

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY & EXHIBITS

OF

AISHA L. BUTLER

November 15, 2016



DOCKET NO. 2016-29-WS

**Application of Harbor Island Utilities, Incorporated for
Approval of a New Schedule of Rates and Charges for Water
and Sewer Service on Harbor Island, Beaufort County**

DIRECT TESTIMONY AND EXHIBITS OF

AISHA L. BUTLER

ON BEHALF OF

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2016-29-WS

**IN RE: APPLICATION OF HARBOR ISLAND UTILITIES, INCORPORATED FOR
APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR WATER AND
SEWER SERVICE ON HARBOR ISLAND, BEAUFORT COUNTY**

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

A. My name is Aisha L. Butler. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Audit Department as a Senior Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a major in Finance from the University of South Carolina in May 2013. In June 2014, I began my employment with ORS and since then have participated in various audits of telecom, electric, and water and wastewater companies.

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

A. The purpose of my testimony is to set forth my findings and recommendations resulting from ORS’s examination of the application of Harbor Island Utilities, Inc. (“HIU” or “Company”) in this docket, 2016-29-WS. The application was filed on August 17, 2016.

1 **A.** ORS’s examination of the Company’s application consisted of three major steps.
2 In step one, ORS verified that the operating experience, reported by HIU in its application,
3 was supported by HIU’s accounting books and records for the twelve months ended
4 December 31, 2015 (“test year”). In the second step, ORS tested the underlying
5 transactions in the books and records for the test year to ensure that the transactions were
6 adequately supported, had a stated business purpose, were allowable for ratemaking
7 purposes, and were properly recorded. Lastly, ORS’s examination consisted of adjusting,
8 as necessary, the revenues, expenditures, and capital investments to normalize the
9 Company’s operating experience and operating margin, in accordance with generally
10 accepted regulatory principles and prior Public Service Commission of South Carolina
11 (“PSC”) orders.

12 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.**

13 **A.** I have attached the following exhibits to my testimony relating to the application:
14 • Audit Exhibit ALB-1: Operating Experience & Operating Margin for Combined
15 Operations
16 • Audit Exhibit ALB-2: Operating Experience & Operating Margin for Water
17 Operations
18 • Audit Exhibit ALB-3: Operating Experience & Operating Margin for Sewer
19 Operations
20 • Audit Exhibit ALB-4: Explanation of Accounting and Pro Forma Adjustments
21 • Audit Exhibit ALB-5: Computation of Depreciation and Amortization Expense
22 • Audit Exhibit ALB-6: Computation of Income Taxes

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

5 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT ALB-1 AND**
6 **ELABORATE ON THE CALCULATIONS.**

7 **A.** Audit Exhibit ALB-1 details HIU's operating experience and operating margin for
8 water and wastewater operations combined for the test year. The exhibit's format is designed
9 to reflect the Company's application per revised book amounts, ORS's proposed accounting
10 and pro forma adjustments necessary to normalize the results of the Company's test year
11 operations, and calculate the impact of the Company's proposed increase on the normalized
12 test year. The water and wastewater operations are also shown separately in Audit Exhibit
13 ALB-2 and Audit Exhibit ALB-3.

14 Column (1) details the application per revised book amounts reported by HIU for the test
15 year. ORS verified total operating revenue of \$415,201, total operating expenses of
16 \$440,128 and net loss for margin of (\$56,462) to the Company's books and records. The
17 revised per books operating margin of -13.60% was calculated by using total operating
18 income, less interest expense and the loss on disposal of an asset, divided by total operating
19 revenues.

20 Column (2) details ORS's proposed accounting and pro forma adjustments designed to
21 normalize HIU's application per revised books. An explanation of each adjustment is
22 contained in Audit Exhibit ALB-4.

1 Column (3) details ORS's calculation of a normalized test year for HIU by adding columns
2 (1) and (2). After the accounting and pro forma adjustments, net loss for margin of (\$94,965)
3 was computed using total operating revenues of \$410,546 less total operating expenses of
4 \$493,743 and less interest expense of \$11,768. An operating margin of -23.13% was
5 computed by dividing net income for margin by total operating revenues.

6 Column (4) reflects the Company's proposed increase and taxes associated with the
7 Company's proposed increase. An explanation of each adjustment is contained in Audit
8 Exhibit ALB-4.

9 Column (5) details the effect of the Company's proposed increase by adding columns (3) and
10 (4). Net income for margin of \$123,801 was computed using total operating revenues of
11 \$704,667, less total operating expenses of \$569,577 adding customer growth of \$479 and
12 less interest expense of \$11,768. An operating margin of 17.57% was computed by dividing
13 net income for margin by total operating revenues.

14 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT ALB-4.**

15 **A.** For comparative purposes, ORS's and HIU's proposed adjustments are both
16 presented in Audit Exhibit ALB-4.

17 Adjustments 1A – 1F – Operating Revenues – In order to normalize operating revenues, the
18 ORS Utility Rates Department proposes to decrease water operating revenues by (\$6,661)
19 and increase wastewater operating revenues by \$2,006 during the test year. The supporting
20 information for these adjustments was provided by ORS witness Matthew Schellinger.

