

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2019-281-S - ORDER NO. 2020-561

AUGUST 20, 2020

IN RE: Application of Palmetto Utilities,) ORDER RULING ON
Incorporated for Adjustment (Increase) of) APPLICATION FOR
Rates and Charges, Terms and Conditions,) ADJUSTMENTS IN
for Sewer Service Provided to Customers in) RATES
Its Richland and Kershaw County Service)
Areas)

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the Application of Palmetto Utilities, Inc. (“Palmetto” or the “Company”), for an increase in rates and charges for the provision of sewer service and the modification of certain terms and conditions related to the provision of such service.

Palmetto is a public utility, as defined by S.C. Code Ann. § 58-5-10(4) (2015), providing sewer service to 28,082 residential, commercial, and industrial customers [or approximately 34,290 single family equivalents (“SFEs”)]¹ as of February 29, 2020. These customers are located in certain unincorporated areas of northeastern Richland County, the Town of Blythewood, and an adjoining area in southwestern Kershaw County.² Treatment of wastewater generated by the Company’s customers is performed at the Company’s Spears Creek Regional Wastewater Treatment Plant (“WWTP”), which is operated pursuant to a National Pollutant Discharge Elimination System permit issued to Palmetto by the South Carolina Department of Health and Environmental Control, allowing for treatment of up to twelve million gallons per day and discharge into the Wateree River.³

Palmetto’s current schedule of rates and charges for customers was approved by Order No. 2018-155, issued March 7, 2018, in Docket No. 2017-228-S. Under that schedule, Palmetto charges residential customers a flat rate of \$52.10 per month. Commercial customers, including industrial customers, are charged a flat monthly rate of

¹ Hunnell Rev. Dir. p. 25, l. 10; Tr. p. 534.25, l. 10.

² Stone Dir. p. 2, ll. 26-31; Tr. p. 240.2, ll. 26-31.

³ Stone Dir. at p. 3, ll. 1-6, 12-20, 27-29; Tr. p. 240.3, ll. 1-6, 12-20, 27-29; Hr’g Ex. 19, DPH-1 at 3.

\$52.10 per SFE. By Order No. 2018-155, Palmetto was granted the opportunity to earn an additional \$4,515,286 in annual operating revenues, which resulted in an operating margin of 15.00%.⁴

By its Application, Palmetto seeks an increase in its monthly service charge to a final flat rate of \$66.62 per residential customer and per SFE for all other customers. The Company's proposed rate, if approved, would result in a total increase of \$14.52 per month or 27.87% per residential customer and per SFE, after the institution of phase three of a three-part phase-in. The Company also seeks rate base treatment; certain tariff modifications; and inclusion of \$18,000,000 in rate base for the acquisition of plant from the City of Columbia (the "City"), for a test year ending August 31, 2019.

Since Palmetto's last rate relief proceeding, approximately \$11.4 million in additional facilities and equipment have been added to the Company's plant in service.⁵ Included in this amount are, among other things, facilities and line relocations due to South Carolina Department of Transportation road widenings, underground pipe refurbishment, lift station refurbishment, a new geographical information system and underlying asset management system, a baffle replacement at the Spears Creek WWTP, a line redirection for an industrial park, general plant equipment including pumps, lift station refurbishment, line tie-ins, vehicles and construction equipment, service lines, gravity lines, and elder valves.^{6,7} These new plant facilities and equipment are in operation and serving customers.⁸

⁴ See Order No. 2018-155, p. 24.

⁵ Hr'g Ex. 7.

⁶ Stone Dir. p. 4, l. 17 – p. 5, l. 21; Tr. p. 240.4, l. 17 – p. 240.5, l. 21.

II. PROCEDURAL HISTORY

On August 20, 2019, Palmetto filed with the Commission its Notice of Intent to seek rate relief. This Notice was provided to the South Carolina Office of Regulatory Staff as required by S.C. Code Ann. § 58-5-240(A) (2015) and to the South Carolina Department of Consumer Affairs and its Consumer Advocate as required by S.C. Code Ann. § 37-6-604(C) (Supp. 2019).

On August 29, 2019, Palmetto filed a Notice of Request for an Allowable Ex Parte Briefing in this docket pursuant to S.C. Code Ann. § 58-3-260(C)(6)(a)(v) (2015); the briefing was held on September 17, 2019. Palmetto filed its Application on November 27, 2019, pursuant to S.C. Code Ann. § 58-5-240 (2015) and S.C. Code Regs. 103-503 and 103-512(4)(A) (2012).

By letter dated December 13, 2019, the Clerk’s Office of the Commission instructed Palmetto to publish a Notice of Filing and Hearing (“NOFH”) in newspapers of general circulation in the area affected by Palmetto’s Application and to mail copies of same to all customers affected by the proposed rates and charges. Among other things, the NOFH provided information regarding the nature of the Application and advised any person desiring to participate as a party of record to file a Petition to Intervene on or before January 21, 2020. On December 20, 2019, Palmetto filed and served the Amended Application for the purpose of correcting two (2) typographical errors. On December 23, 2019, the Clerk’s Office issued a Revised NOFH. Palmetto filed its

⁷ Hunnell Rev. Dir. p. 6, ll. 4-11; Tr. p. 534.6, ll. 4-11.

⁸ Stone Dir. p. 5, ll. 23-31, Tr. p. 240.5, ll. 23-31.

Affidavit of Publication on January 17, 2020, demonstrating that the Revised NOFH was published in accordance with the instructions of the Clerk’s Office.

On January 21, 2020, Petitions to Intervene were filed by Carri Grube Lybarker as Consumer Advocate for the State of South Carolina and Administrator of the South Carolina Department of Consumer Affairs (“Consumer Advocate” or “DCA”) and Lisa B. Levine, a Palmetto customer appearing *pro se* (“Levine”), which petitions were granted by the Commission.⁹ See Order Nos. 2020-111 and 2020-141. No other petitions to intervene were filed. Pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2019), the South Carolina Office of Regulatory Staff (“ORS”) is a party of record in this proceeding.

The Company filed the direct testimony and exhibits of: Mark Daday, the President and Chief Financial Officer of Ni Pacolet Milliken Utilities, LLC and its subsidiaries, including Palmetto; Bryan Stone, Chief Operating Officer of Ni Pacolet Milliken Utilities, LLC and its subsidiaries; Donald Clayton, Principal in Charge of Management Consulting at Tangibl Group, Inc.; Harold Walker, Manager of Financial Studies at Gannett Fleming Valuation and Rate Consultants, LLC; William Crawford, President of Pacolet Milliken, LLC; Andrena Powell-Baker, Senior Manager of Community Relations and Development for Palmetto; Ralph Walker, President of the Energy and Infrastructure Division of Pacolet Milliken, LLC; Gary Walsh, President of the Walsh Consulting Group, LLC; Joel Wood, Founding and Managing Partner and a

⁹ As discussed below, Ms. Levine subsequently moved for leave to withdraw her petition to intervene, which was granted.

Project Engineer for Joel E. Wood & Associates, LLC. The Company also filed rebuttal testimony from witnesses Harold Walker, Gary Walsh, Mark Daday, William Crawford, and Donald Clayton. Lastly, the Company filed the limited additional testimony of Mark Daday.

The Consumer Advocate filed direct and surrebuttal testimonies and exhibits for Aaron Rothschild, President of Rothschild Financial Consulting.

ORS filed direct testimony and exhibits of: Charles Loy, Principal at GDS Associates, Inc.; Christina Seale, Audit Coordinator of the Audit Department with the ORS; Daniel Sullivan, Deputy Director of the Audit Department with the ORS; William Kleckley, Auditor, in the Audit Department with the ORS; Daniel Hunnell, II, Senior Regulatory Analyst in the Water Operations Department with the ORS; Dawn Hipp, Chief Operating Officer of the ORS; David Parcell, Principal and Senior Economist of Technical Associates, Inc. ORS also filed surrebuttal testimony for Charles Loy, Daniel Sullivan, Daniel Hunnell, II, David Parcell, and Dawn Hipp.

a. Virtual Public Night Hearings

The Commission held two (2) virtual public night hearings¹⁰ – one on March 19, 2020 and the second on June 22, 2020 – to allow Palmetto’s customers an opportunity to present their views regarding the Application. The Honorable Comer H. “Randy” Randall, Chairman of the Commission, presided at each public night hearing. On March

¹⁰ Two public night hearings were originally scheduled for March 12, 2020 and March 19, 2020. On March 13, 2020, Governor Henry McMaster issued Executive Order No. 2020-42, declaring a State of Emergency “based on a determination that COVID-19 posed an imminent public health emergency for the State of South Carolina.” In response, the Commission consolidated the meeting scheduled for March 12, 2020 with the March 19, 2020 hearing and held both meetings virtually.

19, 2020, twenty-one customers¹¹ testified. (*See* Hr’g Ex. 1). On June 22, 2020, thirty-one customers¹² testified. (*See* Hr’g Ex. 2).

At both of the virtual public night hearings, the magnitude of Palmetto’s requested increase was an issue of universal concern, especially considering the COVID-19 pandemic. Customers also voiced complaints that flat sewer rates are unfair and inequitable; several customers questioned the fairness of the Company’s proposal to continue utilizing a flat-rate design as opposed to a usage-sensitive rate design. On July 9, 2020, Palmetto filed additional testimony from Mark Daday, responding to certain concerns raised by customers at the virtual public night hearings.

b. Stipulations Among Parties

i. PUI-Levine Stipulations

Pursuant to S.C. Code Ann. § 1-23-320(F) (Supp. 2019), Palmetto filed four (4) stipulations between the Company and Intervenor Lisa Levine (“PUI-Levine Stipulations”) on July 9, 2020. The stipulations resolved all issues in dispute between the two parties and were conditioned upon the Commission’s approval of Levine’s July 10, 2020 Motion to Withdraw her Petition to Intervene along with all filings she submitted in this docket.

¹¹ Although twenty-four (24) persons spoke at this night hearing, three (3) of them were not customers of the Company. *See* Transcript, March 19, 2020, p. 9, l. 21 – p. 15, l. 14; p. 15, l. 23 – p. 18, l. 8; p. 18, l. 19 – p. 22, l. 2.

¹² Although thirty-four (34) persons spoke at this night hearing, three (3) of them were not customers of the Company. *See* Transcript, June 22, 2020, Tr. p. 109, l. 24 – p. 113, l. 10; p. 113, l. 11 – p. 115, l. 16. *See* also July 9, 2020, Pre-filed Responsive Testimony of Mark S. Daday, p. 11, l. 21 – p. 12, l. 6; Tr. p. 267.11, l. 21 – p. 267.12, l. 6.

Order No. 2020-65-H, issued July 10, 2020, approved the PUI-Levine Stipulations and granted Levine’s Motion to Withdraw; she is no longer a party of record in this docket.

ii. Palmetto-ORS Stipulations

Pursuant to § 1-23-320(F) (Supp. 2019) and S.C. Code Ann. § 58-4-50(A)(9) (2015), the Company filed twenty-four (24) stipulations between itself and ORS (“PUI-ORS Stipulations”) on July 12, 2020. The stipulations resolved all issues in dispute between the two parties. The PUI-ORS Stipulations, *inter alia*, address: (i) the ratemaking treatment of plant acquired from the City; (ii) return on equity (“ROE”) and capital structure for the purpose of ascertaining an overall cost of capital for the Company; (iii) appropriate adjustments to the Company’s expenses and revenues for ratemaking purposes; (iv) regulatory treatment of decreased federal income tax expenses realized by the Company from and after January 1, 2018, as a result of the reduction in corporate income tax rates under the 2017 Tax Cuts and Jobs Act (“TCJA”); and (v) a “rate freeze” until August 20, 2023. The Consumer Advocate did not join the PUI-ORS Stipulations.

On July 13, 2020, at the commencement of the evidentiary hearing, the PUI-ORS Stipulations were entered into evidence as Hearing Exhibit No. 3 without objection by any party.

c. Evidentiary Hearing

The evidentiary hearing began on July 13, 2020 and concluded on July 14, 2020. Because of the ongoing COVID-19 pandemic, the hearing was held virtually;¹³ all participants appeared by videoconference. Palmetto was represented by John Hoefler, Esquire and Andrew Hand, Esquire. The Consumer Advocate was represented by Carri Grube Lybarker, Esquire and Roger Hall, Esquire. ORS was represented by Jeffrey Nelson, Esquire, Steven Hamm, Esquire, Christopher Huber, Esquire, and Jenny Pittman, Esquire.

All witnesses were sworn in and their pre-filed testimonies, including any corrections and accompanying exhibits, were accepted into the record.¹⁴ As a condition of the PUI-ORS Stipulations, Palmetto and ORS agreed not to cross either party's witnesses. The Company and ORS presented their respective witnesses for cross examination from the Consumer Advocate and questioning from the Commission. The Consumer Advocate, not a signatory to the PUI-ORS Stipulations, presented its witness for cross from any party and questioning from the Commission.

III. STATUTORY STANDARDS AND REQUIRED FINDINGS

South Carolina Code Ann. § 58-5-210 (2015) provides:

[t]he Public Service Commission is hereby . . . vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the power, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations,

¹³ See June 3, 2020 Memorandum Re: Court Operations during the Seven-Week Period June 15-July 31, 2020 issued by the South Carolina Supreme Court, which, *inter alia*, states “video conferencing should be the primary means of holding hearings.”

¹⁴ The testimony of ORS witness Christina Seale was adopted and presented by ORS witness Daniel Sullivan.

practices and measurements of service to be furnished, imposed, observed and followed by every public utility in this State and the State hereby asserts its rights to regulate the rates and services of every ‘public utility’ as herein defined.

Pursuant to these powers, the Commission is “entitled to create incentives for utilities to improve their business practices.” *Utils. Servs. of S.C., Inc. v. S.C. Pub. Serv. Comm’n*, 392 S.C. 96, 105, 708 S.E.2d 755, 760 (2011).

“Although the burden of proof of the reasonableness of all costs incurred which enter into a rate increase request rests with the utility, the utility’s expenses are presumed to be reasonable and incurred in good faith. This presumption does not shift the burden of persuasion but shifts the burden of production on to the . . . contesting party to demonstrate a tenable basis for raising the specter of imprudence. . . . The ultimate burden of showing every reasonable effort to minimize . . . costs remains on the utility.” *Utils. Servs.* 392 S.C. at 109–10, 708 S.E.2d at 762-63.

The Commission must consider the evidence presented to it on the formal record. “Because the [Commission] is both entitled and required to consider the evidence presented to it on the formal record, the [Commission] is entitled to rely on sworn testimony presented by non-party protestants to overcome the presumption of reasonableness.” *Id.* at 111, 708 S.E.2d at 763.

Additionally, “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.” *Hamm v. S.C. Pub. Serv. Comm’n*, 309 S.C. 282, 291, 422 S.E.2d 110, 115 (1992) [citing *Michaelson v. New England Tel. & Tel. Co.*, 121 R.I. 722, 404 A.2d 799 (1979)].

Regarding the determination of Palmetto’s cost of equity, the Commission must determine a fair rate of return that the utility should be allowed the opportunity to earn after recovery of the expenses of utility operations. The legal standards for this determination are set forth in *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944) (“*Hope*”) and *Bluefield Water Works and Improvement Co. v. Pub. Serv. Comm’n of W. Va.*, 262 U.S. 679 (1923) (“*Bluefield*”).

In *Bluefield* the United States Supreme Court holds that:

What annual rate will constitute just compensation depends upon many circumstances, and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting the opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-93.

