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STATE OF SOUTH CAROLINA
In the Supreme Court

S.C. SUPREME COURT

APPEAL FROM THE PUBLIC SERVICE COMMISSION

Appellate Case No. 2016-000652

Daufuskie Island Utility Company, Inc.,

Appellant,

v.

South Carolina Office of Regulatory Staff,
Haig Point Club and Community Association, Inc.,
Melrose Property Owner's Association, Inc.,
Bloody Point Property Owner's Association, and
Beach Field Properties, LLC,

Respondents.

RECORD ON APPEAL

VOLUME III of III

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Public Service Commission Settlement Policies and Procedures (Rev. 06/13/2006) 1484

Certificate of Counsel 1486

LYNN M. LANIER

TESTIMONY EXPERIENCE

Client/State	Matter/Testimony	Year	Case or Docket No.
Fulton County REMC – Indiana	Retail Rate Filing: Complete direct testimony in support of filing	1976	N/A
Panola Harrison Electric Cooperative Inc. – Texas	Retail Rate Filing: Direct testimony in support of proposed new service. Direct testimony in support of Rules and Regulations	1989	9214
Sam Rayburn G&T Electric Cooperative, Inc. (SRG&T) – Texas	Wholesale Rate Filing; Direct Testimony in support of wholesale rate schedules Supplemental testimony concerning economic development rate issues	1992	10982
Northeast Texas Electric Cooperative, Inc. (NTEC) – Texas	Wholesale Rate Filing: Rebuttal testimony concerning demand-side management goals and objectives	1993	11384
Houston County Electric Cooperative, Inc. – Texas	Filing for Retail Rate For High Load Factor Loads: Direct testimony in support of rate design and rate schedule and justification therefore	1992	11660
Tex-La Electric Cooperative of Texas, Inc. (Tex-La) - Texas	Application of Texas Utilities Electric Company For Authority To Change Rates: Direct testimony in support of alternative wholesale rate design	1993	11735
Daniel, Coker, Horton & Bell, PA, on behalf of Tombigbee Electric Association, MS	City of Tupelo, MS vs Tombigbee EPA	2007	CV04-211(g)L
Internal Revenue Service (US Tax Court), TX	Protected by NDA	2008	Protected by NDA
Kiawah Property Owners Association	Application of Kiawah Island Utility, Inc. for Adjustment of Rates and Charges: Direct, rebuttal, and sur-rebuttal testimony re alternative equity return methodologies and appropriate Rate of Return	2011	2011-317-WS
Daufuskie Island Utility Company	Application of Daufuskie Island Utility Company for Adjustment of Rates and Charges:	2012	2011-229-W/S

Exhibit 1

	Direct and sur-rebuttal testimony re alternative equity return methodologies, Rate of Return, and Rate Design		

LYNN M. LANIER

ARTICLES

1. *Privatization of Utility Distribution Systems on Military Bases*: Transactions Newsletter of GDS Associates, Inc.; Vol. No. 498; Dec, 1998.
2. *Evaluating Opportunities: Uncle Sam Privatizes Utility Systems; and Military Privatization: Nuts, Bolts Issues*; Electric Light and Power Magazine, March, 1999.

APPEARANCES IN FEDERAL COURT

U.S. Tax Court – On Behalf of the Internal Revenue Service (2008)

LML - Exhibit 2
GA Schedule A-4

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Combined Operating Statement

	Year-End 12/31/2014	Adjustments	12/31/2015		
			Pro Forma Present Rates	Adjustments	Pro Forma Proposed Rates
1 Operating Revenue:					
2 Residential	\$307,239	\$20,165	\$327,404	\$383,382	\$710,786
3 Commercial	151,057	(2,549)	148,507	139,082	287,589
4 Irrigation	98,309	6,559	104,868	108,369	213,238
5 Availability Billing	489,665	(15,338)	474,327	518,553	992,880
6 Misc. Other Revenue	30,193	121	30,314	32,915	63,229
7 Interdepartmental Sales	0	0	0	0	0
8 Billing Adjustments	0	0	0	0	0
9 Total Revenues	\$1,076,463	\$8,958	\$1,085,421	\$1,182,301	\$2,267,721
Operating Expense:					
10 Wages	156,602	8,149	164,751	0	164,751
11 Benefits	8,980	1,706	10,686	0	10,686
12 Director's Fees	16,500	0	16,500	0	16,500
13 Sludge Disposal	0	0	0	0	0
14 Power	115,437	51,281	166,718	0	166,718
15 Chemicals	9,019	491	9,510	0	9,510
16 Supplies & Maintenance	27,136	1,407	28,543	0	28,543
17 Outside Services-Mgmt	157,650	13,714	171,364	0	171,364
18 Outside Services-Engineering	10,137	9,002	8,013	0	8,013
19 Outside Services-Accounting	2,761	0	2,761	0	2,761
20 Outside Services-Legal	23,178	0	23,178	0	23,178
21 Outside Services-Testing	92,288	0	92,288	0	92,288
22 Outside Services-Other	38,621	(4,269)	38,621	0	38,621
23 Other Operating Expenses	0	0	0	0	0
24 Transportation	2,450	306	2,756	0	2,756
25 Bad Debt	105,667	(90,905)	14,762	16,090	30,852
26 Insurance	30,205	18,117	48,322	0	48,322
27 Regulatory Commission Expense	15,745	(109)	15,636	0	15,636
28 Other A&G Expenses	36,436	0	36,436	0	36,436
29 Total O&M Expense	\$848,814	\$8,890	\$850,846	\$16,090	\$866,936
30 Depreciation	73,072	22,194	95,266	0	95,266
31 Amortization	92,421	113,655	206,076	0	206,076
32 Revenue Taxes	6,048	806	6,854	7,466	14,320
33 Property Taxes	4,209	188,092	192,302	0	192,302
34 Payroll Taxes	13,183	549	13,731	0	13,731
35 State and Federal Income Taxes	0	0	0	260,495	260,495
36 Total Operating Expenses	\$1,037,747	\$334,186	\$1,365,076	\$284,051	\$1,649,127
37 Net Operating Income	\$38,716		(\$279,656)		\$618,595
38 Rate Base	\$7,014,171		\$7,085,475		\$7,085,475
39 Rate of Return	0.55%		-3.95%		8.73%
40			Revenue Increase		108.9%
41 Net Operating Income					\$618,595
42 Interest Expense					\$232,269
43 Net Income After Interest Deduction					\$386,326
44 Operating Margin					17.04%

AMENDED Lanier Exhibit 3

C-1

**Daufuskie Island Utility Company
Water and Wastewater Systems
Comparative Balance Sheets**

	2014	Adjustment	Revised 2014
Water			
Assets			
Utility Plant	\$ 3,905,259	\$ -	\$ 3,905,259
Acquistion Adjustments	\$ -	\$ -	\$ -
Total Utility Plant	\$ 3,905,259	\$ -	\$ 3,905,259
Accumulated Depreciation	\$ (382,950)	\$ (729,045)	\$ (1,111,995)
<i>Net Utility Plant</i>	\$ 3,522,309	\$ (729,045)	\$ 2,793,264
Construction Work in Progress	\$ 29,511	\$ -	\$ 29,511
<i>Net Plant</i>	\$ 3,551,820	\$ (729,045)	\$ 2,822,775
Cash	\$ 34,576	\$ -	\$ 34,576
Accounts Receivable	\$ 202,206	\$ -	\$ 202,206
Provision for uncollectibles	\$ -	\$ -	\$ -
Receivables from Associated Co.	\$ -	\$ -	\$ -
Deferred Expenses	\$ 502,686	\$ -	\$ 502,686
Deferred Depreciation Expense	\$ -	\$ 141,194	\$ 141,194
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -
Total Assets	\$ 4,291,288	\$ (587,851)	\$ 3,703,437
Liabilities and Equity			
Common Stock	\$ 1,000	\$ -	\$ 1,000
Premium on Capital Stock	\$ 664,021	\$ -	\$ 664,021
Paid in Capital	\$ 1,765,964	\$ (1,183,982)	\$ 581,982
Retained Earnings	\$ (18,326)	\$ -	\$ (18,326)
<i>Subtotal Equity</i>	\$ 2,412,659	\$ (1,183,982)	\$ 1,228,677
Notes and Accts Payable	\$ 1,307,975	\$ -	\$ 1,307,975
Accounts Payable	\$ 100,225	\$ -	\$ 100,225
Advances from Associated Co.	\$ (25,615)	\$ -	\$ (25,615)
Accrued Taxes	\$ 157	\$ -	\$ 157
Deferred Credits	\$ 72,195	\$ -	\$ 72,195
Misc Accrued Liabilities	\$ 16,771	\$ -	\$ 16,771
Misd Operating Reserves	\$ -	\$ -	\$ -
CIAC	\$ 458,500	\$ 1,368,149	\$ 1,826,649
Less: Accum Amort of CIAC	\$ (51,580)	\$ (772,017)	\$ (823,597)
Net CIAC	\$ 406,920	\$ -	\$ 1,003,052
<i>Subtotal Liabilities</i>	\$ 1,878,628	\$ -	\$ 2,474,760
Total Liabilities and Equity	\$ 4,291,287	\$ (1,183,982)	\$ 3,703,437
Total Adjustments		\$ (1,771,833)	

**Daufuskie Island Utility Company
Water and Wastewater Systems
Comparative Balance Sheets**

	2014	Adjustment	Revised 2014
Wastewater			
Assets			
Utility Plant	\$ 4,077,571	\$ -	\$ 4,077,571
Accumulated Depreciation	\$ (404,688)	\$ (1,182,430)	\$ (1,587,118)
Net Utility Plant	\$ 3,672,883	\$ (1,182,430)	\$ 2,490,453
Construction Work in Progress	\$ 225,342	\$ -	\$ 225,342
Net Plant	\$ 3,898,225	\$ (1,182,430)	\$ 2,715,795
Cash	\$ 34,576	\$ -	\$ 34,576
Accounts Receivable	\$ 198,409	\$ -	\$ 198,409
Provision for uncollectibles	\$ -	\$ -	\$ -
Receivables from Associated Co.	\$ -	\$ -	\$ -
Deferred Expenses	\$ 502,686	\$ -	\$ 502,686
Deferred Depreciation Expense		\$ 174,949	\$ 174,949
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -
Total Assets	\$ 4,633,896	\$ (1,007,481)	\$ 3,626,415
Liabilities and Equity			
Common Stock	\$ 1,000		\$ 1,000
Premium on Capital Stock	\$ 664,021		\$ 664,021
Paid in Capital	\$ 2,459,067	\$ (2,245,405)	\$ 213,662
Retained Earnings	\$ (178,173)		\$ (178,173)
Subtotal Equity	\$ 2,945,915	\$ (2,245,405)	\$ 700,510
Notes and Accts Payable	\$ 1,307,975		\$ 1,307,975
Accounts Payable	\$ 100,255		\$ 100,255
Advances from Associated Co.	\$ (25,615)		\$ (25,615)
Accrued Taxes	\$ 8,065		\$ 8,065
Deferred Credits	\$ 72,195		\$ 72,195
Misc Accrued Liabilities	\$ 41,001		\$ 41,001
Misd Operating Reserves	\$ -		\$ -
CIAC	\$ 201,795	\$ 2,552,421	\$ 2,754,216
Less: Accum Amort of CIAC	\$ (17,689)	\$ (1,314,498)	\$ (1,332,187)
Net CIAC	\$ 184,106		\$ 1,422,029
Subtotal Liabilities	\$ 1,687,982		\$ 2,925,905
Total Liabilities and Equity	\$ 4,633,897	\$ (2,245,405)	\$ 3,626,415
Total Adjustments		\$ (3,252,886)	

Daufuskie Island Utility Company
Water and Wastewater Systems
Comparative Balance Sheets

	2014	Adjustment	Revised 2014
Combined Water & Wastewater			
Assets			
Utility Plant	\$ 7,982,830	\$ -	\$ 7,982,830
Accumulated Depreciation	\$ (787,638)	\$ (1,911,475)	\$ (2,699,113)
Net Utility Plant	\$ 7,195,192	\$ (1,911,475)	\$ 5,283,717
Construction Work in Progress	\$ 254,853	\$ -	\$ 254,853
Net Plant	\$ 7,450,045	\$ (1,911,475)	\$ 5,538,570
Cash	\$ 69,152	\$ -	\$ 69,152
Accounts Receivable	\$ 400,615	\$ -	\$ 400,615
Provision for uncollectibles	\$ -	\$ -	\$ -
Receivables from Associated Co.	\$ -	\$ -	\$ -
Deferred Expenses	\$ 1,005,372	\$ -	\$ 1,005,372
Deferred Depreciation Expense	\$ -	\$ 316,143	\$ 316,143
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -
Total Assets	\$ 8,925,184	\$ (1,595,332)	\$ 7,329,852
Liabilities and Equity			
Common Stock	\$ 2,000	\$ -	\$ 2,000
Premium on Capital Stock	\$ 1,328,042	\$ -	\$ 1,328,042
Paid in Capital	\$ 4,225,031	\$ (3,429,387)	\$ 795,644
Retained Earnings	\$ (196,499)	\$ -	\$ (196,499)
Subtotal Equity	\$ 5,358,574	\$ (3,429,387)	\$ 1,929,187
Notes and Accts Payable	\$ 2,615,950	\$ -	\$ 2,615,950
Accounts Payable	\$ 200,480	\$ -	\$ 200,480
Advances from Associated Co.	\$ (51,230)	\$ -	\$ (51,230)
Accrued Taxes	\$ 8,222	\$ -	\$ 8,222
Deferred Credits	\$ 144,390	\$ -	\$ 144,390
Misc Accrued Liabilities	\$ 57,772	\$ -	\$ 57,772
Misd Operating Reserves	\$ -	\$ -	\$ -
CIAC	\$ 660,295	\$ 3,920,570	\$ 4,580,865
Less: Accum Amort of CIAC	\$ (69,269)	\$ (2,086,515)	\$ (2,155,784)
Net CIAC	\$ 591,026	\$ -	\$ 2,425,081
Subtotal Liabilities	\$ 3,566,610	\$ -	\$ 5,400,665
Total Liabilities and Equity	\$ 8,925,184	\$ (3,429,387)	\$ 7,329,852
Total Adjustments		\$ (5,024,719)	

AMENDED Lanier Exhibit 3

C-2

Daufuskie Island Utility Company

Water and Wastewater Systems

Determination of Rate Base

	2014	ADJ 1	ADJ 2	Revised 2014
Water				
Plant in Service	\$ 3,905,259		\$ -	\$ 3,905,259
Accumulated Depreciation	\$ (382,950)		\$ (729,045)	\$ (1,111,995)
<i>Net Utility Plant</i>	\$ 3,522,309		\$ (729,045)	\$ 2,793,264
CWIP	\$ 29,511		\$ -	\$ 29,511
<i>Net Plant</i>	\$ 3,551,820		\$ (729,045)	\$ 2,822,775
CIAC	\$ 458,500		\$ 1,368,149	\$ 1,826,649
Accum Amort of CIAC	\$ (51,580)		\$ (772,017)	\$ (823,597)
<i>Net CIAC</i>	\$ 406,920		\$ 596,132	\$ 1,003,052
NET PLANT	\$ 3,144,900		\$ (1,325,177)	\$ 1,819,723
Working Capital (1/5 O&M)	\$ 93,920		\$ (3,669)	\$ 90,251
Unamortized Balances	\$ -		\$ -	\$ -
Net Rate Base	\$ 3,238,820	\$ (1,325,177)	\$ (1,328,846)	\$ 1,909,974
Wastewater				
Plant in Service	\$ 4,077,571		\$ -	\$ 4,077,571
Accumulated Depreciation	\$ (404,688)		\$ (1,182,430)	\$ (1,587,118)
<i>Net Utility Plant</i>	\$ 3,672,883		\$ (1,182,430)	\$ 2,490,453
CWIP	\$ 225,342		\$ -	\$ 225,342
<i>Net Plant</i>	\$ 3,898,225		\$ (1,182,430)	\$ 2,715,795
CIAC	\$ 201,795		\$ 2,552,421	\$ 2,754,216
Accum Amort of CIAC	\$ (17,689)		\$ (1,314,498)	\$ (1,332,187)
<i>Net CIAC</i>	\$ 184,106		\$ 1,237,923	\$ 1,422,029
NET PLANT	\$ 3,714,119		\$ (2,420,353)	\$ 1,293,766
Working Capital (1/5 O&M)	\$ 75,842		\$ (3,678)	\$ 72,164
Unamortized Balances	\$ -		\$ -	\$ -
Net Rate Base	\$ 3,789,961	\$ (2,420,353)	\$ (2,424,031)	\$ 1,365,930
Combined				
Plant in Service	\$ 7,982,830		\$ -	\$ 7,982,830
Accumulated Depreciation	\$ (787,638)		\$ (1,911,475)	\$ (2,699,113)
<i>Net Utility Plant</i>	\$ 7,195,192		\$ (1,911,475)	\$ 5,283,717
CWIP	\$ 254,853		\$ -	\$ 254,853
<i>Net Plant</i>	\$ 7,450,045		\$ (1,911,475)	\$ 5,538,570
CIAC	\$ 660,295		\$ 3,920,570	\$ 4,580,865
Accum Amort of CIAC	\$ (69,269)		\$ (2,086,515)	\$ (2,155,784)
<i>Net CIAC</i>	\$ 591,026		\$ 1,834,055	\$ 2,425,081
NET PLANT	\$ 6,859,019		\$ (3,745,530)	\$ 3,113,489
Working Capital (1/5 O&M)	\$ 169,762.80		\$ (7,347.33)	\$ 162,821.87
Unamortized Balances	\$ -		\$ -	\$ -
Net Rate Base	\$ 7,028,782	\$ (3,745,530)	\$ (3,752,877)	\$ 3,276,311

AMENDED Lanier Exhibit 3

C-3

Danfuskie Island Utility Company
Water and Wastewater Systems
Capital Structure and Rate of Return

	DEIC Proposed (SCL A-3)	Adjustment	2014 Year-End	Ratio	Cost Rate	Weighted Cost	Return	Adjustment	Adjusted 2014 Year- End	Ratio	Cost Rate	Weighted Cost	Return
Long-Term Debt	\$ 3,750,000	\$ (1,134,050)	\$ 2,615,950					\$ -	\$ 2,615,950				
Short-Term Debt	\$ -	\$ -	\$ -					\$ -	\$ -				
Subtotal Debt	\$ 3,750,000		\$ 2,615,950	32.80%	6.20%	2.03%	\$ 182,189		\$ 2,615,950	57.55%	6.20%	3.57%	\$ 162,188.90
Equity	\$ 5,358,574		\$ 5,358,574	67.20%	8.75%	5.88%	\$ 488,875	\$ (3,429,387)	\$ 1,929,187	42.45%	8.75%	3.71%	\$ 168,803.86
Total Capital	\$ 9,108,574		\$ 7,974,524	100.00%		7.91%	\$ 631,064		\$ 4,545,137	100.00%		7.28%	\$ 330,992.76

AMENDED Lanier Exhibit 3

C-4

Dauphin Island Utility Company
Water and Wastewater Systems
Revenue Requirements - Return on Rate Base Approach
Income Statement

Rev (10-27-15)

	2014 Year-End	Adj Ref	Adjustment	Pro Forma Present Rates	Adjustment	Pro Forma Present Rates	Revised Revenue Adjustment	Pro Forma Proposed Rates
Consolidated Water & Wastewater								
Operating Revenue								
Residential	\$ 307,239		\$ 20,165	\$ 327,404	\$ (20,165)	\$ 307,239		
Commercial	\$ 151,057		\$ (2,549)	\$ 148,508	\$ 2,549	\$ 151,057		
Irrigation	\$ 98,309		\$ 6,559	\$ 104,868	\$ (6,559)	\$ 98,309		
Availability Billing	\$ 489,665		\$ (15,338)	\$ 474,327	\$ 15,338	\$ 489,665		
Misc. Other Revenue	\$ 30,193		\$ 121	\$ 30,314	\$ (121)	\$ 30,193		
Interdepartmental Sales	\$ -		\$ -	\$ -	\$ -	\$ -		
Billing Adjustments	\$ -		\$ -	\$ -	\$ -	\$ -		
Total Revenue	\$ 1,078,463		\$ 8,968	\$ 1,085,421	\$ (8,968)	\$ 1,078,463	\$ 429,442	\$ 1,805,905
Operating Expenses								
Wages	\$ 156,602	(2)	\$ 8,149.00	\$ 164,751.00	\$ -	\$ 164,751		\$ 164,751
Benefits	\$ 8,980	(3)	\$ 1,706.00	\$ 10,686.00	\$ -	\$ 10,686		\$ 10,686
Director's Fees	\$ 16,500		\$ -	\$ 16,500.00	\$ -	\$ 16,500		\$ 16,500
Sludge Disposal	\$ -		\$ -	\$ -	\$ -	\$ -		\$ -
Power	\$ 115,437	(4)	\$ 51,281.00	\$ 166,718.00	\$ (34,841)	\$ 131,877		\$ 131,877
Chemicals	\$ 9,019	(5)	\$ 490.00	\$ 9,509.00	\$ (490)	\$ 9,019		\$ 9,019
Supplies & Maintenance	\$ 27,136	(6)	\$ 1,406.00	\$ 28,542.00	\$ (1,406)	\$ 27,136		\$ 27,136
Outside Services - Mgmt	\$ 157,550	(7)	\$ 13,714.00	\$ 171,364.00	\$ -	\$ 171,364		\$ 171,364
Outside Services - Engineering	\$ 10,137	(8)	\$ (2,124.00)	\$ 8,013.00	\$ -	\$ 8,013		\$ 8,013
Outside Services - Accounting	\$ 2,761		\$ -	\$ 2,761.00	\$ -	\$ 2,761		\$ 2,761
Outside Services - Legal	\$ 23,178		\$ -	\$ 23,178.00	\$ -	\$ 23,178		\$ 23,178
Outside Services - Testing	\$ 92,288		\$ -	\$ 92,288.00	\$ -	\$ 92,288		\$ 92,288
Outside Services - Other	\$ 38,621	(9)	\$ -	\$ 38,621.00	\$ -	\$ 38,621		\$ 38,621
Other Operating Expenses	\$ 2		\$ 1.00	\$ 3.00	\$ -	\$ 3		\$ 3
Transportation	\$ 2,450	(10)	\$ 306.00	\$ 2,756.00	\$ -	\$ 2,756		\$ 2,756
Bad Debt	\$ 105,667	(11)	\$ (90,905.00)	\$ 14,762.00	\$ -	\$ 14,762	\$ 8,792	\$ 23,554
Insurance	\$ 30,205	(12)	\$ 18,117.00	\$ 48,322.00	\$ -	\$ 48,322		\$ 48,322
Regulatory Commission Expense	\$ 15,745	(13)	\$ (109.00)	\$ 15,636.00	\$ -	\$ 15,636		\$ 15,636
Other A&G Expense	\$ 36,436		\$ -	\$ 36,436.00	\$ -	\$ 36,436		\$ 36,436
Total O&M Expense	\$ 848,814		\$ 2,032	\$ 850,846	\$ (38,737)	\$ 814,109	\$ 8,792	\$ 822,901
Depreciation	\$ 73,072	(14)	\$ 22,194.00	\$ 95,266.00	\$ 135,121	\$ 230,387	\$ -	\$ 230,387
Amortization	\$ 92,421	(15)	\$ 113,656.00	\$ 206,077.00	\$ (148,109)	\$ 57,969		\$ 57,969
Revenue Taxes	\$ 6,048	(16)	\$ 807.00	\$ 6,855.00	\$ (807)	\$ 6,048	\$ 11,756	\$ 17,804
Property Taxes	\$ 4,209	(17)	\$ 188,093.00	\$ 192,302.00	\$ (115,995)	\$ 76,307		\$ 76,307
Payroll Taxes	\$ 13,183	(18)	\$ 548.00	\$ 13,731.00	\$ -	\$ 13,731		\$ 13,731
State and Federal Income Taxes	\$ -		\$ -	\$ -	\$ -	\$ -	\$ 48,214	\$ 48,214
Subtotal Other Expenses	\$ 188,933		\$ 325,298	\$ 514,231	\$ (128,790)	\$ 384,441		\$ 444,412
Total Operating Expenses	\$ 1,937,747		\$ 327,330	\$ 1,365,077	\$ (168,527)	\$ 1,196,550	\$ 8,792	\$ 1,267,313
Net Operating Income	\$ 38,716		\$ (318,372)	\$ (279,656)		\$ (122,087)	\$ 380,679	\$ 238,592
Rate Base	\$ 7,028,782		\$ -	\$ 7,028,782	\$ (3,752,877)	\$ 3,275,905		\$ 3,275,905
Rate of Return	0.55%					-3.73%		7.28%
Interest Expense	\$ 162,189			\$ 162,189		\$ 162,189		\$ 162,189
Operating Income after taxes	\$ (123,473)			\$ (441,845)		\$ (284,276)		\$ 76,403
Operating Income Margin	-11.5%			-40.7%		-26.4%		5.1%
Bad Debt rate						1.36%		1.36%
Revenue Tax Rate						0.5818%		0.656574%
State Income Tax Rate								5%
Federal Income Tax								34%
Desired Rate of Return								7.28%
Calculated Return								\$ 238,592
Less: Interest Expense								\$ 162,189
Equity Return Desired - After Tax								\$ 76,404
Equity Return Grossed up for State and Federal Tax, bad debt expense, and revenue tax								\$ 124,818
Other Revenue Requirements								
Interest Expense								\$ 162,189
Payroll Taxes								\$ 13,731
Property Taxes								\$ 76,307
Revenue Taxes								\$ 6,048
Amortization								\$ 57,969
Depreciation								\$ 230,387
Operating Expenses								\$ 814,109
Operating Expenses								\$ 1,380,739
Gross Revenue Requirement (Equity Return plus Operating Expenses)						0.00858574	0.00631	\$ 1,381,287

1 Total	1.0000
2 Less: Uncollectible	(0.0136)
3 Less: Rev Tax	(0.0086)
4 Less:	0.0000
5 Line 1 - Line 2 - Line 3 - Line 4	0.9778
6 State Income Tax - Line 5 X 5.00%	0.0489
7 Line 5 - Line 6	0.9289
8 Federal Income Tax - Line 7 X 34%	0.3158
9 Net - Line 7 - Line 8	0.6131
10 Gross-Up Factor - 1/Line 9	1.6311

AMENDED Lanier Exhibit 3

C-5

Daupuskie Island Utility Company Water and Wastewater Systems Expense Adjustments to Company Proposed Expenses

L-1: Power Cost

Test Year Power Cost - Combined Systems \$ 115,437

Month	Expenses	Adjustments	Revised Expenses
Jul-14	\$ 10,143	\$ -	\$ 10,143
Aug-14	\$ 13,944	\$ -	\$ 13,944
Sep-14	\$ 13,784	\$ -	\$ 13,784
Oct-14	\$ 11,445	\$ -	\$ 11,445
Oct-14	\$ 2,125	\$ (2,125)	\$ -
Nov-14	\$ 9,264	\$ -	\$ 9,264
Nov-14	\$ 8,684	\$ -	\$ 8,684
Jan-15	\$ 9,665	\$ -	\$ 9,665
Total	\$ 79,053		\$ 76,928

Months	7
Avg Per Month	\$ 10,990
Annual Months	12
Annualized	\$ 131,877
Adjustment to Test Yr Amount	\$ 16,440
Company Adjustment	\$ 51,281
Difference - Adjustment	\$ (34,841)
Water System	50% \$ (17,420)
Sewer System	50% \$ (17,420)

L-2: Operating Expenses (Reserved)

L-3: Depreciation Expense

a. Water Depreciable Plant

1 Pro Forma Plant Adjustments	Dep. Rate	Util Factor	Dep Expense
Meters \$ 15,187	6.670%	47.18%	\$ (478)
Water Net			\$ (478)
2 Full depreciation from elimination of UF Factors			
Non-UF Adjusted Depreciation			\$ 86,860
Less: DIUC Test Year Depreciation Expense			\$ (41,938)
Depreciation Adjustment			\$ 44,922
3 Amortization of Deferred Depreciation Expense			
Deferred Depreciation Expense			\$141,194
Amortization Period			7
Amortized Deferred Depreciation Expense			\$20,171
4 Total Depreciation Adjustment			\$64,615

b. Sewer Depreciable Plant

1 Pro Forma Plant Adjustments	Dep. Rate	Util Factor	Dep Expense
WW Treat & Disp Plant (\$113,609)	2.484%	35.47%	\$1,001
General Plant-Structures \$225,342	2.725%	100.00%	(\$6,141)
Sewer Net			(\$5,140)
2 Full depreciation from elimination of UF Factors			
Non-UF Adjusted Depreciation		Sewer	\$103,981
Less: DIUC Test Year Depreciation Expense			(\$53,328)
Depreciation Adjustment			\$50,653

AMENDED Lanier Exhibit 3

C-5

3 Amortization of Deferred Depreciation Expense		
Deferred Depreciation Expense	\$174,948	
Amortization Period	7	
Amortized Deferred Depreciation Expense		\$24,993
4 Total Depreciation Adjustment		
		\$70,506

L-4 Amortization Expense

a. Property Tax Amortization			
Adjusted Back Property Tax as of 12/31/14			
2011 Adjusted Tax	\$38,511		
2012 Adjusted Tax	\$38,016		
2013 Adjusted Tax	\$48,229		
		\$124,756	
DIUC Proposed Back Taxes		\$526,864	
Difference		(\$402,108)	
Amortization Period		8	
Amortization Per Year			(\$50,264)
	Water	50%	(\$25,132)
	Sewer	50%	(\$25,132)
b. Amortization of HPUC CIAC Amortization			
	Water System		(\$36,394)
	Sewer System		(\$61,451)
c. Amortization Water			
			(\$61,526)
d. Amortization Sewer			
			(\$86,583)
e. Total Amortization			
			(\$148,109)

L-5 Property Taxes

a. Adjusted Property Taxes			
	\$76,306		
Company proposed Property Tax Adjustment	\$192,301		
Difference		(\$115,995)	
	Water	50%	(\$57,998)
	Sewer	50%	(\$57,998)
	Total		(\$115,995)

AMENDED Lanier Exhibit 3

W-1

**Daufuskie Island Utility Company
Water and Wastewater Systems
Balance Sheet - Water**

	2014	Adjustment	Revised 2014
Assets			
Utility Plant	\$ 3,905,259		\$ 3,905,259
Accumulated Depreciation	\$ (382,950)	\$ (729,045)	\$ (1,111,995)
Net Utility Plant	\$ 3,522,309	\$ (729,045)	\$ 2,793,264
Construction Work in Progress	\$ 29,511		\$ 29,511
Net Plant	\$ 3,551,820	\$ (729,045)	\$ 2,822,775
Cash	\$ 34,576		\$ 34,576
Accounts Receivable	\$ 202,206		\$ 202,206
Provision for uncollectibles	\$ -		\$ -
Receivables from Associated Co.	\$ -		\$ -
Deferred Expenses	\$ 502,686		\$ 502,686
Deferred Depreciation Expense		\$ 141,194	\$ 141,194
Accumulated Deferred Income Tax	\$ -		\$ -
Total Assets	\$ 4,291,288	\$ (587,851)	\$ 3,703,437
Liabilities and Equity			
Common Stock	\$ 1,000		\$ 1,000
Premium on Capital Stock	\$ 664,021		\$ 664,021
Paid in Capital	\$ 1,765,964		\$ 1,765,964
Retained Earnings	\$ (18,326)	\$ (1,183,982)	\$ (1,202,308)
Subtotal Equity	\$ 2,412,659	\$ (1,183,982)	\$ 1,228,677
Notes and Accts Payable	\$ 1,307,975		\$ 1,307,975
Accounts Payable	\$ 100,225		\$ 100,225
Advances from Associated Co.	\$ (25,615)		\$ (25,615)
Accrued Taxes	\$ 157		\$ 157
Deferred Credits	\$ 72,195		\$ 72,195
Misc Accrued Liabilities	\$ 16,771		\$ 16,771
Misd Operating Reserves	\$ -		\$ -
CIAC	\$ 458,500	\$ 1,368,149	\$ 1,826,649
Less: Accum Amort of CIAC	\$ (51,580)	\$ (772,017)	\$ (823,597)
Net CIAC	\$ 406,920	\$ 596,132	\$ 1,003,052
Subtotal Liabilities	\$ 1,878,628	\$ 596,132	\$ 2,474,760
Total Liabilities and Equity	\$ 4,291,287	\$ (587,850)	\$ 3,703,437

Daufuskie Island Utility Company
Water and Wastewater Systems
Determination of Rate Base - Water

				\$ (1,175,701)
	2014	ADJ 1	ADJ 2	Revised 2014
Plant in Service	\$ 3,905,259		\$ -	\$ 3,905,259
Accumulated Depreciation	\$ (382,950)		\$ (729,045)	\$ (1,111,995)
<i>Net Utility Plant</i>	\$ 3,522,309		\$ (729,045)	\$ 2,793,264
CWIP	\$ 29,511		\$ -	\$ 29,511
<i>Net Plant</i>	\$ 3,551,820		\$ (729,045)	\$ 2,822,775
CIAC	\$ 458,500		\$ 1,368,149	\$ 1,826,649
Accum Amort of CIAC	\$ (51,580)		\$ (772,017)	\$ (823,597)
<i>Net CIAC</i>	\$ 406,920		\$ 596,132	\$ 1,003,052
<i>NET PLANT</i>	\$ 3,144,900		\$ (1,325,177)	\$ 1,819,723
Working Capital (1/5 O&M)	\$ 93,920.40		\$ (3,669.07)	\$ 90,251
Unamortized Balances	\$ -			\$ -
Net Rate Base	\$ 3,238,820	\$ (1,325,177)	\$ (1,328,846)	\$ 1,909,974

AMENDED Lanier Exhibit 3

W-3

Danvers Island Utility Company
Water and Wastewater Systems
Capital Structure and Rate of Return

		Ratio	Cost Rate	Weighted Cost	Return	Adjustments	Revised Pro Forma	Ratio	Cost Rate	Weighted Cost	Return
Long-Term Debt	\$ 1,307,975					\$ -	\$ 1,307,975				
Short-Term Debt	\$ -					\$ 0	\$ -				
Subtotal Debt	\$ 1,307,975	35.15%	6.20%	2.18%	\$ 81,094	\$ -	\$ 1,307,975	51.56%	6.20%	3.20%	\$ 81,094
			2.42%	0.00%	\$ -						\$ -
Equity	\$ 2,412,659	64.85%	8.75%	5.67%	\$ 211,108	\$ (1,183,982)	\$ 1,228,677	48.44%	8.75%	4.24%	\$ 107,509
Total Capital	\$ 3,720,634	100.00%		7.85%	\$ 292,202	\$ (1,183,982)	\$ 2,536,652	100.00%		7.44%	\$ 188,604

AMENDED Lanier Exhibit 3

W-4

Daufuske Island Utility Company
Water and Wastewater Systems
Revenue Requirements - Return on Rate Base Approach
Income Statement
Combined Water & Wastewater

Rev (10-27-15)

	2014 Year-End	Adj Ref	Adjustment	Pro Forma Present Rates	LML Proposed Adj Ref	Adjustment	Pro Forma Present Rates	Revised Revenue Adjustment	Pro Forma Proposed Rates
Operating Revenue									
Residential	\$ 139,071		\$ 7,519	\$ 148,590	Fut Tst Yr	\$ (7,519)	\$ 139,071		
Commercial	\$ 72,479		\$ 452	\$ 72,931	Fut Tst Yr	\$ (452)	\$ 72,479		
Irrigation	\$ 98,309		\$ 6,559	\$ 104,868	Fut Tst Yr	\$ (6,559)	\$ 98,309		
Availability Billing	\$ 213,004		\$ (10,848)	\$ 202,156	Fut Tst Yr	\$ 10,848	\$ 213,004		
Misc. Other Revenue	\$ 20,444		\$ 88	\$ 20,532	Fut Tst Yr	\$ (88)	\$ 20,444		
Interdepartmental Sales	\$ -		\$ -	\$ -		\$ -	\$ -		
Billing Adjustments	\$ -		\$ -	\$ -		\$ -	\$ -		
Total Revenue	\$ 643,307		\$ 3,770	\$ 647,077		\$ (3,770)	\$ 643,307	\$ 289,848	\$ 832,855
Operating Expenses									
Wages	\$ 78,301	(2)	\$ 4,075	\$ 82,376			\$ 82,376		\$ 82,376
Benefits	\$ 4,490	(3)	\$ 853	\$ 5,343			\$ 5,343		\$ 5,343
Director's Fees	\$ 8,250		\$ -	\$ 8,250			\$ 8,250		\$ 8,250
Sludge Disposal	\$ -		\$ -	\$ -			\$ -		\$ -
Power	\$ 57,581	(4)	\$ 25,514	\$ 83,095	L-1	\$ (17,420)	\$ 65,675		\$ 65,675
Chemicals	\$ 4,510	(5)	\$ 230	\$ 4,740	Fut Tst Yr	\$ (230)	\$ 4,510		\$ 4,510
Supplies & Maintenance	\$ 13,849	(6)	\$ 695	\$ 14,544	Fut Tst Yr	\$ (695)	\$ 13,849		\$ 13,849
Outside Services - Mgmt	\$ 78,825	(7)	\$ 6,857	\$ 85,682			\$ 85,682		\$ 85,682
Outside Services - Engineering	\$ 425	(8)	\$ 2,145	\$ 2,570			\$ 2,570		\$ 2,570
Outside Services - Accounting	\$ 1,381		\$ -	\$ 1,381			\$ 1,381		\$ 1,381
Outside Services - Legal	\$ 11,589		\$ -	\$ 11,589			\$ 11,589		\$ 11,589
Outside Services - Testing	\$ 81,578		\$ -	\$ 81,578			\$ 81,578		\$ 81,578
Outside Services - Other	\$ 31,026	(9)	\$ -	\$ 31,026			\$ 31,026		\$ 31,026
Other Operating Expenses	\$ -	(3)	\$ 1	\$ (2)			\$ (2)		\$ (2)
Transportation	\$ 1,225	(10)	\$ 153	\$ 1,378			\$ 1,378		\$ 1,378
Bad Debt	\$ 52,834	(11)	\$ (46,158)	\$ 6,676			\$ 6,676	\$ 4,618.3	\$ 11,294
Insurance	\$ 18,197	(12)	\$ 5,964	\$ 24,161			\$ 24,161		\$ 24,161
Regulatory Commission Expense	\$ 10,861	(13)	\$ 2,645	\$ 13,506			\$ 13,506		\$ 13,506
Other A&G Expense	\$ 14,683		\$ -	\$ 14,683			\$ 14,683		\$ 14,683
Total O&M Expense	\$ 489,602		\$ 2,974	\$ 472,578		\$ (18,346)	\$ 484,231		\$ 468,849
Depreciation	\$ 36,921	(14)	\$ 5,017	\$ 41,938	L-3	\$ 64,615	\$ 106,553		\$ 106,553
Amortization	\$ 46,210	(15)	\$ 56,828	\$ 103,038	L-4	\$ (61,528)	\$ 41,512		\$ 41,512
Revenue Taxes	\$ 3,052	(16)	\$ 403	\$ 3,455	Fut Tst Yr	\$ (403)	\$ 3,052	\$ 6,363	\$ 9,415
Property Taxes	\$ 2,105	(17)	\$ 89,863	\$ 91,968	L-5	\$ (57,998)	\$ 33,971		\$ 33,971
Payroll Taxes	\$ 6,591	(18)	\$ 274	\$ 6,865			\$ 6,865		\$ 6,865
State and Federal Income Taxes	\$ -	(19)	\$ -	\$ -			\$ -	\$ 36,599	\$ 36,599
Subtotal Other Expenses	\$ 94,879		\$ 152,385	\$ 247,264		\$ (58,312)	\$ 181,952	\$ 42,962	\$ 234,915
Total Operating Expenses	\$ 584,481		\$ 155,359	\$ 719,840		\$ (73,657)	\$ 646,183	\$ 42,962	\$ 689,784
Net Operating Income	\$ (21,174)		\$ (151,589)	\$ (172,763)		\$ 69,887	\$ (102,876)	\$ 311,854.41	\$ 139,091
Rate Base	\$ 3,238,820		\$ -	\$ 3,238,820		\$ (1,328,848)	\$ 1,909,974	\$ -	\$ 1,909,974
Rate of Return	-0.65%			-5.33%			-5.39%		7.28%
Interest Expense									\$ 81,094
Operating Income after taxes									\$ 57,997
Operating Income Margin									7.0%
Bad Debt rate									1.36%
Revenue Tax									0.86%
State Income Tax									5%
Federal Income Tax									34%
Desired Rate of Return									7.28%
Calculated Return									\$ 139,091
Less: Interest Expense									\$ 81,094
Equity Return									\$ 57,997
Equity Return Grossed up for Federal Tax									\$ 84,595
Other Revenue Requirements									
Interest Expense									\$ 81,094
Payroll Taxes									\$ 6,865
Property Taxes									\$ 33,971
Revenue Taxes									\$ 3,052
Amortization									\$ 41,512
Depreciation									\$ 106,553
Operating Expenses									\$ 464,231
Operating Expenses									\$ 727,278
Gross Revenue Requirement (Equity Return plus Operating Expenses)							0.00856574	0.00631	\$ 733,561
									\$ 731,896
									\$ 10,982

1 Total	1.0000
2 Less: Uncollectible	(0.0139)
3 Less: Rev Tax	(0.0086)
4 Less:	0.0000
5 Line 1 - Line 2 - Line 3 - Line 4	0.9778
6 State Income Tax - Line 5 X 5.00%	0.0489
7 Line 5 - Line 6	0.9289
8 Federal Income Tax - Line 7 X 34%	0.3158
9 Net - Line 7 - Line 8	0.6131

AMENDED Lanier Exhibit 3

W-4

10 Gross-Up Factor - 1/Line 9

1.6311

AMENDED Lanier Exhibit 3

S-1

**Daufuskie Island Utility Company
Water and Wastewater Systems
Balance Sheet - Wastewater**

	2014	Adjustment	Revised 2014
Assets			
Utility Plant	\$ 4,077,571		\$ 4,077,571
Accumulated Depreciation	\$ (404,688)	\$ (1,182,430)	\$ (1,587,118)
Net Utility Plant	\$ 3,672,883	\$ (1,182,430)	\$ 2,490,453
Construction Work in Progress	\$ 225,342		\$ 225,342
Net Plant	\$ 3,898,225	\$ (1,182,430)	\$ 2,715,795
Cash	\$ 34,576		\$ 34,576
Accounts Receivable	\$ 198,409		\$ 198,409
Provision for uncollectibles	\$ -		\$ -
Receivables from Associated Co.	\$ -		\$ -
Deferred Expenses	\$ 502,686		\$ 502,686
Deferred Depreciation Expense	\$ -	\$ 174,948	\$ 174,948
Accumulated Deferred Income Tax	\$ -		\$ 174,948
Total Assets	\$ 4,633,896		
Liabilities and Equity			
Common Stock	\$ 1,000		\$ 1,000
Premium on Capital Stock	\$ 664,021		\$ 664,021
Paid in Capital	\$ 2,459,067	\$ (2,245,406)	\$ 213,661
Retained Earnings	\$ (178,173)		\$ (178,173)
Subtotal Equity	\$ 2,945,915	\$ (2,245,406)	\$ 700,509
Notes and Accts Payable	\$ 1,307,975	\$ -	\$ 1,307,975
Accounts Payable	\$ 100,255		\$ 100,255
Advances from Associated Co.	\$ (25,615)		\$ (25,615)
Accrued Taxes	\$ 8,065		\$ 8,065
Deferred Credits	\$ 72,195		\$ 72,195
Misc Accrued Liabilities	\$ 41,001		\$ 41,001
Misd Operating Reserves	\$ -		\$ -
CIAC	\$ 201,795	\$ 2,552,421	\$ 2,754,216
Less: Accum Amort of CIAC	\$ (17,689)	\$ (1,314,498)	\$ (1,332,187)
Net CIAC	\$ 184,106	\$ 1,237,923	\$ 1,422,029
Subtotal Liabilities	\$ 1,687,982	\$ 1,237,923	\$ 2,925,905
Total Liabilities and Equity	\$ 4,633,897	\$ (1,007,483)	\$ 3,626,414

AMENDED Lanier Exhibit 3

S-2

Daufuskie Island Utility Company **Water and Wastewater Systems** **Determination of Rate Base**

	2014	ADJ 1	ADJ 2	Revised 2014
Plant in Service	\$ 4,077,571		\$ -	\$ 4,077,571
Accumulated Depreciation	\$ (404,688)		\$ (1,182,430)	\$ (1,587,118)
Net Utility Plant	\$ 3,672,883		\$ (1,182,430)	\$ 2,490,453
CWIP	\$ 225,342		\$ -	\$ 225,342
Net Plant	\$ 3,898,225		\$ (1,182,430)	\$ 2,715,795
CIAC	\$ 201,795		\$ 2,552,421	\$ 2,754,216
Accum Amort of CIAC	\$ (17,689)		\$ (1,314,498)	\$ (1,332,187)
Net CIAC	\$ 184,106		\$ 1,237,923	\$ 1,422,029
NET PLANT	\$ 3,714,119		\$ (2,420,353)	\$ 1,293,766
Working Capital (1/15 O&M)	\$ 75,842		\$ (3,678)	\$ 72,164
Unamortized Balances	\$ -			\$ -
Net Rate Base	\$ 3,789,961	\$ (2,420,353)	\$ (2,424,031)	\$ 1,365,930

AMENDED Lanier Exhibit 3

S-3

Daufuskie Island Utility Company
Water and Wastewater Systems
Capital Structure and Rate of Return

		Ratio	Cost Rate	Weighted Cost	Return	Adjustments	Revised Pro Forma	Ratio	Cost Rate	Weighted Cost	Return
Long-Term Debt	\$ 1,307,975										
Short-Term Debt	\$ -										
Subtotal Debt	\$ 1,307,975	30.75%	6.20%	1.91%	\$ 81,094	\$ -	\$ 1,307,975	65.12%	6.20%	4.04%	\$ 81,094
			2.42%	0.00%							\$ -
Equity	\$ 2,945,915	69.25%	8.75%	6.06%	\$ 257,768	\$ (2,245,406)	\$ 700,509	34.88%	8.75%	3.05%	\$ 257,768
Total Capital	\$ 4,253,890	100.00%		7.97%	\$ 338,862		\$ 2,008,484	100.00%		7.09%	\$ 338,862

AMENDED Lanier Exhibit 3

S-4

Daupuskie Island Utility Company
Water and Wastewater Systems
Revenue Requirements - Return on Rate Base Approach
Income Statement
Combined Water & Wastewater

Rev (10-27-15)

	2014 Year-End	Adj Ref	Adjustment	Pro Forma Present Rates	LML Proposed Adj Ref	Adjustment	Pro Forma Present Rates	Revised Revenue Adjustment	Pro Forma Proposed Rates
Operating Revenue									
Residential	\$ 168,168		\$ 12,648.00	\$ 180,814	Fut Tst Yr	\$ (12,648)	\$ 168,168		
Commercial	\$ 78,577		\$ (3,001.00)	\$ 75,576	Fut Tst Yr	\$ 3,001	\$ 78,577		
Irrigation	\$ -		\$ -	\$ -		\$ -	\$ -		
Availability Billing	\$ 278,661		\$ (4,490.00)	\$ 272,171	Fut Tst Yr	\$ 4,490	\$ 278,661		
Misc. Other Revenue	\$ 9,749		\$ 33.00	\$ 9,782	Fut Tst Yr	\$ (33)	\$ 9,749		
Interdepartmental Sales	\$ -		\$ -	\$ -		\$ -	\$ -		
Billing Adjustments	\$ -		\$ -	\$ -		\$ -	\$ -		
Total Revenue	\$ 533,165		\$ 5,188	\$ 538,343		\$ (5,188)	\$ 533,165	\$ 139,845	\$ 673,000
Operating Expenses									
Wages	\$ 78,301	(2)	\$ 4,074	\$ 82,375			\$ 82,375		\$ 82,375
Benefits	\$ 4,490	(3)	\$ 853	\$ 5,343			\$ 5,343		\$ 5,343
Director's Fees	\$ 8,250		\$ -	\$ 8,250			\$ 8,250		\$ 8,250
Sludge Disposal	\$ -		\$ -	\$ -			\$ -		\$ -
Power	\$ 57,856	(4)	\$ 25,787	\$ 83,623	L-1	\$ (17,420)	\$ 66,203		\$ 66,203
Chemicals	\$ 4,510	(5)	\$ 260	\$ 4,770	Fut Tst Yr	\$ (260)	\$ 4,510		\$ 4,510
Supplies & Maintenance	\$ 13,288	(6)	\$ 711	\$ 13,999	Fut Tst Yr	\$ (711)	\$ 13,288		\$ 13,288
Outside Services - Mgmt	\$ 78,825	(7)	\$ 6,857	\$ 85,682			\$ 85,682		\$ 85,682
Outside Services - Engineering	\$ 9,712	(8)	\$ (4,269)	\$ 5,443			\$ 5,443		\$ 5,443
Outside Services - Accounting	\$ 1,381		\$ -	\$ 1,381			\$ 1,381		\$ 1,381
Outside Services - Legal	\$ 11,589		\$ -	\$ 11,589			\$ 11,589		\$ 11,589
Outside Services - Testing	\$ 10,711		\$ -	\$ 10,711			\$ 10,711		\$ 10,711
Outside Services - Other	\$ 7,596	(9)	\$ -	\$ 7,596			\$ 7,596		\$ 7,596
Other Operating Expenses	\$ (2)		\$ -	\$ (2)			\$ (2)		\$ (2)
Transportation	\$ 1,225	(10)	\$ 153	\$ 1,378			\$ 1,378		\$ 1,378
Bad Debt	\$ 52,834	(11)	\$ (44,747)	\$ 8,087			\$ 8,087	\$ 4,091.5	\$ 12,179
Insurance	\$ 12,008	(12)	\$ 12,153	\$ 24,161			\$ 24,161		\$ 24,161
Regulatory Commission Expense	\$ 4,884	(13)	\$ (2,754)	\$ 2,130			\$ 2,130		\$ 2,130
Other A&G Expense	\$ 21,753		\$ -	\$ 21,753			\$ 21,753		\$ 21,753
Total O&M Expense	\$ 378,211		\$ (942)	\$ 378,269		\$ (18,381)	\$ 359,878	\$ 4,092	\$ 363,969
Depreciation	\$ 36,151	(14)	\$ 17,177	\$ 53,328	L-3	\$ 70,506	\$ 123,834		\$ 123,834
Amortization	\$ 46,210	(15)	\$ 56,828	\$ 103,038	L-4	\$ (86,583)	\$ 16,455		\$ 16,455
Revenue Taxes	\$ 2,996	(16)	\$ 404	\$ 3,400	Fut Tst Yr	\$ (404)	\$ 2,996	\$ 5,473	\$ 8,469
Property Taxes	\$ 2,105	(17)	\$ 98,230	\$ 100,335	L-5	\$ (57,998)	\$ 42,338		\$ 42,338
Payroll Taxes	\$ 6,591	(18)	\$ 274	\$ 6,865			\$ 6,865		\$ 6,865
State and Federal Income Taxes	\$ 1		\$ -	\$ 1			\$ 1	\$ 11,597	\$ 11,598
Subtotal Other Expenses	\$ 94,054		\$ 172,913	\$ 268,967		\$ (74,478)	\$ 192,489		\$ 209,559
Total Operating Expenses	\$ 473,265		\$ 171,971	\$ 645,236		\$ (92,870)	\$ 552,366	\$ 4,092	\$ 573,528
Net Operating Income	\$ 59,890		\$ (168,783)	\$ (108,893)		\$ 87,682	\$ (19,211)	\$ 206,364.82	\$ 99,472
Rate Base	\$ 3,789,961		\$ -	\$ 3,789,961		\$ (2,424,031)	\$ 1,365,930		\$ 1,365,930
Rate of Return	1.58%			2.82%					7.28%
Interest Expense									\$ 81,094
Operating Income after taxes									\$ 18,377
Operating Income Margin									2.7%
Bad Debt rate									1.36%
Revenue Tax									0.86%
State Income Tax									5%
Federal Income Tax									34%
Desired Rate of Return									7.28%
Calculated Return									\$ 99,472
Less: Interest Expense									\$ 81,094
Equity Return									\$ 18,377
Equity Return Grossed up for Federal Tax									\$ 29,974
Other Revenue Requirements									
Interest Expense									\$ 81,094
Payroll Taxes									\$ 6,865
Property Taxes									\$ 42,338
Revenue Taxes									\$ 2,996
Amortization									\$ 16,455
Depreciation									\$ 123,834
Operating Expenses									\$ 359,878
Operating Expenses									\$ 633,460
Gross Revenue Requirement (Equity Return plus Operating Expenses)							0.00856574	0.00631	\$ 643,025
									\$ 673,000

1 Total	1.0000
2 Less: Uncollectible	(0.0138)
3 Less: Rev Tax	(0.0088)
4 Less:	0.0000
5 Line 1 - Line 2 - Line 3 - Line 4	0.9778
6 State Income Tax - Line 5 X 5.00%	0.0489
7 Line 5 - Line 6	0.9289
8 Federal Income Tax - Line 7 X 34%	0.3158
9 Net - Line 7 - Line 8	0.6131
10 Gross-Up Factor - 1/Line 9	1.6311

**Daufuskie Island Utility Company
Water and Wastewater Systems**

Operating Expenses			
Wages	\$	156,602	(2)
Benefits	\$	8,980	(3)
Director's Fees	\$	16,500	
Sludge Disposal	\$	-	
Power	0.0% \$	115,437	(4)
Chemicals	\$	9,019	(5)
Supplies & Maintenance	\$	27,136	(6)
Outside Services - Mgmt	0.0% \$	157,650	(7)
Outside Services - Engineering	\$	10,137	(8)
Outside Services - Accounting	\$	2,761	
Outside Services - Legal	\$	23,178	
Outside Services - Testing	\$	92,288	
Outside Services - Other	\$	38,621	(9)
Other Operating Expenses	\$	2	
Transportation	\$	2,450	(10)
Bad Dept	\$	105,667	(11)
Insurance	0.0% \$	30,205	(12)
Regulatory Commission Expense	\$	15,745	(13)
Other A&G Expense	\$	36,436	
Total O&M Expense	\$	848,814	
Less			
Power	\$	115,437	
Bad Dept	\$	105,667	
Regulatory Commission Expense	\$	15,745	
Subtotal	\$	236,849	
O&M Expense less exclusions	\$	611,965	
Depreciation	\$	73,072	(14)
Amortization	0.0% \$	92,421	(15)
Revenue Taxes	\$	6,048	(16)
Property Taxes	0.0% \$	4,209	(17)
Payroll Taxes	\$	13,183	(18)
State and Federal Income Taxes	\$	-	
Subtotal Other Expenses	0.0% \$	188,933	
Depreciation	\$	73,072	
Amortization	\$	92,421	
Revenue Taxes	\$	6,048	
Property Taxes	\$	4,209	
State and Federal Income Taxes	\$	-	
Total Taxes	\$	175,750	
Payroll Taxes	\$	13,183	
Other O&M Expenses less exclusions	\$	611,965	
Total O&M	\$	625,148	

AMENDED Lanier Exhibit 3

WP-2

**Daufuskie Island Utility Company
Water and Wastewater Systems
Property Tax Adjustment**

	2011	2012	2013	2014
Net Plant	\$4,703,358	\$4,552,231	\$4,526,446	\$5,437,761
Net CIAC	(\$2,773,722)	(\$2,678,977)	(\$2,544,518)	(\$2,450,673)
Net Acquisition Adjustment	(\$72,928)	(\$70,640)	(\$68,352)	(\$66,065)
Taxable Base	\$1,856,708	\$1,802,614	\$1,913,576	\$2,921,023
Assessment Ratio	0.105	0.105	0.105	0.105
Beaufort Co. Millage Rate	0.19754	0.20085	0.240033	0.24879
Tax Due	\$38,511	\$38,016	\$48,229	\$76,306
Total Back Taxes			\$124,756	\$15,594
	Water	50%	\$62,378	
	Sewer	50%	\$62,378	
				\$91,900
		Water	50%	\$45,950
		Sewer	50%	\$45,950

COMMISSIONERS:
 ART GRAHAM, CHAIRMAN
 LISA POLAK EDGAR
 RONALD A. BRISÉ
 JULIE I. BROWN
 JIMMY PATRONIS

STATE OF FLORIDA



DIVISION OF
 ACCOUNTING AND FINANCE
 ANDREW L. MAUREY
 DIRECTOR
 (850) 413-6900

Public Service Commission

March 2, 2015

All Florida Public Service Commission
 Regulated Water & Wastewater Utilities

Re: Docket No. 150005-WS - 2015 Price Index

Dear Utility Owner:

Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), Florida Statutes (F.S.), and Rule 25-30.420, Florida Administrative Code (F.A.C.), the Commission has established a price index increase or decrease for major categories of operating costs. The intent of this rule is to insure that inflationary pressures are not detrimental to utility owners, and that any possible deflationary pressures are not adverse to rate payers. By keeping up with index and pass-through adjustments, utility operations can be maintained at a level sufficient to insure quality of service for the rate payers.

Pursuant to Rule 25-30.420(1)(a), F.A.C., all operation and maintenance expenses shall be indexed with the exception of:

- a) Pass-through items pursuant to Section 367.081(4)(b), F.S.;
- b) Any amortization of rate case expense; and
- c) Disallowances or adjustments made in an applicant's most recent rate proceeding.

Upon the filing of a request for an index and/or pass-through increase, staff will review the application and modify existing rates accordingly. If for no other reason than to keep up with escalating costs, utilities throughout Florida should file for this rate relief on an annual basis. Utilities may apply for a 2015 Price Index anytime between April 1, 2015, through March 31, 2016. The attached package will answer questions regarding what the index and pass-through rate adjustments are, how to apply for an adjustment, and what needs to be filed in order to meet the filing requirements. While this increase for any given year may be minor, (see chart below), the long-run effect of keeping current with rising costs can be substantial.

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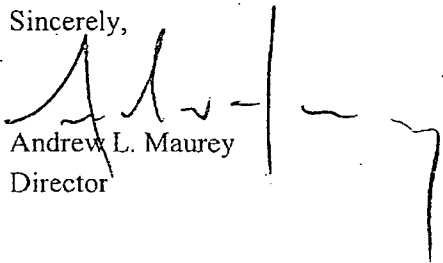
All Florida Public Service Commission
 Regulated Water & Wastewater Utilities
 Page 2
 March 2, 2015

	ANNUAL		ANNUAL
	COMMISSION		COMMISSION
YEAR	APPROVED INDEX	YEAR	APPROVED INDEX
1990	4.12%	2003	1.31%
1991	4.12%	2004	1.60%
1992	3.63%	2005	2.17%
1993	3.33%	2006	2.74%
1994	2.56%	2007	3.09%
1995	1.95%	2008	2.39%
1996	2.49%	2009	2.55%
1997	2.13%	2010	0.56%
1998	2.10%	2011	1.18%
1999	1.21%	2012	2.41%
2000	1.36%	2013	1.63%
2001	2.50%	2014	1.41%
2002	2.33%	2015	1.57%

Please be aware that pursuant to Section 837.06, F.S., whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree.

Our staff is available at (850) 413-6900 should you need assistance with your filing. If you have any questions, please do not hesitate to call.

Sincerely,


 Andrew L. Maurey
 Director

Enclosures

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Annual reestablishment of price increase
or decrease index of major categories of
operating costs incurred by water and
wastewater utilities pursuant to Section
367.081(4)(a), F.S.

DOCKET NO. 150005-WS
ORDER NO. PSC-15-0072-PAA-WS
ISSUED: January 27, 2015

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISE
JULIE I. BROWN
JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING 2015 PRICE INDEX
FOR WATER AND WASTEWATER UTILITIES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

BACKGROUND

Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), Florida Statutes (F.S.), and Rule 25-30.420, F.A.C., the Commission has established a price index increase or decrease for major categories of operating costs on or before March 31 of each year. This process allows water and wastewater utilities to adjust rates based on current specific expenses without applying for a rate case.

This order calculates the 2015 price index by comparing the Gross Domestic Product Implicit Price Deflator Index for the fiscal year ended September 30, 2013, to the same index for the fiscal year ended September 30, 2014. This same procedure has been used each year since 1995 to calculate the price index. The U.S. Department of Commerce, Bureau of Economic Analysis, released its final third quarter figures on December 23, 2014.

Since March 31, 1981, we have received and processed approximately 3,428 index applications. We have jurisdiction over this matter pursuant to Section 367.081, F.S.

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2015 PRICE INDEX

In 1993, the Gross Domestic Product Implicit Price Deflator Index (GDP) was established as the appropriate measure for determining the water and wastewater price index. At this same time, the convention of using a four quarter fiscal year comparison was also established and this practice has been used every year since then.¹ The GDP is prepared by the U.S. Department of Commerce. Prior to that time, the Gross National Product Implicit Price Deflator Index (GNP) was used as the indexing factor for water and wastewater utilities. The Department of Commerce switched its emphasis from the GNP to the GDP as the primary measure of U.S. production.

Pursuant to Section 367.081(4)(a), F.S., this Commission, by order, shall establish a price increase or decrease index for major categories of operating costs incurred by utilities subject to its jurisdiction reflecting the percentage of increase or decrease in such costs from the most recent 12-month historical data available. Since 1995, the price index was determined by using a four quarter comparison, ending September 30, of the Implicit Price Deflator Index in order to meet the statutory deadline. The current price index was determined by comparing the change in the GDP using the four quarter fiscal year comparison ending September 30. This method has been used consistently since 1995 to determine the price index.²

In Order No. PSC-14-0056-PAA-WS, issued January 27, 2014, in Docket No. 140005-WS, in keeping with the practice started in 1993, we reiterated the alternatives which could be used to calculate the indexing of utility revenues. Past concerns expressed by utilities, as summarized from utility input in previous hearings, are:

- 1) Inflation should be a major factor in determining the index;
- 2) Nationally published indices should be vital to this determination;
- 3) Major categories of expenses are labor, chemicals, sludge-hauling, materials and supplies, maintenance, transportation, and treatment expense;
- 4) An area wage survey, Dodge Building Cost Index, Consumer Price Index, and the GDP should be considered;
- 5) A broad measure index should be used; and
- 6) The index procedure should be easy to administer.

