

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA

#19-11797

SEPTEMBER 17, 2019

2:05 P.M.

Docket No. 2019-281-S:

PALMETTO UTILITIES, INC. – Application for Adjustment of Rates and Charges, Terms and Conditions, for Sewer Service Provided to Customers in Its Richland and Kershaw County Service Areas

Allowable Ex Parte Briefing to Discuss Regulatory Treatment of Plant Acquisitions

**ALLOWABLE EX PARTE
BRIEFING**

COMMISSION MEMBERS PRESENT: Comer H. ‘Randy’ RANDALL, *Chairman*; Justin T. WILLIAMS, *Vice Chairman*; and COMMISSIONERS John E. ‘Butch’ HOWARD, Florence P. BELSER, Swain E. WHITFIELD and G. O’Neal HAMILTON

ADVISOR TO COMMISSION: Joseph Melchers
GENERAL COUNSEL

STAFF: John Powers and William O. Richardson, Technical Advisory Staff; Randy Erskine, Information Technology Staff; Melissa Purvis, Livestream Technician; and Jo Elizabeth M. Wheat, CVR-CM/M-GNSC, Court Reporter

APPEARANCES:

JOHN M.S. HOEFER, ESQUIRE, representing **PALMETTO UTILITIES, INC.**, together with **MARK DADAY** [*President & CFO / PUI*] and **BRYAN STONE** [*Chief Operating Officer / PUI*], Presenters

JENNY R. PITTMAN, ESQUIRE, Designee of the Executive Director of **THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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Note: For identification of any additional referenced materials and/or links for same, please see correspondence to be filed by the Office of Regulatory Staff Designee

Please note the following inclusions/attachments to the record:

- Presentation Slides

P R O C E E D I N G S

1
2 **CHAIRMAN RANDALL:** Please be seated. Welcome,
3 everyone, to this afternoon's allowable ex parte.
4 I'll ask Mr. Melchers to read the docket.

5 **MR. MELCHERS:** Thank you, Mr. Chairman.

6 Commissioners, we're here pursuant to a Notice
7 of Request for Allowable Ex Parte Briefing. The
8 party requesting the briefing is Palmetto
9 Utilities, Inc.

10 The briefing is scheduled for today, here in
11 the Commission's hearing room, September 17th, at 2
12 p.m., and the subject matter to be discussed at
13 this briefing is: Regulatory treatment of plant
14 acquisitions.

15 Thank you, Mr. Chairman.

16 **CHAIRMAN RANDALL:** Thank you.

17 And we'll take appearances from the parties.
18 And get near a microphone, so we can – so you'll go
19 worldwide.

20 **MR. HOEFER:** Thank you, Mr. Chairman. I am
21 John Hoefer. I represent Palmetto Utilities, Inc.
22 We appreciate the opportunity to present this
23 allowable ex parte briefing to the Commissioners.

24 Here to make the presentation on behalf of the
25 company are Mark Daday, the president and chief

1 financial officer, and Mr. Bryan Stone, the chief
2 operating officer. And unless the Chair has
3 anything from me, I would turn it over to these
4 gentlemen.

5 **CHAIRMAN RANDALL:** Welcome.

6 **MR. HOEFER:** Thank you.

7 **MS. PITTMAN:** Jenny Pittman for ORS.

8 **CHAIRMAN RANDALL:** Thank you.

9 Okay. I think, first, before we begin, Ms.
10 Pittman, you have instructions?

11 **MS. PITTMAN:** Yes, I do. Thank you, Mr.
12 Chairman.

13 My name is Jenny Pittman and I'm a Staff
14 attorney for the Office of Regulatory Staff, and
15 I'm here today as the designee for the Executive
16 Director of the ORS at this allowable ex parte
17 being presented by Palmetto Utilities,
18 Incorporated.

19 As the ORS representative, it is my duty to
20 certify the record of this proceeding to the Chief
21 Clerk of the PSC, within 72 hours, that this
22 briefing was conducted in compliance with the
23 provisions of SC Code Section 58-3-260(C).

24 It is the ORS representative's sole
25 responsibility and statutory duty in these

1 proceedings to attend the briefing and file a
2 written certification that such briefing was
3 conducted in compliance with the provisions of this
4 section. I'm not a referee, judge, or hearing
5 officer, and I do not and cannot represent the
6 Commission or the presenters. It is up to the
7 presenters, Commissioners, Commission Staff, and
8 all attendees to ensure that the actions here today
9 follow the provisions of 58-3-260(C), and that is
10 the purpose of the statement which you need to sign
11 and return to the desk in the back of the room when
12 you leave today.

13 The requirements of 58-3-260(C) are, in part,
14 that the allowable ex parte be confined to the
15 subject matter which has been noticed. By limiting
16 discussion to the subject matter noticed, the
17 statute creates an narrow exception to the general
18 prohibition against ex parte communications. In
19 this case, the issue noticed is "Regulatory
20 treatment of plant acquisitions." I, therefore,
21 ask that everyone here please refrain from
22 discussing any matters not related to that subject.