The Commission and South Carolina appellate courts have consistently applied the principles set forth in *Bluefield* and *Hope*. See *S. Bell Tel. & Tel. Co. v. Pub. Serv. Comm’n*, 270 S.C. 590, 244 S.E.2d 278 (1978). Quoting *Hope*, the South Carolina Supreme Court has stated: “‘under the statutory standard of ‘just and reasonable’ it is the result reached not the method employed which is controlling. . . . The ratemaking

process under the Act, i.e., the fixing of ‘just and reasonable’ rates, involves the balancing of investor and the consumer interests.” *S. Bell*, 270 S.C. at 596, 244 S.E.2d at 281 (quoting *Hope*, 320 U.S. at 602-03).

This Commission must exercise its dual responsibility of permitting utilities an opportunity to earn a reasonable return on the property it has devoted to serving the public, on the one hand, and protecting customers from rates that are so excessive as to be unjust or unreasonable, on the other, by “(a) Not depriving investors of the opportunity to earn reasonable returns on the funds devoted to such use as that would constitute a taking of private property without just compensation[, and] (b) Not permitting rates which are excessive.” *Id.* at 605, 244 S.E. 2d at 286 (Ness, J., concurring and dissenting).

Additionally, the Commission’s determination of a fair rate of return must be documented fully in its findings of fact and based exclusively on reliable, probative, and substantial evidence on the whole record. *Porter v. S.C. Pub. Serv. Comm’n*, 332 S.C. 93, 98, 504 S.E.2d 320, 323 (1998). In making its decision, this Commission cannot make a determination based upon surmise, conjecture or speculation. *See Herndon v. Morgan Mills, Inc.*, 246 S.C. 201, 209, 143 S.E.2d 376, 380 (1965).

Against this legal backdrop, the Commission has evaluated the evidence presented by all parties and reaches the legal and factual conclusions discussed below.

IV. OVERVIEW OF STIPULATIONS

a. PUI-Levine Stipulations

The PUI-Levine Stipulations provide that Palmetto commits to an annual contribution of \$50,000 for a period of three (3) years to Wateree Community Actions,

Inc., or another non-profit entity, for the exclusive purpose of assisting Palmetto's customers with paying their monthly sewer service bills to Palmetto. For rate-making purposes, these annual contributions would be a non-allowable expense, and the fund created by them would be restricted to use by Palmetto's customers who qualify for financial assistance under the guidelines of the non-profit entity.

b. PUI-ORS Stipulations

The provisions of the PUI-ORS Stipulations, generally speaking, provide: a valuation of \$8,476,000 for the plant acquired from the City, which is less than half of the \$18,000,000 Palmetto paid for the assets; a ROE of 9.07%; a capital structure of 45.4% debt and 54.6% equity; rate case expense adjustment of \$82,151; reductions in the Company's income tax liability as a result of the TCJA, which would be fully returned to customers by way of a decrement rider that reduces the Company's authorized annual revenues by \$2,032,146 for the approximately twelve (12) month period beginning with the first customer bills issued after the Commission's final order in this proceeding or until the regulatory liability reaches zero. Along with stipulated accounting adjustments proposed by ORS and the property tax adjustments proposed in the Company's application, the effect of the PUI-ORS Stipulations would be additional annual revenues for Palmetto of \$3,215,000, a monthly service rate of \$54.93 for the approximately twelve (12) month period following the date of this order¹⁵ and a monthly service rate of \$59.87, effective through at least August 20, 2023 (applicable to residential customers

¹⁵ The \$54.93 rate is in effect for approximately twelve (12) months or until the regulatory liability created for the impacts of the TCJA is depleted.

and per SFE for commercial customers). In addition, a cost of service study (“COSS”) would be conducted by the Company prior to its next rate proceeding and the Company will proceed to examine and be prepared to report to the Commission regarding the feasibility of a usage sensitive rate design based on metered water consumption.

V. RATE-MAKING METHODOLOGY

Generally, the Commission has wide latitude to determine an appropriate rate-setting methodology. *Heater of Seabrook, Inc. v. Pub. Serv. Comm’n of S.C.*, 324 S.C. 56, 64, 478 S.E.2d 826, 830 (1996). While S.C. Code Ann. § 58-5-240(H) (2015) directs the Commission to specify an allowable operating margin in all water and wastewater orders, “that directive does not mean that the operating margin methodology must be used in determining a fair rate of return.” *Id.* at 64, n.3, 478 S.E.2d at 830, n.3. The operating margin methodology 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.* at 65, 478 S.E.2d at 830.

In the Application, Palmetto requested rate base treatment. No party opposed Palmetto’s request. The Company’s total rate base was \$96,850,160 per books and \$94,669,629 on a pro forma proposed basis. *See* Application Exhibit B, Schedule F. Even after the agreed upon adjustments set out in Exhibit 1 to the PUI-ORS Stipulations, which reflects the \$9,524,000 reduction in rate base associated with the acquisition of the Palmetto of Richland County, LLC Plant,¹⁶ the Company’s rate base is \$85,848,671. Further, Palmetto witness Daday testified the Company’s substantial investments in rate

¹⁶ The substantive discussion regarding the Palmetto of Richland County, LLC Plant begins at p. 19, *infra*.

base warrant a rate of return methodology instead of the operating margin methodology.¹⁷ The Commission finds and concludes the use of rate base methodology to be appropriate here and will utilize rate base methodology in setting Palmetto's rates in this proceeding.

VI. TEST YEAR

S.C. Code Ann. Regs. 103-823(A)(3) (2012) requires the use a historic twelve-month test period. The test year is established as the basis for measuring and calculating a utility's expenses, revenues, and return on rate base. *Porter*, 328 S.C. at 228-29, 493 S.E.2d at 96. The Commission considers proposed rate increases based upon occurrences within the test year but will also consider adjustments for any known and measurable changes outside of the test year.

In its Application, Palmetto utilized the twelve months beginning September 1, 2018 and ending August 31, 2019 as its test year.¹⁸ ORS applied the same historic test year.¹⁹ No other party disputed the proposed test year. Thus, the Commission finds and concludes that the test year beginning September 1, 2018 and ending August 31, 2019 is appropriate in this rate case.

VII. Cost of Capital

a. Cost of Debt

In determining the cost of debt, witnesses Parcell, Harold Walker, and Rothschild all utilized 5.89%, which reflects the actual cost of debt for Palmetto. The reliable and

¹⁷ Daday Direct p. 4, ll. 18-20; Tr. p. 262.4, ll. 18-20.

¹⁸ Amended Application Ex. B, p. 3 of 17; Clayton Dir. p. 6, ll. 4-6; Tr. p. 335.6, ll. 4-6; p. 7, ll. 6-8, Tr. p. 335.7, ll. 6-8.

¹⁹ Seale Dir. p. 2, l. 18 – p. 3, l. 4, Tr. p. 550.2, l. 18 – p. 550.3, l. 4.

probative substantial evidence in the record supports a finding that the Company's cost of debt is 5.89% for this proceeding.

b. Return on Equity

The rates sought by the Company's application, if approved, would have resulted in an ROE of 10.50% based upon its proposed allowable rate base.²⁰ Adoption of a 10.50% ROE was supported by the recommendation of the Company's cost of capital witness, Harold Walker.²¹ The cost of capital witness for ORS, Mr. Parcell, recommended an ROE of 9.55%,²² which was the midpoint of his range of estimated ROE's of between 9.10% and 10.00%.²³ The Consumer Advocate's cost of capital witness, Mr. Rothschild, recommended a range of ROE's of between 8.20% and 9.07%.²⁴ Under the terms of the PUI-ORS Stipulations, the proposed ROE is set at the upper end of the range testified to by the Consumer Advocate witness, which is 9.07%. For the reasons discussed below, the Commission finds and concludes that the 9.07% ROE stipulated to by Palmetto and ORS is reasonable and appropriate for use in determining the Company's overall cost of capital in this proceeding.

Mr. Rothschild testified that “[i]t is not possible to measure the cost of equity to such a high degree of precision, if for no other reason, because markets are constantly changing.”²⁵ Thus, he “provide[d] the Commission with a cost of equity range (8.20% - 9.07%) that [he] believe[d] would allow [Palmetto] to raise capital on reasonable

²⁰ Amended Application p. 3, n.1, Ex. B, Sched. G.

²¹ H. Walker Dir. p. 3, ll. 8-12; Tr. p. 385.7, ll. 8-12; p. 44, ll. 12-13, Tr. p. 385.48, ll. 12 -13.

²² Parcell Dir. p. 3, l. 1; Tr. p. 487.3, l. 1.

²³ Parcell Dir. p. 4, ll. 8-10; Tr. p. 487.4, ll. 8-10.

²⁴ Rothschild Dir. (Cost of Capital) p. 3, ll. 5-10; Tr. p. 482.5, ll. 5-10.

²⁵ Rothschild Dir. (Cost of Capital) p. 3, ll. 7-8; Tr. p. 482.5, ll. 7-8.

terms.”²⁶ The Consumer Advocate witness further testified that a comparison of “market data” set out in his testimony to his proposed range of ROE’s “should give the Commission confidence that if my recommendation is used to set rates, it will still enable [Palmetto] to raise the capital it requires.”²⁷ He reiterated these points, stating that “[t]he cost of equity cannot be calculated as precisely as the weight or height of an object” and that he therefore “recommend[s] a cost of equity of between 8.20% and 9.07%.”²⁸

Selection of an appropriate ROE from within a range supported by evidence of record is recognized as an appropriate basis upon which to determine an allowable ROE. *See Hamm v. Pub. Serv. Comm’n*, 309 S.C. 282, 422 S.E.2d 110 (1992). Moreover, the Commission finds that where a utility’s service quality is not at issue – which is the circumstance here as there was no customer testimony complaining about the quality of Palmetto’s utility service and ORS’s inspection found no deficiencies in the Company’s operations²⁹ – an allowable ROE at the higher end of a recommended range is appropriate. *Cf.* Order No. 2020-306, issued April 9, 2020, in Docket No. 2019-290-WS, pp. 3, 38 (finding that “quality of service issues” are appropriately considered in selecting from a range of ROEs recommended by a cost of capital witness). Based on the foregoing, the Commission finds and concludes that an ROE of 9.07% is appropriate for the Company in view of the evidence of record as a whole and the PUI-ORS Stipulations to the ROE.

²⁶ Rothschild Dir. (Cost of Capital) p. 3, ll. 8-10; Tr. p. 482.5, ll. 8-10.

²⁷ Rothschild Dir. (Cost of Capital) p. 10, ll. 3-5; Tr. p. 482.12, ll. 3-5.

²⁸ Rothschild Dir. (Cost of Capital) p. 10, ll. 6-7; Tr. p. 482.12, ll. 6-7.

²⁹ Hunnell Rev. Dir. p. 5, ll. 13-21; Tr. p. 534.5, ll. 13-21; Hr’g Ex. 19, DPH-1.

c. Capital Structure

The Company proposed a capital structure of 41.79% debt and 58.21% equity, which was calculated excluding short-term debt.³⁰ Company witness Harold Walker testified that short term debt is properly excluded when determining a utility's appropriate capital structure because it "is used primarily for interim funding of capital projects, or construction work in progress ('CWIP') and is thereafter "replaced by permanent or by equity infusion."³¹ Accordingly, because the Company has not proposed to include CWIP in its rate base, Mr. Walker opined that this "temporary source of financing" is not properly included in its capital structure."³²

Although the Company's proposed capital structure reflects its actual current debt and equity ratios, ORS witness Parcell recommended adoption of a hypothetical capital structure of 45.00% debt and 55.00% equity "which reflects the capital structure ratios of the proxy group of the water/wastewater utilities [he] considered in reaching [his] cost of equity conclusion" which he characterized as being "true 'market driven' capital structures."³³ Mr. Parcell's recommendation was based, in part, on his observation that the equity component of the Company's capital structure, excluding short term debt, had varied from year to year during the five years preceding the test year, ranging from a high of 63.70% in 2015 to a low of 44.20% in 2015.³⁴ According to Mr. Parcell this reflects

³⁰ Amended Application, Ex. B, Schedule G; Clayton Dir. p. 4, ll. 14-16; Tr. p. 335.4, ll. 14-16.

³¹ H. Walker. Reb. p. 8, ll. 6-12; Tr. p. 387.10, ll. 6-12.

³² *Id.*

³³ Parcell Dir. p. 3, ll. 7-17; Tr. p. 487.3, ll. 7-17.

³⁴ Parcell Dir. p. 19, ll. 6-12; Tr. p. 487.19, ll. 6-12.

“volatility” in the Company’s equity ratio that should be addressed.³⁵ The Consumer Advocate’s witness recommended a capital structure of 47.50% debt and 52.50% equity, which was based on a “conservative point between the average common equity ratios of the companies in [his] proxy group excluding and including short-term debt for pre and post COVID-19” time periods.³⁶ The Commission finds that the 45.40% debt and 54.60% equity capital structure stipulated to by the Company and ORS addresses the volatility in the Company’s equity ratio identified by Mr. Parcell but also utilizes aspects of known equity ratios identified in Mr. Rothschild’s proxy group – and is the same as his average range as shown in his referenced exhibit – while at the same time giving some effect to the Company’s proposed exclusion of short-term debt from a determination of a proper capital structure. We therefore find the Company’s capital structure is reasonably set at 45.40% debt and 54.60% equity.

VIII. PALMETTO OF RICHLAND COUNTY (“PRC”) PLANT

In 2012, Palmetto’s parent company formed Palmetto of Richland County, LLC (“PRC”) to purchase certain sewer collection system assets (e.g. sewer lines, lift stations, and manholes) owned by the City (assets hereinafter referred to as the “PRC Plant). The service area PRC acquired was an unincorporated area northeast of the City limits adjacent to Palmetto’s service area, serving approximately 11,370 customers.³⁷

³⁵ Parcell Surr. p. 4, ll. 1-7; Tr. p. 488.4, ll. 1-7.

³⁶ Rothschild Dir. (Cost of Capital) p. 3, l. 2; Tr. p. 482.5, l. 2; p. 11, ll. 7-17; Tr. p. 482.13, ll. 7-17.

³⁷ Daday Dir. p. 3, ll.16-18; Tr. p. 262.3, ll. 16-18.

On June 6, 2012, prior to the purchase of the PRC Plant, PRC entered into an Asset Purchase Agreement (“APA”) with the City. By Order No. 2012-960,³⁸ the Commission granted a certificate to PRC that “its acquisition of the City’s wastewater collection system in the proposed service area is in the public interest”; authorized PRC to provide wastewater service as a public utility in the service area acquired; and established rates and charges to be imposed on customers in the service area. Under the Order, PRC would continue to charge its new customers the same monthly rates then imposed by the City. The Commission later granted approval for PRC to merge into Palmetto.³⁹ In Palmetto’s last rate case, the Company and ORS entered into, and the Commission accepted, a stipulation whereby valuation of the PRC Plant would be deferred to this proceeding.⁴⁰

Palmetto of Richland County, LLC purchased the PRC Plant from the City for \$18 million. At issue in this proceeding is the ratemaking treatment of the purchase price an investor-owned utility – here, Palmetto – paid to acquire the assets of a municipality – the City. Palmetto, ORS, and the Consumer Advocate made recommendations pertaining to this issue. The Company proposed that the entire \$18 million purchase price be included in rate base.⁴¹ ORS initially asserted that all but \$1.29 million of the Company’s \$18 million original cost estimate should be excluded from rate base and the \$16.71 million difference, which ORS estimates is the amount of plant “donated or

³⁸ Issued December 21, 2012 in Docket No. 2012-273-S.

³⁹ See Order No. 2017-433, issued July 11, 2017, in Docket No. 2017-105-S.

⁴⁰ See Stipulations filed January 5, 2018 in Docket No. 2017-228-S. Order No. 2018-155, p.5.