¹ Order No. PSC-93-0195-FOF-WS, issued February 9, 1993, in Docket No. 930005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

² Order No. PSC-95-0202-FOF-WS, issued February 10, 1995, in Docket No. 950005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

ORDER NO. PSC-15-0072-PAA-WS
 DOCKET NO. 150005-WS
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Based upon these concerns, we have previously explored the following alternatives:

- 1) Survey of Regulated Water and Wastewater Utilities;
- 2) Consumer Price Index;
- 3) Florida Price Level Index;
- 4) Producer's Price Index - previously the Wholesale Price Index; and
- 5) GDP (replacing the GNP).

Over the past years, we have rejected the Survey of Regulated Water and Wastewater Utilities because using the results of a survey would allow utilities to pass on to customers all cost increases, thereby reducing the incentives of promoting efficiency and productivity. We have also rejected the Consumer Price Index and the Florida Price Level Index because of their limited degree of applicability to the water and wastewater industry. Both of these price indices are based upon comparing the advance in prices of a limited number of general goods and, therefore, appear to have limited application to water and wastewater utilities.

The Producers Price Index (PPI) is a family of indices that measures the average change over time in selling prices received by domestic producers of goods and services. PPI measures price change from the perspective of the seller, not the purchaser, and therefore rejected. Because the bases for these indices have not changed, the conclusions reached in Order No. PSC-14-0056-PAA-WS continue to apply in this case. Since 1993, we have found that the GDP has a greater degree of applicability to the water and wastewater industry. Therefore, we shall continue to use the GDP to calculate water and wastewater price level adjustments.

The following information provides a historical perspective of the annual price index:

Table 1

<u>Historical Analysis of the Annual Price Index for Water and Wastewater Utilities</u>			
<u>COMMISSION APPROVED</u>		<u>COMMISSION APPROVED</u>	
<u>YEAR</u>	<u>INDEX</u>	<u>YEAR</u>	<u>INDEX</u>
2003	1.31%	2009	2.55%
2004	1.60%	2010	0.56%
2005	2.17%	2011	1.18%
2006	2.74%	2012	2.41%
2007	3.09%	2013	1.63%
2008	2.39%	2014	1.41%

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 DOCKET NO. 150005-WS
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The table below shows the historical participation in the Index and/or Pass-Through programs:

Table 2

<u>Percentage of Jurisdictional Water and Wastewater Utilities</u> <u>Filing for Indexes and/or Pass-Throughs</u>			
<u>YEAR</u>	<u>PERCENTAGE</u>	<u>YEAR</u>	<u>PERCENTAGE</u>
2003	27%	2009	53%
2004	22%	2010	29%
2005	33%	2011	43%
2006	32%	2012	30%
2007	47%	2013	41%
2008	42%	2014	39%

The U.S. Department of Commerce, Bureau of Economic Analysis, released the final third quarter 2014 figures on December 23, 2014. The percentage change in the GDP using the fiscal year comparison ending with the third quarter is 1.57 percent. This number was calculated as follows:

GDP Index for the fiscal year ended 9/30/14	108.603
GDP Index for the fiscal year ended 9/30/13	<u>106.923</u>
Difference	1.68
Divided by 9/30/13 GDP Index	<u>106.923</u>
2015 Price Index	<u>1.57%</u>

NOTICE OF INDEXING REQUIREMENTS

Our staff designed a package (Form PSC/ECR 15 (4/99) and Appendix A), attached hereto as Attachment 1, that details the requirements of our Index and Pass-Through programs. This package has significantly reduced the number of questions regarding what the index and pass-through rate adjustments are, how to apply for an adjustment, and what needs to be filed to meet the filing requirements.

The package presented in Form PSC/ECR 15 (4/99) and Appendix A (Attachment 1) shall be mailed to every regulated water and wastewater utility after the expiration of the PAA protest period, along with a copy of the PAA order that has become final. The entire package will also be made available on our website.

ORDER NO. PSC-15-0072-PAA-WS
DOCKET NO. 150005-WS
PAGE 5

In an effort to increase the number of water and wastewater utilities taking advantage of the annual price index and pass-through programs, the attached cover letter (Attachment 2) from the Director of the Division of Accounting and Finance shall be included with the mailing of the PAA Order to explain the purpose of the index and pass-through applications and that our staff is available to assist them.

CLOSURE OF DOCKET

Uniform Rule 25-22.029(1), F.A.C., contains an exception to the procedural requirements set forth in Uniform Rule 28-106.111, F.A.C., providing that "[t]he time for requesting a Section 120.569 or 120.57 hearing shall be 14 days from issuance of the notice for PAA orders establishing a price index pursuant to Section 367.081(4)(a), F.S." Therefore, any protest to the PAA Order in this docket be filed within 14 days of the issuance of the PAA Order, and any party filing the protest shall prefile testimony with the protest. Upon expiration of the protest period, if a timely protest is not received, our decision shall become final and effective upon the issuance of a Consummating Order. However, this docket shall remain open through the end of the year and be closed upon the establishment of the new docket on January 4, 2016.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Gross Domestic Product Implicit Price Deflator Index shall continue to be used to calculate water and wastewater price level adjustments. It is further

ORDERED that the 2015 price index is 1.57 percent as set forth in the body of this order. It is further

ORDERED that the 2015 Price Index Application, Form PSC/ECR 15 (4/99) shall be used by Commission-regulated water and wastewater utilities to calculate annualized revenue for indexing purposes. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

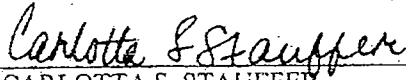
ORDERED that any substantially affected person filing a protest to this order shall do so within 14 days of the issuance date of this order. It is further

ORDERED that any substantially affected person filing a protest to this order shall prefile direct testimony with the protest. It is further

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PAGE 6

ORDERED that in the event this Order becomes final, this docket shall remain open through the end of the year and be closed upon the establishment of the new docket on January 4, 2016.

By ORDER of the Florida Public Service Commission this 27th day of January, 2015.



CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

JEV

ORDER NO. PSC-15-0072-PAA-WS
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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 10, 2015.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

ORDER NO. PSC-15-0072-PAA-WS
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Attachment 1
 Page 1 of 15

FLORIDA PUBLIC SERVICE COMMISSION
 2015 PRICE INDEX APPLICATION
 TEST YEAR ENDED DECEMBER 31, 2014

DEP PWS ID NO. _____ DEP WWTP ID NO. _____	WATER	WASTEWATER
*2014 Operation and Maintenance Expenses	\$	\$
LESS:		
(a) Pass-through Items:		
(1) Purchased Power		
(2) Purchased Water		
** (3) Purchased Wastewater Treatment		
*** (4) New DEP Required Water Testing		
*** (5) New DEP Required Wastewater Testing		
(6) NPDES Fees		
(b) Rate Case Expense Included in 2014 Expenses		
(c) Adjustments to O & M Expenses from last rate case, if applicable:		
(1)	_____	_____
(2)	_____	_____
Costs to be Indexed	\$	\$
Multiply by change in GDP Implicit Price Deflator Index	<u>.0157</u>	<u>.0157</u>
Indexed Costs	\$	\$
**** Add Change in Pass-Through Items:		
(1)		
(2)		
Divide Index and Pass-Through Sum by Expansion Factor for Regulatory Assessment Fees	<u>.955</u>	<u>.955</u>
Increase in Revenue	\$	\$
***** Divide by 2014 Revenue	_____	_____
Percentage Increase in Rates	<u> % </u>	<u> % </u>

EXPLANATORY NOTES APPEAR ON THE FOLLOWING PAGE
 PSC/ECR 15 (04/99)

ORDER NO. PSC-15-0072-PAA-WS
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PAGE 9

Attachment 1
Page 2 of 15

PAGE 1 NOTES

- * This amount must match 2014 annual report.
- ** This may include government-mandated disposal fees.
- *** Daily, weekly, or monthly testing required by the Department of Environmental Protection (DEP) not currently included in the utility's rates. Or additional tests required by the DEP during the 12-month period prior to filing by the utility and/or changes to the frequency of existing test(s) required by the DEP during the 12-month period prior to filing by the utility.
- **** This may include an increase in purchased power, purchased water, purchased wastewater treatment, required DEP testing, and ad valorem taxes, providing that those increases have been incurred within the 12-month period prior to the submission of the pass-through application. Pass-through NPDES fees and increases in regulatory assessment fees are eligible as pass-through costs but not subject to the twelve month rule. DEP water and wastewater testing pass-throughs require invoices. See Rule 25-30.425, F.A.C. for more information.
- ***** If rates changed after January 1, 2014, the book revenues must be adjusted to show the changes and an explanation of the calculation should be attached to this form. See Annualized Revenue Worksheet for instructions and a sample format.

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 PAGE 10

Attachment 1
 Page 3 of 15

ANNUALIZED REVENUE WORKSHEET

Have the rates charged for customer services changed since January 1, 2014?

- () If no, the utility should use actual revenues. This form may be disregarded.
- () If yes, the utility must annualize its revenues. Read the remainder of this form.

Annualizing calculates the revenues the utility would have earned based upon 2014 customer consumption at the most current rates in effect. To complete this calculation, the utility will need consumption data for 2014 to apply to the existing rate schedule. Below is a sample format which may be used.

CALCULATION OF ANNUALIZED REVENUES*

	Consumption Data for 2014		
	Number of Bill/Gal. Sold	X Current Rates	Annualized Revenues
Residential Service:			
Bills: 5/8"x3/4" meters			
1" meters			
1 1/2" meters			
2" meters			
Gallons Sold			
General Service:			
Bills: 5/8"x3/4" meters			
1" meters			
1 1/2" meters			
2" meters			
3" meters			
4" meters			
6" meters			
Gallons Sold			
Total Annualized Revenues for 2014			\$

* Annualized revenues must be calculated separately if the utility consists of both a water system and a wastewater system. This form is designed specifically for utilities using a base facility charge rate structure. If annualized revenues must be calculated and further assistance is needed, contact the Commission Staff at (850) 413-6900.

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Attachment 1
Page 4 of 15

Appendix A

PRICE INDEX ADJUSTMENTS IN RATES

Section 367.081(4)(a), (c), (d), (e), and (f) Florida Statutes
Rule 25-30.420, Florida Administrative Code
Sample Affirmation Affidavit
Notice to Customers

Sections 367.081(4)(a), (c), (d), (e), and (f), Florida Statutes

(4)(a) On or before March 31 of each year, the commission by order shall establish a price increase or decrease index for major categories of operating costs incurred by utilities subject to its jurisdiction reflecting the percentage of increase or decrease in such costs from the most recent 12-month historical data available. The commission by rule shall establish the procedure to be used in determining such indices and a procedure by which a utility, without further action by the commission, or the commission on its own motion, may implement an increase or decrease in its rates based upon the application of the indices to the amount of the major categories of operating costs incurred by the utility during the immediately preceding calendar year, except to the extent of any disallowances or adjustments for those expenses of that utility in its most recent rate proceeding before the commission. The rules shall provide that, upon a finding of good cause, including inadequate service, the commission may order a utility to refrain from implementing a rate increase hereunder unless implemented under a bond or corporate undertaking in the same manner as interim rates may be implemented under s. 367.082. A utility may not use this procedure between the official filing date of the rate proceeding and 1 year thereafter, unless the case is completed or terminated at an earlier date. A utility may not use this procedure to increase any operating cost for which an adjustment has been or could be made under paragraph (b), or to increase its rates by application of a price index other than the most recent price index authorized by the commission at the time of filing.

(c) Before implementing a change in rates under this subsection, the utility shall file an affirmation under oath as to the accuracy of the figures and calculations upon which the change in rates is based, stating that the change will not cause the utility to exceed the range of its last authorized rate of return on equity. Whoever makes a false statement in the affirmation required hereunder, which statement he or she does not believe to be true in regard to any material matter, is guilty of a felony of the third degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

(d) If, within 15 months after the filing of a utility's annual report required by s. 367.121, the commission finds that the utility exceeded the range of its last authorized rate of return on equity after an adjustment in rates as authorized by this subsection was implemented within the year for which the report was filed or was implemented in the preceding year, the commission may order the utility to refund, with interest, the difference to the ratepayers and adjust rates accordingly. This provision shall not be construed to require a bond or corporate undertaking not otherwise required.

(e) Notwithstanding anything herein to the contrary, a utility may not adjust its rates under this subsection more than two times in any 12-month period. For the purpose of this paragraph, a combined application or simultaneously filed applications that were filed under the provisions of paragraphs (a) and (b) shall be considered one rate adjustment.

(f) The commission may regularly, not less often than once each year, establish by order a leverage formula or formulae that reasonably reflect the range of returns on common equity for an average water or wastewater utility and which, for purposes of this section, shall be used to calculate the last authorized rate of return on equity for any utility which otherwise would have no established rate of return on equity. In any other proceeding in which an authorized rate of return on equity is to be established, a utility, in lieu of presenting evidence on its rate of return on common equity, may move the commission to adopt the range of rates of return on common equity that has been established under this paragraph.

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25-30.420 Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers.

- (1) The Commission shall, on or before March 31 of each year, establish a price increase or decrease index as required by section 367.081(4)(a), F.S. The Division of the Commission Clerk and Administrative Services shall mail each regulated water and wastewater utility a copy of the proposed agency action order establishing the index for the year and a copy of the application. Form PSC/ECR 15 (04/99), entitled "Index Application", is incorporated into this rule by reference and may be obtained from the Commission's Division of Economic Regulation. Applications for the newly established price index will be accepted from April 1 of the year the index is established through March 31 of the following year.
 - (a) The index shall be applied to all operation and maintenance expenses, except for amortization of rate case expense, costs subject to pass-through adjustments pursuant to section 367.081(4)(b), F.S., and adjustments or disallowances made in a utility's most recent rate proceeding.
 - (b) In establishing the price index, the Commission will consider cost statistics compiled by government agencies or bodies, cost data supplied by utility companies or other interested parties, and applicable wage and price guidelines.
- (2) Any utility seeking to increase or decrease its rates based upon the application of the index established pursuant to subsection (1) and as authorized by section 367.081(4)(a), F.S., shall file an original and five copies of a notice of intention and the materials listed in (a) through (i) below with the Commission's Division of Economic Regulation at least 60 days prior to the effective date of the increase or decrease. The adjustment in rates shall take effect on the date specified in the notice of intention unless the Commission finds that the notice of intention or accompanying materials do not comply with the law, or the rules or orders of the Commission. The notice shall be accompanied by:
 - (a) Revised tariff sheets;
 - (b) A computation schedule showing the increase or decrease in annual revenue that will result when the index is applied;
 - (c) The affirmation required by section 367.081(4)(c), F.S.;
 - (d) A copy of the notice to customers required by subsection (6);
 - (e) The rate of return on equity that the utility is affirming it will not exceed pursuant to section 367.081(4)(c), F.S.;
 - (f) An annualized revenue figure for the test year used in the index calculation reflecting the rate change, along with an explanation of the calculation, if there has been any change in the utility's rates during or subsequent to the test year;
 - (g) The utility's Department of Environmental Protection Public Water System identification number and Wastewater Treatment Plant Operating Permit number.
 - (h) A statement that the utility does not have any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Department(s) or that the utility does have active written complaints, corrective orders, consent orders, or outstanding citations with the DEP or the County Health Department(s).
 - (i) A copy of any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Department(s).
- (3) If the Commission, upon its own motion, implements an increase or decrease in the rates of a utility based upon the application of the index established pursuant to subsection (1) and as authorized by section 367.081(4)(a), F.S., the Commission will require a utility to file the information required in subsection (2).

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(4) Upon a finding of good cause, the Commission may require that a rate increase pursuant to section 367.081(4)(a), F.S., be implemented under a bond or corporate undertaking in the same manner as interim rates. For purposes of this subsection, "good cause" shall include:

- (a) Inadequate service by the utility;
- (b) Inadequate record-keeping by the utility such that the Commission is unable to determine whether the utility is entitled to implement the rate increase or decrease under this rule.

(5) Prior to the time a customer begins consumption at the rates established by application of the index, the utility shall notify each customer of the increase or decrease authorized and explain the reasons therefore.

(6) No utility shall file a notice of intention pursuant to this rule unless the utility has on file with the Commission an annual report as required by Rule 25-30.110(3), F.A.C., for the test year specified in the order establishing the index for the year.

(7) No utility shall implement a rate increase pursuant to this rule within one year of the official date that it filed a rate proceeding, unless the rate proceeding has been completed or terminated.

Specific Authority: 350.127(2), 367.081(4)(a), 367.121(1)(c), 367.121(1)(f), F.S. *Law Implemented:* 367.081(4), 367.121(1)(c), 367.121(1)(g), F.S. *History:* New 04/05/81, Amended 09/16/82, Formerly 25-10.185, Amended 11/10/86, 06/05/91, 04/18/99, 12/12/03.

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AFFIRMATION

I, _____, hereby affirm that the figures and calculations upon which the change in rates is based are accurate and that the change will not cause _____ to exceed the range of its last

(Utility Name)

authorized rate of return on equity, which is _____.

I, the undersigned/officer of the above-named utility, have read the foregoing and declare that, to the best of my knowledge and belief, the information contained in this application is true and correct.

This affirmation is made pursuant to my request for a 2015 price index and/or pass-through rate increase, in conformance with Section 367.081(4)(c), Florida Statutes.

Further, I am aware that pursuant to Section 837.06, Florida Statutes, whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree.

Signature: _____

Title: _____

Telephone Number: _____

Fax Number: _____

Sworn to and subscribed before me this _____ day of _____, 20__.

My Commission expires:
(SEAL)

Notary Public
State of Florida

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STATEMENT OF QUALITY OF SERVICE

Pursuant to Rule 25-30.420(2)(h) and (i), Florida Administrative Code,

(Utility Name)

[] does not have any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Departments.

[] does have the attached active written complaint(s), corrective order(s), consent order(s), or outstanding citation(s) with the DEP or the County Health Department(s). The attachment(s) includes the specific system(s) involved with DEP permit number and the nature of the active complaint, corrective order, consent order, or outstanding citation.

This statement is intended such that the Florida Public Service Commission can make a determination of quality of service pursuant to Section 367.081(4)(a), Florida Statutes, and Rule 25-30.420(4)(a), Florida Administrative Code.

Name: _____
Title: _____
Telephone Number: _____
Fax Number: _____
Date: _____

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NOTICE TO CUSTOMERS

Pursuant to Section 367.081(4)(a), Florida Statutes, water and wastewater utilities are permitted to adjust the rates and charges to its customers without those customers bearing the additional expense of a public hearing. These adjustments in rates would depend on increases or decreases in noncontrollable expenses subject to inflationary pressures such as chemicals, and other general operation and maintenance costs.

On _____,
(date) (name of company)

filed its notice of intention with the Florida Public Service Commission to increase water and wastewater rates in _____ County pursuant to this Statute. The filing is subject to review by the Commission Staff for accuracy and completeness. Water rates will increase by approximately _____% and wastewater rates by _____%. These rates should be reflected for service rendered on or after _____.(date)

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PASS-THROUGH RATE ADJUSTMENTS IN RATES

Section 367.081(4)(b), Florida Statutes
Rule 25-30.425, Florida Administrative Code
Waiver Form
Sample Affirmation Affidavit
Notice to Customers

Section 367.081(4)(b), Florida Statutes

(b) The approved rates of any utility which receives all or any portion of its utility service from a governmental authority or from a water or wastewater utility regulated by the commission and which redistributes that service to its utility customers shall be automatically increased or decreased without hearing, upon verified notice to the commission 45 days prior to its implementation of the increase or decrease that the rates charged by the governmental authority or other utility have changed. The approved rates of any utility which is subject to an increase or decrease in the rates or fees that it is charged for electric power, the amount of ad valorem taxes assessed against its used and useful property, the fees charged by the Department of Environmental Protection in connection with the National Pollutant Discharge Elimination System Program, or the regulatory assessment fees imposed upon it by the commission shall be increased or decreased by the utility, without action by the commission, upon verified notice to the commission 45 days prior to its implementation of the increase or decrease that the rates charged by the supplier of the electric power or the taxes imposed by the governmental authority, or the regulatory assessment fees imposed upon it by the commission have changed. The new rates authorized shall reflect the amount of the change of the ad valorem taxes or rates imposed upon the utility by the governmental authority, other utility, or supplier of electric power, or the regulatory assessment fees imposed upon it by the commission. The approved rates of any utility shall be automatically increased, without hearing, upon verified notice to the commission 45 days prior to implementation of the increase that costs have been incurred for water quality or wastewater quality testing required by the Department of Environmental Protection. The new rates authorized shall reflect, on an amortized basis, the cost of, or the amount of change in the cost of, required water quality or wastewater quality testing performed by laboratories approved by the Department of Environmental Protection for that purpose. The new rates, however, shall not reflect the costs of any required water quality or wastewater quality testing already included in a utility's rates. A utility may not use this procedure to increase its rates as a result of water quality or wastewater quality testing or an increase in the cost of purchased water services, sewer services, or electric power or in assessed ad valorem taxes, which increase was initiated more than 12 months before the filing by the utility. The provisions of this subsection do not prevent a utility from seeking a change in rates pursuant to the provisions of subsection (2).

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25-30.425 Pass Through Rate Adjustment.

The verified notice to the Commission of an adjustment of rates under the provisions of Section 367.081(4)(b), F.S., shall be made in the following manner:

(1) Prior to an adjustment in rates because of an increase or decrease in purchased utility service, the utility shall file:

(a) A certified copy of the order, ordinance or other evidence whereby the rates for utility service are increased or decreased by the governmental agency or by a water or wastewater utility regulated by the Commission, along with evidence of the utility service rates of that governmental agency or water or wastewater utility in effect on January 1 of each of the three preceding years.

(b) A statement setting out by month the charges for utility services purchased from the governmental agency or regulated utility for the most recent 12-month period.

(c) 1. A statement setting out by month the gallons of water or wastewater treatment purchased from the governmental agency or regulated utility for the most recent 12-month period. If wastewater treatment service is not based on a metered flow, the number of units by which the service is measured shall be stated.

2. A statement setting out by month gallons of water and units of wastewater service sold by the utility for the most recent 12-month period.

(d) A statement setting out by month the gallons of water or wastewater treatment purchased from any other government entity or utility company.

(e) A statement setting out by month the gallons of water pumped or wastewater treated by the utility filing the verified notice.

(f) If the total water available for sale is in excess of 110% of the water sold, a statement explaining the unaccounted for water.

(2) Prior to an adjustment in rates because of an increase or decrease in the charge for electric power the utility shall file with the Commission:

(a) A certified copy of the order, ordinance or other evidence which establishes that the rates for electric power have been increased or decreased by the supplier, along with evidence of the electric power rates of the supplier in effect on January 1 of each of the three preceding years.

(b) A schedule showing, by month, the charges for electric power and consumption for the most recent 12 month period, the charges that would have resulted had the new electric rates been applied, and the difference between the charges under the old rates and the charges under the new rates.

(c) A statement outlining the measures taken by the utility to conserve electricity.

(3) Prior to an adjustment in rates because of an increase or decrease in ad valorem taxes the utility shall file with the Commission:

(a) A copy of the ad valorem tax bills which increased or decreased and copies of the previous three years' bills; if copies have been submitted previously, a schedule showing the tax total only is acceptable; and

(b) A calculation of the amount of the ad valorem taxes related to that portion of the water or wastewater plant not used and useful in providing utility service.

(4) Prior to an adjustment in rates because of an increase or decrease in the costs of water quality or wastewater quality testing required by the Department of Environmental Protection (DEP), or because of an increase or decrease in the fees charged by DEP in connection with the National Pollutant Discharge Elimination System Program, the utility shall file with the Commission:

(a) A copy of the invoice for testing;

(b) Calculation of the amortized amount.

(5) In addition to subsections (1), (2), (3), and (4) above, the utility shall also file:

(a) A schedule of proposed rates which will pass the increased or decreased costs on to the customers in a fair and nondiscriminatory manner and on the basis of current customers, and a calculation showing how the rates were determined;

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- (b) A statement, by class of customer and meter size, setting out by month the gallons of water and units of wastewater service sold by the utility for the most recent 12 month period. This statement shall not be required in filings for the pass through of increased regulatory assessment fees or ad valorem taxes;
 - (c) The affirmation reflecting the authorized rate of return on equity required by Section 367.081(4)(c), F.S.;
 - (d) A copy of the notice to customers required by subsection (7) of this rule;
 - (e) Revised tariff sheets reflecting the increased rates;
 - (f) The rate of return on equity that the utility is affirming it will not exceed pursuant to Section 367.081(4)(c), F.S.; and
 - (g) The utility's DEP Public Water System identification number and Wastewater Treatment Plant Operating Permit number;
- (6) The amount authorized for pass through rate adjustments shall not exceed the actual cost incurred and shall not exceed the incremental increase or decrease for the 12-month period. Foregone pass through decreases shall not be used to adjust a pass through increase below the actual cost incurred.
- (7) In order for the Commission to determine whether a utility which had adjusted its rates pursuant to Section 367.081(4)(b), F.S., has thereby exceeded the range of its last authorized rate of return, the Commission may require a utility to file the information required in Rule 25- 30.437, F. A. C., for the test year specified.
- (8) Prior to the time a customer begins consumption at the adjusted rates, the utility shall notify each customer of the increase authorized and explain the reasons for the increase.
- (9) The utility shall file an original and five copies of the verified notice and supporting documents with the Division of Economic Regulation. The rates shall become effective 45 days after the official date of filing. The official date of filing for the verified notice to the Commission of adjustment in rates shall be at least 45 days before the new rates are implemented.
- Specific Authority 350.127(2), 367.121(1)(c), (f) FS. Law Implemented 367.081(4), 367.121(1)(c), (g) FS. History-New 6-10-75, Amended 4-5-79, 4-5-81, 10-21-82, Formerly 25-10.179, Amended 11-10-86, 6-5-91, 4-18-99.*

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WAIVER

_____ hereby waives the right to implement a pass-through rate increase within 45 days of filing, as provided by Section 367.081(4)(b), Florida Statutes, in order that the pass-through and index rate increase may both be implemented together 60 days after the official filing date of this notice of intention.

Signature: _____

Title: _____

(To be used if an index and pass-through rate increase are requested jointly.)

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AFFIRMATION

I, _____, hereby affirm that the figures and calculations upon which the change in rates is based are accurate and that the change will not cause _____ to exceed the range of its last

(Utility Name)
authorized rate of return on equity, which is _____.

I, the undersigned/officer of the above-named utility, have read the foregoing and declare that, to the best of my knowledge and belief, the information contained in this application is true and correct.

This affirmation is made pursuant to my request for a 2015 price index and/or pass-through rate increase, in conformance with Section 367.081(4)(c), Florida Statutes.

Further, I am aware that pursuant to Section 837.06, Florida Statutes, whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree.

Signature: _____
Title: _____
Telephone Number: _____
Fax Number: _____

Sworn to and subscribed before me this _____ day of _____, 20__.

My Commission expires:
(SEAL)

Notary Public
State of Florida

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NOTICE TO CUSTOMERS

Pursuant to Section 367.081(4)(b), Florida Statutes, water and wastewater utilities are permitted to pass through, without a public hearing, a change in rates resulting from: an increase or decrease in rates charged for utility services received from a governmental agency or another regulated utility and which services were redistributed by the utility to its customers; an increase or decrease in the rates that it is charged for electric power, the amount of ad valorem taxes assessed against its used and useful property, the fees charged by the Department of Environmental Protection in connection with the National Pollutant Discharge Elimination System Program, or the regulatory assessment fees imposed upon it by the Commission; and costs incurred for water quality or wastewater quality testing required by the Department of Environmental Protection.

On _____,
(date) (name of company)

filed its notice of intention with the Florida Public Service Commission to increase water and wastewater rates in _____ County pursuant to this Statute. The filing is subject to review by the Commission Staff for accuracy and completeness. Water rates will increase by approximately _____% and wastewater rates by _____%. These rates should be reflected on your bill for service rendered on or after _____.(date)

If you should have any questions, please contact your local utility office. Be sure to have your account number handy for quick reference.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Water and wastewater industry annual
reestablishment of authorized range of return
on common equity for water and wastewater
utilities pursuant to Section 367.081(4)(f), F.S.

DOCKET NO. 150006-WS
ORDER NO. PSC-15-0259-PAA-WS
ISSUED: July 2, 2015

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
JULIE I. BROWN
JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING AUTHORIZED RANGE OF RETURNS ON COMMON EQUITY
FOR WATER AND WASTEWATER UTILITIES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

Section 367.081(4)(f), Florida Statutes (F.S.), authorizes this Commission to establish, not less than once each year, a leverage formula to calculate a reasonable range of returns on equity (ROE) for water and wastewater (WAW) utilities. The leverage formula methodology currently in use was established in Order No. PSC-01-2514-FOF-WS.¹ On October 23, 2008, we held a formal hearing in Docket No. 080006-WS to allow interested parties to provide testimony regarding the validity of the leverage formula.² Based on the record in that proceeding, we

¹ Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

² At the May 20, 2008, Commission Conference, upon request of the Office of Public Counsel, this Commission voted to set the establishment of the appropriate leverage formula directly for hearing.

approved the 2008 leverage formula in Order No. PSC-08-0846-FOF-WS.³ In that order, we reaffirmed the methodology that was previously approved in Order No. PSC-01-2514-FOF-WS.

This order continues to use the leverage formula methodology established in Order No. PSC-01-2514-FOF-WS and reaffirmed in Order No. PSC-08-0846-FOF-WS. This methodology uses ROEs derived from financial models applied to an index of natural gas utilities. Based on the results of our annual review, there are an insufficient number of WAW utilities that meet the requisite criteria to assemble an appropriate proxy group using only WAW utilities. Therefore, since 2001, we have used natural gas utilities as the proxy companies for the leverage formula. There are many natural gas utilities that have actively traded stocks and forecasted financial data. Staff uses natural gas utilities that derive at least 50 percent of their revenue from regulated rates. These utilities have market power and are influenced significantly by economic regulation. As we will explain later, the model results based on natural gas utilities are adjusted to reflect the risks faced by Florida WAW utilities.

In 2011, we approved the leverage formula currently in effect (2011 leverage formula) by Order No. PSC-11-0287-PAA-WS.⁴ In 2012, 2013, and 2014, we continued to use the 2011 leverage formula for establishing the authorized ROE for WAW utilities by Order Nos. PSC-12-0339-PAA-WS,⁵ PSC-13-0241-PAA-WS,⁶ and PSC-14-0272-PAA-WS.⁷ In 2012, 2103, and 2014, we found that the range of returns on equity derived from the leverage formulas were not optimal for determining the appropriate authorized ROE for WAW utilities due to Federal Reserve monetary policies that resulted in historically low interest rates. Consequently, we decided that the range of returns on equity of 8.74 percent to 11.16 percent from the 2011 leverage formula was more reasonable.

Additional precedent for continuing the use of the current leverage formula occurred in 1996 when we voted to continue to base the authorized ROE for WAW utilities on the leverage formula instituted in 1995.⁸ In Order No. PSC-96-0729-FOF-WS, we found that the leverage formula range of returns from the prior year were still reasonable and found it appropriate to

³ Order No. PSC-08-0846-FOF-WS, issued December 31, 2008, in Docket No. 080006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

⁴ Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

⁵ Order No. PSC-12-0339-PAA-WS, issued June 28, 2012, in Docket No. 120006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

⁶ Order No. PSC-13-0241-PAA-WS, issued June 3, 2013, in Docket No. 130006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

⁷ Order No. PSC-14-0272-PAA-WS, issued May 29, 2014, in Docket No. 140006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

⁸ Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, in Docket No. 960006-WS, In re: Annual reestablishment of authorized range of returns on common equity of water and wastewater utilities, pursuant to Section 367.081(4)(f), F.S.

continue to base the authorized range of returns on common equity for WAW utilities on the leverage formula from the prior year.

Although Section 367.081(4)(f), F.S., authorizes this Commission to establish a range of returns for setting the authorized ROE for WAW utilities, we may set an ROE for WAW utilities based on record evidence in any proceeding. If one or more parties file testimony in opposition to the use of the leverage formula, we will determine the appropriate ROE based on the evidentiary record in that proceeding.

We have jurisdiction pursuant to Section 367.081, F.S.

Decision

The current leverage formula approved by this Commission in Order No. PSC-14-0272-PAA-WS shall continue to be used until the leverage formula is readdressed in 2016. Accordingly, the leverage formula is as follows:

$$\text{Return on Common Equity} = 7.13\% + (1.610 \div \text{Equity Ratio})$$

Where the Equity Ratio = Common Equity $\div$ (Common Equity + Preferred Equity + Long-Term and Short-Term Debt)

Range: 8.74% @ 100% equity to 11.16% @ 40% equity

Additionally, we shall cap returns on common equity at 11.16 percent for all WAW utilities with equity ratios less than 40 percent. We believe that this will discourage imprudent financial risk. This cap is consistent with the methodology we used in Order No. PSC-08-0846-FOF-WS.

Section 367.081(4)(f), F.S., authorizes this Commission to establish a leverage formula to calculate a reasonable range of returns on common equity for WAW utilities. We must establish this leverage formula not less than once a year.

In 2014, by Order No. PSC-14-0272-PAA-WS, we continued to use the leverage formula initially approved in 2011. We kept the 2011 leverage formula in place because Federal Reserve monetary policies lowered interest rates to historically low levels, thereby increasing the slope of the leverage formula graph relative to previous years. The Federal Reserve's monetary policies and resulting capital market conditions that existed in 2012 through 2014 are expected to continue in 2015.⁹

In the instant docket, we updated the leverage formula using the most recent 2015 financial data and our previously approved methodology. Using the updated financial data in the leverage formula decreases the lower end of the current allowed ROE range by 95 basis points, while increasing the upper end of the range by 35 basis points relative to the current leverage formula. The spread between the range of returns on equity based on the updated leverage formula is 372 basis points (7.79 percent to 11.51 percent). This is the second largest spread for

⁹ See Federal Reserve System, minutes of the Federal Open Market Committee on April 28-29, 2015, p. 10, available at <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20150429.pdf>.

the allowed ROE for WAW utilities in the approximately 33 years the leverage formula has been in use in Florida. In comparison, the spread in the range of returns on equity for the existing leverage formula is 242 basis points (8.74 percent to 11.16 percent).

The increase in the spread in the range of the ROE from the updated leverage formula relative to the 2011 leverage formula is caused by the very low bond rates resulting from the Federal Reserve's various monetary policies and quantitative easing programs, which are still in effect. In its press release dated April 29, 2015, the Federal Reserve stated:

To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.¹⁰

In the same press release, the Federal Reserve further stated:

When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

The most recent assumed Baa3 bond rate of 5.31 percent used in the updated leverage formula calculation, which includes a 50 basis point adjustment for small company risk and a 50 basis point adjustment for a private placement premium, remains low relative to historic levels. In comparison, the assumed Baa3 bond rate used in the existing leverage formula is 7.13 percent.

Because interest rates are at historically low levels, thereby increasing the slope of the leverage formula relative to prior years, we find that the range of returns on equity produced from the updated leverage formula is not optimal for determining the appropriate authorized ROE for Florida WAW utilities at this time. An increase in the slope of the leverage formula means a given change in the equity ratio will result in a greater change to the cost of equity. The results of this year's leverage formula produced a slope consistent with the slopes produced by

¹⁰See Federal Reserve System, Monetary Policy Releases, available at <http://www.federalreserve.gov/newevents/press/monetary/20150429a.htm>.

financial data for 2012 through 2014. As shown below, Chart 1 illustrates the change in the slope of the leverage formula using updated data compared to the current leverage formula.

Chart 1

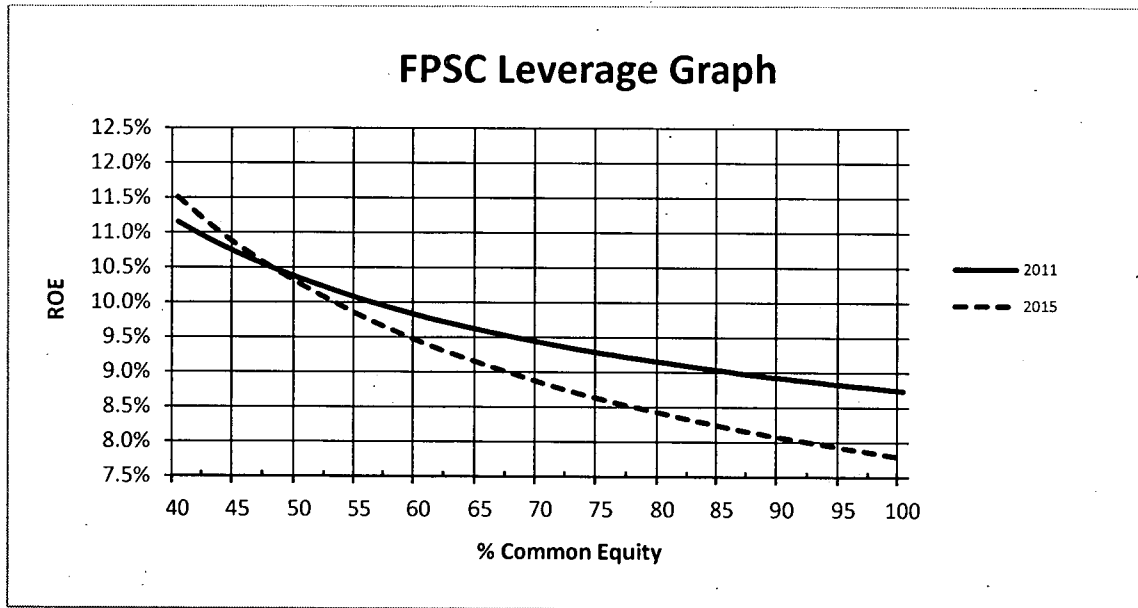
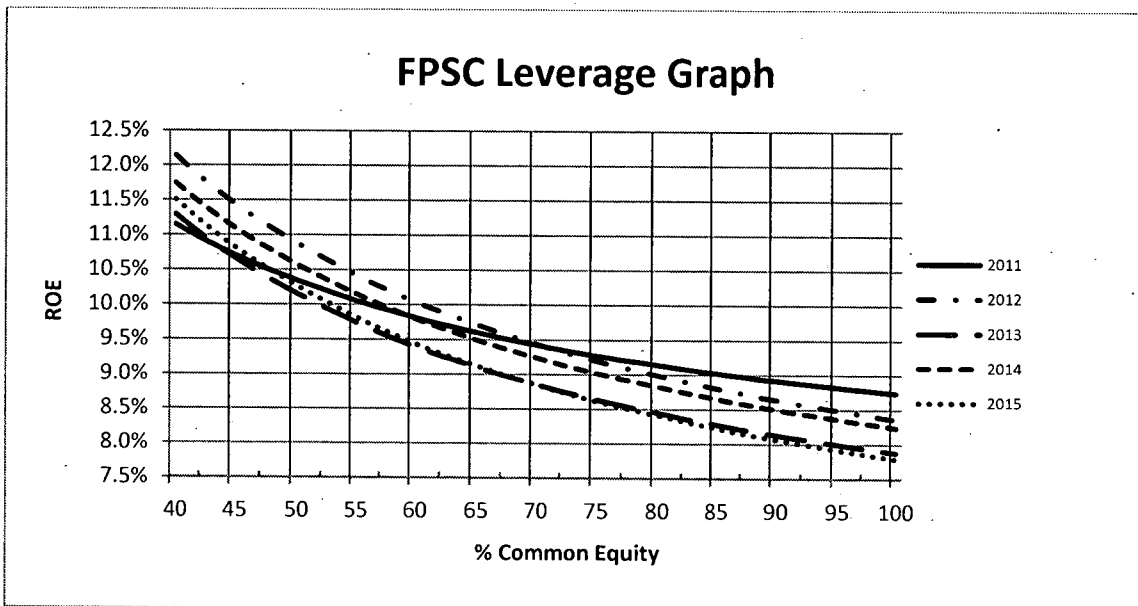


Chart 2 illustrates the change in the slope of the leverage formula for the five years 2011 through 2015.

Chart 2



The existing leverage formula range of 8.74 percent to 11.16 percent initially approved in 2011 is still reasonable for WAW utilities. Therefore, the current leverage formula approved in Docket No. 110006-WS shall continue to be used for determining the return on equity for WAW utilities in 2015. Retaining the use of the current leverage formula until the leverage formula is addressed again in 2016 is a reasonable alternative to updating the formula using current 2015 financial information.

We continue to find the leverage formula a sound, workable methodology that reduces the costs and administrative burdens in WAW rate cases by eliminating the need for cost of equity testimony. Many of the WAW utilities under our jurisdiction are small operations that find it beneficial to avoid the costs associated with presenting cost of equity testimony.

Based on the aforementioned, we find that the current range of returns on common equity of 8.74 percent to 11.16 percent is still reasonable for WAW utilities. As such, the current leverage formula authorized by this Commission in Order No. PSC-14-0272-PAA-WS shall remain unchanged until the leverage formula is readdressed in 2016.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the current 2011 leverage formula authorized by this Commission in Order No. PSC-14-0272-PAA-WS, $\text{Return on Common Equity} = 7.13\% + (1.610 \div \text{Equity Ratio})$, shall continue to be used until the leverage formula is readdressed in 2016. It is further

ORDERED that the current range of returns on common equity shall of 8.74 percent to 11.16 percent is hereby approved for water and wastewater utilities as set forth in this Order. It is further

ORDERED that the returns on common equity shall be capped at 11.16 percent for all water and wastewater utilities with equity ratios less than 40 percent.

ORDERED that Attachment 1 is incorporated herein by reference. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket shall remain open to allow staff to monitor changes in capital market conditions and to readdress the reasonableness of the leverage formula as conditions warrant.

By ORDER of the Florida Public Service Commission this 2nd day of July, 2015.



HONG WANG
Chief Deputy Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

KRM

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 23, 2015.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

SUMMARY OF LEVERAGE FORMULA FACTORS

(A) DCF ROE for Natural Gas Utility Index	8.25%
(B) CAPM ROE for Natural Gas Utility Index	<u>9.40%</u>
AVERAGE	<u>8.83%</u>
Bond Yield Differential	0.57%
Private Placement Premium	0.50%
Small-Utility Risk Premium	0.50%
Adjustment to Reflect ROE at 40% Equity Ratio	<u>0.76%</u>
Cost of Equity for Average Florida WAW Utility with a capital structure containing a 40% Equity Ratio	<u>11.16%</u>

Authorized Leverage Formula

Return on Common Equity	=	7.13% + (1.610 ÷ Equity Ratio)
Range of Returns on Equity (100% to 40%)	=	8.74% to 11.16%

WARNING:^{Exhibit 5}

Changes in appearance and in display of formulas, tables, and text may have occurred during translation of this document into an electronic medium. This HTML document may not be an accurate version of the official document and should not be relied on.

For an official paper copy, contact the Florida Public Service Commission at contact@psc.state.fl.us or call (850) 413-6770. There may be a charge for the copy.

DATE:	June 4, 2015
TO:	Office of Commission Clerk (Stauffer)
FROM:	Division of Accounting and Finance (D. Buys, Cicchetti) Office of the General Counsel (Janjic, Mapp)
RE:	Docket No. 150006-WS – Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.
AGENDA:	06/18/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate
COMMISSIONERS ASSIGNED:	All Commissioners
PREHEARING OFFICER:	Graham
CRITICAL DATES:	None
SPECIAL INSTRUCTIONS:	None

Case Background

Section 367.081(4)(f), Florida Statutes (F.S.), authorizes the Commission to establish, not less than once each year, a leverage formula to calculate a reasonable range of returns on equity (ROE) for water and wastewater (WAW) utilities. The leverage formula methodology currently in use was established in Order No. PSC-01-2514-FOF-WS.^[1] On October 23, 2008, the Commission held a formal hearing in Docket No. 080006-WS to allow interested parties to provide testimony regarding the validity of the leverage formula.^[2] Based on the record in that proceeding, the Commission approved the 2008 leverage formula in Order No. PSC-08-0846-FOF-WS.^[3] In that order, the Commission reaffirmed the methodology that was previously approved in Order No. PSC-01-2514-FOF-WS.

Staff continues to use the leverage formula methodology established in Order No. PSC-01-2514-FOF-WS and reaffirmed in Order No. PSC-08-0846-FOF-WS. This methodology uses ROEs derived from financial models applied to an index of natural gas utilities. Based on the results of staff's annual review, there are an insufficient number of WAW utilities that meet the requisite criteria to assemble an appropriate proxy group using only WAW utilities. Therefore, since 2001, the Commission has used natural gas utilities as the proxy companies for the leverage formula. There are many natural gas utilities that have actively traded stocks and forecasted financial data. Staff uses natural gas utilities that derive at least 50 percent of their revenue from regulated rates. These utilities have market power and are influenced significantly by economic regulation. As explained in Issue 1, the model results based on natural gas utilities are adjusted to reflect the risks faced by Florida WAW utilities.

In 2011, the Commission approved the leverage formula currently in effect (2011 leverage formula) by Order No. PSC-11-0287-PAA-WS.^[4] In 2012, 2013, and 2014, the Commission approved staff's recommendations to continue to use

the 2011 leverage formula for establishing the authorized ROE for WAW utilities by Order Nos. PSC-12-0339-PAA-WS,^[5] PSC-13-0241-PAA-WS,^[6] and PSC-14-0272-PAA-WS.^[7] In 2012, 2103, and 2014, the Commission found that the range of returns on equity derived from the leverage formulas were not optimal for determining the appropriate authorized ROE for WAW utilities due to Federal Reserve monetary policies that resulted in historically low interest rates. Consequently, the Commission decided that the range of returns on equity of 8.74 percent to 11.16 percent from the 2011 leverage formula was more reasonable.

Additional precedent for continuing the use of the current leverage formula occurred in 1996 when staff recommended, and the Commission voted, to continue to base the authorized ROE for WAW utilities on the leverage formula instituted in 1995.^[8] In Order No. PSC-96-0729-FOF-WS, the Commission found that the leverage formula range of returns from the prior year were still reasonable and found it appropriate to continue to base the authorized range of returns on common equity for WAW utilities on the leverage formula from the prior year.

Although Section 367.081(4)(f), F.S., authorizes the Commission to establish a range of returns for setting the authorized ROE for WAW utilities, the Commission may set an ROE for WAW utilities based on record evidence in any proceeding. If one or more parties file testimony in opposition to the use of the leverage formula, the Commission will determine the appropriate ROE based on the evidentiary record in that proceeding.

The Commission has jurisdiction pursuant to Section 367.081, F.S.

Discussion of Issues

Issue 1:

What is the appropriate range of returns on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), Florida Statutes?

Recommendation:

Staff recommends that the current leverage formula approved by the Commission in Order No. PSC-14-0272-PAA-WS continue to be used until the leverage formula is readdressed in 2016. Accordingly, staff recommends the following leverage formula:

$$\text{Return on Common Equity} = 7.13\% + (1.610 \div \text{Equity Ratio})$$

Where the Equity Ratio = Common Equity ÷ (Common Equity + Preferred Equity + Long-Term and Short-Term Debt)

Range: 8.74% @ 100% equity to 11.16% @ 40% equity

Additionally, staff recommends that the Commission cap returns on common equity at 11.16 percent for all WAW utilities with equity ratios less than 40 percent. Staff believes this will discourage imprudent financial risk. This cap is consistent with the methodology in Order No. PSC-08-0846-FOF-WS. (D. Buys)

Staff Analysis:

Section 367.081(4)(f), F.S., authorizes the Commission to establish a leverage formula to calculate a reasonable range of returns on common equity for WAW utilities. The Commission must establish this leverage formula not less than once a year.

In 2014, by Order No. PSC-14-0272-PAA-WS, the Commission approved staff's recommendation to continue to use the leverage formula initially approved in 2011. The Commission kept the 2011 leverage formula in place because Federal Reserve monetary policies lowered interest rates to historically low levels, thereby increasing the slope of the leverage

formula graph Exhibit 1-1 relative to previous years. The Federal Reserve's monetary policies and resulting capital market conditions that existed in 2012 through 2014 are expected to continue in 2015. ^[9]

In the instant docket, staff updated the leverage formula using the most recent 2015 financial data and the Commission approved methodology. Using the updated financial data in the leverage formula decreases the lower end of the current allowed ROE range by 95 basis points while increasing the upper end of the range by 35 basis points relative to the current leverage formula. The spread between the range of returns on equity based on the updated leverage formula is 372 basis points (7.79 percent to 11.51 percent). This is the second largest spread for the allowed ROE for WAW utilities in the approximately 33 years the leverage formula has been in use in Florida. In comparison, the spread in the range of returns on equity for the existing leverage formula is 242 basis points (8.74 percent to 11.16 percent).

The increase in the spread in the range of the ROE from the updated leverage formula relative to the 2011 leverage formula is caused by the very low bond rates resulting from the Federal Reserve's various monetary policies and quantitative easing programs, which are still in effect. In its press release dated April 29, 2015, the Federal Reserve stated:

To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term. ^[10]

In the same press release, the Federal Reserve further stated:

When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

The most recent assumed Baa3 bond rate of 5.31 percent used in the updated leverage formula calculation, which includes a 50 basis point adjustment for small company risk and a 50 basis point adjustment for a private placement premium, remains low relative to historic levels. In comparison, the assumed Baa3 bond rate used in the existing leverage formula is 7.13 percent.

Because interest rates are at historically low levels, thereby increasing the slope of the leverage formula relative to prior years, staff believes the range of returns on equity produced from the updated leverage formula is not optimal for determining the appropriate authorized ROE for Florida WAW utilities at this time. An increase in the slope of the leverage formula means a given change in the equity ratio will result in a greater change to the cost of equity. The results of this year's leverage formula produced a slope consistent with the slopes produced by financial data for 2012 through 2014. As shown on the following page, Chart 1-1 illustrates the change in the slope of the leverage formula using updated data compared to the current leverage formula.

Chart 1-1

FPSC Leverage Graph

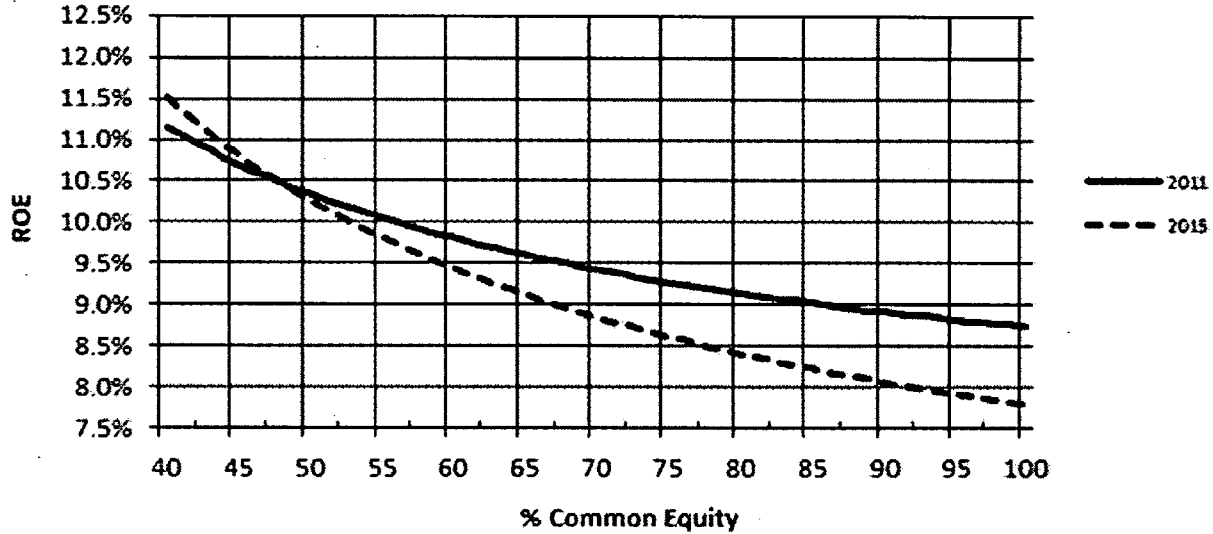
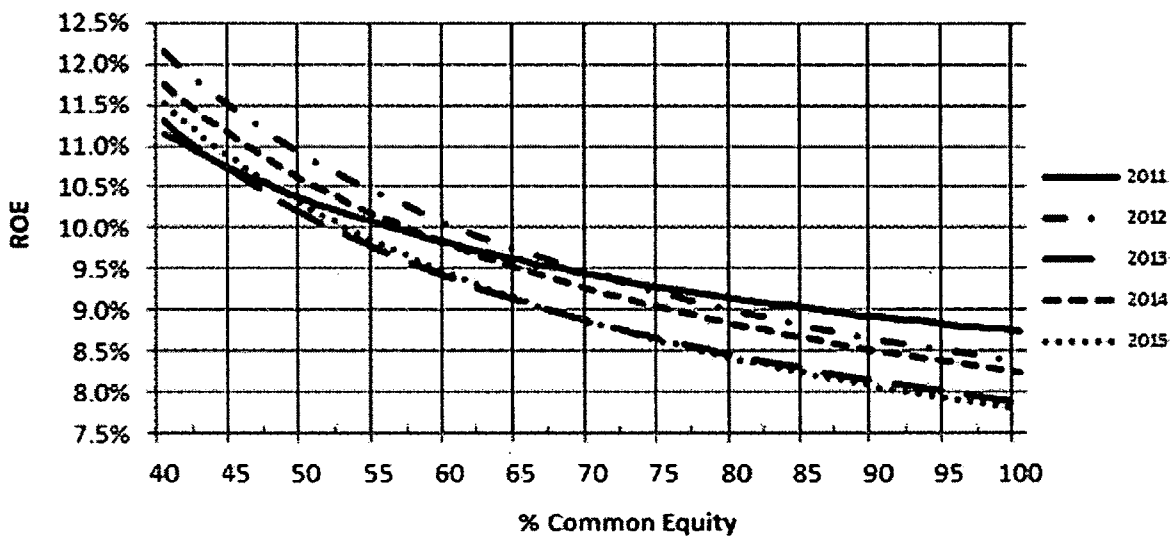


Chart 1-2 illustrates the change in the slope of the leverage formula for the five years 2011 through 2015.

Chart 1-2

FPSC Leverage Graph



In staff's opinion, the existing leverage formula range of 8.74 percent to 11.16 percent initially approved in 2011 is still reasonable for WAW utilities. Therefore, staff recommends that the current leverage formula approved in Docket No.

110006-WS Exhibit 5 continue to be used for determining the return on equity for WAW utilities in 2015. Staff believes retaining the use of the current leverage formula until the leverage formula is addressed again in 2016 is a reasonable alternative to updating the formula using current 2015 financial information.

Staff continues to believe the leverage formula is a sound, workable methodology that reduces the costs and administrative burdens in WAW rate cases by eliminating the need for cost of equity testimony. Many of the WAW utilities under the Commission's jurisdiction are small operations that find it beneficial to avoid the costs associated with presenting cost of equity testimony.

Although staff recommends the current 2011 leverage formula remain in place, staff has provided the updated leverage formula using the most recent financial information should the Commission decide to not continue to use the 2011 leverage formula and approve the updated leverage formula. The updated model produced the following leverage formula:

$$\text{Return on Common Equity} = 5.31\% + (2.480 \div \text{Equity Ratio})$$

Where the Equity Ratio = $\text{Common Equity} \div (\text{Common Equity} + \text{Preferred Equity} + \text{Long-Term} + \text{Short-Term Debt})$

Range: 7.79% @ 100% equity to 11.51% @ 40% equity

In conjunction with the updated leverage formula, the returns on common equity should be capped at 11.51 percent for all WAW utilities with equity ratios less than 40 percent to discourage imprudent financial risk. This cap is consistent with the methodology in Order No. PSC-08-0846-FOF-WS.

In developing the updated leverage formula, staff used the same methodologies used in the 2011 docket. Staff notes that the leverage formula depends on four basic assumptions:

- 1) Business risk is similar for all WAW utilities;
- 2) The cost of equity is an exponential function of the equity ratio but a linear function of the debt to equity ratio over the relevant range;
- 3) The marginal weighted average cost of investor capital is constant over the equity ratio range of 40 percent to 100 percent; and
- 4) The debt cost rate at an assumed Moody's Baa3 bond rating, plus a 50 basis point private placement premium and a 50 basis point small utility risk premium, represents the average marginal cost of debt to a Florida WAW utility over an equity ratio range of 40 percent to 100 percent.

For these reasons, the leverage formula is assumed to be appropriate for the average Florida WAW utility.

The leverage formula relies on two ROE models. Staff adjusted the results of these models to reflect differences in risk and debt cost between the index of companies used in the models and the average Florida WAW utility. Both models include a four percent adjustment for flotation costs. The models are as follows:

- A Discounted Cash Flow (DCF) model applied to an index of natural gas utilities that have publicly traded stock and are followed by the Value Line Investment Survey (Value Line). This DCF model is an annual model and uses prospective growth rates.
- The index consists of eight natural gas companies that derive at least 50 percent of their total revenue from gas distribution service. These companies have a median Standard and Poor's bond rating of A-.
- A Capital Asset Pricing Model (CAPM) using a market return for companies followed by Value Line, the average yield on the Treasury's long-term bonds projected by the Blue Chip Financial Forecasts, and the average beta for the index of natural gas utilities. The market return for the 2015 leverage formula was calculated using a quarterly DCF model with stock prices as of May 15, 2015.

Staff averaged the indicated returns of the above models and adjusted the result as follows:

- A bond yield differential of 44 basis points is added to reflect the difference in yields between an A-/A3 rated bond,

Exhibit 5 is the median bond rating for the natural gas utility index, and a BBB-/Baa3 rated bond. Florida WAW utilities are assumed to be comparable to companies with the lowest investment grade bond rating, which is Baa3. This adjustment compensates for the difference between the credit quality of "A-" rated debt and the credit quality of the minimum investment grade rating.

- A private placement premium of 50 basis points is added to reflect the difference in yields on publicly traded debt and privately placed debt, which is illiquid. Investors require a premium for the lack of liquidity of privately placed debt.
- A small utility risk premium of 50 basis points is added because the average Florida WAW utility is too small to qualify for privately placed debt.

After the above adjustments, the resulting cost of equity estimate is included in the average capital structure for the natural gas utilities. The derivation of the leverage formula using the current methodology with updated financial information is presented in Attachment 1.

For administrative efficiency, the leverage formula is used to determine the appropriate return for an average Florida WAW utility. Traditionally, the Commission has applied the same leverage formula to all WAW utilities. As is the case with other regulated companies under the Commission's jurisdiction, the Commission has discretion in the determination of the appropriate ROE based on the evidentiary record in any proceeding. If one or more parties file testimony in opposition to the use of the leverage formula, the Commission will determine the appropriate ROE based on the evidentiary record in that proceeding.

Based on the aforementioned, staff believes that the current range of returns on common equity of 8.74 percent to 11.16 percent is still reasonable for WAW utilities. As such, staff recommends the current leverage formula authorized by the Commission in Order No. PSC-14-0272-PAA-WS remain unchanged until the leverage formula is readdressed in 2016.

Issue 2:

Should this docket be closed?

Recommendation:

No. Upon expiration of the protest period, if a timely protest is not received from a substantially affected person, the decision should become final and effective upon the issuance of a Consummating Order. However, this docket should remain open to allow staff to monitor changes in capital market conditions and to readdress the reasonableness of the leverage formula as conditions warrant. (Janjic, Mapp)

Staff Analysis:

Upon expiration of the protest period, if a timely protest is not received from a substantially affected person, the decision should become final and effective upon the issuance of a Consummating Order. However, this docket should remain open to allow staff to monitor changes in capital market conditions and to readdress the reasonableness of the leverage formula as conditions warrant.

Attachment 1
Page 1 of 6

SUMMARY OF LEVERAGE FORMULA RESULTS

Updated Results (2015)	Currently in Effect (2011)

(A) BOF ROE for Natural Gas Utility Index	8.40%	8.25%
(B) CAPM ROE for Natural Gas Utility Index	<u>10.12%</u>	<u>9.40%</u>
AVERAGE	<u>9.29%</u>	<u>8.83%</u>
Bond Yield Differential	0.44%	0.57%
Private Placement Premium	0.50%	0.50%
Small-Utility Risk Premium	0.50%	0.50%
Adjustment to Reflect ROE at 40% Equity Ratio	<u>0.81%</u>	<u>0.76%</u>
	-	
Cost of Equity for Average Florida WAW Utility with a capital structure containing a 40% Equity Ratio	<u>11.51%</u>	<u>11.16%</u>
-		
<u>2011 Leverage Formula (Currently in Effect)</u>		
Return on Common Equity =	7.13% + (1.610 ÷ Equity Ratio)	
Range of Returns on Equity (100% to 40%) =	8.74% to 11.16%	
-		
<u>2015 Leverage Formula (Using Current Data)</u>		
Return on Common Equity =	5.31% + (2.480 ÷ Equity Ratio)	
Range of Returns on Equity (100% to 40%) =	7.79% to 11.51%	

Attachment 1
Page 2 of 6

*MARGINAL COST OF INVESTOR CAPITAL
(2015 Leverage Formula Result)*

Average Marginal Cost Rate of the Natural Gas Utility Index

<u>Capital Component</u>	<u>Ratio</u>	<u>Marginal Cost Rate</u>	<u>Weighted Marginal Cost Rate</u>
Common Equity	45.95%	10.70%	4.92%
Total Debt	<u>54.05%</u>	5.31% *	<u>2.87%</u>
	100.0%		7.79%

Average Marginal Cost Rate at a 40% Equity Ratio

A 40% equity ratio is the floor for calculating the required return on common equity. The return on equity at a 40% equity ratio is $5.31\% + (2.480 \div 0.40) = 11.51\%$

<u>Capital Component</u>	<u>Ratio</u>	<u>Marginal Cost Rate</u>	<u>Weighted Marginal Cost Rate</u>
Common Equity	40.00%	11.51%	4.60%
Total Debt	<u>60.00%</u>	5.31%*	<u>3.18%</u>
	100.00%		7.79%

Common Equity Ratio = Common Equity ÷ (Common Equity + Preferred Equity + Long-Term Debt + Short-Term Debt)

*Assumed 120-month average Baa3 rate as of April 2015 (4.31%) plus a 50 basis point private placement premium and a 50 basis point small utility risk premium.

