BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2000-210-W/S – ORDER NO. 2002-214

MARCH 22, 2002

IN RE: Application of United Utility Companies, Inc. for Approval of an Adjustment of Rates and Charges for The Provision of Water and Sewer Service	) ORDER) RULING ON) APPLICATION) FOR INCREASE) IN RATES)

I. INTRODUCTION

This matter is before the Public Service Commission of South Carolina (the "Commission") on the Application of United Utility Companies, Inc. ("UUC" or the "Company"), filed on September 24, 2001, seeking approval of a new schedule of rates and charges for water and sewer service that UUC provides to its customers within its authorized service areas in South Carolina. The Application was filed pursuant to S.C. Code Ann. Section 58-5-210 *et seq.* (1976), as amended, and 26 S.C. Regs. 103-821 (1976).

By letter dated October 17, 2001, the Commission's Executive Director instructed UUC to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the areas affected by UUC's Application. The Notice of Filing indicated the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings. In the letter of October 17, 2001, the Executive Director

also instructed UUC to notify directly, by U.S. Mail, each customer affected by the Application by mailing each customer a copy of the Notice of Filing. UUC furnished the Commission with Affidavits of Publication and an Affidavit of Mailing demonstrating that the Notice of Filing had been duly published and mailed to all customers affected by the Application in accordance with the instructions of the Executive Director. In response to the Notice of Filing, Petitions to Intervene were filed on behalf of Philip S. Porter, Consumer Advocate for the State of South Carolina (the "Consumer Advocate"), and the South Carolina Department of Health and Environmental Control ("DHEC").[1]

S.C. Code Ann. Section 58-3-95 (Supp. 2001) provides in relevant part that "[w]henever a corporation or person furnishing ... water, sewerage collection, sewerage disposal, ... files a schedule setting forth proposed changes with the Commission pursuant to the procedures prescribed in this title, a panel of three members of the Commission shall hear and rule on the proposed changes." Pursuant to S.C. Code Ann. §58-3-95 (Supp.2001), the Chairman of the Commission appointed the panel to hear and rule on UUC's Application. The panel consisted of Commissioner Bradley, Commissioner Carruth, and Commissioner Moseley. Subsequent to being named to the panel, Commissioner Bradley resigned his position with the Commission, and the Chairman named Commissioner Mitchell to replace Commissioner Bradley on the panel.

[1] By letter dated December 4, 2001, DHEC requested leave to withdraw its Petition to Intervene, and DHEC's request to withdraw its Petition to Intervene was approved by Commission Order No. 2001-1108, dated December 11, 2001.

In addition to the scheduled hearing during normal Commission hours, the Commission held a public night hearing.[2] On February 6, 2002, the public hearing relative to the matters asserted in UUC's Application was commenced in the Commission's hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, South Carolina. Vice Chairman Carruth presided at that hearing.

During the proceedings, UUC was represented by John M.S. Hoefer, Esquire. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire. The Commission Staff was represented by Florence P. Belser, Deputy General Counsel.

At the night hearing on November 27, 2001, and at the public hearing on February 6, 2002, customers of UUC presented testimony to the Commission concerning their views of the requested rates and experiences with the Company's service. At the hearing on February 6, 2002, the Company presented Steven M. Lubertozzi, Director of Regulatory Accounting at Utilities, Inc.[3]; Pauline M. Ahern, Vice President of AUS Consultants – Utility Services; and Carl Daniel, Group Vice President and Regional Director of Operations for UUC as its witnesses. The Consumer Advocate presented Michael A. Bleiweis as its witness. The Commission Staff presented the testimony and accompanying exhibits of Vivian B. Dowdy, an Auditor for the Public Service Commission of South Carolina; William O. Richardson, an Engineer Associate with the

[2] The purpose of the night hearing was to provide a forum, at a convenient time and location, for customers of UUC to present their comments regarding the service and rates of UUC. The hearing was scheduled in North Spartanburg where UUC provides service and where the customers had requested a public forum.
[3] Utilities, Inc. is the parent company of UUC.

Public Service Commission of South Carolina; and James E. Spearman, Research and Planning Administrator for the Public Service Commission of South Carolina.

In considering the Application of UUC, the Commission must consider competing interests. The interests of the consumers to receive quality service and a quality product at a reasonable rate compete with the interests of the provider to have the opportunity to earn a fair rate of return. Regulation, as it has developed in the United States, is concerned with rates, service, [and] safety … . Charles F. Phillips, Jr., *The Regulation of Public Utilities*, (1993) at 171. Rate regulation has two aspects: control of the rate level (earnings) and control of the rate structure (prices). *Id.* As to the rate level, public utilities are entitled to cover all allowable operating costs and to have the opportunity to earn a "fair" rate of return. *Id.* Collectively, these items comprise a company's total revenue requirements. *Id.* As to the rate structure, public utilities are permitted to establish rates that, at a minimum, will cover their revenue requirements. *Id.* at 171-72. Such rates must be "just and reasonable," with no "undue" discrimination. *Id.* at 172.

Thus, in considering the Application of UUC, the Commission must give due consideration to the Company's total revenue requirements, comprised of allowable operating costs and the opportunity to earn a fair rate of return. To this end, the Commission will review the operating revenues and operating expenses of UUC and will endeavor to establish adequate and reasonable levels of revenues and expenses. Further, the Commission will consider a fair rate of return for UUC based upon the record before it. Should the Commission's determination show that rates should be increased, the Commission will then design rates for UUC that are just and reasonable.

II. FINDINGS OF FACT

1. UUC is a water and sewer utility providing water and sewer service in its assigned service areas within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. § 58-5-10, *et seq.* (1976), as amended.

2. The appropriate test year period for the purposes of this proceeding is the twelve-month period ending December 31, 2000.

3. The Commission will use rate of return on rate base as a guide in determining the lawfulness of the Company's rates and in the fixing of just and reasonable rates.

4. The determination of return on rate base requires three components. These three components are capital structure, cost of equity (or return on equity), and the cost of debt.

5. In the return on rate base determination, it is appropriate to use the capital structure and cost of debt of UUC's parent company, Utilities, Inc. at December 31, 2000. The capital structure for Utilities, Inc. at December 31, 2000, is 50.09% long-term debt and 49.91% equity, and the cost of debt of Utilities, Inc. at December 31, 2000, is 8.62%.

6. A fair return on equity for UUC is 0.15%.

7. Using the capital structure of Utilities, Inc. at December 31, 2000, of 50.09% long-term debt and 49.91% equity; the cost of debt of Utilities, Inc. at December

31, 2000, of 8.62%; and a return on equity of 0.15%, produces a rate of return on rate base of 4.39%.

8. By its Application, UUC is seeking an increase in its rates and charges for water and sewer service which results in $294,752 of additional revenues to UUC.

9. The appropriate operating revenues for UUC for the test year under present rates and after accounting and pro forma adjustments are $362,994.

10. The appropriate operating expenses for UUC for the test year under present rates and after accounting and pro forma adjustments and adjustments for known and measurable out-of test-year occurrences are $409,752.

11. The appropriate rate base for UUC for the test year after accounting and pro forma adjustments and adjustments for known and measurable occurrences outside the test year is $990,150.

12. A customer growth adjustment using the method for calculating customer growth as proposed by the Staff is appropriately included in computing the income requirements of UUC.

13. The income requirement for UUC, using the return on rate base of 4.39% found appropriate in this Order and the adjusted rate base of $990,150, is $508,318.

14. In order for UUC to have the opportunity to earn its income requirement of $508,318, UUC must be allowed additional revenues totaling $150,000.

15. In designing rates for UUC, the Commission finds it appropriate to phase-in the rates in equal installments over a three year period in order to avoid "rate shock" to the customers of UUC.

16. The appropriate operating margin for UUC based upon the herein approved adjustments and rates is 0.14%.

III. EVIDENCE AND CONCLUSIONS

In this section, the Commission sets forth the evidence relied upon in making its Findings of Fact as set forth in Section II of this Order.

1. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Application filed by UUC and in prior Commission Orders in the docket files of the Commission, of which the Commission takes judicial notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are not contested by any party.

2. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

The evidence supporting this finding, that the appropriate test year period for the purposes of this proceeding is the twelve-month period ending December 31, 2000, is contained in the Application filed by UUC and in the testimony and exhibits of the parties' witnesses.

On September 24, 2001, UUC filed its Application requesting approval of the rate schedules designed to produce an increase in gross revenues of $294,752. UUC's Application was based on a test period consisting of the twelve-months ending December 31, 2000. The Staff and the Consumer Advocate likewise offered their evidence generally within the context of the same test period.

A fundamental principle of the ratemaking process is the establishment of a test year period. In *Heater of Seabrook v. Public Service Commission of South Carolina,* 324 S.C. 56, 478 S.E.2d 826 (1996), the Supreme Court of South Carolina noted that "[t]he 'test year' concept is very important in the rate-setting process. In order to determine what a utility's expenses and revenues are for purposes of determining the reasonableness of a rate, one must select a 'test year' for the measurement of the expenses and revenues." 478 S.E.2d 828 n.1 (1996). The test year is established to provide a basis for making the most accurate forecast of the utility's rate base, reserves, and expenses in the near future when the prescribed rates are in effect. *Porter v. South Carolina Public Service Commission,* 328 S.C. 222, 493 S.E.2d 92 (1997), citing *Hamm v. S.C. Pub. Serv. Comm'n,* 309 S.C. 282, 422 S.E.2d 110 (1992). The test year provides a basis upon which a commission staff will conduct its audit of a company's books. Phillips, *The Regulation of Public Utilities* at 196. For rate-making purposes, only just and reasonable expenses are allowed; only used and useful property (with certain exceptions) is permitted in the rate base. *Id.* The commission must have a basis for estimating future revenue requirements. *Id.*

The Commission concludes that the appropriate test year to use in the instant proceeding is the twelve-moth period ending December 31, 2000. No party contested the use of that test year as proposed by UUC in its Application. To the contrary, all parties relied upon that test year period in presenting their evidence.

3. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

According to UUC, due to its substantial plant investment, and specifically its rate base reflected on Schedule C of Exhibit "B" of its Application, the Company is entitled to have the reasonableness of its proposed rates determined in accordance with the rate of return on rate base methodology. Application of UUC, p. 4, ¶ 12. Further, Consumer Advocate witness Bleiweis utilized the rate base/rate of return methodology in his analysis. According to witness Bleiweis, "unlike many water and wastewater utilities located in South Carolina whose plant was contributed by developers, thereby resulting in small or even negative rate bases, United Utility Companies' rate base is significant enough to determine a proper revenue requirement by using rate base/rate of return methodology." Bleiweis Prefiled Direct, p. 4, ll. 10 – 15.

"The Public Service Commission has wide latitude to determine an appropriate rate-setting methodology." *Heater of Seabrook v. Public Serv. Comm'n of South Carolina*, 324 S.C. 56, 64, 478 S.E. 2d 826, 830 (1996). S. C. Code Ann. Section 58-5-240 (H) (Supp. 2001) directs the Commission to specify an allowable operating margin in all water and wastewater orders. However, "that directive does not mean that the operating margin methodology must be used in determining a fair rate of return." *Id.* Operating margin "is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation." *Id.* According to the Application, UUC's per books total rate base is $1,007,970.[4]

[4] This amount does not reflect any adjustments to the rate base discussed herein.

None of the parties contested the Company's request for rate base treatment. Due to the Company's large rate base and its need to earn a fair and reasonable return on its investment, the Commission finds that return on rate base methodology is the appropriate rate-setting methodology to use in this case.

4. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The record reveals that the two rate of return witnesses, Ahern and Spearman, used three components to determine the return on rate base. The three components are capital structure, cost of equity (or return on equity), and the cost of debt. "For regulatory purposes, the rate of return is the amount of money earned by a public utility, over and above operating costs, expressed as a percentage of the rate base. In other words, the rate of return includes interest on long-term debt, dividends on preferred stock and earnings on common stock (including surplus or retained earnings). Phillips. *The Regulation of Public Utilities* at 376. Additionally, "the return is that money earned from operations which is available for distribution among the various classes of contributors of money capital." *Id.*

5. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

Both rate of return witnesses used the capital structure and cost of debt of Utilities, Inc., the parent company of UUC. Utilities, Inc. provided its cost of debt which was verified by the Commission's Audit Department. Use of the cost of debt for Utilities, Inc. is appropriate as the parent company provides all external financing for UUC and determines how much income UUC can retain. The capital structure for Utilities, Inc. at December 31, 2000, is 50.09% long-term debt and 49.91% equity, and

the cost of debt of Utilities, Inc. at December 31, 2000, is 8.62%. The use of the capital structure and the cost of debt of Utilities, Inc. was not challenged.

6. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

Evidence concerning a fair return-on-equity (or cost of equity) was provided by witnesses Ahern and Spearman. To determine the cost of equity, witnesses Ahern and Spearman used the Discounted Cash Flow Model (DCF), the Capital Asset Pricing Model (CAPM) and the Risk Premium Model (RPM). Ahern also used the Comparable Earnings Model (CEM) to estimate the return on equity.

(1) Position of UUC:

UUC presented Pauline M. Ahern as its cost of capital witness. Witness Ahern is the Vice President of AUS Consultants- Utility Services. Ahern used the results from the application of the DCF, RPM, CAPM, and the CEM analyses to determine a common equity cost rate. According to Ahern, no single cost of equity model is so inherently precise that it can be relied upon solely, to the exclusion of other theoretically sound models. Moreover, because all four models are based upon the Efficient Market Hypothesis (EMH) and have application problems associated with them, the EMH and financial literature requires the assumption that investors rely upon multiple cost of common equity models.

Ahern assessed the market-based cost rates of similar risk companies, i.e. proxy groups, for insight into a recommended common equity cost rate for UUC. The proxy groups were used by Ahern because the Company's common stock is not publicly traded, and, therefore, UUC's market-based common equity cost rates cannot be determined

directly. Therefore, Ahern used two proxy groups of water companies whose common stocks were actively traded for insight into an appropriate common equity cost rate applicable to UUC. The two proxy groups consist of eight and four water companies, respectively. To arrive at her common equity cost rate of 12.00% to 12.50%, Ahern reviewed the results of the application of four different costs of common equity models and then adjusted them upward, by adding a 0.75% investment risk adjustment, to reflect UUC's greater risk because of its small size compared to the proxy groups.

Using the capital structure of Utilities, Inc. consisting of 50.09% debt and 49.91% common equity, a cost of debt of 8.62%, and a cost of equity of 12.00% to 12.50%, Ahern concluded that an appropriate rate of return on rate base of 10.31% to 10.56% is applicable to UUC.

(2) Position of Staff:

Dr. James E. Spearman, Research and Planning Administrator for the Commission, presented Staff testimony regarding the cost of capital. To determine the estimate of the cost of equity, or return-on-equity, Dr. Spearman performed three separate analyses – the DCF, CAPM, and the RPM analyses. Because neither Utilities, Inc. nor UUC is publicly traded, Dr. Spearman applied the DCF and CAPM to a group of four water and wastewater companies reported in Value Line for comparison purposes. Based on the consistencies of the methodologies, Dr. Spearman concluded that a return-on-equity for the water and wastewater industry would lie in the range of 9.25% to 11.00%.

However, Dr. Spearman acknowledged that determining the return-on-equity applicable to Utilities, Inc. and UUC is somewhat subjective. Dr. Spearman noted that

Utilities, Inc. and UUC are much smaller than the water and wastewater companies of the comparison group. According to Dr. Spearman, smaller companies are considered to have more risk than larger companies. However, Dr. Spearman also stated his opinion that UUC would be viewed by an investor as having the risk of its parent, Utilities, Inc. It is also Dr. Spearman's opinion that Utilities, Inc., with most of its revenues derived from regulated operations, should have a risk similar to that of other regulated water and wastewater companies regardless of size. However, to account for size as a risk impact, Dr. Spearman considered the upper end of his narrowed range as an appropriate return-on-equity. Dr. Spearman opined that, based upon his analyses, a reasonable return-on-equity for UUC is 10.00% to 11.00%.

Using the capital structure of Utilities, Inc. consisting of 49.91% equity and 50.09% long-term debt, a cost of debt of 8.62%, and a cost of equity of 10.00% to 11.00% that Dr. Spearman found reasonable based upon his analyses, Dr. Spearman concluded that an appropriate return on rate base for UUC would lie in the range of 9.31% to 9.81%.

(3) Decision of the Commission:

Upon consideration of the appropriate cost of equity in this proceeding, we find the appropriate return on equity to be 0.15%. The Commission's approved return on common equity is appropriate in light of the potential rate shock that a higher return would impose on the customers of UUC. In reaching this decision, the Commission notes that UUC waited over eleven years before seeking rate relief from this Commission. The Company is the only one to make the determination of when it should seek rate relief.

The Company's rate request in the instant proceeding requested an average 78.77% increase in rates. Hearing Exhibit 8, p. 16. Based upon the amount of the increase, this Commission cannot understand why an increase in rates was not warranted and requested before the expiration of eleven years.

As the Commission heard from the public witnesses who attended the night hearing as well as the hearing on February 6, 2002, many of the customers of UUC are working class citizens and people on fixed incomes. In making determinations regarding rates and rates of return, the Commission must balance competing interest, those of the utility to receive a return on its investment and those of the consumer to receive a quality product for a just and reasonable price.

The Commission encourages UUC to be more vigilant in its need for rate relief and to seek appropriate rate relief when necessary. The Commission further encourages UUC to consider rate relief when necessary and perhaps in smaller increments to avoid seeking such a dramatic rate increase which is such a burden on the consumers.

7. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The return on rate base is determined by using long-term debt, equity, cost of debt and return-on-equity. When using the capital structure of Utilities, Inc. at December 31, 2000, of 50.09% long-term debt and 49.91% equity, a cost of debt of Utilities, Inc. at December 31, 2000, of 8.62%, and a return-on-equity of 0.15%, the appropriate rate of return on rate base for UUC is 4.39%. The following table indicates the capital structure of the Company, the cost of debt, the cost of equity as approved in this Order, and the resulting rate of return on rate base:

TABLE A

	RATIO	EMBEDDED COST	OVERALL COST
Long-term Debt	50.09%	8.62%	4.32%
Common Equity	49.91%	0.15%	0.07%
TOTAL	100.00%		4.39%

8. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence for the finding concerning the amount of the requested rate increase is contained in the Application filed by UUC and in the testimony and exhibits of Staff witness Richardson. The Application of UUC indicates that it is seeking additional revenues of $8,938 from water operations and additional revenues of $285,814 from sewer operations, totaling $294,752. Application of UUC, Schedule B, p. 1 of 4. Additionally, Staff witness Richardson testified that under the rates proposed in the Application, UUC would see an increase in revenues of $294,752, or an increase of 78.77%, over present rates. Richardson Prefiled Testimony, p. 2, ll. 12-14, Hearing Exhibit No. 8, p. 16. No party presented any evidence that the requested increase does not amount to $294,752. Therefore, the Commission finds that UUC is seeking an increase in its revenues of $294,752.

9. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

The Application of UUC shows per book test year total operating revenues of $362,994. Application of UUC, Schedule B, p. 1 of 4. This amount includes "Uncollectibles" of $11,194. Following the Staff's audit of the Company's books and records, Staff's operating revenues agreed with the operating revenues stated by UUC in

its Application. Staff calculated test year operating revenues of $374,188. Hearing Exhibit 8, p. 16. Staff also included "Uncollectibles" of $11,194 in the per books test year figures. Hearing Exhibit 9, Audit Exhibit AC. Thus, Staff computed per book test year total operating revenues of $362,994. No other party presented any evidence to dispute either the Company's or the Staff's calculation of per book test year total operating revenues. Therefore, the only evidence before the Commission on per book total operating revenues is the $362,994 as shown in the Company's Application and in the Staff's report in Hearing Exhibit No. 9, Audit Exhibit AC. Therefore, the Commission finds that the appropriate per book test year total operating revenues are $362,994.

10. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The parties offered certain adjustments affecting operating expenses for the test year. UUC witness Lubertozzi, Consumer Advocate witness Bleiweis, and Staff witness Dowdy offered testimony and exhibits detailing adjustments proposed by the parties. *See*, Hearing Exhibit 5 (Exhibits sponsored by Consumer Advocate witness Bleiweis), Hearing Exhibit 9 (Exhibits sponsored by Staff witness Dowdy), Hearing Exhibits 2, 3, and 4 (Exhibits sponsored by UUC witness Lubertozzi). This Section will address the adjustments offered which affect operating expenses.

(A) Operators' Salaries:

(1) Position of UUC: UUC proposed an adjustment to salaries of $6,701. UUC annualized salaries using year-end payroll less per book wages.

(2) Position of Staff: Staff proposes to annualize the operators' salaries for the test year. Staff annualized the payroll at December 26, 2000, for total annualized wages

of $109,589. From this amount Staff subtracted per book wages of $108,006 resulting in an adjustment for annualized wages of $1,583. Staff then capitalized 12.40%, or $196, of the wage adjustment and expensed $1,387. Witness Dowdy testified that the wage capitalization rate used by Staff was based on the actual wages capitalized per books. Staff computed Taxes Other Than Income of $(2) and annualized Pensions and Benefits to match year end wages and salaries. Staff's total expense adjustment is $(1,290), consisting of wages of $1,387, Pension and Benefits of $(2,675), and Taxes Other Than Income of $(2).

(3) Position of Consumer Advocate: The Consumer Advocate recommends an adjustment of $(4,377) to remove a portion of the adjustment proposed by UUC from Operators' Salaries.

(4) Decision of the Commission: From the evidence presented at the hearing, the Commission is aware that the Staff adjustment included two parts: (1) to capitalize operators' salaries for the test year and (2) to remove one operator's position from the adjustment made by UUC. The Staff asserted that at the end of the test year there was a vacant operator's position, and thus, the reason Staff proposed in its adjustment to remove the position from UUC's proposed adjustment.

In rebuttal testimony, UUC witness Lubertozzi submitted testimony that the operator position should be allowed in this case. Witness Lubertozzi stated that the operator position has been filled, and therefore, the position should be allowed in the rate case.

The Consumer Advocate asserts that UUC has not met its burden in proving the proposed adjustment. Bleiweis Direct Prefiled Testimony, p. 33, l. 20 – p. 34, l.7. According to Mr. Bleiweis, UUC's adjustments do not meet the known and measurable standard resulting in rates that are not just and reasonable. *Id.*

Upon consideration of this adjustment, the Commission concludes that the operators' salaries should be capitalized to reflect the amount of time spent on capital projects during the test year. Staff appropriately determined the capitalization rate using actual wages capitalized per books. Further, the Commission concludes that the operator position should not be included as reflected by the Staff's adjustment. The operator position was not filled at the time of the Staff's audit and will therefore not be included in test year expenses. The Commission rejects the contention of the Consumer Advocate that the adjustment does not meet the known and measurable standard. Staff verified the proposed adjustment during its audit and has recommended an adjustment to remove an operator position not filled at the end of the test year. Accordingly, the Commission adopts the Staff adjustment on this issue.

(B) Office Salaries:

(1) Position of UUC: The Company proposed to annualize wages using the payroll at December 26, 2000, and subtracted per book wages. UUC's adjustment of $(1,342) included the annualized salary of a retired employee, $2,067, and reduced pension and benefits by $(3,409).

(2) Position of Staff: The Staff also proposed to annualize Office Salaries. Staff annualized the year-end payroll totaling $14,827. From this amount, Staff subtracted the

per book amount of $15,342 for a net adjustment of $(515). Staff also reduced Pension and Benefits by $(1,436). Staff's adjustment removed the annualized salary of the retired employee. To account for its proposed wage adjustment to annualize Office Salaries, Staff adjusted General and Administrative Expenses by $(515) and Pension and Benefits by $(1,436), for a total adjustment of $(1,951).

(3) Position of Consumer Advocate: The Consumer Advocate recommends an adjustment of $(2,067) to remove the adjustment proposed by UUC from Office Salaries.

(4) Decision of the Commission: The evidence from Staff witness Dowdy reveals that the Staff adjustment removes one retired employee from the annualized year end salaries. Dowdy Prefiled Testimony, p. 5, ll. 115 - 16, Hearing Exhibit No. 9, Audit Exhibit A-1, p. 2 of 15. UUC included the retired employee in its adjustment.

There was no evidence presented that the retired employee has been replaced. Nor has any evidence been presented that the employee will be replaced or that his services are necessary.

The Consumer Advocate asserts that UUC has not met its burden in proving the proposed adjustment. Bleiweis Direct Prefiled Testimony, p. 33, l. 20 – p. 34, l.7. According to Mr. Bleiweis, UUC's adjustments do not meet the known and measurable standard resulting in rates that are not just and reasonable. *Id.*

The Commission adopts the adjustment proposed by the Staff as the Staff's adjustment reflects the actual test year, and there is nothing in the record to warrant an out-of-test year adjustment. Further, the Commission rejects the contention of the Consumer Advocate that the adjustment does not meet the known and measurable

standard. Staff verified the proposed adjustment during its audit and has recommended an adjustment to remove the salary of a retired employee whose position was not filled at the end of the test year. Accordingly, the Commission adopts the Staff adjustment on this issue.

(C) Other Office Expenses:

(1) Position of UUC: UUC proposes to increase other office expenses for extra costs associated with changing its billing cycle from bi-monthly to monthly billing. Under the proposal, UUC would incur additional expenses for postage, paper, envelopes, and bank charges.

(2) Position of Staff: Staff did not propose an adjustment for such an expense item. However, Staff did verify that an additional cost of $3,821 could be incurred.

(3) Position of Consumer Advocate: The Consumer Advocate did not propose an adjustment for this item.

(4) Decision of the Commission: According to Staff witness Dowdy, UUC has not implemented the change of providing monthly bills rather than bi-monthly bills. Therefore, there is no change for the Commission to consider. Accordingly, the Commission concludes that the adjustment of UUC is inappropriate and no adjustment is warranted.

(D) Employee Bonuses:

(1) Position of UUC: UUC did not propose an adjustment to this item.

(2) Position of Staff: Staff proposed to remove bonuses for UUC and WSC[5] employees as Staff considers bonuses to be the responsibility of the stockholders, not the ratepayers. Full-time employees received a bonus of $100 and part-time employees received a bonus of $50. Staff removed $208 for bonuses for UUC employees and WSC bonuses allocated to UUC of $12, which included FICA expense.

(3) Position of Consumer Advocate: The Consumer Advocate also proposed to eliminate employee bonuses from test year expenses for ratemaking purposes. The Consumer Advocate, like the Staff, asserts that employee bonuses should be the responsibility of the shareholders and not the ratepayers. The Consumer Advocate recommended an adjustment to eliminate $(315), comprised of $(241) of bonuses to UUC employees and $(74) of bonus payments to WSC employees.

(4) Decision of the Commission: The Commission finds that the Staff adjustment with regard to removal of employee bonuses from test year expenses should be adopted. Bonuses are not always awarded and, therefore, may be nonrecurring items. Further, the Commission agrees with the Staff that any bonuses should be the responsibility of shareholders rather than ratepayers. As such, the employee bonuses should be removed from test year expenses.

(E) Update Customer Equivalents:

(1) Position of UUC: UUC did not propose an adjustment to Update Customer Equivalents.

[5] WSC is Water Service Corporation, which is a sister company of Carolina Water Service. WSC performs the tasks of allocating common expenses among the Utilities, Inc. subsidiaries.

(2) Position of Staff: The Staff proposes to adjust common expenses, direct salaries, and the Columbia office for customer equivalents updated to December 31, 2000. Staff proposes this adjustment as a known and measurable change. Staff recalculated the allocation factors and applied the factors where applicable in the allocation process. Staff's recalculation decreased Operating and Maintenance expenses by $(459), General and Administrative expenses by $(19), Depreciation and Amortization by $(22), and Taxes Other Than Income by $(37).

(3) Position of Consumer Advocate: The Consumer Advocate proposed an adjustment to disallow $(997) of expenditures to emphasize to the Company that the burden of proof for each and every allocation dollar is upon the Company.

(4) Decision of the Commission: The Staff's adjustment results from recalculating allocation factors to the end of the test year of December 31, 2000. Staff witness Dowdy presented evidence that the allocations of UUC were based on customer equivalents at June 30, 2000. Hearing Exhibit 6, Audit Exhibit A-1, p. 4 of 15. The Commission finds it appropriate to adopt the Staff adjustment which uses allocation factors from the end of the test year. Use of the end of the test year allocations matches with other adjustments annualized at the end of the test year.

(F) Rate Case Expenses:

(1) Position of UUC: UUC updated its rate case expenses at the hearing on February 6, 2002, and seeks recovery of rate case expenses of $39,539. UUC's adjustment consists of expenses incurred as of the February 6, 2002. UUC proposed to amortize rate case expenses over a three year period.

(2) Position of Staff: In its prefiled testimony and exhibits, the Staff included rate case expenses of $4,314, representing the amount of rate case expenses that had been incurred and billed and that the Staff verified in its audit of the Company's books and records. Staff proposed to amortize the rate case expenses over a three year period, resulting in an adjustment of $1,438.