⁴¹ Application, ¶ 11(c).

contributed to the City,” should be treated as an acquisition adjustment.⁴² The Consumer Advocate adopted the same primary position as ORS.⁴³

The Company asserts that the National Association of Regulatory Utility Commissioners Uniform System of Accounts (“NARUC USOA”) for Class A Wastewater Utilities, which is authorized by virtue of S.C. Code Ann. § 58-5-220 (2015) and made applicable to Palmetto by virtue of S.C. Code Regs. 103-517 (2012),⁴⁴ requires that the full purchase price paid for the PRC Plant be included in rate base. Specifically, the Company contends that the second sentence of Accounting Instruction 18.A⁴⁵ requires that the PRC Plant “be included at the cost incurred by [Palmetto]” because the first sentence of this instruction is inapplicable as the PRC Plant is neither “an operating unit or system” nor “utility plant.”⁴⁶ These contentions are based on the fact that the PRC Plant do not include any treatment facilities (and are thus by themselves inoperable according to Palmetto)⁴⁷ and the fact that the City is not a “utility” as defined by the USOA Definition 40 because it is not regulated by the Commission.⁴⁸ Palmetto alternatively asserts that even if the first sentence of Accounting Instruction 18.A does apply, it should be permitted to include in rate base \$17.1 million, which figure is

⁴² Loy Dir. p. 13, ll. 12-16; Tr. p. 507.13, ll. 12-16; Hr’g Ex.17, Ex. CEL-2 p. 9, n.9.

⁴³ Rothschild Dir. (Accounting) p. 3, ll. 1-2; Tr. p. 481.5, ll. 1-2; p. 11, ll. 5-8; Tr. p. 481.13, ll. 5-8; p.17, ll. 15-16; Tr. p. 481.19, ll. 15-16.

⁴⁴ See Hr’g Ex. 10, p. 15, GW Reb. Ex. 1, p. 7 (establishing Class A wastewater utilities as those having annual wastewater operating revenues of \$1 Million or more).

⁴⁵ See Hr’g Ex. 10, p. 21, GW Reb. Ex. 1, p. 13. In pertinent part, this instruction states that “[a]ll amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service. All other utility plant shall be included in the accounts at the cost incurred by the utility . . .”

⁴⁶ Walsh Dir. p. 3, ll. 9-31; Tr. p. 358.3, ll. 9-31.

⁴⁷ Walsh Dir. p. 3, ll. 14-19; Tr. p. 358.3, ll. 14-19.

⁴⁸ Walsh Dir. p. 3, ll. 19-23; Tr. p. 358.3, ll. 19-23.

produced by deducting an estimated \$900,000 in depreciation, amortization and Contributions in Aid of Construction (“CIAC”) from the Company’s original cost estimate of \$18 million for the PRC Plant, as permitted under USOA Accounting Instruction 18.D.⁴⁹

Consumer Advocate witness Rothschild testified the amount included in Palmetto’s rate base should be no more than the amount that would be appropriate to add if the acquired entity was a regulated utility.⁵⁰ Mr. Rothschild believes any other treatment would be extremely unfair to ratepayers. He notes:

[o]riginal cost ratemaking is based on the principle that items added to rate base that are used and useful and have been prudently incurred at a reasonable cost should be added to rate base in an amount equal to the depreciated original cost, with appropriate adjustments for assets acquired by [CIAC] and deferred income taxes.⁵¹

Regarding CIAC, Mr. Rothschild notes Palmetto has the burden of proof and citing poor accounting records as an excuse does not justify the Company, or the City, taking ownership of the CIAC.⁵² In his opinion consumers should not forfeit their CIAC unless legislation allows such a practice, and the Commission determines it is in the public interest to do so.

ORS raised two issues related to valuation of the PRC Plant, asserting: (1) the Handy-Whitman indices (“H/W indices”) should have been used instead of the Consumer Price Index for All Urban Customers (“CPI-U”) to trend reproduction costs back to original cost and (2) most of the plant PRC acquired from the City was originally donated

⁴⁹ Wood Dir. p. 3, ll. 8-20; Tr. p. 321.3, ll. 8-20; Hrg. Ex. 8; Daday Dir. p. 6, ll. 1-18; Tr. p. 262.6, ll. 1-18.

⁵⁰ Rothschild Dir. (Accounting) p. 14, ll. 3-5; Tr. p. 481.16, ll. 3-5.

⁵¹ Rothschild Dir. (Accounting) p. 14, ll. 5-9; Tr. p. 481.16, ll. 5-9.

⁵² Rothschild Sur. p. 14, ll. 21-23; Tr. p. 483.14, ll. 21-23.

to the City. ORS did not contest the original cost methodology utilized by the Company to determine the value of the PRC Plant.

With respect to the H/W indices, witness Loy testified that usage of the H/W indices in an original cost study is an industry norm and industry best practice, as the H/W indices measure cost trends specifically applicable to utility construction.⁵³ The CPI-U, on the other hand, is not relevant to the prices paid by a wastewater utility for constructing its system.⁵⁴ The CPI-U is measured and reported by the Bureau of Labor Statistics and “measures the change in prices paid by consumers for goods and services . . . based on prices of food, clothing, shelter, fuels, transportation, doctors’ and dentists’ services, drugs, and other goods and services that people buy for day-to-day living.”⁵⁵ Witness Loy also testified that Company witnesses Clayton and Harold Walker both had used the H/W index in original cost studies performed in other state jurisdictions.⁵⁶ Use of H/W indices results in reduction to net plant of \$1,707,727.⁵⁷

ORS initially disagreed with the Company’s position, primarily asserting that USOA Accounting Instruction 21⁵⁸ controls the proper accounting for the PRC Plant and not Instruction 18. However, ORS has alternatively noted that some portion of amounts

⁵³ Loy Dir. p. 12, ll. 3-4; Tr. p. 507.12, ll. 3-4; Loy Sur. p. 8, ll. 19-20; Tr. p. 509.8, ll. 19-20.

⁵⁴ Loy Dir. p. 11, ll. 19-20; Tr. p. 507.11, ll. 19-20.

⁵⁵ Loy Dir. p. 11, ll. 12-16; Tr. p. 507.11, ll. 12-16.

⁵⁶ Loy Sur. p. 9, ll. 1-2; Tr. p. 509.9, ll. 1-2.

⁵⁷ Loy Dir. p. 13, ll. 7-8; Tr. p. 507.13, ll. 7-8.

⁵⁸ Part A of this instruction provides, in pertinent part, that “[w]hen utility plant constituting an operating unit or system is acquired by purchase . . . the costs of acquisition . . . shall be charged to account 104 – Utility Plant Purchased or Sold.” Hr’g Ex. 10, pp. 25-26. Under Part B of this instruction, “the original cost of plant, estimated if not known, shall be credited to account 104” and, after reductions to that original cost to account for “accumulated depreciation and amortization” and “contributions in aid of construction” any remaining amount in account 104 “shall then be closed to account 114 – Utility Plant Acquisition Adjustments.” *Id.* at p. 26. “The amounts recorded in [account 114] . . . shall be amortized, or otherwise disposed of, as the Commission may approve or direct.” *Id.* at p. 63.

recorded as an acquisition adjustment in USOA Account 114 (as a result of their proposed application of Accounting Instruction 21) may be properly recognized for ratemaking purposes when such is found by the Commission to be “in the public interest” based upon “compelling reasons.”⁵⁹ Similarly, the Consumer Advocate has recognized that (a) “public interest” considerations may warrant inclusion of “donated plant” for ratemaking purposes⁶⁰ and (b) in the Commission’s “determination of just and reasonable rates,” the USOA “are guidelines to improve the effectiveness of regulation... [and] should be followed only if the Commission determines these guidelines result in just and reasonable rates.”⁶¹

On the issue of donated plant, ORS witness Loy testified that large amounts of the PRC Plant were constructed by developers and then donated to the City. It is common industry practice for developers to do this because in many cases “it is more cost effective for the developer to construct the collection system and donate the system to a municipality that already has a treatment plant in operation.”⁶² Witness Loy based his opinion on several items of evidence, including the City’s accounting record related to the sale of the PRC Plant to PRC, earlier accounting records referenced in the testimony of Company witness Harold Walker, deeds attached to the APA showing transfers of wastewater treatment assets by developers to the City, City-approved record or plat drawings of sewer collection systems that were prepared by professional engineers on

⁵⁹ Loy Dir. p. 20, ll.1-8; Tr. p. 507.20, ll.1-8.

⁶⁰ Rothschild Dir. (Accounting) p. 15, ll. 12-20; Tr. p. 481.17, ll. 12-20.

⁶¹ Rothschild Dir. (Accounting) p. 11, ll. 17-21; Tr. p. 482.13, ll. 17-21.

⁶² Loy Dir. p. 14, ll. 3-8; Tr. p. 507.14, ll. 3-8.

behalf of developers, and the lack of accounting records from the City indicating it constructed the plant.⁶³

NARUC USOA requires that donated plant be treated as contributions in aid of construction (“CIAC”) and excluded from rate base.⁶⁴ The proper regulatory treatment under Accounting Instruction 21 of the NARUC USOA is to classify the plant originally donated to the City as CIAC, not plant in service.⁶⁵ Otherwise, if included in plant in service and allowed in rate base, rate payers would be paying for the plant twice: “[o]nce when they purchased their property served by the collection system (by paying a price inclusive of the developer’s cost to install the wastewater plant) and now under the ownership of a private entity such as [Palmetto].”⁶⁶ In addition, the Company would be allowed the opportunity to earn a cost of capital return on plant that was originally donated.⁶⁷

The Commission agrees with ORS and the Consumer Advocate that, in some circumstances, it is appropriate to include for ratemaking purposes plant which may otherwise not be properly recorded in rate base. As noted in the testimony of Company witness Walsh,⁶⁸ a commentator previously cited by this Commission as an authoritative source on ratemaking⁶⁹ has stated in this regard that

[a] purchase price of assets in excess of book value may be included in rate base when one or more of the following criteria are met, a) the

⁶³ Loy Dir. pp. 13-16; Tr. pp. 507.13-507.16; Loy Sur. pp. 1-7; Tr. pp. 509.1-509.7.

⁶⁴ Loy Dir. p. 16, ll. 12-13; Tr. p. 507.16, ll. 12-13.

⁶⁵ Loy Dir. p. 16, ll. 12-20; Tr. p. 507.16, ll. 12-20.

⁶⁶ Loy Dir. p. 18, ll. 6-12; Tr. p. 507.18, ll. 6-12.

⁶⁷ *Id.*

⁶⁸ Walsh Reb. p. 5, ll. 18-31; Tr. p. 360.5, ll. 18-31.

⁶⁹ See Order No. 2004-175 in Docket No. 2003-295-W, 2004 WL 1372843.

transaction was in the public interest, b) the purchase price was reasonable, c) the benefits to ratepayers were equal to or greater than the premium paid for the property and d) the transaction was conducted at arm's length. Thus, an acquisition adjustment may be included in rate base where the utility is able to show that the excess purchase price produced 'consumer benefits' (such as reduced rates or improved service), which are not adequately covered in the rate base or recognized in the company's prior earnings.

Leonard Saul Goodman, *The Process of Ratemaking*, Vol. II, Public Utilities Reports, Inc. (1998) at 787 (emphasis added). Other commentators previously cited by this Commission⁷⁰ have made a similar observation, stating that

[t]wo basic questions surround the ratemaking treatment of the various amounts included **in the acquisition adjustments account**:

- (1) should any of the amounts be accorded rate base treatment; and
- (2) should the amortization of any of these balances be considered in cost of service? Rate base and cost of service treatment are often inconsistent when commissions deal with the acquisition adjustments issue. **Rate base treatment and/or cost of service treatment has been allowed by various regulatory commissions under a variety of circumstances.**

The reasons most commonly cited for allowing rate base and/or cost of service treatment of acquisition adjustments are as follows: (1) when acquisitions represent an essential or desirable part of an integration of facilities program devoted to serving the public better; (2) when acquisitions are clearly in the public interest, because operating efficiencies offset the net excess price over net original cost; and (3) when such acquisitions are determined to involve arm's-length bargaining. A substantial number of cases exist where **rate base and/or cost of service treatment has been allowed as a result of satisfying one or more of the criteria listed above.**

⁷⁰ See, e.g., Order No. 2007-887 in Docket No. 2007-244-W, 2007 WL 4945075, and Order No. 2018-155, 2017-228-S, 2018 WL 1335797.

Robert L. Hahn and Gregory E. Aliff, *Accounting for Public Utilities*, § 4.04[2], LexisNexis (2019) at 4-8 and 4-9 (emphasis added).

We would first note that the observations of these two commentators are consistent with the language of the USOA as it relates to Account 114 (Utility Plant Acquisition Adjustments), which specifically provides that “[t]he amounts recorded in this account with respect to each property acquisition shall be amortized, or otherwise disposed of, as the Commission may approve or direct.”⁷¹ Additionally, “[a]s a general rule, when acquisition adjustments are allowed in the rate base, amortization to cost of service is also allowed.” *Accounting for Public Utilities, supra*, at 4-10. Thus, the Commission may properly allow amounts constituting an acquisition adjustment recorded in Account 114 that result from the application of Accounting Instruction 21 to assets acquired by a utility to be included in rate base and be amortized.

Furthermore, the Commission finds that there are unique facts in this proceeding which justify including a portion of the \$16.71 million plant acquisition adjustment identified by ORS and the Consumer Advocate in both rate base and cost of service, as is provided for by the PUI-ORS Stipulations. These unique facts include the following:

- (1) the 2013 acquisition of the PRC Plant marks the first and only time a public (i.e., investor owned) utility has purchased facilities from a municipality which have been sought to be included for ratemaking purposes in proceedings before this Commission;⁷²
- (2) all parties have acknowledged that the City’s records pertaining to the PRC Plant were at best poorly kept.⁷³ Accordingly, it is not possible to determine the actual

⁷¹ Hr’g Ex. 10, pp. 62-63.

⁷² Hipp. Surr. p. 10, ll. 1-3; Tr. p. 497.10, ll. 1-3.

⁷³ Daday Dir. p. 6, ll. 1-18, Tr. p. 262.6, ll. 1-18; Loy Dir. p. 14, ll. 6-8; Tr. p. 507.14, ll. 6-8; Rothschild Dir. (Accounting) p. 11, ll. 8-9; Tr. p. 481.13, ll. 8-9.

- original costs incurred by the City in acquiring the PRC Plant or to determine with any specificity what amounts of these assets constitute CIAC and an estimate is therefore warranted under either instruction;
- (3) the public interest was served by the acquisition of the PRC Plant given that (a) the customers previously served by the City were, and will continue to be, shielded from rate increases by the City which have averaged 5.4% over the last seven years,⁷⁴ (b) customers previously served by the City are now able to have a voice in the setting of their utility rates by seeking intervenor or protestant status, filing comments, and appearing as witnesses in opposition to a proposed rate increase before this Commission – a voice they were denied as non-resident customers of the City,⁷⁵ (c) the customers previously served by the City, based on average water consumption of 6,000 gallons per month, have already saved approximately \$8.9 million by virtue of the fact that they have been customers of Palmetto (and its predecessor PRC) and not the City since 2013, and stand to save more (approximately \$3.9 million) even if the full rate increase requested were granted,⁷⁶ (d) treatment of wastewater for customers served with the PRC Plant by Palmetto instead of the City is more efficient given that (i) the flow will be transported to the Company's Spears Creek Wastewater Treatment Plant ("WWTP") which discharges to the Wateree River drainage basin and is closer to the service territory than the City's Metro WWTP discharging to the Congaree River, which this Commission has previously found to be in the public interest⁷⁷ and (ii) will be treated at a lower cost to customers,⁷⁸ and (e) having a larger customer base across which the Company's costs may be spread benefits those who were the Company's customers prior to the acquisition of the PRC Plant.⁷⁹

In view of the foregoing, the Commission concludes that it is unnecessary to address the Company's arguments relying upon USOA Accounting Instruction 18 and will now consider the appropriateness of including \$8,476,000 in both rate base and as a regulatory

⁷⁴ Daday Dir p. 9, ll. 7-16; Tr. p. 262.9, ll. 7-16; Hr'g Ex. 5, MD-Exhibit 2.

