

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2016-29-WS
December 1, 2016

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)

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”); Harbor Island Utilities, Incorporated (“Harbor Island,” “the Company,” or “the Applicant”); and Harbor Island Owners Association (“HIOA”), (together referred to as the “Parties” or sometimes individually as “Party”).

WHEREAS, the Company has prepared and filed an Application for approval of a new schedule of rates and charges for water and sewer service provided to residential and commercial customers in Harbor Island, Beaufort County, South Carolina filed on August 17, 2016 (“Application”) and updated on October 25, 2016 with revised financial data;

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission (“Commission”) pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2015);

WHEREAS, as calculated by ORS, the Company provides water service to 468 residential, commercial, and irrigation customers and sewer service to 448 residential and commercial

customers as of December 31, 2015, all of which are located on Harbor Island, in Beaufort County, South Carolina;

WHEREAS, ORS has examined the books and records of the Company relative to the matters raised in the Application and, in connection therewith, has requested of and received from the Company additional documentation;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests and in the case of ORS, in the public interest;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of water and sewer service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to obtain a reasonable operating margin.

1. The Parties agree to stipulate into the record this Settlement Agreement.
2. The Parties agree to stipulate into the record before the Commission the prefiled testimony and exhibits (collectively "Stipulated Testimony") of the following witnesses without objection, change, amendment, or cross-examination with the exception of changes comparable to those which would be presented via an errata sheet or through a witness noting a correction consistent with this Settlement Agreement. The Parties agree that no other evidence will be offered in the proceeding by them other than the Stipulated Testimony and exhibits and this Settlement Agreement unless 1) Settlement Testimony supporting this Settlement Agreement is filed by the Parties or 2) additional evidence is necessary to support the Settlement Agreement. The Parties also reserve the right to engage in redirect examination of witnesses as necessary to respond to issues raised by the examination of their witnesses, if any, by non-settling parties or by testimony

filed by non-settling parties, and any such testimony shall be supportive of the terms of this Settlement Agreement.

Harbor Island witness:

1. Robert G. Gross

ORS witnesses:

1. Aisha L. Butler
2. Matthew P. Schellinger II

3. The Parties agree to accept all recommendations and adjustments set forth in ORS's testimony except those modified by this Settlement Agreement.

4. The Parties stipulate and agree that the rate schedule, attached as Exhibit A to this Settlement including the rates and charges and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that the rates contained in said rate schedule are reasonably designed to allow the Company to provide service to its water and sewer customers at rates and terms and conditions of service that are fair, just and reasonable and provides the opportunity to recover the revenue required to earn a fair operating margin.

5. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

6. In its Application, the Company requested an increase in total operating revenues of \$301,156. As a compromise to their respective positions, the Parties stipulate and agree to an increase in total operating revenues of \$216,016. This increase is supported by the adjustments reflected in Exhibit B attached to this Settlement Agreement.

7. The Parties recognize the value of resolving this proceeding by settlement rather than by litigation (including but not limited to the reduction in rate case expenses) and therefore stipulate and agree for purposes of settlement in this case that an operating margin of 13.75% using the graduated tax schedule is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement.

8. The Parties agree to the Company's request for an accounting order to establish a regulatory asset to defer the expenses associated with service restoration due to Hurricane Matthew in 2016. The Parties will not be precluded from addressing the reasonableness of the Company's expenses and related carrying costs in a subsequent rate case.

9. The Company requests that the final Order be issued on or before February 9, 2017 and both ORS and HIOA support this request.

10. The Parties further stipulate and agree that this Settlement Agreement conclusively demonstrates the following: (i) the proposed accounting and pro forma adjustments reflected in Exhibit B are fair and reasonable and should be adopted by the Commission for ratemaking and

reporting purposes; (ii) the operating margin of 13.75% and an annual increase in total operating revenues of \$216,016, is fair, just, and reasonable when considered as a part of this stipulation and Settlement Agreement in its entirety; (iii) Harbor Island's services are adequate and being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of water and sewer services, and (iv) Harbor Island's rates as proposed in this Settlement Agreement are fairly designed to equitably and reasonably recover the revenue requirement and are just and reasonable and should be adopted by the Commission.

11. The Company agrees to file with the Commission a performance bond for water service in the amount of \$225,000 and for sewer service in the amount of \$245,000 by February 16, 2017.

12. The Company agrees to provide advance notice to its customers prior to the implementation of these new rates.

13. The Company agrees to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners Uniform Systems of Accounts.

14. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission.