ANNUAL DISCOUNTED CASH FLOW MODEL

NATURAL GAS UTILITY INDEX

COMPANY	DIV0	DIV1	DIV2	DIV3	DIV4	EPS4	ROE4	GR1-4	GR4+	STOCK PRICE APRIL 1, 2015 - APRIL 30, 2015		
										HI-PR	LO-PR	AVG-PR
AGL RESOURCES INC.	2.04	2.10	2.20	2.30	2.40	4.65	11.50	1.0455	1.0556	51.88	49.14	50.510
ATMOS ENERGY CORPORATION	1.56	1.64	1.72	1.81	1.90	3.80	10.50	1.0503	1.0525	56.67	53.67	55.170
LACLEDE GROUP, INC.	1.84	1.92	2.01	2.10	2.20	4.20	8.50	1.0464	1.0405	52.95	50.82	51.885
NORTHWEST NATURAL GAS CO.	1.87	1.91	1.97	2.03	2.10	3.30	9.00	1.0321	1.0327	49.77	46.54	48.155
PIEDMONT NATURAL GAS CO., INC.	1.31	1.35	1.39	1.43	1.47	2.10	10.50	1.0288	1.0315	38.43	36.17	37.300
SOUTH JERSEY INDUSTRIES, INC.	2.05	2.20	2.34	2.49	2.65	5.00	14.50	1.0640	1.0682	55.32	52.40	53.860
SOUTHWEST GAS CORPORATION	1.62	1.74	1.85	1.97	2.10	4.25	12.00	1.0647	1.0607	59.75	54.46	57.105
WGL HOLDINGS, INC.	1.85	1.87	1.87	1.87	1.87	3.20	11.00	1.0000	1.0457	57.94	54.79	56.365
AVERAGE	1.7675	1.8413	1.9188	2.0004	2.0863 2.1873	3.8125	10.9375	1.0415	1.0484			51.294
										Stock price including a four percent flotation cost:		49.242
		Annual DCF Result:			8.40%							
Cash Flows	1.6476	1.5835	1.5226	1.4645	1.4109	41.6130						
Present Value of Cash Flows	49.2420											

NOTE: The cash flows for this multi-stage DCF Model are derived using the average forecasted dividends and the near term and long term growth rates.

The discount rate equates the cash flows with the average stock price less flotation cost.

\$49.242 = Average stock price from April 1, 2015, through April 30, 2015, with a 4 percent flotation cost.

8.40% = Cost of equity required to match the current stock price with the expected cash flows.

Sources:

1. Stock Prices - Yahoo Finance.

2. Dividends (DIV), Dividends Per Share (DPS), Earnings Per Share (EPS), ROE - Value Line Ratings and Reports issued March 7, 2015.

CAPITAL ASSET PRICING MODEL

CAPM Analysis Formula

$$K = RF + \text{Beta}(\text{MR} - \text{RF})$$

$$K = \text{Investor's required rate of return}$$

$$RF = \text{Risk-free rate (Blue Chip forecast for Long-term Treasury bond, May 1, 2015)}$$

$$\text{Beta} = \text{Measure of industry-specific risk (Average for natural gas utilities followed by Value Line)}$$

$$\text{MR} = \text{Market return (Value Line Investment Analyzer Web Browser, as of May 15, 2015)}$$

Exhibit 5 $10.12\% = 3.30\% + 0.794(11.64\% - 3.30\%) + 0.20\%$

Note: Staff calculated the market return using a quarterly DCF model for a large number of dividend paying stocks followed by Value Line. As of May 15, 2015, the result was 11.64%. Staff also added 20 basis points to the CAPM result to allow for a four-percent flotation cost.

Attachment 1
Page 5 of 6

BOND YIELD DIFFERENTIALS

Public Utility Long Term Bond Yield Averages									
Month, Year	A2	Spread	A3	Spread	Baa1	Spread	Baa2	Spread	Baa3
April, 2015	3.788	0.123	3.911	0.123	4.034	0.123	4.158	0.123	4.281
120-Month Average							4.158	0.1479	4.31%
Sources: Moody's Credit Perspectives and Value Line Selection & Opinion									

Attachment 1
Page 6 of 6

UTILITY INDEX STATISTICS AND FACTS

Natural Gas Distribution Utility Companies	S&P Bond Rating	% of Gas Revenue	Value Line Market Capital (millions)	Equity Ratio	Value Line Beta
AGL Resources Inc.	BBB+	69%	\$ 5,995.51	43.19%	0.80
Atmos Energy Corporation	A-	64%	\$ 5,549.99	53.78%	0.85
Laclede Group, Inc.	A-	99%	\$ 2,231.98	41.37%	0.70
Northwest Natural Gas Co.	A+	97%	\$ 1,298.67	45.69%	0.70
Piedmont Natural Gas Co., Inc.	A	100%	\$ 2,914.38	42.38%	0.80
South Jersey Industries, Inc.	BBB+	57%	\$ 1,762.88	42.64%	0.85
Southwest Gas Corporation	BBB+	63%	\$ 2,674.78	47.21%	0.85
WGL Holdings, Inc.	A+	50%	\$ 2,776.69	51.35%	0.80
Average:	A-	75%	\$ 3,150.61	45.95%	0.794

Sources:

Value Line Investment Analyzer Web Browser, April 2015
S.E.C. Forms 10Q and 10K for the natural gas utility companies
AUS Utilities Report, issued May 1, 2015
Standard & Poor's RatingsDirect

-
- [1] Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.
- [2] At the May 20, 2008, Commission Conference, upon request of the Office of Public Counsel, the Commission voted to set the establishment of the appropriate leverage formula directly for hearing.
- [3] Order No. PSC-08-0846-FOF-WS, issued December 31, 2008, in Docket No. 080006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.
- [4] Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.
- [5] Order No. PSC-12-0339-PAA-WS, issued June 28, 2012, in Docket No. 120006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.
- [6] Order No. PSC-13-0241-PAA-WS, issued June 3, 2013, in Docket No. 130006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.
- [7] Order No. PSC-14-0272-PAA-WS, issued May 29, 2014, in Docket No. 140006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.
- [8] Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, in Docket No. 960006-WS, In re: Annual reestablishment of authorized range of returns on common equity of water and wastewater utilities, pursuant to Section 367.081(4)(f), F.S.
- [9] See Federal Reserve System, minutes of the Federal Open Market Committee on April 28-29, 2015, p. 10, available at <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20150429.pdf>.
- [10] See Federal Reserve System, Monetary Policy Releases, available at <http://www.federalreserve.gov/newevents/press/monetary/20150429a.htm>.

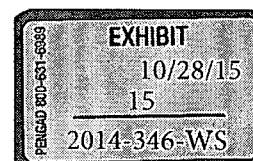
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FORM 10-K405 (Annual Report (Regulation S-K, item 405))

Filed 03/27/00 for the Period Ending 12/31/99

Address 6400 POPLAR AVENUE
MEMPHIS, TN 38197
Telephone 901-419-7000
CIK 0000051434
Symbol IP
SIC Code 2621 - Paper Mills
Industry Paper & Paper Products
Sector Basic Materials
Fiscal Year 12/31



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FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 3/27/2000 For Period Ending 12/31/1999

Address	400 ATLANTIC STREET STAMFORD, Connecticut 06921
Telephone	203-541-8000
CIK	0000051434
Industry	Paper & Paper Products
Sector	Basic Materials
Fiscal Year	12/31

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR FISCAL YEAR ENDED DECEMBER 31, 1999 COMMISSION FILE NO. 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of Company as specified in its charter)

NEW YORK
(State or other jurisdiction
of
incorporation or organization)

(I.R.S. Employee
Identification No.)

**TWO MANHATTANVILLE ROAD,
PURCHASE, N.Y.**
(Address of principal executive offices)

10577
(Zip Code)

COMPANY'S TELEPHONE NUMBER, INCLUDING AREA CODE: 914-397-1500

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$1 per share par value.....	New York Stock Exchange
7 7/8% Debentures due 2038	New York Stock Exchange

INDICATE BY CHECK MARK WHETHER THE COMPANY (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE COMPANY WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES /X/ NO //

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405, OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. /X/

THE AGGREGATE MARKET VALUE OF THE COMMON STOCK OF THE COMPANY OUTSTANDING AS OF MARCH 17, 2000, HELD BY NON-AFFILIATES OF THE COMPANY WAS \$15,719,434,577, CALCULATED ON THE BASIS OF THE CLOSING PRICE ON THE COMPOSITE TAPE ON MARCH 17, 2000. FOR THIS COMPUTATION, THE COMPANY HAS EXCLUDED THE MARKET VALUE OF ALL COMMON STOCK BENEFICIALLY OWNED BY ALL EXECUTIVE OFFICERS AND DIRECTORS OF THE COMPANY AND THEIR ASSOCIATES AS A GROUP AND TREASURY STOCK. SUCH EXCLUSION IS NOT TO SIGNIFY IN ANY WAY THAT MEMBERS OF THIS GROUP ARE "AFFILIATES" OF THE COMPANY.

THE NUMBER OF SHARES OUTSTANDING OF THE COMPANY'S COMMON STOCK, AS OF

MARCH 17, 2000

OUTSTANDING	IN TREASURY
413,825,796	1,583,006

The following documents are incorporated by reference into the parts of this report indicated below:

1999 ANNUAL REPORT TO SHAREHOLDERS

PARTS I, II, AND IV

(INSIDE FRONT COVER AND PAGES 6 THROUGH 61)

PROXY STATEMENT DATED MARCH 24, 2000

PART III

PART I

ITEM 1. BUSINESS

GENERAL

International Paper Company (the Company or International Paper, which may be referred to as we or us), is a global paper and forest products company that is complemented by an extensive distribution system. The Company produces printing and writing papers, pulp, tissue, paperboard and packaging and wood products. We also manufacture specialty chemicals and specialty panels and laminated products. Our primary markets and manufacturing and distribution operations are in the United States, Europe and the Pacific Rim. We are a New York corporation and were incorporated in 1941 as the successor to the New York corporation of the same name organized in 1898. Our home page on the Internet is www.internationalpaper.com. You can learn more about us by visiting that site.

In the United States at December 31, 1999, the Company operated 30 pulp, paper and packaging mills, 104 converting and packaging plants, 38 wood products facilities, 8 specialty panels and laminated products plants and 12 specialty chemicals plants. Production facilities at December 31, 1999 in Europe, Asia, Latin America and Canada included 12 pulp, paper and packaging mills, 35 converting and packaging plants, 4 wood products facilities, 3 specialty panels and laminated products plants and 23 specialty chemicals plants. We distribute printing, packaging, graphic arts and industrial supply products, primarily manufactured by other companies, through over 305 distribution branches located primarily in the United States, and also engage in oil and gas and real estate activities in the United States. At December 31, 1999, we controlled approximately 7.1 million acres of forestlands in the United States.

Through Carter Holt Harvey, a New Zealand company which is 50.3% owned by International Paper, the Company operates 6 mills producing pulp, paper, packaging and tissue products, 27 converting and packaging plants and 54 wood products manufacturing and distribution facilities, primarily in New Zealand and Australia. Carter Holt Harvey distributes paper and packaging products through 17 distribution branches located in New Zealand and Australia. In New Zealand, Carter Holt Harvey controls approximately 785,000 acres of forestlands.

For financial reporting purposes, our businesses are separated into six segments: Printing and Communications Papers; Industrial and Consumer Packaging; Distribution; Chemicals and Petroleum; Forest Products; and Carter Holt Harvey. A description of these business segments can be found on pages 6 through 8 of International Paper: From Innovation to Results, Our 1999 Annual Report (Annual Report), which information is incorporated herein by reference.

From 1994 through 1999, International Paper's capital expenditures approximated \$8.9 billion, excluding mergers and acquisitions. These expenditures reflect our continuing efforts to improve product quality and environmental performance, lower costs, and improve forestlands. Capital spending in 1999 was approximately \$1.1 billion and is budgeted to be between \$1.2 and \$1.3 billion in 2000. This amount is below our annual depreciation and amortization expense of \$1.5 billion. You can find more information about capital expenditures on pages 13 through 14 of our Annual Report, which information is incorporated herein by reference.

Discussions of mergers and acquisitions can be found on pages 6, 13 through 14, and 39 through 40 of the Annual Report, which information is incorporated herein by reference.

You can find discussions of restructuring charges and other special items on pages 15 through 22 and 40 through 47 of the Annual Report, which information is incorporated herein by reference.

THROUGHOUT THIS 10-K REPORT, WE "INCORPORATE BY REFERENCE" CERTAIN INFORMATION IN PARTS OF OTHER DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC). THE SEC PERMITS US TO DISCLOSE IMPORTANT INFORMATION BY REFERRING TO IT IN THAT MANNER. PLEASE REFER TO SUCH INFORMATION.

FINANCIAL INFORMATION CONCERNING INDUSTRY SEGMENTS

The financial information concerning segments is set forth on pages 30 through 31 of the Annual Report, which information is incorporated herein by reference.

FINANCIAL INFORMATION ABOUT INTERNATIONAL AND DOMESTIC OPERATIONS

The financial information concerning international and domestic operations and export sales is set forth on page 31 of the Annual Report, which information is incorporated herein by reference.

COMPETITION AND COSTS

Despite the size of the Company's manufacturing capacities for paper, paperboard, packaging and pulp products, the markets in all of the cited product lines are large and highly fragmented. The markets for wood and specialty products are similarly large and fragmented. There are numerous competitors, and the major markets, both domestic and international, in which the Company sells its principal products are very competitive. These products are in competition with similar products produced by others, and in some instances, with products produced by other industries from other materials.

Many factors influence the Company's competitive position, including prices, costs, product quality and services. You can find more information about the impact of prices and costs on operating profits on pages 6 through 12 of the Annual Report, which information is incorporated herein by reference.

MARKETING AND DISTRIBUTION

The Company sells paper and packaging products through our own sales organization directly to users or converters for manufacture. Sales offices are located throughout the United States as well as internationally. We also sell significant volumes of products through paper merchants and distributors, including facilities in our distribution network.

We market our U.S. production of lumber and plywood through independent and Company-owned distribution centers. Specialty products are marketed through various channels of distribution.

DESCRIPTION OF PRINCIPAL PRODUCTS

The Company's principal products are described on pages 6 through 8 of the Annual Report, which information is incorporated herein by reference.

Production of major products for 1999, 1998 and 1997 was as follows:

**PRODUCTION BY PRODUCT
(UNAUDITED)**

	1999	1998 (D)	1997 (D)
Printing Papers (In thousands of tons)			
White Papers and Bristols.....	5,393	5,188	5,508
Coated Papers.....	1,308	1,241	1,304
Market Pulp (A).....	2,082	2,020	2,268
Newsprint.....	100	95	86
Packaging (In thousands of tons)			
Containerboard.....	4,837	4,670	4,874
Bleached Packaging Board.....	2,122	2,148	2,191
Industrial Papers.....	898	894	981
Industrial and Consumer Packaging (B).....	5,112	4,919	4,796
Specialty Products (In thousands of tons)			
Tissue.....	158	148	147
Forest Products (In millions)			
Panels (sq. ft. 3/8"-basis) (C).....	2,106	1,818	1,650
Lumber (board feet).....	2,927	2,726	2,671
MDF (sq. ft. 3/4"-basis).....	209	297	325
Particleboard (sq. ft. 3/4"-basis).....	196	195	188

(A) This excludes market pulp purchases.

(B) A significant portion of this tonnage was fabricated from paperboard and paper produced at the Company's mills and is included in the containerboard, bleached packaging board and industrial papers amounts in this table.

(C) Panels include plywood and oriented strand board.

(D) Certain reclassifications and adjustments have been made to prior-year amounts.

RESEARCH AND DEVELOPMENT

The Company operates research and development centers at Sterling Forest, New York; Cincinnati, Ohio; Panama City, Florida; Erie, Pennsylvania; Kaukauna, Wisconsin; West Chicago, Illinois; Odenton, Maryland; Jacksonville, Florida; Savannah, Georgia; Saint-Priest, France; Annecy, France; a regional center for applied forest research in Bainbridge, Georgia; a forest biotechnology center in Rotorua, New Zealand; and several product laboratories. We direct research and development activities to short-term, long-term and technical assistance needs of customers and operating divisions; process, equipment and product innovations; and improvement of profits through tree generation and propagation research. Activities include studies on improved forest species and management; innovation and improvement of pulping, bleaching, chemical recovery, papermaking and coating processes; packaging design and materials development; reduction of environmental discharges; re-use of raw materials in manufacturing processes; recycling of consumer and packaging paper products; energy conservation; applications of computer controls to manufacturing operations; innovations and improvement of products; and development of various new products. Our development efforts specifically address product safety as well as the minimization of solid waste. The cost to the Company of its research and development operations was \$88 million in 1999, \$144 million in 1998 and \$157 million in 1997.

ENVIRONMENTAL PROTECTION

The Company is subject to extensive federal and state environmental regulation, and regulations in all other jurisdictions in which it operates. Our continuing objectives are to: (1) control pollutants discharged into the air, water and groundwater to avoid adverse impacts on the environment, (2) make continual improvements in environmental performance, and (3) maintain 100% compliance with applicable laws and regulations. A total of \$90 million was spent in 1999 for capital projects to control environmental releases into the air and water, and to assure environmentally sound management and disposal of waste. We expect to spend approximately \$257 million in 2000 for similar capital projects, including the costs to comply with the Environmental Protection Agency's (EPA) Cluster Rule regulations. Amounts to be spent for environmental control projects in future years will depend on new laws and regulations and changes in legal requirements and environmental concerns. Taking these uncertainties into account, our preliminary estimate for additional environmental appropriations during the period 2001 through 2002 is approximately \$157 million in total.

On April 15, 1998, the EPA issued final Cluster Rule regulations that established new requirements regarding air emissions and wastewater discharges from pulp and paper mills to be met between now and 2006. One of the requirements of the Cluster Rule is that pulp and paper mills use only elemental chlorine-free technology (ECF) in the pulp bleaching process. We have spent \$247 million through 1999 to convert 15 of our U.S. and European bleached mills to this technology and for certain other projects related to the Cluster Rule regulations. The projected costs included in the Company's estimate related to the Cluster Rule regulations for the years 2000 through 2001 are \$229 million. Projected Cluster Rule costs for 2002 through 2006 are in the range of \$150 million to \$195 million. The final cost depends on the outcome of the Cluster Rule water regulations for pulp and paper categories other than bleached kraft and soda. Regulations for these categories are not likely to become final until late 2000 or 2001. We estimate that annual operating costs, excluding depreciation, will increase approximately \$20 million when these regulations are fully implemented.

The Company has been named as a potentially liable party in a number of environmental remediation actions under various federal and state laws, including the Comprehensive Environmental Response, Compensation and Liability Act. Related costs are recorded in the financial statements when they are probable and reasonably estimable. Completion of these actions is not expected to have a material adverse effect on the Company's financial condition or results of operations.

The Company expects the significant effort it has made in the analysis of environmental issues and the development of environmental control technology responses will enable it to keep costs for compliance with environmental regulations at, or below, industry averages.

You can find a further discussion of environmental issues on page 24 of the Annual Report, which information is incorporated herein by reference.

You can also find additional information about environmental matters in the Company's 1998-1999 Environment, Health & Safety Annual Environmental Report, which can be obtained by contacting the Company or through the Company's website.

EMPLOYEES

As of December 31, 1999, the Company had approximately 99,000 employees, of whom 70,000 were located in the United States and the remainder overseas. Of the domestic employees, approximately 45,000 are hourly employees, approximately 20,000 of whom are represented by the Paper, Allied-Industrial, Chemical and Energy International Union.

During 1999, a new labor agreement was reached at the Pine Bluff mill. Erie mill negotiations were still in progress at year end. During 2000, labor agreements are scheduled to be negotiated at the Camden, Natchez, Reigelwood, Terre Haute and Hamilton mills.

During 1999, twenty-five labor agreements were settled in non-papermill operations. Settlements included nine in paper converting, four in building materials, two in forest resources and ten in distribution. At year end, ten open contracts existed where negotiations were in progress. These include two paper converting, one chemical and seven distribution. During 2000, nineteen non-papermill operations will negotiate new labor agreements.

RAW MATERIALS

For information as to the sources and availability of raw materials essential to our business, see Item 2. PROPERTIES.

FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this report and in our Annual Report contain some forward-looking statements. Forward-looking statements reflect our expectations or forecasts of future events. These statements do not relate strictly to historical or current facts. They use words such as "estimate," "anticipate," "plan," "intend," "believe," and similar meanings in connection with any discussion of future operating or financial performance. These include statements relating to future actions, future performance or the outcome of contingencies, such as legal proceedings and financial results. We also provide oral or written forward-looking statements in other materials we release to the public.

Any or all of the forward-looking statements that we make in this report, in the Annual Report and any other public statements may turn out to be wrong. They can be influenced by inaccurate assumptions we might make or by known or unknown risks and uncertainties. No forward-looking statements can be guaranteed and actual results may vary materially. Factors which could cause actual results to differ include, among other things, changes in overall demand, changes in domestic or foreign competition, changes in the cost or availability of raw materials, the cost of compliance with environmental laws and regulations, and whether anticipated savings from merger and other restructuring activities can be achieved. In view of such uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You should consult any further disclosures we make on related subjects in our 10-Q, 8-K and 10-K reports to the SEC.

ITEM 2. PROPERTIES

FORESTLANDS

The principal raw material used by International Paper is wood in various forms. At December 31, 1999, the Company controlled approximately 7.1 million acres of forestlands in the United States. An additional 785,000 acres of forestlands in New Zealand were held through Carter Holt Harvey, a consolidated subsidiary of International Paper.

During 1999, the U.S. forestlands supplied 14.9 million tons of roundwood to the Company's U.S. facilities. This amounted to the following percentages of the roundwood requirements of its U.S. mills and forest products facilities: 14% in its Northern mills and 39% in its Southern mills. The balance was acquired from other private industrial and nonindustrial forestland owners, with only an insignificant amount coming from public lands of the United States government. In addition, 6 million tons of wood were sold to other users in 1999. In November 1994, we adopted the Sustainable Forestry Principles developed by the American Forest and Paper Association in August 1994.

MILLS AND PLANTS

A listing of our production facilities can be found in Appendix I hereto, which is incorporated herein by reference.

The Company's facilities are in good operating condition and are suited for the purposes for which they are presently being used. We continue to study the economics of modernizing or adopting other alternatives for higher cost facilities.

CAPITAL INVESTMENTS AND DISPOSITIONS

Given the size, scope and complexity of our business interests, we continuously examine and evaluate a wide variety of business opportunities and planning alternatives, including possible acquisitions and sales or other dispositions of properties. You can find planned capital investments for 2000, dispositions, and restructuring activities as of December 31, 1999 on pages 6 and 13 through 22 of the Annual Report, which information is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

MASONITE LITIGATION

Three nationwide class action lawsuits filed against the Company have been settled.

The first suit alleged that hardboard siding manufactured by Masonite fails prematurely, allowing moisture intrusion that in turn causes damage to the structure underneath the siding. The class consisted of all U.S. property owners having Masonite hardboard siding installed on and incorporated into buildings between 1980 and January 15, 1998. Final approval of the settlement was granted by the court on January 15, 1998. The final approval of the settlement provides for monetary compensation to class members meeting the settlement requirements on a claims-made basis. It also provides for the payment of attorneys' fees equaling 15% of the settlement amounts paid to class members, with a nonrefundable advance of \$47.5 million plus \$2.5 million in costs.

The second suit made similar allegations with regard to Omniwood siding manufactured by Masonite (Omniwood Lawsuit). The class consists of all U.S. property owners having Omniwood siding installed on and incorporated into buildings from January 1, 1992 to January 6, 1999.

The third suit alleged that Woodruf roofing manufactured by Masonite is defective and causes damage to the structure underneath the roofing (Woodruf Lawsuit). The class consists of all U.S. property owners on which Masonite Woodruf roofing had been incorporated and installed from January 1, 1980 to January 6, 1999.

Final approval of the settlements of the Omniwood and Woodruf lawsuits was granted by the Court on January 6, 1999. The settlements provide for monetary compensation to class members meeting the settlement requirements on a claims-made basis, and provide for payment of attorneys' fees equaling 13% of the settlement amounts paid to class members with a nonrefundable advance of \$1.7 million plus \$75,000 in costs for each of the two cases.

The Company's reserves for these matters total \$76 million at December 31, 1999. This amount includes \$25 million which the Company added to its reserve for hardboard siding claims in the fourth quarter of 1999, to cover an expected shortfall in that reserve resulting primarily from a higher than anticipated number of hardboard siding claims in the fourth quarter of 1999. It is reasonably possible that the higher number of hardboard siding claims might be indicative of the need for one or more future additions to this reserve. However, whether or not any future additions to this reserve become necessary, the Company believes that these settlements will not have a material adverse effect on its consolidated financial position or results of operations. The reserve balance is net of \$51 million of expected insurance

recoveries (apart from the insurance recoveries to date). Through December 31, 1999, settlement payments of \$183 million, including the \$51 million of nonrefundable advances of attorneys' fees discussed above, have been made. Also, we have received \$27 million from our insurance carriers through December 31, 1999. The Company and Masonite have the right to terminate each of the settlements after seven years from the dates of final approval.

LINERBOARD LITIGATION

On May 14, 1999 and May 18, 1999, two lawsuits were filed against the Company, the former Union Camp Corporation and other manufacturers of linerboard. These suits allege that the defendants conspired to fix prices for linerboard and corrugated sheets during the period October 1, 1993 through November 30, 1995. Both lawsuits were filed seeking nationwide class certification. The lawsuits allege that various purchasers of corrugated sheets and corrugated containers were injured as a result of the alleged conspiracy. The cases have been consolidated in federal court in the Eastern District of Pennsylvania. Motions to dismiss the cases are pending before the Court.

COPEC

The Company's majority-owned subsidiary, Carter Holt Harvey, had an indirect shareholding of 30.05% in Chile's largest industrial company, COPEC, through Carter Holt Harvey's subsidiary, Carter Holt Harvey International. This shareholding was held through Carter Holt Harvey International's 50% interest in Inversiones y Desarrollo Los Andes S.A. (Los Andes), which held 60.1% of the shares of COPEC. The other 50% of Los Andes was owned by Inversiones Socoroma S.A. (Socoroma), a Chilean investment company. In late 1993, Carter Holt Harvey International commenced several actions in Chilean courts challenging certain corporate governance documents of Los Andes, as well as agreements between Carter Holt Harvey and Socoroma. All of those actions have now been terminated. In December 1994, Socoroma commenced an arbitration action seeking to expel Carter Holt Harvey International from Los Andes. In April 1998, the arbitrator dismissed Socoroma's request, but granted it the right to claim monetary damages for what he found was Carter Holt Harvey International's breach of certain of its obligations as a participant in the Los Andes joint venture. All of the foregoing litigation has been settled. As a part of the settlement, AntarChile, S.A., purchased Carter Holt Harvey's interest in COPEC for just over \$1.2 billion on January 3, 2000.

OTHER LITIGATION

In April 1999, the Franklin, Virginia mill received a Notice of Violation (NOV) from the EPA, Region 3 in Philadelphia, and an NOV from the Commonwealth of Virginia alleging that the mill violated the Prevention of Significant Deterioration (PSD) regulations. The Franklin mill was owned by Union Camp Corporation at that time and was one of seven paper mills in Region 3 owned by different companies which received similar notices of violation. Union Camp merged with International Paper on April 30, 1999, and International Paper has entered into negotiations with the EPA and the Commonwealth of Virginia.

The Franklin mill NOVs were issued in connection with the EPA's well publicized PSD air permit enforcement initiative against the paper industry. In 1999, our paper mills in Kaukauna, Wisconsin and Augusta, Georgia received requests for information from the EPA regarding compliance with the PSD regulations. The EPA's initiative may result in similar actions at other facilities.

On August 5, 1999, International Paper and the New York Department of Environmental Conservation entered into a consent order which resolved several alleged air permit violations at our paper mill in Ticonderoga, New York, for a civil penalty of \$100,000.

In August 1998, the former Union Camp Corporation informed the Virginia Department of Environmental Quality (DEQ) of certain New Source Performance Standards (NSPS) permitting discrepancies

related to a power boiler at the paper mill in Franklin, Virginia. On August 11, 1999, the DEQ proposed a consent order with a civil penalty exceeding \$100,000. Terms of the consent order, including the penalty, are being negotiated with the DEQ.

In November 1999, the Wisconsin Department of Natural Resources filed a civil complaint alleging past exceedences of air permit limits at the former Union Camp flexible packaging facility located in Tomah, Wisconsin. The complaint seeks penalties that could exceed \$100,000. International Paper is engaged in settlement discussions with the state.

As of March 27, 2000, there were no other pending judicial proceedings, brought by governmental authorities against the Company, for alleged violations of applicable environmental laws or regulations. The Company is engaged in various other proceedings that arise under applicable environmental and safety laws or regulations, including approximately 108 active proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and comparable state laws. Most of these proceedings involve the cleanup of hazardous substances at large commercial landfills that received waste from many different sources. While joint and several liability is authorized under the CERCLA, as a practical matter, liability for CERCLA cleanups is allocated among the many potential responsible parties. Based upon previous experience with respect to the cleanup of hazardous substances and upon presently available information, the Company believes that it has no or DE MINIMIS liability with respect to 21 of these sites; that liability is not likely to be significant at 67 sites; and that estimates of liability at 20 of these sites is likely to be significant but not material to the Company's consolidated financial position or results of operations.

We are also involved in other contractual disputes, administrative and legal proceedings and investigations of various types. While any litigation, proceeding or investigation has an element of uncertainty, we believe that the outcome of any proceeding, lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on our consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 1999.

SPECIAL ITEM. EXECUTIVE OFFICERS OF THE COMPANY

**INTERNATIONAL PAPER COMPANY
EXECUTIVE OFFICERS
AS OF MARCH 27, 2000
INCLUDING NAME, AGE, OFFICES AND POSITIONS HELD AND BUSINESS
EXPERIENCE DURING THE PAST FIVE YEARS(1)**

John T. Dillon, 61, chairman and chief executive officer since 1996. Prior to that he was executive vice president-packaging from 1987 to 1995, when he became president and chief operating officer.

C. Wesley Smith, 60, executive vice president-operations group since 1998. From 1992 to 1998 he was executive vice president-printing papers.

John V. Faraci, 50, senior vice president-finance and chief financial officer since 1999. From 1995 until 1999 he was CEO and managing director of Carter Holt Harvey Limited of New Zealand.

(1) Executive officers of International Paper are elected to hold office until the next annual meeting of the board of directors following the annual meeting of shareholders and until election of successors, subject to removal by the board.

James P. Melican Jr., 59, executive vice president-legal and external affairs. He assumed this position in 1991.

David W. Oskin, 57, executive vice president since 1995. He was CEO and managing director of Carter Holt Harvey Limited of New Zealand from 1992 to 1995.

Marianne M. Parrs, 56, executive vice president-administration since March 9, 1999. She was executive vice-president and chief financial officer from 1995 to 1999.

Andrew R. Lessin, 57, vice president and controller since 1995. Prior to that he was controller from 1990.

William B. Lytton, 51, senior vice president and general counsel since January 1999. From 1996 to 1999 he was vice president and general counsel. He was vice president and general counsel for Lockheed Martin Electronics from 1995 to 1996.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Dividend per share data on the Company's common stock and the high and low sale prices for the Company's common stock for each of the four quarters in 1999 and 1998 are set forth on page 61 of the Annual Report and are incorporated herein by reference.

As of March 17, 2000, there were 32,505 holders of record of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

The Company's columnar table showing selected financial data for the Company is set forth on pages 59 and 60 of the Annual Report and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's review and comments on the consolidated financial statements are set forth on pages 6 through 29 of the Annual Report and are incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are set forth on pages 27 through 29 of the Annual Report and are incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements, the notes thereto and the reports of the independent public accountants and Company management are set forth on pages 32 through 58 of the Annual Report and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The directors of the Company and their business experience are set forth on pages 11 through 14 of the Company's Proxy Statement, dated March 24, 2000 (Proxy Statement), which information is incorporated herein by reference. The discussion of executive officers of the Company is included in Part I under "Executive Officers of the Company."

ITEM 11. EXECUTIVE COMPENSATION

A description of the compensation of the Company's executive officers is set forth on pages 21 through 24 and 26 through 30 of the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

A description of the security ownership of certain beneficial owners and management is set forth on pages 6 through 8 of the Proxy Statement and is incorporated herein by reference.

The table showing ownership of the Company's common stock held by individual directors and by directors and executive officers as a group is set forth on page 7 of the Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

A description of certain relationships and related transactions is set forth on page 6 of the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) DOCUMENTS FILED AS PART OF THIS REPORT:

1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company and consolidated subsidiaries listed below are incorporated herein by reference to the following pages of the Annual Report:

	PAGE
Consolidated statement of earnings for fiscal years ended December 31, 1999, 1998 and 1997.....	33
Consolidated balance sheet at December 31, 1999 and 1998....	34
Consolidated statement of cash flows for fiscal years ended December 31, 1999, 1998 and 1997.....	35
Consolidated statement of common shareholders' equity.....	36
Notes to consolidated financial statements.....	37-58
Report of independent public accountants.....	32

2. FINANCIAL STATEMENT SCHEDULE

The following additional financial data should be read in conjunction with the financial statements in the Annual Report. Schedules not included with this additional financial data have been omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

ADDITIONAL FINANCIAL DATA 1999, 1998 AND 1997

Report of Independent Public Accountants on Financial Statement Schedule.....	13
Consolidated Schedule:	
II--Valuation and Qualifying Accounts.....	14
3. EXHIBITS	
(2)	Agreement and Plan of Merger, dated November 24, 1998, between the Company and Union Camp Corporation (incorporated herein by reference to Exhibit 2.1 to the Company's Report on Form 8-K, dated November 25, 1998).
(3.1)	Form of Restated Certificate of Incorporation of International Paper (incorporated by reference to International Paper's Report on Form 8-K dated November 20, 1990).
(3.2)	Certificate of Amendment to the Certificate of Incorporation of International Paper Company (incorporated herein by reference to Exhibit (3)(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
(3.3)	By-laws of the Company as amended March 9, 1999 (incorporated by reference to Exhibit (3)(ii) to the Company's Report on Form 8-K, dated March 9, 1999).
(4)	Specimen Common Stock Certificate (incorporated by reference to Exhibit 2-A to the Company's registration statement on Form S-7, No. 2-56588, dated June 10, 1976).
(10.1)	Long Term Incentive Compensation Plan (incorporated by reference to Exhibit 99 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
(10.2)	Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 99 to the Company's Quarterly Report on Form 10-Q dated August 16, 1999 for the quarter ended June 30, 1999).
(10.3)	Transitional Performance Unit Plan (incorporated by reference to Exhibit 99 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
(10.4)	Chief Executive Officer Performance Incentive Plan (incorporated by reference to Exhibit 99 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
(10.5)	Union Camp Corporation 1989 Stock Option and Stock Award Plan (incorporated by reference to Exhibit 99.1 to Registration No. 333-75235, dated May 3, 1999).
(10.6)	International Paper Company Stock Option Plan (incorporated by reference to Registration No. 333-85051, dated August 12, 1999).

3. EXHIBITS

- (10.7) Management Incentive Plan (incorporated by reference to Exhibit 99 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998).
- (10.8) Form of individual option agreement under Company Option Plan.
- (10.9) Form of individual executive continuity award under Company Long Term Incentive Compensation Plan
- (10.10a) Form of Termination Agreement--Tier I
- (10.10b) Form of Termination Agreement--Tier II
- (10.10c) Form of Termination Agreement--Tier III
- (11) Statement of Computation of Per Share Earnings
- (12) Computation of Ratio of Earnings to Fixed Charges
- (13) 1999 Annual Report to Shareholders of the Company
- (21) List of Subsidiaries of Registrant
- (22) Proxy Statement dated March 24, 2000 (incorporated by reference to the Company's Proxy Statement dated March 24, 2000, filed on March 27, 2000 pursuant to Rule 14a-6)
- (23.1) Consent of Independent Public Accountants (Arthur Andersen LLP)
- (23.2) Consent of Independent Public Accountants (PricewaterhouseCoopers LLP)
- (24) Power of Attorney
- (27) Financial Data Schedule
- (99.1) Report of Independent Accountants (PricewaterhouseCoopers LLP)
- (99.2) From Innovation to Results: A Conversation About the Future

(B) REPORTS ON FORM 8-K

There was one report filed on October 12, 1999 on Form 8-K, under Item 5 during the fourth quarter of 1999 which reported earnings for the quarter ended September 30, 1999, disclosed a special item for pre-tax charges of \$50 million, and an extraordinary expense of \$3 million.

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE**

To International Paper Company:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in the Company's 1999 Annual Report to Shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 8, 2000. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the accompanying index is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, based on our audits and the report of other auditors, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

New York, N.Y.
February 8, 2000

SCHEDULE II

INTERNATIONAL PAPER COMPANY AND CONSOLIDATED SUBSIDIARIES SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS (In millions)

FOR THE YEAR ENDED DECEMBER 31, 1999					
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EARNINGS	ADDITIONS CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
Reserves Applied Against Specific Assets Shown on Balance Sheet:					
Doubtful accounts--current.....	\$115	\$ 34		\$ (43) (a)	\$106
Restructuring reserves.....	71	149		(105) (b)	115
FOR THE YEAR ENDED DECEMBER 31, 1998					
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EARNINGS	ADDITIONS CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
Reserves Applied Against Specific Assets Shown on Balance Sheet:					
Doubtful accounts--current.....	\$108	\$39		\$ (32) (a)	\$115
Restructuring reserves.....	91	81		(101) (c)	71
FOR THE YEAR ENDED DECEMBER 31, 1997					
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EARNINGS	ADDITIONS CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
Reserves Applied Against Specific Assets Shown on Balance Sheet:					
Doubtful accounts--current.....	\$116	\$25		\$ (33) (a)	\$108
Restructuring reserves.....	76	95		(80)	91

(a) Includes write-offs, less recoveries, of accounts determined to be uncollectible and other adjustments.

(b) Includes a \$36 million deduction for the reversal of previously established reserves that were no longer required. The reversal was recognized in 1999 net earnings and is a separate line item in the consolidated statement of earnings.

(c) Includes an \$83 million deduction for the reversal of previously established reserves that were no longer required. The reversal was recognized in 1998 net earnings and is a separate line item in the consolidated statement of earnings.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL PAPER COMPANY

By: /s/ JAMES W. GUEDRY

James W. Guedry
VICE PRESIDENT AND SECRETARY

March 27, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

NAME ----	TITLE -----	DATE ----
/s/ JOHN T. DILLON ----- (John T. Dillon)	Chairman of the Board, Chief Executive Officer and Director	March 27, 2000
/s/ C. WESLEY SMITH* ----- (C. Wesley Smith)	Executive Vice President and Director	March 27, 2000
/s/ PETER I. BIJUR* ----- (Peter I. Bijur)	Director	March 27, 2000
/s/ ROBERT J. EATON* ----- (Robert J. Eaton)	Director	March 27, 2000
/s/ SAMIR G. GIBARA* ----- (Samir G. Gibara)	Director	March 27, 2000
/s/ JAMES R. HENDERSON* ----- (James R. Henderson)	Director	March 27, 2000
/s/ JOHN R. KENNEDY* ----- (John R. Kennedy)	Director	March 27, 2000

NAME -----	TITLE -----	DATE -----
/s/ ROBERT D. KENNEDY* ----- (Robert D. Kennedy)	Director	March 27, 2000
/s/ W. CRAIG MCCLELLAND* ----- (W. Craig McClelland)	Director	March 27, 2000
/s/ DONALD F. MCHENRY* ----- (Donald F. McHenry)	Director	March 27, 2000
/s/ PATRICK F. NOONAN* ----- (Patrick F. Noonan)	Director	March 27, 2000
/s/ JANE C. PFEIFFER* ----- (Jane C. Pfeiffer)	Director	March 27, 2000
/s/ JEREMIAH J. SHEEHAN* ----- Jeremiah J. Sheehan	Director	March 27, 2000
/s/ CHARLES R. SHOEMATE* ----- (Charles R. Shoemate)	Director	March 27, 2000
/s/ JOHN V. FARACI ----- (John V. Faraci)	Senior Vice President and Chief Financial Officer	March 27, 2000
/s/ ANDREW R. LESSIN ----- (Andrew R. Lessin)	Vice President and Controller and Chief Accounting Officer	March 27, 2000

*By:

/s/ JAMES W. GUEDRY

(James W. Guedry)
(ATTORNEY-IN-FACT)

APPENDIX I

1999 LISTING OF FACILITIES

PRINTING AND

COMMUNICATIONS PAPERS

BUSINESS PAPERS, COATED PAPERS, FINE PAPERS AND PULP

DOMESTIC:

Mobile, Alabama

Selma, Alabama

(Riverdale Mill)

Camden, Arkansas

Pine Bluff, Arkansas

Mira Loma, California

(C & D Center)

Augusta, Georgia

Bastrop, Louisiana

(Louisiana Mill)

Springhill, Louisiana

(C & D Center)

Jay, Maine

(Androscoggin Mill)

Millers Falls, Massachusetts

West Springfield,

Massachusetts

Westfield, Massachusetts

(C & D center)

Sturgis, Michigan

(C & D Center)

Moss Point, Mississippi

Corinth, New York

(Hudson River Mill)

Ticonderoga, New York

Riegelwood, North Carolina

Wilmington, North Carolina

(Reclaim Center)

Hamilton, Ohio

Saybrook, Ohio

(C & D Center)

Erie, Pennsylvania

Hazleton, Pennsylvania

(C & D Center)

Lock Haven, Pennsylvania

Eastover, South Carolina

Georgetown, South Carolina

Sumter, South Carolina

(C & D Center)

Texarkana, Texas

Franklin, Virginia

INTERNATIONAL:

Docelles, France

(Lana Mill)

Grenoble, France

(Pont De Claix Mill)

Maresquel, France

Saillat, France

Saint Die, France

(Anould Mill)

Strasbourg, France

(La Robertsau Mill)

Bergisch Gladbach, Germany

(Gorhrsmuhle Mill)

Duren, Germany

(Reflex Mill)

Klucze, Poland

Kwidzyn, Poland

Svetogorsk, Russia

Inverurie, Scotland

CONSUMER AND INDUSTRIAL PACKAGING

INDUSTRIAL PAPERS

DOMESTIC:

Lancaster, Ohio

Knoxville, Tennessee

De Pere, Wisconsin

Kaukauna, Wisconsin

Menasha, Wisconsin

INTERNATIONAL:

Limburg, Netherlands

INDUSTRIAL PACKAGING

CONTAINERBOARD

DOMESTIC:

Prattville, Alabama

Camden, Arkansas

Savannah, Georgia

Terre Haute, Indiana

Mansfield, Louisiana

Pineville, Louisiana

Vicksburg, Mississippi

Oswego, New York

Gardiner, Oregon

Georgetown, South Carolina

INTERNATIONAL:

Arles, France

CORRUGATED CONTAINER

DOMESTIC:

Decatur, Alabama

Mobile, Alabama

Montgomery, Alabama

Conway, Arkansas

Fordyce, Arkansas

Jonesboro, Arkansas

Russellville, Arkansas

Carson, California

Hanford, California

Modesto, California

Stockton, California

Vernon, California

Putnam, Connecticut

Auburndale, Florida

Forest Park, Georgia

Savannah, Georgia

Statesboro, Georgia

Chicago, Illinois

Des Plaines, Illinois

North Lake, Illinois

Fort Wayne, Indiana

Terre Haute, Indiana

Lexington, Kentucky

LaFayette, Louisiana

Shreveport, Louisiana

Springhill, Louisiana

Auburn, Maine

Detroit, Michigan
Kalamazoo, Michigan
Minneapolis, Minnesota
Houston, Mississippi
Jackson, Mississippi
Tupelo, Mississippi
Kansas City, Missouri
West Deptford, New Jersey
Geneva, New York
Charlotte, North Carolina
King's Mountain,
North Carolina
Statesville, North Carolina
Cincinnati, Ohio
Cleveland, Ohio
Wooster, Ohio

A-1

Eighty Four, Pennsylvania
Mount Carmel, Pennsylvania
Lancaster, Pennsylvania
Georgetown, South Carolina
Spartanburg, South Carolina
Columbia, Tennessee
Nashville, Tennessee
Morristown, Tennessee
Dallas, Texas
Edinburg, Texas
El Paso, Texas
Ft. Worth, Texas
San Antonio, Texas
Richmond, Virginia
Cedarburg, Wisconsin
Fond du Lac, Wisconsin

EMERGING MARKETS

Ranagua, Chile
Bayamon, Puerto Rico

INTERNATIONAL:

Las Palmas, Canary Islands

(2 locations)

Tenerife, Canary Islands
Arles, France
Chalon-sur-Saone, France
Chantilly, France
Creil, France
LePuy, France
Mortagne, France
Guadeloupe,

French West Indies

Asbourne, Ireland

Bellusco, Italy

Catania, Italy

Pedemonte, Italy

Pomezia, Italy

San Felice, Italy

Alcala, Spain

Almeria, Spain

Barcelona, Spain

Bilbao, Spain

Valencia, Spain

Valladolid, Spain

Thrapston, United Kingdom

Winsford, United Kingdom

KRAFT PAPER

Mobile, Alabama

Camden, Arkansas

Savannah, Georgia

Moss Point, Mississippi

CONSUMER PACKAGING

BLEACHED BOARD

Pine Bluff, Arkansas

Augusta, Georgia

Moss Point, Mississippi

Georgetown, South Carolina

Riegelwood, North Carolina

Texarkana, Texas

BEVERAGE PACKAGING

Turlock, California

Plant City, Florida

Cedar Rapids, Iowa

Kansas City, Kansas

Framingham, Massachusetts

Kalamazoo, Michigan

Raleigh, North Carolina

Philadelphia, Pennsylvania

Prosperity, South Carolina

INTERNATIONAL:

Edmonton, Alberta, Canada

London, Ontario, Canada

Longueuil, Quebec, Canada

St. Priest, France

Perugia, Italy

St. Catherine, Jamaica

Taipei, Taiwan

RETAIL PACKAGING

Mobile, Alabama

La Grange, Georgia

Thomaston, Georgia

Clinton, Iowa

Clifton, New Jersey

Englewood, New Jersey

Moonachie, New Jersey

Hendersonville, North Carolina

Wilmington, North Carolina

Cincinnati, Ohio

Richmond, Virginia

FOODSERVICE

Visalia, California

Shelbyville, Illinois

Hopkinsville, Kentucky

Kenton, Ohio

Jackson, Tennessee

FLEXIBLE PACKAGING

DOMESTIC:

Monticello, Arkansas

Hanford, California

Griffin, Georgia

Tifton, Georgia

Seymour, Indiana

Sibley, Iowa

St. Louis, Missouri

Hazleton, Pennsylvania

Spartanburg, South Carolina

Tomah, Wisconsin

INTERNATIONAL:

Bolsaflex

Buenos Aires, Argentina

DISTRIBUTION

WHOLESALE AND RETAIL

DISTRIBUTION

(305 distribution branches)

XPEDX

DOMESTIC:

Stores Group

Chicago, Illinois

174 locations nationwide

Southeast Region

Greensboro, North Carolina

27 branches in the
Middle Atlantic States
and Southeast
West Region
Denver, Colorado
22 branches in the
West and Midwest
Specialty Business Group
Erlanger, Kentucky
3 branches nationwide
Central Region
Erlanger, Kentucky
12 branches in Midwest
Northeast Region
East Grandy, Connecticut
21 branches in New England
and Middle Atlantic States
Midwest Region
Olathe, Kansas
25 branches in the West,
Midwest and South

A-2

INTERNATIONAL:

Aussedat Rey France

Distribution S.A.,
Pantin, France

3 locations

Chihuahua, Mexico

6 locations

Recom Papers

Nijmegen, Netherlands

Scaldia Papier BV,

Nijmegen, Netherlands

Aalbers Paper Products

Veenendaal, Netherlands

Impap

Warsaw, Poland

9 locations

CHEMICALS AND PETROLEUM

CHEMICALS

DOMESTIC:

Panama City, Florida

Pensacola, Florida

Port St. Joe, Florida

Oakdale, Louisiana

Savannah, Georgia

Valdosta, Georgia

Picayune, Mississippi

Dover, Ohio

INTERNATIONAL:

Oulu, Finland

Valkeakoski, Finland

Niort, France

Sandarne, Sweden

Greaker, Norway

Chester-Le-Street,
United Kingdom

Bedlington, United Kingdom

BUSH BOAKE ALLEN INC.

DOMESTIC:

Jacksonville, Florida

Chicago, Illinois

Norwood, New Jersey

Carrollton, Texas

INTERNATIONAL:

Buenos Aires, Argentina

Melbourne, Australia

Sydney, Australia

Montreal, Canada

Madras, India

Atlacomulco, Mexico

Auckland, New Zealand

Manila, Philippines

Jurong, Singapore

Johannesburg, South Africa

Knislinge, Sweden

Istanbul, Turkey

London, United Kingdom

Long Melford, United Kingdom

Widnes, United Kingdom

Witham, United Kingdom

CHEMICAL CELLULOSE PULP

Natchez, Mississippi

PETROLEUM

Alvin, Texas

Midland, Texas

FORESTLANDS

FOREST RESOURCES

Approximately 7.1 million

acres in the South

and Northeast

REALTY PROJECTS

Haig Point Plantation

Daufuskie Island,
South Carolina

BUILDING MATERIALS

WOOD PRODUCTS

Chapman, Alabama

Maplesville, Alabama

Opelika, Alabama

Thorsby, Alabama

Tuscaloosa, Alabama

Gurdon, Arkansas

Leola, Arkansas

Whelen Springs, Arkansas

Augusta, Georgia

Cordele, Georgia

Meldrim, Georgia

Folkston, Georgia

Washington, Georgia

Springhill, Louisiana

Morton, Mississippi

Wiggins, Mississippi

Joplin, Missouri

Madison, New Hampshire

Armour, North Carolina

Seaboard, North Carolina

Johnston, South Carolina

Newberry, South Carolina

Sampit, South Carolina

Henderson, Texas

Jefferson, Texas

Nacogdoches, Texas

New Boston, Texas

Slaughter

Dallas, Texas

2 branches in the

Southwest and

Northwest

Franklin, Virginia

DECORATIVE PRODUCTS

Particleboard

Franklin, Virginia

Stuart, Virginia

Waverly, Virginia

SPECIALTY PANELS

DOMESTIC:

Chino, California

Glasgow, Kentucky

Odenton, Maryland

Statesville, North Carolina

Tarboro, North Carolina

Hampton, South Carolina

Memphis, Tennessee

Oshkosh, Wisconsin

INTERNATIONAL:

Bergerac, France

(Couze mill)

Ussel, France

Barcelona, Spain

(Durion mill)

MASONITE

DOMESTIC:

Ukiah, California

Lisbon Falls, Maine

Laurel, Mississippi

Pilot Rock, Oregon

Towanda, Pennsylvania

Danville, Virginia

INTERNATIONAL:

Carrick-on-Shannon, Ireland

Masonite Africa Limited

Estcourt Plant

Kunpo-shi, Korea

A-3

CARTER HOLT HARVEY

FORESTLANDS

Approximately 785,000

acres in New Zealand

WOOD PRODUCTS

Sawmills and Processing Plants

Box Hill, Victoria, Australia

Mt. Burr, South Australia

Mt. Gambier, South Australia

Myrtleford, New South

Wales, Australia

Kopu, New Zealand

Nelson, New Zealand

Putaruru, New Zealand

Rotorua, New Zealand

Taupo, New Zealand

Tokoroa, New Zealand

Timber Merchants

Box Hill, Victoria, Australia

Hamilton Central,

Queensland, Australia

Sydney, New South Wales,

Australia

Plywood Mills

Myrtleford, New South

Wales, Australia

Nangwarry, South Australia

Tokoroa, New Zealand

Panel Production Plants

Auckland, New Zealand

Christchurch, New Zealand

Rangiora, New Zealand

Thames, New Zealand

Building Supplies Retail Outlets

Retail Outlets, 37 branches

in New Zealand

PULP AND PAPER

Kraft Paper, Pulp, Coated and

Uncoated Papers and Bristols

Kinleith, New Zealand

Mataura, New Zealand

Cartonboard

Whakatane, New Zealand

Containerboard

Kinleith, New Zealand

Penrose, New Zealand

Fiber Recycling Operations

Auckland, New Zealand

TISSUE

Pulp and Tissue

Box Hill, Victoria, Australia

Kawerau, New Zealand

Conversion Sites

Box Hill, Victoria, Australia

Keon Park, Victoria, Australia

Clayton, Victoria, Australia

Suva, Fiji

Auckland, New Zealand

(2 plants)

Te Rapa, New Zealand

PACKAGING

Case Manufacturing

Northern (Auckland,

New Zealand)

Central (Levin,
New Zealand)

Southern (Christchurch,

New Zealand)

Solid Fibre (Hamilton,

New Zealand)

Suva, Fiji

Carton Manufacturing

Crestmead, Queensland,

Australia

Dandenong, Victoria,

Australia

Reservoir, Victoria,

Australia

Smithfield, New South

Wales, Australia

Woodville, Australia

Auckland, New Zealand

Christchurch, New Zealand

Corrugated Manufacturing

Sydney, Australia

Melbourne, Australia

Paper Bag Manufacturing

Auckland, New Zealand

Paper Cups

Brisbane, Australia

Plastic Packaging

Sydney, Australia

Santiago, Chile

Albany, New Zealand

Hamilton, New Zealand

Hastings, New Zealand

Wellington, New Zealand

DISTRIBUTION

Paper Merchant

Warehousing and

Distribution Centers,

Australia, 3 locations

New Zealand, 14 locations

A-4

Exhibit 10.8

INTERNATIONAL PAPER COMPANY NON-QUALIFIED STOCK OPTION AGREEMENT

This Stock Option Agreement (such Agreement, together with all documents incorporated herein by reference, hereinafter referred to as the "Agreement") is made between International Paper Company, a New York corporation (the "Company"), and the "Optionee" signing below in connection with the employment of the Optionee and subject to provisions of the International Paper Company Long-Term Incentive Compensation Plan (the "Plan"), the Notice of Grant of Stock Option or Notice of Replacement Grant of Stock Option given from time to time upon each grant or replacement grant of an option (a "Grant Notice") and the Confidentiality and Non-Competition Agreement between the Company and the Optionee, if signed by the Optionee (the "CNC Agreement"). Terms and provisions of the Plan, each Grant Notice and the CNC Agreement, if signed by the Optionee, are incorporated by reference herein. Pursuant to the provisions of the Plan and by direction of the Committee of the Board of Directors which is authorized to administer the Plan (the "Committee"), it is hereby agreed between the parties as follows:

1. Grants of Options

Subject to the provisions of the Agreement, the Company has and may in the future grant to Optionee options: (a) to purchase the number of shares of common stock (par value \$1.00) of the Company which is set forth in the Grant Notice, (b) at a purchase price which is set forth in the Grant Notice (which option price has been determined by the Committee to be not less than the fair market price of such shares at the time the option is granted), and (c) for an exercise period ending on the date which is set forth in the Grant Notice.

2. Compliance with Laws and Regulations

It is the intention of the parties that the options shall satisfy the provisions of SEC Rule 16b-3 relating to transactions occurring under qualified employee benefit plans. For federal income tax purposes options issued under this Agreement are Non-Qualified Stock Options which do not come within the scope of sections 421-424 of the Internal Revenue Code (relating to Incentive Stock Options).

3. Termination of an Option

Any unexercised portion of an option shall terminate, and shall not be exercisable, on and after the first to occur of the following dates:

(a) The date the option ends, which is set forth in the Grant Notice for a particular option;

(b) The date the Optionee ceases to be an employee of the Company (or a subsidiary corporation of the Company, or a corporation or any subsidiary corporation of such corporation issuing or assuming a stock option in a transaction to which Internal Revenue Code section 424(a) applies), unless the termination of employment results from disability, retirement (as defined in section 6 below), or death (as provided in paragraphs 5, 6, or 7 below), or unless the Committee determines otherwise pursuant to section 2 of the Plan.

4. Exercise of Options

An option shall become exercisable as set forth below, and thereafter may be exercised at any time, and from time to time, in whole or in part, until the termination of the option as provided in the Grant Notice and in sections 1, 3, or 9 of this Agreement and provided that:

(a) An option is not transferable or assignable by the Optionee otherwise than by will or the laws of descent and distribution, and during the lifetime of the Optionee is exercisable only by the Optionee or the Optionee's guardian or legal representative.

(b) Any option shall in no event be exercisable after the date the particular option ends, which is set forth in the Grant Notice.

(c) The Optionee has continuously been an employee of the Company (or a subsidiary corporation) since the date an option was granted (except as provided in sections 5, 6, or 7 below in the event of disability, retirement, or death).

(d) In the event an option is exercised within two years after the date the option was granted (as set forth in the Grant Notice), then the Company shall have the right (but not an obligation) until that date to repurchase from Optionee, at the purchase price which is set forth in the Grant Notice, the shares which are registered in the name of the Optionee upon such exercise of the option. The certificate evidencing such shares shall contain an endorsement setting forth this restriction, and possession of the certificate shall be retained by the Company until the restriction expires or terminates. This restriction shall lapse upon a "change of control of the Company" (as defined below), or upon Optionee's retirement (as defined in section 6 below), permanent disability (as defined in section 5 below), or death. For purposes of this Agreement, the term "change of control of the Company" shall mean a change in control of a nature that would be required to be reported in response to Item 6 (e) of Schedule 14a of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that without limitation, such a change of control shall be deemed to have occurred if (i) any "person" as such term is used in section 13(d) and 14(d) (2) of the Exchange Act (other than employee benefit plans sponsored by the Company) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company, cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election, by the Company's shareholders of each new director was approved by a vote of at least two-thirds of the directors still in office who were directors at the beginning of the period.

(e) An option shall in no event be exercisable if the issuance of the shares upon such exercise would constitute a violation of any applicable federal or state securities statutes or other law or valid governmental regulation.

(f) A copy of this Agreement has been signed by the Optionee and is on file in the Executive Compensation office of the Company.

(g) A copy of the CNC Agreement has been signed by the Optionee, if requested to do so by the Company, and is on file in the Executive Compensation office of the Company.

(h) This option shall be exercisable by completion by the Optionee of an exercise form furnished by the Company which shall:

(i) be fully completed and signed by the person entitled to exercise the option and, if the option is being exercised by any person other than the Optionee, be accompanied by proof, satisfactory to counsel for the Company, of the right of such person to exercise the option; and

(ii) be for multiples of 25 shares, or for the entire outstanding portion of a particular option; and

(iii) be delivered in person or by mail to:

International Paper Company Two Manhattanville Road Purchase, New York 10577 Attention: Executive Compensation

(i) Payment of the purchase price for any shares with respect to which an option is being exercised shall be by certified or bank check or other cash equivalent (or, in the sole discretion of the Committee, in shares of Company stock so long as the stock has been held by the Optionee for six months).

(j) An option shall not be exercisable as an "incentive stock option" pursuant to the provisions of section 422 of the Internal Revenue Code.

5. Disability of Optionee

In the event the Optionee becomes "totally disabled", the Optionee may exercise an option for up to one year of the remaining term of an option (measured from the date of such total disability). For purposes of this paragraph, the term "totally disabled" means the condition of total disability as defined in the Company's long-term disability plan.

6. Retirement of Optionee

In the event of termination of employment because of retirement under a Company pension plan on or after attaining age 61 with 20 years service, 62 with 10 years service or 65 with 5 years service, the Optionee may exercise an option within its remaining term.

7. Death of Optionee

In the event of the death of the Optionee, an option may be exercised for up to one year of its remaining term (measured from the date of the Optionee's death) by the beneficiary or beneficiaries so designated (or if no beneficiary has been designated or survives the Optionee, by the person or persons who have acquired the rights of the Optionee by will or under the laws of descent and distribution).

8. Information for Company Tax Returns

Optionee (or his or her estate or beneficiary) shall promptly provide all information related to an option, or disposition of stock acquired under an option, which is requested by the Company for its tax returns.

9. Other Terms and Conditions of Options

(a) In the event of any stock dividend, split-up, reclassification or other analogous change in capitalization or any distribution (other than regular cash dividends) to holders of the Company's common stock, the Committee shall make such adjustments, if any, as in its sole discretion it deems equitable in the number of shares covered by any outstanding portions of options granted hereunder.

(b) Prior to the exercise of an option and delivery of the stock represented thereby, Optionee shall have no rights to any dividends nor be entitled to any voting rights on any stock represented by that option.

(c) Optionee acknowledges receipt of a copy of the Plan, and represents that Optionee is familiar with the terms and provisions of the Plan, and will accept all options subject to all the terms and provisions thereof. Optionee hereby agrees to accept as binding, conclusive and final all decisions which are made by the Committee with respect to interpretations of the terms of the Plan or any option and with respect to any questions or disputes arising under the Plan or any option.

(d) Optionee authorizes the Company to withhold from the shares deliverable upon exercise of a particular option, or from any compensation otherwise payable to Optionee, the amount of any taxes which are required to be withheld by federal, state or local law as a result of the exercise of that option.

(e) All of the terms and conditions of this Agreement shall be binding upon any surviving spouse, beneficiary, executor, administrator, heirs, successors or assigns of Optionee.