⁷⁵ Walsh Reb. p. 5, ll. 10-16; Tr. p. 360.5, ll. 10-16. *Cf. Sloan v. City of Conway*, 347 S.C. 324, 329-30, 555 S.E.2d 684, 686-87 (2001) (holding that a non-resident municipal water customer has no basis to challenge an out of city rate on the grounds of unreasonableness).

⁷⁶ Daday Dir. p. 7, l. 27 – p. 8, l. 30; Tr. p. 262.7, l. 27 – p. 262.8, l. 30; Hr'g Ex. 5, MD-Exhibit 2; Walsh Reb. p. 4, l. 27 – p. 5, l. 16; Tr. p. 360.4, l. 27 – p. 360.5, l. 16. With respect to this testimony, the Commission also finds as a fact that average water consumption for the Company's customers is approximately 6,000 gallons per month based upon the direct evidence provided in Mr. Daday's testimony and the published data cited by Mr. Walsh consisting of government and industry analyses of water consumption and U.S. Census Bureau residential occupancy data for Richland County.

⁷⁷ See Order No. 2012-960, Docket No. 2012-273-S, December 21, 2012.

⁷⁸ See n.73, *supra*.

⁷⁹ Walsh Reb. p. 5, ll. 15-16; Tr. p. 360.5, ll. 15-16.

asset to be amortized over 9.31 years as provided for in the PUI-ORS Stipulations. For the reasons discussed below, the Commission approves and adopts these stipulation terms.

Initially, we note that the amount proposed to be included in rate base and amortized is less than half of the \$18 million paid for the PRC Plant. This reflects a reasonable sharing of costs between the Company's customers and its shareholders. Secondly, the acquisition of the PRC Plant was approved by this Commission as being in the public interest in Order No. 2012-960 and has proven to be beneficial to the Company's customers if for no other reason than the transportation, treatment, and disposal at the Company's Spears Creek WWTP is more efficient than if this is accomplished using the City's Metro WWTP. Third, we find that the purchase price for the PRC Plant was the result of an arm's length transaction given that it involved not only approval of the governing body of the City of Columbia, but also this Commission.⁸⁰ Fourth, and based upon the average water consumption figures we have found to be correct, the Company's customers formerly served by the City have already realized savings in excess of the \$8,476,000 worth of PRC Plant which would be included in rate base and in an amortization under the PUI-ORS Stipulations. In sum, we find that each of the criteria described by the referenced commentators is satisfied and that the provisions of the PUI-ORS Stipulations providing for a return on and return of \$8,476,000 are therefore appropriate. Adoption of this aspect of the PUI-ORS Stipulations not only promotes confidence in the financial integrity of the Company,

⁸⁰ Walsh Reb. p. 5, l. 33 – p. 6, l. 25; Tr. p. 360.5, l. 33 – p. 360.6, l. 25.

Hope, supra, but also continued investment in utility facilities so as to provide reliable and high quality sewer service – a goal recognized by the General Assembly as being appropriate for consideration in ratemaking matters. *Cf.* S.C. Code Ann. §58-4-10(B) (Supp. 2019).⁸¹

Palmetto and ORS also stipulated that the Company would record Post-Acquisition Expansion Fees as CIAC (reduction to rate base of \$2,644,673) and receive a rate base rate of return on \$8,476,000 of the purchase price.⁸² Additionally, Palmetto and ORS stipulated the Company would adjust its Balance Sheet to eliminate the Utility Plant Acquisition recorded to Account 114. The Commission concludes the treatment of Account 114 contained in the PUI-ORS Stipulations is appropriate and supported by substantial evidence and is, therefore, approved.

IX. TAX CUTS AND JOBS ACT

The TCJA decreased the corporate tax rate from 35% to 21%, effective January 1, 2018. By Order No. 2018-308 in Docket No. 2017-381-A, the Commission ordered all utilities to calculate and defer the tax effects resulting from the TCJA as of the law's effective date.

Palmetto does not believe a return of excess taxes is appropriate under the TCJA. The Company asserts that a return of the tax savings is improper and would: (i) constitute impermissible retroactive ratemaking and improper single expense ratemaking, (ii) deprive the Company of due process of law, (iii) be contrary to the provisions of the

⁸¹ The PUI-ORS Stipulations provide that the Company's balance sheet will be adjusted to eliminate the \$95,623,890 shown in Account 114. Hr'g Ex. 3, ¶ 9. This amount does not include any part of the \$8,476,000 to be included in rate base and to be amortized.

⁸² Hr'g Ex. 3.

South Carolina constitution regarding taking of private property for private use, and (iv) be contrary to S.C. Code Ann. § 58-5-290.⁸³ Palmetto also takes issue with the difference between its federal income taxes before and after the effective date of the TCJA, as calculated by ORS .⁸⁴

ORS asserts the Company should be required to return to its customers, the savings Palmetto has realized since January 1, 2018. ORS witness Sullivan testified the excess federal corporate income tax expense embedded in Palmetto's current rates since January 1, 2018 should be returned to customers through a regulatory liability in the amount of \$2,032,146.⁸⁵

Similarly, DCA advocates for a refund. Witness Rothschild testified these funds do not directly impact the Company's rate of return nor does Palmetto own these funds, so refunding the money to customers does not constitute retroactive ratemaking.⁸⁶ Witness Rothschild further testified that the return of these funds would be consistent with how the TCJA was handled by other utilities in South Carolina and before other Commissions across the United States.⁸⁷

Per the PUI-ORS Stipulations, Palmetto shall establish a regulatory liability in the amount of \$2,032,146, which is attributed to the excess federal corporate income tax expenses embedded in current rates charged to the Company's customers since January 1, 2018. Under the PUI-ORS Stipulations, Palmetto would return the regulatory liability to

⁸³ Daday Reb. p. 15, ll. 8-10; Tr. p. 265.15, ll. 8-10.

⁸⁴ Daday Reb. p. 16, ll. 6-17; Tr. 265.16, ll. 6-17.

⁸⁵ Sullivan Rev. Dir. p. 8, ll. 13-19; Tr. p. 546.8, ll. 13-19; Hr'g Ex. 20, Revised Ex. DFS-2.

⁸⁶ Rothschild Dir. (Accounting), p. 8, ll. 12-14; Tr. p. 481.10, ll. 12-14.

⁸⁷ Rothschild Dir. (Accounting), p. 8, ll. 18-22; Tr. p. 481.10, ll. 18-22.

its customers through a decrement rider or separate negative surcharge over an approximately twelve (12) month period or until the balance of the regulatory liability reaches zero. The monthly decrement per ERC would be \$4.94, and a residential customer's monthly bill would be \$54.93 after the application of the decrement, which is about a 5% increase from the current monthly bill.

After consideration of the substantial evidence on the whole record, the Commission concludes that it is reasonable to approve the process delineated in the PUI-ORS Stipulations regarding the treatment of the excess federal corporate income tax expense embedded in Palmetto's current rates since January 1, 2018. The Company and ORS have agreed to this provision, it is in line with the recommendations put forth by the Consumer Advocate, and it is a similar method that has been authorized by this Commission in other dockets. Additionally, the return of this money is especially important during the ongoing COVID-19 pandemic. It is therefore unnecessary for the Commission to address the Company's arguments regarding the TCJA. Palmetto shall establish a regulatory liability of \$2,032,146 which is to be returned to the Company's customers through a decrement rider or separate negative surcharge for approximately twelve (12) months or until the balance in the regulatory liability reaches zero. Accordingly, we approve and adopt the PUI-ORS Stipulations in this regard.

X. COST OF SERVICE STUDY

The Company proposed no change in its rate design in this proceeding. However, a number of customers complained the Company's current flat rate design is unfair to customers with low water usage. The Commission has also recognized the burden flat

rates impose on sewer customers where only one or two people are in a household, on senior citizens with fixed incomes, and on low- and moderate-income customers. *See* Commission Directive dated March 25, 2020 in Docket No. 2019-290-WS.

ORS did not propose any change in the Company’s current rate design in this proceeding, but recommended the Commission require that Palmetto conduct and file a cost of service study (“COSS”) to coincide with its historic test year for its next base rate case and investigate and report to the Commission the feasibility of converting to a usage sensitive rate design in its next rate case.^{88,89} The Consumer Advocate took no position with regard to the Company’s rate design, a COSS, or an investigation into the feasibility of the Company converting to a usage sensitive rate.

While the Company does not currently have access to water consumption data,⁹⁰ Palmetto is willing to conduct a COSS and reiterated its willingness to do so, subject to the availability of accurate water meter reading data from municipal water suppliers and recovery of the associated costs.⁹¹ The Commission heard testimony from both the Company⁹² and a customer⁹³ that the City’s existing water meters in Palmetto’s service area are in need of replacement and often result in mis-readings which will lead to disputes regarding a bill issued under a usage sensitive rate design. Accordingly, we find that adoption of a usage sensitive rate design is not currently feasible. However, as a

⁸⁸ Hunnell Rev. Dir. p. 13, l. 9 – p. 14, l. 17; Tr. p. 534.13, l. 9 – p. 534.14, l. 17.

⁸⁹ Hunnell Rev. Dir. p. 15, ll. 14 -17; Tr. p. 534.15, ll. 14-17.

⁹⁰ Hr’g Ex. 6, MD Reb. Ex. 8.

⁹¹ Daday Reb. p. 18, l. 16 – p. 19, l. 21; Tr. p. 265.18, l. 16 – p. 265.19, l. 21.

⁹² Daday Reb. p. 19, ll. 17-21; Tr. p. 265.19, ll. 17-21; Walsh Reb. p. 11, l. 23 – p.12, l. 13, Tr. p. 360.11, l. 23 – p. 360.12, l. 13; Hr’g Ex. 10, GW Reb. Exs. 2-3.

⁹³ Testimony of Margi Scotti, June 22, 2020, Tr. p.130, ll. 12-23.

result of the PUI-ORS Stipulations, the Company will examine the feasibility of this alternative rate design as soon as practical and present it as an alternative to the Commission in the Company’s next rate relief proceeding.⁹⁴ The Company shall file quarterly reports addressing progress in obtaining water consumption data from water suppliers serving Palmetto’s customers.

XI. TARIFF MODIFICATIONS

The Company proposed three modifications to its rate schedule: language imposing a tampering charge of up to \$250.00, language limiting its liability to customers in circumstances where there is an interruption of service, and language consistent with a settlement agreement reached between the Company, ORS, and certain intervenors in Docket No. 2017-381-A pertaining to a Tax Multiplier designed to “gross-up” developer contributed assets.⁹⁵

a. Tampering Charge

Palmetto proposed that it be permitted to impose a charge not to exceed \$250.00 per occurrence where a customer has tampered with or damaged the Company’s facilities or equipment. As noted by Palmetto, the proposed language is consistent with tariff language heretofore approved by the Commission for other jurisdictional utilities.⁹⁶ ORS did not object to the addition of a tampering charge as Palmetto provided a reasonable cost justification in its Application.⁹⁷

⁹⁴ Hr’g Ex. 3, ¶¶ 11-12.

⁹⁵ Amended Application p. 6-7, ¶¶ 12-13.

⁹⁶ *Id.*

⁹⁷ Hunnell Rev. Direct, p. 16, ll. 8-15; Tr. p. 534.16, ll. 8-15.

b. Limitation of Liability

The Company also proposed it be permitted to limit its liability and that of its agents and employees to customers for damages arising out of the interruption of service or the failure to furnish service, to the remedies provided under Commission Regulations. Palmetto indicated similar provisions had been approved for other sewer utilities under the Commission’s jurisdiction.⁹⁸ Company witness Daday testified the addition of the limitation of liability provision was “intended to make clear that the Company’s only obligation regarding service interruption is to comply with the Commission’s service interruption regulations.”⁹⁹ Further, while the provision would “preclude any claim based simply upon the fact that a service interruption occurred, it does not limit a customer’s right to bring a claim for damages if they result from service interruption.”¹⁰⁰ ORS did not object to the addition of the limitation of liability provision, noting the protections provided under Commission Regulations regarding service interruptions or failures to furnish service would still apply.¹⁰¹ The Consumer Advocate opposed the limitation of liability language, stating South Carolina law only obligates the Company to report an interruption of service and to resume service as quickly as possible.¹⁰² Further, limiting liability is not a benefit to customers.¹⁰³

⁹⁸ Amended Application p. 6-7, ¶¶ 12-13.

⁹⁹ Daday Direct, p. 12, ll. 13-18; Tr. p. 262.12, ll. 13-18.

¹⁰⁰ *Id.*

¹⁰¹ Hunnell Rev. Direct, p. 16, l. 20 – p. 17, l. 11; Tr. p. 534.16, l. 20 – p. 534.17, l. 11.

¹⁰² Rothschild Dir. (Accounting) p. 17, ll. 3-7; Tr. p. 481.19, ll. 3-7.

¹⁰³ *Id.*

c. Tax Multiplier for Property Contributions

Lastly, Palmetto proposed language pertaining to a Tax Multiplier designed to “gross-up” developer contributed assets to cover federal income tax that has been imposed on CIAC as a result of the TCJA. Palmetto witness Daday testified the 8.5% currently used was agreed to as part of a settlement between home builders and developers, ORS, and Palmetto filed in Docket No. 2017-381-A.¹⁰⁴ ORS did not object to Palmetto’s request to add a Tax Multiplier for CIAC but asserted the Company should be required to utilize the capital structure approved by the Commission in this rate proceeding to calculate the net present value (“NPV”) tax multiplier percentage on property contributions.¹⁰⁵ ORS reasons that if Palmetto is awarded a cost of capital in this case less than 8.5%, the Company would over-collect its federal tax obligation from developers.¹⁰⁶ On the other hand, if Palmetto is awarded a cost of capital greater than 8.5%, the Company would under-collect its federal tax obligation on any contributed property obtained after the date of the Order in this case.¹⁰⁷ The Consumer Advocate took no position with regard to the NPV tax multiplier.

d. Discussion

Under the terms of the PUI-ORS Stipulations, the Company has agreed to delete the limitation of liability language opposed by the Consumer Advocate and to make the revision to the language of the Tax Multiplier revision, as proposed by ORS, based upon

¹⁰⁴ Daday Reb. p. 17, ll. 15-20; Tr. p. 265.17, ll. 15-20.

¹⁰⁵ Hunnell Rev. Direct, p. 16, l. 20 – p. 17, l. 11; Tr. p. 534.16, l. 20 – p. 534.17, l. 11.

¹⁰⁶ Hunnell Sur., p. 6, l. 16 – p. 7, l. 12; Tr. p. 535.6, l. 16 – p. 535.7, l. 12.

¹⁰⁷ *Id.*

the Company’s capital structure adopted in this case. In view of these facts, the Commission approves and adopts this aspect of the PUI-ORS Stipulations.

XII. ADJUSTMENTS TO REVENUE

ORS calculates Palmetto’s test-year revenues as \$21,313,222 and proposes to adjust these revenues upward by \$1,255,651 (to total \$22,568,873) to normalize test year revenue using consumption data provided by Palmetto.¹⁰⁸ Palmetto did not challenge this calculation of or this adjustment to test-year revenues and the Consumer Advocate offered no evidence on this issue. Accordingly, the Commission finds that \$22,568,873 reflects the correct level of revenues for Palmetto for the test year after adjustments. ORS determined, and neither Palmetto nor the Consumer Advocate disagreed, that Palmetto’s schedule of rates for sewer service and non-recurring charges proposed in its Application, if approved, would increase its operating revenues by \$6,062,369.^{109,110}

XIII. ADJUSTMENTS TO EXPENSES

Palmetto’s “expenses are presumed to be reasonable and incurred in good faith.” *Hamm*, 309 S.C. at 286, 422 S.E.2d at 112. This presumption is overcome if another party produces “direct evidence” that “demonstrate[s] a tenable basis for raising the specter of imprudence” with respect to a given expense claimed by the Company. *Id.*, 309 S.C. at 286-87, 422 S.E.2d at 112-13. ORS proposed some 25 expense adjustments.¹¹¹ Other than those adjustments associated with depreciation and

¹⁰⁸ Hunnell Rev. Dir. p. 9, ll. 3-14; Tr. p. 534.9, ll. 3-14; Hr’g Ex. 21, Ex. CLS-2 at 1.