21 Adjustments 2A – 2C – Administrative Expense – ORS's administrative expense
22 adjustments total (\$188) for water operations and \$834 for wastewater operations and are
23 comprised of the following:

1 Adjustment 2A – Administration & Operator Services Agreement Increase – The Company
2 proposed an overall adjustment of \$52,572 to reflect the total increase in the Administration
3 and Operator Services Agreement. Based on the new agreement, administrative fees will
4 increase by \$3,836, resulting in an increase to water operations of \$2,877 and wastewater
5 operations of \$959. The administrative fees were allocated 75%/25%, respectively,
6 between water and wastewater based on discussions with HIU.

7 Adjustment 2B – EPA’s Safe Drinking Water Fees – ORS proposes to remove the annual
8 drinking water fee of (\$2,940) paid to South Carolina Department of Health and
9 Environmental Control for the Environmental Protection Agency’s Safe Drinking Water
10 Act fees. Since these fees were removed from revenue, related expenses were also removed
11 as these amounts are pass-through fees paid by the customer.

12 Adjustment 2C – Non-allowable expenses – ORS proposes to remove charitable
13 contributions of (\$250) for ratemaking purposes.

14 Adjustments 3A – 3C – Operating & Maintenance Expense – ORS’s operating and
15 maintenance expense adjustments total \$3,673 for water operations and \$20,755 for
16 wastewater operations and are comprised of the following:

17 Adjustment 3A – Administration & Operator Services Agreement Increase – HIU proposes
18 an overall adjustment of \$52,572 to reflect the total increase in the new Administration and
19 Operator Services Agreement. Based on the new agreement, the operator services fee
20 increased by \$3,836, the maintenance fee increased by \$6,600, and a new \$35,000
21 engineering and management fee was instituted. The operator services fee and
22 maintenance fee were allocated 33%/67%, respectively, between water and wastewater
23 based on the HIU Income Statement. The engineering and management fee was allocated

1 50%/50% between water and wastewater based on discussions with HIU. This results in
2 an increase to water operating and maintenance expense of \$20,944 and a \$24,492 increase
3 to wastewater operating and maintenance expense.

4 Adjustment 3B – Unscheduled Maintenance Expense – ORS proposes to adjust water and
5 wastewater operating and maintenance expense to correct errors in the calculation of
6 unscheduled maintenance expenses. ORS compared the unscheduled maintenance expense
7 per the Company’s monthly unscheduled maintenance logs to the unscheduled
8 maintenance expense recorded in the Company’s general ledger, noting any variances.
9 This adjustment corrects these variances, increasing water operating and maintenance
10 expense by \$1,187 and decreasing wastewater operating and maintenance expense by
11 (\$3,737).

12 Adjustment 3C – Remove Water Tank Painting Expense – ORS proposes a (\$18,458)
13 adjustment to water operating and maintenance expense to remove an expense related to
14 the painting of a water tank. This cost should be capitalized rather than expensed. ORS
15 has included this cost in its computation of depreciation and amortization expense in Audit
16 Exhibit ALB-4.

17 Adjustment 4 – Cost of Water Expense – HIU proposes to increase cost of water expense
18 by \$1,685 to reflect the increases in the wholesale water and water transportation rates.
19 ORS proposes to increase cost of water expense by \$1,341. ORS calculated this adjustment
20 by multiplying the total gallons of water the Company purchased from Beaufort Jasper
21 Water & Sewer Authority during 2015 by the sum of the current wholesale water and water
22 transportation rates, computing the pro forma cost of water. ORS then subtracted the per
23 book cost of water, yielding the adjustment amount.

1 Adjustment 5 – Depreciation Expense – ORS proposes to adjust depreciation expense by
2 \$25,069. The details of this adjustment are shown in Audit Exhibit ALB-5. This
3 adjustment accounts for the removal of duplicate assets, asset costs not supported by
4 invoices, as well as the write up of assets to actual costs per invoices. This adjustment also
5 accounts for the removal or capitalization of assets included in Docket No. 2007-243-WS.

6 Adjustment 6 – Rate Case Expenses – HIU proposes a \$5,000 adjustment to rate case
7 expenses based on the 3-year amortization of an estimated \$15,000 in rate case expenses.
8 ORS proposes a \$2,519 adjustment to rate case expenses, reflecting the 5-year amortization
9 of \$12,593 in rate case expenses. The expenses included legal services, accounting
10 services, administrative support, envelopes and public notice costs.

11 Adjustment 7 – Taxes Other Than Income – ORS proposes to adjust gross receipts and
12 utility/commission taxes. A total factor of .00839752, comprised of the SC Department of
13 Revenue factor of .003 and the PSC/ORS factor of .0053972, was used to compute this
14 adjustment. ORS proposes to decrease gross receipts taxes by (\$388).