(3) Position of Consumer Advocate: The Consumer Advocate recommended no recovery of rate case expenses in rates going forward due to over-payment of rate case expenses since the Company last rate proceeding in 1990.

(4) Decision of the Commission: The Commission finds the adjustment proposed by the Staff to be the most appropriate. That amount was subject to audit and was verified by the Staff.

The Commission rejects the position of the Consumer Advocate. The Consumer Advocate asserted through cross-examination of Staff witness Dowdy that UUC has already recovered rate case expenses for the instant rate case. The Consumer Advocate pointed to the last rate order involving UUC where the Commission approved rate case expenses of $18,235 plus previous unamortized rate case expenses, resulting in an annual amortization over three years of $7,133. In other words, in the last UUC rate case, the Commission allowed $7,133 of rate case expenses to be used in setting rates. *See Order No. 90-651, dated July 16, 1990, Docket No. 89-602-W/S.* The Consumer Advocate asserts that since the rate case expenses from the last rate case in 1990 were recovered after three years, then the amount included in rates after the three years should offset rate case expenses in the instant case.

However, the Consumer Advocate's suggestion violates the rule against retroactive ratemaking. In *South Carolina Electric and Gas Company v. Public Service Comm'n of South Carolina,* 275 S.C. 272 S.E.2d 793 (1980), the Supreme Court of South Carolina recognized that "[r]atemaking is a prospective rather than a retroactive process." The Supreme Court further stated in that case that "[t]he Commission has no more authority to require a refund of monies collected under a lawful rate than it would have to determine that a rate previously fixed and approved was unreasonably low, and that the customers would thus pay the difference to the utility." *Id. at 491, 795.* The Commission does not have authority to award refunds in the nature of reparations for past rates or charges unless that authority is conferred by statute. *Id. at 490, 795.*

In the case before the Commission, there has been no allegation and certainly no determination that the rates previously charged by UUC resulted in over-earnings by UUC. As such, the rates heretofore charged by UUC were the lawful rates which UUC was entitled to collect. Those rates were established on expenses and revenues which the Commission found to be reasonable and which were not challenged. Therefore, the rates set by the Commission in its Order No. 90-651, dated July 16, 1990, Docket No. 89-602-W/S, are the lawful rates that UUC is required to charge until the Commission determines otherwise.

The Consumer Advocate's attempt to set-off expenses in the instant case by an alleged "over-collection" of expenses upon which prior rates were established is an invitation to engage in retroactive ratemaking. There could be no "over-collection" of expenses unless there was a determination made that UUC exceeded its authorized return

approved by the Commission. Even then, the proper remedy would be a proceeding to adjust rates going forward, not to refund excessive profits. To attempt, as the Consumer Advocate proposes, to reduce expenses in a category on which rates for the future are to be set by an alleged, yet undetermined, over-collection of expenses from a prior rate case violates the retroactive ratemaking principle. Just as offsetting future rates by earnings from prior years violates the retroactive ratemaking principle, so does offsetting present and future expenses by previous expenses, lawfully approved and collected pursuant to lawful rates. The Consumer Advocate's proposal is a thinly veiled attempt to effect a refund of approved and lawfully collected rates by disguising the refund as an offset to present expenses. Such a proposal not only violates the retroactive ratemaking principle but also exceeds the Commission's authority of when refunds may be ordered.

Further, the Consumer Advocate's assertion regarding the case of *Porter v. South Carolina Public Service Comm'n.,* 328 S.C. 222, 493 S.E.2d 92 (1997) is misplaced. The Consumer Advocate asserts in his post-hearing brief that the Consumer Advocate argued in the *Porter* case that if the Company were allowed to go back and get credit for under-recovered rate case expenses, then it would only be fair to allow a credit to ratepayers if a company recovered excess rate case expenses." Brief of Consumer Advocate, p. 4.

In the *Porter* case, the Commission allowed an adjustment to expense for Carolina Water Service, Inc.'s unrecovered rate-case expenses incurred during two prior rate cases. The expenses had been approved previously by the Commission and had been amortized over a three-year period. At the time of the hearing which was the subject of the *Porter* case, there was $146,191 of unamortized rate-case expense reflecting two

remaining years of approved but unrecovered rate-case expense. In the *Porter* case, the Commission allowed an adjustment to expense for the two years of unamortized rate-case expense amortized over the next three years. The Consumer Advocate appealed the Commission's ruling asserting that the Commission's decision was retroactive ratemaking. The Supreme Court of South Carolina held that the Commission's action was not retroactive ratemaking and stated that "the remaining unamortized rate-case expense, previously approved but unrecovered, is unanticipated and nonrecurring and qualifies as an extraordinary expense. Amortization of this expense does not constitute retroactive rate-making and we affirm this finding of the Commission." 493 S.E.2d 92, 98.

The *Porter* case does not support the position of the Consumer Advocate in the instant case. In *Porter*, the issue involved approved, yet unrecovered expenses, not under-recovered expenses as asserted in the brief of the Consumer Advocate. Further, the Commission cannot go back and adjust expenses for previous years without engaging in retroactive ratemaking. Therefore, the Commission rejects the assertion of the Consumer Advocate on this issue.

The next step is for the Commission to consider how the rate case expenses should be recovered. UUC and the Staff both propose amortization periods of three years. The Consumer Advocate does not propose an amortization period. Ideally, the amortization period should be set for the period between rate cases. However, it is impossible to foresee what the future holds and to state with any certainty when the Company may need to return to this Commission for rate adjustment. The last rate case for UUC was in 1990, or approximately twelve years ago. *See*, Hearing Exhibit 8, p.1.

Thus the difficulty of setting an appropriate amortization period is certainly apparent. None of the amortization periods proposed by the parties match precisely with the frequency with which the Company has had rate cases.

In *Hamm v. South Carolina Public Service Commission,* 309 S.C. 282, 422 S.E.2d 110 (1992), the Supreme Court of South Carolina stated

> Adjustments for known and measurable changes in expenses may be necessary in order that the resulting rates reflect the actual rate base, net operating income, and cost of capital. The adjustments are within the discretion of the Commission and must be known and measurable within a degree of reasonable certainty. Absolute precision, however, is not required.
> (citing *Michaelson v. New England Tel. & Tel. Co.,* 121 R.I. 722, 404 A.2d 799 (1979)).

While the Commission cannot state with absolute precision when the Company will return for another rate proceeding, the Commission must provide a sufficient amortization period under which UUC may recover its expenses. After reviewing the frequency of the Company's previous rate cases, the Commission finds that an amortization period of three years is an appropriate time to recover the rate case expenses approved herein. The record supports a three-year amortization period as reflected in the testimonies of Witness Lubertozzi and Witness Dowdy.

Therefore, the Commission approves rate case expenses of $4,314 and sets a three-year amortization period for the recovery of those expenses. The result is an adjustment to the test year of $1,438 for rate case expenses related to the instant case.

(G) Non-allowable Expenses:

(1) Position of UUC: UUC did not propose an adjustment for Non-allowable Expenses.

(2) Position of Staff: Staff proposed a total adjustment of $(445) to disallow expenses which Staff considers non-allowable for ratemaking purposes.

(3) Position of Consumer Advocate: The Consumer Advocate did not propose an adjustment for Non-allowable Expenses.

(4) Decision of the Commission: Upon consideration of this adjustment, the Commission adopts the adjustment proposed by the Staff. Staff witness Dowdy testified that Staff disallowed direct expenses to UUC totaling $(339). Dowdy Prefiled testimony, p. 7, ll. 6 - 17; Hearing Exhibit 9, Audit Exhibit A-1, p. 5of 15. Staff also disallowed WSC common expenses allocated to UUC, which Staff considers non-allowable for ratemaking purpose, including expenses for out of test year expenses, flowers, 1/2 Chamber of Commerce dues, and employee newsletters. Staff opined that these expenses are not necessary for the provision of good utility service. A total of $12,323 of WSC common expenses was non-allowable, of which UUC was allocated $(84) or 0.682%. *Id.* Staff also reclassified items which should be capitalized. Staff verified a total of $3,587 of non-allowable expenses to be capitalized, of which UUC was allocated $(22) or 0.60%. *Id.*

The Commission agrees with the Staff's removal of these expenses discussed in the preceding paragraph. Not all expenditures by a utility will be allowed in a proceeding to establish rates. The expenses discussed are not expenses which provide a direct benefit

to the ratepayers. Therefore, the Commission agrees that the expenses should be removed from test year expenses.

(H) Depreciation Expense Adjustment:

(1) Position of UUC: UUC proposed an adjustment of $4,278 to annualize Depreciation Expense.

(2) Position of Staff: Staff proposed to annualize Depreciation Expense with an adjustment of $2,011. The Staff's adjustment included completed plant of $24,389 less plant retirements of $13,490 added to Gross Plant of $3,067,547. Gross Plant was then reduced by Organization Expense of $6,000; Land of $19,437; Vehicles of $44,701; Computers of $1,122; and CIAC of $1,882,870 for Net Plant of $1,124,316. Staff then applied the depreciation rate of 1.50% to the net amount of $1,124,316. Staff then depreciated vehicles not fully depreciated and computers at 20%. Moreover, Staff computed the WSC Rate Base depreciation expense and decreased Depreciation Expense for annualized excess book value. Staff's total computed Depreciation amounted to $27,026 less the per book amount of $25,015 resulting in a net adjustment of $2,011. Depreciation rates used by the Staff were recommended by the Utilities Department.

(3) Position of Consumer Advocate: The Consumer Advocate agreed with the Depreciation Adjustment proposed by the Company less a reduction of ($4,334) in Depreciation Expense to reflect the Consumer Advocate's recommended reduction in Pro Forma Plant.