¹⁰⁹ Hr’g Ex. 19, Revised Ex. DPH-3.

¹¹⁰ This amount is calculated by taking the Company’s revenue at proposed rate and subtracting revenue at the current rate (\$28,631,242-\$22,568,873).

¹¹¹ Hr’g Ex. 21, Ex. CLS-2.

amortization related to CIAC linked to the PRC Plant, the Consumer Advocate proposed no adjustments to expenses. The Commission adopts the ORS expense adjustments other than those which are modified as a result of the PUI-ORS Stipulations as discussed below. The net effect of the Commission's conclusions regarding expenses results in Palmetto's allowable expenses for the test year (after pro forma and accounting adjustments) being \$19,400,791.¹¹²

a. Bad Debt Expenses

Palmetto seeks to include as an allowable expense bad debt totaling 2.50% of annual revenues.¹¹³ Initially, ORS opposed Palmetto's request in this regard, asserting that a five-year average of uncollectible revenue should instead be utilized resulting in a bad debt percentage of 1.78%. The Consumer Advocate proposed no adjustment to this expense. However, as a result of the PUI-ORS Stipulations, ORS has now agreed that the 2.50% uncollectible rate previously approved by the Commission for the Company is appropriate, resulting in an expense of \$272,918. The Commission finds that this aspect of the PUI-ORS Stipulations is supported by the evidence of record. The 2.50% uncollectible expense percentage stipulated to by the Company and ORS is found to be a reasonable estimate of future bad debt and the expense adjustment of \$272,918 is adopted by the Commission.

¹¹² PUI-ORS Stipulations Ex. 1.

¹¹³ Application Exhibit B, Schedule B, pp. 2-3; Daday Reb. p. 3, l. 7 – p. 4, l. 11; Tr. p. 265.3, l. 7 – p. 265.4, l. 11.

b. Rate Case Expense

In its Application, Palmetto estimated rate case expense of \$317,950 and proposed to include that amount as an allowable expense to be amortized over three years.¹¹⁴ Palmetto further proposed that additional rate case expense incurred through the date of hearing in this matter be included and ORS agreed to this proposal, subject to its review of the requested additional amount and examination of supporting documentation.¹¹⁵ According to Company witness Daday, Palmetto had documented for ORS nearly \$370,000 in rate case expense as of May 26, 2020,¹¹⁶ which included expenses incurred under S.C. Code Ann. §58-4-100 (2015). The Consumer Advocate proposed no adjustment to rate case expense. As a result of the PUI-ORS Stipulations, however, rate case expense for the instant proceeding, to be amortized over three years, would be capped at \$246,453 and Palmetto will not be entitled to additional rate case expense through the hearing date as it requested. The rate case expense proposed under the PUI-ORS Stipulations are considerably less than those documented by the Company to ORS, and the Commission finds the stipulated rate case expense reasonable. Therefore, the stipulated rate case expense is allowed to be amortized over three years. This results in a rate case expense adjustment of \$82,151.¹¹⁷

¹¹⁴ Application Ex. B, Schedule B; Clayton Dir. p. 6, ll. 17-18, l. 30; Tr. p. 335.6, ll. 17-18, l. 30; Seale Dir. p. 11, ll. 10-17; Tr. p. 550.11, ll. 10-17.

¹¹⁵ Sullivan Surr. p. 12, ll. 14-18; Tr. p. 548.12, ll. 14-18.

¹¹⁶ Daday Reb. p. 14, ll. 13-16; Tr. p. 265.14, ll. 13-16.

¹¹⁷ PUI-ORS Stipulations, ¶ 4 states the rate case expense adjustment as \$82,151. Exhibit 1 of the PUI-ORS Stipulations states the rate case expense adjustment as \$82,152. The Commission approves the figure of \$82,151 as this is the amount obtained when dividing the capped amount of \$246,453 by the amortization period of three (3) years.

c. Property Tax Expense

In its Application, Palmetto proposed an adjustment to taxes other than income taxes of \$592,054 for property taxes.¹¹⁸ ORS proposed to disallow this adjustment on the basis that it applied known millage rates to pro forma plant which ORS recommended not be included in rate base.¹¹⁹ The Consumer Advocate did not propose any adjustment to the Company's tax expense. As a result of the PUI-ORS Stipulations, the full amount in property taxes proposed by the Company would be included in allowable expense. There is no evidence of record that the Company did not incur property taxes at the millage rates that it claimed. Accordingly, property taxes based upon these millage rates are properly considered in determining Palmetto's expenses for ratemaking purposes. *See Hamm, supra*, and *Utils. Servs., supra*, (holding that the presumption of reasonableness may be overcome by evidence developed in ORS's investigation demonstrating a specter of imprudence with respect to an expense). The Commission further finds this aspect of the PUI-ORS Stipulations to reasonably resolve these parties' dispute on this issue as the Company is obligated to pay property tax on its plant regardless of whether property is included in rate base for ratemaking purposes.¹²⁰ The Company is therefore entitled to the full amount of the expense claimed.

¹¹⁸ Amended Application Ex. B, Sched. B, p. 2.

¹¹⁹ Kleckley Dir. p. 6, ll. 17-22; Tr. p. 542.6, ll. 17-22.

¹²⁰ Thus, the fact that the PUI-ORS Stipulations contemplates that less than half of the Company's pro forma proposed plant additions related to the PRC Plant will be included in rate base does not preclude taxing authorities from imposing tax based on the assessed value of the Company's property which may be more or less than an amount recognized in rate base for ratemaking purposes.

To summarize the foregoing, in addition to the ORS expense adjustments which were not opposed by Palmetto or the Consumer Advocate, the Commission finds and concludes that (1) bad debt expense of \$272,918 based upon uncollectible revenue calculated at 2.50%, (2) rate case expense of \$246,453 to be amortized over three years, and (3) property tax expense of \$592,054, are reasonable and appropriate and will be allowed in this proceeding for ratemaking purposes.

d. Other Adjustments

The Commission finds the adjustments updated to account for the PUI-ORS Stipulations to be just and reasonable. Further, the Consumer Advocate did not contest these adjustments. Thus, the following adjustments are hereby approved:

1. Wastewater Sales Revenue (Adj. 1A): \$1,317,532
2. Other Wastewater Revenues (Adj. 1B): (\$61,881)
3. Operating Expenses (Adj. 2): \$2,867,414
4. Depreciation and Amortization (Adj. 3): \$96,345
5. Rate Case Expenses (Adj. 4): \$82,152
6. Taxes Other Than Income (Adj. 5): \$617,718
7. Income Taxes (Adj. 6): \$4,896,065
8. Other Income and Deductions (Adj. 7): (\$128,075)
9. Customer Growth (Adj. 8): \$56,034
10. Amortization of Excess Deferred Income Taxes (Adj. 9): (\$59,089)
11. Plant in Service (Adj. 10): (\$26,025,535)
12. Accumulated Depreciation (Adj. 11): \$14,212,800

13. Contributions in Aid of Construction (Adj. 12): (\$3,083,486)
14. Accumulated Amortization of CIAC (Adj. 13): \$1,456,122
15. Accumulated Deferred Income Taxes (“ADIT”) (Adj. 14): (\$4,894,748)
16. Excess Deferred Income Taxes (Adj. 15): (\$1,146,916)
17. Cash Working Capital (Adj. 16): \$4,274
18. Interest Expense (Adj. 17): (\$1,873,676)
19. Wastewater Sales Revenue (18A): \$3,215,000
20. Other Wastewater Revenues (18B): \$9,259
21. Operating Expenses (Adj. 19): \$80,606
22. Taxes Other Than Income (Adj. 20): \$17,001
23. Income Taxes (Adj. 21): \$780,100
24. Customer Growth Adjustment (Adj. 22): \$32,500
25. PRC Regulatory Asset (Adj. 23): \$8,476,000

XIV. FINDINGS OF FACT

Based upon the discussion as set forth herein, and the record of the instant proceeding, the Commission makes the following Findings of Fact:

1. The Commission finds that Palmetto Utilities, Inc. is a wastewater utility providing sewer service in its assigned service area located in Richland and Kershaw Counties.

2. The Commission finds the rate base methodology to be warranted and appropriate in this proceeding.

3. The Commission finds the twelve months beginning September 1, 2018 and ending August 31, 2019 are an appropriate test year in this proceeding.

4. The Commission finds a capital structure of 45.40% debt and 54.60% equity and a ROE of 9.07% to be just and reasonable.

5. For the reasons discussed herein, the Commission finds the revenues detailed in Order Exhibit 1, Stipulation Exhibit 1 to be just and reasonable and based upon credible evidence in the record.

6. The Commission finds that the adjustments as discussed and listed previously above in this Order are just and reasonable and the Commission hereby adopts and approves the same.

7. The Commission finds, based on the substantial evidence on the whole record, that it is fair, just, and reasonable to require the Company to conduct a cost of service study that coincides with the test year to be included as part of its next rate case.

8. The Commission finds that it is just and reasonable to direct and order that the Company examine and report on the feasibility of obtaining water meter and customer usage data from water providers as soon as practical.

9. We find, for the reasons discussed herein, that the PUI-ORS Stipulations are fair, just, and reasonable for both the Company and its customers. Therefore, those stipulations which are not expressly adopted in the discussion above are hereby adopted.

XV. CONCLUSIONS OF LAW

Based upon the discussion as set forth herein, and the record of the instant proceeding, the Commission makes the following Conclusions of Law:

1. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. The Company's operations in South Carolina are subject to the jurisdiction of the Commission. S.C. Code Ann. § 58-5-210, *et seq.*

2. The Commission concludes that the rate base methodology is appropriate in this proceeding. S.C. Code Ann. § 58-5-240(H) (2015). *Heater of Seabrook, Inc. v. Pub. Serv. Comm'n of S.C.*, 324 S.C. 56, 478 S.E.2d 826 (1996).

3. The Commission concludes that the appropriate historical test year period for this proceeding is September 1, 2018 to August 31, 2019. S.C. Code Ann. Regs. 103-823(A)(3) (2012).

4. The Commissions concludes the rates, fees, and charges included in this Order are fair and reasonable and will allow the Company to continue to provide its customers with adequate wastewater services.

XVI. ORDERING PROVISIONS

IT IS THEREFORE ORDERED THAT:

1. Expansion Fees collected by PRC and Palmetto from and after March 21, 2013, when PRC acquired assets from the City, shall be recorded as contributions in aid of construction, resulting in a reduction to rate base of \$2,644,673.

2. The results of the Original Cost Study prepared by PRC with respect to the PRC Plant shall be adjusted to apply the Handy-Whitman indices to calculate the cost trends for utility construction, resulting in a reduction in net plant of \$1,707,727.

3. The PRC Plant shall be valued at \$8,476,000 and shall be recorded as part of the Palmetto rate base as shown in Stipulation Exhibit 1, included as part of Order Exhibit 1. Any Assets related to plant in the former PRC service area that were included in the Company's allowable plant in Commission Order 2018-155 in Docket No. 2017-228-S remain unchanged and are not included in the ratemaking treatment in this Stipulation. The ratemaking treatment for the PRC Plant includes the establishment and approval of a regulatory asset. The regulatory asset will be amortized over 9.31 years and the annual amortization amount for the PRC Plant will be \$910,000. The Company is allowed to earn a return on the PRC Plant at the weighted average cost of capital.

4. The Company's rates shall be set using the rate base methodology; with a return on rate base of 7.63% based upon a return on equity of 9.07% and a capital structure of 45.40% debt and 54.60% equity, with a rate base of \$85,848,671, as reflected in Order Exhibit 1, Stipulation Exhibit 1.

5. Pursuant to S.C. Code § 58-5-240(H), Palmetto's operating margin is 16.48%, as set by the PUI-ORS Stipulations, and as reflected in Order Exhibit 1, Stipulation Exhibit 1.

6. The Company shall establish a regulatory liability for the impacts of the 2017 Tax Cuts and Jobs Act as required by Commission Order No. 2018-308. The regulatory liability is valued at \$2,032,146 and shall be returned to customers through a decrement rider for 12 months or until the balance in the regulatory liability reaches zero. The amount of the monthly decrement per ERC is \$4.94.

7. The Company shall adjust its Balance Sheet to eliminate the Utility Plant Acquisition recorded to Account 114.

8. All other adjustments by ORS are adopted as addressed above.

9. The rates, fees, and charges set forth in Order Exhibit 2, which incorporates the adjustments as stipulated between the Company and ORS, are fair, just, and reasonable and will allow the Company to continue to provide its customers with adequate wastewater service.

10. The Company shall charge the rates approved herein for service rendered after September 20, 2020. The schedules will be deemed filed with the Commission under S.C. Code Ann. § 58-5-240.

11. The Company shall conduct a Cost of Service Study to coincide with Palmetto's historic test year in its next base rate case.

12. The Company shall examine and report the feasibility of obtaining water meter and customer usage data from water providers as soon as practical and shall provide quarterly reports addressing progress in obtaining water consumption data from water suppliers serving Palmetto's customers.

13. The Company will present a volumetric rate design alternative to the Commission for its consideration in the next base rate case.

14. Aside from the decrement rider for the return of the regulatory liability for the impacts of the 2017 Tax Cuts and Jobs Act, the Company otherwise commits to a rate freeze until August 20, 2023.

15. The tariff language related to limitation of liability for interruption or failure to furnish service the Company proposed has been withdrawn and is not approved. The other modifications the Company proposed to the language in its Rate Schedule as modified by ORS are approved.

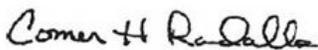
16. As approved in Hearing Officer Directive, No. 2020-65-H, the Company will make an annual contribution of \$50,000 to Wateree Community Actions, Inc. (“WCA”), or another appropriate non-profit entity, for a period of three (3) years for the exclusive purpose of assisting Palmetto’s customers with paying their bills to the Company. The Company’s contribution will be considered a non-allowable expense for ratemaking purposes.

17. The Company’s books and records shall continue to be maintained according to the NARUC Uniform System of Accounts.

18. The Company shall maintain a performance bond for sewer operations in the amount of \$350,000 in compliance with S.C. Code Ann. § 58-5-720 (2015).

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

BY ORDER OF THE COMMISSION:


Comer H. “Randy” Randall, Acting Chairman



BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2018-281-S

IN RE:)
)
Application of Palmetto Utilities, Inc.)
for adjustment of rates and)
charges for, and the modification of)
certain terms and conditions related to,)
the provision of sewer service in its)
Palmetto Utilities and Palmetto of)
Richland County service areas.)
_____)

STIPULATIONS

Applicant, Palmetto Utilities, Inc. (“PUI”), and South Carolina Office of Regulatory Staff (“ORS”), by and through their undersigned counsel, pursuant to S.C. Code Ann. §1-23-320(F), S.C. Code Ann. §58-3-225(E), and S.C. Code Ann. §58-4-50(A)(9)), hereby stipulate to resolve their disputes regarding the issues in this proceeding as follows:

1. Expansion Fees collected by Palmetto of Richland County LLC (“PRC”) and PUI from and after March 21, 2013, the date upon which PRC acquired assets from the City of Columbia (“PRC Assets”) shall be recorded as contributions in aid of construction (“CIAC”), resulting in a reduction to rate base of \$2,644,673.
2. The results of the Original Cost Study prepared by PRC with respect to the PRC Assets shall be adjusted to apply the Handy-Whitman indices to calculate the cost trends for utility construction, resulting in a reduction in net plant of \$1,707,727.
3. The PRC Assets shall be valued at \$8,476,000 and shall be recorded as part of the PUI rate base as shown in Stipulation Exhibit 1. Any assets related to plant in the former PRC service area that were included in the PUI allowable plant in Commission Order No. 2018-155 in Docket No. 2017-228-S remain unchanged and are not included in the ratemaking treatment in this Stipulation. The ratemaking treatment for the PRC Assets includes establishment and approval of a regulatory asset. The regulatory asset will be amortized over 9.31 years and annual amortization amount for the PRC Assets will be \$910,000. PUI is allowed to earn a return on the PRC Assets at the weighted average cost of capital.