23 Secondly, the statute prohibits any
24 participants, Commissioners, or Commission Staff
25 from requesting or giving any commitment,

1 predetermination, or prediction regarding any
2 action by any Commissioner as to any ultimate or
3 penultimate issue which either is or is likely to
4 come before the Commission.

5 Third, I would ask that the participants,
6 Commissioners, and Staff refrain from referencing
7 any reports, articles, statutes, or documents, of
8 any kind, that are not included in today's
9 presentation, to prevent the need for myself or the
10 company's lawyers from having to try and track down
11 copies or links to these documents to include in
12 the record.

13 And, again, please make sure to read, sign,
14 and return the Certification form to the Commission
15 Staff which you were given at the door when you
16 came in today. Everyone needs to read this form
17 and, if necessary, make any appropriate comments
18 before signing and returning the form. This form
19 needs to be signed by each attendee to certify that
20 the requirements contained in 58-3-260(C) have been
21 complied with at the presentation today.

22 Thank you all for your time and attention.

23 Thank you, Mr. Chairman.

24 **CHAIRMAN RANDALL:** Thank you, Ms. Pittman.

25 Okay. Mr. Daday and Mr. Stone, we will turn

1 it over to you.

2 MR. MARK DADAY [PUI]: Thank you, Mr.
3 Chairman. Can you hear me?

4 CHAIRMAN RANDALL: No, punch that button right
5 there and –

6 MR. MARK DADAY [PUI]: [Indicating.]

7 CHAIRMAN RANDALL: Now you're on.

8 MR. MARK DADAY [PUI]: Now we're good? Okay.
9 Thank you.

10 [Reference: Presentation Slides 1 ~ 2]

11 Thank you for granting us the time to speak to
12 you, again. It's always good to come before the
13 Commission and give an update on kind of where
14 we're at on things.

15 Today, Bryan Stone and I are going to speak on
16 two major matters: Really kind of an update on
17 where we've been over the last few years, in terms
18 of our capital program in our company. It's
19 changed a bit. And then I'm going to speak
20 specifically on sort of an unusual rate-base
21 accounting issue that we would like to discuss with
22 you today.

23 So, we only have nine slides; we're going to
24 try to keep it brief, but at the end, feel free,
25 obviously, to make any questions you have during

1 the presentation but also at the end. We're fully
2 expecting to be able to answer any questions you
3 may have.

4 [Reference: Presentation Slide 3]

5 The next slide is an abbreviated org. chart,
6 and at the top box we show Pacolet Milliken, which
7 is the ultimate owner. It's the Milliken family
8 here, as you know, in South Carolina.

9 The three orange boxes at the bottom are the
10 three utilities that we own. The two to the left
11 are in South Carolina, and the one to the right is
12 in Florida. The middle box there that says "Ni
13 Pacolet Milliken Utilities" is really just a kind
14 of a holding box.

15 Two boxes that aren't shown is one that has
16 all our overhead – we allocate it to each of the
17 companies, for efficiency and cost-efficiency
18 reasons – and we also have a septic receiving
19 station that takes waste from septic tanks and
20 port-a-potties and great things like that.

21 Additionally, we own Lockhart Power, an
22 electric company, from the top box. Bryan is also
23 president there. So, we share some resources in
24 that regard. But today he'll be here talking
25 regarding the water/wastewater companies, and

1 specifically Palmetto Utilities and PWR, which is
2 Palmetto Wastewater Reclamation – the two boxes on
3 the left.

4 Palmetto Utilities is a combination of two
5 companies: Palmetto Utilities and the assets and
6 customers that we purchased from the City of
7 Columbia in 2013. We blended those together and
8 merged them a few years ago. So that includes what
9 we call PRC, or oftentimes “the City customers.”
10 And PWR is the old Alpine and Woodland Utilities
11 and their assets that went into that company.

12 Bryan?

13 **MR. BRYAN STONE [PUI]:** Good afternoon. I
14 just have a couple of slides to give a quick
15 overview of kind of who we are, and I’ll profile
16 the utilities.

17 So, with Palmetto Utilities, which now
18 includes – as Mr. Daday mentioned – the customers
19 and assets of Palmetto Richland County, the
20 original legacy Palmetto Utilities had about 20,000
21 ERCs, or equivalent residential customers. Very
22 established utilities, been around for about 40
23 years, or so. Low cost, well run, very cost-
24 effectively run and efficiently run. Had one
25 wastewater treatment plant called Spears Creek and

1 it's a regional treatment facility under the 208
2 Plan.

3 [Reference: Presentation Slide 4]

4 The treated wastewater is now discharged into
5 the Wateree River – and I'll speak to that in a
6 moment. Originally, it was discharged into – it
7 was a land-based discharge into rapid infiltration
8 basins, and then we converted that over. And I
9 guess the highlight, though, the big-picture
10 story – we've spoken to this Commission about this
11 within the last year or so – is \$80 million of
12 capital was invested into the Palmetto Utilities
13 system.