15 Adjustment 8 – Interest Expense – HIU proposed a \$24,000 interest expense adjustment.
16 ORS proposes to synchronize interest expense with HIU's net capital investment in the
17 Company. ORS computed allowable interest expense of \$11,768, less the per book amount
18 of \$23,406 for an adjustment of (\$11,638).

19 Adjustment 9 – Loss on Disposal of an Asset – ORS agrees with HIU's proposed
20 adjustment of \$8,129 for the loss on disposal of an asset. The Company disposed of a
21 generator in 2016. This adjustment is the net of the cost of the generator, \$11,862, and the
22 accumulated depreciation of the generator at the time of disposal, \$3,733. ORS has
23 included the loss on disposal of the generator in the computation of depreciation and

1 amortization in Audit Exhibit ALB-5, by adding it to the cost of the replacement generator,
2 and depreciating it over the useful life of the replacement generator.

3 Adjustment 10A – 10C – Service Revenues – Using the Company’s proposed increase, HIU
4 would produce additional revenues of \$158,418 for water operations and \$135,703 for sewer
5 operations. The supporting information for these adjustments was provided by ORS witness
6 Matthew Schellinger.

7 Adjustment 11 – Taxes Other Than Income – ORS proposes to adjust gross receipts and
8 utility/commission taxes associated with the Company’s proposed increase. A total factor of
9 .00839752, comprised of the SC Department of Revenue factor of .003 and the PSC/ORS
10 factor of .0053972, was used to compute this adjustment. ORS proposes to increase gross
11 receipts taxes by \$2,470.

12 Adjustment 12 – State and Federal Income Taxes – ORS proposes an adjustment of \$73,364
13 to state and federal income taxes associated with the Company’s proposed increase. ORS
14 used a 5% rate for state income taxes and a rate of 34% for federal income taxes. Details of
15 the computation of income taxes are shown in Audit Exhibit ALB-6.

16 Adjustment 13 – Customer Growth – ORS proposes to adjust for customer growth after the
17 Company’s proposed increase. The growth factors of 0.42735% and 0.22222% for water
18 and wastewater operations, respectively, were computed by the ORS Utility Rates
19 Department. These factors were applied after the proposed increase, for a customer growth
20 adjustment of \$479 for combined operations.

21 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

1 A. Audit Exhibit ALB-5 shows the computation of depreciation and amortization
2 expense associated with plant in service and contributions in aid of construction. Audit
3 Exhibit ALB-6 shows the computation of income taxes.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A. Yes.

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Operating Experience & Operating Margin
For the Test Year Ended December 31, 2015
Combined Operations

	(1)	(2)	(3)	(4)	(5)
	Application Per Revised Books	Accounting & Pro Forma Adjustments	After Accounting & Pro Forma Adjustments	Proposed Increase	After Proposed Increase
	\$	\$	\$	\$	\$
<u>Operating Revenues:</u>					
Water Revenue	216,595	(6,661)	209,934	158,418	368,352
Sewer Revenue	198,606	2,006	200,612	135,703	336,315
<u>Total Operating Revenues</u>	415,201	(4,655) (1)	410,546	294,121 (10)	704,667
<u>Operating Expenses:</u>					
Administrative	67,410	646 (2)	68,056	0	68,056
Operating & Maintenance	270,552	24,428 (3)	294,980	0	294,980
Cost of Water	82,249	1,341 (4)	83,590	0	83,590
Depreciation	16,081	25,069 (5)	41,150	0	41,150
Rate Case Expenses	0	2,519 (6)	2,519	0	2,519
Taxes Other Than Income	3,836	(388) (7)	3,448	2,470 (11)	5,918
State & Federal Income Tax	0	0	0	73,364 (12)	73,364
<u>Total Operating Expenses</u>	440,128	53,615	493,743	75,834	569,577
<u>Total Operating Income</u>	(24,927)	(58,270)	(83,197)	218,287	135,090
Add: Customer Growth	0	0	0	479 (13)	479
Less: Interest Expense	23,406	(11,638) (8)	11,768	0	11,768
<u>Net Income (Loss)</u>	(48,333)	(46,632)	(94,965)	218,766	123,801
<u>Other Income/Expense</u>					
Loss on Disposal of Asset	(8,129)	8,129 (9)	0	0	0
<u>Net Income (Loss) for Margin</u>	(56,462)	(38,503)	(94,965)	218,766	123,801
<u>Operating Margin</u>	-13.60%		-23.13%		17.57%

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Operating Experience & Operating Margin
For the Test Year Ended December 31, 2015
Water Operations