This Agreement has been signed by each of the following parties as of the date set out below:

International Paper Company:

Dated: _____

By _____
(Senior Vice President - Human Resources)

SSN: _____

Optionee: _____
(Print Name)

By: _____

(Optionee's Signature)

**INTERNATIONAL PAPER COMPANY
NOTICE OF GRANT OF STOCK OPTION**

XXXXXXXXXX
XXX-XX-XXXX

You, (the "Optionee"), have been granted an Option under the International Paper Company Long-Term Incentive Compensation Plan, subject to your Non-Qualified Stock Option Agreement (the "Agreement"), to buy International Paper Company common stock as follows:

Non-Qualified Stock Option Grant	XXXXX
Date of Stock Option Grant	XX/XX/XXXX
Option Price Per Share	\$XXXXXXX
Total Number of Shares	\$XXXXXXX
Total Purchase Price of Shares	\$XXXXXXX

If this Option is exercised prior to vesting on XX/XX/XXXX, then the Company buy-back provisions described under section 4(d) of the Agreement shall be applicable.

The final termination and expiration date of this Option is XX/XX/XXXX. The Option may terminate at an earlier date as described under sections 3, 5, 6 or 7 of the Agreement.

(Original 2000 Stock Option Grant)

**INTERNATIONAL PAPER COMPANY
NOTICE OF REPLACEMENT GRANT OF STOCK OPTION**

David A. Bailey
541-50-4499

You, (the "Optionee"), have been granted a Replacement Option, subject to your previously signed Non- Qualified Stock Option Agreement (the "Agreement"), to buy International Paper Company common stock as follows:

Non-Qualified Replacement Stock Option Grant	RXXXXX
Date of Replacement Grant	XX/XX/XXXX
Option Price Per Share	\$XXXXXXXX
Total Number of Shares	\$XXXXXXXX
Total Purchase Price of Shares	\$XXXXXXXX

The date of grant of the original option was XX/XX/XXXX. If this Replacement Option is exercised prior to vesting on XX/XX/XXXX, then the Company buy-back provisions described under section 4(d) of the Agreement shall be applicable.

The final termination and expiration date of this Replacement Option is XX/XX/XXXX. The Option may terminate at an earlier date as described under sections 3, 5, 6 or 7 of the Agreement.

(Replacement for XXXX Stock Option Grant)

Exhibit 10.9

**INTERNATIONAL PAPER COMPANY
LONG-TERM INCENTIVE COMPENSATION PLAN
EXECUTIVE CONTINUITY AWARD
RESTRICTED STOCK AGREEMENT**

The International Paper Company Long-Term Incentive Compensation Plan (the "Plan") provides in Section 16 that the Committee of the Board which administers the Plan (the "Committee") may authorize an Executive Continuity Award consisting of a tandem grant of Restricted Shares of common stock of International Paper Company (the "Company"), together with a related Non-Qualified Stock Option under the terms of the Plan. The terms and provisions of the Plan are incorporated by reference herein. In connection with the employment of PARTICIPANT NAME (the "Executive") and pursuant to the provisions of the Plan and by direction of the Committee of the Board of Directors which is authorized to administer the Plan, the following agreement is made on DATE OF AWARD, between the Company and the Executive:

1. SHARE

The term "Share" or "Stock" as used in this Restricted Stock Agreement shall mean a share of common stock of \$1.00 par value of International Paper Company.

2. COMPLIANCE WITH LAW AND REGULATIONS

It is the intention of the parties that this Restricted Stock Agreement, and any securities issued pursuant to this Agreement, shall comply with all provisions of federal and applicable state securities laws.

3. AWARD OF RESTRICTED SHARES

(a) Subject to the provisions of the Plan and this Restricted Stock Agreement, the Company hereby awards and authorizes the issuance to Executive of XX,XXX Restricted Shares. Such Shares shall be issued with the restriction that the Executive may not sell, transfer, pledge, or assign such Shares until the Shares are earned and the restrictions are removed as described below, and shall be subject to forfeiture and cancellation pursuant to the provisions of the Plan and this Agreement.

(b) Exercise of the related tandem Executive Continuity Award Stock Option Agreement between the parties dated DATE OF AWARD, will result in cancellation and forfeiture of Restricted Shares awarded to Executive under the Restricted Stock Agreement at the ratio of: one share of Restricted Stock (plus all shares of Restricted Stock purchased with reinvested dividends paid on such Shares) for each five Option Shares purchased upon exercise of the Executive Continuity Award Stock Option.

(c) All dividends paid on Restricted Shares shall be reinvested in additional Restricted Shares (which shall be subject to being earned by the Executive on the same basis as the original Shares).

(d) The number of Shares determined by the Committee to have been earned by Executive under the Plan and this Restricted Stock Agreement shall be final, conclusive and binding upon all parties, including the Company, the shareowners and the Executive.

4. METHOD OF EARNING EXECUTIVE CONTINUITY AWARD SHARES AND REMOVAL OF RESTRICTIONS

(a) Upon Executive's attainment of age AGE (on SNAP SHOT DATE) while employed by the Company, (or death or the Executive's becoming disabled as such condition is determined in the sole discretion of the Committee, if earlier) or upon a change of control of the Company (as defined in subsection (b) below), the restrictions on the Executive Continuity Award will be removed, and the award will vest in the following manner:

(i) If the current realizable gain on the Executive's related tandem Executive Continuity Award Stock Option dated DATE OF AWARD, is greater than the current market value of the related Restricted Shares awarded under this Restricted Stock Agreement (including Restricted Shares purchased with reinvested dividends), then all such Restricted Shares shall be cancelled and forfeited (and the Stock Option shall continue in effect as provided in the Stock Option Agreement).

(ii) If the current market value of the Restricted Shares awarded under this Restricted Stock Agreement (including Restricted Shares purchased with reinvested dividends) is greater than the current realizable gain on the related tandem Stock Option, then the option shall be cancelled and the restrictions shall be removed from all of the Restricted Shares under this Agreement.

If Executive ceases to be an active employee of the Company prior to age AGE for any reason other than death or disability as described above, all of the Restricted Shares under this Agreement shall be cancelled and forfeited unless the Committee determines otherwise pursuant to Section 2 of the Plan.

(b) For purposes of this Agreement, the term "change of control of the Company" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that, without limitation, such a change in control shall be deemed to have occurred if (i) any "person" as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act (other than employee benefits plans sponsored by the Company) is or becomes the beneficial owner, directly or indirectly, of securities of the Company

representing 20% or more of the combined voting power of the Company's then outstanding securities, or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company, cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by the Company's shareowners of each new director was approved by a vote of at least two-thirds of the directors still in office who were directors at the beginning of the period, except that a change of control for purpose of this Agreement shall not include a transaction initiated by management such as a management led buyout or recapitalization except where such transaction (1) is in response to the acquisition of 10% or more of the Company's stock or the announcement of a tender offer for 20% or more of the Company's stock (other than by employee benefit plans sponsored by the Company); or (ii) is approved by the Board in accordance with the standards set forth in Section 717 of the New York Business Corporation Law or any successor provision.

5. DESIGNATION OF BENEFICIARY

The Executive may file with the Committee a designation of a beneficiary or beneficiaries on a form approved by the Committee, which designation may be changed or revoked by the Executive's sole action, provided that the change or revocation is filed with the Committee on a form approved by it. In case of the death of the Executive, before termination of employment or after retirement or disability, any portions of the Executive's award to which the Executive's designated beneficiary or estate is entitled under the Plan and this Restricted Stock Agreement, shall be paid to the beneficiary or beneficiaries so designated or, if no beneficiary has been designated or survives the Executive, shall be delivered as directed by the executor or administrator of the Executive's estate.

6. NON-TRANSFERABILITY OF AWARDS AND SHARES

No award or Share under this Plan, and no rights or interest therein, shall be assignable or transferable by the Executive, except at death by will or by the laws of descent and distribution.

7. CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

Attached to this Award Agreement and incorporated herein by this reference is a copy of the Confidentiality and Non-Competition Agreement entered into between the Company and the Executive. In the event either (1) the Executive has not yet signed a Confidentiality and Non-Competition Agreement, or (2) the form of the Confidentiality and Non-Competition Agreement has been updated since the date of the most recent Confidentiality and Non-Competition Agreement signed by the Executive, then a blank form has been attached to be signed by the Executive and the Company and incorporated into this Award Agreement.

8. OTHER TERMS AND CONDITIONS

(a) Executive (or his or her estate or beneficiary) shall promptly provide all information related to this Restricted Stock Agreement which is requested by the Company for its tax returns.

(b) Executive acknowledges receipt of a copy of the Plan, and represents that Executive is familiar with the terms and provisions of the Plan, and hereby accepts the Restricted Shares awarded under this Restricted Stock Agreement subject to all the terms and provisions of the Plan and this Agreement. Executive hereby agrees to accept as binding, conclusive and final all decisions which are made by the Committee with respect to interpretations of the terms of the Plan or this Agreement and with respect to any questions or disputes arising under the Plan or this Agreement.

(c) All of the terms and conditions of the Plan and this Restricted Stock Agreement shall be binding upon any surviving spouse, beneficiary, executor, administrator, heirs, successors or assigns of Executive.

(d) Participation in the Plan, and execution of this Restricted Stock Agreement, shall not give the Executive any right to a subsequent award, nor any right to continued employment by the Company for any period, nor shall the granting of an award or execution of this Agreement give the Company any right to continued services of the Executive for any period.

(e) All Restricted Shares awarded under this Restricted Stock Agreement, and purchased with reinvested dividends, will be uncertificated shares with notations describing the applicable restrictions of the Plan and this Agreement, and no stock certificates will be issued by the Company or its designated custodian until the restrictions are removed and, then, only at the request of the Executive.

IN WITNESS WHEREOF, the parties hereby execute this Executive Continuity Award Restricted Stock Agreement, effective as of DATE OF AWARD.

INTERNATIONAL PAPER COMPANY

By: _____
Title: Senior Vice President-Human Resources
Signature of Executive: _____
Address: _____
Social Security Number: _____

**INTERNATIONAL PAPER COMPANY
LONG-TERM INCENTIVE COMPENSATION PLAN
EXECUTIVE CONTINUITY AWARD
NON-QUALIFIED STOCK OPTION AGREEMENT**

This agreement is made effective DATE OF AWARD, between International Paper Company, a New York Corporation (the "Company") and PARTICIPANT NAME (the "Executive") in connection with the employment of Executive and pursuant to the provisions of the International Paper Company Long-Term Incentive Compensation Plan (the "Plan"). The terms and provisions of the Plan are incorporated by reference herein.

Pursuant to the provisions of the Plan and by direction of the Committee of the Board of Directors which is authorized to administer the Plan (the "Committee"), it is hereby agreed between the parties as follows:

1. GRANT OF OPTION

Subject to the provisions of the Plan and this Agreement, the Company hereby grants to Executive an option to purchase XX,XXX shares of common stock (par value \$1.00) of the Company at a purchase price of \$xx.xxxx per share (which option price has been determined by the Committee to be not less than the fair market value of such stock at the time this option is granted).

2. COMPLIANCE WITH LAWS AND REGULATIONS

It is the intention of the parties that this option shall satisfy the provisions of SEC Rule 16b-3 relating to transactions occurring under employee benefit plans. For federal income tax purposes this is a Non-Qualified Stock Option which does not come within the scope of Sections 421-425 of the Internal Revenue Code (relating to Qualified, Incentive and Restricted Stock Options).

3. TERMINATION OF OPTION

Any unexercised portion of this option shall terminate, and shall not be exercisable, on and after attaining age AGE (TERMINATE DATE) provided, however, that this option shall terminate immediately if Executive ceases to be an employee of the Company prior to attaining age AGE (VESTING DATE) (except as provided in Sections 5 or 6 below in the event of disability or death, or unless the Committee determines otherwise pursuant to Section 2 of the Plan).

4. EXERCISE OF OPTION

This option may be exercised at any time, and from time to time, in whole or in part, until the termination of the option as provided in Sections 3 or 8 of this Agreement; provided however that:

(a) The Executive has continuously been an employee of the Company (or a subsidiary corporation) since the date the option was granted (except as provided in Sections 5 or 6 below in the event of disability or death).

(b) This option shall in no event be exercisable after the latest date set forth in Section 3 above.

(c) This option is not transferable or assignable by the Executive otherwise than by will or the laws of descent and distribution, and during the lifetime of the Executive is exercisable only by the Executive.

(d) This option shall in no event be exercisable if the issuance of the shares upon such exercise would constitute a violation of any applicable federal or state securities statutes or other law or valid governmental regulation.

(e) In the event this option is exercised prior to VESTING DATE, then the Company shall have the right (but not an obligation) to repurchase from Executive, at the purchase price which is set forth in Section 1 of this Agreement, the shares which are registered in the name of the Executive upon such exercise of this option. Such shares shall be uncertificated and contain a notation setting forth this restriction, and no certificate shall be issued by the Company until the restriction expires or terminates and, then, only at the request of the Executive. This restriction shall lapse upon a "change of control of the Company" (as defined below), or upon Executive's retirement after age AGE, permanent disability (as defined in Section 5 below), or death. For purposes of this Agreement, the term "change of control of the Company" shall mean a change of control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14a of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that, without limitation, such a change of control shall be deemed to have occurred if

(i) any "person" as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act (other than employee benefit plans sponsored by the Company) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company, cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by the Company's share owners of each new director was approved by a vote of at least two-thirds of the directors still in office who were directors at the beginning of the period, except that a change of control

for purpose of this Stock Option Agreement shall not include a transaction initiated by management (such as a management led buyout or recapitalization) except where such transaction: (1) is in response to the acquisition of 10% or more of the Company's stock or to the announcement of a tender offer for 20% or more of the Company's stock (other than by employee benefit plans sponsored by the Company); or (ii) is approved by the Board of Directors of the Company in accordance with the standards set forth in Section 717 of the New York Business Corporation Law or any successor provision.

(f) This option shall be exercisable by written notice which shall:

(i) be delivered in person or by certified mail to:

International Paper Company Two Manhattanville Road Purchase, New York 10577 Attention: Executive Compensation

(ii) state the election to exercise the option, the number of shares as to which it is being exercised, and the name, address and Social Security number of the person in whose name the stock is to be registered;

(iii) be signed by the person entitled to exercise the option and, if the option is being exercised by any person other than the Executive, be accompanied by proof, satisfactory to counsel for the Company, of the right of such person to exercise the option; and

(iv) be for multiples of 100 shares, or for the entire outstanding portion of this option.

(g) Payment of the purchase price for any shares with respect to which the option is being exercised shall be by certified or bank check or other cash equivalent (or, in the sole discretion of the Committee, in stock of the Company owned by the Executive including Performance Share Stock awarded under the Plan).

(h) This option shall not be exercisable as an "incentive stock option" pursuant to the provisions of Section 422 of the Internal Revenue Code.

5. DISABILITY OF EXECUTIVE

In the event the Executive becomes disabled (as such condition is determined in the sole discretion of the Committee) prior to age AGE, this option may be exercised for up to one year after the date of such disability by the Executive, or by the person or persons who have acquired the rights of the Executive by will or under the laws of descent and distribution.

6. DEATH OF EXECUTIVE

In the event of death of the Executive prior to age AGE, this option may be exercised for up to one year after the Executive's death by the beneficiary or beneficiaries so designated, or if no beneficiary has been designated or survives the Executive, by the person or persons who have acquired the rights of the Executive by will or under the laws of descent and distribution.

7. INFORMATION FOR COMPANY TAX RETURNS

Executive (or his or her estate or beneficiary) shall promptly provide all information related to this stock option, or disposition of stock acquired under this option, which is requested by the Company for its tax returns.

8. CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

Attached to this Award Agreement and incorporated herein by this reference is a copy of the Confidentiality and Non-Competition Agreement entered into between the Company and the Participant. In the event either (1) the Participant has not yet signed a Confidentiality and Non-Competition Agreement, or (2) the form of Confidentiality and Non-Competition Agreement has been updated since the date of the most recent Confidentiality and Non-Competition Agreement signed by the Participant, then a blank form has been attached to be signed by the Participant and the Company and incorporated into this Award Agreement.

9. OTHER TERMS AND CONDITIONS OF OPTION

(a) In the event of any stock dividend, split-up, reclassification or other analogous change in capitalization or any distribution (other than regular cash dividends) to holders of the Company's common stock, the Committee shall make such adjustments, if any, as in its sole discretion it deems equitable in the number of shares covered by any outstanding portion of this option.

(b) Prior to the exercise of this option and delivery of the stock represented thereby, Executive shall have no rights to any dividends nor be entitled to any voting rights on any stock represented by this option.

(c) Executive acknowledges receipt of a copy of the Plan, and represents that Executive is familiar with the terms and provisions of the Plan, and hereby accepts this option subject to all the terms and provisions thereof. Executive hereby agrees to accept as binding, conclusive and final all decisions which are made by the Committee with respect to interpretation of the terms of the Plan or this option and with respect to any questions or disputes arising under the Plan or this option.

(d) Executive authorizes the Company to withhold from the shares deliverable upon exercise of this option, or from any compensation otherwise payable to Executive, the amount of any taxes which are required to be withheld by federal, state or local law as a result of the exercise of this option.

(e) All of the terms and conditions of the Plan and this option shall be binding upon any surviving spouse, beneficiary, executor, administrator, heirs, successors or assigns of Executive.

(f) At any time prior to exercise, this option shall be subject to being terminated by the Committee, in the Committee's sole discretion, if the Executive shall have been found by the Committee (i) to be in breach of any agreement between the Company and the Executive concerning confidentiality or non-competition with the Company, (ii) to have engaged in any action inimical to the interests of the Company, or engaged in any acts of dishonesty or other serious misconduct in connection with the Executive's employment by the Company or a subsidiary.

IN WITNESS WHEREOF, the parties hereby execute this Stock Option Agreement, effective as of DATE OF AWARD.

INTERNATIONAL PAPER COMPANY

By: _____
Title: Senior Vice President-Human Resources
Signature of Executive: _____
Address: _____
Social Security Number: _____

Exhibit 10.10(a)

Date

Mr.
Chairman & Chief Executive Officer
International Paper Company
Two Manhattanville Road
Purchase, New York 10577

Dear:

International Paper Company (the "Company") considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of the Company and its shareholders. In this connection, the Company recognized that, as is the case with many publicly held corporations, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among senior management, may result in the departure or distraction of senior management personnel to the detriment of the Company and its shareholders. Accordingly, the Company's Board of Directors has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's senior management, including yourself, to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company.

In order to induce you to remain in the employ of the Company, and to continue to exercise your special skills and knowledge at the Company, this letter agreement sets forth the benefits which the Company agrees will be provided to you in the event of a "change in control of the Company" (as defined in Section 2 hereof) under the circumstances described as follows.

1. TERM. This Agreement shall commence on the date hereof and unless there is a "change in control of the Company" (as defined in Section 2 hereof), shall continue until the earlier of your termination of employment as a "full-time employee" of the Company or the date you attain the age of 65 years, or the date this Agreement is terminated by the Company in accordance with the next sentence. If a change in control of the Company has not occurred, the Company shall have the right at any time to terminate this Agreement by giving you twelve months prior written notice of termination of this Agreement. If a "change in control of the Company" occurs at any time prior to the actual

termination of this Agreement, then this Agreement shall terminate on the earlier of three (3) years following such "change in control" or the date you attain the age of 65 years.

2. CHANGE IN CONTROL. For purposes of this Agreement, a "change in control of the Company" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that, without limitation such a change in control shall be deemed to have occurred if (a) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act, other than employee benefit plans sponsored by the Company) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, or (b) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company (the "Board") cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by the Company's shareholders of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

3. TERMINATION OF EMPLOYMENT FOLLOWING A CHANGE IN CONTROL. If a change in control of the Company shall have occurred and your employment is subsequently terminated by you or by the Company, you shall be entitled to the benefits provided in Section 4 hereof for the respective reasons for termination set forth therein. Such reasons are defined as follows:

(A) DISABILITY. Termination by the Company or you of your employment based on "Disability" shall mean termination in accordance with the Company's long-term disability policy generally applicable to its salaried employees or in accordance with any long-term disability arrangement established with your consent with respect to you.

(B) RETIREMENT. Termination by the Company or you of your employment based on "Retirement" shall mean termination on or after age 65 in accordance with the Company's retirement policy generally applicable to its salaried employees or in accordance with any retirement arrangement established with your consent with respect to you.

(C) CAUSE. The Company may terminate your employment for Cause. For the purposes of this Agreement, the Company shall have "Cause" to terminate your employment hereunder upon (i) the willful and continued failure by you to substantially perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness), after a demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties, or (ii) the willful engaging by you in gross misconduct materially and demonstrably injurious to the Company, including, but not limited to, your conviction or guilty plea for any felony crime. For purposes of this paragraph, no act, or failure to act, on your part shall be considered

"willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company or, in the alternative, unless your act or failure to act has resulted in your conviction or guilty plea for any felony crime. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of three-quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in clauses (i) or (ii) of this paragraph and specifying the particulars thereof in detail.

(D) VOLUNTARY TERMINATION. You may terminate employment at any time within a period of eighteen (18) months following a change in control of the Company.

(E) NOTICE OF TERMINATION. Any termination by the Company pursuant to subparagraphs (A), (B) or (C) above or by you pursuant to subparagraph (D) above shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(F) DATE OF TERMINATION. "Date of Termination" shall mean (i) if your employment is terminated for Disability or Retirement, the date of termination as a "full-time employee" under the Company's long-term disability policy or retirement policy, which is generally applicable to salaried employees, or in accordance with any long-term disability or retirement arrangement established with your consent with respect to you, (ii) if your employment is terminated pursuant to subparagraph (D) above, the date specified in the Notice of Termination, and (iii) if your employment is terminated for any other reason, the date on which a Notice of Termination is given; provided that if within ten (10) business days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding and final arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefor having expired and no appeal having been perfected).

4. COMPENSATION UPON TERMINATION OR DURING DISABILITY.

(A) DISABILITY. During any period that you fail to perform your duties hereunder as a result of incapacity due to physical or mental illness, you shall continue to receive your full base salary and benefits at the rate then in effect until your employment is terminated pursuant to paragraph 3(A) hereof. Thereafter, your benefits shall be determined in accordance with the Company's Long Term Disability Plan, or a substitute

plan then in effect, and the Company shall have no further obligations to you under this Agreement.

(B) RETIREMENT. If your employment shall be terminated pursuant to paragraph 3(B) hereof, your benefits shall be determined in accordance with the Retirement Plan for Salaried Employees of International Paper Company and the Supplemental Retirement Plan for Senior Managers (or substitute plans then in effect) referred to collectively herein as the "Pension Plan", and the Company shall have no further obligations to you under this Agreement.

(C) CAUSE. If your employment shall be terminated for Cause, the Company shall pay you your full base salary, plus normal benefits to which you would otherwise be entitled, through the Date of Termination at the rate in effect at the time Notice of Termination is given and the Company shall have no further obligations to you under this Agreement.

(D) OTHER TERMINATIONS. Unless your employment is terminated by death or pursuant to paragraph 3(A), 3(B) or 3(C) hereof, upon your termination of employment, the Company shall pay to you the following amounts:

(i) Your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given plus an amount in cash equal to the value of any vacation earned but not taken (based upon such rate of base salary).

(ii) An amount equal to the product of (a) the sum of your annual base salary at the rate in effect as of the Date of Termination, multiplied by (b) the smaller of the number "four (4)" or the number of years (including fractions) between the Date of Termination and the date you reach the age of 65.

(iii) An amount equal to (a) the product of (x) the average annual amount of your Management Incentive Plan ("MIP") or successor plan award for the three (3) years preceding the year of the Date of Termination (the "Termination Year") multiplied by (y) the smaller of the number "four (4)" or the number of years (including fractions) between the Date of Termination and the date you reach the age of 65; PLUS (b) an amount equal to the unpaid amount of any deferred incentive award if you were the recipient of a deferred incentive award which was not fully paid at the Date of Termination.

(iv) An amount equal to the following:

(a) The value of the product of your average earned award (deferred and non-deferred) under the Performance Share Plan ("PSP") or successor plan for the three (3) years preceding the Termination Year (but excluding any special executive continuity award from that figure) multiplied by the smaller of the number "four (4)" or the number of years (including fractions) between the Date of Termination and the date you reach the age of 65;

(b) the value of any Company Common Stock previously earned but deferred under PSP or the former Performance Incentive Plan;

(c) the value to be used in determining awards under this subsection (iv) shall be the average of the closing prices of Company Common Stock as reported for New York Stock Exchange Composite Transactions (or such other stock exchange where the Company's Common Stock is principally listed) for thirty (30) consecutive trading days ending with the Date of Termination.

(v) Stock options equal to the product of (a) the average number of stock options awarded to you during the three (3) years prior to the Termination Year (but excluding any special executive continuity award stock options) multiplied by (b) the smaller of the number "four (4)" or the number of years (including fractions between the Date of Termination and the date you reach the age of 65; PLUS the extension of all stock options held by you for the period from the Date of Termination until the end of the normal terms of the options had you not left the Company.

(vi) A single lump-sum payment (determined by the Company's outside auditors) which will approximately offset the economic effect of any special federal excise tax which may be imposed under Sections 280G and 4999 of the Internal Revenue Code on the termination payments made and benefits provided under this Agreement (but not offsetting the economic effect of any federal, state or local income taxes, and not offsetting any taxes resulting from the removal of restrictions, pursuant to the terms of the plans under which awards were made, on contingent performance shares, restricted performance stock, restricted stock, earned deferred stock, executive continuity awards, or stock options, because of a change in control of the Company).

(vii) The payment due you under the foregoing provisions of this paragraph 4(D) shall be paid to you in cash in one lump sum payment no later than the fifth business day following the Termination Date.

(viii) The payments made to you under the foregoing provisions of this paragraph 4(D) shall be in lieu of any other salary payments, or payments under compensation or deferred compensation plans (other than payments due from trusts) for periods prior to and subsequent to the Date of Termination.

(E) NORMAL BENEFITS. Unless your employment is terminated by death or pursuant to paragraphs 3(A), 3(B) or 3(C), the Company shall maintain in full force and effect for the continued benefit of you and your dependents until the date you reach the age of 65, all employee benefit plans and programs or arrangements in which you were entitled to participate immediately prior to the Date of Termination (including medical and dental insurance coverage for you your dependents) except the Company's Salary Continuance Plan, Long-Term Disability Plan, travel and accident insurance, and the savings investment plans, provided that your continued participation is possible under the general terms and provisions of such plans and programs. In the event that your participation in any such plan or program is barred, the Company shall arrange to provide you with benefits substantially similar to those which you are entitled to receive under such plans and programs except as otherwise provided in paragraph 4(F) below. At the end of the

period of coverage, you shall have the option to have assigned to you at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company and relating specifically to you. That portion of the payment described in paragraph 4(D) above which constitutes "compensation" (as that term is defined under the Pension Plan) shall be included in determining your benefit entitlement under the terms of the Pension Plan. It is understood and agreed that you shall be entitled to any benefits in which you are vested as of termination pursuant to the terms of the respective benefit plans including, without limitation, the Pension Plan.

(F) BENEFITS OUTSIDE THE PENSION PLAN. Unless your employment is terminated by death or pursuant to paragraphs 3(A), 3(B) or 3(C) hereof, you shall be entitled to a lump sum cash payment in addition to the payment set forth in paragraph 4(D) calculated as follows:

(i) Your vested benefits under the terms of the Pension Plan will be paid to you pursuant to paragraph 4(E); in addition, you shall be paid under this paragraph 4(F) a sum equal to the difference between (a) the actuarial present value on the Termination Date of your accrued vested benefits under the Pension Plan (payable as a life annuity from age 65), and (b) the actuarial present value on the Termination Date of what your accrued benefits under the Pension Plan (payable as a life annuity from age 65) would have been if the period and payments referred to in paragraph 4(D)(ii) and (iii) hereof were recognized under the Pension Plan.

(ii) In calculating the lump sum payment referred to in paragraph (F)(i) above, the Company will use the applicable Pension Benefit Guaranty Corporation interest rate effective as of your Termination Date and will make the lump sum cash payment no later than thirty days following the date of determination of the amount due.

(G) NON-MITIGATION OF DAMAGES. You shall not be required to mitigate the amount of any payment provided for in this paragraph 4 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this paragraph 4 be reduced by any compensation earned by you as a result of employment by another employer after the Date of Termination, or otherwise.

5. SUCCESSOR; BINDING AGREEMENT.

(A) SUCCESSOR COMPANIES. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to you, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to terminate your employment and to receive compensation from the Company in the same amount and on the same terms as you would be entitled hereunder if

you voluntarily terminated your employment following a change in control of the Company, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this paragraph 5 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(B) HEIRS; REPRESENTATIVES. This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amounts would still be payable to you hereunder if you continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee, or, if there be no such designee, to your estate.

6. NOTICE. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Senior Vice President Human Resources of the Company with a copy to the Secretary of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. MISCELLANEOUS. This Agreement constitutes the entire agreement on this subject matter between the parties and supersedes any prior oral or written agreements or understandings on the subject matter covered by this Agreement. No significant provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by you and both the Chairman of the Compensation Committee of the Board of Directors and the Senior Vice President Human Resources. No waiver by either party hereto at any time of any breach by the other hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. In the event that this Agreement provides benefits upon termination of your employment which duplicate benefits contained in any other employment arrangement with you, such arrangement shall automatically be amended in accordance with this Agreement so that your benefits under this Agreement shall be sole and exclusive to the extent to which they are duplicative. Any benefits upon termination to which you are entitled under other employment arrangement with the Company which are in excess of those provided hereunder shall remain in effect upon the terms provided under such arrangement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York.

8. **VALIDITY.** The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. **ARBITRATION; LEGAL EXPENSES.** Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in New York, New York, in accordance with the rules of the American Arbitration Association then in effect. Notwithstanding the pendency of any such dispute or controversy, the Company will continue to pay you your base salary in effect when the notice giving rise to the dispute was given and continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved.

The Company shall also pay all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement). All amounts paid under this paragraph are in addition to any other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

Judgement may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

If this letter correctly sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

INTERNATIONAL PAPER COMPANY

By _____
Senior Vice President
Human Resources

AGREED:

Social Security Number: _____

Exhibit 10.10(b)

Date

(Name)

International Paper Company
Two Manhattanville Road
Purchase, New York 10577

Dear:

International Paper Company (the "Company") considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of the Company and its shareholders. In this connection, the Company recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among senior management, may result in the departure or distraction of senior management personnel to the detriment of the Company and its shareholders. Accordingly, the Company's Board of Directors has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's senior management, including yourself, to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company.

In order to induce you to remain in the employ of the Company, and to continue to exercise your special skills and knowledge at the Company, this letter agreement sets forth the benefits which the Company agrees will be provided to you in the event your employment with the Company is terminated subsequent to a "Change in Control of the Company" (as defined in Section 2 hereof) under the circumstances described below.

1. TERM

This agreement shall commence on the date hereof and unless there is a "Change in Control of the Company" (as defined in Section 2 hereof), shall continue until the earlier of your termination of employment as a "full-time employee" of the Company or the date you attain the age

of 65 years, or the date this Agreement is terminated by the Company in accordance with the next sentence. If a "Change in Control of the Company" has not occurred, the Company shall have the right at any time to terminate this Agreement by giving you twelve (12) months prior written notice of termination of this Agreement.

If a "Change in Control of the Company" occurs at any time prior to the actual termination of this Agreement, then this Agreement shall terminate on the earlier of three (3) years following such "Change in Control" or the date you attain the age of 65 years.

2. CHANGE IN CONTROL

For purposes of this Agreement, a "Change in Control of the Company" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that, without limitation, such a change in control shall be deemed to have occurred if

(a) any "person" (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act, other than employee benefit plans sponsored by the Company) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, or (b) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company (the "Board") cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by the Company's shareholders of each new director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of the period.

3. TERMINATION OF EMPLOYMENT FOLLOWING CHANGE IN CONTROL

If a "Change in Control of the Company" occurs, you shall be entitled to the benefits provided in Section 5 of this Agreement upon the subsequent termination of your employment during the term of this Agreement unless such termination is

(a) because of your death or normal retirement at or after age 65, (b) by the Company for "Cause" as defined below or for Disability as defined below, or (c) by you other than for "Good Reason" as defined below.

(i) **DISABILITY; NORMAL RETIREMENT.** If, as a result of your incapacity due to physical or mental illness, you shall have been absent from the full-time performance of your duties with the Company for six (6) consecutive months, and within thirty (30) days after written notice of termination is given you shall not have returned to the full-time performance of your duties, the Company may terminate your employment for "Disability." Termination based on "Retirement" shall mean termination after becoming eligible for Normal Retirement at or after age 65 under the Company's Pension Plan.

(ii) **CAUSE.** Termination by the Company of your employment for "Cause" shall mean termination upon

(a) the willful and continued failure by you substantially to perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure resulting from termination by you for Good Reason) after a written demand for substantial performance is delivered to you by the Board, which demand specifically identifies the manner in which the Board believes that you have not substantially performed your duties, or

(b) the willful engaging by you in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise. For purposes of this Subsection, no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company.

Notwithstanding the foregoing, you shall not be deemed to have been terminated for "Cause" unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in clauses (a) or (b) of the first sentence of this Subsection and specifying the particulars thereof in detail.

(iii) GOOD REASON. You shall be entitled to terminate your employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without your express written consent, any of the following:

(a) the assignment to you of any duties with the Company (or with a successor or affiliated company) inconsistent with your status as an executive, or a substantial adverse alteration in the nature or status of your responsibilities, from those in effect immediately prior to a "Change in Control of the Company";

(b) a reduction in your annual base salary as in effect on the date hereof or as the same may be increased from time to time (except for across-the-board salary reductions similarly affecting all executives of the Company and all executives of any person in control of the Company);

(c) the failure by the Company to continue in effect any material compensation plan in which you participate (including but not limited to the Company's Performance Share Plan, Stock Option Plan and Management Incentive Plan) or any substitute plans adopted prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the "Change in Control of the Company," or the failure by the Company to continue your participation therein on substantially the same basis, both in terms of the amount of benefits provided and the level of your participation relative to

other participants, as existed immediately prior to the Change in Control;

(d) except for across-the-board reductions similarly affecting all executives of the Company and all executives of any person in control of the Company: (i) the failure by the Company to continue to provide you with benefits substantially similar to those enjoyed by you under any of the Company's pension, life insurance, medical, health and accident, or disability plans in which you were participating at the time of a "Change in Control of the Company", (ii) the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive you of any material fringe benefit enjoyed by you at the time of the "Change in Control of the Company", or (iii) the failure by the Company to provide you with the number of paid vacation days to which you are entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect immediately prior to the Change in Control;

(e) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement;

(f) any purported termination of your employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Subsection (iv) below (and, if applicable, the requirements of Subsection (ii) above); for purposes of this Agreement, no such purported termination shall be effective;

(g) the individual holding the position of Chief Executive Officer prior to the time of occurrence of the event constituting the "Change in Control of the Company" shall have ceased to hold such position (except when such cessation is the result of the person's Disability or Retirement or was for "Cause"); or

(h) the Company's requiring you to be based anywhere other than the Company's current principal executive offices except for required travel on the Company's business to an extent substantially consistent with your present business travel obligations.

Your right to terminate your employment pursuant to this Subsection shall not be affected by your incapacity due to physical or mental illness.

(iv) NOTICE OF TERMINATION. Any termination of your employment by the Company or by you shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 7 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated, and shall specify a date for termination of employment ("Date of Termination") which shall not be less than thirty (30) or

more than sixty (60) days after the date of delivery of the Notice of Termination.

4. DEATH, DISABILITY OR ELIGIBILITY FOR NORMAL RETIREMENT

This Agreement shall not be applicable in the event of termination of your employment because of Death, Disability under the Company's plans for long-term disability, or after you become eligible for Normal Retirement at or after age 65 under the Company's Pension Plan.

5. COMPENSATION UPON TERMINATION

If a "Change in Control of the Company" occurs and your employment is subsequently terminated during the term of this Agreement under the circumstances described in Section 3 (other than for "Cause") which entitle you to benefits under this Agreement, then:

(A) The Company will continue to provide medical and dental insurance coverage to you and your dependents which is comparable in benefits and in participant contributions, deductibles, co-payments, and other terms, to the coverage which you had immediately prior to the Change in Control, and this coverage will continue until such time as you become eligible to join a comparable plan sponsored by another employer, or attain age 65 and are eligible to enroll in the Medicare program.

(B) After you attain age 65 the Company will provide retiree medical coverage for you and your dependents which is comparable in benefits and in participant contributions, deductibles, co-payments, and other terms to the coverage provided by the Company's retiree medical plan in effect immediately prior to the Change of Control (with a coordination of benefits clause comparable to the clause used by the Company in its Retiree Medical Plan at the time of the Change of Control).

(C) You shall be entitled to a lump-sum payment within thirty (30) days of the Date of Termination of the following amounts:

(i) Your full base salary through the Date of Termination, at the rate in effect at the time Notice of Termination is given, plus an amount in cash equal to the value of any vacation earned but not taken (based upon such rate of base salary); plus

(ii) A termination payment equal to:

(a) the lesser of the number of three (3) or the number of years (including fractions) between the Date of Termination and the date you reach the age of 65, times a "Base Amount" consisting of your annualized base salary as of the Date of Termination together with the most recent short-term annual incentive compensation payment (or amount to which you have become entitled in respect thereof) during the year preceding the Date of Termination (excluding any compensation under long-term incentive compensation plans, performance

share plans, stock option plans, or executive recognition awards); plus

(b) a single lump-sum payment (determined by the Company's outside auditors), which will approximately offset the economic effect of any special federal excise tax which may be imposed under Section 280G and 4999 of the Internal Revenue Code on the termination payments made and benefits provided under this Agreement (but not offsetting the economic effect of any federal, state or local income taxes, resulting from the removal of restrictions pursuant to the terms of the plans under which awards were made on contingent performance shares, restricted performance stock, restricted stock earned deferred stock, executive continuity awards, or stock options, because of a Change in Control of the Company).

You shall not be required to mitigate the amount of any payment provided for in this paragraph 5 (by seeking other employment or otherwise) nor shall the amount of any payment provided for in this paragraph 5 be reduced by any compensation earned by you as a result of employment by another employer after the Date of Termination.

The compensation set forth above shall be in lieu of any severance or termination payments which might otherwise be payable under any other severance programs or policy or practice of the Company other than those set out as part of any of the Company's long-term incentive plans, performance share plans, stock option plans, executive recognition awards and retirement or supplemental retirement plans.

In addition to the payments under this Agreement, you shall continue to be eligible to receive all of your vested accrued benefits under employee pension and welfare benefit plans sponsored by the Company.

6. SUCCESSORS; BINDING AGREEMENT

(a) SUCCESSION COMPANIES. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to you, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure by the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to terminate your employment and to receive compensation from the Company in the same amount and on the same terms as you would be entitled hereunder if you terminated your employment for Good Reason pursuant to Section 3, except that the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company hereinbefore defined and any successor to its business

and/or assets as aforesaid which executes and delivers the agreement provided for in this paragraph 6 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) HEIRS; REPRESENTATIVES. This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amounts would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee, or, if there be no such designee, to your estate.

7. NOTICE

For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Senior Vice President Human Resources of the Company with a copy to the Secretary of the Company, or to such address as either party may

have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

8. MISCELLANEOUS

This Agreement constitutes the entire agreement on this subject matter between the parties and supersedes any prior oral or written agreements or understandings on the subject matter covered by this Agreement and shall not be amended or modified except by written agreement signed by both parties. No significant provisions of this Agreement may be waived or discharged unless such waiver or discharge is in writing signed by the party who is making the waiver or discharge. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of any similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. In the event that this Agreement provides benefits upon termination of your employment which duplicate benefits contained in any employment arrangement with you, such arrangement shall automatically be amended in accordance with this Agreement so that your benefits under this Agreement shall be sole and exclusive to the extent to which they are duplicative. The validity, interpretation, construction and

performance of this Agreement shall be governed by the laws of the State of New York.

9. VALIDITY

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect.

10. ARBITRATION; LEGAL EXPENSES

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in New York, New York, in accordance with the rules of the American Arbitration Association then in effect. Notwithstanding the pendency of any such dispute or controversy, the Company will continue to pay you your base salary in effect when the notice giving rise to the dispute was given and will continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved.

The Company shall also pay all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement). All amounts paid under this paragraph are in addition to any other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

If this letter correctly sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

INTERNATIONAL PAPER COMPANY

By:

Agreed:

Social Security Number:

Exhibit 10.10(c)

Date

(Name)

International Paper Company
Two Manhattanville Road
Purchase, New York 10577

Dear:

International Paper Company (the "Company") considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of the Company and its shareholders. In this connection, the Company recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among senior management, may result in the departure or distraction of senior management personnel to the detriment of the Company and its shareholders. Accordingly, the Company's Board of Directors has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's senior management, including yourself, to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company.

In order to induce you to remain in the employ of the Company, and to continue to exercise your special skills and knowledge at the Company, this letter agreement sets forth the benefits which the Company agrees will be provided to you in the event your employment with the Company is terminated subsequent to a "Change in Control of the Company" (as defined in Section 2 hereof) under the circumstances described below.

1. TERM

This agreement shall commence on the date hereof and unless there is a "Change in Control of the Company" (as defined in Section 2 hereof), shall continue until the earlier of your termination of employment as a "full-time employee" of the Company or the date you attain the age of 65 years, or the date this Agreement is terminated by the Company in accordance with the next sentence. If a "Change in Control of the Company" has not occurred, the Company shall have the right at any time to terminate this Agreement by giving you twelve (12) months prior written notice of termination of this Agreement.

If a "Change in Control of the Company" occurs at any time prior to the actual termination of this Agreement, then this Agreement shall terminate on the earlier of three (3) years following such "Change in Control" or the date you attain the age of 65 years.

2. CHANGE IN CONTROL

For purposes of this Agreement, a "Change in Control of the Company" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that, without limitation, such a change in control shall be deemed to have occurred if

(a) any "person" (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act, other than employee benefit plans sponsored by the Company), is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, or (b) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company (the "Board") cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by the Company's shareholders of each new director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of the period.

3. TERMINATION OF EMPLOYMENT FOLLOWING CHANGE IN CONTROL

If a "Change in Control of the Company" occurs you shall be entitled to the benefits provided in Section 5 of this Agreement upon the subsequent termination of your employment during

the term of this Agreement unless such termination is (a) because of your death or normal retirement at or after age 65, (b) by the Company for "Cause" as defined below or for Disability as defined below, or (c) by you other than for "Good Reason" as defined below.

(i) **DISABILITY; NORMAL RETIREMENT.** If, as a result of your incapacity due to physical or mental illness, you shall have been absent from the full-time performance of your duties with the Company for six (6) consecutive months, and within thirty (30) days after written notice of termination is given you shall not have returned to the full-time performance of your duties, the Company may terminate your employment for "Disability." Termination based on "Retirement" shall mean termination after becoming eligible for Normal Retirement at or after age 65 under the Company's Pension Plan.

(ii) **CAUSE.** Termination by the Company of your employment for "Cause" shall mean termination upon

(a) the willful and continued failure by you substantially to perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure resulting from termination by you for Good Reason) after a written demand for substantial performance is delivered to you by the Board, which demand specifically identifies the manner in which the Board believes that you have not substantially performed your duties, or

(b) the willful engaging by you in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise. For purposes of this Subsection, no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company.

Notwithstanding the foregoing, you shall not be deemed to have been terminated for "Cause" unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in clauses (a)

or (b) of the first sentence of this Subsection and specifying the particulars thereof in detail.

(iii) GOOD REASON. You shall be entitled to terminate your employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without your express written consent, any of the following:

(a) the assignment to you of any duties with the Company (or with a successor or affiliated company) inconsistent with your status as an executive, or a substantial adverse alteration in the nature or status of your responsibilities, from those in effect immediately prior to a "Change in Control of the Company";

(b) a reduction in your annual base salary as in effect on the date hereof or as the same may be increased from time to time (except for across-the-board salary reductions similarly affecting all executives of the Company and all executives of any person in control of the Company);

(c) the failure by the Company to continue in effect any material compensation plan in which you participate (including but not limited to the Company's Performance Share Plan, Stock Option Plan and Management Incentive Plan) or any substitute plans adopted prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the "Change in Control of the Company," or the failure by the Company to continue your participation therein on substantially the same basis, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed immediately prior to the Change in Control;

(d) except for across-the-board reductions similarly affecting all executives of the Company and all executives of any person in control of the Company: (i) the failure by the Company to continue to provide you with benefits substantially similar to those enjoyed by you under any of the Company's pension, life insurance, medical, health and accident, or disability plans in which you were participating at the time of a "Change in Control of the Company," (ii) the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive you of any material fringe benefit enjoyed by you at the time of the "Change in Control of the Company," or (iii) the failure by the Company to provide you with the number

of paid vacation days to which you are entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect immediately prior to the Change in Control;

(e) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement;

(f) any purported termination of your employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Subsection (iv) below (and, if applicable, the requirements of Subsection (ii) above); for purpose of this Agreement, no such purported termination shall be effective; or

(g) the Company's requiring you to be based anywhere other than the Company's current principal executive offices except for required travel on the Company's business to an extent substantially consistent with your present business travel obligations.

Your right to terminate your employment pursuant to this Subsection shall not be affected by your incapacity due to physical or mental illness.

(iv) NOTICE OF TERMINATION. Any termination of your employment by the Company or by you shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 7 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated, and shall specify a date for termination of employment ("Date of Termination") which shall not be less than thirty (30) or more than sixty (60) days after the date of delivery of the Notice of Termination.

4. DEATH, DISABILITY OR ELIGIBILITY FOR NORMAL RETIREMENT

This Agreement shall not be applicable in the event of termination of your employment because of Death, Disability under the Company's plans for long-term disability, or after you become eligible for Normal Retirement at or after age 65 under the Company's Pension Plan.

5. COMPENSATION UPON TERMINATION

If a "Change in Control of the Company" occurs and your employment is subsequently terminated during the term of this Agreement under the circumstances described in Section 3 (other than for "Cause") which entitle you to benefits under this Agreement, then:

(A) The Company will continue to provide medical and dental insurance coverage to you and your dependents which is comparable in benefits and in participant contributions, deductibles, co-payments, and other terms, to the coverage which you had immediately prior to the Change in Control, and this coverage will continue until such time as you become eligible to join a comparable plan sponsored by another employer, or attain age 65 and are eligible to enroll in the Medicare program.

(B) After you attain age 65 the Company will provide retiree medical coverage for you and your dependents which is comparable in benefits and in participant contributions, deductibles, co-payments, and other terms to the coverage provided by the Company's retiree medical plan in effect immediately prior to the Change of Control (with a coordination of benefits clause comparable to the clause used by the Company in its Retiree Medical Plan at the time of the Change of Control).

(C) You shall be entitled to a lump-sum payment within thirty (30) days of the Date of Termination of the following amounts:

(i) Your full base salary through the Date of Termination, at the rate in effect at the time Notice of Termination is given, plus an amount in cash equal to the value of any vacation earned but not taken (based upon such rate of base salary); plus

(ii) A termination payment equal to:

(a) the lesser of the number of three (3) or the number of years (including fractions) between the Date of Termination and the date you reach the age of 65, times a "Base Amount" consisting of your annualized base salary as of the Date of Termination together with the most recent short-term annual incentive compensation payment (or amount to which you have become entitled in respect thereof) during the year preceding the Date of Termination (excluding any compensation under long-term

incentive compensation plans performance share plans, stock option plans, or executive recognition awards); plus

(b) a single lump-sum payment (determined by the Company's outside auditors), which will approximately offset the economic effect of any special federal excise tax which may be imposed under Section 280G and 4999 of the Internal Revenue Code on the termination payments made and benefits provided under this Agreement (but not offsetting the economic effect of any federal, state or local income taxes, and not offsetting any taxes resulting from the removal of restrictions, pursuant to the terms of the plans under which awards were made, on contingent performance shares, restricted performance stock, restricted stock, earned deferred stock, executive continuity awards, or stock options, because of a Change in Control of the Company).

You shall not be required to mitigate the amount of any payment provided for in this paragraph 5 (by seeking other employment or otherwise) nor shall the amount of any payment provided for in this paragraph 5 be reduced by any compensation earned by you as a result of employment by another employer after the Date of Termination.

The compensation set forth above shall be in lieu of any severance or termination payments which might otherwise be payable under any other severance programs or policy or practice of the Company other than those set out as part of any of the Company's long-term incentive plans, performance share plans, stock option plans, executive recognition awards and retirement or supplemental retirement plans.

In addition to the payments under this Agreement, you shall continue to be eligible to receive all of your vested accrued benefits under employee pension and welfare benefit plans sponsored by the Company.

6. SUCCESSORS; BINDING AGREEMENT

(a) **SUCCESSOR COMPANIES.** The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to you, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure by the Company to obtain such agreement prior to the effectiveness of any such succession

shall be a breach of this Agreement and shall entitle you to terminate your employment and to receive compensation from the Company in the same amount and on the same terms as you would be entitled hereunder if you terminated your employment for Good Reason pursuant to Section 3, except that the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this paragraph 6 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) HEIRS; REPRESENTATIVES. This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amounts would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee, or, if there be no such designee, to your estate.

7. NOTICE

For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Senior Vice President Human Resources of the Company with a copy to the Secretary of the Company, or to such address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

8. MISCELLANEOUS

This Agreement constitutes the entire agreement on this subject matter between the parties and supersedes any prior oral or written agreements or understandings on the subject matter covered by this Agreement and shall not be amended or modified except by written agreement signed by both parties. No significant provisions of this Agreement may be waived or discharged unless such waiver or discharge is in writing signed

by the party who is making the waiver or discharge. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of any similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. In the event that this Agreement provides benefits upon termination of your employment which duplicate benefits contained in any employment arrangement with you, such arrangement shall automatically be amended in accordance with this Agreement so that your benefits under this Agreement shall be sole and exclusive to the extent to which they are duplicative. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York.

9. VALIDITY

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect.

10. ARBITRATION; LEGAL EXPENSES

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in New York, New York, in accordance with the rules of the American Arbitration Association then in effect. Notwithstanding the pendency of any such dispute or controversy, the Company will continue to pay you your base salary in effect when the notice giving rise to the dispute was given and will continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved.

The Company shall also pay all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement). All amounts paid under this paragraph are in addition to any other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid

until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

If this letter correctly sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

INTERNATIONAL PAPER COMPANY

By:

Agreed:

Social Security Number: _____

EXHIBIT 11

INTERNATIONAL PAPER COMPANY

**STATEMENT OF COMPUTATION OF PER SHARE EARNINGS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)**

	YEAR TO DATE DECEMBER 31		
	1999	1998	1997
NET EARNINGS (LOSS)	\$183	\$ 247	\$(80)
Effect of dilutive securities			
Preferred securities of subsidiary trust			
NET EARNINGS (LOSS) - ASSUMING DILUTION	\$183	\$247	\$(80)
AVERAGE COMMON SHARES OUTSTANDING	413.0	411.0	406.7
Effect of dilutive securities			
Long-term incentive plan deferred compensation			
Stock options	3.1	3.2	
Preferred securities of subsidiary trust			
AVERAGE COMMON SHARES OUTSTANDING - ASSUMING DILUTION	416.1	414.2	406.7
EARNINGS (LOSS) PER COMMON SHARE	\$ 0.44	\$ 0.60	\$ (0.20)
EARNINGS (LOSS) PER COMMON SHARE - ASSUMING DILUTION	\$ 0.44	\$ 0.60	\$ (0.20)

Note: If an amount does not appear in the above table, the security was
antidilutive for the period presented.

EXHIBIT 12

**INTERNATIONAL PAPER COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(DOLLAR AMOUNTS IN MILLIONS)**

(UNAUDITED)

TITLE	FOR THE YEARS ENDED DECEMBER 31,					
	1994	1995	1996	1997	1998	1999
(A) Earnings before income taxes, minority interest, extraordinary item and accounting changes	\$ 896.0	\$2,742.0	\$ 939.0	\$ 143.0	\$ 429.0	\$ 448.0
(B) Less: Minority interest expense, net of taxes	(54.0)	(166.0)	(180.0)	(140.0)	(87.0)	(163.0)
(C) Add: Fixed charges excluding capitalized interest	554.4	740.3	802.1	826.6	866.7	820.9
(D) Add: Amortization of previously capitalized interest	27.7	29.6	34.2	37.0	38.8	17.0
(E) Less: Equity in undistributed earnings of affiliates	(49.1)	(94.5)	6.2	(40.4)	23.7	(41.6)
(F) EARNINGS BEFORE INCOME TAXES, MINORITY INTEREST, EXTRAORDINARY ITEM, ACCOUNTING CHANGES AND FIXED CHARGES	\$1,375.0	\$3,251.4	\$1,601.5	\$ 826.2	\$1,271.2	\$1,081.3
FIXED CHARGES	=====	=====	=====	=====	=====	=====
(G) Interest and amortization of debt expense	\$ 501.8	\$ 664.9	\$ 699.5	\$ 720.0	\$ 716.9	\$ 611.5
(H) Interest factor attributable to rentals ..	52.6	64.8	79.0	83.0	80.7	76.3
(I) Preferred dividends of subsidiary		10.6	23.6	23.6	69.1	133.1
(J) Capitalized interest	39.6	66.9	71.2	71.6	53.4	29.3
(K) TOTAL FIXED CHARGES	\$ 594.0	\$ 807.2	\$ 873.3	\$ 898.2	\$ 920.1	\$ 850.2
(L) RATIO OF EARNINGS TO FIXED CHARGES	2.31	4.03	1.83		1.38	1.27
(M) DEFICIENCY IN EARNINGS NECESSARY TO COVER FIXED CHARGES				\$ (72.0)		

Exhibit 13

**International Paper:
From Innovation to Results**

OUR 1999 ANNUAL REPORT

[GRAPHIC OMITTED]

INTERNATIONAL [LOGO] PAPER

FINANCIAL HIGHLIGHTS

Dollar amounts and shares in millions, except per share amounts	1999	1998

FINANCIAL SUMMARY		
Net Sales	\$24,573	\$23,979
Operating Profit	1,810 (1)	1,375 (1)
Earnings Before Income Taxes, Minority Interest and Extraordinary Item	448 (2)	429 (3)
Net Earnings	183 (2)	247 (3)
Total Assets	30,268	31,466
Common Shareholders' Equity	10,304	10,738
Return on Investment	2.6%	2.5%

PER SHARE OF COMMON STOCK		
Earnings Before Extraordinary Item	\$0.48 (2)	\$0.60 (3)
Earnings - Assuming Dilution	0.44 (2)	0.60 (3)
Cash Dividends	1.01 (4)	1.05 (4)
Common Shareholders' Equity	24.95	26.13

SHAREHOLDER PROFILE		
Shareholders of Record at December 31	32,881	31,050
Shares Outstanding at December 31	414.6	413.2
Average Shares Outstanding	413.0	411.0

(1) See the operating profit table on page 30 for details of operating profit by industry segment. Results of equity investees are not included in operating profit.

(2) Includes a \$148 million pre-tax charge (\$97 million after taxes) for Union Camp merger-related termination benefits, a \$107 million pre-tax charge (\$78 million after taxes) for one-time merger expenses, a \$298 million pre-tax charge (\$180 million after taxes and minority interest expense) for asset shutdowns of excess internal capacity and cost reduction actions, a \$10 million pre-tax charge (\$6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a \$30 million pre-tax charge (\$18 million after taxes) to increase existing legal reserves and a \$36 million pre-tax credit (\$27 million after taxes) for the reversal of reserves that were no longer required. Return on investment was 4.0% before these items.

(3) Includes a \$20 million pre-tax gain (\$12 million after taxes) on the sale of the Veratec nonwovens business, an \$83 million pre-tax gain (\$50 million after taxes) from the reversal of previously established reserves that are no longer required, a \$111 million pre-tax charge (\$68 million after taxes) for the impairment of oil and gas reserves due to low prices, a \$145 million pre-tax restructuring and asset impairment charge (\$82 million after taxes and minority interest expense) and \$16 million of pre-tax charges (\$10 million after taxes) related to our share of charges taken by Scitex, a 13% investee company, for the write-off of in-process research and development related to an acquisition and costs to exit the digital video business. Return on investment was 2.8% before these items.

(4) The International Paper dividend was \$1.00 per share in 1999 and 1998. However, dividends on a per share basis have been restated to include dividends paid by Union Camp Corporation which merged with International Paper during 1999 in a transaction accounted for as a pooling-of-interests.

TO OUR SHAREHOLDERS

[PHOTO OMITTED]

To International Paper Shareowners: Two major events stand out as milestones for International Paper during 1999: our announcement of a powerful profit improvement program that will guide our decisions and actions through 2002 and beyond; and, the completion of our merger with Union Camp Corporation, the most significant in the history of International Paper.

We intend to improve our operating profits across our businesses by at least \$1.8 billion by the end of 2002 before the benefits we get from price increases. As a result, we expect our return on investment will increase by 400 basis points.

I am confident this program, coupled with our ongoing efforts to better involve our people, strengthened focus on our customers, and continued improvements in the way we operate our facilities will result in International Paper entering a prolonged period of greater profitability and improved performance relative to our competition.

By all measures, the merger with Union Camp is shaping up to be a tremendous success. The complementary product lines and land holdings have allowed us to increase our focus in our key areas of paper, packaging and forest products. We generated over \$130 million in annualized merger benefits in 1999 and are ahead of schedule to meet our goal of at least \$425 million in annualized merger benefits by the end of 2000. A significant portion of our \$1.8 billion in profit improvement by 2002 will be a direct result of the Union Camp merger.

TO OUR SHAREHOLDERS

1999 Financial Performance

Earnings for 1999 before special and extraordinary items increased by 60 percent to \$551 million compared with \$345 million in 1998. Sales of \$24.6 billion were up from \$24.0 billion in 1998. Net earnings after special and extraordinary items were \$183 million, or \$.44 per share.

Carter Holt Harvey, the New Zealand-based company in which International Paper owns a controlling interest, announced the sale of its interest in COPEC, a large Chilean company. The proceeds from the sale, which closed in early 2000, exceeded \$1.2 billion.

Profitability Improvement

Within International Paper, we talk a lot about "winning." Our goal, simply put, is to be the best in our industry and our actions will be focused on generating higher value for our shareholders, our customers, our employees and our communities.

For example, the compensation of 4,000 International Paper leaders is dependent on profit improvement. Most of our incentive pay is based on how well we do improving our return on investment in both an absolute sense and against competition.

Traditionally, we favored capital projects that would yield increased production capacity. No more. Today, we are investing discretionary capital in ways to meet market needs.

And, we are pursuing all of the benefits e-commerce can bring to International Paper. Whether to generate more revenue or to reduce costs, we are determined to rapidly integrate electronic commerce into our future strategy.

International Paper is a dynamic organization, and so we are constantly looking to ensure that our businesses are the correct fit for us. We will divest those businesses that do not add value to the company and acquire others that do.

That is the primary reason for the acquisitions and divestitures we have made during the last few years. The Union Camp merger, the acquisition of Zellerbach,

TO OUR SHAREHOLDERS

Weston Paper and others have added significant value to the company's bottom line as part of our effort to build stronger businesses. At the same time, we have sold \$2.5 billion of assets since 1997.

In late 1998, we acquired Svetogorsk AO in Russia, where we immediately introduced the unique advantages found in International Paper's people, processes and technology. The results: rapidly improved financial performance and a product line that has captured a 40 percent share of the reprographic market in Russia. Similarly, our Kwidzyn mill in Poland, acquired in 1992, is one of the most profitable mills in the International Paper system with an increasing share of the growing eastern European market.

There is tremendous value in our being a global company. We have manufacturing facilities around the world to serve customers who are part of the emerging, global marketplace. As more of our customers grow from their home markets to compete on a worldwide scale, International Paper will be ready to support them, too.

Looking Ahead

Market fundamentals are extremely promising. Demand for our products is strong, the supply is well-balanced with demand within our industry, and importantly, very little new production capacity is expected within the next few years. The U.S. economy remains healthy, Asia continues to recover and Europe is rebounding strongly. That's important to International Paper because the ability to meet customer needs around the world is a key part of our value strategy.

We have aggressive profit improvement goals in each of our businesses to ensure we reach our company-wide \$1.8 billion profit improvement goal. As part of that effort, we shut down paper machines in 1999 - some on a temporary basis, some permanently - and we are not going to add capacity that will result in excessive inventory in the coming years. We are also producing product at a more efficient rate to achieve greater profits, not just more tons. The theory of matching

TO OUR SHAREHOLDERS

production rates to highest profit level per ton, known as "marginal economics" is being used successfully to improve our performance at a number of facilities.

We have also adopted a rigorous financial discipline. We have tight controls on capital spending, resulting in expenditures well below our depreciation and amortization levels for 1999 - \$1.1 billion in capital expenditures versus \$1.5 billion for D & A. In 2000, we will again keep our capital expenditures below D & A.

We have an aggressive program underway to improve margins. We are focused on more than cost reduction. We've changed how we pay people, how we allocate capital and how we measure success. We have raised the bar on expectations and accountability. I am pleased to report the results of these efforts were evident in 1999 and will grow throughout 2000.

All this leads me to say I am very optimistic about the future. I believe the outlook for the industry as a whole looks bright and that as a result of all the actions we have taken and have underway, the future for International Paper is even stronger.

Finally, I want to thank you for the confidence you have placed in this company and our employees. I know you have a large number of investment choices, but I want you to know that we are absolutely committed to producing a remarkable return to our shareowners. To repeat what I said before, we intend to be the best company in the global paper and forest products industry.

[PHOTO OMITTED]

/s/ John Dillon

JOHN DILLON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
MARCH 1, 2000

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CORPORATE OVERVIEW

RESULTS OF OPERATIONS

International Paper's results reflect the merger with Union Camp Corporation on April 30, 1999. The merger was accounted for as a pooling-of-interests with all prior period results having been restated to reflect the combined results of the merged companies.

International Paper's 1999 net sales of \$24.6 billion increased 3% as compared with 1998 net sales of \$24.0 billion and were level with 1997 net sales of \$24.6 billion. The increase in sales in 1999 reflects strengthened sales volumes offset by lower prices in many of our businesses. Net sales decreased in 1998 as compared with 1997 due to lower sales volumes and the weakening New Zealand dollar.