14 Numbers, in a vacuum, don't necessarily mean a
15 lot. In the context of the size of this utility,
16 it's a tremendous investment. It was once-in-a-
17 generation type investment. And it was not what we
18 were initially envisioning when Pacolet Milliken
19 purchased Ni America, but as we got more into the
20 analysis of what was needed and the timing, it
21 became clear that the best long-term solution for
22 our customers, and to provide the services and the
23 growth that that system was experiencing, would be
24 to go ahead and make investments – which I'll get
25 into in a moment.

1 The Palmetto of Richland County utility was
2 carved out from the City of Columbia, and it
3 immediately borders the Palmetto system; it's to
4 the west, had roughly 13,000 ERCs. One of the
5 conditions of that purchase was that we take the
6 wastewater load off the City of Columbia's system
7 and bring it into the Palmetto Utilities – Palmetto
8 utility system wastewater treatment plant, which,
9 again, is the Spears Creek wastewater treatment
10 plant. So that was part of the overall set of
11 projects that we had to perform within the last
12 several years.

13 And then the other utility, PWR, that was
14 purchased by Ni America in 2011. It's located
15 roughly in the I-26 and I-20 area, very, actually,
16 right here, as a matter of fact. Mostly in
17 Lexington County, has been 8000 ERCs. There's a
18 Woodlands system and an Alpine system. One of
19 those has a 2-million-gallon-per-day treatment
20 plant and then the other has about a 300,000-
21 gallon-per-day lagoon associated with it.

22 When that system was purchased, it is what we
23 would describe as a distressed system. There were
24 a variety and a large number of spills, violations,
25 public concern. It was subject to EPA and DHEC

1 penalties. It was just a system that was in
2 desperate need of improvements. So, part of the
3 purchase of that system was basically, you know –
4 or included requirements that we would improve the
5 system, that we'd make significant investments into
6 improving that system. And since 2011, in fact,
7 we've invested \$13 million, roughly, and that falls
8 into two broad categories: one, improvements at the
9 Stoops Creek treatment plant, which is the
10 2-million-gallon-per-day facility, and then the
11 other is in the entire collection system. And
12 those – we've gone above and beyond, in fact, what
13 we had originally planned on doing, in terms of
14 investing in and improving that system. The result
15 has been that we dramatically reduced the number of
16 spills, and the very few spills that there are are,
17 you know, essentially trivial in terms of quantity.
18 So it's a drastic improvement in the environmental
19 and public-health performance of that utility. And
20 even after, you know, again, for that system, it's
21 a very significant investment over that period of
22 time. Even after that investment, the rates are
23 still extremely low, compared with our peer group,
24 which Mr. Daday will touch on in a moment. And we
25 view this as a significant success story for our

1 general model when we have an acquisition, to be
2 able to come in, deploy capital and the experience
3 that our management team has very cost-effectively,
4 and just fix what needs to be fixed and do it as
5 inexpensively as possible and try to keep the rates
6 as low as possible, and basically what everybody
7 hopes their utility will do. This is one of the
8 examples we point to, for our past performance in
9 that area.

10 [Reference: Presentation Slide 5]

11 All right. And then the other piece, I've
12 already touched on this, but in the Palmetto
13 system, \$80 million that we've invested in the last
14 several years. There were – there ended up being
15 three major projects, and then a collection of
16 other projects. And the three major projects –
17 with the wastewater utility, there's a collection
18 system and a treatment system, and then you
19 discharge the treated water. So each of these
20 large investments is associated with one of those
21 components.

22 So, the Northern Pipeline was a pipeline that
23 we built in order to connect the collection system
24 that we acquired from the City of Columbia, under
25 PRC; we connected that back to our wastewater

1 treatment plant, the Spears Creek plant, that is
2 under PUI. As I mentioned, that was an obligation
3 of the purchase.

4 The specific route that we chose allowed
5 several things to happen: First, it provided that
6 physical connection. Secondly, it allowed us to
7 serve future customers in a significant way. So
8 the route goes through kind of the border of our
9 system, where the development had occurred and
10 where all the new development, or most of the new
11 development, was going to occur. And so those are
12 pipelines that would've had to been built
13 separately had we not served that need with this
14 pipeline, so long-term that was the most cost-
15 effective way to go.

16 The second piece is the Spears Creek
17 wastewater treatment plant upgrade. We doubled the
18 capacity of that plant. It was a 6-million-gallon-
19 per-day plant; it's now a 12-million-gallon-per-day
20 plant. In addition, some of the features – it was
21 very cost-effective to do this – some of the
22 features are actually designed for future expansion
23 well down the road, to 18 million gallons per day.
24 If we ever get to that point, we'll be able to do
25 it much less costly than had we not gone through

1 that design exercise.