15. The Parties agree not to introduce or use this Settlement Agreement to constrain, inhibit, impair, or prejudice the other party in other proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

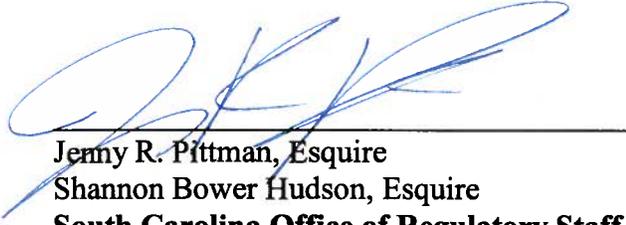
16. This Settlement Agreement shall be interpreted according to South Carolina law.

17. The above terms and conditions fully represent the agreement of the Parties hereto.

Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Representing and binding the South Carolina Office of Regulatory Staff:

A handwritten signature in blue ink, appearing to be 'JP', is written over a horizontal line. The signature is stylized and cursive.

Jenny R. Pittman, Esquire

Shannon Bower Hudson, Esquire

South Carolina Office of Regulatory Staff

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Representing and binding Harbor Island Utilities, Inc.:

By: J. Thomas Mikell

J. Thomas Mikell

J. Thomas Mikell, P.C.

Post Office Box 1727

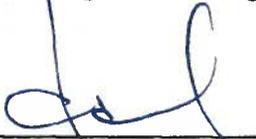
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Representing and binding Harbor Island Owners Association:



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Laughlin & Bowen, PC

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E-mail: drew.laughlin@laughlinandbowen.com

SCHEDULE OF SETTLEMENT RATES AND CHARGES

Water

1. Charges

WATER	
	RATE
Residential ¾" meter (base)	\$32.09/month
Multiple Residence Meters (base)	\$27.09/month
Residential 1" meter (base)	\$35.76/month
Residential 1½" meter (base)	\$44.87/month
Usage	\$5.34/1,000 gallons
Commercial ¾" meter (base)	\$38.60/month
Commercial 1" meter (base)	\$41.34/month
Commercial 1½" meter (base)	\$46.80/month
Usage	\$5.34/1,000 gallons
Irrigation ¾" meter (base)	\$32.44/month
Irrigation 1" meter (base)	\$35.87/month
Irrigation 1½" meter (base)	\$40.88/month
Usage	\$5.34/1,000 gallons
FIRE HYDRANT USAGE	
Meter Usage Charge	\$65.00
Water Deposit	\$75.00
Usage	\$5.34/1,000 gallons

2. Nonrecurring Charges

A. Water Tap-In Fee

Residential Meter

¾" water meter	\$ 1,200.00
1" water meter	\$ 1,600.00
1 1/2" water meter	\$ 1,800.00
2" water meter	\$ 2,700.00

Multiple Residence Meter

1"-2" meter	\$1,200 /unit
Greater than 2" meter	\$ 600.00

B. Water Tap-In Fee (New Connections Only)

Actual cost of installing a water tap at the property.

3. Administrative and Legal Fees

A. Administrative Set-up Fee:
New Customers Only \$25.00
A one-time fee to defray the cost of initiating service.

B. Delinquent Notification Fee: A fee of fifteen dollars (\$15.00) shall be charged each customer to whom the utility mails the notice as required by Commission Rule R. 103-735.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

C. Returned Check Charge (NSF): Company may charge an NSF check charge up to the maximum amount allowed by applicable South Carolina Statute and/or South Carolina Public Service Commission rule.

D. Late Penalty Charge: Company may charge a late-payment penalty up to the maximum amount allowed by applicable South Carolina Statute and/or South Carolina Public Service Commission rule.

E. Reconnection Charges: Customers who ask to be reconnected within nine months of disconnection shall be charged the monthly charge for the service period they were disconnected. The reconnection fee also shall be due prior to reconnection if water or sewer service has been disconnected at the request of the customer. In the case where a customer's water service has been disconnected for any reason as set forth in Commission Rule R. 103-732.5 a reconnection fee in the amount of \$40.00 shall be due at the time the customer requests reconnection of service.

4. Billing Cycle: Recurring charges will be billed every month in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Wholesale Water Increases Pass Through

Company may pass through increases in wholesale water rates from Beaufort-Jasper Water & Sewer Authority to customers after giving them at least 30 days' notice and also providing notice and proof of the increase to the Public Service Commission of South Carolina.