4. The following adjustments shall be applied and are reflected in Stipulation Exhibits 1 through 6:
 - A. Bad debt rate of 2.5%
 - B. Rate case expense adjustment of \$82,151 (total \$507,312)
 - C. Property tax adjustment as filed by PUI in its Application
 - D. All other adjustments as calculated by ORS
 - E. ROE of 9.07%
 - F. Capital Structure of 45.4% debt and 54.6% equity
5. As a result of the foregoing, PUI will receive an increase of \$3,215,000 in annual revenue and a monthly rate per ERC of \$59.87. Should this additional annual revenue and rate not be approved by the Commission in its final order in this matter, the parties to this Stipulation will no longer be bound by same and will be free to advocate by way of petitions for rehearing or appeal such positions as they deem fit and proper.
6. The new rates would be implemented no earlier than September 20, 2020.
7. PUI shall establish a regulatory liability for the impacts of the 2017 Tax Cuts and Jobs Act as required by Commission Order No. 2018-308. The regulatory liability is valued at \$2,032,146 and is attributed to the excess federal corporate income tax expense embedded in current rates charged to PUI customers since January 1, 2018.
8. PUI shall return the regulatory liability for the impacts of the 2017 Tax Cuts and Jobs Act through a decrement rider or separate negative surcharge for 12 months or until the balance in the regulatory liability reaches zero. The amount of the monthly decrement per ERC is \$4.94. A residential customer (1 ERC) of PUI will experience a total monthly bill of \$54.93 (\$59.87 – \$4.94) for approximately 12 months or until the balance of the regulatory liability reaches zero.
9. PUI shall adjust the PUI Balance Sheet to eliminate the Utility Plant Acquisition recorded to Account 114.
10. PUI will conduct a Cost of Service Study to coincide with PUI's historic test year in its next base rate case.
11. PUI will examine and report the feasibility of obtaining water meter and customer usage data from water providers as soon as practical.
 - A. PUI will only be required to bill customers a usage sensitive rate in the next base rate case if the water provider has entered into an agreement with PUI to provide consumption data.
 - B. PUI may seek recovery of the cost of obtaining water usage data from the water provider in the next rate proceeding.



12. PUI will present a volumetric rate design alternative to the Commission for its consideration in the next base rate case.
13. Aside from the decrement rider for return of regulatory liability for the impacts of the 2017 Tax Cuts and Jobs Act, PUI otherwise commits to a rate freeze until August 20, 2023.
14. PUI will adopt the tariff change provisions as modified by ORS.
15. PUI withdraws its request to modify its tariff language related to limitation of liability for interruption or failure to furnish service.
16. As approved by Commission Standing Hearing Officer Directive Order No. 2020-65-H, PUI will make an annual contribution of \$50,000 to Wateree Community Actions, Inc. (WCA), or another appropriate non-profit entity, for a period of three years for the exclusive purpose of assisting PUI customers with paying their bills to PUI. For ratemaking purposes this annual contribution would be a non-allowable expense. Funds would be restricted to those PUI customers who qualify for financial assistance under the WCA's guidelines.
17. A. PUI hereby agrees to withdraw any allegations characterizing the conduct of ORS as improper, unprofessional, non-constructive, aggressive, retaliatory, unfair or inequitable. The following pre-filed testimony is rescinded, withdrawn and not made a part of the record in this proceeding:

William Crawford Rebuttal:

Page 2, line 1 through 12
Page 2, line 18, starting with "I" through line 26
Page 2, line 28 through line 32
Page 3
Page 4, line 1 through 8
Page 4, line 25 starting with "If" through line 31
Page 5, line 1 through 17

Ralph Walker Direct:

Page 1, line 21, "our concerns with"
Page 2, line 1 through "process,"

Mark Daday Rebuttal

Page 2, line 1 starting with "- some" through line 2
Page 2, line 18 starting with "This" through line 20
Page 7, line 22

August 20, 2020
Page 4 of 17

Page 8, line 1 through line 7 ending with “regard - -“
Page 10, line 22 starting with “This” through line 23
Page 26, line 3 through 22
Page 27
Page 28, lines 1 through 2

B. The parties to this Stipulation agree to the submission of their respective witnesses pre-filed testimonies and exhibits into the record of this case without summarization and consistent with the provisions of this Stipulation. Neither party shall cross examine the other party’s witnesses. The witnesses must be made available to answer any questions of the Commission or the Consumer Advocate. The parties also reserve the right to engage in redirect examination of witnesses as necessary to respond to issues raised by the examination of their witnesses by the Commission or the testimony of nonparties.

18. The parties to this Stipulation agree that the Consumer Advocate may join in this Stipulation.
19. The Parties agree this Stipulation is reasonable, in the public interest and in accordance with law and regulatory policy.
20. The parties agree to cooperate in good faith with one another in recommending to the Commission that this Stipulation be accepted and approved by the Commission as a fair, reasonable and full resolution in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Stipulation and the terms and conditions contained herein.
21. This written Stipulation contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. The Parties agree that this Stipulation will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the Stipulation or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the Commission should decline to approve the Stipulation in its entirety, then any Party desiring to do so may withdraw from the Stipulation without penalty.
22. This Stipulation shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Stipulation by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel’s signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Stipulation.



23. The Parties represent that the terms of this Stipulation are based upon full and accurate information known as of the date this Stipulation is executed. If, after execution, either Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Stipulation is based, either Party may withdraw from the Stipulation with written notice to the other Party.
24. This Stipulation shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capacities), subsidiaries, affiliates, parent corporations, joint ventures, heirs, executors, administrators, trustees, and attorneys.

AND IT IS SO STIPULATED this 12th day of July, 2020.



John M. S. Hoefer
Andrew R. Hand
WILLOUGHBY & HOEFER, P.A.
Post Office Box 8416
Columbia, South Carolina 29202-8416
jhoefer@willoughbyhoefer.com
ahand@willoughbyhoefer.com

Attorneys for Palmetto Utilities, Inc.



Jeffrey M. Nelson
Jenny R. Pittman
Christopher M. Huber
Steven W. Hamm
1401 Main Street, Suite 900
Columbia, South Carolina 29202
jnelson@ors.sc.gov
jpittman@ors.sc.gov
chuber@ors.sc.gov
shamm@ors.sc.gov

Attorneys for South Carolina Office of
Regulatory Staff

Palmetto Utilities, Inc.
Docket No. 2019-281-S
Operating Experience, Rate Base and Rate of Return for the Proposed Stipulation
For the Test Year Ended August 31, 2019

Stipulation Exhibit 1

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Stipulation Adjustments \$	(5) After Proposed Stipulation Adjustments \$
<u>Utility Operating Revenues:</u>					
Wastewater Sales Revenues	20,156,156	1,317,532 (1A)	21,473,688	3,215,000 (18A)	24,688,688
Other Wastewater Revenues	1,157,066	(61,881) (1B)	1,095,185	9,259 (18B)	1,104,444
Total Utility Operating Revenues	21,313,222	1,255,651	22,568,873	3,224,259	25,793,132
<u>Utility Operating Expenses:</u>					
Operating Expenses	5,632,277	2,867,414 (2)	8,499,691	80,606 (19)	8,580,297
Depreciation and Amortization	4,354,186	96,345 (3)	4,450,531	0	4,450,531
Rate Case Expenses	686,665	82,152 (4)	768,817	0	768,817
Taxes Other Than Income Taxes	3,602,038	617,718 (5)	4,219,756	17,001 (20)	4,236,757
Income Taxes	(4,311,776)	4,896,065 (6)	584,289	780,100 (21)	1,364,389
Total Utility Operating Expenses	9,963,390	8,559,694	18,523,084	877,707	19,400,791
Total Net Utility Operating Income (Loss)	11,349,832	(7,304,043)	4,045,789	2,346,552	6,392,341
Other Income and Deductions	135,479	(128,075) (7)	7,404	0	7,404
Add: Customer Growth	0	56,034 (8)	56,034	32,500 (22)	88,534
Less: Amortization of EDIT	0	(59,089) (9)	(59,089)	0	(59,089)
Net Income for Return	11,485,311	(7,316,995)	4,168,316	2,379,052	6,547,368
<u>Original Cost Rate Base:</u>					
Plant in Service	185,672,411	(26,025,535) (10)	159,646,876	0	159,646,876
Accumulated Depreciation	(56,244,271)	14,212,800 (11)	(42,031,471)	0	(42,031,471)
Contributions in Aid of Construction (CIAC)	(58,602,697)	(3,083,486) (12)	(61,686,183)	0	(61,686,183)
Accumulated Amortization of CIAC	24,312,959	1,456,122 (13)	25,769,081	0	25,769,081
Net Plant	95,138,402	(13,440,099)	81,698,303	0	81,698,303
Accumulated Deferred Income Taxes	(81,654)	(4,894,748) (14)	(4,976,402)	0	(4,976,402)
Excess Deferred Income Taxes (EDIT)	0	(1,146,916) (15)	(1,146,916)	0	(1,146,916)
Materials and Supplies	477,552	0	477,552	0	477,552
Prepayments	161,571	0	161,571	0	161,571
Cash Working Capital	1,154,289	4,274 (16)	1,158,563	0	1,158,563
PRC Regulatory Asset	0	8,476,000 (23)	8,476,000	0	8,476,000
Total Rate Base	96,850,160	(11,001,489)	85,848,671	0	85,848,671
Return on Rate Base	11.86%		4.86%		7.63%
Operating Margin	34.33%		8.30%		16.48%
Interest Expense	4,169,321	(1,873,676) (17)	2,295,645	0	2,295,645

Explanation of Accounting and Pro Forma Adjustments for the Proposed Stipulation
For the Test Year Ended August 31, 2019

Adj. #	Description	<u>Sewer Operations</u> <u>Proposed Stipulation</u>
<u>Accounting and Pro forma Adjustments</u>		
(1A)	<u>Wastewater Sales Revenues</u> To adjust wastewater sales revenues as calculated by the ORS Water Operations Department.	\$ <u><u>1,317,532</u></u>
(1B)	<u>Other Wastewater Revenues</u> To adjust other wastewater revenues as calculated by the ORS Water Operations Department.	\$ <u><u>(61,881)</u></u>
(2)	<u>Operating Expenses</u>	
(2A)	To remove one time electric credits.	\$ 99,770
(2B)	To reflect increase in third party operator cost.	44,820
(2C)	To reflect bad debts at 2.5% of revenue.	272,918
(2D)	To include allocated corporate overhead costs in the cost of service.	2,451,458
(2E)	To remove expenses outside the test year.	(1,552)
(2)	<u>Total Operating Expenses</u>	\$ <u><u>2,867,414</u></u>
(3)	<u>Depreciation and Amortization</u>	
(3A)	To reflect annualized depreciation expense on adjusted plant in service.	\$ (767,563)
(3B)	To reflect annualized amortization expense on adjusted contributions in aid of construction.	(46,092)
(3C)	To reflect amortization of the PRC regulatory asset.	910,000
(3)	<u>Total Depreciation and Amortization</u>	\$ <u><u>96,345</u></u>
	<u>Rate Case Expenses</u>	
(4)	To reflect rate case expense amortization over a 3-year period.	\$ <u><u>82,152</u></u>

Explanation of Accounting and Pro Forma Adjustments for the Proposed Stipulation
For the Test Year Ended August 31, 2019

Adj. #	Description	<u>Sewer Operations</u> <u>Proposed Stipulation</u>
(5)	<u>Taxes Other Than Income</u>	
(5A)	To adjust utility regulatory assessment fees after the accounting and pro forma adjustments using a factor of 0.0052728.	\$ 25,664
(5B)	To adjust property taxes related to pro-forma plant balances.	592,054
(5)	<u>Total Taxes Other Than Income</u>	<u>\$ 617,718</u>
(6)	<u>Income Taxes</u>	
(6A)	To adjust federal income taxes on proforma income at 21%.	\$ 735,496
(6B)	To adjust state income taxes on proforma income at 5%.	146,785
(6C)	To eliminate one time tax entry to reflect change in income tax rate.	6,047,489
(6D)	To remove deferred income taxes from the test year expenses.	(2,033,705)
(6)	<u>Total Income Taxes</u>	<u>\$ 4,896,065</u>
(7)	<u>Other Income and Deductions</u>	
(7A)	To eliminate non-recurring income from utility plant leased to others.	\$ (4,000)
(7B)	To eliminate non-recurring gains on disposition of property.	(25,104)
(7C)	To eliminate AFUDC from the test year.	(110,971)
(7D)	To eliminate a one-time regulatory fine.	12,000
(7)	<u>Total Other Income and Deductions</u>	<u>\$ (128,075)</u>
(8)	<u>Customer Growth</u>	
	To adjust for customer growth based on the total net utility operating income after accounting and proforma adjustments. The customer growth factor is 1.385%.	<u>\$ 56,034</u>

Explanation of Accounting and Pro Forma Adjustments for the Proposed Stipulation
For the Test Year Ended August 31, 2019

Adj. #	Description	<u>Sewer Operations</u> <u>Proposed Stipulation</u>
(9)	<u>Amortization of Excess Deferred Income Taxes</u> To amortize excess deferred income taxes.	\$ <u>(59,089)</u>
(10)	<u>Plant in Service</u> To adjust and include pro forma plant in service as of 2/25/20.	\$ (26,025,535)
(11)	<u>Accumulated Depreciation</u> To adjust accumulated depreciation as of 2/25/2020.	\$ <u>14,212,800</u>
(12)	<u>Contributions in Aid of Construction (CIAC)</u> To adjust contributions in aid of construction as of 2/25/2020.	\$ <u>(3,083,486)</u>
(13)	<u>Accumulated Amortization of CIAC</u> To adjust accumulated amortization of CIAC as of 2/25/2020.	\$ <u>1,456,122</u>
(14)	<u>Accumulated Deferred Income Taxes</u> To adjust accumulated deferred income taxes.	\$ <u>(4,894,748)</u>
(15)	<u>Excess Deferred Income Taxes</u> To adjust rate base for excess deferred income taxes.	\$ <u>(1,146,916)</u>
(16)	<u>Cash Working Capital</u> To adjust cash working capital after accounting and pro forma adjustments. See Stipulation Exhibit 5.	\$ <u>4,274</u>
(17)	<u>Interest Expense</u>	
(17A)	To synchronize interest expense with the portion of rate base financed by debt.	\$ (1,717,508)
(17B)	To remove amortization of debt discount and expense.	(156,168)
(17)	<u>Total Interest Expense</u>	\$ <u>(1,873,676)</u>

**Explanation of Accounting and Pro Forma Adjustments for the Proposed Stipulation
For the Test Year Ended August 31, 2019**