	(1)	(2)	(3)	(4)	(5)
	Application Per Revised Books	Accounting & Pro Forma Adjustments	After Accounting & Pro Forma Adjustments	Proposed Increase	After Proposed Increase
	\$	\$	\$	\$	\$
<u>Operating Revenues:</u>					
Water Revenue	216,595	(6,661) (1)	209,934	158,418 (10)	368,352
<u>Total Operating Revenues</u>	<u>216,595</u>	<u>(6,661)</u>	<u>209,934</u>	<u>158,418</u>	<u>368,352</u>
<u>Operating Expenses:</u>					
Administrative	44,615	(188) (2)	44,427	0	44,427
Operating & Maintenance	82,202	3,673 (3)	85,875	0	85,875
Cost of Water	82,249	1,341 (4)	83,590	0	83,590
Depreciation	4,549	8,894 (5)	13,443	0	13,443
Rate Case Expenses	0	1,259 (6)	1,259	0	1,259
Taxes Other Than Income	1,918	(155) (7)	1,763	1,330 (11)	3,093
State & Federal Income Tax	0	0	0	49,445 (12)	49,445
<u>Total Operating Expenses</u>	<u>215,533</u>	<u>14,824</u>	<u>230,357</u>	<u>50,775</u>	<u>281,132</u>
<u>Total Operating Income</u>	<u>1,062</u>	<u>(21,485)</u>	<u>(20,423)</u>	<u>107,643</u>	<u>87,220</u>
Add: Customer Growth	0	0	0	373 (13)	373
Less: Interest Expense	11,703	(7,599) (8)	4,104	0	4,104
<u>Net Income (Loss)</u>	<u>(10,641)</u>	<u>(13,886)</u>	<u>(24,527)</u>	<u>108,016</u>	<u>83,489</u>
<u>Other Income/Expense</u>					
Loss on Disposal of Asset	(4,064)	4,064 (9)	0	0	0
<u>Net Income (Loss) for Margin</u>	<u>(14,705)</u>	<u>(9,822)</u>	<u>(24,527)</u>	<u>108,016</u>	<u>83,489</u>
<u>Operating Margin</u>	-6.79%		-11.68%		22.67%

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Operating Experience & Operating Margin
For the Test Year Ended December 31, 2015
Sewer Operations

	(1)	(2)	(3)	(4)	(5)
	Application Per Revised Books	Accounting & Pro Forma Adjustments	After Accounting & Pro Forma Adjustments	Proposed Increase	After Proposed Increase
	\$	\$	\$	\$	\$
<u>Operating Revenues:</u>					
Sewer Revenue	198,606	2,006	(1) 200,612	135,703	(10) 336,315
<u>Total Operating Revenues</u>	<u>198,606</u>	<u>2,006</u>	<u>200,612</u>	<u>135,703</u>	<u>336,315</u>
<u>Operating Expenses:</u>					
Administrative	22,795	834	(2) 23,629	0	23,629
Operating & Maintenance	188,350	20,755	(3) 209,105	0	209,105
Depreciation	11,532	16,175	(4) 27,707	0	27,707
Rate Case Expenses	0	1,260	(6) 1,260	0	1,260
Taxes Other Than Income	1,918	(233)	(7) 1,685	1,140	(11) 2,825
State & Federal Income Tax	0	0	0	23,919	(12) 23,919
<u>Total Operating Expenses</u>	<u>224,595</u>	<u>38,791</u>	<u>263,386</u>	<u>25,059</u>	<u>288,445</u>
<u>Total Operating Income</u>	<u>(25,989)</u>	<u>(36,785)</u>	<u>(62,774)</u>	<u>110,644</u>	<u>47,870</u>
Add: Customer Growth	0	0	0	106	(13) 106
Less: Interest Expense	11,703	(4,039)	(8) 7,664	0	7,664
<u>Net Income (Loss)</u>	<u>(37,692)</u>	<u>(32,746)</u>	<u>(70,438)</u>	<u>110,750</u>	<u>40,312</u>
<u>Other Income/Expense</u>					
Loss on Disposal of Asset	(4,065)	4,065	(9) 0	0	0
<u>Net Income (Loss) for Margin</u>	<u>(41,757)</u>	<u>(28,681)</u>	<u>(70,438)</u>	<u>110,750</u>	<u>40,312</u>
<u>Operating Margin</u>	-21.03%		-35.11%		11.99%

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2015

HIU Adj. #	ORS Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
<u>Accounting and Pro forma Adjustments</u>					
<u>Operating Revenues</u>					
1	A	To adjust for water and sewer service revenue.			
		Per ORS	(2,427)	(3,701)	1,274
		Per HIU	0	0	0
	B	To adjust late charges.			
		Per ORS	(137)	(466)	329
		Per HIU	0	0	0
	C	To adjust administrative set up fees.			
		Per ORS	701	338	363
		Per HIU	0	0	0
	D	To adjust delinquent account revenues.			
		Per ORS	30	15	15
		Per HIU	0	0	0
	E	To adjust returned check fees.			
		Per ORS	50	25	25
		Per HIU	0	0	0
	F	To eliminate Safe Drinking Water Act fees.			
		Per ORS	(2,872)	(2,872)	0
		Per HIU	0	0	0
1		Total Operating Revenues Adjustment Per ORS	(4,655)	(6,661)	2,006
		Total Operating Revenues Adjustment Per HIU	0	0	0
<u>Operating Expenses</u>					
<u>Administrative Expenses</u>					
3	2	A To adjust administrative expenses to reflect the increase included in the new Administration and Operator Services Agreement.			
		Per ORS	3,836	2,877	959
		Per HIU	5,486	4,115	1,371