Sewer

1. Charges

SEWER	
	RATE
Residential	\$59.24/month
Commercial	\$59.24 for 10,500 gallons plus \$1.50/1,000 excess usage

2. Flat Rate:

Commercial customers should be charged a sewer rate in proportion to residential rates using the contributory loading schedule for wastewater load allocation. With a residential load allocation of 300 gpd, commercial rates should be:

<u>Customer Type</u>	<u>Load Allocation</u>	<u>Factor</u>
Residential	300 gpd	1.0
Country Clubs	50 gpd/member	1.0
Restaurants	30 gpd/seat	0.1 x number of seats
Retail	200 gpd/1,000 ft ²	0.67 x no, 1,000 ft ²
Office	25 gpd/employee	0.083 x no. employees

3. Nonrecurring Charges

A. Sewer Tap-In Fee

Residential	\$ 500.00
Commercial	\$ 850.00

Sewer Tap (New Connections Only)

Actual cost of installing a sewer tap at the property.

B. Capacity Fees

If sewer service does not exist at a property and service for that property has not been reserved in the sewer system, the Utility may charge a Sewer Capacity Fee in addition to the Sewer Tap Fee. That Sewer Capacity Fee will be the same as the Sewer Capacity Fee charged by BJWSA. That rate currently is:

One sewer Residential Equivalent Unit (REU) = 300 gallons per day (GPD)

Wastewater Capacity Fee: \$9.20/GPD

Fee for one sewer REU: \$2,760 (\$9.20 X 300 GPD)

4. Administrative and Legal Fees

A. Administrative Set-up Fee:

New Customers Only

\$25.00

A one-time fee to defray the cost of initiating service.

- B. Delinquent Notification Fee:** A fee of fifteen dollars (\$15.00) shall be charged each customer to whom the utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.
 - C. Returned Check Charge (NSF):** Company may charge an NSF check charge up to the maximum amount allowed by applicable South Carolina Statute and/or South Carolina Public Service Commission rule.
 - D. Late Penalty Charge:** Company may charge a late-payment penalty up to the maximum amount allowed by applicable South Carolina Statute and/or South Carolina Public Service Commission rule.
 - E. Reconnection Charges:** Customers who ask to be reconnected within nine months of disconnection shall be charged the monthly charge for the service period they were disconnected. The reconnection fee also shall be due prior to reconnection if water or sewer service has been disconnected at the request of the customer. In the case where a customer's sewer service has been disconnected for any reason as set forth in Commission Rule R. 103-532.4 a reconnection fee in the amount of \$500.00 shall be due at the time the customer requests reconnection of service. Where an elder valve or equivalent device has been previously installed, a reconnection fee of \$40.00 shall be charged.
- 5. Billing Cycle:** Recurring charges will be billed every month in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

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

	(1) Application Per Revised Books	(2) Accounting & Pro Forma Adjustments	(3) After Accounting & Pro Forma Adjustments	(4) Proposed Increase	(5) After Proposed Increase
	\$	\$	\$	\$	\$
Operating Revenues:					
Water Revenue	216,595	(6,661)	209,934	97,232	307,166
Sewer Revenue	198,606	2,006	200,612	118,784	319,396
Total Operating Revenues	415,201	(4,655) (1)	410,546	216,016 (10)	626,562
Operating Expenses:					
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	1,814 (11)	5,262
State & Federal Income Tax	0	0	0	33,389 (12)	33,389
Total Operating Expenses	440,128	53,615	493,743	35,203	528,946
Total Operating Income	(24,927)	(58,270)	(83,197)	180,813	97,616
Add: Customer Growth	0	0	0	332 (13)	332
Less: Interest Expense	23,406	(11,638) (8)	11,768	0	11,768
Net Income (Loss)	(48,333)	(46,632)	(94,965)	181,145	86,180
Other Income/Expense					
Loss on Disposal of Asset	(8,129)	8,129 (9)	0	0	0
Net Income (Loss) for Margin	(56,462)	(38,503)	(94,965)	181,145	86,180
Operating Margin	-13.60%		-23.13%		13.75%