International net sales (including U.S. exports) totaled \$6.9 billion, 28% of total sales in 1999. This is just above the \$6.8 billion of such sales in 1998, but well below the 1997 level of \$8.0 billion, both because of the sale of the Imaging businesses in late 1997 and early 1998 and the weakening of the New Zealand dollar. Export sales from the U.S. remained unchanged at \$1.5 billion in 1999 from 1998 but were below 1997 exports of \$1.8 billion.

Net earnings in 1999 before special and extraordinary items increased 60% to \$551 million, or \$1.33 per share, compared with net earnings before special items of \$345 million, or \$.84 per share, in 1998 and \$381 million, or \$.94 per share, in 1997. Special items amounted to net expense of \$352 million, or \$.85 per share, \$98 million, or \$.24 per share, and \$461 million, or \$1.13 per share, in 1999, 1998 and 1997, respectively. Net earnings after special and extraordinary items were \$183 million, or \$.44 per share, in 1999 and \$247 million, or \$.60 per share, in 1998, and a net loss in 1997 of \$80 million, or \$.20 per share.

Operating profit totaled \$1.8 billion in 1999, 29% above the \$1.4 billion in 1998, and 20% above the \$1.5 billion in 1997. Higher sales volumes increased 1999 operating profit by about \$210 million, and lower costs increased 1999 operating profit by \$370 million as compared with 1998. However, this increase was offset, in part, by lower average annual prices which reduced 1999 operating profit by about \$200 million as compared with 1998. Prices for many of our paper and packaging products reached cyclical lows in the 1999 first quarter and have since rebounded, increasing by 8%. In 1999, we curtailed production by more than 1 million tons at our U.S. pulp and paper mills, more than 45% of which was market-related, to help control inventories. Excluding special items, return on investment was 4.0% in 1999, 43% above the 2.8% in 1998 and 33% above the 3.0% in 1997.

We generated over \$130 million in Union Camp merger benefits in 1999, and we are ahead of schedule to meet our goal of at least \$425 million in annualized merger benefits by the end of 2000. About 70% of the 1999 special items were associated with the Union Camp merger, including direct expenses of the merger and actions taken to achieve merger benefits.

Market fundamentals are extremely promising. Demand for our products is strong and supply is well-balanced with demand within our industry. Also, little new production capacity is expected within the next few years. The worldwide economic environment is promising. In addition, we have aggressive non-price profit improvement goals in each of our businesses targeted to improve operating profit by \$1.8 billion and return on investment by 4 ROI points by the end of 2002. We have aligned how we pay people, how we allocate capital and how we measure success to the achievement of this goal. As a consequence, we are optimistic about the future.

DESCRIPTION OF INDUSTRY SEGMENTS

PRINTING AND COMMUNICATIONS PAPERS

Uncoated Papers: International Paper is one of the largest U.S. producers of uncoated papers. With our recent merger with Union Camp we have production capacity of 3.7 million tons annually. Products include office papers, printing papers, fine papers, and converting grades for envelopes, tablets, business forms and specialty papers. Brands include HammerMill, Springhill, Great White, Beckett, Strathmore, and Via by HammerMill. We also make uncoated bristols for file folders, tags, tickets and index cards.

Coated Papers: We produce coated papers and bristols for catalogs, direct mail, magazines and other media, with production capacity of 1.3 million tons annually. International Paper ranks fifth among U.S. coated groundwood producers. We also produce coated freesheet, such as Accolade, for upscale catalogs and magazines, and make Carolina coated bristols used for book covers and commercial printing applications.

Pulp: We have annual production capacity of 1 million

MANAGEMENT'S DISCUSSION AND ANALYSIS

tons of market pulp. Grades range from pulp used to make paper to fluff pulp for hygiene products.

European Papers: Our European business is a leading supplier of office, coated and specialty papers produced at facilities in France, Germany, Poland, the United Kingdom and Russia. This business has annual production capacity of over 2 million tons. Brands such as ReyMat, Reylux, Duo, and Polspeed supply the papers Europe's consumers and businesses require. Zanders produces premium coated papers such as Ikono for high-end brochures and annual reports. Our facilities in Kwidzyn, Poland and Svetogorsk, Russia produce business papers, newsprint and coated board for markets throughout Europe.

INDUSTRIAL AND CONSUMER PACKAGING

Industrial Packaging: With production capacity of 5 million tons annually, International Paper is the second largest manufacturer of containerboard in the U.S. Nearly one-third of our production is specialty grades, such as PineLiner, Sunliner, Polarboard, Coastliner and BriteTop. About 60% of our production is converted to corrugated boxes and other packaging by our 57 U.S. container plants. Our European operations include 1 recycling mill in France and 23 container plants in France, Ireland, Italy, Spain and the United Kingdom. Our global presence now includes operations in Puerto Rico, Chile, Turkey, Argentina and China. Industrial Packaging also offers total packaging solutions and supply chain initiatives through regional packaging design centers. We have capacity to produce over 600,000 tons of kraft paper each year that is used in multiwall and retail bags.

Consumer Packaging: With production capacity of 2 million tons annually, International Paper is the world's largest producer of bleached board. Our Everest and Starcote brands are used in packaging applications for juice, milk, food, cosmetics, pharmaceuticals, computer software and tobacco products. Premium label papers are sold under the DeltaStar family of products. Over one-third of our bleached board is converted into packaging and other products in our own plants. Beverage Packaging has 21 plants worldwide offering complete packaging systems, from paper to machines, using fresh and aseptic technologies. Retail Packaging operates 12 plants producing packaging with high-impact graphics for a variety of consumer products. Foodservice offers cups, lids, cartons, bags, containers, trays and plates from 5 domestic plants and through 5 international joint ventures. Flexible Packaging provides paper and plastic packaging for both consumer and industrial markets from 11 U.S. and South American locations.

Industrial Papers: We produce 370,000 tons of specialty industrial papers annually used in applications such as pressure-sensitive labels, food and industrial packaging, industrial sealant and tapes and consumer hygiene products.

DISTRIBUTION

Through xpedx, our North American merchant distribution business, we supply industry wholesalers and end users with a vast array of printing, packaging, graphic arts, maintenance and industrial products. xpedx operates over 100 warehouses, 130 sales offices and 180 retail stores in the U.S. and Mexico. Overseas, Papeteries de France, Scaldia in the Netherlands and Impap in Poland serve European markets. About 22% of Distribution sales are products from International Paper's own facilities.

CHEMICALS AND PETROLEUM

Chemicals: Arizona Chemical is a leading processor of crude tall oil and crude sulfate turpentine, natural by-products of the papermaking process. Products also include specialty resins used in adhesives and inks, made at 15 plants in the U.S. and Europe. In addition, we produce chemical specialty pulp, primarily utilized in cigarette filters and fabrics.

Bush Boake Allen: Bush Boake Allen, which is 68.2% owned by International Paper, conducts operations on 6 continents and has locations in 39 countries worldwide. Bush Boake Allen supplies flavors and fragrances for use in foods, beverages, cosmetics and toiletries.

Petroleum: This business manages mineral rights on company-owned and leased land and explores and develops oil and gas reserves, generally by establishing partnerships with other independent oil and gas producing companies. These assets contribute to our results and serve as a partial hedge against fluctuating energy prices.

FOREST PRODUCTS

Forest Resources: International Paper owns or manages 7.1 million acres of forestlands in the U.S., mostly in the South. In 1999, these forestlands supplied about 25% of our wood requirements.

Wood Products: Our 28 U.S. plants produce southern pine lumber, plywood, oriented strand board (OSB) and engineered wood products. The majority of these plants are located in the southern U.S. near our forestlands. We produce 2.3 billion board feet of lumber, 900 million square feet of plywood and 900 million square feet of OSB annually.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Masonite: From 9 locations in North America, Europe and Korea, Masonite manufactures and markets CraftMaster door facings and other molded products for residential and commercial construction, as well as a broad line of hardboard exterior siding, industrial hardboard and a wide range of softboard products for the home and office. Our worldwide capacity for door facings is approximately 1.2 billion square feet annually.

Decorative Products: We produce high- and low-pressure laminates, particleboard and graphic arts products from 15 facilities. Markets served include residential and commercial construction, furniture, store fixtures, graphic arts and specialty niche markets.

CARTER HOLT HARVEY

Carter Holt Harvey is 50.3% owned by International Paper. It is one of the largest forest products companies in the Southern Hemisphere, with operations in New Zealand, Australia and Chile. The Australasian market accounts for 84% of its sales. Asia, particularly Korea and Japan, is an important market for its logs. Carter Holt Harvey's forest operations include ownership of 785,000 acres of predominantly sustainable radiata pine plantations in New Zealand currently yielding 5.8 million cubic meters of logs annually. This yield is expected to increase to over 7 million cubic meters by 2005. About 50% of the harvest is processed through Carter Holt Harvey's wood products and pulp and paper businesses. Their access to one of the largest low-cost softwood fiber bases in the Southern Hemisphere is a key strength.

Carter Holt Harvey is the largest Trans-Tasman company producing lumber, plywood and engineered wood products. It has 600 million board feet of lumber capacity annually. Carter Holt Harvey is New Zealand's largest manufacturer and marketer of pulp and paper products, with overall annual capacity of 850,000 tons at 4 mills. Its major products are linerboard and pulp. Carter Holt Harvey produces 140,000 tons of tissue products from 2 mills and 7 converting facilities and is the market leader and largest manufacturer in Australia. Sorbent is the most recognized local tissue brand in this market. Carter Holt Harvey produces corrugated boxes and plastic packaging with a focus on the horticulture, primary produce and foodservice markets in New Zealand and Australia. It also has a significant share of the Australian cup market through its Continental Cup joint venture with International Paper. The distribution business comprises the Carters building supplies chain and paper merchants B. J. Ball in New Zealand and Raleigh Paper in Australia.

At December 31, 1999, Carter Holt Harvey owned a 50% stake in a joint venture (Los Andes) that held 60% of Compania de Petroleos de Chile (COPEC), Chile's largest industrial conglomerate. Carter Holt Harvey announced the sale of its indirect interest in COPEC for just over \$1.2 billion effective January 3, 2000.

INDUSTRY SEGMENT RESULTS

PRINTING AND COMMUNICATIONS PAPERS

Printing and Communications Papers posted sales of \$5.9 billion in 1999 and 1998 compared with \$6.4 billion in 1997. Increased volumes were more than offset by lower market prices.

Operating profit rose to \$255 million in 1999 from \$180 million in 1998 due mainly to the success of management actions to reduce costs. In 1997, operating profit was \$245 million.

Printing and Communications Papers

In millions	1999	1998	1997
Sales	\$5,930	\$5,915	\$6,415
Operating Profit	\$ 255	\$ 180	\$ 245

U.S. Papers sales were \$4.1 billion in 1999, down from \$4.3 billion in 1998 and \$4.6 billion in 1997. Although business conditions improved during 1999, average prices were lower than 1998 levels. Demand in the U.S. began to strengthen in the latter part of 1999 and prices increased. Due to seasonal weaknesses at the end of the year, however, production was curtailed at our U.S. mills to avoid building inventories. U.S. Papers operating profit in 1999 improved considerably from 1998 levels primarily due to our cost reduction efforts. Current year operating profit was about even with 1997.

Uncoated Papers sales were \$2.6 billion in 1999, a decline of 3% from 1998 and 12% from 1997. On average, prices in 1999 were 3% lower than 1998 and 4% lower than 1997. Uncoated prices fell throughout 1998, bottomed out in the first quarter of 1999, but steadily increased thereafter. Year-end 1999 pricing reflected a 17% increase over the first quarter of 1999. Despite lower sales, operating profit improved considerably in 1999 over 1998 reflecting the effect of cost reduction initiatives. Current year operating

MANAGEMENT'S DISCUSSION AND ANALYSIS

profit remained below 1997 levels.

Coated Papers sales of \$1.1 billion decreased 5% and 3% from 1998 and 1997, respectively. On average, prices decreased 2% from 1998, but were above 1997 levels. Operating profit decreased 12% from 1998, primarily due to operational impacts from Hurricane Floyd, as well as other manufacturing problems during the year. Operating profit in 1999 was considerably higher than 1997.

Pulp sales from our U.S. facilities were \$425 million in 1999, increasing 7% over 1998 but below 1997 by 14%. The improvement from 1998 reflects an increase in average pulp prices of 6% with volume relatively flat. Pulp prices ended the year 33% higher than the first quarter of 1999. Although the business continued to post an overall loss, significant improvement occurred from 1998 reflecting the effect of higher pulp prices. However, operating profit remained below 1997 results.

Future profits of U.S. Papers should improve as we continue to realize additional benefits from our profit improvement programs and expected price improvements during 2000.

European Papers sales were \$1.8 billion, 9% higher than 1998 and 2% lower than 1997. European demand for paper began to recover in the spring and continued through the year. Except for market pulp, prices declined for all product lines in the first half of the year, remained stable during the summer, and began to increase in the fourth quarter. Pulp prices increased over 40% during the year, more than \$140 per ton on average. The continued strengthening of the U.S. dollar against local currencies in 1999 depressed the translated value of our sales and increased pulp costs. Despite these factors, operating profit remained level with 1998 as cost-reduction and productivity efforts continued. Zanders reported profit for the third consecutive year, even though pulp costs rose faster than product prices. We continued our expansion into the highly profitable markets of Central and Eastern Europe, which, coupled with low-cost production, resulted in another strong performance from Kwidzyn and a successful first full year for Svetogorsk.

Demand in Europe is expected to grow in 2000. For uncoated papers, we expect a 4% increase in demand and for prices to continue to rise. Coupled with a strategic focus on value-added grades, the outlook is good.

INDUSTRIAL AND CONSUMER PACKAGING

Industrial and Consumer Packaging sales totaled \$7.0 billion in 1999 and 1998. Operating profit in 1999 increased 67% to \$560 million from \$335 million mainly due to manufacturing and marketing initiatives resulting in increased volumes and cost reductions. Operating profit was also bolstered by synergies realized from the Union Camp merger. Improved Industrial Packaging pricing during the second half of the year was offset by competitive markets served by Consumer Packaging. Sales were \$6.8 billion in 1997 and operating profit was \$260 million.

Industrial and Consumer Packaging

In millions	1999	1998	1997
Sales	\$7,050	\$7,010	\$6,785
Operating Profit	\$ 560	\$ 335	\$ 260

Industrial Packaging revenues were \$3.8 billion in 1999, up from \$3.7 billion in 1998 and \$3.5 billion in 1997. After incurring an operating loss in 1997, profits have risen steadily in 1998 and 1999. Demand remained healthy throughout 1999, with our containerboard and domestic box businesses recording a 7% rise in shipments compared to 1998. The growth in shipments from the converting plants exceeded the industry growth average, reflecting the continuing emphasis on customer-focused improvement programs, merger synergies and a full year of operation for the Weston plants acquired in April 1998. Average U.S. prices for linerboard rose 4% in 1999, but exited the year almost 30% higher than January. European box markets were weaker than expected for most of 1999, which held results of our European container plants to 1998 levels. Kraft papers domestic markets improved during the fourth quarter, with better margins due to stronger demand for high-end products.

Looking ahead, the Industrial Packaging business is measurably stronger than it was entering 1999, both from sales and manufacturing perspectives. Given the relatively healthy industry conditions, we expect a strong performance in 2000.

Consumer Packaging sales were \$3.2 billion, down slightly from \$3.3 billion in both 1998 and 1997. Operating profit was relatively flat with 1998 but below 1997 by 9%. Sales in 1999 were lower than 1998 and 1997 due to competitive market conditions in most businesses at the beginning of 1999 and lower bleached board volume due to the

MANAGEMENT'S DISCUSSION AND ANALYSIS

sale of the Sprague mill in April 1999. Performance improvement programs across all of the businesses were able to offset most of the shortfall caused by market conditions.

Bleached board markets stabilized during the second quarter. Backlogs ended the year at a respectable mid-20 day range. Asian economic recovery was a positive factor for several businesses. Bleached board exports increased 6% year over year. Operational costs were reduced 7% in the current year due to mill manufacturing initiatives. The bleached board business embarked on an aggressive process improvement program that began to add to results the last half of the year. We expect the contribution from this program next year will be significant. Our converting businesses, leveraging the customer-focused operational realignment that occurred at the end of 1998, made progress toward providing total packaging solutions to our customers.

Our outlook going into 2000 is optimistic. Market conditions improved compared to this time last year.

DISTRIBUTION

North American and European distribution sales totaled \$6.9 billion in 1999 compared with \$6.3 billion in 1998 and \$5.3 billion in 1997. Operating profit in 1999 increased 24% from 1998 and 17% from 1997. Profit on sales increased from 1.4% in 1998 to 1.5% in 1999 due largely to sharply higher earnings resulting from the Zellerbach integration. This impact from Zellerbach more than offset a competitive paper price environment, one-time integration costs, and systems spending related to Year 2000 readiness.

Distribution			
In millions	1999	1998	1997
Sales	\$6,850	\$6,280	\$5,250
Operating Profit	\$ 105	\$ 85	\$ 90

xpedx, our North American distribution operation, posted sales of \$6.5 billion in 1999, up 9% from 1998 and 32% from 1997. The increase over 1998 was driven by unit sales growth of 4% and the acquisition of Zellerbach in July 1998. Excluding Zellerbach and Taussig's Graphic Supply, Inc., acquired in late 1997, sales were \$5.2 billion in 1998. Despite sales growth, operating profit declined 0.5% mainly because of lower sales prices and increasingly competitive markets for printing papers as both merchants and customers consolidate. Certain one-time costs also reduced 1998 operating profit. These included marketing costs aimed at strengthening the xpedx brand name, as well as costs related to the Zellerbach integration.

In 1999, xpedx and Alling & Cory, the distribution company acquired through our merger with Union Camp, successfully combined operations in 7 metropolitan areas eliminating duplicate facilities. By the end of 1999, the integration was largely completed, with a reduction of over 400 employees. Operating profits in the combined facilities trended up in the second half of 1999. Our strategy in both the integration of Zellerbach and Alling & Cory was to retain only those customers and markets that met our strategic and financial objectives.

xpedx plans to achieve higher earnings in 2000, as performance from the facilities impacted by the Zellerbach and Alling & Cory mergers improve further, and non-recurring integration expenses and Year 2000-related expenses are eliminated.

Our European distribution operations—Papeteries de France, Scaldia in the Netherlands and Impap in Poland—posted sales of \$350 million, increasing 3% from 1998 and 8% from 1997. Operating profit increased 26% over 1998 and 34% over 1997.

Overall, we expect an acceleration of the improvement in earnings for the distribution businesses in 2000.

CHEMICALS AND PETROLEUM

Chemicals and Petroleum sales were \$1.5 billion in 1999, flat with 1998 and 8% lower than 1997. Earnings were \$125 million in 1999, declining from \$135 million in 1998 and \$180 million in 1997. Results were mixed with the Petroleum operation showing an increase over last year which was more than offset by declines in the other businesses.

Chemicals and Petroleum			
In millions	1999	1998	1997
Sales	\$1,455	\$1,465	\$1,585
Operating Profit	\$ 125	\$ 135	\$ 180

Chemicals sales were \$885 million in 1999, slightly below 1998, and 11% lower than 1997. Operating profit declined about 20% from 1998 and 37% from 1997. The decline over the three year period is due largely to decreased demand and lower prices for chemical cellulose pulp. We have recently implemented plans in this business which will reduce costs and improve financial performance. While demand for commodity chemical products and specialty adhesive resins was strong throughout the year, shipments of other upgraded products, particularly

ink resins, were lower. In addition, prices

MANAGEMENT'S DISCUSSION AND ANALYSIS

were down due to lower raw material prices for crude tall oil and crude sulfate turpentine, as well as increased competition from substitute products. We continued to lower our manufacturing costs. Our focus for 2000 is to capture the merger synergies, further improving our cost position and eliminating redundant capacity.

Bush Boake Allen sales of \$500 million were better than both 1998 and 1997 by 3% and 2%, respectively. Operating profit, however, was 24% below last year and 17% below 1997. The operation's Flavors and Fragrance business grew by about 6% as compared with 1998 with strong demand from the Americas and Asia, partially offset by weaker European shipments. The decline in crude sulfate turpentine prices, however, coupled with industry overcapacity, resulted in strong downward price pressure. As a result, sales from the Aroma Chemicals business declined by about 7%. The resulting decline in operating profit more than offset the 5% earnings increase generated by the Flavors and Fragrance business.

Petroleum realized sales of \$70 million in 1999 which were about equal to 1998 and 31% lower than 1997. Operating profit was 57% higher than 1998, but 32% lower than 1997. Total year average prices for gas and oil increased over last year's very low levels. However, we were still about 10% below 1997. Our exploration program, generally operated through joint ventures, is focused on West Texas, the Gulf Coast and the Gulf of Mexico and yielded reserves which were about equal to production in 1999.

FOREST PRODUCTS

Forest Products sales were \$3.2 billion in 1999, up from \$2.9 billion in 1998 and \$3.0 billion in 1997. Operating profit totaled \$725 million in 1999 compared with \$620 million in 1998 and \$615 million in 1997. The 1999 improvement was driven by the strong performance of our Building Materials businesses.

Forest Products			
In millions	1999	1998	1997
Sales	\$3,205	\$2,930	\$3,025
Operating Profit	\$ 725	\$ 620	\$ 615

Forest Resources sales in 1999 were \$653 million compared with \$553 million in 1998 and \$537 million in 1997. Operating profit was 7% below 1998 but 16% higher than 1997. Earnings in all three years include income from transactions that disposed of interests in non-strategic forestlands. While harvest volumes in 1999 remained about the same as in 1998, average prices declined from the record levels of 1998. Pine sawtimber prices averaged about 6% lower, and pulpwood prices about 22% lower, in 1999.

Stumpage prices entering 2000 were well below comparable prices at the beginning of 1999. Furthermore, wood inventory levels at pulp and paper mills and wood products plants are generally at or near targeted levels, except in the Carolina's where facilities are still recovering from the hurricanes of 1999. Accordingly, we do not expect any significant changes in prices in early 2000, although we believe that full year prices should average about the same as in 1999. Harvest volumes in 2000 are also scheduled to approximate 1999 levels.

Wood Products sales increased 17% to \$1.4 billion in 1999 from \$1.2 billion in 1998. Sales in 1997 were \$1.3 billion. Operating profit for this business improved significantly from the prior year. A strong U.S. housing market, low interest rates, and generally good U.S. and global economic conditions contributed to the strong demand and higher pricing for wood products. OSB reached record price levels while lumber prices also strengthened. Also impacting earnings favorably were merger synergies, product mix, management programs and lower fiber costs.

Masonite sales were \$512 million in 1999, 3% above 1998 sales of \$499 million, but 10% below 1997 sales of \$567 million. The 1999 improvement was mainly due to increased door facings volume in North America. However, increased global capacity for molded door facings caused a decline in door facing prices, partially offsetting the sales growth. In addition, the siding and hardboard markets are becoming increasingly competitive. Weaker demand for these products resulted in lower operating profit. Internal cost reduction initiatives and new product development will begin to offset these declines in 2000.

Decorative Products sales were \$624 million in 1999 which were 5% below 1998 sales of \$658 million. Sales in 1997 were \$599 million. The decrease in sales was mainly due to the closure of 2 medium density fiberboard (MDF) plants in late 1998 and sale of the Fountainhead business in early 1999. Sales volumes and profitability improved in the particleboard and low pressure laminates businesses. The markets for high pressure laminates in North America and Europe were extremely competitive, leading to lower earnings in this business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CARTER HOLT HARVEY

International Paper's results for this segment differ from those reported by Carter Holt Harvey in New Zealand in four major respects:

1. Carter Holt Harvey's reporting period is a fiscal year ending March 31. Our segment results are for the calendar year.
2. Our segment earnings include only our share of Carter Holt Harvey's operating earnings. Segment sales, however, represent 100% of Carter Holt Harvey's sales.
3. Carter Holt Harvey reports in New Zealand dollars but our segment results are reported in U.S. dollars. The weighted average currency exchange rate used to translate New Zealand dollars to U.S. dollars was .52 in 1999, .54 in 1998, and .66 in 1997.
4. Carter Holt Harvey reports under New Zealand accounting standards but our segment results comply with U.S. generally accepted accounting principles (U.S. GAAP). The major differences relate to cost of timber harvested (COTH), land sales, COPEC and start-up costs. These differences reduced segment earnings by about \$50 million in 1999, \$40 million in 1998 and \$30 million in 1997.

Carter Holt Harvey			
In millions	1999	1998	1997
Sales	\$1,605	\$1,505	\$1,955
Operating Profit	\$ 40	\$ 20	\$ 90

Carter Holt Harvey's segment sales were \$1.6 billion in 1999, slightly higher than 1998 sales of \$1.5 billion but below 1997 sales of \$2.0 billion. The translation effect of the weakening New Zealand dollar more than accounted for the sales shortfall as compared with 1997.

Segment operating income doubled to \$40 million in 1999, compared with the \$20 million earned in 1998, but was still less than half the operating profit realized in 1997. Results in 1998 were severely impacted by the weakness in Asian economies during this period, as well as that of New Zealand. However, volumes and prices in most products have improved in 1999 as the Asian markets have recovered and paper has moved up from a cyclical low point in the first quarter. Also contributing to an improvement in earnings in 1999 was the continued success of Carter Holt Harvey's performance improvement program.

Forests sales in 1999 improved 22% from 1998 as the log export market, after nearly collapsing in 1998, returned to strength in 1999. Log export volumes in the fourth quarter of 1999 of 545,000 tons were 29% higher compared to the same quarter a year ago and set a quarterly record. However, because of a large negative U.S. GAAP adjustment for COTH, the Forests segment remained in a loss position although improving 70% and approaching breakeven. The Wood segment results remained relatively robust, but were about flat with 1998. However, momentum is now strengthening and lumber price increases in both Australia and New Zealand of between 5% and 7% have been announced. Construction of a plant to produce laminated veneer lumber, a value-added product, is underway in New Zealand. Earnings for the Pulp, Paper and Tissue segment improved in 1999. Prices are improving and after two periods of construction down time in 1999 to complete its modernization, the Kinleith mill produced 142,000 tons in the fourth quarter. However, the performance of the Kinleith linerboard machine is not yet at operating design levels. The tissue business remains strong, holding its share of the Australian premium toilet tissue category in the face of heavy competition and price discounting while the paper towel business achieved its highest market share ever in a category with 10% annual growth. The ongoing focus in coming months is to minimize the impact of rising pulp prices, which are significantly higher than a year ago. The Packaging segment earnings fell 74% from 1998 levels, primarily because of intensely competitive markets. Distribution returned to profitability in 1999. Earnings from Carter Holt Harvey's equity investment in COPEC showed significant improvement in 1999 as higher pulp demand and prices more than offset a 12% weakening in the Chilean peso. Carter Holt Harvey sold its investment in COPEC for just over \$1.2 billion in January 2000.

The outlook is for continuing volume and price improvement as well as further gains to be realized from Carter Holt Harvey's performance improvement program. We expect good demand from the New Zealand agricultural sector and construction markets in both Australia and New Zealand. Driving performance improvement will continue to be a priority for management.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY & CAPITAL RESOURCES

CASH PROVIDED BY OPERATIONS

Cash provided by operations totaled \$1.7 billion for 1999, compared with \$2.1 billion in 1998 and \$1.6 billion in 1997. The largest factors in the decrease in operating cash flow in 1999 were payments related to the Union Camp merger and restructuring and legal reserves. Excluding special items, after taxes and minority interest, net earnings for 1999 increased \$206 million compared with 1998. However, 1998 net earnings were \$36 million less than 1997. An increase in working capital reduced 1999 operating cash flow by \$32 million. Working capital changes increased 1998 operating cash flow by \$74 million and decreased 1997 operating cash flow by \$451 million. Depreciation and amortization expense was \$1.5 billion in 1999 and 1998 and \$1.6 billion in 1997.

INVESTMENT ACTIVITIES

Capital spending was \$1.1 billion in 1999, lower than 1998 spending of \$1.3 billion and 1997 spending of \$1.4 billion. As part of our program to improve return on investment, we plan to continue to hold annual capital spending below our annual depreciation and amortization expense of \$1.5 billion. We expect 2000 spending to be between \$1.2 billion and \$1.3 billion. The following table presents capital spending by each of our business segments.

Capital Spending by Industry Segment

In millions for the years ended December 31	1999	1998	1997
-----	-----	-----	-----
Printing and Communications Papers	\$ 382	\$ 302	\$ 385
Industrial and Consumer Packaging	287	391	343
Distribution	16	19	20
Chemicals and Petroleum	104	170	142
Forest Products	189	222	249
Carter Holt Harvey	99	166	230
-----	-----	-----	-----
Subtotal	1,077	1,270	1,369
Corporate and other	62	52	79
-----	-----	-----	-----
Total	\$1,139	\$1,322	\$1,448
	=====	=====	=====

Under a 1997 business improvement plan, we undertook the sale of \$1 billion of non-strategic assets. This program was substantially completed in 1998. Divestitures completed during 1998 included the Imaging printing and graphic arts businesses, the label business, the Veratec nonwovens division and Carter Holt Harvey's building products business. Substantially all of these proceeds were used to reduce debt or for general corporate purposes.

On November 24, 1998, International Paper announced that it had reached an agreement to merge with Union Camp Corporation (Union Camp), a diversified paper and forest products company. The transaction was approved by Union Camp and International Paper shareholders on April 30, 1999. Union Camp shareholders received 1.4852 International Paper common shares for each Union Camp share held. The total value of the transaction, including the assumption of debt, was approximately \$7.9 billion.

International Paper issued 110 million shares for 74 million Union Camp shares, including options. The merger was accounted for as a pooling-of-interests.

In April 1999, Carter Holt Harvey acquired the corrugated packaging business of Stone Australia, a subsidiary of Smurfit-Stone Container Corporation. The business consists of two sites in Melbourne and Sydney which serve industrial and primary produce customers.

In December 1998, we completed the acquisition of Svetogorsk AO, a Russia-based pulp and paper business, which has enhanced International Paper's ability to serve growing market demand in Eastern Europe. Also in December 1998, Carter Holt Harvey and International Paper jointly acquired Marinetti S.A.'s paper cup division based in Chile. This acquisition has enabled the foodservice business to better serve markets in South America.

In July 1998, International Paper acquired the Zellerbach distribution business from the Mead Corporation for \$261 million in cash. Zellerbach has been integrated into xpedx, our distribution business.

In April 1998, Weston Paper and Manufacturing Company (Weston) was acquired by exchanging 4.7 million International Paper common shares valued at \$232 million for all of the outstanding Weston shares in a noncash transaction.

In April 1998, Carter Holt Harvey acquired Riverwood International, an Australia-based folding carton business.

In March 1998, a wholly-owned subsidiary of International Paper purchased all of the publicly traded Class A depository units of IP Timberlands, Ltd. for a cash purchase price of \$100 million.

In February 1998, we entered into a joint venture with Olmuksa in Turkey for the manufacture of containerboard and corrugated boxes for markets in Turkey and surrounding countries. Also in February 1998, Carter Holt Harvey and International Paper jointly acquired Australia-based Continental Cup.

Acquisitions in 1997 included: Taussig's Graphic Supply, Inc., a distribution company; Phoenix Display and Packaging

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corporation, a merchandising and point-of-purchase display company; Merbok Formtec, a pioneer in the development of door facing products; Antietam Paper Company, a distribution company; and a 75% interest in Puntapel S.A., an Argentinean multiwall plant. The cost of these acquisitions, net of cash acquired, was \$94 million in the aggregate.

FINANCING ACTIVITIES

During 1999, we extinguished \$275 million of high interest debt that was assumed in the merger with Union Camp, at an after tax cost of \$16 million, which is reflected as an extraordinary item in the 1999 statement of earnings. We also reduced other debt, primarily short-term, by \$540 million.

During 1998, we reduced debt, primarily short-term, by \$1.9 billion and issued \$1.5 billion of preferred securities of subsidiaries. In March 1998, Timberlands Capital Corp. II, a wholly-owned consolidated subsidiary, issued \$170 million of 7.005% preferred securities as part of the financing to repurchase the outstanding units of IP Timberlands, Ltd. In June 1998, IP Finance (Barbados) Limited, a wholly-owned consolidated non-U.S. subsidiary, issued \$550 million of preferred securities with a dividend payment that is based on LIBOR. In September 1998, International Paper Capital Trust III, a wholly-owned consolidated subsidiary, issued \$805 million of 7 7/8% mandatorily redeemable preferred securities.

During 1997, we issued environmental and industrial development bonds for various capital projects, repaid \$164 million of 10% debentures, and reduced commercial paper and short-term borrowings.

Long-term debt and notes payable on our consolidated balance sheet were \$8.4 billion in 1999 compared with \$9.1 billion in 1998 and \$11.0 billion in 1997. However, after adjusting for foreign exchange, acquisitions and restructuring activities, total debt was reduced by approximately \$540 million and \$1.9 billion in 1999 and 1998, respectively, on a cash flow basis. During 1998, one of the corporate debt rating agencies, Standard & Poor, downgraded our long-term debt rating from A- to BBB+.

Unless otherwise noted, the proceeds of all of the financings described above were used to reduce short-term debt or for general corporate purposes.

Dividend payments were \$418 million, \$431 million and \$427 million in 1999, 1998 and 1997, respectively. On a per share basis, dividend payments were \$1.01 in 1999, and \$1.05 in 1998 and 1997. The International Paper dividend has remained at \$1.00 per share during the three year period. However, dividend payments on a per share basis have been restated to include dividends paid by Union Camp.

CAPITAL RESOURCES OUTLOOK FOR 2000

Our financial condition continues to be strong. We expect to receive just over \$1.2 billion after tax in the first quarter of 2000 from the sales of our equity investments in COPEC and Scitex. The cash proceeds from the sale of COPEC are being received by our consolidated subsidiary, Carter Holt Harvey. We anticipate that cash flow from operations, supplemented as necessary by short- or long-term borrowings, will be adequate to fund our capital expenditures, to service existing debt, and to meet working capital and dividend requirements during 2000.

OTHER FINANCIAL STATEMENT ITEMS

Net interest expense decreased to \$541 million in 1999 compared with \$614 million in 1998 and \$607 million in 1997. The decrease was primarily due to a net decrease in total debt outstanding, after adjusting for the effects of currency translation, from December 1998 to December 1999. Proceeds received from the sale of assets in 1998 and 1999 as well as proceeds from the issuance of preferred securities were used to reduce debt and for other general corporate purposes.

Minority interest expense increased to \$163 million in 1999 compared with \$87 million in 1998 and \$140 million in 1997. Minority interest expense increased in 1999 because the preferred securities of subsidiaries issued during 1998 were outstanding for the full year in 1999 and Carter Holt Harvey's earnings improved. The decrease in minority interest expense from the year ended December 31, 1997 to the year ended December 31, 1998, was primarily due to a decrease in earnings at Carter Holt Harvey in 1998 as compared to 1997 partially offset by an increase in interest expense related to the issuance of preferred securities in 1998.

Net periodic pension results for the U.S. defined benefit plans were income of \$49 million, \$77 million and \$63 million in 1999, 1998 and 1997, respectively. The variation between pension income in 1999 and 1998 was primarily due to the expiration of International Paper's transition asset amortization which reduced 1999 pension income by \$26 million as compared to 1998.

As of June 1, 1999 International Paper enhanced pension benefits for its major union groups. As a result, the pension plan was revalued. The revaluation assumed a discount rate of 7.25% and a rate of compensation increase of 4.5%. These actions had the net effect of reducing the pension benefit obligation by \$179 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our equity investments consisted primarily of Scitex and Carter Holt Harvey's 30% ownership in COPEC, which it held through a joint venture. Both Scitex and COPEC are publicly traded companies. Carter Holt Harvey sold its equity interest in COPEC on January 3, 2000 for just over \$1.2 billion and International Paper sold its equity interest in Scitex on January 6, 2000 for \$79 million. At such time the carrying value of these investments was \$865 million and \$35 million, respectively. These transactions will result in income after tax and minority interest of about \$135 million or \$.33 per share, which will be recorded in the first quarter of 2000 as an extraordinary item pursuant to pooling-of-interests accounting rules.

SPECIAL ITEMS INCLUDING RESTRUCTURING AND BUSINESS IMPROVEMENT ACTIONS

Special items reduced 1999 net earnings by \$352 million, 1998 net earnings by \$98 million and 1997 net earnings by \$461 million. The following tables and discussion present the impact of special items for 1999, 1998 and 1997:

In millions	1999	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special and extraordinary items	\$ 1,005	\$ 551
Union Camp merger-related termination benefits	(148)	(97)
One-time merger expenses	(107)	(78)
Restructuring and other charges	(298)	(180)
Environmental remediation charge	(10)	(6)
Provision for legal reserves	(30)	(18)
Reversal of reserves no longer required	36	27
After special items	\$ 448	\$ 199

During 1999 special items amounting to a net charge before taxes and minority interest expense of \$557 million (\$352 million after taxes and minority interest expense) were recorded. The special items included a \$148 million pre-tax charge (\$97 million after taxes) for Union Camp merger-related termination benefits, a \$107 million pre-tax charge (\$78 million after taxes) for one-time merger expenses, a \$298 million pre-tax charge (\$180 million after taxes and minority interest expense) for asset shutdowns of excess internal capacity and cost reduction actions, a \$10 million pre-tax charge (\$6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a \$30 million pre-tax charge (\$18 million after taxes) to increase existing legal reserves and a \$36 million pre-tax credit (\$27 million after taxes) for the reversal of reserves that were no longer required.

The one-time merger expenses of \$107 million consisted of \$49 million of merger costs and \$58 million of post-merger expenses. The merger costs were primarily investment banker, consulting, legal and accounting fees. Post-merger integration expenses include costs related to employee retention, such as stay bonuses, and other one-time cash costs related to the integration of Union Camp.

The Union Camp merger-related termination benefit charge relates to employees terminating after the effective date of the merger under an integration benefits program. Under this program, 1,218 employees of the combined company were identified for termination. An additional 777 employees left the company after the merger was announced, but were not eligible for benefits under the integration benefits program. Benefits payable under this program for certain senior executives and managers are or have been paid from the general assets of International Paper. Benefits for remaining employees have been or will be primarily paid from plan assets of our qualified pension plan. Through December 31, 1999, 787 employees had been terminated. Related cash payments approximated \$65 million (including payments related to our nonqualified pension plans). The remaining charge primarily represents an increase in the projected benefit obligation of our qualified pension plan.

The following table is a roll forward of the Union Camp merger-related termination benefit charge:

In millions	Termination Benefits
Special charge (1,218 employees)	\$ 148
Incurred costs (787 employees)	(116)
Balance, December 31, 1999	\$ 32

Note: Benefit costs are treated as incurred on the termination date of the employee.

The \$298 million charge for the asset shutdowns of excess internal capacity consisted of a \$113 million charge in the 1999 second quarter and a \$185 million charge in the 1999 fourth quarter.

The second quarter 1999 \$113 million charge for the asset shutdowns of excess internal capacity and cost reduction actions included \$57 million of asset write-downs and \$56 million of severance and other charges. The following table and discussion presents additional detail related to the \$113 million charge:

MANAGEMENT'S DISCUSSION AND ANALYSIS

In millions		Asset Write-downs	Severance and Other	Total
-----		-----	-----	-----
Printing and Communications				
Papers	(a)	\$ 6	\$ 27	\$ 33
European Papers	(b)	3	7	10
Consumer Packaging	(c)	19	12	31
Industrial Packaging	(d)	12		12
Chemicals and Petroleum	(e)	10	3	13
Industrial Papers	(f)	7	7	14
		-----	-----	-----
		\$ 57	\$ 56	\$ 113
		=====	=====	=====

(a) We recorded a charge of \$24 million for severance related to the second phase of the Printing and Communications Papers business plan to improve the cost position of its mills. The charge, pursuant to our ongoing severance program, covers a reduction of approximately 289 employees at several mills in the U.S. At December 31, 1999, 146 employees had been terminated.

Also, management approved a decision to permanently shut down the Hudson River mill No. 4 paper machine located in Corinth, New York and the No. 2 paper machine at the Franklin, Virginia mill. The Franklin machine was shut down in September of 1999 and the Hudson River machine has also been shut down. The Hudson River machine had previously been temporarily shut down because of lack of orders. The machines were written down by \$6 million to their estimated fair value of zero. Severance costs of \$3 million cover the termination of 147 employees. At December 31, 1999, 76 employees had been terminated.

(b) The charge for European Papers, which covers the shutdown of two mills, consists of \$3 million in asset write-downs, \$6 million in severance costs and \$1 million of other exit costs. The Lana mill in Docelles, France was shut down due to excess capacity. The Lana mill produced approximately 5,000 metric tons of high-end uncoated specialty paper per year. This production was shifted to the La Robertsau mill in Strasbourg, France. The Lana mill fixed assets were written down \$3 million to their estimated fair value of zero. Costs related to the site closure are expected to be \$1 million and severance related to the termination of 42 employees will be approximately \$4 million. The Lana mill had revenues of \$12 million and an operating loss of \$2 million for the year ended December 31, 1999. At December 31, 1999, 14 employees had been terminated.

The Corimex coating plant in Clermont-Ferrand, France was shut down in April 1999. The market for thermal fax paper, which was produced at the plant, has been shrinking since the mid-1990's. The assets at this plant were considered to be impaired in 1997 and were written down accordingly at that time. A \$2 million severance charge was recorded during the second quarter of 1999 to cover the costs of terminating 81 employees. Corimex had revenues of \$6 million and an operating loss of \$3 million for the year ended December 31, 1999. At December 31, 1999, all 81 employees had been terminated.

(c) The Consumer Packaging business has implemented a plan to improve the overall performance of the Moss Point, Mississippi mill. Included in this plan is the shutdown of the No. 3 paper machine which produces labels. This production is being transferred to the Hudson River mill. The machine has been written down \$6 million to its estimated fair value of zero. Severance costs including, but not limited to, employees associated with the No. 3 machine total \$10 million and cover the elimination of 360 positions. At December 31, 1999, 272 employees had been terminated.

Consumer Packaging also shut down the beverage packaging facility in Itu, Brazil in an effort to reduce excess capacity in Latin America. The assets were written down \$13 million to their estimated fair value of zero and a severance charge of \$1 million covers the elimination of 29 positions. Other exit costs total \$1 million. At December 31, 1999, 24 employees had been terminated.

(d) As a result of the merger with Union Camp, we negotiated the resolution of contractual commitments in an industrial packaging investment in Turkey. As a result of these negotiations and evaluation of this entity, it was determined that the investment was impaired. A \$12 million charge was recorded to reflect this impairment and the related costs of resolving the contractual commitments.

(e) As a result of an overall reduction in market demand for dissolving pulp, the decision was made to downsize the Natchez, Mississippi mill. Charges associated with capacity reduction total \$10 million and include the shutdown of several pieces of equipment. A severance charge of \$3 million includes the elimination of 89 positions. At December 31, 1999, 88 employees had been terminated.

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(f) The Industrial Papers business has implemented a plan to reduce excess capacity at several of its locations. The Toronto, Canada plant has been closed. Equipment at the Kaukauna, Wisconsin and Knoxville, Tennessee facilities has been taken out of service, with additional equipment at the Menasha, Wisconsin plant scheduled to be shut down in 2000. The total amount related to the write-down of these assets is \$7 million. Severance costs related to these shutdowns are \$5 million and are based on a personnel reduction of 81 employees. Other exit costs total \$2 million. At December 31, 1999, a reduction of 59 employees had been made through severance and attrition.

The \$185 million fourth-quarter 1999 charge for shutdowns of excess internal capacity and cost reduction actions includes \$92 million of asset write-downs and \$93 million of severance and other charges. The following table presents additional detail related to the \$185 million charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing and Communications				
Papers	(a)	\$ 7	\$ 5	\$ 12
Consumer Packaging	(b)	14	22	36
Industrial Packaging	(c)	7	14	21
Chemicals and Petroleum	(d)	30	20	50
Building Materials	(e)	10	6	16
Distribution	(f)	6	17	23
Carter Holt Harvey	(g)	18	9	27
		\$ 92	\$ 93	\$ 185
		=====	=====	=====

(a) The Printing and Communications Papers charge of \$12 million encompasses a production curtailment at the Erie, Pennsylvania mill due to lower demand, the write-off of deferred software costs as the result of a decision to discontinue the installation of a Union Camp order entry system and an impairment of our investment in the Otis Hydroelectric plant. In November 1999 we announced that the Erie, Pennsylvania mill would change from a seven day, four crew schedule to a three crew schedule in order to balance operating capacity with sales demand. This production curtailment resulted in a severance charge of \$2 million for the termination of 99 employees. The charge for the deferred software write-off was \$3 million. International Paper also wrote down its investment in the Otis Hydroelectric partnership by \$7 million to the approximate market value of the investment based upon our current offer to acquire the other partner's interest.

(b) The Consumer Packaging business charge of \$36 million is related to the shutdown of facilities, capacity optimization and a deferred software write-off. The Philadelphia, Pennsylvania plant and the Edmonton, Alberta plant are scheduled to be shut down. Charges associated with these shutdowns include \$7 million of asset write-downs, \$1 million of severance costs covering the termination of 194 employees and other exit costs of \$5 million. Charges related to eliminating excess capacity include \$7 million of asset write-downs and a severance charge of \$11 million for the termination of 512 employees. The capacity reductions are related to the aseptic and flexible packaging businesses. The business also decided to discontinue the implementation of a Union Camp order management system. The write-off of deferred software costs related to this system is \$5 million.

(c) The Industrial Packaging business will shut down the following plants and shift production to other facilities: the Terre Haute, Indiana box plant; the Northlake, Illinois box plant; the Columbia, Tennessee sheet plant; and the Montgomery, Alabama sheet plant. The design center in Spartanburg, South Carolina will also be closed. The functions performed in Spartanburg will continue in Memphis, Tennessee. Charges associated with the consolidation and improvement of the Industrial Packaging business total \$21 million and include \$7 million of asset write-downs, a \$12 million severance charge covering the termination of 426 employees and other exit costs of \$2 million.

(d) The Chemicals and Petroleum charge of \$50 million is related to the partial shutdown of the Chester-Le-Street plant located in Northeast England and additional costs related to the 1998 shutdown of the Springhill, Louisiana plant. The Chester-Le-Street plant is currently a fully integrated site comprised of a crude tall oil fractionation plant, a rosin resin upgrading plant and a dimer plant. The crude tall oil and rosin resin upgrading facilities at the site will be closed and production shifted to other Arizona Chemical facilities. Asset write-downs for this plant total \$30 million. A severance charge of \$3 million covers the termination of 83 employees. Other costs of \$12 million include demolition and contract cancellations.

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We also recorded an additional charge of \$5 million related to the 1998 closure of the Springhill plant, covering other exit costs including demolition and cleanup.

(e) The Building Materials charge of \$16 million includes \$3 million for a program to improve the profitability of the decorative surfaces business and \$13 million for the shutdown of the Pilot Rock, Oregon mill. The Decorative Products business has developed an improvement plan that will result in the consolidation of certain manufacturing activities and streamlining of administrative functions. As a result, a reserve of \$3 million was established to cover asset write-offs totaling \$2 million and severance charges of \$1 million related to the reduction of 65 employees. International Paper announced in October of 1999 that it would shut down the Pilot Rock, Oregon mill due to excess capacity within the Masonite manufacturing system. The softboard production will be moved to our Ukiah, California and Lisbon Falls, Maine facilities. The charge includes \$8 million of asset write-downs, a \$2 million severance charge covering the termination of 155 employees and other exit costs of \$3 million.

(f) xpedx, our distribution business, implemented a plan to consolidate duplicate facilities and eliminate excess capacity. The \$23 million charge associated with this plan includes \$6 million of asset write-downs, a severance charge of \$5 million for the termination of 211 employees and other costs of \$12 million. Other costs consist primarily of lease cancellations.

(g) This charge is related to the shutdown of the No. 5 paper machine at Carter Holt Harvey's Kinleith mill. The machine had been idled due to a reconfiguration project at the mill. Plans for alternative uses for the machine were reexamined and it was determined that based on current competitive conditions it would not provide adequate returns on the capital required and that it would be scrapped. Accordingly, the machine was written down from its \$20 million book value to its estimated salvage value of \$2 million. Also, severance costs total \$9 million and cover the costs of terminating 300 employees.

The \$30 million pre-tax charge to increase existing legal reserves includes \$25 million which we added to our reserve for hardboard siding claims. A further discussion of this charge can be found in Note 11. Commitments and Contingent Liabilities. The remaining \$5 million is related to other potential exposures.

The \$36 million pre-tax credit for reserves no longer required consists of \$30 million related to a retained exposure at the Lancey mill in France and \$6 million of excess severance reserves previously established by Union Camp. The Lancey mill was sold to an employee group in October 1997. In April 1999, International Paper's remaining exposure to potential obligations under this sale was resolved, and the reserve was returned to income in the second quarter.

The following table is a roll forward of the severance and other costs included in the 1999 restructuring plans (in millions):

	Severance and Other
Opening Balance (second quarter 1999)	\$ 56
Additions (fourth quarter 1999)	93
1999 Activity	
Cash charges	(34)
Balance, December 31, 1999	\$ 115
	=====

The severance reserves recorded in the 1999 second and fourth quarters related to 3,163 employees. As of December 31, 1999, 760 employees had been terminated.

	1998	
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special items	\$ 598	\$ 345
Oil and gas impairment charges	(111)	(68)
Restructuring and other charges	(161)	(92)
Gain on sale of business	20	12
Reversals of reserves no longer required	83	50
After special items	\$ 429	\$ 247
	=====	=====

During 1998, we recorded \$111 million of oil and gas impairment charges (\$68 million after taxes). Of this amount, \$56 million (\$35 million after taxes)

was recorded in the fourth quarter and \$55 million (\$33 million after taxes) was recorded in the third quarter. International Paper has oil and gas exploration and production operations in West Texas, the Gulf Coast and the Gulf of Mexico. The Securities and Exchange Commission's regulations for companies that use

MANAGEMENT'S DISCUSSION AND ANALYSIS

the full-cost method of accounting for oil and gas activities require companies to perform a ceiling test on a quarterly basis. As a result of low oil and gas prices, the value of our properties was written down through these noncash charges.

Also in 1998, we recorded a \$145 million pre-tax restructuring charge (\$82 million after taxes and minority interest expense) consisting of \$64 million of asset write-downs and \$81 million of severance costs and we recorded pre-tax charges of \$16 million (\$10 million after taxes) related to our share of write-offs taken by Scitex, a 13% investee company, related to in-process research and development of an acquisition and its exit from the digital video business. The Scitex items are reflected as equity losses from the investment in Scitex in the consolidated statement of earnings. In addition, we recorded a \$20 million pre-tax gain (\$12 million after taxes) on the sale of our Veratec nonwovens division, and an \$83 million pre-tax gain (\$50 million after taxes) from the reversal of previously established reserves that were no longer required. These reserves were established in 1996 and 1997 and were primarily associated with the Veratec and Imaging businesses. The sales of these businesses were completed in 1998 and those reserves not required were returned to earnings.

The following table and discussion presents additional detail related to the \$145 million restructuring charge:

In millions		Asset Write-downs	Severance	Total
Distribution	(a)	\$ 20	\$ 10	\$ 30
Printing and Communications				
Papers	(b)	13	14	27
Carter Holt Harvey	(c)	15	3	18
Industrial Packaging	(d)	8	7	15
Union Camp	(e)	8	32	40
Other	(f)		15	15
Total		\$ 64	\$ 81	\$ 145

(a) After the acquisition of Zellerbach, management of xpedx decided to terminate certain software projects that were in process and to use Zellerbach's systems in certain of its regions. Accordingly, we wrote off related deferred software costs on these projects, resulting in a \$20 million charge. As part of the Zellerbach integration plan, management determined that a significant part of the personnel reduction related to the termination of employees at duplicate facilities and locations. The \$10 million severance charge represents the costs for terminating 274 xpedx employees. At December 31, 1999, all of the 274 employees had been terminated.

(b) Our Printing and Communications Papers business shut down equipment at the Mobile, Alabama mill and announced the termination of 750 employees at the Mobile, Alabama, Lock Haven, Pennsylvania, and Ticonderoga, New York mills. At the Mobile mill, International Paper permanently shut down a paper machine and related equipment with a net book value of \$13 million. These assets were written down to their estimated fair market value of zero. The severance charge associated with the employee reductions at the 3 mills was \$14 million. At December 31, 1999, all employees under this program had been terminated.

(c) This charge primarily consists of a \$15 million asset write-down associated with the closure of two Carter Holt Harvey facilities, Myrtleford and Taupo. Myrtleford, a tissue pulp mill located in Australia, was closed due to excess capacity in its tissue pulp system. Carter Holt Harvey will be able to produce the volume at lower costs at its Kawerau tissue pulp mill located in New Zealand. Carter Holt Harvey also decided to close the Taupo, New Zealand sawmill due to excess capacity in its sawmill system as the result of recent productivity improvements. The \$3 million severance charge represents the cost for terminating 236 employees. At December 31, 1999, all of the 236 employees had been terminated. Our consolidated financial statements included revenues of \$21 million and \$36 million and operating income of \$1 million and \$3 million from these facilities in 1998 and 1997, respectively.

(d) Management decided to close the Gardiner, Oregon mill because of excess capacity in International Paper's containerboard system. As a result, the net plant, property and equipment assets of this mill were reduced from \$13 million to the estimated salvage value of \$5 million. In connection with the third-quarter decision to close this mill, 298 employees at the mill were terminated and a \$7 million severance charge was recorded. This mill had revenues of \$78 million and \$105 million and operating losses of \$16 million and \$1 million in 1998 and 1997, respectively.

(e) During 1998 Union Camp recorded a pre-tax special

MANAGEMENT'S DISCUSSION AND ANALYSIS

charge of \$40 million. Included in the charge was \$32 million related to the termination of 540 positions and \$8 million of asset write-downs. Approximately 190 positions were related to a reorganization and restructuring of Union Camp's research and development activities. Another 190 positions were related to a consolidation of the packaging group's administrative support functions and the remaining 160 positions were to be eliminated through a series of other organizational changes. At December 31, 1999, all of the 540 employees had been terminated.

The asset write-downs were principally attributable to the impairment of goodwill specific to two packaging businesses, the Chase packaging facility and Union Camp's 1996 purchase of a 50% interest in a packaging plant in Turkey. Upon reviewing the historical and projected operating results for these businesses, management concluded that expected future cash flows did not fully support the carrying value of these assets.

(f) The \$15 million severance charge was recorded as a result of an announcement by International Paper of a plan to consolidate its land and timber and logging and fiber supply divisions into a new division called Forest Resources and the consolidation of the Consumer Packaging group. Of the \$15 million charge, \$10 million related to a headcount reduction of 200 employees in the Forest Resources group and the remaining \$5 million was based on a personnel reduction of 210 employees in the Consumer Packaging group. At December 31, 1999, all of the 410 employees had been terminated.

The following table is a roll forward of the severance costs included in the 1998 restructuring plan (in millions):

	Severance
Opening Balance (third quarter 1998)	\$ 81
1998 Activity	
Cash charges	(19)
1999 Activity	
Cash charges	(56)
Reserve reversal	(6)
Balance, December 31, 1999	\$ 0

The severance reserve recorded in the 1998 third quarter related to 2,508 employees. As of December 31, 1999, all employees had been terminated.

	1997	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
In millions		
Before special items	\$ 783	\$ 381
Provision for legal reserve	(150)	(93)
Restructuring and other charges	(660)	(465)
Gain on sale of business	170	97
After special items	\$ 143	\$ (80)

In June 1997, a \$535 million pre-tax business improvement charge (\$385 million after taxes) was recorded under a plan to improve our financial performance through closing or divesting of operations that no longer met financial or strategic objectives. It included approximately \$230 million for asset write-downs, \$210 million for the estimated losses on sales of businesses and \$95 million for severance and other expenses. At this point, the anticipated pre-tax earnings improvement of \$100 million from the 1997 restructuring actions has been largely realized. The earnings improvement consists of \$25 million of lower depreciation expense and \$75 million of lower cash costs.

The \$230 million write-down of assets that International Paper recorded in the second quarter of 1997 consisted primarily of write-downs associated with assets to be sold or shut down as follows (in millions):

Shutdown of European Papers facilities	(a)	\$ 105
Shutdown of U.S. Papers and Fine Papers facilities	(b)	101
Write-off of Haig Point real estate development	(c)	13
Other shutdowns		11
		\$ 230

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(a) In the second quarter of 1997, management committed to sell the Lancey, France mill to an employee group. We wrote down the net carrying amount of the mill at June 30, 1997 by \$65 million and established a reserve of \$30 million to cover a retained exposure. This remaining exposure was resolved in 1999. The sale closed in October 1997. Lancey had revenues of \$52 million and an operating loss of \$7 million in 1997. The Corimex, France mill produced coated thermal fax paper, which is a market that weakened in the mid-1990's. During the second quarter of 1997, management concluded that it would continue to operate this mill but that the assets were impaired. Based on an analysis of expected future cash flows completed in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," we reduced the carrying value of the Corimex mill from \$12 million to \$2 million, resulting in a \$10 million charge. The Corimex mill was shut down in April 1999. Charges related to the shutdown are included in the 1999 special charge. Corimex had operating losses of \$4 million in 1998 and \$2 million in 1997.

(b) The \$101 million reserve related to the restructuring of the Fine Papers manufacturing operations in the Northeast (\$51 million) and the shutdown of the deinking facility at the Lock Haven, Pennsylvania mill (\$50 million). The restructuring of the Fine Papers operations included the shutdown of the Woronoco, Massachusetts paper mill and 3 small paper machines at the Erie, Pennsylvania mill. In the 1997 second quarter, we decided to close the deinking facility. Given that each of these actions represented the permanent shutdown of equipment or facilities, International Paper wrote down the net carrying amount of the assets to zero. The Woronoco, Massachusetts mill had revenues of \$46 million and operating earnings of \$5 million in 1997.

(c) We are the developer of a residential golf community named Haig Point at Daufuskie Island, South Carolina. As the developer, International Paper was responsible for operating this community until a specified number of lots were sold, at which time we would turn the community over to the homeowners. The net book value of our investment in Haig Point was \$13 million at June 30, 1997. Given continuing operating losses, \$5 million in 1997 and an updated marketing study, we concluded that the investment was permanently impaired and wrote it down to zero. Operating losses of \$1 million and \$500,000 were recorded in 1999 and 1998, respectively.

The \$210 million for the estimated losses on sales of businesses related to the following (in millions):

Imaging	(a) \$	150
Veratec	(b)	25
Decorative Products	(c)	20
Label	(d)	15

	\$	210
		=====

(a) We decided to sell our Imaging businesses in the second quarter of 1997. Based on discussions with our investment banker and meetings with potential buyers, International Paper believed that the most likely outcome was to realize approximately \$325 million. A reserve of \$150 million was established, which represented the estimated loss on the sale. We expected to complete the sale of the Imaging businesses within one year. The Imaging businesses had revenues of \$690 million and operating earnings of \$9 million in 1997.

(b) The Veratec division had developed a business that was based on an interspun technology for treating fabrics. The net carrying value of this business was \$25 million at June 30, 1997. In June 1997, we decided to shut down this business and recorded a reserve of \$25 million. Prior to the shutdown, this business had revenues of \$2 million and an operating loss of \$7 million in 1997.

(c) In the second quarter of 1997, management decided to sell the medium-density fiberboard, low-pressure laminates and particleboard businesses. We estimated the expected sales prices for each of these businesses and recorded a reserve of \$20 million to reduce the net carrying amounts to these levels. We expected to complete the sales of these businesses within one year. These businesses had revenues of \$196 million and operating losses of \$1 million in 1997.

(d) In the second quarter of 1997, management committed to a plan to sell the label business. The estimated total loss on the label business sale included in the second-quarter 1997 restructuring charge was \$15 million. The label business

MANAGEMENT'S DISCUSSION AND ANALYSIS

was sold in May of 1998. The label business had revenues of \$24 million and an operating loss of \$2 million in 1997.

The \$95 million of severance and other expenses consists of the following (in millions):

Severance	(a)	\$ 42
Write-off of deferred software costs	(b)	18
Lease buyouts at warehouses	(c)	9
Write-off of deinking process license	(d)	4
Other exit costs	(e)	22

		\$ 95
		=====

(a) The \$42 million severance charge relates to programs initiated and approved in the 1997 second quarter in the Printing and Communications Papers, Industrial and Consumer Packaging segments and corporate staff groups to reduce headcount by 3,015 employees under our existing ongoing severance plans. We recorded the charge in the second quarter as (1) management had committed to the plan of termination, (2) the benefit arrangement had been communicated to the employees, (3) the number of employees, their functions and locations had been identified, and (4) all terminations were to be completed in approximately one year. As of December 31, 1999, all employees had been terminated under these programs.

(b) The \$18 million charge for the write-off of deferred software costs relates to two items as follows: (1) during the 1997 second quarter, a human resources software project, for which \$11 million of deferred software costs had been recorded, was cancelled and (2) as a result of the decision to sell certain businesses in the second quarter of 1997, we decided to terminate enterprise software projects in these businesses, for which we had recorded \$7 million of deferred software costs.

(c) The \$9 million charge represents the cost to buy out obligations under existing warehouse leases. A decision to close these warehouses was made in the second quarter of 1997.

(d) The \$4 million charge represents the write-off of the net carrying value of the deinking process license that had been acquired from a third party. International Paper permanently shut down this operation in the 1997 second quarter. Accordingly, we wrote the license down to zero.

(e) The charge of \$22 million relates to other exit costs.

In December 1997, an additional pre-tax charge of \$125 million (\$80 million after taxes) was recorded for anticipated losses associated with the sale of the remaining Imaging businesses. Such amount was determined after consideration of the sales of certain of the Imaging businesses that had been completed and the estimated proceeds from the businesses remaining to be sold. The remaining Imaging businesses were sold in 1998.

Also included in the 1997 special items was a \$150 million provision to increase our legal reserves as a result of a settlement by Masonite Corporation, a wholly-owned subsidiary, of a class-action lawsuit relating to its hardboard siding product. A more detailed discussion of this legal settlement is included in Note 11. to the financial statements.