2 It was built at a very competitive rate. You
3 know, the rates there. But from all the other
4 large expansion projects in capacity that we've
5 seen, that's a fraction. It's not just 5 or 10 or
6 20 percent less; it's a fraction of what other
7 plants are being built at or building capacity at.

8 There's a story behind how we were able to do
9 that, but it took a lot of time and effort. We
10 reused a lot of the equipment that we had, and we
11 went through an iterative value-engineering process
12 to get to that point.

13 The third piece is the effluent discharge to
14 the treated water. As I mentioned, it used to go
15 to RIBs and now it goes to the Wateree River. That
16 pipeline was a significant investment, as well. It
17 did provide several benefits, including, you know,
18 closing the RIBs that were – the rapid infiltration
19 basins were an area of concern for some of the
20 residents in that area and for Kershaw County. So
21 we worked with both of those groups over a period
22 of time, and this ended up being the solution that,
23 you know, that was acceptable to everyone.

24 The last category is kind of a catchall for
25 everything else. And so we had a wide variety of

1 smaller projects that, collectively, we invested in
2 our ability to find I&I – or inflow and
3 infiltration – so we can reduce the amount of water
4 that didn't need to be going to our plant to be
5 treated, and was. Just a wide variety of cost-
6 effective type initiatives, for the most part.

7 And, again, overall, you know, it's hard to
8 overstate how significant this investment was in
9 the context of Palmetto Utilities. This was – this
10 is something that has set us up for growth in an
11 area in Northeast Richland County where there has
12 been sustained solid growth for many, many, many
13 years. The projection is it will continue to be
14 that way. So we are now positioned to be able to,
15 you know, very cost-effectively connect and allow
16 and support that economic development opportunity,
17 which is, you know, we think, a great public
18 benefit beyond what our core mission is.

19 [Reference: Presentation Slide 6]

20 **MR. MARK DADAY [PUI]:** Thanks, Bryan.

21 That gives us a brief background of where
22 we've been over the last few years, especially
23 since 2015, when the Pacolet Milliken family bought
24 the companies.

25 What I'd like to go through now is kind of the

1 where-we're-at in rates, and then the accounting
2 issue that we mentioned earlier.

3 Most of us came, ultimately, from non-
4 regulated backgrounds. So we are conscious, very
5 conscious, of competition and how our product
6 matches up against our competitors.

7 This is a table that shows our competitors.
8 They are the neighboring utilities that are the
9 closest to us, and you'll notice I think there's
10 13. Palmetto Utilities, even with the rate
11 increase we had recently, two years ago now, for
12 many of the items that Bryan mentioned – the
13 capital program and other things – we're still in a
14 very competitive position on the lower half of this
15 chart. Even though we're going in for a rate case,
16 our other competitors' or peers' – at the top,
17 especially City of Columbia – rates are continuing
18 to increase and will continue to increase for as
19 far as the eye could see. So we'll still always be
20 in that middle position, a few years after the
21 upcoming rate increase.

22 I think the most important thing to notice,
23 though, is that as we are now through the capital
24 cycle, as we call it. These things often run in
25 cycles where, unfortunately, at one time we had to

1 spend a lot of capital, and we did, but we should
2 be looking at, generally, maintenance capital for
3 the next five or plus ten years probably, and,
4 therefore, just rate increases that are pretty
5 close to inflation, perhaps even lower.

6 Palmetto Wastewater Reclamation at the
7 bottom – and that was a great success story that
8 Bryan had mentioned – we took two companies that
9 were in the news often, and spilling a lot, and
10 refurbished everything and still were able to keep
11 rates relatively low in the table, compared to our
12 competitors. And they are through the capital
13 cycle, so they should be seeing, hopefully, only
14 inflationary type increases going forward.

15 One item I want to point out here is the
16 second item from the top. The second company is
17 City of Columbia out-of-city rates. These are the
18 rates that our City customers that we bought would
19 be paying now. And despite the rate increase we
20 recently had, taking us to \$52.10, they would be
21 paying \$71.25 if they still lived there. As you
22 probably know, we were one of the pioneers of
23 townhall meetings. We get out and meet our
24 customers often. Always before a rate increase.
25 And, you know, obviously, it can get a little

1 heated and customers have said, “You know, you
2 shouldn’t ever have bought us. You know, we
3 should’ve stayed with the City.” And I’m fortunate
4 to be able to point out to this number, to say
5 that, “Had you stayed with the City, your rates
6 would still be a lot higher.” So we were able to
7 accomplish things at a lower rate.

8 [Reference: Presentation Slide 7]

9 Which brings us to the main issue we are
10 speaking about today, and this is the valuation of
11 the assets purchased from the City of Columbia.
12 And since we purchased PRC, that’s the box we put
13 it in, but it’s really the assets and the
14 customers – sewer customers. And it was back in
15 March 2013, almost seven years ago – six and a
16 half. And it was purchased for roughly \$18 million
17 from the City. And it was about 11,000 residential
18 equivalent customers. And we acquired the
19 collection system and the lift stations and the
20 customers, but no treatment plant. Those customers
21 now are being treated at our Spears Creek plant,
22 which is in the old Palmetto territory, which,
23 again, we combined the two companies about two
24 years ago – Palmetto and PRC – for efficiencies and
25 cost reasons.

