financial statements. The amount included in Heater of Seabrook's test year operating expenses for accounting service relates to the 1988 financial statements because Price-Waterhouse bills in arrears. The allocation methodology employed, as contained in the record, is sound and appropriate to recognize the proper allocation of expenses between Heater Utilities and Heater of Seabrook and represents the allocation of the expense from Price-Waterhouse to the benefiting customers, the water customers and the sewer customers.

(G) Other Adjustments

The Commission concludes that since there were no objections to the other adjustments proposed by the Commission Staff, that these adjustments, as supported by the record, are appropriate for ratemaking purposes.

5. Accordingly, the Commission concludes that the Company's appropriate operating expenses for the test year, after pro forma and accounting adjustments is $765,182.00.

6. The Company's appropriate total income for return for the test year, after accounting and pro forma adjustments is ($73,439.00). Based upon the above determinations concerning the accounting and pro forma adjustments to the Company's revenues and expenses, the Commission concludes that the total income for return is as follows:

TABLE A
TOTAL INCOME FOR RETURN

Operating Revenues	$691,743
Operating Expenses	765,182
Net Operating Income	(73,439)
Customer Growth	-0-
Total Income for Return	(73,439)

7. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in

Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and . . . that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

8. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rates of a public utility. For a water and sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The Company proposed that a rate of return methodology be used as a ratemaking determinant. Witness Parcell testified to the

appropriate cost of capital for the Company. Mr. Parcell presented a detailed analysis, however, no other party, including the Commission Staff, examined the Company's cost of capital. Consumer Advocate witness Miller agreed with a rate of return approach but stated that without Staff testimony in this regard, the Commission would have to use the operating margin approach. The Commission concurs. Either approach may be appropriate for Heater of Seabrook, Inc. since the Company's investment in rate base could be considered sufficient to earn a return, but without additional testimony from the Staff or other parties, the Commission is not in a position to judge the credibility and reliability of the testimony of the sole rate of return witness.

The Commission concludes that use of the operating margin is appropriate in this case, but will consider the rate of return on rate base approach in the Company's future rate filings. Based on the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules, the Company's operating expenses for the test year after accounting and pro forma adjustments, and customer growth, the Company's present operating margin is as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	$691,743
Operating Expenses	765,183
Net Operating Income	(73,439)
Customer Growth	0
Total Income for Return	(73,439)
Operating Margin (After Interest)	(28.44%)

9. The Commission is mindful of the standards delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirements of the Company but also the proposed price for the water and sewer service, the quality of the water and sewer service, and the effect of the proposed rates upon the consumer. See, Seabrook Island Property Owners Ass. v. S.C. Public Service Commission, Op. No. 23351 (Filed Feb. 25, 1991); S.C. Code Ann. §58-5-290 (1976).

10. The three fundamental criteria of a sound rate structure have been characterized as follows:

> ... (a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is

> economically justified in view of the relationships between costs incurred and benefits received.
>
> Bonbright, Principles of Public Utility Rates (1961), p.292.

11. Based on the considerations enunciated in Bluefield and Seabrook Island and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 12.46% operating margin. In order to have a reasonable opportunity to earn a 12.46% operating margin, the Company will need to produce $1,099,385 in annual operating revenues.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	$1,099,385
Operating Expenses	839,940
Net Operating Income	259,445
Customer Growth	916
Total Income for Return	260,361
Operating Margin (After Interest)	12.46%

12. In fashioning rates to give the Company the required amount of operating revenues so that it will have the opportunity to achieve a 12.46% operating margin, the Commission has carefully considered the concerns of the Company's customers. As Mayor Thompson pointed out, the number of full-time residents compared to part-time residents would require a rate structure where the infrastructure revenue requirements are equitably spread over all users

and potential users via a combination of a base rate charge structure and availability charges to all properties not yet developed but dependent upon the facility being in place. Mayor Thompson also recognized that a commodity charge should represent a fair rate of return on cost at purchase and distribution of the purchased water. The rate structure and the Commission's treatment of availability fees recognizes the points made by Mayor Thompson. The Commission recognizes that the proposed increase for residential and commercial water customers amounts to a 102.75% increase in the average customer's bill. The residential sewer increase, as proposed by the Company, would amount to a 62.50% increase, and the commercial sewer charge, as proposed by the Company, would result in a 385.97% increase on the average commercial customer bill. The rates designed herein consider the quality of the service provided by the Company to its customers and the need for the continuance of the provision of adequate service, as well as the impact of the increase on those customers receiving service and the need for conservation of water resources.