(4) Decision of the Commission: Upon consideration of this adjustment, the Commission finds the adjustment proposed by Staff to be appropriate. According to Staff

witness Dowdy, the adjustment proposed by UUC (a) included plant additions estimated at $80,000, (b) did not reduce gross plant for organizational expenses and computers before applying 1.5% for depreciation expense, (c) did not remove fully depreciated vehicles, (d) did not include WSC Rate Base Depreciation Expense, and (e) did not reduce depreciation by the amortization of Excess Book Value. Dowdy Prefiled Testimony, p. 8, l. 8 – 14.

The Commission rejects the adjustment proposed by UUC because estimated plant additions are not appropriate for inclusion in depreciation expense and fully depreciated items must be removed from the expense account. Thus the adjustment proposed by UUC is flawed and must be rejected. Staff's adjustment, however, included only completed plant, removed fully depreciated items, and removed other items properly removed from the account.

(I) Gross Receipts Tax Increase:

(1) Position of UUC: UUC proposed an adjustment of $223 for an estimated 5% increase in Utility Commission Taxes.

(2) Position of Staff: Staff did not allow for a separate adjustment for Gross Receipts Tax increase as Staff was unable to verify the Company's increase. Staff used the most current gross receipts factor in the adjustment for the proposed increase.

(3) Position of Consumer Advocate: The Consumer Advocate removed the adjustment proposed by UUC. The Consumer Advocate witness Bleiweis stated that the adjustment does not meet the "known and measurable" standard. Bleiweis Direct Testimony, p. 26, ll. 5 – 11.

(4) Decision of the Commission: Upon consideration of this item, the Commission adopts the position advanced by the Consumer Advocate and Staff. There is nothing in the record to support a 5% increase in Utility Commission Taxes (or Gross Receipts Tax.) Witness Bleiweis was correct in his assessment that an "estimated" increase to a tax does not meet the "known and measurable" standard. Therefore, the Commission rejects this proposed adjustment by UUC.

(J) Income Taxes:

(1) Position of UUC: UUC proposed an adjustment for state and federal Income Taxes totaling a $(18,343) reduction to per book taxes. UUC used a 5% rate for state taxes and a 34% rate for federal taxes.

(2) Position of Staff: The Staff also proposed to adjust for the effect of Income Taxes after accounting and pro forma adjustments. Like UUC, the Staff used a 5% rate for state taxes and a 34% rate for federal taxes. Staff's adjustment for state and federal income taxes results in a $(3,878) reduction to per book taxes.

(3) Position of Consumer Advocate: The Consumer Advocate likewise adjusted Income Taxes for the tax effect of accounting and pro forma adjustments.

(4) Decision of the Commission: The Commission adopts the method proposed by the Staff to adjust taxes for accounting and pro forma adjustments. The Commission finds that a 5% rate for state taxes and a 34% rate for federal taxes are appropriate as those are the actual tax rates that apply to UUC. The methodology is adopted for use in this proceeding, but the actual adjustments will vary from the proposed adjustments as the adjustments adopted herein are different than the adjustments used by the parties in

their calculations. Based on the adjustments adopted herein, the Commission approves an adjustment for Income Taxes of $(3,878) for the tax effect of accounting and pro forma adjustments.

(K) Interest Synchronization:

(1) Position of UUC: UUC proposed to include the effects of Interest Synchronization on Income Taxes. UUC increased interest expense by $42,800, and UUC's adjustment was computed to be $(15,964).

(2) Position of Staff: Staff also proposed to include the effects of Interest Synchronization on Income Taxes. Staff used $42,752 of interest expense which is the Total Income for Return needed to cover embedded cost rates on long-term debt. See Hearing Exhibit No. 9, Audit Exhibit AC-4. Staff increased interest expense over the amount contained in the Company's books and records by $38,151. Staff computed an adjustment for Interest Synchronization of $(14,239).

(3) Position of Consumer Advocate: The Consumer Advocate did not propose and adjustment for Interest Synchronization.

(4) Decision of the Commission: Interest Synchronization is a ratemaking procedure which imputes interest expense for income tax purposes. Interest Synchronization imputes interest expense as being the total income for return necessary to cover embedded cost rates on long term debt. The Commission adopts the Interest Synchronization adjustment proposed by Staff. The Commission finds Staff's adjustment to be appropriate because UUC included in its calculation of Interest Synchronization certain adjustments to rate base which are not approved in this Order.

(L) Customer Deposits:

(1) Position of UUC: The Company did not propose an adjustment for this item.

(2) Position of Staff: The Staff proposed an adjustment to annualize Interest on Customer Deposits by using the account balance as of December 31, 2000, of $23,294 and by applying the Commission approved interest rate of 8%. Staff computed annualized Interest on Customer Deposits of $1,864 less the per book amount of $2,338 for an adjustment of $(474).

(3) Position of Consumer Advocate: The Consumer Advocate did not propose an adjustment for this item.

(4) Decision of the Commission: The Commission adopts the adjustment proposed by the Staff. This adjustment annualizes the Interest on Customer Deposits at the end of the test year at the interest rate of 8%, which is the Commission approved rate for Interest on Customer Deposits.

(M) Allowance for Funds Used During Construction (AFUDC):

(1) Position of UUC: UUC proposed an adjustment of $(1,991) to remove AFUDC for ratemaking purposes.

(2) Position of Staff: The Staff proposed to remove AFUDC associated with plant items which have been closed to plant in service and proposed to remove ($1,991) from AFUDC.

(3) Position of Consumer Advocate: The Consumer Advocate did not object to the Company's proposed adjustment to AFUDC.

(4) Decision of the Commission: AFUDC is allowed as an offset to the interest capitalized when plant is under construction. Dowdy Prefiled Direct Testimony, p. 9, ll. 20 – 21. Both the Staff and UUC propose to remove the total AFUDC of $1,991. *Id.* at p. 10, ll. 1-2. Staff witness Dowdy indicated that Staff removed the AFUDC associated with CWIP (Construction Work in Progress) that had been completed and transferred to Plant in Service. Hearing Exhibit No. 9, Audit Exhibit A-1, p. 9 0f 15.

The Commission adopts the adjustment proposed by UUC and Staff on this item. As AFUDC is allowed as an offset to the interest capitalized when plant is under construction, it is appropriate to remove from AFUDC that portion which is associated with projects that have in fact been closed to Plant in Service. Staff has verified that the amount removed from AFUDC reflects completed projects that have been transferred to Plant in Service.

(N) Expense Variance:

(1) Position of UUC: UUC did not propose an adjustment for this item.

(2) Position of Staff: The Staff did not propose an adjustment for this item.

(3) Position of Consumer Advocate: The Consumer Advocate proposed fifteen adjustments to various expense accounts totaling $(46,238).

(4) Decision of the Commission: Consumer Advocate witness Bleiweis proposed the following adjustments to Expenses: Legal Fees - $(1,992); Salaries Charged to Plant WSC - $(7,234); Uncollectible Accounts - $(4,095); Temp Employment Clerical - $(1,134); Computer Supplies – $(748); Operation Telephone - $(1,517); Water Main Breaks - $(1,067); Water-Water Electric Equipment Repair - $(471); Sewer Maintenance

Repairs - $(8,773); Sewer Main Breaks - $(1,150); Sewer Electric Equipment Repair - $(5,956); Sewer-Sewer Rodding - $(8,066); Operators Other Office Expense - $(929); Sewer Tests - $(1,916); and Gasoline $(1,190). The total of the Consumer Advocate's proposed adjustments would reduce Expenses by $(46,238).

Witness Bleiweis suggests that one must compare test year data with prior years' data. Bleiweis Direct Prefiled Testimony, p. 7, ll. 1 - 2. Then if a significant variance is evident, a determination must be made as to the cause of the variance as well as a decision made whether to adopt the test year data. *Id.* at 2 – 5. Witness Bleiweis stated that he considers a variance in expense from year-to-year of over 10% to be significant. *Id.* at 7 – 9. Other than to say that the determination of a significant variance to be a matter of informed judgment, Mr. Bleiweis offered no other logic or rationale for the use of 10%.

On cross-examination, Staff witness Dowdy stated that Staff does not follow the approach suggested by Mr. Bleiweis. According to witness Dowdy, the Staff compares the test year Operation and Maintenance ("O&M") Expense of a utility with the O&M expenses reported in the annual reports for the five years prior to the test year. Unless Staff observes a significant difference between test year O&M expenses and the O&M expenses reported in the annual reports over the prior five years, Staff accepts the test year expenses for the purposes of the Staff's audit. Ms. Dowdy further indicated that the basis for Staff's approach is that variances in individual expense accounts are neither unusual nor unexpected and that an increase in one O&M expense account might be offset by a decrease in another expense account. As witness Bleiweis indicated on cross-

examination, he found several categories of expenses that met his 10% variance approach but which were lower than the average of the three years, yet witness Bleiweis did not make adjustments for those expense accounts.

Upon consideration of this adjustment, the Commission concludes that the proposed adjustments do not indicate an unusual situation which would require adjusting the test year data. In fact, the data and testimony presented by the witness for the Consumer Advocate indicates that the proposed adjustments have not normalized the test year but have in fact skewed the test year by only proposing adjustments for one side of the equation without applying the same type of adjustments for the other side of the equation. Further, there is nothing in the record to suggest that any of the expenses from the test year were imprudently incurred. Finally, there is no indication that the 10% standard applied by witness Bleiweis is appropriate and appears to be an arbitrary selection. The Commission therefore rejects the adjustment for expense variances proposed by the Consumer Advocate.