The following table is a roll forward of the severance and other costs included in the 1997 restructuring plan (in millions):

	Severance and Other
Opening Balance (second quarter 1997)	\$ 95
1997 Activity	
Asset write-downs	(18)
Cash charges	(15)

Balance, December 31, 1997	62
1998 Activity	
Asset write-downs	(4)
Reserve reversals	(9)
Cash charges	(40)

Balance, December 31, 1998	9
1999 Activity	
Cash charges	(9)

Balance, December 31, 1999	\$ 0
	=====

MANAGEMENT'S DISCUSSION AND ANALYSIS

ONGOING PROFIT IMPROVEMENT REVIEW

International Paper continually evaluates its operations for improvement. When any such plans are finalized, we may incur costs or charges in future periods related to improvement plans when and if such plans are implemented.

INCOME TAXES

Before special items, the 1999 effective income tax rate was 28% of pre-tax earnings, increasing from 26% in 1998 and decreasing from 34% in 1997. The effective income tax rates are below the U.S. statutory tax rate primarily because of the geographic mix of overall taxable earnings and the impact of state tax and other credits, both of which were more pronounced in 1999 and 1998 than in 1997. After special items, the effective income tax rate was 19%, 22% and 58% for 1999, 1998 and 1997, respectively. We estimate that the 2000 effective income tax rate will be approximately 31% based on expected earnings and business conditions, which are subject to change.

The following tables present the impact of the special items on the effective income tax rate for the three years. Taxes on special charges were provided at statutory rates except for those charges that represent tax deductions that management does not believe will be realized.

In millions	1999		
	Earnings (Loss) Before Income Taxes and Minority Interest	Income Tax Provision (Benefit)	Effective Tax Rate
Before special and extraordinary items	\$1,005	\$ 281	28%
Union Camp merger-related termination benefits	(148)	(51)	34%
One-time merger expenses	(107)	(29)	27%
Restructuring and other charges	(298)	(108)	36%
Environmental remediation charge	(10)	(4)	40%
Provision for legal reserves	(30)	(12)	40%
Reversal of reserves no longer required	36	9	25%
After special items	\$ 448	\$ 86	19%
	=====	=====	

In millions	1998		
	Earnings (Loss) Before Income Taxes and Minority Interest	Income Tax Provision (Benefit)	Effective Tax Rate
Before special items	\$ 598	\$ 158	26%
Oil and gas impairment charges	(111)	(43)	39%
Restructuring and other charges	(161)	(61)	38%
Gain on sale of business	20	8	40%
Reversals of reserves no longer required	83	33	40%
After special items	\$ 429	\$ 95	22%
	=====	=====	

In millions	1997		
	Earnings (Loss) Before Income Taxes and Minority Interest	Income Tax Provision (Benefit)	Effective Tax Rate
Before special items	\$ 783	\$ 268	34%
Provision for legal reserve	(150)	(57)	38%
Restructuring and other charges	(660)	(195)	30%
Gain on sale of business	170	67	39%
After special items	\$ 143	\$ 83	58%
	=====	=====	

RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured by its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting

MANAGEMENT'S DISCUSSION AND ANALYSIS

criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

The Statement is effective for fiscal years beginning after June 15, 2000. A company may also implement the Statement as of the beginning of any fiscal quarter after issuance. The Statement cannot be applied retroactively. The Statement must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997 (and, at the company's election, before January 1, 1998).

We have not quantified the impact of adopting the Statement on our consolidated financial statements nor have we determined the timing of or method of the adoption. However, adoption of the provisions of the Statement could increase volatility in earnings and other comprehensive income.

LEGAL AND ENVIRONMENTAL ISSUES

International Paper operates in an industry subject to extensive federal and state environmental regulation. Controlling pollutants discharged into the air, water and groundwater to avoid adverse impacts on the environment, making continual improvements in environmental performance, and maintaining 100% compliance with applicable laws and regulations are continuing requirements of International Paper. A total of \$90 million was spent in 1999 for capital projects to control environmental releases into the air and water and to assure environmentally sound management and disposal of waste. We expect to spend approximately \$257 million in 2000 for similar capital projects, including the costs to comply with the Environmental Protection Agency's (EPA) Cluster Rule regulations. Amounts to be spent for environmental control projects in future years will depend on new laws and regulations and changes in legal requirements and environmental concerns. Taking these uncertainties into account, our preliminary estimate for 2001 and 2002 is approximately \$157 million in total.

On April 15, 1998, the EPA issued final Cluster Rule regulations that established new requirements regarding air emissions and wastewater discharges from pulp and paper mills to be met between now and 2006. One of the requirements of the Cluster Rule is that pulp and paper mills use only elemental chlorine-free (ECF) technology in the pulp bleaching process. We have spent \$247 million through 1999 to convert 15 of our U.S. and European bleached mills to this technology and for certain other projects related to the Cluster Rule regulations. The projected costs included in our estimate related to the Cluster Rule regulations for the years 2000 through 2001 are \$229 million. Projected Cluster Rule costs for 2002 through 2006 are in the range of \$150 million to \$195 million. The final cost depends on the outcome of the Cluster Rule water regulations for pulp and paper categories other than bleached kraft and soda. Regulations for these categories are not likely to become final until late 2000 or 2001. We estimate that annual operating costs, excluding depreciation, will increase approximately \$20 million when these regulations are fully implemented.

International Paper has been named as a potentially liable party in a number of environmental remediation actions under various federal and state laws, including the Comprehensive Environmental Response, Compensation and Liability Act. Related costs are recorded in the financial statements when they are probable and reasonably estimable. Completion of these actions is not expected to have a material adverse effect on our financial condition or results of operations.

Masonite Litigation

Three nationwide class action lawsuits filed against International Paper have been settled. The first suit alleged that hardboard siding manufactured by Masonite fails prematurely, allowing moisture intrusion that in turn causes damage to the structure underneath the siding. The class consisted of all U.S. property owners having Masonite hardboard siding installed on and incorporated into buildings between 1980 and January 15, 1998. Final approval of the settlement was granted by the Court on January 15, 1998. The settlement provides for monetary compensation to class members meeting the settlement requirements on a claims-made basis. It also provides for the payment of attorneys' fees equaling 15% of the settlement amounts paid to class members, with a nonrefundable advance of \$47.5 million plus \$2.5 million in costs.

The second suit made similar allegations with regard to Omniwood siding manufactured by Masonite (the "Omniwood Lawsuit"). The class consists of all U.S. property owners having Omniwood siding installed on and incorporated into buildings from January 1, 1992 to January 6, 1999.

The third suit alleged that Woodruf roofing manufactured by Masonite is defective and causes damage to the

MANAGEMENT'S DISCUSSION AND ANALYSIS

structure underneath the roofing (the "Woodruf Lawsuit"). The class consists of all U.S. property owners on which Masonite Woodruf roofing has been incorporated and installed from January 1, 1980 to January 6, 1999.

Final approval of the settlements of the Omniwood and Woodruf lawsuits was granted by the Court on January 6, 1999. The settlements provide for monetary compensation to class members meeting the settlement requirements on a claims-made basis, and provides for payment of attorneys' fees equaling 13% of the settlement amounts paid to class members with a nonrefundable advance of \$1.7 million plus \$75,000 in costs for each of the two cases.

Our reserves for these matters total \$76 million at December 31, 1999. This amount includes \$25 million which we added to our reserve for hardboard siding claims in the fourth quarter of 1999, to cover an expected shortfall in that reserve resulting primarily from a higher number of hardboard siding claims in the fourth quarter of 1999 than we had anticipated. It is reasonably possible that the higher number of hardboard siding claims might be indicative of the need for one or more future additions to this reserve. However, whether or not any future additions to this reserve become necessary, International Paper believes that these settlements will not have a material adverse effect on our consolidated financial position or results of operations. The reserve balance is net of \$51 million of expected insurance recoveries (apart from the insurance recoveries to date). Through December 31, 1999, settlement payments of \$183 million, including the \$51 million of nonrefundable advances of attorney's fees discussed above, have been made. Also, we have received \$27 million from our insurance carriers through December 31, 1999. International Paper and Masonite have the right to terminate each of the settlements after seven years from the dates of final approval.

Linerboard Litigation

On May 14, 1999 and May 18, 1999, two lawsuits were filed against International Paper, the former Union Camp Corporation and other manufacturers of linerboard alleging that the defendants conspired to fix prices for linerboard and corrugated sheets during the period October 1, 1993 through November 30, 1995. Both lawsuits were filed seeking nationwide class certification. The lawsuits allege that various purchasers of corrugated sheets and corrugated containers were injured as a result of the alleged conspiracy. The cases have been consolidated in federal court in the Eastern District of Pennsylvania. Motions to dismiss the cases are pending before the Court.

COPEC

International Paper's majority-owned subsidiary, Carter Holt Harvey, had an indirect shareholding of 30.05% in Chile's largest industrial company, COPEC, through Carter Holt Harvey's subsidiary, Carter Holt Harvey International. This shareholding was held through Carter Holt Harvey International's 50% interest in Inversiones y Desarrollo Los Andes S.A. ("Los Andes"), which held 60.1% of the shares of COPEC. The other 50% of Los Andes was owned by Inversiones Socoroma S.A. ("Socoroma"), a Chilean investment company. In late 1993, Carter Holt Harvey International commenced several actions in Chilean courts challenging certain corporate governance documents of Los Andes, as well as agreements between Carter Holt Harvey and Socoroma. All of those actions have now been terminated. In December 1994, Socoroma commenced an arbitration action seeking to expel Carter Holt Harvey International from Los Andes. In April 1998, the arbitrator dismissed Socoroma's request, but granted it the right to claim monetary damages for what he found was Carter Holt Harvey International's breach of certain of its obligations as a participant in the Los Andes joint venture. All of the foregoing litigation has been settled. As part of the settlement, on January 3, 2000, AntarChile, S.A. purchased Carter Holt Harvey's interest in COPEC for just over \$1.2 billion.

Other Litigation

In April 1999, the Franklin, Virginia mill received a Notice of Violation ("NOV") from the U.S. Environmental Protection Agency ("EPA"), Region 3 in Philadelphia, and an NOV from the Commonwealth of Virginia alleging that the mill violated the Prevention of Significant Deterioration ("PSD") regulations. The Franklin mill was owned by Union Camp Corporation at that time and was one of seven paper mills in Region 3 owned by different companies which received similar notices of violation. Union Camp merged with International Paper on April 30, 1999, and International Paper has entered into negotiations with the EPA and the Commonwealth of Virginia.

The Franklin mill NOV's were issued in connection with the EPA's well publicized PSD air permit enforcement initiative against the paper industry. In 1999, our paper mills in Kaukauna, Wisconsin and Augusta, Georgia received

MANAGEMENT'S DISCUSSION AND ANALYSIS

requests for information from the EPA regarding compliance with the PSD regulations. The EPA's initiative may result in similar actions at other facilities.

On August 5, 1999, International Paper and the New York Department of Environmental Conservation entered into a consent order which resolved several alleged air permit violations at our paper mill in Ticonderoga, New York, for a civil penalty of \$100,000.

In August 1998, the former Union Camp Corporation informed the Virginia Department of Environmental Quality ("DEQ") of certain New Source Performance Standards ("NSPS") permitting discrepancies related to a power boiler at the paper mill in Franklin, Virginia. On August 11, 1999, the DEQ proposed a consent order with a civil penalty exceeding \$100,000. Terms of the consent order, including the penalty, are being negotiated with the DEQ.

In November 1999, the Wisconsin Department of Natural Resources filed a civil complaint alleging past exceedences of air permit limits at the former Union Camp flexible packaging facility located in Tomah, Wisconsin. The complaint seeks penalties that could exceed \$100,000. International Paper is engaged in settlement discussions with the state.

We are also involved in other contractual disputes, administrative and legal proceedings and investigations of various types. While any litigation, proceeding or investigation has an element of uncertainty, we believe that the outcome of any proceeding, lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on our consolidated financial position or results of operations.

IMPACT OF EURO

The introduction of the euro for noncash transactions took place on January 1, 1999, with 11 countries participating in the first wave: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. There has been an irrevocable locking of exchange rates between each of the participating countries' national currencies and the new euro currency, which became a currency in its own right. The euro has begun trading on world currency exchanges and may be used in business transactions. On January 2, 2002, new euro-denominated bills and coins will be issued and legacy currencies will be completely withdrawn from circulation that year. In general, the euro is expected to increase price transparency for our products in Europe. The major impact to International Paper will be to its businesses within the euro zone, which make up approximately 10% of sales. Each of our European businesses has a plan in place to deal with the introduction of the euro.

Over the three year transition period, our computer systems will be updated to ensure euro compliance. Also, we are reviewing our marketing and operational policies and procedures to ensure our ability to continue to successfully conduct all aspects of our business in this new market. In general, our product lines are likely to become somewhat more international, with some leveling of prices that is not expected to significantly impact our operations. We anticipate that the total costs in connection with the euro conversion will not be material. Further, we do not anticipate that the conversion from the legacy currencies to the euro will have a material adverse effect on our consolidated financial position or results of operations.

YEAR 2000 READINESS

The Year 2000 problem concerns the inability of systems to properly recognize and process date-sensitive information beyond January 1, 2000.

We have not experienced any significant issues associated with the Year 2000 and to our knowledge and belief are not aware of any incidents which may have affected the safety of our employees or the environment, customer service or production. Our locations worldwide are operating normally and according to schedule. Although some problems were noted, they were quickly corrected and were insignificant.

We completed the necessary testing, remediation and final action plans at our facilities, including the facilities acquired in our merger with Union Camp, in an effort to ensure that we entered the Year 2000 without a material disruption to our customers. The program covered information systems infrastructure, financial and administrative systems, process control and manufacturing operating systems. It also included readiness assessment of significant vendors and customers, as well as a contingency and continuing compliance plan. The Year 2000 Program Office, a centralized department which coordinated Year 2000 efforts throughout International Paper, is in the process of disbanding.

We adopted a 9-step process toward Year 2000 readiness: (1) planning and awareness; (2) inventory; (3) triage (assess risks and prioritize efforts); (4) detailed assessment (identification of where failures may occur, solutions and workarounds, and plans to repair or replace); (5) resolution (repair, replace or retire systems that cannot properly process Year 2000

MANAGEMENT'S DISCUSSION AND ANALYSIS

dates; create bridges to other systems and perform unit testing); (6) test planning; (7) test execution (some manufacturing systems require scheduling of equipment downtime); (8) deployment of compliant systems; and (9) fallout (remove bridges and patches; recertify). These steps were completed.

We rely on third-party suppliers for raw materials, water, utilities, transportation and other key services. We are also dependent upon our customers for sales and cash flow. An ongoing program was instituted to evaluate the status of our suppliers' and customers' efforts and to determine alternatives and contingency plan requirements. This program included both written correspondence and on-site visits to assess their readiness. We received assurances from our key suppliers and customers that they would be able to handle the transition to the Year 2000. We believe that no individual supplier or customer is material to our total business.

The incremental Year 2000-related costs were \$85 million which was well within our estimated range of \$90 million plus or minus 10%. This cost excludes software and systems that are being replaced or upgraded in the normal course of business. The majority of these costs related to production facility systems. We utilized internal personnel, contract programmers and vendors to complete the project.

EFFECT OF INFLATION

General inflation has had minimal impact on our operating results in the last three years. Sales prices and volumes are more strongly influenced by supply and demand factors in specific markets and by exchange rate fluctuations than by inflationary factors.

MARKET RISK

We use financial instruments, including fixed and variable rate debt, to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including swap and forward contracts, are used to hedge exposures to interest rate and foreign currency risks. We do not use financial instruments for trading purposes.

Our exposure to market risk for changes in interest rates relates primarily to investments in marketable securities, and short- and long-term debt obligations. We invest in high-credit-quality securities with major international financial institutions while limiting exposure to any one issuer. Our debt obligations outstanding as of December 31, 1999, expressed in U.S. dollar equivalents, are summarized as to their principal cash flows and related weighted average interest rates by year of maturity in the following table. Our investments in marketable securities at December 31, 1999 were not significant.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Short- and Long-Term Debt (in millions)

Outstanding as of December 31, 1999	2000	2001	2002	2003	2004
-----	----	----	----	----	----
U.S. commercial paper and bank notes - 6.6% average interest rate	\$ 307				
New Zealand dollar commercial paper and bank notes - 5.6% average interest rate	436				
Australian dollar commercial paper and bank notes - 5.7% average interest rate	271				
Chinese renminbi bank notes - 6.5% average interest rate	19				
Euro bank notes - 3.3% average interest rate	133				
New Zealand dollar notes payable - 6.2% average interest rate	510				
Fixed rate debt - 7.9% average interest rate	373	\$ 289	\$ 389	\$ 239	\$ 688
5 7/8% Swiss franc debentures		68			
Medium-term notes - 8.3% average interest rate	24	145	80	30	9
Environmental and industrial development bonds - 6.1% average interest rate	34	24	75	6	34
German mark fixed rate borrowings - 4.7% average interest rate	24	41	40	20	7
Euro fixed rate borrowings - 5 3/8% average interest rate					
Other	114	46	56	5	6
Total Debt	\$2,245	\$ 613	\$ 640	\$ 300	\$ 744
-----	-----	-----	-----	-----	-----
Outstanding as of December 31, 1999	Thereafter	Total	Fair Value		
-----	-----	-----	-----		
U.S. commercial paper and bank notes - 6.6% average interest rate		\$ 307	\$ 307		
New Zealand dollar commercial paper and bank notes - 5.6% average interest rate		436	436		
Australian dollar commercial paper and bank notes - 5.7% average interest rate		271	271		
Chinese renminbi bank notes - 6.5% average interest rate		19	19		
Euro bank notes - 3.3% average interest rate		133	133		
New Zealand dollar notes payable - 6.2% average interest rate		510	510		
Fixed rate debt - 7.9% average interest rate	\$ 2,316	4,294	4,336		
5 7/8% Swiss franc debentures		68	70		
Medium-term notes - 8.3% average interest rate	43	331	336		
Environmental and industrial development bonds - 6.1% average interest rate	1,179	1,352	1,350		
German mark fixed rate borrowings - 4.7% average interest rate		132	132		
Euro fixed rate borrowings - 5 3/8% average interest rate	249	249	244		
Other	111	338	340		
Total Debt	\$ 3,898	\$ 8,440	\$ 8,484		
-----	-----	-----	-----		

For debt obligations, the table presents principal cash flows and related weighted average interest rates by year of maturity. Variable interest rates disclosed represent the weighted average rates at the end of the period. For financial statement classification, \$1.5 billion of short-term debt has been classified as long-term pursuant to line of credit agreements.

We use cross-currency and interest rate swap agreements to manage the composition of our fixed and floating rate debt portfolio. Amounts to be paid or received as interest under these agreements are recognized over the life of the swap agreements as adjustments to interest expense. The impact on earnings and our net liability under these agreements was not significant. Our cross-currency and interest rate swap agreements outstanding at December 31, 1999, expressed in U.S. dollar equivalents, by year of maturity, are presented in the following table.

Interest Rate and Currency Swaps (in millions)

Outstanding as of December 31, 1999	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value
-----	----	----	----	----	----	-----	-----	-----
U.S. dollar variable to fixed rate swaps			\$45	\$200	\$300	\$500	\$1,045	\$16
Average pay rate 7.3%								
Average receive rate 6.1%								
Australian dollar variable to fixed rate swaps	\$48	\$48	16	48	16		176	2
Average pay rate 6.0%								
Average receive rate 5.4%								
New Zealand dollar variable to fixed rate swaps	23	26	52	26	13		140	2
Average pay rate 6.8%								
Average receive rate 5.4%								
U.S. dollar fixed to variable rate swaps			45	200	550	500	1,295	(25)

Average pay rate 7.4¢				
Average receive rate 6.6¢				
U.S. dollar to Australian dollar cross-currency swap		150		(4)
Swiss franc to New Zealand dollar cross-currency swaps	75		75	(8)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

We also transact business in many currencies and are subject to currency exchange rate risk. We address this risk through a risk management program that involves financing a portion of our investments in overseas operations with borrowings denominated in the same currency as the investment or by entering into currency exchange contracts in tandem with U.S. dollar borrowings. These contracts are effective in providing hedges against fluctuations in currency exchange rates. Additionally, we utilize currency exchange contracts to hedge certain transactions that are denominated in foreign currencies, primarily export sales and equipment purchased from nonresident vendors. These contracts serve to protect us from currency fluctuations between the transaction and settlement dates.

The following table presents information about our foreign currency forward contracts outstanding as of December 31, 1999, expressed in U.S. dollar equivalents. The majority of the contracts have maturities of less than 12 months. This information should be read in conjunction with Note 14. to the consolidated financial statements which can be found on pages 52 and 53.

Foreign Currency Forward Contracts (U.S. dollars in millions)

Outstanding as of December 31, 1999	Contract Amount	Weighted Average Exchange Rate	Net Unrealized Gain (Loss)
Receive Australian dollars / Pay New Zealand dollars	\$ 20	0.79	\$ (1)
Receive German marks / Pay British pounds	40	3.00	(3)
Receive European euros / Pay U.S. dollars	1,063	0.95	52
Receive European euros / Pay British pounds	65	1.58	(1)
Receive British pounds / Pay U.S. dollars	107	0.62	
Receive British pounds / Pay European euros	21	0.63	
Receive New Zealand dollars / Pay Australian dollars	117	1.23	(5)
Receive New Zealand dollars / Pay U.S. dollars	499	1.94	10
Receive Swedish kronas / Pay U.S. dollars	34	8.09	2
Receive U.S. dollars / Pay European euros	56	1.07	
Receive U.S. dollars / Pay British pounds	20	1.61	
Receive U.S. dollars / Pay New Zealand dollars	26	0.56	3

We have an additional \$71 million in a number of smaller contracts to purchase or sell other currencies with a related net unrealized immaterial gain.

VALUE AT RISK

Value at risk is used to describe an approach for measuring market risk exposure that utilizes statistical models that are based on historical price and volatility patterns to estimate the probability of the value of a financial instrument falling above or below a specified amount at a specified confidence level and over a given time period. Our analysis uses variance-covariance statistical modeling techniques and includes substantially all interest rate-sensitive debt and swaps, and currency exchange contracts. The model estimates the potential loss in fair market value or earnings we could incur from adverse changes in interest rates or currency exchange rates. We believe that any loss incurred would be substantially offset by the effects of interest rate or currency exchange movements on the respective underlying hedged transactions. The results of our analysis at a 95% confidence level were not significant to our consolidated common shareholders' equity, earnings or daily change in market capitalization.

FORWARD-LOOKING STATEMENTS

Certain statements in this 1999 Annual Report to Shareholders that are not historical in nature may constitute forward-looking statements. These statements are often identified by the words, "believe," "expect," "plan," "project," "intend," and words of similar import. Such statements reflect the current views of International Paper with respect to future events and are subject to risks and uncertainties. Actual results may differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ include, among other things, changes in overall demand, changes in domestic or foreign competition, changes in the cost or availability of raw materials, the cost of compliance with environmental laws and regulations, and whether anticipated savings from merger and other restructuring activities can be achieved. In view of such uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. International Paper does not assume any obligation to update these forward-looking statements.

FINANCIAL INFORMATION BY INDUSTRY SEGMENT AND GEOGRAPHIC AREA

INDUSTRY SEGMENT AND GEOGRAPHIC AREA INFORMATION

For information about our industry segments, see the "Description of Industry Segments" included in management's discussion and analysis of financial condition and results of operations. The segment and geographic area information has been restated to include Union Camp for all years presented.

For management purposes, we report the operating performance of each business based on earnings before interest and income taxes ("EBIT") excluding special and extraordinary items and gains or losses on sales of businesses. Our Carter Holt Harvey segment includes our share, about half, of Carter Holt Harvey's operating earnings adjusted for U.S. generally accepted accounting principles. The remaining half is included in the minority interest adjustment. Intersegment sales and transfers are recorded at current market prices. Corporate sales include the Imaging and Veratec businesses that were sold in 1998 and 1997. Corporate operating profit also includes these businesses as well as corporate expenses. Corporate assets include these businesses for the applicable years in addition to other assets not allocated to our segments. Sales for these businesses were \$220 million in 1998 and \$938 million in 1997. These businesses recorded an operating loss of \$2 million in 1998 and operating profits of \$27 million in 1997.

External Sales by Major Product is determined by aggregating sales from each segment based on similar products or services. External sales are defined as those that are made to parties outside International Paper's consolidated group whereas sales by segment in the Net Sales table are determined by the management approach and include intersegment sales.

Capital Spending by Industry Segment is reported on page 13 of management's discussion and analysis of financial condition and results of operations.

FINANCIAL INFORMATION BY INDUSTRY SEGMENT

NET SALES

In millions	1999	1998	1997
Printing and Communications Papers	\$ 5,930	\$ 5,915	\$ 6,415
Industrial and Consumer Packaging	7,050	7,010	6,785
Distribution	6,850	6,280	5,250
Chemicals and Petroleum	1,455	1,465	1,585
Forest Products	3,205	2,930	3,025
Carter Holt Harvey	1,605	1,505	1,955
Corporate and Intersegment Sales (1)	(1,522)	(1,126)	(459)
Net Sales	\$ 24,573	\$ 23,979	\$ 24,556

ASSETS			
In millions	1999	1998	1997
Printing and Communications Papers	\$ 7,929	\$ 8,213	\$ 8,458
Industrial and Consumer Packaging	7,316	7,389	6,823
Distribution	1,893	1,903	1,370
Chemicals and Petroleum	1,531	1,614	2,033
Forest Products	3,819	3,644	3,845
Carter Holt Harvey (2)	4,183	4,475	4,953
Corporate (1)	3,597	4,228	4,489
Assets	\$ 30,268	\$ 31,466	\$ 31,971

OPERATING PROFIT			
In millions	1999	1998	1997
Printing and Communications Papers	\$ 255	\$ 180	\$ 245
Industrial and Consumer Packaging	560	335	260
Distribution	105	85	90
Chemicals and Petroleum	125	135	180
Forest Products	725	620	615
Carter Holt Harvey (3)	40	20	90
Operating Profit	1,810	1,375	1,480
Interest expense, net	(541)	(614)	(607)
Minority interest adjustment (3)	74	57	165
Corporate items, net (1)	(338)	(220)	(255)
Merger integration costs	(255)		
Environmental remediation charge	(10)		

Provision for legal reserves	(30)		(150)
Restructuring and other charges	(298)	(145)	(660)
Oil and gas impairment charges		(111)	
Scitex restructuring and other charges		(16)	
Reversals of reserves no longer required	36	83	
Gains on sales of businesses		20	170
Earnings Before Income Taxes, Minority Interest and Extraordinary Item	----- \$ 448 -----	----- \$ 429 -----	----- \$ 143 -----

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FINANCIAL INFORMATION BY INDUSTRY SEGMENT AND GEOGRAPHIC AREA

RESTRUCTURING AND OTHER CHARGES

In millions	1999	1998	1997
Printing and Communications Papers	\$ 55	\$ 32	\$ 186
Industrial and Consumer Packaging	114	46	48
Distribution	23	31	16
Chemicals and Petroleum	63	4	29
Forest Products	16	14	66
Carter Holt Harvey	27	18	
Corporate			315
Restructuring and Other Charges	\$ 298	\$ 145	\$ 660

DEPRECIATION, DEPLETION AND AMORTIZATION			
In millions	1999	1998	1997
Printing and Communications Papers	\$ 556	\$ 535	\$ 577
Industrial and Consumer Packaging	466	447	459
Distribution	32	25	22
Chemicals and Petroleum	99	106	109
Forest Products	196	218	217
Carter Holt Harvey	201	193	202
Corporate	115	136	152
Depreciation, Depletion and Amortization	1,665	1,660	1,738
Less: Depletion (4)	145	166	168
Depreciation and Amortization	\$ 1,520	\$ 1,494	\$ 1,570

EXTERNAL SALES BY MAJOR PRODUCT			
In millions	1999	1998	1997
Printing Papers	\$ 5,069	\$ 5,475	\$ 6,015
Packaging	7,361	7,360	7,115
Distribution	6,926	6,235	5,165
Chemicals and Petroleum	1,458	1,230	1,320
Forest Products	3,759	3,430	3,850
Corporate Sales (1)		249	1,091
Net Sales	\$ 24,573	\$ 23,979	\$ 24,556

(1) Includes results or assets, as applicable, from operations that were disposed of in 1998 and 1997.

(2) Includes an equity investment (in millions) of \$876 in 1999, \$956 in 1998 and \$974 in 1997.

(3) Includes equity earnings (in millions) of \$54 in 1999, \$20 in 1998 and \$65 in 1997. Half of these equity earnings amounts are in the Carter Holt Harvey segment and half are in the minority interest adjustment.

(4) Depletion consists of Cost of Timber Harvested and is included in the Forest Products and Carter Holt Harvey segments.

FINANCIAL INFORMATION BY GEOGRAPHIC AREA

NET SALES (1)

In millions	1999	1998	1997
United States (2)	\$19,152	\$18,682	\$18,317
Europe	3,257	3,251	3,680
Pacific Rim (3)	1,865	1,731	2,217
Other	299	315	342
Net Sales	\$24,573	\$23,979	\$24,556

EUROPEAN SALES BY INDUSTRY SEGMENT			
In millions	1999	1998	1997
Printing and Communications Papers	\$ 1,514	\$ 1,423	\$ 1,675
Industrial and Consumer Packaging	750	772	765
Distribution	347	323	232

Chemicals and Petroleum	446	465	494
Forest Products	200	208	119
Other Businesses		60	395
	-----	-----	-----
European Sales	\$ 3,257	\$ 3,251	\$ 3,680
	=====	=====	=====
LONG-LIVED ASSETS (4)			
In millions	1999	1998	1997
	-----	-----	-----
United States	\$12,325	\$13,149	\$13,308
Europe	1,888	2,101	2,057
Pacific Rim (3)	2,625	2,793	3,048
Other	77	74	131
Corporate	387	296	436
	-----	-----	-----
Long-Lived Assets	\$17,302	\$18,413	\$18,980
	=====	=====	=====

(1) Revenues are attributed to countries based on location of seller.

(2) Export sales to unaffiliated customers (in billions) were \$1.5 in 1999 and 1998 and \$1.8 in 1997.

(3) Operations in New Zealand and Australia account for most of the Pacific Rim amounts.

(4) Long-Lived Assets includes Forestlands and Plants, Properties and Equipment, Net.

REPORT OF MANAGEMENT ON FINANCIAL STATEMENTS

The management of International Paper Company is responsible for the fair presentation of the information contained in the financial statements in this annual report. The statements are prepared in accordance with U.S. generally accepted accounting principles and reflect management's best judgment as to our financial position, results of operations and cash flows.

International Paper maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are properly recorded and summarized so that reliable financial records and reports can be prepared and assets safeguarded.

An important part of the internal controls system is our ethics program: including our long-standing policy on Ethical Business Conduct, which requires employees to maintain the highest ethical and legal standards in their conduct of International Paper business; a toll-free telephone compliance line whereby any employee may report suspected violations of law or International Paper's policy; and an office of ethics and business practices. The internal controls system further includes careful selection and training of supervisory and management personnel, appropriate delegation of authority and division of responsibility, dissemination of accounting and business policies throughout International Paper, and an extensive program of internal audits with management follow-up.

The independent public accountants provide an objective, independent review of management's discharge of its responsibility for the fairness of our financial statements. They review our internal accounting controls and conduct tests of procedures and accounting records to enable them to form the opinion set forth in their report.

The Board of Directors monitors management's administration of International Paper's financial and accounting policies and practices, and the preparation of these financial statements. The Audit Committee, which consists of four nonemployee directors, meets regularly with representatives of management, the independent public accountants and the Internal Auditor to review their activities. The Audit Committee recommends that the shareholders approve the appointment of the independent public accountants to conduct the audit.

The independent public accountants and the Internal Auditor both have free access to the Audit Committee and meet regularly with the Audit Committee, with and without management representatives in attendance.

/s/ John V. Faraci
JOHN V. FARACI

SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of International Paper Company:

We have audited the accompanying consolidated balance sheets of International Paper Company (a New York corporation) and subsidiaries as of December 31, 1999 and 1998, and the related statements of earnings, common shareholders' equity and cash flows for each of the three years ended December 31, 1999. These financial statements are the responsibility of International Paper's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Union Camp Corporation (a company acquired during 1999 in a transaction accounted for as a pooling-of-interests) prior to 1999. The Union Camp financial statements reflect total assets and total revenues of 16% and 19% in each of 1998 and 1997, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for that entity, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of International Paper Company and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years ended December 31, 1999 in conformity with generally accepted accounting principles in the United States.

/s/ Arthur Andersen

NEW YORK, N.Y.

FEBRUARY 8, 2000

INTERNATIONAL PAPER

CONSOLIDATED STATEMENT OF EARNINGS

In millions, except per share amounts, for the years ended December 31

	1999	1998	1997
NET SALES	\$24,573	\$23,979	\$24,556
COSTS AND EXPENSES			
Cost of products sold	18,105	17,924	18,087
Selling and administrative expenses	2,083	2,032	2,090
Depreciation and amortization	1,520	1,494	1,570
Distribution expenses	1,098	1,087	1,165
Taxes other than payroll and income taxes	226	231	255
Equity (earnings) losses from investment in Scitex	(5)	15	(1)
Merger integration costs	255		
Restructuring and other charges	298	145	660
Environmental remediation charge	10		
Oil and gas impairment charges		111	
Provision for legal reserves	30		150
TOTAL COSTS AND EXPENSES	23,620	23,039	23,976
Reversals of reserves no longer required	36	83	
Gains on sales of businesses		20	170
EARNINGS BEFORE INTEREST, INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM	989	1,043	750
Interest expense, net	541	614	607
EARNINGS BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM	448	429	143
Income tax provision	86	95	83
Minority interest expense, net of taxes	163	87	140
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEM	199	247	(80)
Loss on extinguishment of debt, net of taxes	16		
NET EARNINGS (LOSS)	\$ 183	\$ 247	\$ (80)
EARNINGS (LOSS) PER COMMON SHARE - BEFORE EXTRAORDINARY ITEM	\$ 0.48	\$ 0.60	\$ (0.20)
EARNINGS (LOSS) PER COMMON SHARE - EXTRAORDINARY ITEM	(0.04)		
EARNINGS (LOSS) PER COMMON SHARE	\$ 0.44	\$ 0.60	\$ (0.20)
EARNINGS (LOSS) PER COMMON SHARE - ASSUMING DILUTION	\$ 0.44	\$ 0.60	\$ (0.20)

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL PAPER

CONSOLIDATED BALANCE SHEET

In millions at December 31

	1999	1998
ASSETS		
Current Assets		
Cash and temporary investments	\$ 453	\$ 533
Accounts and notes receivable, less allowances of \$106 in 1999 and \$115 in 1998	3,227	3,018
Inventories	3,203	3,211
Other current assets	358	399
	-----	-----
Total Current Assets	7,241	7,161
	-----	-----
Plants, Properties and Equipment, Net	14,381	15,320
Forestlands	2,921	3,093
Investments	1,044	1,147
Goodwill	2,596	2,699
Deferred Charges and Other Assets	2,085	2,046
	-----	-----
TOTAL ASSETS	\$ 30,268	\$ 31,466
	=====	=====
LIABILITIES AND COMMON SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable and current maturities of long-term debt	\$ 920	\$ 1,418
Accounts payable	1,870	1,808
Accrued payroll and benefits	423	370
Other accrued liabilities	1,169	890
	-----	-----
Total Current Liabilities	4,382	4,486
	-----	-----
Long-Term Debt	7,520	7,697
Deferred Income Taxes	3,344	3,673
Other Liabilities	1,332	1,347
Minority Interest	1,581	1,720
International Paper - Obligated Mandatorily Redeemable Preferred Securities of Subsidiaries Holding International Paper Debentures - Note 8	1,805	1,805
Commitments and Contingent Liabilities - Note 11		
Common Shareholders' Equity		
Common stock, \$1 par value, 1999 - 414.6 shares, 1998 - 413.2 shares	415	413
Paid-in capital	4,078	3,896
Retained earnings	6,613	6,848
Accumulated other comprehensive income (loss)	(739)	(395)
	-----	-----
	10,367	10,762
Less: Common stock held in treasury, at cost, 1999 - 1.2 shares, 1998 - 0.6 shares	63	24
	-----	-----
Total Common Shareholders' Equity	10,304	10,738
	-----	-----
TOTAL LIABILITIES AND COMMON SHAREHOLDERS' EQUITY	\$ 30,268	\$ 31,466
	=====	=====

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL PAPER

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions for the years ended December 31

	1999	1998	1997
OPERATING ACTIVITIES			
Net earnings (loss)	\$ 183	\$ 247	\$ (80)
Depreciation and amortization	1,520	1,494	1,570
Deferred income tax provision (benefit)	(208)	132	(79)
Payments related to restructuring and legal reserves	(191)	(82)	(103)
Payments related to the Union Camp merger	(172)		
Merger integration costs	255		
Restructuring and other charges	298	145	660
Environmental remediation charge	10		
Provision for legal reserves	30		150
Oil and gas impairment charges		111	
Reversals of reserves no longer required	(36)	(83)	
Gains on sales of businesses		(20)	(170)
Loss on extinguishment of debt	26		
Other, net	45	80	126
Changes in current assets and current liabilities			
Accounts and notes receivable	(361)	152	(142)
Inventories	(121)	51	(149)
Accounts payable and accrued liabilities	449	(113)	(168)
Other	1	(16)	8
CASH PROVIDED BY OPERATIONS	1,728	2,098	1,623
INVESTMENT ACTIVITIES			
Invested in capital projects	(1,139)	(1,322)	(1,448)
Mergers and acquisitions, net of cash acquired	(54)	(498)	(94)
Proceeds from divestitures	119	523	322
Other	(11)	(51)	37
CASH USED FOR INVESTMENT ACTIVITIES	(1,085)	(1,348)	(1,183)
FINANCING ACTIVITIES			
Issuance of common stock	246	115	164
Issuance of preferred securities by subsidiary		1,525	
Issuance of debt	1,023	348	719
Reduction of debt	(1,563)	(2,213)	(860)
Change in bank overdrafts	102	68	29
Dividends paid	(418)	(431)	(427)
Other	(96)	(63)	(31)
CASH USED FOR FINANCING ACTIVITIES	(706)	(651)	(406)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(17)	1	2
CHANGE IN CASH AND TEMPORARY INVESTMENTS	(80)	100	36
CASH AND TEMPORARY INVESTMENTS			
Beginning of the year	533	433	397
End of the year	\$ 453	\$ 533	\$ 433

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL PAPER

CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY

In millions, except share amounts in thousands

	Common Stock Issued		Paid-In Capital	Retained Earnings
	Shares	Amount		
BALANCE, JANUARY 1, 1997	406,041	\$ 406	\$ 3,607	\$ 7,539
Issuance of stock for merger	184		11	
Issuance of stock for various plans	2,637	3	77	
Repurchase of stock	(688)	(1)	(36)	
Cash dividends - Common stock (\$1.05 per share)				(427)
Comprehensive income (loss)				
Net loss				(80)
Change in cumulative foreign currency translation adjustment (less tax expense of \$200)				
Realized foreign currency translation adjustment related to divestitures (less tax benefit of \$6)				
Total comprehensive income (loss)				
BALANCE, DECEMBER 31, 1997	408,174	408	3,659	7,032
Issuance of stock for merger	4,683	5	227	
Issuance of stock for various plans	605	1	23	
Repurchase of stock	(277)	(1)	(13)	
Cash dividends - Common stock (\$1.05 per share)				(431)
Comprehensive income (loss)				
Net earnings				247
Minimum pension liability adjustment (less tax benefit of \$5)				
Change in cumulative foreign currency translation adjustment (less tax benefit of \$2)				
Realized foreign currency translation adjustment related to divestitures (less tax benefit of \$4)				
Total comprehensive income				
BALANCE, DECEMBER 31, 1998	413,185	413	3,896	6,848
Issuance of stock for various plans	1,399	2	182	
Repurchase of stock				
Cash dividends - Common stock (\$1.01 per share)				(418)
Comprehensive income (loss)				
Net earnings				183
Minimum pension liability adjustment (less tax expense of \$1)				
Change in cumulative foreign currency translation adjustment (less tax expense of \$31)				
Total comprehensive income (loss)				
BALANCE, DECEMBER 31, 1999	414,584	\$ 415	\$ 4,078	\$ 6,613
	=====	=====	=====	=====
	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Amount	Total Common Shareholders' Equity
BALANCE, JANUARY 1, 1997	\$ (181)	554	\$ 22	\$ 11,349
Issuance of stock for merger				11
Issuance of stock for various plans		(2,345)	(106)	186
Repurchase of stock		2,517	121	(158)
Cash dividends - Common stock (\$1.05 per share)				(427)
Comprehensive income (loss)				
Net loss				(80)
Change in cumulative foreign currency translation adjustment (less tax expense of \$200)	(257)			(257)

Realized foreign currency translation adjustment related to divestitures (less tax benefit of \$6)	23			23
Total comprehensive income (loss)				(314)
BALANCE, DECEMBER 31, 1997	(415)	726	37	10,647
Issuance of stock for merger				232
Issuance of stock for various plans		(2,694)	(128)	152
Repurchase of stock		2,520	115	(129)
Cash dividends - Common stock (\$1.05 per share)				(431)
Comprehensive income (loss)				
Net earnings				247
Minimum pension liability adjustment (less tax benefit of \$5)	(8)			(8)
Change in cumulative foreign currency translation adjustment (less tax benefit of \$2)	21			21
Realized foreign currency translation adjustment related to divestitures (less tax benefit of \$4)	7			7
Total comprehensive income				267
BALANCE, DECEMBER 31, 1998	(395)	552	24	10,738
Issuance of stock for various plans		(1,866)	(87)	271
Repurchase of stock		2,530	126	(126)
Cash dividends - Common stock (\$1.01 per share)				(418)
Comprehensive income (loss)				
Net earnings				183
Minimum pension liability adjustment (less tax expense of \$1)	2			2
Change in cumulative foreign currency translation adjustment (less tax expense of \$31)	(346)			(346)
Total comprehensive income (loss)				(161)
BALANCE, DECEMBER 31, 1999	\$ (739)	1,216	\$ 63	\$ 10,304

The cumulative foreign currency translation adjustment (in millions) was \$(733), \$(387) and \$(415) at December 31, 1999, 1998 and 1997, respectively, and is included as a component of accumulated other comprehensive income (loss).

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OUR BUSINESS

International Paper is a global forest products, paper and packaging company that is complemented by an extensive distribution system, with primary markets and manufacturing operations in the U.S., Europe and the Pacific Rim. Substantially all of our businesses have experienced and are likely to continue to experience cycles relating to available industry capacity and general economic conditions. For a further discussion of our business see pages 6 through 29 of management's discussion and analysis of financial condition and results of operations.

FINANCIAL STATEMENTS

The preparation of these financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. For a further discussion of significant estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations, and disclosure of contingent assets and liabilities, see the legal and environmental issues section beginning on page 24. Actual results could differ from management's estimates.

On April 30, 1999, International Paper completed the merger with Union Camp Corporation (Union Camp) in a transaction accounted for as a pooling-of-interests. The accompanying financial statements have been restated to include the financial position and results of operations for both Union Camp and International Paper for all periods presented.

REVENUE RECOGNITION

Revenues are recognized when goods are shipped.

CONSOLIDATION

The consolidated financial statements include the accounts of International Paper Company and its subsidiaries. Minority interest represents minority shareholders' proportionate share of the equity in several of our consolidated subsidiaries, primarily Carter Holt Harvey Limited, Zanders Feinpapiere AG, Bush Boake Allen, Inc., Georgetown Equipment Leasing Associates, L.P. and Trout Creek Equipment Leasing, L.P. All significant intercompany balances and transactions are eliminated. Investments in affiliated companies owned 20% to 50%, and our 13% investment in Scitex Corporation Ltd., where we had the ability to exercise significant influence, because we were party to a shareowners' agreement with two other entities which together with International Paper owned just over 39% of Scitex, were accounted for by the equity method. International Paper's share of affiliates' earnings is included in the consolidated statement of earnings.

TEMPORARY INVESTMENTS

Temporary investments with an original maturity of three months or less are treated as cash equivalents and are stated at cost, which approximates market.

INVENTORIES

Inventory values include all costs directly associated with manufacturing products: materials, labor and manufacturing overhead. These values are presented at cost or market, if it is lower. In the U.S., costs of raw materials and finished pulp and paper products are generally determined using the last-in, first-out method. Other inventories are primarily stated using the first-in, first-out or average cost method.

PLANTS, PROPERTIES AND EQUIPMENT

Plants, properties and equipment are stated at cost, less accumulated depreciation. For financial reporting purposes, we use the units-of-production method of depreciation for our major pulp and paper mills and certain wood products facilities and the straight-line method for other plants and equipment. Annual straight-line depreciation rates are buildings, 2 1/2% to 8 1/2%, and machinery and equipment, 5% to 33%. For tax purposes, depreciation is computed using accelerated methods.

Interest costs related to the development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. We capitalized net interest costs of \$29 million in 1999, \$53 million in 1998 and \$72 million in 1997. Interest payments made during 1999, 1998 and 1997 were \$594 million, \$766 million and \$836 million, respectively. Total interest expense was \$611 million in 1999, \$706 million in 1998 and \$710 million in 1997.

FORESTLANDS

International Paper controlled, through domestic subsidiaries, approximately 7.1 million acres of forestlands in the U.S. and, through its ownership of Carter Holt Harvey, approximately 785,000 acres of forestlands in New Zealand at December 31, 1999. Forestlands are stated at cost, less accumulated depletion representing the cost of timber harvested. The cost of timber harvested is included in cost of products sold in the consolidated statement of earnings. Forestlands include owned property as well as certain timber harvesting rights with terms of one or more years. Costs attributable to timber are

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

charged against income as trees are cut. The depletion rate charged is determined annually based on the relationship of remaining costs to estimated recoverable volume.

AMORTIZATION OF INTANGIBLE ASSETS

Goodwill, the cost in excess of assigned value of businesses acquired, is amortized for periods of up to 40 years. Accumulated amortization was \$487 million and \$441 million at December 31, 1999 and 1998, respectively. Goodwill amortization expense is included in depreciation and amortization in the consolidated statement of earnings.

STOCK-BASED COMPENSATION

Stock options and other stock-based compensation awards are accounted for using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations.

ENVIRONMENTAL REMEDIATION COSTS

Costs associated with environmental remediation obligations are accrued when such costs are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are discounted to their present value when the expected cash flows are reliably determinable.

TRANSLATION OF FINANCIAL STATEMENTS

Balance sheets of international operations are translated into U.S. dollars at year-end exchange rates, while statements of earnings are translated at average rates. Adjustments resulting from financial statement translations are included as cumulative translation adjustments in accumulated other comprehensive income (loss). Gains and losses resulting from foreign currency transactions are included in earnings.

RECLASSIFICATIONS

Certain reclassifications have been made to prior-year amounts to conform with the current-year presentation.

NOTE 2 EARNINGS PER COMMON SHARE

Earnings per common share were computed by dividing net earnings by the weighted average number of common shares outstanding. Earnings per common share - assuming dilution were computed assuming that all potentially dilutive securities were converted into common shares at the beginning of each year. A reconciliation of the amounts included in the computation of earnings per common share and earnings per common share - assuming dilution is as follows:

In millions	1999	1998	1997
-----	-----	-----	-----
Net earnings (loss)	\$ 183	\$ 247	\$ (80)
Effect of dilutive securities			
Preferred securities of subsidiary trust			
-----	-----	-----	-----
Net earnings (loss) - assuming dilution	\$ 183	\$ 247	\$ (80)
	=====	=====	=====
Average common shares outstanding	413.0	411.0	406.7
Effect of dilutive securities			
Long-term incentive plan			
deferred compensation			
Stock options	3.1	3.2	
Preferred securities of subsidiary trust			
-----	-----	-----	-----
Average common shares outstanding - assuming dilution	416.1	414.2	406.7
	=====	=====	=====
Earnings (loss) per common share	\$ 0.44	\$ 0.60	\$ (0.20)
	=====	=====	=====
Earnings (loss) per common share -			

assuming dilution

\$ 0.44	\$ 0.60	\$ (0.20)
*****	*****	*****

Note: If an amount does not appear in the above table, the security was antidilutive for the period presented.

NOTE 3 INDUSTRY SEGMENT INFORMATION

Financial information by industry segment and geographic area for 1999, 1998 and 1997 is presented on pages 30 and 31. The segment and geographic area information has been restated to include Union Camp for all years presented.

NOTE 4 RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured by its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results of the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The Statement is effective for fiscal years beginning after June 15, 2000. A company may also implement the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statement as of the beginning of any fiscal quarter after issuance. The Statement cannot be applied retroactively. The Statement must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997 (and at the company's election, before January 1, 1998).

We have not quantified the impact of adopting the Statement on our consolidated financial statements nor have we determined the timing of or method of the adoption. However, we believe that adoption of the provisions of the Statement could increase volatility in earnings and other comprehensive income.

NOTE 5 MERGERS AND ACQUISITIONS

On November 24, 1998, International Paper announced that it had reached an agreement to merge with Union Camp Corporation, a diversified paper and forest products company. The transaction was approved by Union Camp and International Paper shareholders on April 30, 1999. Union Camp shareholders received 1.4852 International Paper common shares for each Union Camp share held. The total value of the transaction, including the assumption of debt, was approximately \$7.9 billion.

We issued 110 million shares for 74 million Union Camp shares, including options. The merger was accounted for as a pooling-of-interests.

The accompanying financial statements have been restated to combine the historical financial position and results of operations for both International Paper and Union Camp for all periods presented. The results of operations for the separate companies for the periods prior to the merger and the combined amounts included in our consolidated financial statements are as follows:

In millions	Three Months Ended March 31, 1999	Twelve Months Ended December 31, 1998	Twelve Months Ended December 31, 1997
-----	-----	-----	-----
Net sales:			
International Paper	\$ 4,962	\$ 19,541	\$ 20,096
Union Camp	1,137	4,503	4,477
Intercompany eliminations	(67)	(65)	(17)
	-----	-----	-----
	\$ 6,032	\$ 23,979	\$ 24,556
	=====	=====	=====
Net earnings (loss):			
International Paper	\$ 44	\$ 236	\$ (151)
Union Camp	(10)	19	81
Other	(2)	(8)	(10)
	-----	-----	-----
	\$ 32	\$ 247	\$ (80)
	=====	=====	=====

Note: Other includes the elimination of intercompany transactions and adjustments to conform the accounting practices of the two companies.

In April 1999, Carter Holt Harvey acquired the corrugated packaging business of Stone Australia, a subsidiary of Smurfit-Stone Container Corporation. The business consists of two sites in Melbourne and Sydney which serve industrial and primary produce customers.

In December 1998, we completed the acquisition of Svetogorsk AO, a Russia-based pulp and paper business, which has enhanced International Paper's ability to serve growing market demand in Eastern Europe. Also in December 1998, Carter Holt Harvey and International Paper jointly acquired Marinetti S.A.'s paper cup division based in Chile. This acquisition has enabled the foodservice business to better serve markets in South America.

In July 1998, International Paper acquired the Zellerbach distribution business from the Mead Corporation for \$261 million in cash. Zellerbach has been integrated into xpedx, our distribution business.

In April 1998, Weston Paper and Manufacturing Company (Weston) was acquired by exchanging 4.7 million International Paper common shares valued at \$232 million for all of the outstanding Weston shares in a noncash transaction.

In April 1998, Carter Holt Harvey acquired Riverwood International, an Australia-based folding carton business.

In March 1998, a wholly-owned subsidiary of International Paper purchased all of the publicly traded Class A depository units of IP Timberlands, Ltd. for a cash purchase price of \$100 million.

In February 1998, we entered into a joint venture with Olmuksa in Turkey for the manufacture of containerboard and corrugated boxes for markets in Turkey and surrounding countries. Also in February 1998, Carter Holt Harvey and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

International Paper jointly acquired Australia-based Continental Cup.

Acquisitions in 1997 included: Taussig's Graphic Supply, Inc., a distribution company; Phoenix Display and Packaging Corporation, a merchandising and point-of-purchase display company; Merbok Formtec, a pioneer in the development of door facing products; Antietam Paper Company, a distribution company; and a 75% interest in Puntapel S.A., an Argentinean multi-wall plant. The cost of these acquisitions, net of cash acquired, was \$94 million in the aggregate.

All of the acquisitions in 1999, 1998 and 1997, with the exception of the Union Camp acquisition which was accounted for as a pooling-of-interests, were accounted for using the purchase method. The operating results of those mergers and acquisitions accounted for under the purchase method have been included in the consolidated statement of earnings from the dates of acquisition.

NOTE 6 SPECIAL ITEMS INCLUDING RESTRUCTURING AND BUSINESS IMPROVEMENT ACTIONS

Special items reduced 1999 net earnings by \$352 million, 1998 net earnings by \$98 million and 1997 net earnings by \$461 million. The following tables and discussion present the impact of special items for 1999, 1998 and 1997:

In millions	1999	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special and extraordinary items	\$ 1,005	\$ 551
Union Camp merger-related termination benefits	(148)	(97)
One-time merger expenses	(107)	(78)
Restructuring and other charges	(298)	(180)
Environmental remediation charge	(10)	(6)
Provision for legal reserves	(30)	(18)
Reversal of reserves no longer required	36	27
After special items	\$ 448	\$ 199

During 1999 special items amounting to a net charge before taxes and minority interest expense of \$557 million (\$352 million after taxes and minority interest expense) were recorded. The special items included a \$148 million pre-tax charge (\$97 million after taxes) for Union Camp merger-related termination benefits, a \$107 million pre-tax charge (\$78 million after taxes) for one-time merger expenses, a \$298 million pre-tax charge (\$180 million after taxes and minority interest expense) for asset shutdowns of excess internal capacity and cost reduction actions, a \$10 million pre-tax charge (\$6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a \$30 million pre-tax charge (\$18 million after taxes) to increase existing legal reserves and a \$36 million pre-tax credit (\$27 million after taxes) for the reversal of reserves that were no longer required.

The one-time merger expenses of \$107 million consisted of \$49 million of merger costs and \$58 million of post-merger expenses. The merger costs were primarily investment banker, consulting, legal and accounting fees. Post-merger integration expenses include costs related to employee retention, such as stay bonuses, and other one-time cash costs related to the integration of Union Camp.

The Union Camp merger-related termination benefit charge relates to employees terminating after the effective date of the merger under an integration benefits program. Under this program, 1,218 employees of the combined company were identified for termination. Benefits payable under this program for certain senior executives and managers are or have been paid from the general assets of International Paper. Benefits for remaining employees have been or will be primarily paid from plan assets of our qualified pension plan. Through December 31, 1999, 787 employees had been terminated. Related cash payments approximated \$65 million (including payments related to our nonqualified pension plans). The remaining charge primarily represents an increase in the projected benefit obligation of our qualified pension plan.

The following table is a roll forward of the Union Camp merger-related termination benefit charge:

In millions	Termination Benefits
Special charge (1,218 employees)	\$ 148
Incurred costs (787 employees)	(116)
Balance, December 31, 1999	\$ 32

Note: Benefit costs are treated as incurred on the termination date of the employee.

The \$298 million charge for the asset shutdowns of excess internal capacity consisted of a \$113 million charge in the 1999 second quarter and a \$185 million charge in the 1999 fourth quarter.

The second quarter 1999 \$113 million charge for the asset shutdowns of excess internal capacity and cost reduction actions

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

included \$57 million of asset write-downs and \$56 million of severance and other charges. The following table and discussion presents additional detail related to the \$113 million charge:

In millions		Asset Write-downs	Severance and Other	Total
-----		-----	-----	-----
Printing and Communications				
Papers	(a)	\$ 6	\$ 27	\$ 33
European Papers	(b)	3	7	10
Consumer Packaging	(c)	19	12	31
Industrial Packaging	(d)	12		12
Chemicals and Petroleum	(e)	10	3	13
Industrial Papers	(f)	7	7	14
		-----	-----	-----
		\$ 57	\$ 56	\$113
		=====	=====	=====

(a) We recorded a charge of \$24 million for severance related to the second phase of the Printing and Communications Papers business plan to improve the cost position of its mills. The charge, pursuant to our ongoing severance program, covers a reduction of approximately 289 employees at several mills in the U.S. At December 31, 1999, 146 employees had been terminated.

Also, management approved a decision to permanently shut down the Hudson River mill No. 4 paper machine located in Corinth, New York and the No. 2 paper machine at the Franklin, Virginia mill. The Franklin machine was shut down in September of 1999 and the Hudson River machine has also been shut down. The Hudson River machine had previously been temporarily shut down because of lack of orders. The machines were written down by \$6 million to their estimated fair value of zero. Severance costs of \$3 million cover the termination of 147 employees. At December 31, 1999, 76 employees had been terminated.

(b) The charge for European Papers, which covers the shutdown of two mills, consists of \$3 million in asset write-downs, \$6 million in severance costs and \$1 million of other exit costs. The Lana mill in Docelles, France was shut down due to excess capacity. The Lana mill produced approximately 5,000 metric tons of high-end uncoated specialty paper per year. This production was shifted to the La Robertsau mill in Strasbourg, France. The Lana mill fixed assets were written down \$3 million to their estimated fair value of zero. Costs related to the site closure are expected to be \$1 million and severance related to the termination of 42 employees will be approximately \$4 million. The Lana mill had revenues of \$12 million and an operating loss of \$2 million for the year ended December 31, 1999. At December 31, 1999, 14 employees had been terminated.

The Corimex coating plant in Clermont-Ferrand, France was shut down in April 1999. The market for thermal fax paper, which was produced at the plant, has been shrinking since the mid-1990's. The assets at this plant were considered to be impaired in 1997 and were written down accordingly at that time. A \$2 million severance charge was recorded during the second quarter of 1999 to cover the costs of terminating 81 employees. Corimex had revenues of \$6 million and an operating loss of \$3 million for the year ended December 31, 1999. At December 31, 1999, all 81 employees had been terminated.

(c) The Consumer Packaging business has implemented a plan to improve the overall performance of the Moss Point, Mississippi mill. Included in this plan is the shutdown of the No. 3 paper machine which produces labels. This production is being transferred to the Hudson River mill. The machine has been written down \$6 million to its estimated fair value of zero. Severance costs including, but not limited to, employees associated with the No. 3 machine total \$10 million and cover the elimination of 360 positions. At December 31, 1999, 272 employees had been terminated.

Consumer Packaging also shut down the beverage packaging facility in Itu, Brazil in an effort to reduce excess capacity in Latin America. The assets were written down \$13 million to their estimated fair value of zero and a severance charge of \$1 million covers the elimination of 29 positions. Other exit costs total \$1 million. At December 31, 1999, 24 employees had been terminated.

(d) As a result of the merger with Union Camp, we negotiated the resolution of contractual commitments in an industrial packaging investment in Turkey. As a result of these negotiations and evaluation of this entity, it was determined that the investment was impaired. A \$12 million charge was recorded to reflect this impairment and the related costs of resolving the contractual commitments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(e) As a result of an overall reduction in market demand for dissolving pulp, the decision was made to downsize the Natchez, Mississippi mill. Charges associated with capacity reduction total \$10 million and include the shutdown of several pieces of equipment. A severance charge of \$3 million includes the elimination of 89 positions. At December 31, 1999, 88 employees had been terminated.

(f) The Industrial Papers business has implemented a plan to reduce excess capacity at several of its locations. The Toronto, Canada plant has been closed. Equipment at the Kaukauna, Wisconsin and Knoxville, Tennessee facilities has been taken out of service, with additional equipment at the Menasha, Wisconsin plant scheduled to be shut down in 2000. The total amount related to the write-down of these assets is \$7 million. Severance costs related to these shutdowns are \$5 million and are based on a personnel reduction of 81 employees. Other exit costs total \$2 million. At December 31, 1999, a reduction of 59 employees had been made through severance and attrition.

The \$185 million fourth-quarter 1999 charge for shutdowns of excess internal capacity and cost reduction actions includes \$92 million of asset write-downs and \$93 million of severance and other charges. The following table presents additional detail related to the \$185 million charge:

In millions		Asset Write-downs	Severance and Other	Total
-----		-----	-----	-----
Printing and Communications				
Papers	(a)	\$ 7	\$ 5	\$ 12
Consumer Packaging	(b)	14	22	36
Industrial Packaging	(c)	7	14	21
Chemicals and Petroleum	(d)	30	20	50
Building Materials	(e)	10	6	16
Distribution	(f)	6	17	23
Carter Holt Harvey	(g)	18	9	27
		----	----	----
		\$ 92	\$ 93	\$ 185
		====	====	=====

(a) The Printing and Communications Papers charge of \$12 million encompasses a production curtailment at the Erie, Pennsylvania mill due to lower demand, the write-off of deferred software costs as the result of a decision to discontinue the installation of a Union Camp order entry system and an impairment of our investment in the Otis Hydroelectric plant. In November 1999 we announced that the Erie, Pennsylvania mill would change from a seven day, four crew schedule to a three crew schedule in order to balance operating capacity with sales demand. This production curtailment resulted in a severance charge of \$2 million for the termination of 99 employees. The charge for the deferred software write-off was \$3 million. International Paper also wrote down its investment in the Otis Hydroelectric partnership by \$7 million to the approximate market value of the investment based upon our current offer to acquire the other partner's interest.

(b) The Consumer Packaging business charge of \$36 million is related to the shutdown of facilities, capacity optimization and a deferred software write-off. The Philadelphia, Pennsylvania plant and the Edmonton, Alberta plant are scheduled to be shut down. Charges associated with these shutdowns include \$7 million of asset write-downs, \$1 million of severance costs covering the termination of 194 employees and other exit costs of \$5 million. Charges related to eliminating excess capacity include \$7 million of asset write-downs and a severance charge of \$11 million for the termination of 512 employees. The capacity reductions are related to the aseptic and flexible packaging businesses. The business also decided to discontinue the implementation of a Union Camp order management system. The write-off of deferred software costs related to this system is \$5 million.