1 We agreed to assume the rates that the City
2 had in place and keep them for as long as we could.
3 We eventually, after five years, filed our first
4 rate case. During those five years, the City rates
5 went up 44 percent and PRC customers had a zero
6 rate increase. And, again, mentioning that those
7 customers for us right now are \$52.10 – and that’s
8 a flat rate; we took them off of volume – and then
9 they would be \$71.25, had they stayed with the City
10 of Columbia.

11 In this case, there’s a number of difficulties
12 trying to identify what the proper rate-base value
13 would be for those assets that we purchased from
14 the City. And if you remember, this was late 2017,
15 early 2018. In the regulatory world here in South
16 Carolina, it was a difficult time. We were under a
17 lot of time pressure, trying to get some studies
18 done. But it became probably most effective to
19 say, “Let’s defer this until the next rate case,
20 and give us the time to come up with studies and
21 analysis and look at what other folks are doing,
22 for these assets.” What it also did is we had
23 offered a phase-in, a no-cost phase-in, but that
24 wasn’t accepted. And so this also had the effect
25 of lowering the rate increase that our customers

1 would face and deferring it, if you would, until
2 later. So, again, we are conscious of rate shock
3 and the effects of higher rates on our customers
4 and businesses. And, unfortunately, we had a time
5 where we had to spend an unusually large amount of
6 capital all at once. Normally that's spread over
7 years, so this also helped to lessen the impact at
8 that rate case.

9 But it should be noted that, for rate-base
10 calculation purposes, you know, we've been carrying
11 that as a zero rate base since that rate case. So
12 I don't want people to lose sight of that.

13 [Reference: Presentation Slide 8]

14 A little bit of a background on where we're at
15 and how we got there, on this City of Columbia
16 assets valuation. The City basically had some poor
17 accounting records. And it's also not necessarily
18 their fault in one regard, but the records weren't
19 great. But we were buying 11,000 customers; we
20 weren't buying a company. When you get a company,
21 you normally see a balance sheet and income
22 statement for those assets. This is just 11,000
23 customers as part of the City that happened to be
24 near our territory and would be more efficiently
25 served by us, so it wasn't like they had a division

1 with all their financial statements that they're
2 going to sell us. It was, literally, we didn't
3 have expenses; we had to estimate. We really
4 didn't even have customer lists, until later on in
5 the process, and we took it off of maps and we
6 estimated what revenue would be. So in fairness to
7 them, there wasn't something that they could give
8 us. But the records weren't in very good shape, so
9 we're trying to figure out, how do we start our
10 opening balance sheet with what these assets are
11 worth. Again, they did not use NARUC accounting
12 rules, and their rates were not set on a regulatory
13 process where we could go and look at something.
14 They were set by the City Council that just said,
15 "Here's what it is." So we really didn't have a
16 lot.

17 They also had an expansion fee, which was
18 supposed to be used for refurbishing and – not
19 refurbishing, sorry – increasing the capacity of
20 their wastewater plant. Well, as I said earlier,
21 we didn't buy that plant, so the money they
22 collected, the CIAC should stay with them, and it
23 really didn't go to benefit any of our customers
24 that we bought.

25 And just sort of one more little example of

1 the condition of the City's records, there's a
2 Supreme Court case cited there where they mention
3 that they used City wastewater revenues as a slush
4 fund for other things: development, maybe, you
5 know, fire department, police. Who knows? But I
6 think it's more testimony to the fact that what we
7 were given really was difficult to really identify
8 what the rates – what the rate base would be and
9 what the plant assets would be.

10 So what do you do in a situation like that?
11 Normally, in industry and utilities, you deal with
12 what's called a replacement cost study. It's very
13 common. And what it is is you get some engineering
14 consultants and valuation experts who come up with
15 the value of those assets that you're buying today,
16 discount them back to the time they were built, add
17 some – reduce it by depreciation, come up with an
18 estimated value at the time you bought these
19 assets. It's a very common method.

20 We used the third-party firm of Joel Woods &
21 Associate – Joel Wood & Associate and Tangibl Group
22 to come up with these numbers and book our opening
23 balance sheet, which our auditors at the time were
24 PricewaterhouseCoopers. They were fully engaged in
25 this process and they were obviously supportive of

1 those values, because they signed off on the
2 financial statements.

3 John Hoefer has copies of – hard copies of
4 both of those studies here, for you, for your
5 examination.

6 We also then engaged a larger consulting firm
7 called Gannett Fleming, regarding the issue of the
8 cash CIAC that was collected during the ownership
9 of the City. And it's really what's called the
10 expansion fee. And it's pretty clear from the
11 Gannett Fleming report, which John also has a copy
12 of, that this was to go towards the wastewater
13 plant, the new wastewater plant, expansion of that.
14 Whether it was used for the ballpark or the fire
15 department or whatever, we don't know, but it
16 clearly wasn't for the customers and the assets
17 that we bought, namely the collection assets and
18 the lift stations.