Adj. #	Description	Sewer Operations Proposed Stipulation
<u>Proposed Stipulation Adjustments</u>		
(18A)	<u>Wastewater Sales Revenues</u> To adjust sales revenues to reflect the proposed stipulation rates.	\$ <u><u>3,215,000</u></u>
(18B)	<u>Other Wastewater Revenues</u> To adjust other wastewater revenues to reflect the proposed stipulation.	\$ <u><u>9,259</u></u>
(19)	<u>Operating Expenses</u> To adjust bad debt expense related to the adjustments to revenues for the proposed stipulation.	\$ <u><u>80,606</u></u>
(20)	<u>Taxes Other Than Income</u> To adjust utility regulatory assessment fees using a factor of 0.0052728 after the adjustments to revenues for the proposed stipulation.	\$ <u><u>17,001</u></u>
(21)	<u>Income Taxes</u>	
(21A)	To adjust federal income taxes after the adjustments to revenues for the proposed stipulation. See Stipulation Exhibit 4.	\$ 623,768
(21B)	To adjust state income taxes after the adjustments to revenues for the proposed stipulation. See Stipulation Exhibit 4.	156,332
(21)	<u>Total Income Taxes</u>	\$ <u><u>780,100</u></u>
(22)	<u>Customer Growth Adjustment</u> To adjust for customer growth after the adjustments to revenues for the proposed stipulation. The customer growth factor is 1.385%.	\$ <u><u>32,500</u></u>
(23)	<u>PRC Regulatory Asset</u> To include the pre-2013 PRC regulatory asset in rate base.	\$ <u><u>8,476,000</u></u>

Palmetto Utilities Inc.
Docket No. 2019-281-S
Computation of Depreciation and Amortization Expense for the Proposed Stipulation
For the Test Year Ending August 31, 2019

Account	1 PUI Adjusted Per Book PIS 8/31/2019 \$	2 Fully Depreciated \$	3 PIS Additions \$	4 Nonallowables from Prior Rate Cases \$	5 Current Nonallowables \$	6 Capitalized Expenditures \$	7 PRC Valuation \$	8 Pro forma PIS Additions \$	9 Pro forma PIS Retirements \$	10 Depreciable PIS at 2/29/20 \$	11 Service Life	12 Depreciation Expense \$
Plant in Service ("PIS")												
Collection System												
Account 360.2 Collection Sewers - Force												
PVC - 4" to 30"	4,399,370	-	-	(133,726)	-	-	-	193,855	-	4,459,498	30	148,650
DIP - 4" to 30"	442,033	-	-	(293,424)	-	-	-	-	-	148,609	30	4,954
Air Release Manholes	113,296	-	-	-	-	-	-	12,991	-	126,387	30	4,213
Total Account 360.2	4,954,798	-	-	(427,150)	-	-	-	206,846	-	4,734,494		157,817
Account 361.2 Collection Sewers - Gravity												
PVC - 4" to 30"	73,772,406	-	-	(15,930,333)	-	-	-	2,031,601	-	59,873,674	45	1,330,526
DIP - 8" to 24"	2,756,234	-	-	(830,612)	-	-	-	411,868	-	2,337,491	45	51,944
Manholes	20,326,896	-	-	(8,066,273)	-	-	-	708,255	-	12,968,877	30	432,296
Total Account 361.2	96,855,536	-	-	(24,827,218)	-	-	-	3,151,724	-	75,180,042		1,814,766
Account 363.2 Services to Customers												
Services	5,258,627	-	-	(2,646,401)	-	1,740	-	108,918	-	2,722,884	38	71,655
Elder Valves	2,273,326	-	-	-	-	-	-	38,282	-	2,311,607	38	60,832
Grease Traps	21,916	-	-	-	-	-	-	-	-	21,916	38	577
Total Account 363.2	7,553,868	-	-	(2,646,401)	-	1,740	-	147,200	-	5,056,407		133,064
Account 364.2. Flow Measuring Devices	43,856	(16,222)	-	-	-	-	-	-	-	27,635	5	5,527
Total Collection Plant	109,408,059	(16,222)	-	(27,900,769)	-	1,740	-	3,505,770	-	84,998,578		2,111,174
Pumping Plant												
Account 354.3 Structures and Improvements	4,698,384	(23,793)	-	(547,398)	-	-	-	24,498	-	4,151,691	32	129,740
Account 371.3 Pumping Equipment	12,681,609	(1,148,312)	-	(1,388,371)	-	-	-	369,781	(95,520)	10,419,187	18	578,844
Total Pumping Plant	17,379,993	(1,172,106)	-	(1,935,768)	-	-	-	394,278	(95,520)	14,570,877		708,584
Treatment and Disposal Plant												
Account 353.4 Land and Land Rights	428,725	-	-	-	-	-	-	-	-	428,725	ND	-
Account 354.4 Structures and Improvements	1,565,705	-	-	-	-	18,656	-	914	-	1,585,275	32	49,540
Account 355.4 Power Generating Equipment	681,740	(119,648)	-	-	-	-	-	15,114	-	577,207	20	28,860
Account 371.4 Pumping Equipment	833,912	(336,167)	-	-	-	-	-	-	-	497,745	18	27,652
Account 380.4 Treatment and Disposal Equipment	27,657,193	(1,937,387)	-	(136,668)	-	-	-	842,046	-	26,425,184	18	1,468,066
Account 381.4 Plant Sewers	462,441	-	-	-	-	-	-	-	-	462,441	35	13,213
Account 382.4 Outfall Sewer Lines	20,830,743	(110,385)	-	-	-	4,692	-	-	-	20,725,049	30	690,835
Account 389.4 Other Plant and Miscellaneous Equipment	1,699,922	(540,871)	-	-	-	-	-	-	-	1,159,051	18	64,392
Total Treatment and Disposal Plant	54,160,381	(3,044,458)	-	(136,668)	-	23,348	-	858,075	-	51,860,677		2,342,558

Palmetto Utilities Inc.
Docket No. 2019-281-S
Computation of Depreciation and Amortization Expense for the Proposed Stipulation
For the Test Year Ending August 31, 2019

Account	1 PUI Adjusted Per Book PIS 8/31/2019 \$	2 Fully Depreciated \$	3 PIS Additions \$	4 Nonallowables from Prior Rate Cases \$	5 Current Nonallowables \$	6 Capitalized Expenditures \$	7 PRC Valuation \$	8 Pro forma PIS Additions \$	9 Pro forma PIS Retirements \$	10 Depreciable PIS at 2/29/20 \$	11 Service Life	12 Depreciation Expense \$
Plant in Service ("PIS")												
General Plant												
Account 353.7 Land and Land Rights	1,602,827	-	-	(253,509)	-	-	-	-	-	1,349,318	ND	-
Account 354.7 Structures and Improvements												
Structures and Improvements	57,372	-	-	(8,270)	-	-	-	729	-	49,831	NA	3,001 *
Leasehold Improvements - Other	138,928	(18,132)	-	(58,516)	-	1,238	-	-	-	63,518	NA	2,502 *
Leasehold Improvements - Paving	3,716	(3,716)	-	-	-	-	-	-	-	-	10	-
Total Account 354.7	200,017	(21,848)	-	(66,786)	-	1,238	-	729	-	113,349		5,503
Account 390.7 Office Furniture and Equipment												
Furniture and Equipment	66,367	(23,581)	-	(3,478)	(7,711)	-	-	-	-	31,597	15	2,106
Computers	640,161	(174,813)	-	(92,388)	(2,048)	-	-	3,888	-	374,800	6	62,467
Total Account 390.7	706,529	(198,395)	-	(95,866)	(9,759)	-	-	3,888	-	406,397		64,573
Account 391.7 Transportation Equipment	598,513	(3,350)	-	(78,471)	-	-	-	101,082	-	617,775	6	102,962
Account 392.7 Stores Equipment	3,171	-	-	-	-	-	-	-	-	3,171	18	176
Account 393.7 Tools, Shop and Garage Equipment	132,501	(42,850)	-	-	-	-	-	-	-	89,651	16	5,603
Account 394.7 Laboratory Equipment	39,213	-	-	-	-	-	-	-	-	39,213	15	2,614
Account 395.7 Power Operated Equipment	382,297	-	102,944	-	-	-	-	1,045	-	486,286	12	40,524
Account 396.7 Communication Equipment	170,021	-	-	(3,882)	-	-	-	3,436	-	169,574	10	16,957
Account 397.7 Miscellaneous Equipment	14,879	-	-	-	-	-	-	-	-	14,879	10	1,488
Account 398.7 Other Tangible Plant	201,244	(307)	-	-	-	-	-	239,007	-	439,944	10	42,406 *
Total General Plant	4,051,212	(266,750)	102,944	(498,514)	(9,759)	1,238	-	349,187	-	3,729,558		282,806
Non-Utility Property												
Structures and Improvements	672,769	-	-	(180,869)	(491,900)	-	-	-	-	-	27	-
Total Nonutility Property	672,769	-	-	(180,869)	(491,900)	-	-	-	-	-		-
Total Plant in Service	185,672,414	(4,499,535)	102,944	(30,652,588) **	(501,659)	26,325	-	5,107,309	(95,520)	155,159,691		5,445,122

Less: Per Book	6,212,685
Proposed Stipulation Adjustment 3A	(767,563)
ORS Plant in Service as of 2/29/20	159,646,876
Less: Per Book	185,672,411
Proposed Stipulation Adjustment 10	(26,025,535)
Accumulated Depreciation as of 2/29/20	(42,031,471)
Less: Per Book	(56,244,271)
Proposed Stipulation Adjustment 11	14,212,800

Palmetto Utilities Inc.
Docket No. 2019-281-S
Computation of Depreciation and Amortization Expense for the Proposed Stipulation
For the Test Year Ending August 31, 2019

Account	1 PUI Adjusted Per Book CIAC 8/31/2019	2 Fully Amortized	3 CIAC Additions	4 Nonallowables from Prior Rate Cases	5 PRC Valuation	6 Pro forma CIAC Additions	7 Pro forma CIAC Retirements	8 Amortizable CIAC at 2/29/20	9 Service Life	10 Amortization Expense
	\$	\$	\$	\$	\$	\$	\$	\$		\$
Contributions in Aid of Construction ("CIAC")										
Collection System										
Account 360.2 Collection Sewers - Force										
PVC - 4" to 30"	(2,959,589)	-				(1,625)	-	(2,961,214)	30	(98,707)
DIP - 4" to 30"	(131,213)					-	-	(131,213)	30	(4,374)
Air Release Manholes	(19,789)					(1,100)	-	(20,889)	30	(696)
Total Account 360.2	(3,110,592)	-	-	-	-	(2,725)	-	(3,113,317)		(103,777)
Account 361.2 Collection Sewers - Gravity										
PVC - 4" to 30"	(21,101,630)	-	(1,670,550)			(150,895)	-	(22,923,075)	45	(509,402)
DIP - 8" to 24"	(1,914,214)	-				(211,875)	-	(2,126,089)	45	(47,246)
Manholes	(10,818,728)	-				(205,877)	-	(11,024,604)	30	(367,487)
Total Account 361.2	(33,834,572)	-	(1,670,550)	-	-	(568,646)	-	(36,073,768)		(924,135)
Account 363.2 Services to Customers										
Services	(2,407,079)	-				(52,892)	-	(2,459,971)	38	(64,736)
Elder Valves	(1,902,376)					(32,584)	-	(1,934,961)	38	(50,920)
Grease Traps	(16,979)					-	-	(16,979)	38	(447)
Total Account 363.2	(4,326,434)	-	-	-	-	(85,476)	-	(4,411,910)		(116,103)
Account 364.2. Flow Measuring Devices										
	(27,635)					-	-	(27,635)	5	(5,527)
Total Collection CIAC	(41,299,232)	-	(1,670,550)	-	-	(656,847)	-	(43,626,629)		(1,149,542)
Pumping CIAC										
Account 354.3 Structures and Improvements	(2,954,036)	4,992				-	-	(2,949,044)	32	(92,158)
Account 371.3 Pumping Equipment	(4,958,205)	1,024,098				(43,516)	61,528	(3,916,095)	18	(217,561)
Total Pumping CIAC	(7,912,241)	1,029,090	-	-	-	(43,516)	61,528	(6,865,140)		(309,719)
Treatment and Disposal CIAC										
Account 353.4 Land and Land Rights	(222,033)	-				-	-	(222,033)	ND	-
Account 354.4 Structures and Improvements	(817,212)	-				(130)	-	(817,342)	32	(25,542)
Account 355.4 Power Generating Equipment	(218,457)	60,182				(2,749)	-	(161,024)	20	(8,051)
Account 371.4 Pumping Equipment	(482,046)	135,150				-	-	(346,897)	18	(19,272)
Account 380.4 Treatment and Disposal Equipment	(6,097,607)	910,951	(816,745)			(33,634)	-	(6,037,036)	18	(335,391)
Account 381.4 Plant Sewers	(333,087)	-				-	-	(333,087)	35	(9,517)
Account 382.4 Outfall Sewer Lines	(275,382)	23,161				-	-	(252,221)	30	(8,407)
Account 389.4 Other Plant and Miscellaneous Equipment	(862,441)	164,194				-	-	(698,247)	18	(38,792)
Total Treatment and Disposal CIAC	(9,308,266)	1,293,638	(816,745)	-	-	(36,513)	-	(8,867,886)		(444,972)

Palmetto Utilities Inc.
Docket No. 2019-281-S
Computation of Depreciation and Amortization Expense for the Proposed Stipulation
For the Test Year Ending August 31, 2019

Account	1 PUI Adjusted Per Book CIAC 8/31/2019	2 Fully Amortized	3 CIAC Additions	4 Nonallowables from Prior Rate Cases	5 PRC Valuation	6 Pro forma CIAC Additions	7 Pro forma CIAC Retirements	8 Amortizable CIAC at 2/29/20	9 Service Life	10 Amortization Expense
	\$	\$	\$	\$	\$	\$	\$	\$		\$
Contributions in Aid of Construction ("CIAC")										
General CIAC										
Account 353.7 Land and Land Rights	(105,731)			105,731		-	-	-	ND	-
Account 354.7 Structures and Improvements										
Structures and Improvements	-	-				(168)	-	(168)	NA	(8) *
Leaschold Improvements - Other	-	-				-	-	-	NA	- *
Leaschold Improvements - Paving	-	-				-	-	-	10	-
Total Account 354.7	-	-	-	-	-	(168)	-	(168)		(8)
Account 390.7 Office Furniture and Equipment										
Furniture and Equipment	-	-				-	-	-	15	-
Computers	-	-				-	-	-	6	-
Total Account 390.7	-	-	-	-	-	-	-	-		-
Account 391.7 Transportation Equipment	-	-				-	-	-	6	-
Account 392.7 Stores Equipment	-	-				-	-	-	18	-
Account 393.7 Tools, Shop and Garage Equipment	(340)	-				-	-	(340)	16	(21)
Account 394.7 Laboratory Equipment	-	-				-	-	-	15	-
Account 395.7 Power Operated Equipment	-	-				-	-	-	12	-
Account 396.7 Communication Equipment	(3,293)	-				-	-	(3,293)	10	(329)
Account 397.7 Miscellaneous Equipment	-	-				-	-	-	10	-
Account 398.7 Other Tangible Plant	-	-				-	-	-	10	-
Total General CIAC	(109,363)	-	-	105,731	-	(168)	-	(3,800)		(358)
Non-Utility Property										
Structures and Improvements	-	-				-	-	-	27	-
Total Nonutility Property	-	-	-	-	-	-	-	-		-
Total CIAC	(58,629,102)	2,322,728	(2,487,295)	105,731	-	(737,044)	61,528	(59,363,455)		(1,904,591)

ND - Not Depreciated

NA - Not Available

* - Calculated manually because assets in this class have different useful lives.

** - Total does not agree from nonallowables in prior rate case because some assets are now fully depreciated or were removed by the company in the last case. See Adjustment 3A for more details.