(c) The Industrial Packaging business will shut down the following plants and shift production to other facilities: the Terre Haute, Indiana box plant; the Northlake, Illinois box plant; the Columbia, Tennessee sheet plant; and the Montgomery, Alabama sheet plant. The design center in Spartanburg, South Carolina will also be closed. The functions performed in Spartanburg will continue in Memphis, Tennessee. Charges associated with the consolidation and improvement of the Industrial Packaging business total \$21 million and include \$7 million of asset write-downs, a \$12 million severance charge covering the termination of 426 employees and other exit costs of \$2 million.

(d) The Chemicals and Petroleum charge of \$50 million is related to the partial shutdown of the Chester-Le-Street plant located in Northeast England and additional costs related to the 1998 shutdown of the Springhill, Louisiana plant. The Chester-Le-Street plant is currently

a fully integrated site comprised of a crude tall oil fractionation plant, a rosin resin upgrading plant and a dimer plant. The crude tall oil and rosin resin upgrading facilities at the site will be closed and production shifted to other Arizona Chemical facilities. Asset write-downs for this plant total \$30 million. A severance charge of \$3 million covers the termination of 83 employees. Other costs of \$12 million include demolition and contract cancellations. We also recorded an additional charge of \$5 million related to the 1998 closure of the Springhill plant, covering other exit costs including demolition and cleanup.

(e) The Building Materials charge of \$16 million includes \$3 million for a program to improve the profitability of the decorative surfaces business and \$13 million for the shutdown of the Pilot Rock, Oregon mill. The Decorative Products business has developed an improvement plan that will result in the consolidation of certain manufacturing activities and streamlining of administrative functions. As a result, a reserve of \$3 million was established to cover asset write-offs totaling \$2 million and severance charges of \$1 million related to the reduction of 65 employees. International Paper announced in October of 1999 that it would shut down the Pilot Rock, Oregon mill due to excess capacity within the Masonite manufacturing system. The softboard production will be moved to our Ukiah, California and Lisbon Falls, Maine facilities. The charge includes \$8 million of asset write-downs, a \$2 million severance charge covering the termination of 155 employees and other exit costs of \$3 million.

(f) xpedx, our distribution business, implemented a plan to consolidate duplicate facilities and eliminate excess capacity. The \$23 million charge associated with this plan includes \$6 million of asset write-downs, a severance charge of \$5 million for the termination of 211 employees and other costs of \$12 million. Other costs consist primarily of lease cancellations.

(g) This charge is related to the shutdown of the No. 5 paper machine at Carter Holt Harvey's Kinleith mill. The machine had been idled due to a reconfiguration project at the mill. Plans for alternative uses for the machine were reexamined and it was determined that based on current competitive conditions it would not provide adequate returns on the capital required and that it would be scrapped. Accordingly, the machine was written down from its \$20 million book value to its estimated salvage value of \$2 million. Also, severance costs total \$9 million and cover the costs of terminating 300 employees.

The \$30 million pre-tax charge to increase existing legal reserves includes \$25 million which we added to our reserve for hardboard siding claims. A further discussion of this charge can be found in Note 11. Commitments and Contingent Liabilities. The remaining \$5 million is related to other potential exposures.

The \$36 million pre-tax credit for reserves no longer required consists of \$30 million related to a retained exposure at the Lancey mill in France and \$6 million of excess severance reserves previously established by Union Camp. The Lancey mill was sold to an employee group in October 1997. In April 1999, International Paper's remaining exposure to potential obligations under this sale was resolved, and the reserve was returned to income in the second quarter.

The following table is a roll forward of the severance and other costs included in the 1999 restructuring plans (in millions):

	Severance and Other
Opening Balance (second quarter 1999)	\$ 56
Additions (fourth quarter 1999)	93
1999 Activity	
Cash charges	(34)
Balance, December 31, 1999	\$ 115
	=====

The severance reserves recorded in the 1999 second and fourth quarters related to 3,163 employees. As of December 31, 1999, 760 employees had been terminated.

	1998	
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special items	\$ 598	\$ 345
Oil and gas impairment charges	(111)	(68)
Restructuring and other charges	(161)	(92)
Gain on sale of business	20	12
Reversals of reserves no longer required	83	50
After special items	\$ 429	\$ 247
	=====	=====

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During 1998, we recorded \$111 million of oil and gas impairment charges (\$68 million after taxes). Of this amount, \$56 million (\$35 million after taxes) was recorded in the fourth quarter and \$55 million (\$33 million after taxes) was recorded in the third quarter. International Paper has oil and gas exploration and production operations in West Texas, the Gulf Coast and the Gulf of Mexico. The Securities and Exchange Commission's regulations for companies that use the full-cost method of accounting for oil and gas activities require companies to perform a ceiling test on a quarterly basis. As a result of low oil and gas prices, the value of our properties was written down through these noncash charges.

Also in 1998, we recorded a \$145 million pre-tax restructuring charge (\$82 million after taxes and minority interest expense) consisting of \$64 million of asset write-downs and \$81 million of severance costs and we recorded pre-tax charges of \$16 million (\$10 million after taxes) related to our share of write-offs taken by Scitex, a 13% investee company, related to in-process research and development of an acquisition and its exit from the digital video business. The Scitex items are reflected as equity losses from the investment in Scitex in the consolidated statement of earnings. In addition, we recorded a \$20 million pre-tax gain (\$12 million after taxes) on the sale of our Veratec nonwovens division, and an \$83 million pre-tax gain (\$50 million after taxes) from the reversal of previously established reserves that were no longer required. These reserves were established in 1996 and 1997 and were primarily associated with the Veratec and Imaging businesses. The sales of these businesses were completed in 1998 and those reserves not required were returned to earnings.

The following table and discussion presents additional detail related to the \$145 million restructuring charge:

In millions		Asset Write-downs	Severance	Total
-----		-----	-----	-----
Distribution	(a)	\$ 20	\$ 10	\$ 30
Printing and Communications				
Papers	(b)	13	14	27
Carter Holt Harvey	(c)	15	3	18
Industrial Packaging	(d)	8	7	15
Union Camp	(e)	8	32	40
Other	(f)		15	15
		----	----	----
Total		\$ 64	\$ 81	\$145
		=====	=====	=====

(a) After the acquisition of Zellerbach, management of xpedx decided to terminate certain software projects that were in process and to use Zellerbach's systems in certain of its regions. Accordingly, we wrote off related deferred software costs on these projects, resulting in a \$20 million charge. As part of the Zellerbach integration plan, management determined that a significant part of the personnel reduction related to the termination of employees at duplicate facilities and locations. The \$10 million severance charge represents the costs for terminating 274 xpedx employees. At December 31, 1999, all of the 274 employees had been terminated.

(b) Our Printing and Communications Papers business shut down equipment at the Mobile, Alabama mill and announced the termination of 750 employees at the Mobile, Alabama, Lock Haven, Pennsylvania, and Ticonderoga, New York mills. At the Mobile mill, International Paper permanently shut down a paper machine and related equipment with a net book value of \$13 million. These assets were written down to their estimated fair market value of zero. The severance charge associated with the employee reductions at the 3 mills was \$14 million. At December 31, 1999, all employees under this program had been terminated.

(c) This charge primarily consists of a \$15 million asset write-down associated with the closure of two Carter Holt Harvey facilities, Myrtleford and Taupo. Myrtleford, a tissue pulp mill located in Australia, was closed due to excess capacity in its tissue pulp system. Carter Holt Harvey will be able to produce the volume at lower costs at its Kawerau tissue pulp mill located in New Zealand. Carter Holt Harvey also decided to close the Taupo, New Zealand sawmill due to excess capacity in its sawmill system as the result of recent productivity improvements. The \$3 million severance charge represents the cost for terminating 236 employees. At December 31, 1999, all of the 236 employees had been terminated. Our consolidated financial statements included revenues of \$21 million and \$36 million and operating income of \$1 million and \$3 million from these facilities in 1998 and 1997, respectively.

(d) Management decided to close the Gardiner, Oregon mill because of excess capacity in International Paper's containerboard system. As a result, the net plant, property and equipment assets of this mill were reduced from \$13 million to the estimated salvage value of \$5 million. In

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

connection with the third-quarter decision to close this mill, 298 employees at the mill were terminated and a \$7 million severance charge was recorded. This mill had revenues of \$78 million and \$105 million and operating losses of \$16 million and \$1 million in 1998 and 1997, respectively.

(e) During 1998 Union Camp recorded a pre-tax special charge of \$40 million. Included in the charge was \$32 million related to the termination of 540 positions and \$8 million of asset write-downs. Approximately 190 positions were related to a reorganization and restructuring of Union Camp's research and development activities. Another 190 positions were related to a consolidation of the packaging group's administrative support functions and the remaining 160 positions were to be eliminated through a series of other organizational changes. At December 31, 1999, all of the 540 employees had been terminated.

The asset write-downs were principally attributable to the impairment of goodwill specific to two packaging businesses, the Chase packaging facility and Union Camp's 1996 purchase of a 50% interest in a packaging plant in Turkey. Upon reviewing the historical and projected operating results for these businesses, management concluded that expected future cash flows did not fully support the carrying value of these assets.

(f) The \$15 million severance charge was recorded as a result of an announcement by International Paper of a plan to consolidate its land and timber and logging and fiber supply divisions into a new division called Forest Resources and the consolidation of the Consumer Packaging group. Of the \$15 million charge, \$10 million related to a headcount reduction of 200 employees in the Forest Resources group and the remaining \$5 million was based on a personnel reduction of 210 employees in the Consumer Packaging group. At December 31, 1999, all of the 410 employees had been terminated.

The following table is a roll forward of the severance costs included in the 1998 restructuring plan (in millions):

	Severance

Opening Balance (third quarter 1998)	\$ 81
1998 Activity	
Cash charges	(19)
1999 Activity	
Cash charges	(56)
Reserve reversal	(6)

Balance, December 31, 1999	\$ 0
	=====

The severance reserve recorded in the 1998 third quarter related to 2,508 employees. As of December 31, 1999, all employees had been terminated.

	1997	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
	-----	-----
In millions		
Before special items	\$ 783	\$ 381
Provision for legal reserve	(150)	(93)
Restructuring and other charges	(660)	(465)
Gain on sale of business	170	97
	-----	-----
After special items	\$ 143	\$ (80)
	=====	=====

In June 1997, a \$535 million pre-tax business improvement charge (\$385 million after taxes) was recorded under a plan to improve our financial performance through closing or divesting of operations that no longer met financial or strategic objectives. It included approximately \$230 million for asset write-downs, \$210 million for the estimated losses on sales of businesses and \$95 million for severance and other expenses. At this point, the anticipated pre-tax earnings improvement of \$100 million from the 1997 restructuring actions has been largely realized. The earnings improvement consists of \$25 million of lower depreciation expense and \$75 million of lower cash costs.

The \$230 million write-down of assets that International Paper recorded in the second quarter of 1997 consisted primarily of write-downs associated with assets to be sold or shut down as follows (in millions):

Shutdown of European Papers facilities	(a)	\$105
Shutdown of U.S. Papers and Fine Papers facilities	(b)	101
Write-off of Haig Point real estate development	(c)	13

Other shutdowns

11

\$230
====

45

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(a) In the second quarter of 1997, management committed to sell the Lancey, France mill to an employee group. We wrote down the net carrying amount of the mill at June 30, 1997 by \$65 million and established a reserve of \$30 million to cover a retained exposure. This remaining exposure was resolved in 1999. The sale closed in October 1997. Lancey had revenues of \$52 million and an operating loss of \$7 million in 1997. The Corimex, France mill produced coated thermal fax paper, which is a market that weakened in the mid-1990's. During the second quarter of 1997, management concluded that it would continue to operate this mill but that the assets were impaired. Based on an analysis of expected future cash flows completed in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," we reduced the carrying value of the Corimex mill from \$12 million to \$2 million, resulting in a \$10 million charge. The Corimex mill was shut down in April 1999. Charges related to the shutdown are included in the 1999 special charge. Corimex had operating losses of \$4 million in 1998 and \$2 million in 1997.

(b) The \$101 million reserve related to the restructuring of the Fine Papers manufacturing operations in the Northeast (\$51 million) and the shutdown of the deinking facility at the Lock Haven, Pennsylvania mill (\$50 million). The restructuring of the Fine Papers operations included the shutdown of the Woronoco, Massachusetts paper mill and 3 small paper machines at the Erie, Pennsylvania mill. In the 1997 second quarter, we decided to close the deinking facility. Given that each of these actions represented the permanent shutdown of equipment or facilities, International Paper wrote down the net carrying amount of the assets to zero. The Woronoco, Massachusetts mill had revenues of \$46 million and operating earnings of \$5 million in 1997.

(c) We are the developer of a residential golf community named Haig Point at Daufuskie Island, South Carolina. As the developer, International Paper was responsible for operating this community until a specified number of lots were sold, at which time we would turn the community over to the homeowners. The net book value of our investment in Haig Point was \$13 million at June 30, 1997. Given continuing operating losses, \$5 million in 1997 and an updated marketing study, we concluded that the investment was permanently impaired and wrote it down to zero. Operating losses of \$1 million and \$500,000 were recorded in 1999 and 1998, respectively.

The \$210 million for the estimated losses on sales of businesses related to the following (in millions):

Imaging	(a)	\$150
Veratec	(b)	25
Decorative Products	(c)	20
Label	(d)	15

		\$210
		=====

(a) We decided to sell our Imaging businesses in the second quarter of 1997. Based on discussions with our investment banker and meetings with potential buyers, International Paper believed that the most likely outcome was to realize approximately \$325 million. A reserve of \$150 million was established, which represented the estimated loss on the sale. We expected to complete the sale of the Imaging businesses within one year. The Imaging businesses had revenues of \$690 million and operating earnings of \$9 million in 1997.

(b) The Veratec division had developed a business that was based on an interspun technology for treating fabrics. The net carrying value of this business was \$25 million at June 30, 1997. In June 1997, we decided to shut down this business and recorded a reserve of \$25 million. Prior to the shutdown, this business had revenues of \$2 million and an operating loss of \$7 million in 1997.

(c) In the second quarter of 1997, management decided to sell the medium-density fiberboard, low-pressure laminates and particleboard businesses. We estimated the expected sales prices for each of these businesses and recorded a reserve of \$20 million to reduce the net carrying amounts to these levels. We expected to complete the sales of these businesses within one year. These businesses had revenues of \$196 million and operating losses of \$1 million in 1997.

(d) In the second quarter of 1997, management committed to a plan to sell the label business. The estimated total loss on the label business sale included in the second-quarter 1997 restructuring charge was \$15 million. The label

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

business was sold in May of 1998. The label business had revenues of \$24 million and an operating loss of \$2 million in 1997.

The \$95 million of severance and other expenses consists of the following (in millions):

Severance	(a)	\$42
Write-off of deferred software costs	(b)	18
Lease buyouts at warehouses	(c)	9
Write-off of deinking process license	(d)	4
Other exit costs	(e)	22

		\$95
		===

(a) The \$42 million severance charge relates to programs initiated and approved in the 1997 second quarter in the Printing and Communications Papers, Industrial and Consumer Packaging segments and corporate staff groups to reduce headcount by 3,015 employees under our existing ongoing severance plans. We recorded the charge in the second quarter as (1) management had committed to the plan of termination, (2) the benefit arrangement had been communicated to the employees, (3) the number of employees, their functions and locations had been identified, and (4) all terminations were to be completed in approximately one year. As of December 31, 1999, all employees had been terminated under these programs.

(b) The \$18 million charge for the write-off of deferred software costs relates to two items as follows: (1) during the 1997 second quarter, a human resources software project, for which \$11 million of deferred software costs had been recorded, was cancelled and (2) as a result of the decision to sell certain businesses in the second quarter of 1997, we decided to terminate enterprise software projects in these businesses, for which we had recorded \$7 million of deferred software costs.

(c) The \$9 million charge represents the cost to buy out obligations under existing warehouse leases. A decision to close these warehouses was made in the second quarter of 1997.

(d) The \$4 million charge represents the write-off of the net carrying value of the deinking process license that had been acquired from a third party. International Paper permanently shut down this operation in the 1997 second quarter. Accordingly, we wrote the license down to zero.

(e) The charge of \$22 million relates to other exit costs.

In December 1997, an additional pre-tax charge of \$125 million (\$80 million after taxes) was recorded for anticipated losses associated with the sale of the remaining Imaging businesses. Such amount was determined after consideration of the sales of certain of the Imaging businesses that had been completed and the estimated proceeds from the businesses remaining to be sold. The remaining Imaging businesses were sold in 1998.

Also included in the 1997 special items was a \$150 million provision to increase our legal reserves as a result of a settlement by Masonite Corporation, a wholly-owned subsidiary, of a class-action lawsuit relating to its hardboard siding product. A more detailed discussion of this legal settlement is included in Note 11. to the financial statements.

The following table is a roll forward of the severance and other costs included in the 1997 restructuring plan (in millions):

	Severance and Other

Opening Balance (second quarter 1997)	\$ 95
1997 Activity	
Asset write-downs	(18)
Cash charges	(15)

Balance, December 31, 1997	62
1998 Activity	
Asset write-downs	(4)
Reserve reversals	(9)
Cash charges	(40)

Balance, December 31, 1998	9
1999 Activity	
Cash charges	(9)

Balance, December 31, 1999	\$ 0
	====

NOTE 7 GAINS ON SALES OF WEST COAST PARTNERSHIP INTERESTS

On March 29, 1996, IP Timberlands, Ltd. (IPT) completed the sale of a 98% general partnership interest in a subsidiary partnership that owned approximately 300,000 acres of forestlands located in Oregon and Washington. Included in the net assets of the partnership interest sold were forestlands, roads and \$750 million of long-term debt. As a result

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

of this transaction, International Paper recognized in its 1996 first-quarter consolidated results a \$592 million pre-tax gain (\$336 million after taxes and minority interest expense). IPT and International Paper retained nonoperating interests in the partnership. In December 1997, these retained interests were redeemed and a related debt guaranty was released resulting in a pre-tax gain of \$170 million (\$97 million after taxes and minority interest expense). These gains were presented in the consolidated statement of earnings as gains on sales of businesses.

NOTE 8 PREFERRED SECURITIES OF SUBSIDIARIES

In March 1998, Timberlands Capital Corp. II, Inc., a wholly-owned consolidated subsidiary of International Paper, issued \$170 million of 7.005% preferred securities as part of the financing to repurchase the outstanding units of IP Timberlands, Ltd. These securities are not mandatorily redeemable and are classified in the consolidated balance sheet as a minority interest liability.

In June 1998, IP Finance (Barbados) Limited, a non-U.S. wholly-owned consolidated subsidiary of International Paper, issued \$550 million of preferred securities with a dividend payment based on LIBOR. These preferred securities are mandatorily redeemable on June 30, 2008.

In September 1998, International Paper Capital Trust III issued \$805 million of International Paper - obligated mandatorily redeemable preferred securities. International Paper Capital Trust III is a wholly-owned consolidated subsidiary of International Paper and its sole assets are International Paper 7 7/8% debentures. The obligations of International Paper Capital Trust III related to its preferred securities are fully and unconditionally guaranteed by International Paper. These preferred securities are mandatorily redeemable on December 1, 2038.

In the third quarter of 1995, International Paper Capital Trust (the Trust) issued \$450 million of International Paper - obligated mandatorily redeemable preferred securities. The Trust is a wholly-owned consolidated subsidiary of International Paper and its sole assets are International Paper 5 1/4% convertible subordinated debentures. The obligations of the Trust related to its preferred securities are fully and unconditionally guaranteed by International Paper. These preferred securities are convertible into International Paper common stock.

Distributions paid under all of the preferred securities noted above were \$134 million, \$54 million and \$24 million in 1999, 1998 and 1997, respectively.

NOTE 9 SALE OF LIMITED PARTNERSHIP INTERESTS

During 1993, International Paper contributed assets with a fair market value of approximately \$900 million to two newly formed limited partnerships, Georgetown Equipment Leasing Associates, L.P. and Trout Creek Equipment Leasing, L.P. These partnerships are separate and distinct legal entities from International Paper and have separate assets, liabilities, business functions and operations. However, for accounting purposes, we continue to consolidate these assets, and the minority shareholders' interests are reflected as minority interest in the accompanying financial statements. The purpose of the partnerships is to invest in and manage a portfolio of assets including pulp and paper equipment used at the Georgetown, South Carolina and Ticonderoga, New York mills. This equipment is leased to International Paper under long-term leases. Partnership assets also include floating rate notes and cash. During 1993, outside investors purchased a portion of our limited partner interests for \$132 million and also contributed an additional \$33 million to one of these partnerships.

At December 31, 1999, we held aggregate general and limited partner interests totaling 58% in Georgetown Equipment Leasing Associates, L.P. and 50% in Trout Creek Equipment Leasing, L.P.

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NOTE 10 INCOME TAXES

We use the asset and liability method of accounting for income taxes whereby deferred income taxes are recorded for the future tax consequences attributable to differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are revalued to reflect new tax rates in the periods rate changes are enacted.

The components of earnings before income taxes and minority interest by taxing jurisdiction were:

In millions	1999	1998	1997
-----	-----	-----	-----
Earnings			
U.S.	\$ 237	\$ 297	\$ 43
Non-U.S.	211	132	100
-----	-----	-----	-----
Earnings before income taxes, minority interest and extraordinary item	\$ 448	\$ 429	\$ 143
	=====	=====	=====

The provision for income taxes by taxing jurisdiction was:

In millions	1999	1998	1997
-----	-----	-----	-----
Current tax provision (benefit)			
U.S. federal	\$ 259	\$ (64)	\$ 104
U.S. state and local	27	(6)	11
Non-U.S.	8	33	47
-----	-----	-----	-----
	294	(37)	162
Deferred tax provision (benefit)			
U.S. federal	(108)	117	(41)
U.S. state and local	(103)	(12)	(41)
Non-U.S.	3	27	3
-----	-----	-----	-----
	(208)	132	(79)
Income tax provision	\$ 86	\$ 95	\$ 83
	=====	=====	=====

We made income tax payments, net of refunds, of \$68 million, \$144 million and \$209 million in 1999, 1998 and 1997, respectively.

A reconciliation of income tax expense using the statutory U.S. income tax rate compared with actual income tax expense follows:

In millions	1999	1998	1997
-----	-----	-----	-----
Earnings before income taxes, minority interest and extraordinary item	\$ 448	\$ 429	\$ 143
Statutory U.S. income tax rate	35%	35%	35%
-----	-----	-----	-----
Tax expense using statutory U.S. income tax rate	157	150	50
State and local income taxes	(20)	(11)	(20)
Non-U.S. tax rate differences	(52)	20	32
Permanent benefits on sales of non-U.S. businesses	(2)	(33)	
Permanent benefits on sales of non-strategic timberland assets		(29)	
Nondeductible business expenses	30	9	53
Foreign sales corporation benefit	(9)	(9)	(22)
Minority interest	(56)	(31)	(23)
Goodwill	21	21	20
Net U.S. tax on non-U.S. dividends	15	10	11
Tax credits	(12)	(1)	(7)
Other, net	14	(1)	(11)
-----	-----	-----	-----
Income tax provision	\$ 86	\$ 95	\$ 83
	=====	=====	=====

Effective income tax rate	19%	22%	58%
	=====	=====	=====

The net deferred income tax liability as of December 31, 1999 and 1998 includes the following components:

In millions	1999	1998
-----	-----	-----
Current deferred tax asset	\$ 196	\$ 211
Noncurrent deferred tax asset	240	284
Noncurrent deferred tax liability	(3,344)	(3,673)
	-----	-----
Total	\$ (2,908)	\$ (3,178)
	=====	=====

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 1999 and 1998 were as follows:

In millions	1999	1998
-----	-----	-----
Plants, properties and equipment	\$ (2,995)	\$ (3,036)
Prepaid pension costs	(339)	(347)
Forestlands	(534)	(638)
Postretirement benefit accruals	225	210
Alternative minimum and other tax credits	390	376
Net operating loss carryforwards	235	135
Other	110	122
	-----	-----
Total	\$ (2,908)	\$ (3,178)
	=====	=====

Net operating loss carryforwards, most of which are applicable to non-U.S. subsidiaries, expire as follows: years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2001 through 2006 - \$139 million, year 2019 - \$37 million and indefinite carryforward - \$564 million.

Deferred taxes are not provided for temporary differences of approximately \$570 million, \$475 million and \$555 million as of December 31, 1999, 1998 and 1997, respectively, representing earnings of non-U.S. subsidiaries that are intended to be permanently reinvested. If these earnings were remitted, we believe that U.S. foreign tax credits would eliminate any significant impact on future income tax provisions.

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES

Certain property, machinery and equipment are leased under cancelable and noncancelable agreements. At December 31, 1999, total future minimum rental commitments under noncancelable leases were \$606 million, due as follows: 2000 - \$150 million, 2001 - \$121 million, 2002 - \$91 million, 2003 - \$77 million, 2004

- \$62 million and thereafter - \$105 million. Rent expense was \$229 million, \$237 million and \$242 million for 1999, 1998 and 1997, respectively.

Three nationwide class action lawsuits filed against International Paper have been settled. The first suit alleged that hardboard siding manufactured by Masonite fails prematurely, allowing moisture intrusion that in turn causes damage to the structure underneath the siding. The class consisted of all U.S. property owners having Masonite hardboard siding installed on and incorporated into buildings between 1980 and January 15, 1998. Final approval of the settlement was granted by the Court on January 15, 1998. The settlement provides for monetary compensation to class members meeting the settlement requirements on a claims-made basis. It also provides for the payment of attorneys' fees equaling 15% of the settlement amounts paid to class members, with a nonrefundable advance of \$47.5 million plus \$2.5 million in costs.

The second suit made similar allegations with regard to Omniwood siding manufactured by Masonite (the "Omniwood Lawsuit"). The class consists of all U.S. property owners having Omniwood siding installed on and incorporated into buildings from January 1, 1992 to January 6, 1999.

The third suit alleged that Woodruf roofing manufactured by Masonite is defective and causes damage to the structure underneath the roofing (the "Woodruf Lawsuit"). The class consists of all U.S. property owners on which Masonite Woodruf roofing has been incorporated and installed from January 1, 1980 to January 6, 1999.

Final approval of the settlements of the Omniwood and Woodruf lawsuits was granted by the Court on January 6, 1999. The settlements provide for monetary compensation to class members meeting the settlement requirements on a claims-made basis, and provides for payment of attorneys' fees equaling 13% of the settlement amounts paid to class members with a nonrefundable advance of \$1.7 million plus \$75,000 in costs for each of the two cases.

Our reserves for these matters total \$76 million at December 31, 1999. The amount includes \$25 million which we added to our reserve for hardboard siding claims in the fourth quarter of 1999, to cover an expected shortfall in that reserve resulting primarily from a higher number of hardboard siding claims in the fourth quarter of 1999 than we had anticipated. It is reasonably possible that the higher number of hardboard siding claims might be indicative of the need for one or more future additions to this reserve. However, whether or not any future additions to this reserve become necessary, International Paper believes that these settlements will not have a material adverse effect on our consolidated financial position or results of operations. The reserve balance is net of \$51 million of expected insurance recoveries (apart from the insurance recoveries to date). Through December 31, 1999, settlement payments of \$183 million, including the \$51 million of nonrefundable advances of attorney's fees discussed above, have been made. Also, we have received \$27 million from our insurance carriers through December 31, 1999. International Paper and Masonite have the right to terminate each of the settlements after seven years from the dates of final approval.

We are also involved in various other inquiries, administrative proceedings and litigation relating to contracts, sales of property, environmental protection, tax, antitrust and other matters, some of which allege substantial monetary damages. While any proceeding or litigation has the element of uncertainty, we believe that the outcome of any lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on our consolidated financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 SUPPLEMENTARY BALANCE SHEET INFORMATION

Inventories by major category were:

In millions at December 31	1999	1998
-----	-----	-----
Raw materials	\$ 484	\$ 555
Finished pulp, paper and packaging products	1,869	1,800
Finished lumber and panel products	178	183
Operating supplies	486	510
Other	186	163
-----	-----	-----
Inventories	\$ 3,203	\$ 3,211
	=====	=====

The last-in, first-out inventory method is used to value most of our domestic inventories. Approximately 73% of total raw materials and finished products inventories were valued using this method. If the first-in, first-out method had been used, it would have increased total inventory balances by approximately \$250 million, \$321 million and \$348 million at December 31, 1999, 1998 and 1997, respectively.

Plants, properties and equipment by major classification were:

In millions at December 31	1999	1998
-----	-----	-----
Pulp, paper and packaging facilities		
Mills	\$21,288	\$21,367
Packaging plants	3,233	3,082
Wood products facilities	2,117	2,134
Other plants, properties and equipment	2,889	2,987
-----	-----	-----
Gross cost	29,527	29,570
Less: Accumulated depreciation	15,146	14,250
-----	-----	-----
Plants, properties and equipment, net	\$14,381	\$15,320
	=====	=====

NOTE 13 DEBT AND LINES OF CREDIT

A summary of long-term debt follows:

In millions at December 31	1999	1998
-----	-----	-----
8 7/8% to 10.5% notes - due 2000 - 2012	\$ 563	\$ 596
8 7/8% to 9.7% notes - due 2000 - 2004	600	600
8 5/8% to 10% sinking fund debentures - due 2000 - 2021	34	243
8.5% to 9.5% debentures - due 2002 - 2022	246	325
8 3/8% to 9 1/2% debentures - due 2015 - 2024	300	300
6 7/8% to 7 7/8% notes - due 2000 - 2007	1,373	1,423
6 7/8% to 8 1/8% notes - due 2023 - 2029	741	546
6.5% notes - due 2007	148	148
6 1/8% notes - due 2003	200	200
5 7/8% Swiss franc debentures - due 2001	68	82
5 3/8% note due - 2006	249	
5 1/8% debentures - due 2012	88	86
Floating rate notes - due 1999 (1)		450
Medium-term notes - due 2000 - 2009 (2)	331	625
Environmental and industrial development bonds - due 2000 - 2028 (3,4)	1,352	1,363
Commercial paper and bank notes (5)	1,325	1,196
Other (6)	416	459
-----	-----	-----
Total (7)	8,034	8,642
Less: Current maturities	514	945
-----	-----	-----
Long-term debt	\$7,520	\$7,697
	=====	=====

- (1) The weighted average interest rate on these notes was 6.2% in 1998 and was based on LIBOR.
- (2) The weighted average interest rate on these notes was 8.3% in 1999 and 7.5% in 1998.
- (3) The weighted average interest rate on these bonds was 6.1% in 1999 and 5.8% in 1998.

(4) Includes \$149 million of bonds at December 31, 1999 and \$274 million at December 31, 1998, which may be tendered at various dates and/or under certain circumstances.

(5) Includes \$708 million in 1999 of non-U.S. dollar denominated borrowings with a weighted average interest rate of 5.6% in 1999.

(6) Includes \$14 million in 1999 and \$36 million in 1998 of French franc borrowings with a weighted average interest rate of 2.8% in 1999 and 2.7% in 1998, and \$132 million in 1999 and \$159 million in 1998 of German mark borrowings with a weighted average interest rate of 4.7% in 1999 and 4.6% in 1998.

(7) The fair market value was approximately \$8.1 billion and \$9.0 billion at December 31, 1999 and 1998, respectively.

Total maturities of long-term debt over the next five years are 2000 - \$514 million, 2001 - \$619 million, 2002 - \$1.4 billion, 2003 - \$300 million and 2004 - \$1.5 billion.

At December 31, 1999 and 1998, International Paper, including a non-U.S. subsidiary, classified \$1.5 billion and \$1.4 billion, respectively, of tenderable bonds, commercial paper and bank notes as long-term debt. International Paper and this subsidiary have the intent and ability to renew or convert these obligations through 2000 and into future periods.

At December 31, 1999, unused bank lines of credit amounted to \$1.9 billion. The lines generally provide for interest at market rates plus a margin based on our current

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

bond rating. The principal line, which is cancelable only if our bond rating drops below investment grade, provides for \$750 million of credit through March 2004, and has a facility fee of .10% that is payable quarterly. A 364-day facility provides for \$500 million of credit through March 29, 2000 and has a facility fee of .07% that is payable quarterly. Carter Holt Harvey also has two principal lines of credit that support its commercial paper programs. A \$600 million line of credit matures in April 2002 and has a .15% facility fee that is payable quarterly and a 250 million New Zealand dollar line of credit matures in February 2002 and has a .13% facility fee that is payable quarterly.

At December 31, 1999, notes payable included \$693 million of non-U.S. dollar denominated debt with maturities of less than twelve months and a weighted average interest rate of 10.3%.

At December 31, 1999, outstanding debt included approximately \$1.7 billion of borrowings with interest rates that fluctuate based on market conditions and our credit rating.

In 1999, International Paper recorded an extraordinary loss of \$16 million after taxes for the extinguishment of high interest debt which was assumed under the merger agreement with Union Camp. We extinguished approximately \$275 million of long-term debt with interest rates ranging from 8.5% to 10%.

Through a public tender offer in the 1997 third quarter, International Paper's then wholly-owned subsidiary, Federal Paper Board, repurchased \$164 million of its 10% debentures due April 15, 2011. The earnings impact of the debt retirement was not significant.

NOTE 14 FINANCIAL INSTRUMENTS

Financial instruments are used primarily to hedge exposure to currency and interest rate risk. To qualify as hedges, financial instruments must reduce the currency or interest rate risk associated with the related underlying items and be designated as hedges by management. Gains or losses from the revaluation of financial instruments that do not qualify for hedge accounting treatment are recognized in earnings.

Our policy is to finance a portion of our investments in non-U.S. operations with borrowings denominated in the same currency as the investment or by entering into foreign exchange contracts in tandem with U.S. dollar borrowings. These contracts are effective in providing a hedge against fluctuations in currency exchange rates. Gains or losses from the revaluation of these contracts, which are fully offset by gains or losses from the revaluation of the net assets being hedged, are determined monthly based on published currency exchange rates and are recorded as translation adjustments in common shareholders' equity. Upon liquidation of the net assets being hedged or early termination of the foreign exchange contracts, the gains or losses from the revaluation of foreign exchange contracts would be included in earnings. Amounts payable to or due from the counterparties to the foreign exchange contracts are included in accrued liabilities or accounts receivable as applicable.

Financial instruments outstanding at December 31, 1999 used to hedge net investments in non-U.S. operations consisted of non-U.S. dollar denominated debt totaling \$1.7 billion. Also outstanding were foreign currency forward contracts totaling \$1.5 billion, substantially all having maturities of less than twelve months, as noted in the following table expressed in U.S. dollar equivalents. The average amount of outstanding contracts during 1999 and 1998 was \$1.0 billion and \$1.4 billion, respectively.

Foreign Currency Forward Contracts (dollars in millions)	Contract Amount	Weighted Average Exchange Rate	Net Unrealized Gain (Loss)
-----	-----	-----	-----
Receive Australian dollars / Pay New Zealand dollars	\$ 20	0.79	\$(1)
Receive European euros / Pay U.S. dollars	1,012	0.95	52
Receive British pounds / Pay U.S. dollars	99	0.62	
Receive New Zealand dollars / Pay U.S. dollars	332	1.93	3
Receive Swedish kronas / Pay U.S. dollars	34	8.09	2
Receive U.S. dollars / Pay New Zealand dollars	25	0.56	3

Foreign exchange contracts are also used to hedge certain transactions that are denominated in non-U.S. currencies, primarily export sales and equipment purchased from nonresident vendors. These contracts serve to protect International Paper from currency fluctuations between the transaction and settlement dates. Gains and losses from the revaluation of these contracts, based on published currency exchange rates, along with offsetting gains and losses resulting from the revaluation of the underlying transactions, are recognized in earnings or deferred and recognized in the basis of the underlying transaction when completed. Any gains or losses arising from the cancellation of the underlying transactions or early termination of the foreign currency exchange contracts would be included in earnings.

Financial instruments outstanding at December 31, 1999 used to hedge transactions denominated in non-U.S. curren-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

cies consisted of foreign currency forward contracts totaling \$617 million, a majority having maturities of less than twelve months, as noted in the following table expressed in U.S. dollar equivalents. The average amount of outstanding contracts during 1999 and 1998 was \$454 million and \$610 million, respectively.

Foreign Currency Forward Contracts (U.S. dollars in millions)	Contract Amount	Weighted Average Exchange Rate	Net Unrealized Gain (Loss)
Receive German marks / Pay British pounds	\$ 40	3.00	\$ (3)
Receive European euros / Pay U.S. dollars	51	0.99	
Receive European euros / Pay British pounds	65	1.58	(1)
Receive British pounds / Pay European euros	21	0.63	
Receive New Zealand dollars / Pay Australian dollars	116	1.23	(5)
Receive New Zealand dollars / Pay U.S. dollars	167	1.96	7
Receive U.S. dollars / Pay European euros	56	1.07	
Receive U.S. dollars / Pay British pounds	20	1.61	

Note: We have an additional \$81 million in a number of smaller contracts to purchase or sell other currencies with a related net immaterial unrealized loss.

Cross-currency and interest rate swap agreements are used to manage the composition of our fixed and floating rate debt portfolio. Amounts to be paid or received as interest under these agreements are recognized over the life of the swap agreements as adjustments to interest expense. Gains or losses from the revaluation of cross-currency swap agreements that qualify as hedges of investments are recorded as translation adjustments in common shareholders' equity. Gains or losses from the revaluation of cross-currency swap agreements that do not qualify as hedges of investments are included in earnings. The related amounts payable to or due from the counterparties to the agreements are included in accrued liabilities or accounts receivable as applicable. If swap agreements are terminated early, the resulting gain or loss would be deferred and amortized over the remaining life of the related debt. The following table presents notional amounts and principal cash flows for currency and interest rate swap agreements by year of maturity expressed in U.S. dollar equivalents. The impact on our earnings and net liability under these agreements was not significant.

Interest Rate and Currency Swaps (in millions)

Outstanding as of December 31, 1999	2000	2001	2002	2003	2004	There- after	Total	Fair Value
U.S. dollar variable to fixed rate swaps			\$ 45	\$200	\$300	\$500	\$1,045	\$ 16
Average pay rate 7.3%								
Average receive rate 6.1%								
Australian dollar variable to fixed rate swaps	\$ 48	\$ 48	16	48	16		176	2
Average pay rate 6.0%								
Average receive rate 5.4%								
New Zealand dollar variable to fixed rate swaps	23	26	52	26	13		140	2
Average pay rate 6.8%								
Average receive rate 5.4%								
U.S. dollar fixed to variable rate swaps			45	200	550	500	1,295	(25)
Average pay rate 7.4%								
Average receive rate 6.6%								
U.S. dollar to Australian dollar cross-currency swap			150				150	(4)
Swiss franc to New Zealand dollar cross-currency swaps		75					75	(8)

We do not hold or issue financial instruments for trading purposes. The counterparties to interest rate swap agreements and foreign exchange contracts consist of a number of major international financial institutions. International Paper continually monitors its positions with and the credit quality of these financial institutions and does not expect nonperformance by the counterparties.

NOTE 15 CAPITAL STOCK

The authorized capital stock at December 31, 1999 and 1998 consisted of 990,850,000 and 400,000,000 shares of common stock, \$1 par value, respectively; 400,000 shares of cumulative \$4 nonredeemable preferred stock, without par value (stated value \$100 per share); and 8,750,000 shares of serial preferred stock, \$1 par value. The serial preferred stock is issuable in one or more series by the Board of Directors without

further shareholder action.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 RETIREMENT PLANS

International Paper maintains pension plans that provide retirement benefits to substantially all employees. Employees generally are eligible to participate in the plans upon completion of one year of service and attainment of age 21.

The plans provide defined benefits based on years of credited service and either final average earnings (salaried employees), hourly job rates or specified benefit rates (hourly and union employees).

U.S. Defined Benefit Plans

International Paper makes contributions that are sufficient to fully fund its actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA).

Net periodic pension income for qualified and nonqualified defined benefit plans comprised the following:

In millions	1999	1998	1997
Service cost	\$ (101)	\$ (97)	\$ (90)
Interest cost	(303)	(297)	(280)
Expected return on plan assets	469	455	418
Amortization of net transition asset (1)		26	26
Actuarial gains and losses	(6)	(3)	(1)
Amortization of prior service cost	(16)	(12)	(10)
Curtailment gain	6	5	
Net periodic pension income	\$ 49	\$ 77	\$ 63

(1) Amortization of International Paper's net transition asset, which increased annual periodic pension income, was completed in 1999.

The following table presents the changes in benefit obligation and plan assets for 1999 and 1998 and the plans' funded status and amounts recognized in the consolidated balance sheet as of December 31, 1999 and 1998.

In millions	1999	1998
Change in benefit obligation:		
Benefit obligation, January 1	\$ 4,492	\$ 3,928
Service cost	101	92
Interest cost	303	285
Participants' contributions		1
Actuarial (gain) loss	(439)	393
Benefits paid	(322)	(258)
Acquisitions		53
Divestitures		(23)
Curtailment gain	(10)	
Special termination benefits	92	11
Plan amendments	106	10
Benefit obligation, December 31 (1)	\$ 4,323	\$ 4,492
Change in plan assets:		
Fair value of plan assets, January 1	\$ 4,942	\$ 4,684
Actual return on plan assets	950	436
Company and participants' contributions	42	20
Benefits paid	(322)	(258)
Acquisitions		85
Divestitures		(25)
Fair value of plan assets, December 31	\$ 5,612	\$ 4,942
Funded status (2)	\$ 1,289	\$ 450
Unrecognized actuarial (gain) loss	(615)	322
Unamortized prior service cost	183	87
Unrecognized net transition obligation	2	3
Prepaid benefit cost	\$ 859	\$ 862
Amounts recognized in the consolidated balance sheet consist of:		

Prepaid benefit cost	\$ 928	\$ 959
Accrued benefit liability	(85)	(129)
Intangible asset	6	19
Minimum pension liability adjustment included in accumulated other comprehensive income	10	13
Net amount recognized	<u>\$ 859</u>	<u>\$ 862</u>

(1) Includes nonqualified unfunded plans with projected benefit obligations of \$110 million and \$125 million at December 31, 1999 and 1998, respectively.

(2) The Union Camp and Alling and Cory domestic qualified pension plans were merged with the International Paper domestic qualified pension plan effective September 30, 1999. The funded status information for 1999 reflects this merger. Prior to the plan merger, the Union Camp domestic qualified hourly plan had an accumulated benefit obligation in excess of the fair value of plan assets. As of December 31, 1998, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the Union Camp hourly plan were \$290 million, \$290 million and \$269 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Included in the 1999 special charge was \$92 million for special termination benefits attributable to the elimination of approximately 1,171 positions in connection with an employee integration benefits program provided to employees whose jobs were eliminated as a result of the merger of International Paper and Union Camp.

Included in the 1998 special charge was \$11 million for special termination benefits attributable to the elimination of approximately 540 positions in connection with a Union Camp employee severance program.

Plan assets are held in master trust accounts and include investments in International Paper common stock in the amounts of \$401 million and \$432 million at December 31, 1999 and 1998, respectively.

Weighted average assumptions as of December 31, 1999, 1998 and 1997 were as follows:

	1999	1998 (1,2)	1997 (2)
Discount rate	7.75%	6.60%	7.20%
Expected long-term return on plan assets	10.00%	9.90%	9.90%
Rate of compensation increase	5.00%	4.20%	4.60%

(1) As of June 1, 1999 International Paper enhanced pension benefits for its major union groups. As a result, the pension plan was revalued. The revaluation assumed a discount rate of 7.25% and a rate of compensation increase of 4.5%. These actions had the net effect of reducing the pension benefit obligation by \$179 million.

(2) The 1998 and 1997 rates are a blended average of the Union Camp and International Paper plan assumptions. The International Paper discount rate, expected long-term return on plan assets and rate of compensation increase for 1998 was 6.5%, 10.0% and 4.0%, respectively. For 1997 the respective rates were 7.25%, 10.0% and 4.5%.

Non-U.S. Defined Benefit Plans

Generally, our non-U.S. pension plans are funded using the projected benefit as a target, except in certain countries where funding of benefit plans is not required. Net periodic pension expense for our non-U.S. plans was not significant for 1999, 1998 and 1997.

The plans' projected benefit obligation in excess of plan assets at fair value at December 31, 1999 and 1998 was \$43 million and \$66 million, respectively. Plan assets are composed principally of common stocks and other fixed income securities.

Other Plans

We sponsor several defined contribution plans to provide substantially all U.S. salaried and certain hourly employees of International Paper an opportunity to accumulate personal funds for their retirement. Contributions may be made on a before-tax basis to substantially all of these plans.

As determined by the provisions of each plan, International Paper matches the employees' basic voluntary contributions. Such matching contributions to the plans were approximately \$67 million, \$58 million and \$56 million for the plan years ending in 1999, 1998 and 1997, respectively. The net assets of these plans approximated \$3.4 billion as of the 1999 plan year-end.

NOTE 17 POSTRETIREMENT BENEFITS

International Paper provides certain retiree health care and life insurance benefits covering a majority of U.S. salaried and certain hourly employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. An amendment in 1992 to one of the plans limits the maximum annual company contribution for health care benefits for retirees after January 1, 1992, based on age at retirement and years of service after age 50. Amortization of this plan amendment, which reduced annual net postretirement benefit cost, was completed in 1999. International Paper does not prefund these benefits and has the right to modify or terminate certain of these plans in the future.

The components of postretirement benefit expense in 1999, 1998 and 1997 were as follows:

In millions	1999	1998	1997
Service cost	\$ 11	\$ 11	\$ 11
Interest cost	30	33	33

Actuarial gains and losses	2	1	1
Amortization of prior service cost	(12)	(21)	(21)
	----	----	----
Net postretirement benefit cost	\$ 31	\$ 24	\$ 24
	=====	=====	=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the plans' funded status as of December 31, 1999 and 1998 and changes in benefit obligation and plan assets for 1999 and 1998.

In millions	1999	1998
-----	-----	-----
Change in benefit obligation:		
Benefit obligation, January 1	\$ 503	\$ 489
Service cost	11	11
Interest cost	30	33
Participants' contributions	16	15
Actuarial loss (gain)	(66)	(6)
Benefits paid	(44)	(45)
Plan amendments	(15)	
Acquisitions		3
Curtailment loss (gain)	4	
Special termination benefits	7	3
	-----	-----
Benefit obligation, December 31	\$ 446	\$ 503
	=====	=====
Change in plan assets:		
Fair value of plan assets, January 1	\$ --	\$ --
Company contributions	28	30
Participants' contributions	16	15
Benefits paid	(44)	(45)
	-----	-----
Fair value of plan assets, December 31	\$ --	\$ --
	=====	=====
Funded status	\$ (446)	\$ (503)
Unamortized prior service cost	(47)	(39)
Unrecognized actuarial loss	4	58
	-----	-----
Prepaid (accrued) benefit cost	\$ (489)	\$ (484)
	=====	=====

Future benefit costs were estimated assuming medical costs would increase at a 7.25% annual rate, decreasing to a 5% annual growth rate ratably over the next four years and then remaining at a 5% annual growth rate thereafter. A 1% increase in this annual trend rate would have increased the accumulated postretirement benefit obligation at December 31, 1999 by \$21 million. A 1% decrease in the annual trend rate would have decreased the accumulated postretirement benefit obligation at December 31, 1999 by \$18 million. The effect on net postretirement benefit cost from a 1% increase or decrease would not be material. The weighted average discount rate used to estimate the accumulated postretirement benefit obligation at December 31, 1999 was 7.75% compared with 6.60% at December 31, 1998.

Included in the 1999 special charge was \$7 million for special termination benefits attributable to the elimination of approximately 313 positions in connection with an integration benefits program provided to employees whose jobs were eliminated as a result of the merger of International Paper and Union Camp.

Included in the 1998 special charge was \$3 million for special termination benefits attributable to the elimination of approximately 540 positions in connection with a Union Camp employee severance program.

NOTE 18 INCENTIVE PLANS

International Paper currently has a Long-Term Incentive Compensation Plan that includes a Stock Option Plan, a Restricted Performance Share Plan and an Executive Continuity Award Plan, administered by a committee of nonemployee members of the Board of Directors who are not eligible for awards. The Plan allows stock appreciation rights to be awarded, although none were outstanding at December 31, 1999 or 1998. We also have other performance-based restricted share/unit plans available to senior executives and directors.

We apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our plans and the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). Accordingly, no compensation cost has been recognized for the stock option plan. Had compensation cost for our stock-based compensation plans been determined consistent with the provisions of SFAS No. 123, our net earnings, earnings per common share and earnings per common share - assuming dilution would have been reduced to the pro forma amounts indicated below:

In millions, except per share amounts	1999	1998	1997
-----	-----	-----	-----
Net Earnings (Loss)			

As reported	\$ 183	\$ 247	\$ (80)
Pro forma	152	223	(108)
Earnings (Loss) Per Common Share			
As reported	\$ 0.44	\$ 0.60	\$ (0.20)
Pro forma	0.37	0.54	(0.27)
Earnings (Loss) Per Common Share -			
Assuming Dilution			
As reported	\$ 0.44	\$ 0.60	\$ (0.20)
Pro forma	0.37	0.54	(0.27)

The effect on 1999, 1998 and 1997 pro forma net earnings, earnings per common share and earnings per common share - assuming dilution of expensing the estimated fair value of stock options is not necessarily representative of the effect on reported earnings for future years due to the vest-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ing period of stock options and the potential for issuance of additional stock options in future years.

Stock Option Plan

Under the current plan officers and certain other employees may be granted options to purchase International Paper common stock. The option price is the market price of the stock at the date of grant. Options are immediately exercisable under the plan; however, the underlying shares cannot be sold and carry profit forfeiture provisions during the initial two years following grant. Upon exercise of an option, a replacement option may be granted with the exercise price equal to the current market price and with a term extending to the expiration date of the original option.

For purposes of the pro forma disclosure above the fair value of each option grant has been estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1999, 1998 and 1997, respectively:

	1999 -----	1998 -----	1997 -----
Initial Options (1)			
Risk-Free Interest Rate	4.78%	5.05%	6.14%
Price Volatility	33.00%	29.28%	26.46%
Dividend Yield	2.08%	2.38%	2.77%
Expected Term in Years	4.39	5.31	5.13
Replacement Options (2)			
Risk-Free Interest Rate	5.47%	5.51%	6.31%
Price Volatility	33.00%	31.09%	29.50%
Dividend Yield	2.05%	2.17%	2.31%
Expected Term in Years	2.09	2.12	2.22

(1) The average fair values of initial option grants during 1999, 1998 and 1997 were \$13.14, \$10.83 and \$10.69, respectively.

(2) The average fair values of replacement option grants during 1999, 1998 and 1997 were \$10.14, \$9.40 and \$9.04, respectively.

A summary of the status of the Stock Option Plan as of December 31, 1999, 1998 and 1997 and changes during the years ended on those dates is presented below:

	Options (1,2) -----	Weighted Average Exercise Price -----
Outstanding at January 1, 1997	17,066,505	\$34.26
Granted	6,889,324	44.55
Exercised	(5,005,818)	34.17
Forfeited	(605,679)	35.99
Expired	(220,248)	42.56
Outstanding at December 31, 1997	18,124,084	38.03
Granted	4,820,970	42.96
Exercised	(3,314,612)	35.85
Forfeited	(789,621)	42.82
Expired	(154,915)	49.97
Outstanding at December 31, 1998	18,685,906	39.39
Granted	4,521,627	49.76
Exercised	(6,531,818)	36.56
Forfeited	(522,214)	42.91
Expired	(354,566)	51.41
Outstanding at December 31, 1999	15,798,935	43.14
	=====	

(1) The table does not include Executive Continuity Award tandem options described below. No fair value is assigned to these options under SFAS No.

123. The tandem restricted shares accompanying these options are expensed over their vesting period.

(2) The table does include options outstanding under two acquired company plans under which options may no longer be granted.

The following table summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Prices	Outstanding and Exercisable		
	Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price
\$22.68 - \$38.50	3,415,956	5.5	\$32.29
\$38.62 - \$41.94	4,187,083	6.9	\$40.29
\$41.98 - \$46.00	3,578,837	7.5	\$44.54
\$46.06 - \$52.25	2,112,332	4.7	\$49.74
\$52.37 - \$59.94	2,504,727	3.2	\$55.15

Performance - Based Restricted Shares

Under the Restricted Performance Share Plan, contingent awards of International Paper's common stock are granted by the Committee. Awards are earned on the basis of International Paper's financial performance over a period of consecutive calendar years as determined by the Committee. A majority of the awards under the Restricted Performance Share Plan in effect at the beginning of 1999 have been can-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

celled. Prior to the amended plan which is expected to commence in 2001, a one-time Transitional Performance Unit Plan was implemented effective July 1, 1999, which provides a cash award upon successful achievement of pre-established performance criteria.

The following summarizes the activity of all performance-based plans for the three years ending December 31, 1999:

	Shares
Outstanding at January 1, 1997	1,037,061
Granted	284,547
Issued	(120,187)
Forfeited	(40,352)
Outstanding at December 31, 1997	1,161,069
Granted	330,656
Issued	(156,935)
Forfeited	(50,100)
Outstanding at December 31, 1998	1,284,690
Granted	95,035
Issued	(227,553)
Forfeited (1)	(1,067,153)
Outstanding at December 31, 1999	85,019

(1) Includes 974,734 shares forfeited under the Restricted Performance Share Plan.

Executive Continuity Award Plan

The Executive Continuity Award Plan provides for the granting of tandem awards of restricted stock and/or nonqualified stock options to key executives. Grants are restricted and awards conditioned on attainment of specified age and years of service requirements. Exercise of a tandem stock option results in the cancellation of the related restricted shares.

The following summarizes the activity of the Executive Continuity Award Plan for the three years ending December 31, 1999:

	Shares
Outstanding at January 1, 1997	483,650
Granted	106,108
Issued	(9,500)
Outstanding at December 31, 1997	580,258
Granted	24,000
Issued	(5,500)
Forfeited	(5,000)
Outstanding at December 31, 1998	593,758
Granted	71,900
Issued	(65,412)
Forfeited (1)	(89,390)
Outstanding at December 31, 1999	510,856

(1) Includes restricted shares cancelled when tandem stock options were exercised. In 1999, 440,000 tandem stock options were exercised.

At December 31, 1999 and 1998, a total of 30.1 million and 4.6 million shares, respectively, were available for grant under the Long-Term Incentive Compensation Plan. In 1999, shareholders approved an additional 25.5 million shares to be made available for grant, with 3 million of these shares reserved specifically for the granting of restricted stock. A total of 4.2 million shares remain available for the granting of restricted stock as of December 31, 1999.

The compensation cost that has been charged to earnings for the performance-based plans was \$3 million, \$15 million and \$14 million for 1999, 1998 and 1997, respectively. Our 1999 earnings included income of \$20 million recognized upon cancellation of a majority of the awards under the Restricted Performance Share Plan.

NOTE 19 SUBSEQUENT EVENTS

The sale for just over \$1.2 billion of Carter Holt Harvey's equity interest in COPEC closed on January 3, 2000. Also, the sale for \$79 million of our equity interest in Scitex was completed on January 6, 2000. These transactions resulted in an after-tax profit of about \$135 million or \$.33 per share which will be recorded as an extraordinary item, pursuant to the pooling-of-interests rules, in the first quarter of 2000.

On February 17, 2000, International Paper announced that we had reached an agreement to acquire Shorewood Packaging Corporation, a leader in the premium retail packaging market, for \$600 million in cash and the assumption of \$275 million of debt.

On February 21, 2000, Carter Holt Harvey announced the purchase of CSR Limited's medium density fiberboard and particleboard businesses and its Oberon sawmill for approximately \$207 million in cash.

INTERNATIONAL PAPER

SIX-YEAR FINANCIAL SUMMARY

Dollar amounts in millions, except per share amounts and stock prices

	1999	1998	1997
Results of Operations			
Net sales	\$ 24,573	\$ 23,979	\$ 24,556
Costs and expenses, excluding interest	23,620	23,039	23,976
Earnings before income taxes, minority interest, extraordinary item and cumulative effect of accounting changes	448 (1)	429 (2)	143 (3)
Minority interest expense, net of taxes	163 (1)	87 (2)	140 (3)
Extraordinary item	16		
Cumulative effect of accounting changes			
Net earnings (loss)	183 (1)	247 (2)	(80) (3)
Earnings (loss) applicable to common shares	183 (1)	247 (2)	(80) (3)
Financial Position			
Working capital	\$ 2,859	\$ 2,675	\$ 1,476
Plants, properties and equipment, net	14,381	15,320	15,707
Forestlands	2,921	3,093	3,273
Total assets	30,268	31,466	31,971
Long-term debt	7,520	7,697	8,521
Common shareholders' equity	10,304	10,738	10,647
Per Share of Common Stock - Assuming No Dilution (7)			
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	\$ 0.48	\$ 0.60	\$ (0.20)
Extraordinary item	(0.04)		
Cumulative effect of accounting changes			
Earnings (loss)	0.44	0.60	(0.20)
Cash dividends	1.01	1.05	1.05
Common shareholders' equity	24.95	26.13	26.18
Common Stock Prices (7)			
High	59 1/2	55 1/4	61
Low	39 1/2	35 1/2	38 5/8
Year-end	56 7/16	44 13/16	43 1/8
Financial Ratios			
Current ratio	1.7	1.6	1.3
Total debt to capital ratio	38.1	39.0	46.1
Return on equity	1.7 (1,6)	2.3 (2,6)	(0.7) (3,6)
Return on investment	2.6 (1,6)	2.5 (2,6)	1.5 (3,6)
Capital Expenditures	\$ 1,139	\$ 1,322	\$ 1,448
Number of Employees	98,700	98,300	100,900

SIX-YEAR FINANCIAL SUMMARY

Dollar amounts in millions, except per share amounts and stock prices

	1996	1995	1994
Results of Operations			
Net sales	\$ 24,182	\$ 24,140	\$ 18,469
Costs and expenses, excluding interest	23,193	20,791	17,150
Earnings before income taxes, minority interest, extraordinary item and cumulative effect of accounting changes	939 (4)	2,742	896 (5)
Minority interest expense, net of taxes	180 (4)	166	54
Extraordinary item			
Cumulative effect of accounting changes			(79)
Net earnings (loss)	379 (4)	1,595	461 (5)
Earnings (loss) applicable to common shares	379 (4)	1,595	461 (5)
Financial Position			
Working capital	\$ 454	\$ 1,471	\$ 856
Plants, properties and equipment, net	16,570	14,347	12,546
Forestlands	3,637	3,030	1,009
Total assets	33,357	28,838	22,624
Long-term debt	7,943	7,144	5,716
Common shareholders' equity	11,349	9,837	8,280
Per Share of Common Stock - Assuming No Dilution (7)			
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	\$ 0.95	\$ 4.41	\$ 1.52
Extraordinary item			
Cumulative effect of accounting changes			(0.22)
Earnings (loss)	0.95	4.41	1.30
Cash dividends	1.05	0.98	0.90
Common shareholders' equity	28.57	27.20	23.34
Common Stock Prices (7)			
High	44 5/8	45 3/4	40 1/4
Low	35 5/8	34 1/8	30 3/8

Year-end	40 1/2	37 7/8	37 3/4
Financial Ratios	-----	-----	-----
Current ratio	1.1	1.3	1.2
Total debt to capital ratio	45.6	43.7	48.6
Return on equity	3.4 (4)	17.6	5.7 (5)
Return on investment	3.3 (4)	9.0	4.1 (5)
Capital Expenditures	-----	-----	-----
	\$ 1,780	\$ 1,785	\$ 1,439
Number of Employees	-----	-----	-----
	106,300	99,800	88,900
	=====	=====	=====

INTERNATIONAL PAPER

FINANCIAL GLOSSARY

Current ratio -

current assets divided by current liabilities.

Total debt to capital ratio -

long-term debt plus notes payable and current maturities of long-term debt divided by long-term debt, notes payable and current maturities of long-term debt, minority interest, preferred securities and total common shareholders' equity.

Return on equity -

net earnings divided by average common shareholders' equity (computed monthly).

Return on investment -

net earnings plus after-tax interest expense and minority interest expense divided by an average of total assets minus accounts payable and accrued liabilities.

FOOTNOTES TO SIX-YEAR FINANCIAL SUMMARY

(1) Includes a \$148 million pre-tax charge (\$97 million after taxes) for Union Camp merger-related termination benefits, a \$107 million pre-tax charge (\$78 million after taxes) for one-time merger expenses, a \$298 million pre-tax charge (\$180 million after taxes and minority interest expense) for asset shutdowns of excess internal capacity and cost reduction actions, a \$10 million pre-tax charge (\$6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a \$30 million pre-tax charge (\$18 million after taxes) to increase existing legal reserves and a \$36 million pre-tax credit (\$27 million after taxes) for the reversal of reserves that were no longer required.

(2) Includes a \$20 million pre-tax gain (\$12 million after taxes) on the sale of the Veratec nonwovens business, an \$83 million pre-tax gain (\$50 million after taxes) from the reversal of previously established reserves that are no longer required, a \$111 million pre-tax charge (\$68 million after taxes) for the impairment of oil and gas reserves due to low prices, a \$145 million pre-tax restructuring and asset impairment charge (\$82 million after taxes and minority interest expense) and \$16 million of pre-tax charges (\$10 million after taxes) related to our share of charges taken by Scitex, a 13% investee company, for the write-off of in-process research and development related to an acquisition and costs to exit the digital video business.

(3) Includes a pre-tax business improvement charge of \$535 million (\$385 million after taxes), a \$150 million pre-tax provision for legal reserve (\$93 million after taxes), a pre-tax charge of \$125 million (\$80 million after taxes) for anticipated losses associated with the sale of the Imaging businesses, and a pre-tax gain of \$170 million (\$97 million after taxes and minority interest expense) from the redemption of certain retained west coast partnership interests and the release of a related debt guaranty.

(4) Includes a pre-tax restructuring and asset impairment charge of \$554 million (\$386 million after taxes), a \$592 million pre-tax gain on the sale of a west coast partnership interest (\$336 million after taxes and minority interest expense), a \$155 million pre-tax charge (\$99 million after taxes) for the write-down of the investment in Scitex and a \$10 million pre-tax charge (\$6 million after taxes) for our share of a restructuring charge announced by Scitex in November 1996.