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2015

HIU Adj. #	ORS Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
		B To eliminate Safe Drinking Water Act Fees.			
		Per ORS	(2,940)	(2,940)	0
		Per HIU	0	0	0
		C To remove non-allowable expenses.			
		Per ORS	(250)	(125)	(125)
		Per HIU	0	0	0
2		Total Administrative Expense Adjustment - Per ORS	646	(188)	834
		Total Administrative Expense Adjustment - Per HIU	5,486	4,115	1,371
		Operating & Maintenance Expenses			
3	3	A To adjust operating and maintenance expenses to reflect the increase included in the new Administration and Operator Services Agreement.			
		Per ORS	45,436	20,944	24,492
		Per HIU	47,086	21,488	25,598
		B To correct errors in the calculation of unscheduled maintenance expense.			
		Per ORS	(2,550)	1,187	(3,737)
		Per HIU	0	0	0
		C To remove water tank painting expense from water & sewer O&M expense as it should be capitalized.			
		Per ORS	(18,458)	(18,458)	0
		Per HIU	0	0	0
3		Total Water & Sewer O&M Expense Adjustment - Per ORS	24,428	3,673	20,755
		Total Water & Sewer O&M Expense Adjustment - Per HIU	47,086	21,488	25,598
		Cost of Water Expense			
4	4	To reflect the increase in the wholesale cost of water & water transportation fee.			
		Per ORS	1,341	1,341	0
		Per HIU	1,685	1,685	0

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2015

HIU Adl. #	ORS Adl. #	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
		Depreciation Expense			
	5	To adjust annual depreciation expense for pro forma plant in service.			
		Per ORS	25,069	8,894	16,175
		Per HIU	0	0	0
		Rate Case Expenses			
	5	6	To amortize rate case expenses.		
		Per ORS	2,519	1,259	1,260
		Per HIU	5,000	2,500	2,500
		Taxes Other Than Income			
	7	To adjust gross receipts & utility/commission taxes after the accounting and pro forma adjustments using a factor of .00839752 (.003 for SCDOR and .00539752 for PSC/ORS).			
		Per ORS	(388)	(155)	(233)
		Per HIU	0	0	0
		Interest Expense			
	6	8	To adjust for allowable interest expense on long-term debt after accounting and pro forma adjustments.		
		Per ORS	(11,638)	(7,599)	(4,039)
		Per HIU	24,000	12,000	12,000
		Other Income/Expense			
	9	To write off the loss on disposal of an asset.			
		Per ORS	8,129	4,064	4,065
		Per HIU	8,129	4,064	4,065

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2015

HIU Adj.#	ORS Adj.#	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
<u>Proposed Increase</u>					
<u>Operating Revenues</u>					
10	A	To adjust water and sewer service revenue for the proposed increase.			
		Per ORS	294,095	158,405	135,690
		Per HIU	301,156	164,557	136,599
	B	To adjust delinquent account revenues for the proposed increase.			
		Per ORS	16	8	8
		Per HIU	0	0	0
	C	To adjust returned check fees for the proposed increase.			
		Per ORS	10	5	5
		Per HIU	0	0	0
10		Total Operating Revenues Per ORS	294,121	158,418	135,703
		Total Operating Revenues Per HIU	301,156	164,557	136,599
<u>Taxes Other Than Income</u>					
11		To adjust gross receipts & utility/commission taxes for the proposed increase using a factor of .00839752 (.003 for SCDOR and .00539752 for PSC/ORS).			
		Per ORS	2,470	1,330	1,140
		Per HIU	0	0	0
<u>State & Federal Income Tax</u>					
1&2	12	To adjust State and Federal Income Taxes for the proposed increase.			
		Per ORS	73,364	49,445	23,919
		Per HIU	54,552	27,276	27,276
<u>Customer Growth</u>					
13		To adjust customer growth for the proposed increase. The customer growth factors are .42735% for water and .22222% for wastewater.			
		Per ORS	479	373	106
		Per HIU	0	0	0