13. The Commission recognizes the capital improvements that have been made, the increase in purchased water costs, and the additional DHEC requirements. Further, the Commission recognizes the other increased expenses experienced by the Company and that under the current rates, the Company is experiencing a negative operating margin.

14. The Commission concludes that while an increase in rates is necessary, the proposed increase is unreasonable and

inappropriate. Accordingly, the Commission will design rates which will increase the base facility charge for meters less than one inch for water service to $9.00 per month. All other metered charges for water customers will remain as proposed by the Company. Also, the Company's water commodity charge should be reduced to $2.50 per 1,000 gallons.

15. The Company proposed to decrease the golf course irrigation fee from 25¢ to 10¢ per 1,000 gallons. The Company has a contract with the golf course wherein the golf course uses the wastewater effluent as spray irrigation. The Commission is not convinced by the testimony of the Company that this rate should be reduced. The charge of 25¢ per 1,000 gallons is a reasonable charge and to reduce the charge would cause other rates to be higher so that approved level of revenues may be attained. The Commission is of the opinion that the 25¢ per 1,000 gallon charge is fully supported as being reasonable and should not be changed.

16. The Company's proposal to increase its residential sewer charge to $26.00 is found to be unreasonable by the Commission. To design the rates to earn the appropriate level of revenues, the Commission concludes that the residential monthly sewer charge should be $22.00 per single family house, condominium, villa, or apartment unit. As to the commercial rate for sewer service, the Commission concludes that the proposed rates of the Company would create "rate shock." The Commission concludes that the rate design should be the same percentage increase as the water increase. To accomplish the Commission's intent, the commodity charge proposed

by the Company should be eliminated. The multiplier of 2.6 should be retained as it recognizes the difference in treating commercial sewage as compared to residential sewage, and the basic monthly facility charge should be reduced as reflected on Appendix A, attached hereto and incorporated by reference herein.

17. Based on the above considerations and reasoning, the Commission hereby approves the rates and charges as stated in this Order and attached hereto as Appendix A as being just and reasonable. The rates and charges approved are designed in such a manner in which to produce and distribute the necessary revenues to provide the Company the opportunity to earn the approved operating margin.

18. Accordingly, it is ordered that the rates and charges attached on Appendix A are approved for service rendered on or after the date of this Order. The rate schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.

19. It is ordered that should the approved schedule not be placed into effect until three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission. It is further ordered that the Company maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class A and B water and sewer utilities, as adopted by this Commission.

20. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Marjorie Amos-Frazier
Chairman

ATTEST:

Charles W. Ballentine
Executive Director

(SEAL)

WATER

1. MONTHLY CHARGE

a. Base Facility Charge For Zero Consumption -

Meter Size	Base Monthly Charge
** <1.0"	$ 9.00
1.0"	25.00
1.5"	50.00
2.0"	80.00
3.0"	160.00
4.0"	250.00
6.0"	500.00

b. Commodity Charge - $2.50 per 1,000 gallons

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

2. FIRE HYDRANT-

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

3. GOLF COURSE IRRIGATION-

Golf course irrigation using wastewater effluent
$.25 per 1,000 gallons

4. NON RECURRING CHARGES -

a. Water service connection per single-family equivalent**	$200.00
b. Plant impact fee per single- family equivalent	$300.00

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

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

5. RECONNECTIONS AND CONNECTIONS -

a. Water reconnection fee $40.00

b. Customer account charge $25.00
(One time fee to be charged to each new account to defray cost of initiating service.)

6. BILLING CYCLE -

All meters will be read and bills rendered on monthly basis in arrears, unless otherwise provided.

II SEWER

1. MONTHLY CHARGES -

a. Residential - monthly charge per single family house, condominium, villa or apartment unit $22.00

b. Commercial - 2.6 times times the base facility charges below:

Meter Size	Base Monthly Charge
** <1.0"	$ 9.00
1.0"	14.00
1.5"	28.00
2.0"	44.80
3.0"	89.60
4.0"	140.00
6.0"	280.00

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

2. NONRECURRING CHARGES -

a. Sewer service connection charge per single-family equivalent** $200.00

b. Plant impact fee per single-family equivalent $300.00

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

(**Except as otherwise prohibited by contract approved by the South Carolina Public Service Commission)

3. NOTIFICATION AND CONNECTION CHARGES -

a. Notification Fee: A fee of $8.00 shall be charged each customer to whom the Company mails the notice as required by Commission Rule R.103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.

b. Customer Account Charge: One-time fee charged to each new account to defray costs of initiating service: $17.25. If customer also receives water service, this charge will be waived.