19 [Reference: Presentation Slide 9]

20 So this is a summary of kind of where we ended
21 up with our third-party studies. We came up with
22 \$29 million of – almost \$30 million of plant,
23 plant-in-service; accumulated depreciation of \$12
24 million; for a net plant of, roughly, around \$18
25 million.

1 In the asset purchase agreement, when we
2 bought the assets from the City, there was
3 referenced in a particular exhibit 12 lift stations
4 that developers had built and gave to the City. We
5 did reduce rate base by that amount. We used the
6 valuation from the studies and said, "Okay. That
7 comes out to be a little under \$900,000; we'll
8 reduce rate base by that amount."

9 So we came up with a rate-base amount of \$17.1
10 million. And, again, you know, the donated
11 property was reduced – or, did reduce rate base.
12 It's our position that the facility fee is not
13 relevant to our situation, because it was for a
14 wastewater plant that was never purchased by us.

15 Any questions on this slide before we go to my
16 last slide?

17 [No response]

18 [Reference: Presentation Slide 10]

19 I'll give you a chance to think of some while
20 we go to the last slide.

21 And the last slide is sort of ancillary to
22 things, here, but this is a problem or an issue or
23 a concern throughout the country. We believe \$17.1
24 million is the proper number, but it's an industry
25 issue. Right now there are 11 states who have

1 either passed laws or given guidance on how to
2 account and how to recognize for rate-base purposes
3 this exact issue of municipal purchase: states like
4 Pennsylvania, California, Illinois, North Carolina,
5 Texas now just recently. Interestingly enough,
6 Pennsylvania has made what is essentially purchase
7 price – rate base equaling the lower of purchase
8 price and fair market value, whereas all of the
9 fair market values, so far, have been in excess of
10 the purchase price. So what they've really done is
11 they've made purchase price the rate-base value,
12 the purchase price or fair market value, you know,
13 and they've taken a lot of the guesswork that we
14 had to go through in estimating out of the
15 situation. They also have a specific provision in
16 that law that CIAC – contributions in aid of
17 construction – is not to be deducted from the plant
18 value to get rate base. Why are they doing this?
19 They really want to see private capital flowing
20 into the State to buy municipal properties and fix
21 them up, and recognizing that the capital
22 requirements over the next number of years are
23 going to be high for infrastructures in
24 municipalities that are, frankly, aging. And since
25 then, you've seen five acquisitions with the big

1 guys – Aqua America and American Water – purchased
2 cities like Scranton and McKeesport. And that’s
3 the reason they’re doing that.

4 So, again, this is South Carolina. I
5 recognize that. The reason I’m mentioning this is
6 our position’s actually even more conservative than
7 that. We deducted the donated property that the
8 builders gave to the City. But what we’re
9 requesting or will request in the rate case is not
10 unusual, it’s not out of bounds. Others are doing
11 it. You know, it’s not – it’s not – it’s really
12 not out of line. It’s consistent with what some
13 other folks are doing and it’s in the public
14 interest and in the State’s interest to bring
15 capital like we’ve brought forth into the State and
16 to the investment structure here.

17 We like to believe we did everything – and
18 always do everything – that’s proper. The Milliken
19 way is to take care of the customers and spend the
20 money you have to and basically provide good
21 customer service. We have been a good operator, as
22 you know, in terms of very few spills and
23 responding to problems quickly. You know, we’re
24 always available. And we really pioneered getting
25 out to the customers and hearing from them and

1 talking to them. Andrena Powell-Baker is sitting
2 here; she just spoke to me this morning about a
3 call with a customer. She takes many of them. If
4 they get by her, they eventually get to my office.
5 And I've had people come into my office to sit down
6 and discuss, mostly, their bill and late fees and
7 things like that.

8 So we've spent all this money and really done,
9 we think, a good job. We're a little surprised
10 that the last rate case turned out as it did and
11 that we had to defer this issue. You know, we
12 really think that we've done everything we could.
13 This is a fair position. And that's how we're
14 going to present it in the next rate case. And
15 wanted to meet with you – I'm just about done. We
16 just wanted to meet with you today because it's
17 such an unusual situation, but it's starting to
18 become more common, as we see in other states, but
19 it's not the norm. And to try to fully understand
20 it and talk about it in the midst of a rate case
21 with 10 other issues and heavy time constraints,
22 sometimes it gets pushed to the side or doesn't get
23 the effective time it needs. And that's why we
24 came here today to speak to you.

25 And thank you again for your time. And I'm

1 now happy, Bryan and I, to answer anything we can.