Summary of Adopted Adjustments to Expenses:

The total effect of the adjustments to test year expenses adopted herein increase Operating and Maintenance Expenses by $471; decrease General and Administrative Expenses by $(3,415); increase Depreciation and Amortization Expenses by $1,989; reduce Taxes Other Than Income by $(39); decrease Income Taxes by $(18,117); reduce Interest on Customer Deposits by $(474); and reduce AFUDC by $(1,991). The net effect of the adjustments adopted herein on Total Operating Expenses is to decrease Total Operating Expenses by $(19,585). Thus, Total Operating Expenses for the test year under

present rates and after accounting and pro forma adjustments and adjustments for known and measurable out-of-test year occurrences are $409,752.

The following table indicates the Company's gross revenues for the test year after adjustments approved herein, under the presently approved rate schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments and adjustments for known and measurable out-of-test year occurrences approved herein; and the rate of return on rate base under the presently approved schedules for the test year:

TABLE B

	Before Increase
Operating Revenues	$ 362,994
Operating Expenses	409,752
	$ (46,758)
ADD: Allowance for Funds Used During Construction	0
Customer Growth	0
TOTAL INCOME FOR RETURN	$ (46,758)
Return on Rate Base	-4.72%

11. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The parties offered certain adjustments affecting the Company's rate base for the test year. UUC witness Lubertozzi, Consumer Advocate witness Bleiweis, and Staff witness Dowdy offered testimony and exhibits detailing adjustments proposed by the parties. See, Hearing Exhibit 5 (Exhibits sponsored by Consumer Advocate witness Bleiweis), Hearing Exhibit 9 (Exhibits sponsored by Staff witness Dowdy), and Hearing

Exhibits 2, 3, and 4 (Exhibits sponsored by UUC witness Lubertozzi). This section of the Order will address the adjustments offered which affect the UUC's rate base.

(A) Capitalized Wages and Benefits:

(1) Position of UUC: UUC did not propose an adjustment for this item.

(2) Position of Staff: Staff proposed an adjustment to capitalize wages associated with the annualization of the operators' salaries. Staff's adjustment capitalizes 12.40% of the test year wages and benefits which amounts to $196. Staff witness Dowdy testified that Staff's capitalization rate was based on the actual wages capitalized during the test year.

(3) Position of Consumer Advocate: The Consumer Advocate did not propose an adjustment for this item.

(4) Decision of the Commission: The Commission finds Staff's adjustment appropriate and hereby adopts the adjustment. This adjustment corresponds with a portion of the adjustment the Commission adopted under Expenses. Therefore, the Commission adopts Staff's adjustment of $196.

(B) Officers' Bonuses and Salary Increases:

(1) Position of UUC: UUC did not propose an adjustment for this item.

(2) Position of Staff: The Staff proposes to remove officers' and other WSC employees' bonuses from capitalized wages. Staff recomputed the capitalized salary rates of two officers of WSC who charged time directly to UUC. The recomputed capitalized salary rate only includes base salary, payroll taxes, pension and benefits. Staff computed total capitalized salaries of $472 less per book salaries of $820 for a total adjustment of

$(348). Staff also proposes to disallow officers' test year salary increase of 3%. Staff reduced the base salary rates by 3% for officers' salary increases, for a total reduction of $(13).

(3) Position of Consumer Advocate: The Consumer Advocate did not propose an adjustment for this item.

(4) Decision of the Commission: The Commission agrees with the Staff adjustment as proposed. As noted above in the discussion of Finding of Fact No. 11 regarding Expenses under Adjustment D, bonuses are not always awarded. As such bonuses are sometimes nonrecurring. It is the Staff's position that bonuses should be the responsibility of the shareholders and not the ratepayers. The Commission agrees that Staff's position is reasonable and appropriate.

(C) Plant Sample Items – WSC:

(1) Position of UUC: UUC did not propose an adjustment for this item.

(2) Position of Staff: Staff proposed to increase plant to allocate a portion of WSC expenses which should have been capitalized. Staff removed $3,587 from WSC's expenses for a mailing machine and allocated 0.60% of the mailing machine to UUC. Staff's adjustment amounts to $22, and the allocation was made using the WSC rate base allocation composite factor of 0.60%.

(3) Position of Consumer Advocate: The Consumer Advocate did not propose an adjustment for this item.

(4) Decision of the Commission: The Commission adopts the adjustment proposed by Staff. The mailing machine will be used by UUC and its sister companies for

more than one year. Therefore, it is appropriate to add the cost of the mailing machine to rate base rather than expense the item during one year. Further, as other subsidiaries of Utilities, Inc. will be utilizing the same mailing machine, it is appropriate to allocate only a portion of the mailing machine to UUC, which Staff has accomplished with its proposed adjustment. Therefore, the Commission adopts the adjustment proposed by Staff.

(D) Plant Additions:

(1) Position of UUC: UUC proposed an adjustment of $87,353.

(2) Position of Staff: Staff proposed an adjustment to Plant in Service of $10,899. The $10,899 total adjustment is based upon Staff's verification of $24,389 of completed plant additions and $13,490 in plant retirements.

(3) Position of Consumer Advocate: The Consumer Advocate proposed that UUC's pro forma plant in the amount of $87,353 be disallowed and that the related depreciation on this plant be disallowed for a $1,310 downward adjustment to expense.

(4) Decision of the Commission: UUC proposed an adjustment to Pro Forma Plant of $87,353. Application of UUC, Schedule C, Page 1 of 3; W/P[j]. The stated reason in the Application for the adjustment was "Pro Forma Plant is adjusted for planned capital investments." Application of UUC, Schedule C, Page 1 of 3. Witness Lubertozzi testified that this adjustment was to reflect capital projects that were underway but not yet complete as of the end of the test year. Lubertozzi Direct Prefiled Testimony, p. 6, ll.12 - 14. Lubertozzi further stated that the Pro Forma Plant is needed to provide end of test year customers with safe and reliable water and sewer service. *Id.* at ll. 14-15.

Consumer Advocate witness Bleiweis proposed to adjust Pro Forma Plant by $(87,353) and to reduce depreciation by $1,310 related to this plant. Bleiweis Direct Prefiled Testimony, p. 24, ll. 11 - 15. Witness Bleiweis' recommendation is based upon his understanding that the projects associated with the plant in question were not completed or even underway as of the end of the test year. *Id.* at ll. 8 - 9.

Staff witness Dowdy recommended an adjustment to Pro Forma Plant of $24,389 for plant additions made after the test year ended. Witness Dowdy stated that Staff verified a total of $24,389 of completed additions and $13,490 for plant retirements made after the test year. The additions included the purchase of a portable generator.

Upon consideration of this item, the Commission adopts the adjustment proposed by Staff. The Commission rejects the adjustment proposed by UUC because the adjustment does not reflect actual completed additions to plant but rather estimates of the plant projects under construction that are not yet completed. As the projects are not yet completed, those additions are not yet providing service and cannot be considered as used and useful in providing service. Therefore, the adjustment proposed by UUC does not meet with the standards of used and useful and known and measurable that would justify including the adjustment in the rate base.

Similarly, the Commission rejects the adjustment proposed by the Consumer Advocate. The adjustment proposed by the Consumer Advocate includes amounts for plant projects that are completed. The Commission believes that the Pro Forma Plant should include plant projects that have been completed and for which verification of the amount of plant is available. Those projects which are actually completed and are used in

providing service meet the used and useful standard. Likewise, projects whose costs can be determined and verified and whose costs are not mere estimates meet the known and measurable standard.

(E) Water Service Rate Base:

(1) Position of UUC: UUC did not propose an adjustment to this item.

(2) Position of Staff: The Staff proposed an adjustment to adjust the WSC Rate Base allocated to UUC. Staff verified the WSC Rate Base and removed deferred charges, adjusted accumulated deferred income taxes, and adjusted accumulated depreciation. Staff allocated WSC's Rate Base based upon updated customer equivalents for the total WSC Rate Base allocated to UUC of $12,683. Staff's computed Rate Base of $12,683 less the per book amount of $13,397 results in an adjustment of $(714).

(3) Position of Consumer Advocate: The Consumer Advocate did not propose an adjustment to this item.

(4) Decision of the Commission: In its adjustment, Staff proposes to remove $(714) from the Rate Base to adjust the WSC Rate Base allocated to UUC. A portion of the Rate Base of WSC is allocated to UUC. During its audit, Staff verified the Rate Base of WSC to WSC's books and records. Witness Dowdy testified that Staff removed deferred charges and adjusted Accumulated Deferred Income Taxes. Dowdy Direct Prefiled Testimony, p. 11, ll. 5 - 6. Using updated customer equivalents, Staff allocated WSC's Rate Base and determined a total WSC Rate Base allocated to UUC of $12,683. Per book WSC Rate Base amounted to $13,397, resulting in an adjustment of $(714). *Id.* at ll. 6 – 9.

Upon consideration of this adjustment, the Commission finds the basis and methodology utilized by Staff reasonable and appropriate. Therefore, the Commission adopts the adjustment proposed by Staff.

(F) Accumulated Depreciation:

(1) Position of UUC: UUC did not propose an adjustment for this item.

(2) Position of Staff: The Staff proposes to adjust Accumulated Depreciation to correspond to Staff's adjustment for annualized depreciation. Staff computed an increase to depreciation expense of $2,011. The Staff adjustment increased Accumulated Depreciation by this amount.

(3) Position of Consumer Advocate: The Consumer Advocate recommended an adjustment to increase Accumulated Depreciation by $(3,855). The Consumer Advocate's adjustment is comprised of an increase by the annualized depreciation adjustment of $5,165 and a decrease of $(1,310) related to the Consumer Advocate's adjustment of not allowing depreciation to be taken on Pro Forma Plant, as discussed in subsection (D) above related to Plant Additions.

(4) Decision of the Commission: Staff's adjustment to Accumulated Depreciation is the corresponding adjustment to the Staff's adjustment for annualized depreciation. As the Commission adopted the Staff's adjustment for annualized depreciation, it is appropriate to adopt the corresponding adjustment. The Commission therefore adopts the Staff adjustment and approves an increase of $2,011 to Accumulated Depreciation.