4. BILLING CYCLE -

Bills will be rendered monthly in arrears

III GENERAL PROVISIONS FOR BOTH WATER AND SEWER

1. SINGLE-FAMILY EQUIVALENT UNIT FOR CALCULATION OF NONRECURRING CHARGES-

   a. Water - A single-family equivalent unit is based upon a standard meter size of 5/8 inches and flows therefor.

Larger meter sizes increase the equivalency rating as follows:

Meter Size	Ratio Equivalent
5/8	1.0
3/4	1.0
1	2.5
1 1/2	5.0
2	8.0
3	16.0
4	25.0

These equivalency ratings are to be used in calculating the water service connection and plant impact fee charges.

   b. Sewer - A single-family equivalent unit is based upon a publication of South Carolina Pollution Control Authority entitled "Guidelines for Unit Contributory Loading to Wastewater Treatment Facilities" ("Guidelines") wherein suggested design of wastewater treatment plants are based upon the design assumption that a single-family unit will discharge 400 gallons of wastewater per day into the sewer collection facilities. These Guidelines will be used to calculate the single-family equivalency rating regardless of whether or not actual flows may be less. In this rate schedule the Guidelines are being used solely for determination of the sewer service connection and plant impact fee charges, not design purposes.

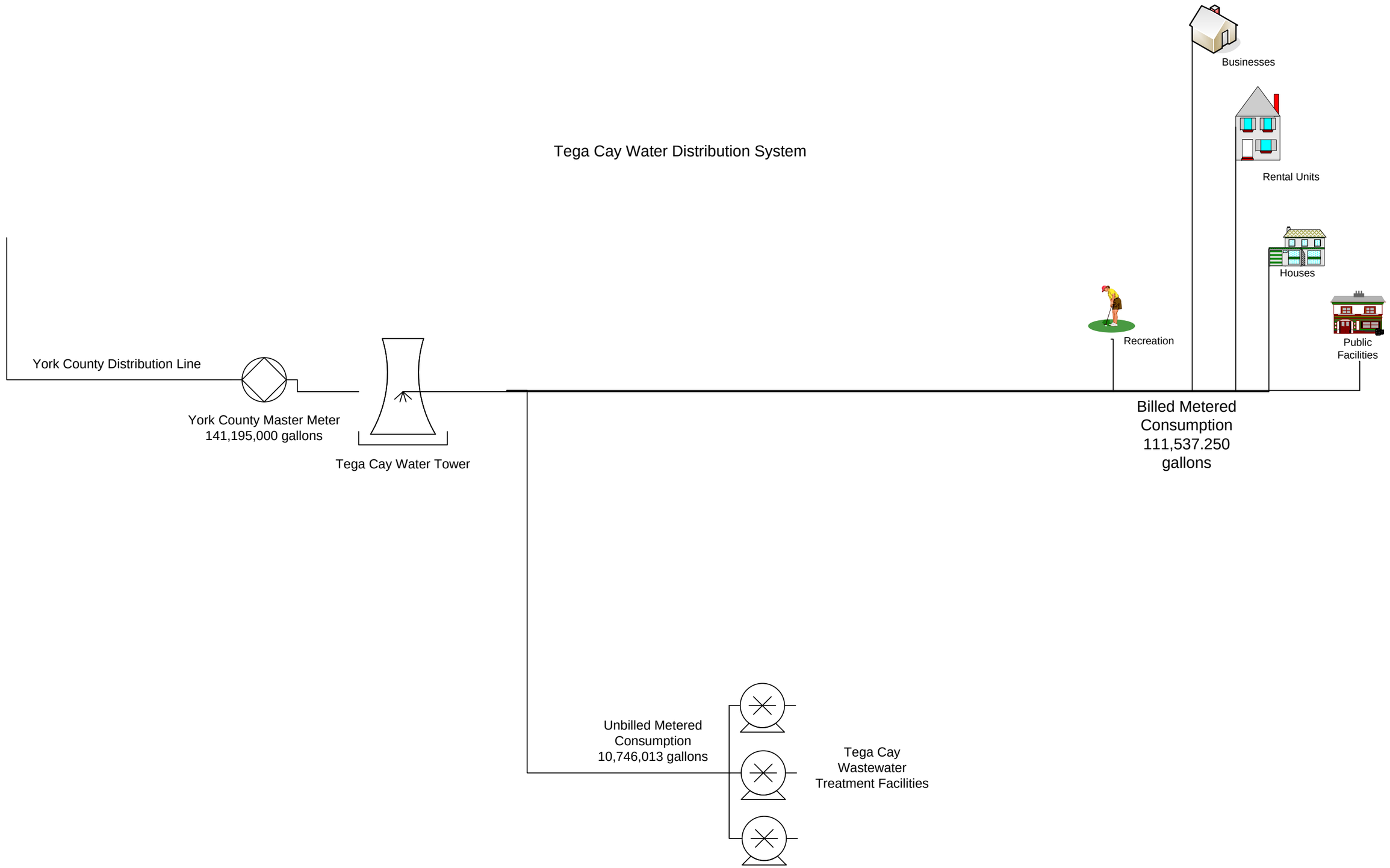
Tega Cay Water Distribution System
Businesses
Rental Units
Houses
Public Facilities
Recreation
York County Distribution Line
York County Master Meter
141,195,000 gallons
Tega Cay Water Tower
Billed Metered Consumption
111,537.250 gallons
Unbilled Metered Consumption
10,746,013 gallons
Tega Cay Wastewater Treatment Facilities