2 [Reference: Presentation Slide 11]

3 **CHAIRMAN RANDALL:** Thank you, Mr. Daday and
4 Mr. Stone, for your presentation. I think we're
5 hearing – I know Commissioner Howard and I are on
6 the Water Committee at NARUC, and so we hear a lot
7 more about – of course, we hear a lot about aging
8 infrastructure nationwide, and more about municipal
9 systems, whether it be purchase or public-private
10 partnerships, that kind of thing. So I think your
11 presentation is certainly timely.

12 Commissioners, any questions for these
13 gentlemen? Commissioner Howard.

14 **COMMISSIONER HOWARD:** Have you considered – I
15 know it takes legislation, but are you involved in
16 any kind of infrastructure surcharge?

17 **MR. MARK DADAY [PUI]:** No. No, we haven't.

18 I know, Bryan, you've been speaking with some
19 folks about some infrastructure preapproval. But
20 no, we have not.

21 **COMMISSIONER HOWARD:** You mentioned a couple
22 of states. And I guess if you had your rathers,
23 what would you draw up as legislation for an
24 acquisition adjustment? If you had control of the
25 State Legislature and the legislative agenda on

1 acquisition adjustment, what would you come up
2 with?

3 **MR. MARK DADAY [PUI]:** I haven't read all of
4 the states' laws. I have read Pennsylvania's in
5 detail. And, you know, it's a very fair law.
6 Again, if you want municipal privatizations or
7 municipal contracts, you know, some of these things
8 are huge burdens, calculating CIAC and then
9 deducting it from rate base. I would look to
10 Pennsylvania.

11 We've had discussions with mayors and councils
12 and city managers of a number of small-midsize
13 towns in South Carolina. And, frankly, this is one
14 of the stopping points. And the other thing is,
15 all of a sudden – they don't pay property taxes; we
16 would. And that's one for a different day, but I
17 would look at Pennsylvania's.

18 **COMMISSIONER HOWARD:** Are you – what is your
19 rate-of-return now, or are you on the other
20 methodology?

21 **MR. MARK DADAY [PUI]:** Well, we were on the
22 margin –

23 **COMMISSIONER HOWARD:** That's what I meant, the
24 margin.

25 **MR. MARK DADAY [PUI]:** – method last rate

1 case. We're probably – it's not decided yet.
2 We're likely to file on a rate-base method. We're
3 obviously underearning on both. I mean, we have
4 \$18 million or \$17.1 million of plant in at zero,
5 so...

6 **COMMISSIONER HOWARD:** Okay. Thank you, much.

7 **MR. MARK DADAY [PUI]:** Thank you.

8 **CHAIRMAN RANDALL:** Thank you. Commissioners,
9 any other questions?

10 **COMMISSIONER WHITFIELD:** Mr. Chairman.

11 **CHAIRMAN RANDALL:** Commissioner Whitfield.

12 **COMMISSIONER WHITFIELD:** Just a quick question
13 or two, for you. Thank you, Mr. Chairman.

14 Good to have you with us again today, Mr.
15 Stone and Mr. Daday. Wanted to ask you, I guess,
16 just a little bit of history which the two of you
17 have already gone over a little bit. But back to
18 where we were talking about the former City of
19 Columbia customers that y'all adequately explained
20 were just customers, you didn't buy any books,
21 records, company; you just basically purchased
22 those customers and, of course, as you stated, had
23 a hard time doing so because the records and
24 expenses involved in those customers were hard to
25 reconcile or get ahold of, or both. But weren't

1 some of those customers – I think you mentioned
2 11,000, and I’m kind of going from memory here from
3 what I remember about it, but weren’t some of those
4 customers also in that one at the bottom, I guess
5 on page six, that East Richland County Sewer
6 District, I think the bulk of them, if I remember
7 right, you know, probably were City of Columbia
8 customers, but didn’t at one time some of those
9 customers fall in that East Richland County
10 District but were served by the City of Columbia
11 systems, or – and I don’t remember a number, but
12 certainly it was a portion of those 11,000
13 customers. Is that correct?

14 **MR. MARK DADAY [PUI]:** I honestly don’t
15 remember that. There could’ve been a few, but
16 there couldn’t have been that many. I don’t think
17 so. I can check, if you’d like. But I don’t –
18 looking at the maps and the locations – and this is
19 seven years ago – I don’t remember that, and, you
20 know, they certainly were under the tariff of the
21 City of Columbia.

22 **COMMISSIONER WHITFIELD:** The City. That
23 might’ve been before your time, Mr. Stone, but if
24 you remember, I certainly –

25 **MR. BRYAN STONE [PUI]:** No, it was before my

1 time, and so I don't remember it. And I haven't
2 heard that, internally. But we can certainly go
3 check on that.

4 **COMMISSIONER WHITFIELD:** Well, and the reason
5 I ask it is because, if you see that East Richland
6 Sewer District customers are still at the \$35.77,
7 your lowest on your chart, and, of course, I see,
8 you know, the difference between \$52.10 and the
9 \$71.25 that City of Columbia out-of-city customer
10 rates are paying now. But I just wondered if some
11 of them – you know, obviously, I do recall them,
12 you know, somehow having lower rates prior to
13 coming in. And I realize they had a capacity issue
14 and you all ran that Northern Pipeline ultimately
15 on out Spears Creek.