(G) Cash Working Capital:

(1) Position of UUC: UUC proposed an adjustment to Cash Working Capital of $4,419 to adjust for pro forma adjustments to O&M Expenses, including Taxes Other Than Income.

(2) Position of Staff: Staff proposed an adjustment to Cash Working Capital of $(143) to adjust for Staff's adjustments to O&M expenses which correct the per book operations. Staff's adjustment does not include Taxes Other Than Income because that expense is normally an accrual which does not require a cash outlay until such taxes become payable. As an accrual, UUC would have collected this expense from its customers' funds in advance of paying certain taxes.

(3) Position of Consumer Advocate: The Consumer Advocate proposed an adjustment of $(11,234) to Cash Working Capital. The Consumer Advocate's adjustment was applied to his recommended pro forma adjustments to O&M expenses only. The Consumer Advocate did not apply the cash working capital factor to Taxes Other Than Income.

(4) Decision of the Commission: The adjustment proposed by UUC included Taxes Other Than Income in its computation. Neither the Staff nor the Consumer Advocate included Taxes Other Than Income in their respective adjustments to Cash Working Capital. Staff witness Dowdy stated that Staff does not include Taxes Other Than Income in Cash Working Capital because Taxes Other Than Income is normally an accrual not requiring a cash outlay, and the Company would have collected funds from its customers in advance of paying certain taxes. Dowdy Direct Testimony, p. 11, ll. 16 – 22.

Consumer Advocate witness Bleiweis indicates that Cash Working Capital represents the lag for O&M expenses only and should not be applied to Taxes Other Than Income. Bleiweis Direct Testimony, p.29, ll. 6 – 11. All of the parties used a 12.5% factor in determining Cash Working Capital.

Upon consideration of this adjustment, the Commission adopts the method for the adjustment proposed by the Staff. The Commission agrees that a 12.5% factor should be applied to O&M expense only, exclusive of Taxes Other Than Income. The Cash Working Capital allowance represents an average expense lag time. As such, Cash Working Capital should only be applied to expenses adjusted for corrections and not to an accrual for which a cash outlay is not required before the funds are collected, as is the case of Taxes Other Than Income. The adjustment for Cash Working Capital based on the adjustments to O&M expenses for per book corrections for the test year approved in this Order will be $(143).

(H) Interest on Customer Deposits:

(1) Position of UUC: UUC did not propose an adjustment on this item.

(2) Position of Staff: The Staff proposed to adjust for Interest on Customer Deposits. The Company booked accrued interest in a separate account, and Staff proposes to reduce Rate Base by the Interest Accrual of $(20,405) which is owed to the customer.

(3) Position of Consumer Advocate: The Consumer Advocate did not propose an adjustment for this item.

(4) Decision of the Commission: The Staff adjustment to Interest on Customer Deposits would reduce rate base by $(20,405). Staff's reasoning for this adjustment is that UUC booked accrued interest in a separate account and that this money is money owed to the customers. Dowdy Direct Prefiled Testimony, p. 12, ll. 6 – 9. Upon consideration of the adjustment and the reasoning for the adjustment, the Commission adopts this adjustment proposed by Staff. Rate base is the amount of investment on which a regulated utility is entitled to an opportunity to earn a fair and reasonable return ... [and] represents the total investment in, or the fair value of, the used and useful property which it necessarily devotes to rendering the regulated services. *See, Hamm v. South Carolina Public Service Commission,* 309 S.C. 282, 422 S.E.2d 110 (1992). The Interest on Customer Deposits does not represent an investment by the Company and is therefore not an item which should be included in the rate base.

Summary of Adopted Adjustments to Rate Base:

The total effect of the adjustments to rate base adopted herein increase Gross Plant in Service by $10,756, increase Accumulated Depreciation by $(2,011) [thereby resulting in an increase to Net Plant in Service of $8,745], reduce Cash Working Capital by $(143), reduce WSC rate base by $(714), and increase Interest on Customer Deposits by $(20,405). The total of the adjustments adopted herein reduces total rate base by $(12,517). Thus, after the adjustments adopted herein, as adjusted Rate Base is $990,150. The following table indicates the Company's rate base for its jurisdictional operations in South Carolina after accounting and pro forma adjustments approved herein:

TABLE C

Gross Plant in Service	$ 3,078,303
LESS: Accumulated Depreciation	(231,895)
Net Plant in Service	2,846,408
ADD: Cash Working Capital	49,194
Water Service Corp. – Rate Base	12,683
DEDUCT: Contributions in Aid of Construction	(1,719,531)
Accumulated Deferred Income Taxes	(154,905)
Customer Deposits	(43,699)
TOTAL YEAR END RATE BASE	$ 990,150

12. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

(1) Position of UUC: UUC did not propose a customer growth adjustment in its Application.

(2) Position of Staff: Staff computed an adjustment for customer growth of $215. Staff computed a growth factor of 0% for water operations and a growth factor of 0.72% for sewer operations. The growth factor was calculated by taking the year end number of customers minus the average of the year customers and dividing by the average year customers. The computed growth factor was then applied to Net Operating Income. Combined customer growth was computed by adding water customer growth and sewer customer growth. As Staff does not recognize negative growth, customer growth was computed only after the proposed increase.

(3) Position of the Consumer Advocate: The Consumer Advocate proposed an adjustment for customer growth by applying the increase in the number of customers from December 31, 1999, to December 31, 2000, to average revenue per customer. The

calculation resulted in an upward adjustment to revenue of $2,326 and an upward adjustment to income of $1,839 after applying revenue related expenses.

(4) Decision of the Commission: The Commission adopts the customer growth methodology as proposed by the Staff to include the adjustments adopted herein. Staff's adjustment is applied to Net Operating Income. As the Staff's customer growth adjustment is applied to Net Operating Income, the adjustment attributes an equal contribution to net income by each customer added. By applying the adjustment to Net Operating Income, Staff's customer growth adjustment recognizes growth in both revenues and expenses.

In *Porter v. South Carolina Public Service Commission,* 328 S.C. 222, 493 S.E.2d 92 (1997), the Supreme Court of South Carolina stated "adjustments for known and measurable changes in expenses are within the discretion of the Commission. Absolute precision is not required so long as adjustments are 'known and measurable' within a degree of reasonable certainty." The Commission finds that the Staff's adjustment for customer growth meets this definition as stated by the Supreme Court. Calculation of additional revenues from additional customers may be made quite easily. However, calculation of expenses associated with the addition of customers is not as straightforward. While it would be difficult to calculate the precise amount of expenses that the addition of one customer would add, it does not make sense to ignore expenses altogether when looking at customer growth. Some expenses may increase proportionally with the addition of customers while other expenses may not increase at a proportional rate. While the Staff's adjustment may not calculate increase in expenses with absolute

precision, the Staff's adjustment, which is applied to Net Operating Income and which therefore applies to both revenues and expenses, is a reasonable adjustment that comes with a "reasonable degree of certainty."

The adjustment proposed by the Consumer Advocate does not include expense accounts for uncollectibles, purchased power, and chemicals. While it cannot be stated with absolute certainty that the addition of customers adds expenses in a directly proportionate manner, one cannot assume that the addition of customers does not increase expenses. The Commission believes that any adjustment for customer growth must necessarily also take into account increases in expenses. As noted above, while increases in expenses with the addition of customers may not be a proportional increase, one cannot just ignore the increases in expenses. Therefore, the Commission rejects the customer growth adjustment proposed by the Consumer Advocate.

13. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

Under rate-of-return on rate base regulation, the Commission must approve an income requirement that will permit the Company to cover operating costs and provide an opportunity to earn the approved rate of return on the rate base. The determination of the income requirement requires a calculation using approved Operating Revenues and approved Operating Expenses to determine Net Operating Income for Return. Net Operating Income for Return is then increased for approved AFUDC and approved Customer Growth resulting in Total Income for Return. The following table illustrates the calculations of UUC's Total Income for Return:

TABLE D

	After Increase
Operating Revenues	$ 508,318
Operating Expenses	465,074
Net Operating Income For Return	43,244
ADD: Allowance for Funds Used During Construction	0
Customer Growth	215
TOTAL INCOME FOR RETURN	$ 43,459
Return on Rate Base	4.39%

As demonstrated on Table D, Total Income for Return after the increase approved herein is $43,459.

14. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

In order for the Company to have the opportunity to earn the 4.39% rate of return on rate base approved herein, the Commission must increase revenues sufficient to achieve a Total Income for Return of $43,459, as calculated in Finding of Fact No. 13. The additional revenue calculated for the Company to have the opportunity to earn its approved rate of return of 4.39% requires an increase of $150,000.

15. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

Upon determination of the revenue requirements for a utility in a ratemaking proceeding, the next step is the determination of the specific rates or rate structure that will yield the required revenues. A generally accepted principle is that proper utility regulation requires the exercise of control over a utility's rate structure.

In designing rates for the Company, the Commission strives to set rates that are "just and reasonable" and without undue discrimination. Upon consideration of the appropriate rate design in this proceeding, we find it appropriate to phase-in the revenue

requirement over a three year period. In reaching this decision, the Commission notes that UUC waited over eleven years before seeking rate relief from this Commission. The Company's rate request in the instant proceeding requested an average 78.77% increase in rates. Hearing Exhibit 8, p. 16. As the Company is the only one to make the determination of when it should seek rate relief, this Commission cannot accept that an increase in rates was not warranted before the expiration of eleven years. The Company should be more vigilant in requesting rate relief instead of seeking such a tremendous increase at one time.

As the Commission heard from the public witnesses who attended the night hearing as well as the hearing on February 6, 2002, many of the customers of UUC are working class citizens and people on fixed incomes. In making determinations regarding rates, the Commission must balance competing interests, those of the utility to receive a return on its investment and those of the consumer to receive a quality product for a just and reasonable price. While the Commission is astonished that UUC requested new rates resulting in an average 78.77% increase in rates, the Commission nevertheless has found it appropriate to approve a rate increase amounting to 50.89% of the requested increase.