Exhibit WJM-17

TEGA CAY WATER SERVICE, INC. - 485 eff. 3/16/99

WATER

(Each customer pays distribution charge, York County supply charge and wholesale water fee)

Reimbursement Codes

(Residential)

48501	5/8" Res Water	Base Charge	$	7.50
		Distribution Chg	@	1.69/1,000 gal
48503	**5/8" ResSupply**	County Supply Chg	@	3.26/1,000 gal
		Rate effective 12/1/02.		
		Implemented for the 6/21/03-7/20/03 billing.		

(Commercial)

48502	5/8" Coml Water	Base Charge	$	7.50/SFE unit
		Distribution Chg	@	1.69/1,000
48505	1" Coml Water	Base Charge	$	7.50/SFE unit
		Distribution Chg	@	1.69/1,000
48506	2" Coml Water	Base Charge	$	7.50/SFE unit
		Distribution Chg	@	1.69/1,000
48507	3" Coml Water	Base Charge	$	7.50/SFE unit
		Distribution Chg	@	1.69/1,000
48504	**5/8" Coml Supply**	County Supply chg	@	3.26/1,000
		Rate effective 12/1/02.		
		Implemented for the 6/21/03-7/20/03 billing.		
48508	**1" Coml Supply**	County Supply chg	@	3.26/1,000
		Rate effective 12/1/02.		
		Implemented for the 6/21/03-7/20/03 billing.		
48509	2**" Coml Supply**	County Supply chg	@	3.26/1,000
		Rate effective 12/1/02.		
		Implemented for the 6/21/03-7/20/03 billing.		
48510	**3" Coml Supply**	County Supply chg	@	3.26/1,000
		Rate effective 12/1/02.		
		Implemented for the 6/21/03-7/20/03 billing.		

48585	**York Co. Wholesl Water**	Base Charge	Variable Rate
		Implemented for the 7/21/03-8/20/03 billing	

SEWER

48521	5/8" Res Sewer	Flat Rate	$ 30.09
48522	5/8" Coml Sewer	Flat Rate	$ 30.09/SFE unit
48523	1" Coml Sewer	Flat Rate	$ 30.09/SFE unit
48524	2" Coml Sewer	Flat Rate	$ 30.09/SFE unit
48540	Hydrant Rental	Flat/per hydrant ($100 per yr.)	$ 8.33 per mo.
48530	DHEC Fee (effective 8/1/05)	Per connection	$ .34
48553	New Account Charge		$ 30.00
48595	Reconnect –one time charge *add code to customer screen		$ 40.00
48590	Notification Fee Sewer–one time charge *add code to customer screen		$ 15.00
NSF Fee			$ 30.00
Tap Fee	Water		$ 600.00
Tap Fee	Sewer		$1,200.00