16 **MR. BRYAN STONE [PUI]:** What I do remember
17 having heard – and this may be what you're thinking
18 of – is that I've heard some anecdotal information
19 about people in the East Richland County District
20 across the street or, you know, nearby with some of
21 our customers, and our customers basically asking
22 the question, "You know, these guys are paying
23 this, and now you want me to pay that? How is that
24 fair?"

25 **COMMISSIONER WHITFIELD:** Right.

1 **MR. BRYAN STONE [PUI]:** So, yeah, I don't
2 think – the stories I heard, they weren't our
3 customers; they were, you know, a neighboring –
4 literally, a neighboring utility. And so we did
5 have some of those questions come up, as you would
6 imagine during the last – you know, the time
7 leading up to the last rate case.

8 **MR. MARK DADAY [PUI]:** Yeah, and I guess what
9 I don't remember is at the time of acquisition
10 getting any call from somebody saying, "I just went
11 from," I don't know what it was, "\$30 to now what
12 you're charging me," which is what the City was
13 charging – supposed to be charging you. So I just
14 don't think there could've been that many.

15 **COMMISSIONER WHITFIELD:** Just seems like
16 during, you know, during that time, and I'm going
17 back some years, there were some complaints, if you
18 will, and some discussion. I don't know if ORS
19 remembers that or not, but it seems like there was
20 something – but basically what you're saying, the
21 11,000 were pretty much all directly from the City
22 and not, to your knowledge, not any – or very
23 little, maybe, from East Richland.

24 **MR. MARK DADAY [PUI]:** That's correct.

25 **COMMISSIONER WHITFIELD:** I guess one more

1 question, maybe to you, Mr. Stone. From an
2 environmental standpoint, I want to talk about the
3 third point of that capital investment, the Wateree
4 discharge pipeline, the \$19 million. Not talking
5 about the Northern Pipeline, but the discharge
6 pipeline, which went on from Spears Creek to
7 Wateree. How many gallons, if you know, you know,
8 off the top of your head, how many gallons'
9 discharge does that DHEC permit allow into the
10 Wateree River? Of course, you've got a paper mill
11 out there, you've got a coal plant out there, and
12 then you go upstream above the dam and Wateree and
13 you've got effluent coming from the City of
14 Charlotte. By the time it gets to that part of
15 Wateree, I guess from an environmental standpoint,
16 it's pretty loaded down.

17 **MR. BRYAN STONE [PUI]:** The NPDES permit is
18 matched to the capacity of the treatment plant, and
19 so it's 12 million gallons a day.

20 **COMMISSIONER WHITFIELD:** Twelve million
21 gallons.

22 **MR. BRYAN STONE [PUI]:** And we utilize, on
23 average, between six and six and a half million
24 gallons a day, currently.

25 **COMMISSIONER WHITFIELD:** Six? All right.

1 Thank you.

2 That's all I have, Mr. Chairman.

3 **CHAIRMAN RANDALL:** Thank you.

4 Commissioners, any other questions?

5 Commissioner Belser.

6 **COMMISSIONER BELSER:** Thank you, Mr. Chairman.

7 Good afternoon.

8 **MR. MARK DADAY [PUI]:** Good afternoon.

9 **COMMISSIONER BELSER:** I don't have any
10 questions. I just wanted to thank y'all for coming
11 in and providing an update and letting us know what
12 you're facing and what you're looking at. It's
13 always good to see y'all. Just wanted to say thank
14 you for being here today.

15 **MR. MARK DADAY [PUI]:** Thank you. And
16 congratulations on your new job.

17 **COMMISSIONER BELSER:** Thank you.

18 **CHAIRMAN RANDALL:** All right. Anyone else?

19 [No response]

20 Mr. Daday, Mr. Stone, thank you once again for
21 being here. And if there's nothing else to come
22 before us – Mr. Hoefler, anything else?

23 **MR. HOEFER:** Nothing, Mr. Chairman.

24 **CHAIRMAN RANDALL:** Thank you. Then we are
25 adjourned. Thank you.

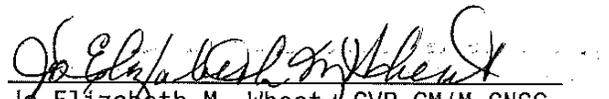
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[WHEREUPON, at 2:47 p.m., the proceedings
in the above-entitled matter were
adjourned.]

C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, Staff Hearings Reporter for the Public Service Commission of South Carolina, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of all the proceedings had regarding a requested allowable ex parte briefing in the above-captioned matter, according to my verbatim record of same;

IN WITNESS WHEREOF, I have hereunto set my hand and seal, on this the 18th day of September, 2019.


 Jo Elizabeth M. Wheat, CVR-CM/M-GNSC
 Hearings Reporter, PSC/SC
 My Commission Expires: January 27, 2021.