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2015

Date Acquired	Description	Balance \$	ORS Service Life Years	Depr./Amort. Rate %	Depr./Amort. Expense \$	Accum. Depr./Amort. \$
Water Assets:						
	Land	2,850	N/A	N/A	N/A	N/A
	<u>Pump Equipment</u>					
06/01/86	Water System Upgrade	7,706	17	5.88%	FD	7,706
09/12/00	Water System Upgrade	6,768	15	6.67%	FD	6,768
04/30/01	Water System Upgrade	12,883	17	5.88%	758	11,370
08/19/04	Fence Around Pump	2,906	7	14.29%	FD	2,906
01/23/06	Pete Duty & Associates	1,150	7	14.29%	FD	1,150
05/04/07	Carolina Pumpworks	4,464	17	5.88%	263	2,367
07/09/07	Commercial Electric Company	1,175	17	5.88%	69	621
10/28/10	Mechanical Equipment	4,632	17	5.88%	272	1,632
12/23/15	Tank Painting (ORS Adj. #3C)	18,458	10	10.00%	1,846	3,692
	Write up to actual costs	518	10	10.00%	52	104
03/22/16	Water Pumps	93,363	13	7.69%	7,182	7,182
	<u>Mains</u>					
07/01/86	Bridge Crossing	6,863	40	2.50%	172	5,160
08/01/86	Phase I Water Line	1,220	40	2.50%	31	930
11/27/89	Beach Walk Phase I	10,620	40	2.50%	266	7,182
12/28/15	Water Valves	767	12	8.33%	64	64
	<u>Services</u>					
11/27/89	Beach Walk Phase I	10,286	40	2.50%	257	6,939
05/16/93	Kelp & Teal Court Connections	330	40	2.50%	8	184
	<u>Hydrants</u>					
07/01/86	Fire Hydrants	7,600	40	2.50%	190	5,700
11/27/89	Beach Walk Phase I	2,569	40	2.50%	64	1,728
08/03/00	Hydrants	1,300	20	5.00%	65	1,040
02/10/00	Hydrants	2,100	20	5.00%	105	1,680
10/29/07	Hydrants	285	20	5.00%	14	126
	No supporting documentation	(285)	20	5.00%	(14)	(126)
	<u>Support Equipment</u>					
06/01/86	Centrifical Pump	1,197	3	33.33%	FD	1,197
01/12/95	Flushquip Retrieval Sys. Model T-1	1,570	3	33.33%	FD	1,570
01/12/95	Gastech Gas Monitor GT402	2,972	5	20.00%	FD	2,972
04/17/95	Sampler	2,297	5	20.00%	FD	2,297
04/17/95	Flow Meter	3,200	5	20.00%	FD	3,200
04/17/95	Chlorine scales	1,075	5	20.00%	FD	1,075
06/29/00	Tap costs (non-capital contributions)	2,022	15	6.67%	FD	2,022
08/23/05	Equipment	745	5	20.00%	FD	745
04/15/11	Used Generator	11,862	15	6.67%	791	8,701
	Generator Disposed of	(11,862)	15	6.67%	(791)	(8,701)
08/15/15	Chlorine Feed System	5,207	5	20.00%	1,041	2,082
	No supporting documentation	(807)	5	20.00%	(161)	(322)
12/15/15	Valve Exerciser	1,815	12	8.33%	151	302
	No supporting documentation	(465)	12	8.33%	(39)	(78)
12/15/15	Generator Replacement	13,694	15	6.67%	913	1,826
	No supporting documentation	(3,050)	15	6.67%	(203)	(406)
	50% of generator cost reclassified to wastewater	(5,322)	15	6.67%	(355)	(710)
	Loss on Disposal of Old Generator (ORS Adj. #9)	4,064	15	6.67%	271	542
02/08/16	Mag Meter	2,256	14	7.14%	161	161
	Total Water Assets	232,998			13,443	94,580