Even with the new rates approved herein, the Commission is aware of and concerned about the potential for rate shock to a customer base comprised mainly of working class people and people on fixed incomes. Therefore, in order to avoid "rate shock" to the customers of UUC, the Commission finds it appropriate to phase-in the rate increase of $150,000 over a three-year period in equal installments of $50,000 per year.

The accompanying Appendix A to this Order sets forth the herein approved rates and the phase-in of those rates.

16. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

S.C. Code Ann. Section 5-240(H) (Supp.2001) provides, in part, that "[t]he [C]ommission shall specify an allowable operating margin in all water and wastewater orders." Based upon the rate of return on rate base approved herein and the revenues and expenses also approved herein, the corresponding operating margin is calculated to be 0.14%. The following Table reflects an operating margin of 0.14%:

TABLE E

Operating Revenues	$ 508,318
Operating Expenses	465,074
Net Operating Income	$ 43,244
ADD: Allowance for Funds Used During Construction	0
Customer Growth	215
Total Income for Return	$ 43,459
Operating Margin (After Interest Expense of $42,752)	0.14%

IV. CONCLUSIONS OF LAW

Based upon the Findings of Fact as contained herein and the record of the instant proceeding, the Commission makes the following Conclusions of Law:[6]

1. Rate of return on rate base is the appropriate guide for the Commission to use in determining the lawfulness of the rates of UUC and in fixing of just and reasonable rates for UUC to charge its customers in South Carolina.

[6] The Commission's analyses which give rise to the Conclusions of Law are contained in the discussions of Section III of this Order.

2. A fair rate-of-return on rate base for the operations of UUC in South Carolina is 4.39%. This rate of return is calculated using a capital structure of 50.09% long-term debt and 49.91% equity, a cost of debt of 8.62%, and a return on equity of 0.15%. Based on the discussion and analysis of the Commission as detailed in this Order, these components of capital structure, cost of debt, and cost of equity and the resulting rate of return on rate base produce a fair and reasonable rate-of-return which the Company should have the opportunity to earn.

3. For the test year ending December 31, 2000, the appropriate operating revenues, under present rates and as adjusted in this Order, are $362,994, and the appropriate operating expenses, under present rates and as adjusted in this Order, are $409,752.

4. Using the rate base as adjusted in this Order of $990,150 and the return on rate base of 4.39% found to be fair and reasonable in this Order, the income requirement for UUC is $508,318, net of uncollectible expenses.

5. In order for UUC to have an opportunity to earn the return on rate base found reasonable and approved in this Order and to meet the income requirement, UUC must be allowed additional revenues of $150,000.

6. The rates approved in this Order are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of the Company.

7. Based on the adjustments approved herein and the increase in rates approved herein, the appropriate operating margin for UUC on its South Carolina operations is 0.14%.

IT IS THEREFORE ORDERED THAT:

1. UUC is granted a rate of return on rate base for its water and sewer operations in South Carolina of 4.39%.

2. The schedule of rates and charges attached hereto as Appendix A is hereby approved for service rendered on or after the date of this Order. Further, the schedules are deemed to be filed with the Commission pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 2001).

3. Should the schedules approved herein and attached hereto as Appendix A not be placed in effect until three (3) months from the effective date of this Order, the schedules shall not be charged without written permission from the Commission.

4. UUC shall maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class B Water and Sewer Utilities, as adopted by this Commission.

5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Chairman

ATTEST:

Executive Director

(SEAL)

APPENDIX A

UNITED UTILITY COMPANIES, INC.
110 QUEEN PAARKWAY
WEST COLUMBIA, SC 29169
803-796-9545

FILED PURSUANT TO DOCKET NO. 2000-210-W/S – ORDER NO. 2002-214
EFFECTIVE DATE: MARCH 22, 2002

WATER

1. Monthly Charges

Residential -Monthly charge per single family house, condominium, mobile home or apartment unit:

AND

Commercial per SFE

Base Facilities Charge		
Effective Date:	March 22, 2002	$ 9.83 per unit or SFE
Effective Date:	March 22, 2003	$10.67 per unit or SFE
Effective Date:	March 22, 2004	$11.50 per unit or SFE
Commodity Charge:		
Effective Date:	March 22, 2002	$3.83 per 1,000 gallons
Effective Date:	March 22, 2003	$4.17 per 1,000 gallons
Effective Date:	March 22, 2004	$4.50 per 1,000 gallons

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

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

2. Nonrecurring Charges

A) Water service connection charge per single-family equivalent $100.00

B) Plant Impact fee per single-family equivalent $400.00

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

3. Account Set-Up and Reconnection Charges

   a. Customer Account Charge - for new customers only. $25.00

   b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of thirty five dollars ($35.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected.

4. Billing Cycle

   Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Late Payment Charges

   Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 ½%) for each month, or any part of a month, that said payment is late.

6. Construction Standards

   The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

7. Extension of Utility Service Lines and Mains

   The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service.

SEWER

1. Monthly Charges

RESIDENTIAL – monthly charge per single-family house, condominium, villa, or apartment unit:

AND

COMMERCIAL PER SFE

Effective Date:	March 22, 2002	$32.26 per unit or SFE
Effective Date:	March 22, 2003	$35.52 per unit or SFE
Effective Date:	March 22, 2004	$38.79 per unit or SFE

MOBILE HOMES:

Effective Date:	March 22, 2002	$24.20 per unit
Effective Date:	March 22, 2003	$26.65 per unit
Effective Date:	March 22, 2004	$29.09 per unit

CHARGE FOR SEWAGE COLLECTION SERVICE ONLY (ALL AREAS)

When sewage is collected by the Utility and transferred to a government body or agency, or other entity, for treatment, the Utility's rates are as follows:

RESIDENTIAL - monthly charge per single-family house, condominium, or apartment unit:

AND

COMMERCIAL PER SFE

Effective Date:	March 22, 2002	$18.09 per unit or SFE
Effective Date:	March 22, 2003	$21.18 per unit or SFE
Effective Date:	March 22, 2004	$24.27 per unit or SFE

The Utility will also charge for treatment services provided by the government body or agency, or other entity. The rates imposed or charged by the government body or agency, or other, entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup. Where the Utility is required under the terms of the 201/208 Plan to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.

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

In the case of a landlord/tenant relationship where the tenant is the customer, the Utility may require the landlord to execute an agreement wherein such landlord agrees to be responsible for all charges billed to that premises in accordance with the approved tariffs and the Rules of the Commission, and said account shall be considered the landlord's and tenant's account. In the event the landlord refuses to execute such an agreement, the Utility may not discontinue service to the premises unless and until the tenant becomes delinquent on his account or until the premises are vacated. The Utility may discontinue service pursuant to R.103-535.1 if the account is delinquent or may discontinue service at the time the premises are vacated and the utility shall not be required to furnish service to the premises until the landlord has executed the agreement, and paid any reconnection charges.

2. Nonrecurring Charges

A) Sewer Service Connection charge per single-family equivalent	$100.00
B) Plant Impact Fee per single-family equivalent	$400.00

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

3. Notification, Account Set-Up and Reconnection Charges

a. Notification Fee: A fee of four dollars ($4.00) 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.

b. Customer Account Charge: a fee of twenty-five dollars ($25.00) shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service.

c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars ($250.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars ($35.00) shall be due. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly service charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Late Payment Charges

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 ½ %) for each month, or any part of a month, that said payment is late.

6. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §129.4 and §401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §403.5 and §403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

7. Construction Standards:

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

8. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service.

In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

APPENDIX A

UNITED UTILITY COMPANIES, INC.
110 QUEEN PAARKWAY
WEST COLUMBIA, SC 29169
803-796-9545

FILED PURSUANT TO DOCKET NO. 2000-210-W/S – ORDER NO. 2002-214
EFFECTIVE DATE: MARCH 22, 2002

WATER

1. Monthly Charges

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AND

Commercial per SFE

Base Facilities Charge		
Effective Date:	M	9.83 per unit or SFE
Effective Date:	M	0.67 per unit or SFE
Effective Date:	M	1.50 per unit or SFE
Commodity Charge:		
Effective Date:	M	.83 per 1,000 gallons
Effective Date:	M	..17 per 1,000 gallons
Effective Date:	March 22, 2004	$4.50 per 1,000 gallons

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   a. Customer Account Charge - for new customers only. $25.00

   b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of thirty five dollars ($35.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected.

4. Billing Cycle

   Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Late Payment Charges

   Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 ½%) for each month, or any part of a month, that said payment is late.

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   The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

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The Utility will also charge for treatment services provided by the government body or agency, or other entity. The rates imposed or charged by the government body or agency, or other, entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup. Where the Utility is required under the terms of the 201/208 Plan to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.

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

In the case of a landlord/tenant relationship where the tenant is the customer, the Utility may require the landlord to execute an agreement wherein such landlord agrees to be responsible for all charges billed to that premises in accordance with the approved tariffs and the Rules of the Commission, and said account shall be considered the landlord's and tenant's account. In the event the landlord refuses to execute such an agreement, the Utility may not discontinue service to the premises unless and until the tenant becomes delinquent on his account or until the premises are vacated. The Utility may discontinue service pursuant to R.103-535.1 if the account is delinquent or may discontinue service at the time the premises are vacated and the utility shall not be required to furnish service to the premises until the landlord has executed the agreement, and paid any reconnection charges.

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b. Customer Account Charge: a fee of twenty-five dollars ($25.00) shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service.

c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars ($250.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars ($35.00) shall be due. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly service charge for the service period they were disconnected.

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6. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §129.4 and §401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §403.5 and §403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

7. Construction Standards:

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

8. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service.

In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.