Less: Per Book	(1,858,499)
Proposed Stipulation Adjustment 3B	(46,092)
CIAC as of 2/29/20	(61,686,183)
Less: Per Book	(58,602,697)
Proposed Stipulation Adjustment 12	(3,083,486)
Accumulated Amortization of CIAC as of 2/29/20	25,769,081
Less: Per Book	24,312,959
Proposed Stipulation Adjustment 13	1,456,122

Palmetto Utilities, Inc.
Docket No. 2019-281-S
Computation of Income Taxes for the Proposed Stipulation
For the Test Year Ended August 31, 2019

Stipulation Exhibit 4

After Accounting & Pro Forma Adjustments

Operating Revenues	\$	22,568,873
Operating Expenses		<u>17,931,391</u>
Net Operating Income Before Taxes	\$	4,637,482
Less: Annualized Interest Expense		<u>2,295,645</u>
Taxable Income - State	\$	2,341,837
State Income Tax %		<u>5.0%</u>
State Income Taxes	\$	117,092
Less: State Income Taxes Per Book		<u>(29,693)</u>
Adjustment to State Income Taxes #6B	\$	<u>146,785</u>
Taxable Income - Federal	\$	2,224,745
Federal Income Taxes %		<u>21.0%</u>
Federal Income Taxes	\$	467,196
Less: Federal Income Taxes Per Book		<u>(268,300)</u>
Adjustment to Federal Income Taxes #6A	\$	<u>735,496</u>

After Proposed Stipulation Adjustments

Operating Revenues	\$	25,793,132
Operating Expenses		<u>18,028,998</u>
Net Operating Income Before Taxes	\$	7,764,134
Less: Annualized Interest Expense		<u>2,295,645</u>
Taxable Income - State	\$	5,468,489
State Income Tax %		<u>5.0%</u>
State Income Taxes	\$	273,424
Less: State Income Taxes As Adjusted		<u>117,092</u>
Adjustment to State Income Taxes #21B	\$	<u>156,332</u>
Taxable Income - Federal	\$	5,195,065
Federal Income Taxes %		<u>21.0%</u>
Federal Income Taxes	\$	1,090,964
Less: Federal Income Taxes As Adjusted		<u>467,196</u>
Adjustment to Federal Income Taxes #21A	\$	<u>623,768</u>

Palmetto Utilities, Inc. **Stipulation Exhibit 5**
Docket No. 2019-281-S
Cash Working Capital Allowance for the Proposed Stipulation
For the Test Year Ended August 31, 2019

After Proposed Stipulation Adjustments

Operating Expenses	\$ 8,499,691
Rate Case Expenses	<u>768,817</u>
Total Expenses for Computation	\$ 9,268,508
Allowable Rate	<u>12.50%</u>
Computed Cash Working Capital	\$ 1,158,563
Less: Cash Working Capital - Application Per Books	<u>1,154,289</u>
Adjustment #16 - Cash Working Capital	<u><u>\$ 4,274</u></u>

Palmetto Utilities, Inc.
Docket No. 2019-281-S
Return on Equity for the Proposed Stipulation
For the Test Year Ended August 31, 2019

Stipulation Exhibit 6

Description	Capital		Application Per Books				After Accounting and Pro forma Adjustments				After Proposed Stipulation Adjustments			
	Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *
Long-Term Debt	\$ 76,260,877	45.40%	\$ 43,969,973	5.89%	2.67%	\$ 2,589,831	\$ 38,975,297	5.89%	2.67%	\$ 2,295,645	\$ 38,975,297	5.89%	2.67%	\$ 2,295,645
Members' Equity	91,714,624	54.60%	52,880,187	16.82%	9.19%	8,895,480	46,873,374	4.00%	2.19%	1,872,671	46,873,374	9.07%	4.96%	4,251,723
Totals	\$ 167,975,501	100.00%	\$ 96,850,160		11.86%	\$ 11,485,311	\$ 85,848,671		4.86%	\$ 4,168,316	\$ 85,848,671		7.63%	\$ 6,547,368

PALMETTO UTILITIES, INC.
DOCKET NO. 2019-281-S

SEWER RATE SCHEDULE
Effective Date: September 20, 2020

1. **MONTHLY CHARGE**

- a. Residential - Monthly charge per single-family house, condominium, villa or apartment unit \$59.87*
- b. Commercial - Monthly charge per single-family equivalent \$59.87*
- c. The monthly charges listed above are minimum charges and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly commercial charges may be calculated by multiplying the equivalency rating by the monthly charge of \$59.87*. The monthly residential charge shall be \$59.87* regardless of the equivalency rating.

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

The Utility may, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

*This rate shall not apply during the period following the Effective Date as specified in the Decrement Rider set out in Sewer Rate Schedule Section 14 below, but shall be reduced to \$54.93 for such period of time as is necessary to give effect to the Decrement Rider..

2. **NONRECURRING CHARGES AND TAX MULTIPLIER**

- a. Sewer service connection charge per single-family equivalent \$250.00
- b. Plant Impact fee per single-family equivalent \$800.00

- c. The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating is less than one (1). If the equivalency rating 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.

Except as otherwise provided by contract approved by the Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers or others and properly classified as a contribution or advance in aid of construction in accordance with the Uniform System of Accounts. Included in this classification are sewer service connection charges and plant impact fees. The method used by the Utility to collect the tax multiplier from all contributors of such cash or property, shall be the "present value" method approved by the Commission in Order No. 88-237 issued March 18, 1988, in Docket No. 87-456-W/S. Should Federal tax law change in the future such that depreciation on contributed property becomes non-deductible for income tax purposes, the Utility shall have no obligation to reduce the tax multiplier amount by the present value of the future tax benefit from depreciation of contributed property. Should Federal or South Carolina tax law change in the future such that the Utility's total effective Federal and South Carolina tax rate ("effective tax rate") changes, the tax multiplier will be adjusted as appropriate to reflect the Utility's then-current effective tax rate. Should Federal tax law change in the future such that CIAC is no longer considered income for purposes of taxation, the Companies will cease charging and collecting the tax multiplier as of the effective date of any such change in law. For property contributions, the Company shall utilize its capital structure as approved by the Commission in determining the net present value tax multiplier percentage.

3. **BULK TREATMENT SERVICES**

The utility will provide bulk treatment services to Richland County ("County") upon request by the County in the portion of the service territory for which the utility acts as the County's contractual agent for purposes of discharging the County's designated management agency function under the Federal Clean Water Act Section 208 water quality management plan adopted by the Central Midlands Council of Governments. The rates for such bulk treatment services shall be as set forth above for both monthly charges and nonrecurring charges per single-family equivalent. The County shall certify to the Utility the number of units or taps (residential and commercial) which discharge wastewater into the County's collection system and shall provide all other information required by the Utility in order that the Utility may accurately determine the proper charges to be made to the County. The County shall insure that all commercial customers comply with the Utility's toxic and pretreatment effluent guidelines and refrain from discharging any toxic or hazardous materials or substances into the collection system. The County will maintain the authority to interrupt service immediately where customers

violate the Utility's toxic or pretreatment effluent standards of discharge prohibited wastes into the sewer system. The Utility shall have the unfettered right to interrupt bulk service to the County if it determines that forbidden wastes are being or are about to be discharged into the Utility's sewer system.

The County shall pay for all costs of connecting its collection lines into the Utility's mains, installing a meter of quality acceptable to the Utility to measure flows, and constructing a sampling station according to the Utility's construction requirements.

4. **NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES**

- a. Notification Fee: A fee of \$25.00 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 that cost.
- b. Customer Account Charge: A fee of \$20.00 shall be charged as a one-time fee to defray the costs of initiating service.
- c. Reconnection charges: In addition to any other charges that may be due, a reconnection fee of \$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. The amount of the reconnection fee shall be in accordance with R.103-532.4 and shall be changed to conform with said rule as the rule is amended from time to time.

5. **BILLING CYCLE**

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

6. **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 (1½%) percent.

7. **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 Health and 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.

8. **REQUIREMENTS AND CHARGES PERTAINING TO SATELLITE SYSTEMS**

- a. Where there is connected to the Utility's system a satellite system, as defined in DHEC Regulation 61-9.505.8 or other pertinent law, rule or regulation, the owner or operator of such satellite system shall operate and maintain same in accordance with all applicable laws, rules or regulations.
- b. The owner or operator of a satellite system shall construct, maintain, and operate such satellite system in a manner that the prohibited or untreated materials referred to in Section 6 of this rate schedule (including but not limited to Fats, Oils, Sand or Grease), stormwater, and groundwater are not introduced into the Utility's system.
- c. The owner or operator of a satellite system shall provide Utility with access to such satellite system and the property upon which it is situated in accordance with the requirements of Commission Regulation 103-537.
- d. The owner or operator of a satellite system shall not less than annually inspect such satellite system and make such repairs, replacements, modifications, cleanings, or other undertakings necessary to meet the requirements of this Section 7 of the rate schedule. Such inspection shall be documented by written reports and video recordings of television inspections of lines and a copy of the inspection report received by the owner or operator of a satellite system, including video of the inspection, shall be provided to Utility. Should the owner or operator fail to undertake such inspection, Utility shall have the right to arrange for such inspection and to recover the cost of same, without mark-up, from the owner or operator of the satellite system.
- e. Should Utility determine that the owner or operator of a satellite system has failed to comply with the requirements of this Section 8 of the rate schedule, with the exception of the requirement that a satellite system be cleaned, the Utility may initiate disconnection of the satellite system in accordance with the Commission's regulations, said disconnection to endure until such time as said requirements are met and all charges, costs and expenses to which Utility is entitled are paid. With respect to the cleaning of a satellite system, the owner or operator of a satellite system shall have the option of cleaning same within five (5) business days after receiving written notice from Utility that an inspection reveals that a cleaning is required. Should the owner or operator of such a satellite system fail to have the necessary cleaning performed within that time frame, Utility may arrange for cleaning by a qualified contractor and

the cost of same, without mark-up, may be billed to the owner or operator of said system.

9. **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 in constructing parts of the system.

10. **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 its sewer 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 an appropriate connection point on the Utility's sewer system may receive service, subject to paying the appropriate fees and charges set forth in this rate schedule, complying with the guidelines and standards hereof, and, where appropriate, agreeing to pay an acceptable amount for multi-tap capacity.

11. **CONTRACTS FOR MULTI-TAP CAPACITY**

The Utility shall have no obligation to modify or expand its plant, other facilities or mains to treat the sewerage of any person or entity requesting multi-taps (a commitment for five or more taps) unless such person or entity first agrees to pay an acceptable amount to the Utility to defray all or a portion of the Utility's costs to make modifications or expansions thereto.

12. **SINGLE FAMILY EQUIVALENT**

A single family equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities --6 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2016). Where the Utility has reason to suspect that a person or entity is exceeding design loadings established by the Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities, the Utility shall have the right to request and receive water usage records from the provider of water to such person or entity. Also, the Utility shall have the right to conduct an "on premises" inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

13. **TAMPERING CHARGE**

In the event the Utility’s equipment, mains, service lines, elder valves, or other plant or facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility’s equipment, plant or facilities not to exceed \$250.00. The tampering charge shall be paid in full prior to the Utility re-connecting service or continuing the provision of service. This charge shall be in addition to any notification, reconnection, or similar charges that the Utility is entitled to impose under this rate schedule or under Commission orders, rules, and regulations.

14. **ORDER NO. 2020-561 DECREMENT RIDER**

In accordance with the requirements of Commission Order No. 2020-561, issued August 20, 2020, the monthly service rate per residential customer and per commercial customer SFE shown in Sewer Rate Schedule Section 1 above shall be reduced to \$54.93 until such time as the \$2,032,146 regulatory liability referenced in that Order is reduced to zero (\$0.00) dollars. Once that regulatory liability amount is reduced to \$0.00, the monthly service rate listed in Sewer Rate Schedule Section 1 above shall apply to all subsequent billing periods and may be applied on a partial basis in the first such subsequent billing period to the extent necessary.

**PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COMMISSION DIRECTIVE**

ADMINISTRATIVE MATTER DATE **August 12, 2020**MOTOR CARRIER MATTER DOCKET NO. **2019-281-S**UTILITIES MATTER

ORDER NO. _____

SUBJECT:

[DOCKET NO. 2019-281-S](#) - Application of Palmetto Utilities, Incorporated for Adjustment of Rates and Charges, Terms and Conditions, for Sewer Service Provided to Customers in Its Richland and Kershaw County Service Areas – Staff Presents for Commission Consideration Palmetto Utilities, Incorporated's Application for Adjustment of Rates and Charges, Terms and Conditions, for Sewer Service Provided to Customers in Its Richland and Kershaw County Service Areas.

COMMISSION ACTION:

In this Docket, Palmetto Utilities, Inc. filed an application seeking a rate increase of \$5,933,328 and a return on equity of 10.50%. Palmetto proposed a phased-in approach of the rates of \$56.94 in Part 1 or year 1, \$61.78 in Part 2 or year 2, and \$66.62 in Part 3 or year 3. In support of its request, Palmetto asserted increased operating expenses of approximately \$2,512,000, investments in capital improvements of approximately \$11.4 million, and inclusion of approximately \$18.0 million in rate base associated with sewer collection and transportation systems of the Palmetto of Richland County, LLC ("PRC") acquired from the City of Columbia.

Following virtual public night hearings and a virtual hearing where the parties to the docket presented Witnesses on the accounting issues, return on equity, rate base, and other issues in this docket, I make the following motion.

I move that the Stipulations between Palmetto and the Office of Regulatory Staff be approved. These Stipulations provide, among other issues, that:

- Expansion fees collected by PRC and PUI from and after March 21, 2013 shall be recorded as contributions in aid of construction resulting in a decrease to rate base of \$2,644,673;
- The results of the Original Cost Study prepared by PRC with respect to the PRC assets shall be adjusted to apply the Handy-Whitman indices to calculate trends for utility construction resulting in a reduction in net plant of \$1,707,727;
- The PRC assets shall be valued at \$8,476,000 and include establishment and approval of a regulatory asset to be amortized over 9.31 years;
- An approved return on equity of 9.07% and a capital structure of 45.4% debt and 54.6% equity;
- After the adjustments, Return on Equity, and capital structure proposed in the Stipulations, annual revenues will increase \$3,215,000 with a monthly rate per ERC of \$59.87;

- Palmetto shall establish a regulatory liability for the impact of the 2017 Tax Cuts and Jobs Act as required by Commission Order No. 2018-308. This regulatory liability is valued at \$2,032,146. Palmetto shall credit this regulatory liability through a decrement rider for 12 months or until the balance of the regulatory liability reaches zero. The amount of the monthly decrement is \$4.94 per ERC. The effect of the decrement rider will reduce a residential customer’s monthly bill from \$59.87 to \$54.93 until the balance of the regulatory liability reaches zero, which is estimated to be approximately 12 months;
- Palmetto will make an annual contribution of \$50,000 to the Wateree Community Actions, Inc. or another appropriate non-profit entity for a period of three years for the exclusive purpose of assisting Palmetto customers with paying their bills to Palmetto. These contributions shall be a non-allowable expense for ratemaking purposes;
- Palmetto will examine and report on the feasibility of obtaining water meter and customer usage data from water providers as soon as practical;
- Palmetto will present a volumetric rate design alternative to the Commission for consideration in Palmetto’s next base rate case;
- Palmetto commits to a rate freeze until August 20, 2023; and
- The new rates approved in this docket would be implemented no earlier than September 20, 2020.

A formal order addressing all issues in this docket will be forthcoming.

PRESIDING: Randall

SESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		voting via videoconference
ERVIN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		voting via videoconference
HAMILTON	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		voting via videoconference
HOWARD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		voting via videoconference
RANDALL	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		voting via videoconference
WHITFIELD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		voting via videoconference
WILLIAMS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<u>Absent</u>	Military Leave

(SEAL)

RECORDED BY: J. Schmieding