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2015

Date Acquired	Description	Balance \$	ORS Service Life Years	Depr./Amort. Rate %	Depr./Amort. Expense \$	Accum. Depr./Amort. \$
Wastewater Assets:						
	Land	2,850	N/A	N/A	N/A	N/A
	<u>Wastewater Pump Equipment</u>					
02/06/95	Pump Stations	20,000	11	9.09%	FD	20,000
08/02/02	Effluent Line	2,623	20	5.00%	131	1,834
06/24/04	2 4-HP Sewage Pumps	2,000	15	6.67%	133	1,596
08/19/04	Material	2,118	7	14.29%	FD	2,118
08/13/07	Pete Duty & Associates	1,107	15	6.67%	74	666
10/15/15	Sewer Grinder Pump	1,034	15	6.67%	69	138
10/31/15	240 Volt Temco Phase Converter	1,107	15	6.67%	74	148
06/14/16	Sewer Pump Station	9,169	18	5.56%	509	509
	Write up to actual costs	647	18	5.56%	36	36
	<u>Wastewater Collection Systems</u>					
02/06/95	Sewer Collection System	9,300	25	4.00%	372	7,812
	<u>Effluent Line Replacement</u>					
02/10/03	Utility Drawings	298	20	5.00%	15	195
01/02/03	Cast Iron Pump	1,492	15	6.67%	99	1,287
11/01/03	Effluent Line Replacement	780	20	5.00%	39	507
09/28/05	Effluent Line Replacement	84,013	20	5.00%	4,201	46,211
04/15/16	Effluent Filter	94,487	13	7.69%	7,268	7,268
	<u>Wastewater Treatment Units</u>					
02/06/95	Treatment Plant	40,000	25	4.00%	1,600	33,600
04/12/02	Blower	3,102	12	8.33%	FD	3,102
04/07/04	Blower	3,134	12	8.33%	261	3,132
05/01/04	Blower	5,522	12	8.33%	460	5,520
08/19/04	Fencing	2,906	25	4.00%	116	1,392
10/21/05	WW Treatment Plant Upgrade	1,307	20	5.00%	65	715
07/05/06	BioCharge, etc. - United Labs. (FL#389) *	689	5	20.00%	FD	689
07/20/06	1720 C Turbidimeter (FL#394) *	1,000	5	20.00%	FD	1,000
09/25/06	WW Treatment Plant Upgrade (Filter)	92,401	20	5.00%	4,620	46,200
	WW Treatment Plant Upgrade (Filter) *	(1,904)	20	5.00%	(95)	(950)
10/01/06	Treatment Units - Other (Labor for Filter)	16,922	15	6.67%	1,128	11,280
10/31/07	Treatment Plant	10,144	32	3.13%	317	2,853
	No supporting documentation	(926)	32	3.13%	(29)	(261)
10/31/08	Treatment Units - Other	6,347	32	3.13%	198	1,584
	No supporting documentation	(138)	32	3.13%	(4)	(32)
02/20/14	Plant Reconfiguration	4,281	32	3.13%	134	268
	Write up to actual costs	1,138	32	3.13%	36	72
08/22/15	Rosemont Magnetic Flowmeter	1,816	13	7.69%	140	280
	Remove Duplicate Item	(1,816)	13	7.69%	(140)	(280)
08/22/15	Mag Meter	2,256	13	7.69%	174	348
10/20/15	Motion Industries Clarifier Drive	26,721	12	8.33%	2,227	4,454
	No supporting documentation	(3,647)	12	8.33%	(304)	(608)
10/27/15	6 MP Phillips Wholesale Blower	4,101	12	8.33%	342	684
	No supporting documentation	(480)	12	8.33%	(40)	(80)
10/27/15	Blower	2,928	12	8.33%	244	488
	Remove Duplicate Item	(2,928)	12	8.33%	(244)	(488)
12/15/15	50% of Generator cost reclassified from water	5,322	15	6.67%	355	710
	Loss on Disposal of Old Generator (ORS Adj. #9)	4,065	15	6.67%	271	542
12/17/15	Complete Clarifier	15,036	13	7.69%	1,157	2,314
12/21/15	Clarifier Weirs	5,465	13	7.69%	420	840
12/23/15	Tank Painting	9,482	10	10.00%	948	1,896
07/21/16	Sutorbilt 6MP Blower	3,958	12	8.33%	330	330
	Total Wastewater Assets	491,229			27,707	211,919
	Total Assets	724,227			41,150	306,499

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2015

Date Acquired	Description	Balance \$	ORS Service Life Years	Depr./Amort. Rate %	Depr./Amort. Expense \$	Accum. Depr./Amort. \$
	Total Depreciation Expense				41,150	
	Less: Per Total Book Depreciation Expense				<u>16,081</u>	
	Depreciation Expense Adj.				<u>25,069</u>	
	Total Depreciation Expense - Water				13,443	
	Less: Per Book Depreciation Expense				<u>4,549</u>	
	Depreciation Expense Adj.				<u>8,894</u>	
	Total Depreciation Expense - Wastewater				27,707	
	Less: Per Book Depreciation Expense				<u>11,532</u>	
	Depreciation Expense Adj.				<u>16,175</u>	

For Information Purposes Only:

Contributed Water Assets:

Contributed Water Meters

10/31/87	Water Tap Costs 1987 (FL#334)	504	15	6.67%	FD	504
10/31/88	Water Tap Costs 1988	204	15	6.67%	FD	204
10/31/89	Water Tap Costs 1989	183	15	6.67%	FD	183
10/31/90	Water Tap Costs 1990	140	15	6.67%	FD	140
02/28/91	Water Tap Costs 1991	478	15	6.67%	FD	478
10/31/92	Water Tap Costs 1992	729	15	6.67%	FD	729
10/31/93	Water Tap Costs 1993	1,436	15	6.67%	FD	1,436
10/31/94	Water Tap Costs 1994	1,893	15	6.67%	FD	1,893
10/31/95	Water Tap Costs 1995	1,273	15	6.67%	FD	1,273
10/31/96	Water Tap Costs 1996	1,947	15	6.67%	FD	1,947
10/31/97	Water Tap Costs 1997	3,100	15	6.67%	FD	3,100
10/31/98	Water Tap Costs 1998	2,502	15	6.67%	FD	2,502
10/31/99	Water Tap Costs 1999	1,817	15	6.67%	FD	1,817
04/30/01	Water Tap Costs 2000	6,148	15	6.67%	FD	6,148
01/01/05	Water Tap Costs 2004	2,420	15	6.67%	161	1,932
10/31/06	Water Tap Costs 2006 *	1,152	15	6.67%	77	770
10/31/07	Water Tap Costs 2007	3,085	15	6.67%	206	1,854
10/31/08	Water Tap Costs 2008	495	15	6.67%	33	264
06/30/14	Water Tap Costs 2014	2,514	15	6.67%	168	336
06/30/15	Water Tap Costs 2015	2,387	15	6.67%	159	318