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Revenue Impact Analysis

Calculated HIU Test Year Revenue Overview

	Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues
Revenue Overview for Period January 1 to December 31, 2015 Rates approved by PSC						
WATER	Water Service					
	3/4" Residential Water			391	\$17.24	\$80,890
	3/4" Multiple Residence			58	\$17.24	\$11,999
	1" Residential Water			1	\$21.00	\$252
	Residential Usage	20,703,080	\$4.62			\$95,648 (1)
	3/4" Commercial Water			5	\$24.00	\$1,440
	1" Commercial Water			2	\$27.00	\$648
	1 1/2" Commercial Water			1	\$33.00	\$396
	Commercial Usage	2,734,320	\$4.62			\$12,633 (2)
	3/4" Irrigation			4	\$17.24	\$828
	1" Irrigation			3	\$21.00	\$756
	1 1/2" Irrigation			2	\$26.50	\$636
	Irrigation Usage	637,650	\$4.62			\$2,946
	Hydrant Usage Charge	0	\$4.17	2	\$65.00	\$130
	General					
	Set-Up Fee for New Customers			29	\$12.50	\$363 (3)
	Delinquent Accounts			3	\$5.00	\$15 (3)
Late Fees (1.5%)					\$329 (3)	
Returned Check Fee			2	\$12.50	\$25 (3)	
Water Service Total	24,075,050				\$209,934	
SEWER	Sewer Service					
	Residential Sewer			442	\$37.18	\$197,203
	Commercial Sewer (Up to 10,500 gallons)			6	\$37.18	\$2,677
	General					
	Set-Up Fee for New Customers			29	\$12.50	\$363 (3)
	Delinquent Accounts			3	\$5.00	\$15 (3)
	Late Fees (1.5%)					\$329 (3)
	Returned Check Fee			2	\$12.50	\$25 (3)
	Sewer Service Total					\$200,612
	Water and Sewer Service Total	24,075,050				\$410,546

Calculation Assumptions:

Note: Consumption and Units reflected as reported during test year. Growth factor not included for comparison purposes. Differences due to rounding.

- (1) Residential Usage includes 3/4", 1", Water Used During Construction, and Closeout - Final Bills
- (2) Commercial Usage includes 3/4", 1", 1 1/2", and Treatment Plant Water Usage
- (3) Setup Fees (\$25), Delinquent Accounts (\$10), Late Fees (Test Year), and Returned Check Fees (\$25) split 50/50 between Water and Sewer Service

Harbor Island Utilities, Inc.
Docket No. 2016-29-WS
Revenue Impact Analysis

Calculated HIU Revenue - Settlement Revenue

	Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Settlement Calculated Revenues	Increase Amount	% Increase
Revenue Overview for Period January 1 to December 31, 2015 @ 13.75% OM								
WATER	Water Service							
	3/4" Residential Water			391	\$32.09	\$150,554	\$69,664	86.12%
	3/4" Multiple Residence			58	\$27.09	\$18,855	\$6,856	57.14%
	1" Residential Water			1	\$35.76	\$429	\$177	70.24%
	Residential Usage	20,703,080	\$5.34			\$110,589	\$14,941	15.62%
	3/4" Commercial Water			5	\$38.60	\$2,316	\$876	60.83%
	1" Commercial Water			2	\$41.34	\$992	\$344	53.09%
	1 1/2" Commercial Water			1	\$46.80	\$562	\$166	41.92%
	Commercial Usage	2,734,320	\$5.34			\$14,606	\$1,973	15.62%
	3/4" Irrigation			4	\$32.44	\$1,557	\$729	88.04%
	1" Irrigation			3	\$35.87	\$1,291	\$535	70.77%
	1 1/2" Irrigation			2	\$40.88	\$981	\$345	54.25%
	Irrigation Usage	637,650	\$5.34			\$3,406	\$460	15.61%
	Hydrant Usage Charge	0	\$5.34	2	\$65.00	\$130	\$0	0.00%
	General							
	Set-Up Fee for New Customers			29	\$12.50	\$363	\$0	0.00%
	Delinquent Accounts			3	\$7.50	\$23	\$8	53.33%
Late Fees (1.5%)					\$482	\$153	46.40%	
Returned Check Fee			2	\$15.00	\$30	\$5	20.00%	
Water Service Total		24,075,050				\$307,166	\$97,232	46.32%
SEWER	Sewer Service							
	Residential Sewer			442	\$59.24	\$314,191	\$116,988	59.32%
	Commercial Sewer (Up to 10,500 gallons)			6	\$59.24	\$4,265	\$1,588	59.32%
	General							
	Set-Up Fee for New Customers			29	\$12.50	\$363	\$0	0.00%
	Delinquent Accounts			3	\$7.50	\$23	\$8	53.33%
	Late Fees (1.5%)					\$524	\$195	59.32%
	Returned Check Fee			2	\$15.00	\$30	\$5	20.00%
Sewer Service Total						\$319,396	\$118,781	59.21%
Water and Sewer Service Total		24,075,050				\$626,562	\$216,016	52.62%

Calculation Assumptions:

Note: Consumption and Units reflected as reported during test year. Growth factor not included for comparison purposes. Differences due to rounding.

- [1] Residential Usage includes 3/4", 1", Water Used During Construction, and Closeout - Final Bills
- [2] Commercial Usage includes 3/4", 1", 1 1/2", and Treatment Plant Water Usage
- [3] Setup Fees (\$25), Delinquent Accounts (\$10), and Returned Check Fees (\$25) split 50/50 between Water and Sewer Service