Contributed Systems

05/14/93	Kelp & Teal Court - water mains	4,597	40	2.50%	115	2,645
05/14/93	Kelp & Teal Court - water services	3,819	18	5.56%	FD	3,819
09/09/93	Sea Cottages mains & connections	8,968	40	2.50%	224	5,152
09/09/93	Sea Cottages fire hydrants	900	40	2.50%	23	529
09/09/93	Sea Cottages services	4,245	18	5.56%	FD	4,245
	Total Contributed Water Assets:	<u>56,936</u>			<u>1,166</u>	<u>44,218</u>

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2015

Date Acquired	Description	Balance \$	ORS Service Life Years	Depr./Amort. Rate %	Depr./Amort. Expense \$	Accum. Depr./Amort. \$
Contributed Wastewater Assets:						
<u>Contributed Sewer Taps</u>						
10/31/95	Sewer Tap Costs 1995	20	15	6.67%	FD	20
10/31/96	Sewer Tap Costs 1996	260	15	6.67%	FD	260
10/31/97	Sewer Tap Costs 1997	380	15	6.67%	FD	380
10/31/99	Sewer Tap Costs 1999	5,107	15	6.67%	FD	5,107
01/01/05	Sewer Tap Costs 2004	2,420	15	6.67%	161	1,932
10/31/06	Sewer Tap Costs 2006 *	4,500	15	6.67%	300	3,000
10/31/07	Sewer Taps - 2007	5,340	15	6.67%	356	3,204
10/31/08	Sewer Taps - 2008	973	15	6.67%	65	520
<u>Contributed Wastewater Extensions</u>						
05/18/93	Kelp & Teal Court Connection	730	40	2.50%	18	594
03/14/96	Ocean Marsh Sewer Ext.	16,311	40	2.50%	408	8,160
<u>1996 Forward Systems</u>						
11/01/96	Harbor Key (Westmarsh.)	38,394	40	2.50%	960	19,200
11/01/96	Harbor Key (Westmarsh.)	8,775	40	2.50%	219	4,380
11/01/96	Harbor Key (Westmarsh.)	35,930	5	20.00%	FD	35,930
11/01/96	Harbor Key (Westmarsh.)	68,502	25	4.00%	2,740	54,800
11/01/96	Harbor Key (Westmarsh.)	5,855	15	6.67%	FD	5,855
07/29/97	Ocean Marsh Sewer Ext.	65,589	40	2.50%	1,640	31,160
Total Contributed Wastewater Assets:		<u>259,086</u>			<u>6,867</u>	<u>174,502</u>
Total Contributed Assets:		<u>316,022</u>			<u>8,033</u>	<u>218,720</u>

FD = Fully Depreciated/Amortized

* Capitalized/Removed or Amortized in Docket No. 2007-243-WS

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2015

After Accounting & Pro Forma Adjustments

	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	410,546	209,934	200,612
Operating Expenses	<u>493,743</u>	<u>230,357</u>	<u>263,386</u>
Net Operating Income Before Taxes	(83,197)	(20,423)	(62,774)
Less: Annualized Interest Expense	<u>11,768</u>	<u>4,104</u>	<u>7,664</u>
Taxable Income - State	(94,965)	(24,527)	(70,438)
State Income Tax %	<u>5%</u>	<u>5%</u>	<u>5%</u>
State Income Taxes	<u>(4,748)</u>	<u>(1,226)</u>	<u>(3,522)</u>
Taxable Income - Federal	(90,217)	(23,301)	(66,916)
Federal Income Taxes %	<u>34%</u>	<u>34%</u>	<u>34%</u>
Federal Income Taxes	<u>(30,673)</u>	<u>(7,922)</u>	<u>(22,751)</u>
State and Federal Income Taxes	(35,421)	(9,148)	(26,273)
Less: State and Federal Income Taxes Per Books	<u>0</u>	<u>0</u>	<u>0</u>
Adjustment to State and Federal Income Taxes - Accounting and Pro Forma	<u>0</u>	<u>0</u>	<u>0</u>

After Proposed Increase

	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	704,667	368,352	336,315
Operating Expenses	<u>496,213</u>	<u>231,687</u>	<u>264,526</u>
Net Operating Income Before Taxes	208,454	136,665	71,789
Less: Annualized Interest Expense	<u>11,768</u>	<u>4,104</u>	<u>7,664</u>
Taxable Income - State	196,686	132,561	64,125
State Income Tax %	<u>5%</u>	<u>5%</u>	<u>5%</u>
State Income Taxes	<u>9,834</u>	<u>6,628</u>	<u>3,206</u>
Taxable Income - Federal	186,852	125,933	60,919
Federal Income Taxes %	<u>34%</u>	<u>34%</u>	<u>34%</u>
Federal Income Taxes	<u>63,530</u>	<u>42,817</u>	<u>20,713</u>
State and Federal Income Taxes	73,364	49,445	23,919
Less: State and Federal Income Taxes After Acctg. & Pro Forma Adjustments	<u>0</u>	<u>0</u>	<u>0</u>
Adjustment to State and Federal Income Taxes - Proposed Increase	<u>73,364</u>	<u>49,445</u>	<u>23,919</u>