(5) Includes \$17 million (\$10 million after taxes) of additional earnings related to the change in accounting for start-up costs.

(6) Return on equity was 5.2% and return on investment was 4.0% in 1999 before special items. Return on equity was 3.2% and return on investment was 2.8% in 1998 before special items. Return on equity was 3.4% and return on investment was 3.0% in 1997 before special items.

(7) Per share data and common stock prices have been adjusted to reflect a two-for-one stock split in September 1995. All per share amounts are computed before the effects of dilutive securities.

INTERNATIONAL PAPER

INTERIM FINANCIAL RESULTS (UNAUDITED)

In millions, except per share amounts and stock prices

	Quarter				Year
	First	Second	Third	Fourth	
1999					
Net Sales	\$ 6,032	\$ 5,996	\$ 6,251	\$ 6,294	\$24,573
Gross Margin (1)	1,456	1,576	1,658	1,778	6,468
Earnings (Loss) Before Income Taxes, Minority Interest and Extraordinary Item	94	(36) (2)	242 (3)	148 (4)	448 (2, 3, 4)
Net Earnings (Loss)	32	(71) (2)	142 (3)	80 (4)	183 (2, 3, 4)
Per Share of Common Stock					
Earnings (Loss)	\$ 0.08	\$ (0.17)	\$ 0.34	\$ 0.19	\$ 0.44
Earnings (Loss) - Assuming Dilution	0.08	(0.17)	0.34	0.19	0.44
Dividends	0.26	0.25	0.25	0.25	1.01
Common Stock Prices					
High	47 1/4	59 1/2	56 1/16	57 11/16	59 1/2
Low	39 1/2	42 11/16	46 15/16	43 9/16	39 1/2
1998					
Net Sales	\$ 6,006	\$ 5,833	\$ 6,032	\$ 6,108	\$23,979
Gross Margin (1)	1,558	1,509	1,464	1,524	6,055
Earnings (Loss) Before Income Taxes and Minority Interest	185	171 (5)	(17) (6)	90 (7)	429 (5, 6, 7)
Net Earnings (Loss)	100	103 (5)	(2) (6)	46 (7)	247 (5, 6, 7)
Per Share of Common Stock					
Earnings (Loss)	\$ 0.25	\$ 0.25	\$ (0.01)	\$ 0.11	\$ 0.60
Earnings (Loss) - Assuming Dilution	0.25	0.25	(0.01)	0.11	0.60
Dividends	0.26	0.26	0.26	0.27	1.05
Common Stock Prices					
High	52 5/8	55 1/4	49 3/8	49 3/16	55 1/4
Low	40 7/8	42 1/2	35 1/2	40 3/16	35 1/2

(1) Gross margin represents net sales less cost of products sold.

(2) Includes a \$98 million pre-tax charge (\$67 million after taxes) for Union Camp merger-related termination benefits, a \$59 million pre-tax charge (\$49 million after taxes) for one-time merger expenses, a \$113 million pre-tax charge (\$69 million after taxes) for asset shutdowns of excess internal capacity and cost reduction actions and a \$36 million pre-tax credit (\$27 million after taxes) for the reversal of reserves that were no longer required.

(3) Includes a \$50 million pre-tax charge (\$30 million after taxes) for Union Camp merger-related termination benefits, an \$18 million pre-tax charge (\$11 million after taxes) for one-time merger expenses and a \$10 million pre-tax charge (\$6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities.

(4) Includes a \$185 million pre-tax charge (\$111 million after taxes and minority interest expense) for asset shutdowns of excess internal capacity and cost reduction actions, a \$30 million pre-tax charge (\$18 million after taxes) for one-time merger expenses and a \$30 million pre-tax charge (\$18 million after taxes) to increase existing legal reserves.

(5) Includes a \$6 million pre-tax charge (\$4 million after taxes) recorded to write off in-process research and development costs related to an acquisition by Scitex, a 13% owned investee company.

(6) Includes special items totaling a pre-tax loss of \$145 million (\$82 million after taxes and minority interest expense). These special items include a \$10 million pre-tax charge (\$6 million after taxes) related to our share of a restructuring charge taken by Scitex. The Scitex charge is reflected as an equity loss from the investment in Scitex in the consolidated statement of earnings.

(7) Includes a \$56 million pre-tax oil and gas impairment charge (\$35 million after taxes) and a \$38 million pre-tax credit (\$23 million after taxes) from the reversal of reserves that were no longer required.

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

International Paper
Two Manhattanville Road
Purchase, NY 10577
914-397-1500

ANNUAL MEETING

The next annual meeting of shareholders will be held at 8:30 a.m., Tuesday, May 9, 2000 at the Manhattanville College, Purchase, New York.

TRANSFER AGENT

For services regarding your account such as change of address, lost certificates or dividend checks, change in registered ownership, or the dividend reinvestment program, write or call:

ChaseMellon Shareholder Services L.L.C.
85 Challenger Road
Overpeck Centre
Ridgefield Park, NJ 07660
800-678-8715

STOCK EXCHANGE LISTINGS

Common shares (symbol: IP) are traded on the following exchanges: New York, Basel, Geneva, Lausanne, Zurich and Amsterdam. International Paper options are traded on the Chicago Board of Options Exchange.

DIRECT PURCHASE PLAN

Under our plan you may invest all or a portion of your dividends, and you may purchase up to \$20,000 of additional shares each year. International Paper pays most of the brokerage commissions and fees. You may also deposit your certificates with the transfer agent for safekeeping. For a copy of the plan prospectus, call or write to the Corporate Secretary at corporate headquarters.

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen LLP
1345 Avenue of the Americas
New York, NY 10105

REPORTS AND PUBLICATIONS

Additional copies of this annual report, the most recent environment, health and safety annual report, SEC filings and other publications are available by calling 914-397-1522 or writing to the investor relations department at corporate headquarters. Additional information is also available on our website
- <http://www.internationalpaper.com>

INVESTOR RELATIONS

Investors desiring further information about International Paper should contact the investor relations department at corporate headquarters, 914-397-1625.

CREDITS

Papers used in this report-Cover: Zanders Mega Dull 80 lb. cover; pages 1-4, Zanders Mega Dull 80 lb. text; pages 5-64, Beckett Expression, Radiance, 70 lb. text.

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On our cover: Kristen Henderson enjoys a beautiful day on her new bicycle. The bicycle packaging was specially designed and manufactured by employees at our Fond du Lac, Wis., Edinburg, Texas, and Putnam, Conn., container facilities. Henderson, who also appears in International Paper television commercials, is the daughter of employee Maureen Henderson, senior financial analyst, in Tuxedo, N.Y.

Kristen and Maureen are featured on the cover of our
Conversation About the Future brochure.

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DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

PETER I. BIJUR(1)(4)(7)*

Chairman and
Chief Executive Officer
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JOHN T. DILLON(2)*(3)

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Chief Executive Officer
International Paper

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Chairman of the
Board of Management
DaimlerChrysler AG

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Bestfoods

C. WESLEY SMITH(6)(7)

Executive Vice President
International Paper

- 1 Audit Committee
- 2 Executive Committee
- 3 Finance Committee
- 4 Management Development and Compensation Committee
- 5 Governance Committee
- 6 Public and Legal Affairs Committee
- 7 Environment, Health and Technology Committee
- * Committee Chairperson

SENIOR MANAGEMENT

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Chairman and
Chief Executive Officer

DAVID W. OSKIN

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Executive Vice President

JAMES P. MELICAN

Executive Vice President
Legal and External Affairs

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Executive Vice President
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President
International Paper
Europe

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Senior Vice President
Distribution

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Senior Vice President
Finance &
Chief Financial Officer

CHARLES H. GREINER

Senior Vice President
Printing & Communications Papers

NEWLAND LESKO

Senior Vice President
Industrial Packaging

WILLIAM B. LYTTON
Senior Vice President
& General Counsel

RICHARD B. PHILLIPS
Senior Vice President
Technology

WILLIAM H. SLOWIKOWSKI
Senior Vice President
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MANCO SNAPP
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Building Materials

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Public Affairs and Communications

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Vice President
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Vice President
Foodservice

H. WAYNE BRAFFORD
Vice President
Converting & Specialty Papers

E. WILLIAM BOEHMLER
Vice President and Treasurer

DENNIS J. COLLEY
Vice President
Retail Packaging

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Vice President
Logistics

HANS PETER DAROCZI

Vice President
International Container

C. CATO EALY

Vice President
Business Development
and Planning

JOHN V. FLYNN

Vice President
Human Resources

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Vice President
Beverage Packaging

JAMES W. GUEDRY

Vice President and
Corporate Secretary

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Managing Director
European Papers, West

WILLIAM P. HOEL

Vice President
Executive Assistant to the Chairman

NEWELL E. HOLT

Vice President
Bleached Board

ROBERT M. HUNKELER

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Investments

THOMAS C. JORLING

Vice President
Environmental Affairs

JEFFREY F. KASS

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Printing & Communications Papers

TIMOTHY P. KENEALLY

Vice President
Industrial Packaging

PETER F. LEE

Vice President
Research & Development

ANDREW R. LESSIN

Vice President and Controller

ARTHUR W. MCGOWEN

Vice President
Wood Products

GERALD C. MARTERER
Vice President
Specialty Industrial Papers

JEAN-PHILLIPPE MONTEL
Vice President
European Papers

KARL W. MOORE
Director
Finance, IP Europe

GEORGE A. O'BRIEN
Vice President
Forest Resources

MAXIMO PACHECO
President
International Paper Latin America

LH PUCKETT
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Commercial Printing & Office Papers

CAROL L. ROBERTS
Vice President
People Development

DAVID L. ROBINSON
Vice President
Industrial Packaging

R. MICHAEL ROSS
Vice President
Industrial Packaging

J. CHRIS SCALET
Vice President and
Chief Information Officer

BENNIE R. SMITH
Vice President
Industrial Packaging

PETER M. SPRINGFORD
President
International Paper Company (Asia)
Limited

LARRY J. STOWELL
Vice President
Arizona Chemical

TOBIN J. TREICHEL
Vice President
Tax

CAROL S. TUTUNDGY
Vice President
Investor Relations

LYN M. WITHEY
Vice President
Public Affairs

RICHARD A. O'LEARY
Auditor

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914-397-1500
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EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

United States -----		Percentage of voting securities owned by its immediate parent -----
Bush Boake Allen, Inc.	Delaware	68.10%
Masonite Corporation	Delaware	100%
Sustainable Forests, LLC	Delaware	100%
Other than United States -----		
Carter Holt Harvey	New Zealand	50.3%
International Paper S.A.	France	99.92%

The names of other subsidiaries have been omitted once these subsidiaries considered in the aggregate as a single entity do not constitute a significant

subsidiary.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

To International Paper Company:

As independent public accountants, we hereby consent to the incorporation of our reports dated February 8, 2000, included and incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 33-11117, 33-32527, 33-41374, 33-50438, 33-51447, 33-52945, 33-61335, 33-62283, 333-008431, 333-01667, 333-02137, 333-24869, 333-47583, 333-62661, 333-75235, 333-85051, and 333-85133.

Arthur Andersen LLP

New York, NY

March 24, 2000

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements (Registration Nos. 33-11117, 33-32527, 33-41374, 33-50438, 33-51447, 33-52945, 33-61335, 33-62283, 333-008431, 333-01667, 333-02137, 333-24869, 333-47583, 333-62661, 333-75235, 333-85051 and 333-85133) of International Paper Company of our report dated February 5, 1999 relating to the financial statements and financial statement schedule of Union Camp Corporation, which report appears in this Form 10-K.

PricewaterhouseCoopers LLP
New York, New York

March 24, 2000

EXHIBIT 24

POWER OF ATTORNEY

Know all Men By these Presents, that the undersigned hereby constitutes and appoints JAMES W. GUEDRY, WILLIAM B. LYTTON AND JAMES P. MELICAN and each of them (with full power to each of them to act alone) their true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for them on their behalf and in their name, place and stead, in any and all capacities, to sign, execute and affix their seal thereto and file the Annual Report of International Paper Company on Form 10-K (or any other appropriate form), under the Securities Exchange Act of 1934, as amended, together with any and all amendments to such Annual Report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in order to effectuate the same, for all intents and purposes, and that the undersigned hereby ratify and confirm all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Executed on the 14th day of March, 2000, at Purchase, New York.

NAME

TITLE

/s/ JOHN T. DILLON

John T. Dillon

Director and Chairman of the Board
(Chief Executive Officer)

/s/ C. WESLEY SMITH

C. Wesley Smith

Executive Vice President and
Director

/s/ PETER I. BLJUR

Peter I. Bijur

Director

/s/ ROBERT J. EATON

Robert J. Eaton

Director

/s/ SAMIR G. GIBARA

Samir G. Gibara

Director

NAME	TITLE
/s/ JAMES A. HENDERSON ----- James A. Henderson	Director
/s/ JOHN R. KENNEDY ----- John R. Kennedy	Director
/s/ ROBERT D. KENNEDY ----- Robert D. Kennedy	Director
/s/ W. CRAIG MCCLELLAND ----- W. Craig McClelland	Director
/s/ DONALD F. MCHENRY ----- Donald F. McHenry	Director
/s/ PATRICK F. NOONAN ----- Patrick F. Noonan	Director
/s/ JANE C. PFEIFFER ----- Jane C. Pfeiffer	Director
/s/ JEREMIAH J. SHEEHAN ----- Jeremiah J. Sheehan	Director
/s/ CHARLES R. SHOEMATE ----- Charles R. Shoemate	Director

ARTICLE 5

MULTIPLIER: 1,000,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD END	DEC 31 1999
CASH	453
SECURITIES	0
RECEIVABLES	3,333
ALLOWANCES	106
INVENTORY	3,203
CURRENT ASSETS	7,241
PP&E	29,527
DEPRECIATION	15,146
TOTAL ASSETS	30,268
CURRENT LIABILITIES	4,382
BONDS	7,520
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	415
OTHER SE	9,889
TOTAL LIABILITY AND EQUITY	30,268
SALES	24,573
TOTAL REVENUES	24,573
CGS	18,105
TOTAL COSTS	23,620
OTHER EXPENSES	0
LOSS PROVISION	34
INTEREST EXPENSE	541
INCOME PRETAX	989
INCOME TAX	86
INCOME CONTINUING	199
DISCONTINUED	0
EXTRAORDINARY	(16)
CHANGES	0
NET INCOME	183
EPS BASIC	0.44
EPS DILUTED	0.44

EXHIBIT 99.1

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of Union Camp Corporation

In our opinion, the consolidated balance sheet as of December 31, 1998 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 1998 of Union Camp Corporation and its subsidiaries (not presented separately herein) present fairly, in all material respects, the financial position, results of operations and cash flows of Union Camp Corporation and its subsidiaries at December 31, 1998 and for each of the two years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule "Valuation and Qualifying Accounts" (not presented separately herein) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Union Camp Corporation for any period subsequent to December 31, 1998.

As described in Note 1 to the consolidated financial statements, the Company changed its method of accounting for costs of computer software developed or obtained for internal use effective January 1, 1998.

PricewaterhouseCoopers LLP

New York, New York

February 5, 1999

EXHIBIT 99.2

International Paper:

A CONVERSATION ABOUT THE FUTURE

[LOGO] INTERNATIONAL PAPER

[PHOTOGRAPH - COVER]

This is a photo of a woman and a little girl taking a bicycle out of a large corrugated box.

INTERNATIONAL PAPER AT A GLANCE

[CHART - INSIDE COVER]

This is a chart of sales by segment:

Printing & Communications Papers	23%
Forest Products	12%
Chemicals and Petroleum	6%
Carter Holt Harvey	6%
Packaging	27%
Distribution	26%

SALES BY SEGMENT

[CHART - INSIDE COVER]

This is a chart of operating profit by segment:

Forest Products	40%
Carter Holt Harvey	2%
Distribution	6%
Chemical and Petroleum	7%
Printing & Communications Papers	14%
Packaging	31%

OPERATING PROFIT BY SEGMENT

Each part of International Paper is dedicated to exceeding customer expectations by providing the highest product quality, incomparable service and innovative new product development. International Paper's global paper, packaging and forest products businesses are complemented by an extensive distribution system and the production of related chemical and petroleum products. We operate more than 425 facilities in nearly 50 countries on behalf of customers in more than 130 different nations. International Paper is also the majority shareholder in Carter Holt Harvey, a leading forest products company based in New Zealand.

[CHART - INSIDE COVER]

This is a chart of geographic sales:

United States	78%
Europe	13%
Pacific Rim	8%
Other	1%

**INTERNATIONAL PAPER
FROM INNOVATION TO RESULTS**

[PHOTOGRAPH]

This is a photo of John Dillon, chairman and CEO, International Paper.

International Paper is taking the actions necessary to continue to be the very best in the global paper and forest products industry -- measured against any standard and against any competitor. Our goal is to improve shareowner value at a rate faster than our competition. We will do this by changing the way we think about our business -- we are managing for performance, building stronger businesses on a global basis and creating a worldwide competitive advantage. I am very optimistic about the future. Success, in my mind, is being the best. We have raised the bar on expectations and accountability. The results of these efforts will be evident throughout 2000. I am absolutely convinced we will make this company the best in the world -- against any measure.

We are advancing our efforts From innovation in the way we think and act, to results that our shareowners, communities, customers and all of our employees will love.

/s/ John Dillon

**JOHN DILLON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
MARCH 2000**

How is being a large, global company a competitive advantage? Our customers are growing across borders, and we are well-positioned to provide them the service and products they need to be successful. International Paper is in a strategic position only a few other companies can achieve. We believe there is huge growth potential in world markets that we intend to tap. Industry projections indicate that within 10 years there will be a half-dozen or so major, global companies in this business, and we will be one of these. Our

[PHOTOGRAPH]

This is a photo of a little girl riding a bicycle.

Kristen Henderson enjoys a beautiful day on her new bicycle. The bicycle packaging was specially designed and manufactured by employees at our Fond du Lac, Wis., Edinburg, Texas, and Putnam, Conn., container facilities. Henderson, who also appears in International Paper television commercials, is the daughter of employee Maureen Henderson, senior financial analyst, in Tuxedo, N.Y. Kristen and Maureen are featured on the cover of this book.

FROM MODERN HOME DECORS SUCH AS KITCHEN CABINETRY AND COUNTERTOPS TO DESIGN SERVICE, INTERNATIONAL PAPER IS TAPPING INTO THE MANUFACTURED HOUSING MARKET. WE HAVE DEVELOPED A PARTNERSHIP WITH OAKWOOD HOMES, A LEADING SUPPLIER OF MANUFACTURED HOMES IN NORTH AMERICA. WE PROVIDE MANUFACTURED HOUSES WITH THE LOOK AND FEEL OF A SITE-BUILT HOME.

IP HAS BEGUN HOLDING FAMILY FORUMS AT FACILITIES WORLDWIDE IN ORDER TO RECOGNIZE THE SOURCE OF OUR SUCCESS - PEOPLE. THE EVENTS ALLOW EMPLOYEES AND THEIR FAMILIES TO MEET WITH IP BUSINESS LEADERS. ALSO, THEY PROVIDE A FORUM TO DISCUSS THE COMPANY'S PLAN FOR SUCCESS AND HOW EMPLOYEES PLAY A VITAL ROLE.

INTERNATIONAL PAPER'S AWARD-WINNING RETAIL MERCHANDISING AND DISPLAY BUSINESS DOES IT ALL...AND UNDER ONE ROOF. OUR EXPERIENCED TEAM WORKS WITH MAJOR RETAILERS AND CONSUMER PRODUCTS FIRMS TO DESIGN, MANUFACTURE, INSTALL AND MAINTAIN THEIR TEMPORARY, SEMI-PERMANENT AND PERMANENT DISPLAYS.

global leadership position is clearly a distinct advantage for us. We have a presence in 50 countries worldwide and serve customers in more than 130 nations. We have the experience, scale and resources to tackle the larger or more aggressive international opportunities without placing the entire company at risk. We believe the paper and forest products industry will continue to grow. It will offer more opportunities for growth and profit in the future than in the past.

What's on the drawing board for improving International Paper's operations? International Paper is a company on the move, changing and improving in ways we never have before. Our No. 1 objective is to improve our profitability at a faster rate than our competition. We have powerful plans in place to reach this goal. Our company is committed to reaching this objective.

We are transforming ourselves, following specific plans to strengthen our business. We are changing the way we think about customers, the way we measure success and how we involve our people.

In addition to profit-improvement programs, we have put key performance measurements in place. You can visit our plants, and our employees can tell you for whom they are producing the product and what is important to those customers.

We are asking managers of facilities that have excellent safety and environmental performances to work with those that don't. We have managers and employees from facilities needing improvement visiting the "super performers" to learn from them. This is an excellent way to share best practices across the network.

[PHOTOGRAPH]

This is a photo of two men examining a stack of lumber.

Augusta, Ga., Lumber Mill employees Hardy Maloch and Wayne Thompson check some prime lumber destined for our customers' shelves.

OUR PRIME LUMBER

A full bin of good-looking lumber used to be hard to come by for people working on do-it-yourself projects such as building decks and making flowerbeds. Thanks to International Paper, the do-it-yourself builders no longer have to spend hours searching store shelves for desirable lumber, because our Wood Products team provides its customers with a higher grade of southern pine lumber that is as handsome as it is useful.

IP went further than producing lumber for these customers by helping to manage the inventories at their stores and distribution centers. The commitment of employees reinforces IP's total dedication to the customer. This high-quality product, coupled with exceptional customer service, is responsible for IP being named "Supplier of the Year" and "Partner of the Year" in 1999 by two of the leading companies in the building materials industry.

[PHOTOGRAPH]

This is a photo of a woman in Chile holding a box of grapes.

In Chile, Fabiola Leiva loads grapes in the DEFOR interlocking boxes.

DEFOR

International Paper innovators have done it again. A new packaging system gets produce from the grower to the consumer looking as fresh as if it has just been picked.

Thanks to the new DEFORTM System's interlocking boxes, produce now can be stacked for shipping without bruising and spoiling. And once these colorful, open-top boxes arrive at grocery stores, they can go directly from the truck to the display. The new design reduces unpacking and handling, cutting retailer labor costs and decreasing product damage and waste.

IP teamwork aggressively launched DEFOR into the marketplace. Carter Holt Harvey

What is International Paper doing differently that adds value to your customers? We believe that if we help our customers become more successful, we will, in turn, be more successful. We must direct our energies and assets toward this goal. Our customers ask us to become partners so that we can provide creativity, innovation, quality products and world-class service. We measure this not so much by the tons of product we manufacture, rather on how we can make existing products better and how we can develop innovative solutions to help our customers succeed in their marketplaces.

We are refining ways we measure markets and we survey customers to determine how we can better meet their needs in the future. We continuously train our sales force in account management to offer superior customer service. We also let our employees know how their individual contributions reach our customers.

In the past, we've been credited with making some of the finest products on the market. Our new kind of responsiveness doesn't mean asking the customer, "How much will you buy?" It means finding out what particular challenges our customers face and working with them to find solutions. It means finding ways to add value to their businesses. We are perfecting the art of inter-divisional selling where we look at how best to use our resources in simplifying our dealings with our customers.

We believe it should be easy to do business with us.

Why the new tagline, From innovation to results?

You will see from many of the stories we've included in this book that International Paper is turning innovations into results. Over the last two years, we've seen a dramatic increase in the number of new products.

What are your views on industry consolidation?

International Paper has grown primarily through acquisition because it is the sensible way to enter new markets with existing customers and infrastructure rather than building new facilities - all of which translates into greater economies of scale, and thus, earnings power.

The defining action of 1999 was our merger with Union Camp. It positioned us to be an even stronger company. The merger was not about size, but about getting better and the benefits we expected from it are coming in right on target. We generated \$130 million in savings in 1999 and expect to reach \$425 million in annualized

pioneered the system, the Containerboard Mill in Mansfield, La., produced the Brite-Top(R) grade, and the Carson, Calif., Container plant partnered with xpedx to distribute the DEFORsystem.

DEFOR's popularity has grown from a request by Albertson's, the second largest grocery chain in the U.S. Albertson's asked for packaging that improved produce quality and sales appeal, while eliminating shrinkage, labor costs and safety issues associated with handling produce at the store.

A success story? Albertson's is now asking its suppliers to use the DEFORsystem or something comparable. Other grocers and retailers are also now interested in the DEFORsystem.

[PHOTOGRAPH]

This is a photo of a woman in the grocery store picking grapes.

Artie Watson, Community Relations communications assistant, chooses grapes from Chile for her family at a local grocery.

PRINTING & COMMUNICATIONS PAPERS INTRODUCED LIBERTY(TM) 2000, A NEW LIGHTWEIGHT COATED PAPER BRAND TARGETED PRIMARILY FOR CATALOG USERS. CUSTOMERS SUCH AS LILLIAN VERNON, L.L. BEAN(R) AND LANDS' END USE LIBERTY 2000.

WE ENTERED INTO AN AGREEMENT TO BECOME THE MAJOR SUPPLIER OF THE CHOLESTEROL-REDUCING ADDITIVE FOUND IN BENECOL(TM). MEDICAL STUDIES SHOWED THAT PEOPLE WITH BORDERLINE-TO-HIGH CHOLESTEROL WHO REGULARLY CONSUMED MARGARINES AND OTHER FOODS WITH THE BENECOL ADDITIVE LOWERED THEIR TOTAL CHOLESTEROL LEVEL. UNDER THIS AGREEMENT, THE ACTIVE INGREDIENT, WHICH IS FOUND IN TREES, IS TO BE SUPPLIED BY ARIZONA CHEMICAL.

INTERNATIONAL PAPER-KOREA IS THE NO.1 BEVERAGE CARTON MANUFACTURER IN KOREA. WE DIFFERENTIATED OURSELVES FROM THE COMPETITION BY PROVIDING QUALITY SERVICE AND TECHNICAL SUPPORT TO GAIN A 60 PERCENT SHARE OF LOTTE HAM & MILK COMPANY, A SUBSIDIARY OF LOTTE BUSINESS GROUP IN KOREA.

OUR NEW TRU-TASTE(TM) PACKAGING SYSTEM FOR MILK AND JUICE REDUCES PACKAGING DEFECTS THROUGHOUT THE CUSTOMER SUPPLY CHAIN, SEALS IN VITAMIN C, AND HAS A LONGER SHELF LIFE.

THE PINE BLUFF, ARK., MILL IS THE FIRST U.S. PAPER MILL TO RECEIVE ISO 14001 CERTIFICATION. THIS ACHIEVEMENT WILL ENABLE THE MILL TO HELP COMMUNICATE ITS ENVIRONMENTAL COMMITMENT TO CUSTOMERS, STAKEHOLDERS, EMPLOYEES AND COMMUNITIES.

savings by the end of 2000. These savings are a big part of our \$1.8 billion profit improvement we anticipate by the end of 2002.

Conditions in our industry are very solid. Supply is well balanced with demand, and there is very little new capacity expected within the next few years.

How are you changing to make this a more people-focused company? We know that our people make the difference. We want to become the company of choice for our employees as a great place to work. We believe that if our employees understand where we're going and are committed to help get us there, we'll be successful. We are dedicated to hiring, motivating, developing, promoting and retaining outstanding people. We believe the most effective ideas – such as improving productivity, making our facilities safer, enriching the environment, and building stronger partnerships with customers and communities – come from the talents and skills of our employees. People development at International Paper is more than just teaching new skills, it calls for building on each person's strengths.

In 1999, we asked all our employees what we can do to get better. A team from International Paper and the Gallup Organization developed the research-based global employee survey. The survey will become one of our standard measurements. The success of International Paper will be determined by how well our employees delight customers with superior products, services and solutions.

What are you doing to help the forestland environment? We recognize that in order to create our products sustainably, we must be responsible

stewards of the environment. To that end, we are proud to say that we don't harvest or use old-growth wood or wood from temperate or tropical rainforests in any of our products. We strive, every day, to improve our forest practices. In fact, we were the first forest products company in the United States to third-party certify one of our forest management operations to ISO 14001, an internationally recognized standard for environmental management systems. We've integrated our industry's commitment to the Sustainable Forestry Initiative (SFIsm) program with this world-class international standard and have a commitment to verify all of our forestry operations by the end of 2000.

We're also engaging environmental groups in helping us protect wildlife. We recently collaborated with the Environmental Defense Fund and the U.S. Fish and Wildlife Service to develop the first-of-its-kind Habitat Conservation Plan for the endangered red-cockaded woodpecker. This landmark project was awarded the Gold Medal for International Corporate Environmental Achievement by the World Environment Center. It includes an innovative mitigation bank feature which provides an economic incentive to other private landowners to enhance this endangered species' habitat.

Are you looking to go into electronic commerce?

We are exploring the benefits e-commerce can bring to International Paper. From the opportunity to generate more revenue, to the ability to reduce costs, we are intent on rapidly integrating electronic commerce into our strategy to improve profits. We

[PHOTOGRAPH]

This is a photo of a man unloading product in a warehouse.

James Gleaton, xpedx distribution center truck driver, unloads product for customers.

ONE-STOP SHOPPING

International Paper has stepped to the head of the line with the new all-in-one packaging and distribution system.

We combined the unique capabilities, strengths and market focus of our packaging plants with the 300 xpedx stores and distribution centers across the U.S. and created a selling process that's one-of-a-kind. The result is one sales representative, one invoice and a total systems approach to customer focus.

Our target customers value the "one-stop shopping" opportunities of our interdivisional partnering process. We offer customers a total packaging value proposition, including a wide array of packaging products as well as distribution services. Also, we offer a solution that will not only be difficult for our competitors to duplicate, but can also eliminate significant costs from the supply chain.

[PHOTOGRAPH]

This is a photo of a group of people walking through the forest.

CUSTOMER FORESTRY TOURS

Customers are getting a firsthand view of how International Paper manages forests through guided tours of our forestlands. The tours help customers see how we sustain the forest as a natural resource and protect the forest ecosystems.

Our customers experience the world of forestry as they journey through our forestlands in areas like Georgetown, S.C., and our 16,000-acre Southlands Experiment Forest in Bainbridge, Ga.

Prior to the tour, our foresters explain our Sustainable Forestry Initiative (SFI)(SM) practices and compare these to other forest management programs. Customers then tour replanted and site-prepared land as well as streamside management zones. IP foresters explain our water quality initiatives and protection of endangered species.

Our SFI practices enable us to responsibly manage and nurture our resources to meet society's needs today while providing forests for future generations. We reached an environmental landmark in 1999 by becoming one of the first U.S. forest products company to achieve independent third-party verification on 4.7 million acres of our forestlands.

[PHOTOGRAPH]

This is a photo of a girl leaning on a wooden post with her carton of orange juice.

Aimee Deneve, daughter of employee Cheryl Deneve, Plant City, Fla., Beverage Packaging sales service rep, has a new carton of orange juice. The beverage carton for kids is the latest innovation from Beverage Packaging and is manufactured by employees at our Raleigh, N.C., facility.

Our Forest Resources Mid-South, South Central and Northeast regions have been verified to the American Forest & Paper Association's SFI and ISO 14001 standards. We are in the process of having all 7.1 million acres of our U.S. forestlands verified to both sets of guidelines by the end of the year 2000.

IP customer forestry tours are just another way we respond to the needs of our customers worldwide.

EMPLOYEES FROM THE ANDROSCOGGIN MILL IN JAY, MAINE, IP'S NORTHEAST FORESTERS, CONDUCTED A TRAINING SESSION IN THE STATE FOR THE FORESTERS FROM OUR SVETOGORSK MILL IN WESTERN RUSSIA. NATIONALLY KNOWN FOR THEIR SUSTAINABLE FORESTRY AND BEST MANAGEMENT PRACTICES, THE IP TEAM MEMBERS FROM MAINE TAUGHT THE RUSSIAN CREW HOW TO HELP IMPROVE THE ENVIRONMENT DURING LOGGING OPERATIONS IN RUSSIA.

REINVENTING THE HAMMERMILL(R) BRAND TO MAKE YOUR WORK LOOK BETTER!

The HammerMill(R) brand has been reinvented in order to meet the needs of consumers who, research shows, are often frustrated and confused by the way paper is identified on the retail shelf.

Through the relaunch initiative, papers are clearly marked and sold according to their end use. Whether on office superstore shelves, in catalogs or through the Internet, HammerMill makes the buying choice easier for consumers with end-use labels for

[PHOTOGRAPH]

This is a photo of a man surrounded by HammerMill product.

Donald Starver, HammerMill senior brand manager, looks at the new product lines.

have several pilot internet programs aimed at reducing our inventories and improving the supply chain. The real impact of the internet is likely to be the emergence of business-to-business web sites which will act as exchanges for various types of paper and building material products.

Increasingly, wholesalers and retailers throughout the world are managing their inventory supply levels and consumers are placing catalog mail orders through the internet. This activity, in turn, is driving much of the upsurge in e-commerce.

Customers industry-wide are increasingly accustomed to gaining information on inventories, billing and supplies online on a real-time basis as they seek to replenish stocks at any given time to and from facilities worldwide.

How far does International Paper go to provide safe work environments? As we enter 2000 and our second century of operation, we place a renewed emphasis on safety in all areas of the company. We have had an exemplary record in many locations.

We had 16 sites awarded OSHA's Voluntary Protection Program (VPP) STAR status in 1999. We have 67 sites currently in VPP, more than any other company. The prestigious STAR status recognizes sites that have sustained exemplary standards in health and safety performance that go well beyond the requirements of the laws of the United States in providing an accident-free work environment.

International Paper received the Business Roundtable's 1999 Construction Industry Safety Excellence Award. This annual award recognizes the diligent efforts of companies which have created world-class construction site safety programs and achieved exemplary results in their commitment to an injury-free workplace. The Business Roundtable is a group of leading corporations with a combined work force of more than 10 million employees in the United States.

We have included some of the most frequently asked questions we receive at International Paper. If you have additional questions, please visit our web site, www.internationalpaper.com or write us at International Paper, Two Manhattanville Road, Purchase, NY 10577-2196. For investor information, call our Investor Relations office at 914-397-1500. For general information, call Employee Communications at 901-763-6000.

papers such as Proposals and Presentations, Reports & Analyses, Signs and Notices and Letterhead and Resumes.

The new HammerMill product line features high quality papers designed to meet communication and sales needs of small office and home office consumers.

HammerMill makes your work look better and your buying choice easier.

WE'RE CHANGING THE FACE OF INTERPERSONAL COMMUNICATIONS. WE DESIGNED PAPERS SUCH AS INVENT IT!(R), CRAYOLA(R) COMPUTER PAPERS AND SPECIALLY YOURS(TM) TO BRIDGE THE HOME COMPUTER AND ARTS AND CRAFTS MARKETS WITH PRINTER PAPERS. THIS ALLOWS CUSTOMERS TO ENHANCE THEIR PERSONAL CREATIONS AND PRINT THEIR OWN GREETING CARDS, IRON-ON TRANSFERS, PARTY INVITATIONS AND PHOTO ALBUM KITS.

IP'S PACKAGING GROUPS WORKED TOGETHER AS A TEAM TO PRODUCE A NEW CEREAL CARTON. THE CONTAINER LOOKS LIKE A HALF-GALLON MILK CARTON WITH A RESEALABLE OPENING TO OPTIMIZE FRESHNESS, WHILE TAKING UP LESS SHELF SPACE.

INTERNATIONAL PAPER

FINANCIAL HIGHLIGHTS

Dollar amounts and shares in millions except per share amounts	FOR THE YEAR ENDING
FINANCIAL SUMMARY	DECEMBER 31, 1999
Net Sales	\$ 24,573
Operating Profit	1,810
Earnings Before Income Taxes, Minority Interest and Extraordinary Item	448
Net Earnings	183
Earnings per Average Common Share - Assuming Dilution	0.44 (1)
Cash Dividends per Common Share	1.00 (2)
Common Shareholders' Equity per Average Common Share	24.95
SHAREHOLDER PROFILE	
Shareholders of Record at December 31	32,881
Shares Outstanding at December 31	414.6
Average Shares Outstanding	413.0

Note: The summary financial information on pages 12 and 13 is meant to be read in conjunction with the consolidated financial statements and related notes included in our 1999 Annual Report.

(1) During 1999 we incurred merger costs and restructuring and other special charges which reduced net earnings by \$368 million and earnings per common share by \$.89. Before these charges, net earnings would have been \$551 million or \$1.33 per common share.

(2) The International Paper dividend paid was \$1.00 per common share in 1999. However, the dividend per average common share for 1999 was \$1.01 and has been restated to include dividends paid by Union Camp Corporation which merged with International Paper during 1999 in a transaction accounted for as a pooling-of-interests.

INTERNATIONAL PAPER

CONDENSED CONSOLIDATED BALANCE SHEET

In millions	DECEMBER 31, 1999
ASSETS	
Current Assets	\$ 7,241
Plant, Properties and Equipment, Net	14,381
Forestlands	2,921
Other Assets	5,725
Total Assets	\$30,268
	=====
LIABILITIES AND COMMON SHAREHOLDERS' EQUITY	
Current Liabilities	\$ 4,382
Long-Term Debt	7,520
Deferred Income Taxes	3,344
Other Liabilities	4,718
Common Shareholders' Equity	10,304
Total Liabilities and Common Shareholders' Equity	\$30,268
	=====

Note: Certain statements in this document that are not historical in nature may constitute forward-looking statements. These statements are often identified by the words, "believe," "expect," "plan," "project," "intend," and words of similar import. Such statements reflect the current views of International Paper with respect to future events and are subject to risks and uncertainties. Actual results may differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ include, among other things, changes in overall demand, changes in domestic or foreign competition, changes in the cost or availability of raw materials, our ability to bring new products online, the cost of compliance with environmental laws and regulations, and whether anticipated savings from merger and other restructuring activities can be achieved. In view of such uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. International Paper does not assume any obligation to update these forward-looking statements.

INTERNATIONAL PAPER AT A GLANCE

[PHOTOGRAPH]

This is a photo of three men examining huge stacks of paper.

PRINTING AND COMMUNICATIONS PAPERS

Our North American business is a major manufacturer of office papers, commercial printing papers, coated papers, converting papers, bristols, fine papers and pulp.

Office papers are widely used in photocopiers, office printers and digital imaging printers. Commercial printing papers are primarily used for both offset and rotogravure printing. Some of our well-known brands include HammerMill, Great White, Williamsburg and Accent Opaque.

International Paper is also a prominent supplier of coated papers for magazines, catalogs, direct mail, and other media. Converting and speciality papers makes paper for envelopes, forms, tablets, file folders and other special applications. Our pulp grades include paper pulp for paper and paperboard, fluff pulp for hygiene products, and high-purity pulp for acetate and fabrics. Our Fine Papers division manufactures premium-quality text, cover, coated and business papers under the Via by HammerMill brands, Zanders USA (manufactured in Germany), Beckett and Strathmore.

Our European business is a leading supplier of office, coated and specialty papers produced at facilities in France, Germany, Poland, the U.K. and Russia. Brands such as ReyMat, ReyLux, Duo and Polspeed supply the papers Europe's consumers and businesses require. Zanders produces premium coated papers such as Ikono for high-end brochures and annual reports. Our facilities in Kwidzyn, Poland, and Svetogorsk, Russia, produce business papers, newsprint and coated board for markets throughout Europe.

[PHOTOGRAPH]

This is a photo of IP packaging products.

PACKAGING

Industrial Packaging produces containerboard, including visual appeal and high-performance grades such as BriteTop™ and PineLiner(R). Approximately 60 percent of our production is converted at our 67 container plants in North America that produce corrugated boxes, shipping containers, and other corrugated packaging products and services for agricultural, consumer and industrial markets. A total of 22 container plants in the U.K., Italy, Spain, France, Ireland and the Canary Islands also manufacture corrugated packaging. Other locations include Puerto Rico, Chile, Argentina, Turkey and China.

International Paper's Industrial Papers business produces lightweight papers, paper composite structures and silicone coated release liners for a variety of industrial, food packaging, pressure sensitive and hygiene markets. The business employs about 2,000 people at six sites in Wisconsin, Tennessee, Ohio and The Netherlands.

Consumer Packaging operates a world-class bleached board system, over one-third of which creates materials for our own converting operations. Our high-quality Everest(R) and Starcote(R) brands are used globally as packaging board for juice, milk, food, cosmetics, pharmaceuticals, computer software and tobacco products. Beverage Packaging has 30 sites worldwide offering complete packaging systems, from paper to machines, using fresh and aseptic technologies. Retail Packaging produces packaging to protect and merchandise products such as frozen food, beverages, entertainment and household products at 12 U.S. plants. Foodservice, with six locations, offers cups, lids, bags, plates, cartons, trays and containers from six plants in the U.S. and operates joint ventures with Carter Holt Harvey. Flexible Packaging, with 11 plants in the U.S. and two in Argentina, supports such end uses as pet food, charcoal, lawn and garden products, and rice.

[PHOTOGRAPH]

This is a photo of a pine seedling.

FOREST PRODUCTS

Forest Resources manages in excess of 7.1 million acres of forestlands, principally in the southern U.S. More than 50 percent of the fiber harvested is used by International Paper in the manufacture of paper and wood products. Our forests are managed using advanced high-yield silviculture and land management techniques to enhance their financial returns while providing watershed protection, wildlife habitat preservation and recreational opportunities. In addition, we continually buy and sell forestlands in line with our strategic objectives. We believe our leadership role in the American Forest & Paper Association's Sustainable Forestry Initiative (SFI) exemplifies our commitment to manage our forestlands in an environmentally responsible manner.

We also have a Building Materials Group with 46 manufacturing locations worldwide. Wood Products produces lumber, plywood, oriented strand board, treated poles and laminated veneer lumber that are distributed throughout North America and Europe. Masonite's Molded Products is the leading maker of molded door facings marketed primarily under the CraftMaster(R) brand. Masonite's Building and Industrial Products markets a broad range of products, including siding, exterior trim, decorative panels and a variety of products used in furniture, store fixtures and commercial roofing. Decorative Products manufactures high- and low-pressure laminates, particleboard and graphic arts supplies primarily for residential and commercial construction, furniture and specialty markets.

[PHOTOGRAPH]

This is a photo of an xpedx delivery truck.

INTERNATIONAL PAPER AT A GLANCE

DISTRIBUTION

Our distribution business, xpedx, distributes printing paper, packaging supplies and equipment, facility supplies and graphic imaging prepress equipment and supplies. xpedx delivers customer solutions through more than 100 wholesale distribution centers with 10 million square feet of warehouse space and more than 190 stores serving retail customers and small printers. The xpedx focus is retail, commercial printing, on-demand printing, manufacturing, the automotive industry, and publishing industries. About 23 percent of xpedx revenue is generated by products manufactured by International Paper. Papeteries de France, Scaldia and Impap distribute similar products throughout Europe.

[PHOTOGRAPH]

This is a photo of a yellow measurement container.

CHEMICALS AND PETROLEUM

Our chemical business uses the raw materials and by-products of our papermaking processes to provide global products to our customers. With 15 plants worldwide, Arizona Chemical is a leader in tall oil, fatty acids, rosin esters, dimer acid, polyamide resins and other pine chemicals used to make chewing-gum base, adhesives, road markings, inks, lubricants, household cleaners, soaps and more. International Paper is the majority owner of Bush Boake Allen, an international flavor, fragrance and aroma chemicals business.

Chemical Cellulose produces high-purity pulp for acetate, fabrics, as well as a wide range of other consumer products that are produced at the company's Natchez, Miss., Mill.

Our Petroleum and Minerals business manages mineral resources on company land and develops oil and gas reserve, principally through joint venture partners in West Texas, the Gulf Coast and the Gulf of Mexico.

[PHOTOGRAPH]

This is a photo of a man building a home with a large piece of wood.

CARTER HOLT HARVEY

International Paper holds more than 50 percent interest in Carter Holt Harvey, one of the largest forest products companies in the Southern Hemisphere. With operations in New Zealand, Australia and Chile, Carter Holt Harvey serves markets in the Pacific Rim, Asia and Latin America. The company harvests over 6 million tons of logs from 785,000 acres of forestlands in New Zealand on a sustainable yield basis. Carter Holt Harvey is Australia and New Zealand's leading provider of solid wood products, enjoys a strong regional position in packaging, and is New Zealand's largest manufacturer of pulp and paper products. With popular brands such as Sorbent, Purex and Handee, the company is the largest tissue products manufacturer in Australia and New Zealand. Paper distribution subsidiaries B.J. Ball Papers and Raleigh Papers serve customers throughout New Zealand and Australia. Carters is New Zealand's third largest building materials merchandiser, with 35 store locations.

Carter Holt Harvey held an indirect interest in Compania de Petroleos de Chile (COPEC), Chile's largest industrial conglomerate. Effective January 3, 2000, Carter Holt Harvey sold its interest in COPEC for just over US \$1.2 billion.

SENIOR MANAGEMENT

JOHN T. DILLON
Chairman and
Chief Executive Officer

DAVID W. OSKIN
Executive Vice President

C. WESLEY SMITH
Executive Vice President

JAMES P. MELICAN
Executive Vice President
Legal and External Affairs

MARIANNE M. PARRS
Executive Vice President
Administration

ROBERT M. AMEN
President
International Paper Europe

JEROME N. CARTER
Senior Vice President
Human Resources

THOMAS E. COSTELLO
Senior Vice President
Distribution

JOHN V. FARACI
Senior Vice President
Finance & Chief Financial Officer

CHARLES H. GREINER
Senior Vice President
Printing & Communications Papers

NEWLAND LESKO
Senior Vice President
Industrial Packaging

WILLIAM B. LYTTON
Senior Vice President & General Counsel

RICHARD B. PHILLIPS
Senior Vice President
Technology

WILLIAM H. SLOWIKOWSKI
Senior Vice President
Consumer Packaging

MANCO SNAPP
Senior Vice President
Building Materials

DENNIS THOMAS
Senior Vice President
Public Affairs and Communications

DAVID A. BAILEY
Managing Director
European Papers, East

JOHN N. BALBONI
Vice President
E-commerce

MICHAEL J. BALDUINO
Vice President
Foodservice

H. WAYNE BRAFFORD
Vice President
Converting & Specialty Papers

E. WILLIAM BOEHMLER
Vice President and Treasurer

DENNIS J. COLLEY
Vice President
Retail Packaging

WILLIAM P. CRAWFORD
Vice President
Logistics

HANS-PETER DAROCZI
Vice President
International Container

C. CATO EALY
Vice President
Business Development and Planning

JOHN V. FLYNN
Vice President
Human Resources

THOMAS E. GESTRICH
Vice President
Beverage Packaging

JAMES W. GUEDRY
Vice President and
Corporate Secretary

PAUL HERBERT
Managing Director
European Papers, West

WILLIAM P. HOEL
Vice President
Executive Assistant to the Chairman

NEWELL E. HOLT
Vice President
Bleached Board

ROBERT M. HUNKELER
Vice President
Investments

THOMAS C. JORLING

Vice President
Environmental Affairs

JEFFREY F. KASS

Vice President
Printing & Communications Papers

TIMOTHY P. KENEALLY

Vice President
Industrial Packaging

PETER F. LEE

Vice President
Research & Development

ANDREW R. LESSIN

Vice President and
Controller

ARTHUR W. MCGOWEN

Vice President
Wood Products

GERALD C. MARTERER

Vice President
Specialty Industrial Papers

JEAN-PHILLIPPE MONTEL

Vice President
European Papers

KARL W. MOORE

Director, Finance
European Papers

GEORGE A. O'BRIEN

Vice President
Forest Resources

MAXIMO PACHECO

President
International Paper Latin America

LH PUCKETT

Vice President
Commercial Printing & Office Papers

CAROL L. ROBERTS

Vice President
People Development

DAVID L. ROBINSON

Vice President
Industrial Packaging

R. MICHAEL ROSS

Vice President
Industrial Packaging

J. CHRIS SCALET

Vice President and
Chief Information Officer

BENNIE R. SMITH
Vice President
Industrial Packaging

PETER M. SPRINGFORD
President
International Paper Company
(Asia) Limited

LARRY J. STOWELL
Vice President
Arizona Chemical

TOBIN J. TREICHEL
Vice President
Tax

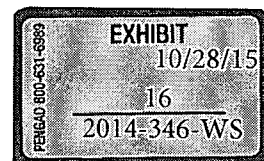
CAROL S. TUTUNDGY
Vice President
Investor Relations

LYN M. WITHEY
Vice President
Public Affairs

RICHARD A. O'LEARY
Auditor

APPENDIX A

**LIST OF TESTIMONY, EXPERT PROCEEDINGS, AND ENGAGEMENTS BY
CHARLES E. LOY, CPA**



**LIST OF TESTIMONY, EXPERT PROCEEDINGS, AND ENGAGEMENTS BY
CHARLES E. LOY, CPA**

WATER UTILITY RATES AND REGULATION EXPERIENCE

Arizona Corporation Commission

Docket No. WS-01303A-006-0403

Presented testimony, prepared the Cost of Service study and rate design on behalf of Arizona-American Sun City and Sun City West Wastewater rate request.

Docket No. WS-01303A-06-0403

Presented testimony, prepared the Cost of Service study and rate design on behalf of Arizona-American Anthem/Aqua Fria Water and Wastewater rate request.

Docket No. WS-01303A-06-0014

Presented testimony, prepared the Cost of Service study, rate design, and assisted with the preparation of the revenue requirements on behalf of Arizona-American Mohave Water and Wastewater rate request.

Docket No. W-01656A-98-0577, SW-02334A-98-0577

Presented testimony for approval of a Central Arizona Project Water utilization plan, the implementation of a Groundwater Savings Fee and the recovery of deferred project costs.

Docket WS-02334A-98-0569

Presented a filing for the approval of an agreement relating to a wastewater plant de-nitrification project with the Sun City Recreation Centers and Del Webb Corporation.

Docket U-3454-97-599

Prepared and presented a filing for the approval of a CCN to provide water and wastewater services to Del Webb's Anthem project and the approval of two related agreements.

Docket No. E-1032-95-417 ET AL.

Presented testimony and prepared the rate filing on behalf of Citizens Utilities Maricopa County water properties 1995 rate request.

Arkansas Public Service Commission

Docket No. 06-160-U

Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water Arkansas's 2006 rate request.

Docket No. 03-161-U

Presented testimony, prepared the Cost of Service study, rate design, and assisted with the preparation of the revenue requirements on behalf of United Water Arkansas's 2003 rate request.

Connecticut Department of Public Utility Control

Docket No. 07-05-44

Prepared the rate filing and supporting testimony on behalf of United Water Connecticut's 2007 water rate request.

Public Service Commission of Delaware

PSC Docket No. 09-60

Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water Delaware's 2009 rate request.

PSC Docket No. 06-174

Presented testimony, prepared the Cost of Service study, rate design, revenue normalization and cash working capital requirements on behalf of United Water Delaware's 2006 rate request.

Idaho Public Utilities Commission

Case No. UWI-W-09-01

Presented testimony, prepared revenue and expense pro forma adjustments, and proposed rate design on behalf of United Water Idaho, Inc. 2010 rate request.

Indiana Utility Regulatory Commission

Cause No. 41842

Prepared the filing and presented testimony for the Petition of Utility Center Inc. for the recovery of Distribution System Improvement Charges -2001

Cause No. 41559

Prepared the filing and presented testimony for a Certificate of Territorial Authority to render Sewage service.-2000

Cause No. 41968

Directed the preparation of Utility Center Inc.' request for authority to increase its rates and charges for water and sewer service. -2000

Illinois Commerce Commission

Docket No. 94-0481

Presented testimony and prepared the filing on behalf of Citizens Utilities Company of Illinois 1994 rate request.

Docket No. 95-0633

Presented testimony on behalf of Citizens Utilities Company of Illinois in Tudor Park Apartments vs. Citizens Utilities of Illinois.- 1995

Docket No. 97-0372

Presented testimony on behalf of Citizens Utilities of Illinois in the Application for Consent to and Approval of a Contract with Affiliated Interests. 1997

State Board of New Jersey Public Utilities

BPU Docket No. WRO702125

Prepared and presented testimony on the determination of the cash working capital requirements on behalf of United Water New Jerseys 2007 rate request.

New Mexico Public Regulation Commission

Case No. 11-00196-UT

Presented testimony and assisted with the preparation of the water rate filing on behalf of New Mexico American Water Company Clovis District

Case No. 09-00156-UT

Presented testimony and prepared the water rate filing on behalf of New Mexico American Water Company Edgewood District

Case No. 07-00435-UT

Presented testimony and prepared the water and wastewater rate filing on behalf of New Mexico Utilities Inc.

Case No. 08-00134-UT

Presented testimony and prepared the water rate filing on behalf of New Mexico –American Water Co.

New York Public Service Commission

Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water New Rochelle's 2010 rate request.

Public Utilities Commission of Ohio

Docket No. 98-178-WS-AIR

Presented testimony and prepared the filing on behalf of Citizens Utilities Company of Ohio 1998 rate request.

Docket No. 94-1237

Presented testimony and prepared the filing on behalf of Citizens Utilities Company of Ohio 1994 rate request.

Pennsylvania Public Utility Commission

Docket No. R-2009-2122887

Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water Pennsylvania's 2009 rate request.

Docket No. R-00051186

Assisted with analysis/filing preparation of United Water Pennsylvania, Inc. 2005 Rate Case.

Docket No. R-00953300

Presented testimony on behalf of Citizens Utilities Company of Pennsylvania 1995 rate request.

Texas Commission of Environmental Quality

SOAH Docket 582-14-3415

Application for a 2013 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application and filed testimony on behalf of Canyon Lake WSC.

SOAH Docket No. 582-14-3384

Application for a 2013 Water and Sewer Rate/Tariff Change of SWWC Inc.
Prepared application on behalf of SWWC, Inc.

SOAH 582-14-3381

Application for a 2013 Water and Sewer Rate/Tariff Change of Monarch Utilities LP
Prepared application on behalf of SWWC, Inc.

SOAH Docket No. 582-12-0224

STM Application of Monarch Utilities I, L.P. to Transfer Water and Sewer Facilities and
Certificates of Convenience and Necessity – provided assistance

Application 37531-R

Application for a Water Rate/Tariff Change of Quadvest L.P. Prepared application on behalf of Quadvest
L.P. Prepared application on behalf of Quadvest L.P.

Applications 37507-R and 37508-R

Application for a Water and Sewer Rate/Tariff Change of Ranch Utilities, Inc. Prepared application on
behalf of Ranch Utilities, Inc.

Application 37317-R

Application for a Water Rate/Tariff Change of Wiedenfeld Water Works, Inc. Prepared application on
behalf of Wiedenfeld Water Works, Inc.

Applications 37234-R and 37235-R

Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc. North and Southwest Regions
Prepared application on behalf of Aqua Texas, Inc.

SOAH Docket No, 582-12-0224

Application for a Water and Sewer Rate/Tariff Change of Monarch Utilities LP
Prepared application on behalf of SWWC, Inc.

SOAH Docket No. 582-11-1468

Application for a 2010 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application and filed testimony on behalf of Canyon Lake WSC.

SOAH Docket No. 582-11-1458

Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc. Southeast Region
Prepared application on behalf of Aqua Texas, Inc.

Texas Commission of Environmental Quality-cont.

Docket No. 0580-UCR

Application for a 2009 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application on behalf of Canyon Lake WSC.

Docket No. 35850-R

Application for a 2007 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application on behalf of Canyon Lake WSC.

Docket No. 33763-R

Application for a 2007 Water and Sewer Rate/Tariff Change of Midway, Inc. For the City of Oak Point Service area. Filing initially made with the City of Oak Point.

Docket Nos. 35748-R & 35747-R

Application for a Water and Sewer Rate/Tariff Change of Monarch Utilities LP
Prepared the application on behalf of Monarch.

Docket No. 2006-0072-UCR

Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc
Prepared application and presented testimony on behalf of Aqua Texas, Inc.

Docket No. 2007-0478-UCR

Application for a Water and Sewer Rate/Tariff Change of Texas American Water Inc.
Prepared the application on behalf of Texas American Water.

Docket No. 2005-0114-UCR

Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc
Presented Testimony on behalf of Aqua Texas, Inc.

Docket No. 2004-2029-UCR

Application for a Water and Sewer Rate/Tariff Change of Walker Water Works, Inc.
Prepared the application on behalf of Texas American Water.

Application Nos. 34658-R & 34659-R

Application for a Water and Sewer Rate/Tariff Change of Southwest Utilities, Inc.
Prepared the application on behalf of Texas American Water.

Docket Nos. 2000-1074-UCR, 2000-1075-UCR, 2000-1366 UCR through 2000-1369 UCR
Assisted in the preparation and presentation of the Aqua Source 2000 rate increase

Application No. 7371-R (Texas Water Commission)

Assisted in the analysis of Southern Utilities 1988 rate request on the behalf of Southern Utilities customers.

Other Water Related Engagements and Expert Proceedings

Town of Providence Village

Developed Expert Witness Report for Denton County Court Cause No. 2011-60876-393
Analysis of Agreements between Mustang SUD and Providence Village WCID

Mitchell County Utility

Assist with divestiture of water utility assets

City of Longview

Ongoing assistance with development of annual formulary wholesale water and wastewater treatment rates.

Aqua Texas, Inc.

Ongoing calculation and updates of Regional Uniform CIAC Fees

Dripping Springs WSC, Hays County WCID 1&2

Review and analysis of West Travis County Public Utility Agency wholesale rate cost of service and rate increase 2012.

SWWC Inc.

- Decertification analysis and valuation of the CCN for Crosswinds development area.
- Decertification analysis and valuation of the CCN for TXI development area.
- Decertification analysis and valuation of the CCN for Tower Terrace/Kilgore Tract development area.
- Decertification analysis and valuation of the CCN for Villages at Warner Ranch development area.

Crystal Clear WSC

Decertification analysis and valuation of the CCN for Texas GLO development area around New Braunfels Texas

Woodbine Development Corp.

Analysis and assistance with LCRA Windmill Ranch wholesale wastewater services contract renegotiations.

Rebecca Creek MUD

Before and after rate comparison, analysis and forecast regarding the merger proposed by Canyon Lake Water Supply Company.

Global Water Resources

Expert witness before American Arbitration Association regarding the financial standing and regulatory status of Global Water.

Other Water Related Engagements and Expert Proceedings-cont.

City of Alexandria, Louisiana

Financial review, allocated cost of service and rate study for the water and wastewater systems.

Corix Utilities

Assistance with bid preparation and analysis regarding the LCRA retail water and wastewater divestiture.

Golden State Water Company

Assistance with bid concerning divestiture of SWWC Inc.

United Water Management and Services

Developed report regarding Texas IOU regulation for internal assessment of the Texas water regulatory status.

Greater Austin Water Forum

Assisted industrial class water users with analysis and participation in the City of Austin 2008 Cost of Service Study.

New Mexico Utilities

Review/analysis and critique report on Albuquerque Bernalillo County Water Utility Authority's Cost of Service Wholesale Wastewater Rate Model

GAS UTILITY RATES AND REGULATION EXPERIENCE

Railroad Commission of Texas

GUD Docket 10190

Prepared filing and testimony of behalf of Hughes Natural Gas 2012 rate increase for the environs of the City of Magnolia.

GUD Docket 10083

Prepared filing and testimony of behalf of Hughes Natural Gas 2011 rate increase for the incorporated area of the City of Magnolia and environs.

GUD Docket 9731

Prepared filing and testimony of behalf of Hughes Natural Gas 2007 rate increase for the environs of the City of Magnolia.

GUD Docket 9488-9512

Prepared filing and testimony of behalf of West Texas Gas 2004 rate increase for the environs of cities served.

Railroad Commission of Texas-cont.

GUD Docket 8033

Filed testimony on behalf of Southern Union Gas Company's 1991 appeal for a rate increase in South Jefferson County.

GUD Docket 7878

Filed testimony and prepared the rate filing on behalf of Southern Union Gas Company's 1991 request for a rate increase in the Austin environs.

GUD Docket 6968

Assisted in the analysis of Southern Union Gas Company's 1987 appeal for a rate increase on the behalf of the City of Austin

Oklahoma Corporation Commission

Docket No. 001345

Presented testimony and prepared the rate filing on behalf of Southern Union Gas Company's 1992 rate request.

Pennsylvania Public Utility Commission

Docket No. 2013-2386293

Assisted the University of Pennsylvania with the analysis of Veolia Energy Philadelphia Inc.'s 2013 steam rate case.

Docket No. 2009-2111011

Assisted the University of Pennsylvania with the analysis of Trigen-Philadelphia Energy Corp's 2009 steam rate case.

Federal Energy Regulatory Commission

Docket No. RP09-791-000

Assist municipal customers of MoGas analyze issues in FERC 2009 gas transportation rate case.

City of Austin

- Presented testimony and prepared filing as well as conducted settlement negotiations associated with Southern Union's 1993 rate request.
- Presented testimony and prepared filing on behalf of Southern Union Gas Company's 1991 rate request.
- Assisted in the analysis of Southern Union Gas Company's 1987 rate request on behalf of the City of Austin.

City of El Paso Public Service Board

- Presented testimony and prepared filing as well as participated in the settlement negotiations of Southern Union's 1993 rate request.
- Presented testimony and prepared filing on behalf of Southern Union Gas Company 1991 rate request.

City of El Paso Public Service Board-cont.

- Presented testimony and prepared the filing on behalf of Southern Union Gas Company 1990 request.

City of Port Arthur

- Presented testimony and prepared filing on behalf of Southern Union Gas Company's 1991 rate request.
- Participated in Southern Union Gas Company's 1990 rate request.

City of Monahans

- Presented testimony and prepared filing on behalf of Southern Unions Gas Company's 1992 rate request.
- Assisted in the analysis of Southern Union Gas Company's 1989 rate request on the behalf of the City of Monahans.

City of Borger

- Prepared testimony and prepared the filing on behalf of Southern Union Gas Company's 1992 rate request.
- Participated in Southern Union Gas Company's 1989 rate request on the behalf of the City of Borger.

City of Galveston

- Presented testimony and prepared the filing on behalf of Southern Union Gas Company's 1992 rate request.

Other Gas Related Engagements

Mitchell County Utility

Assist with divestiture of gas utility assets

Hughes Natural Gas

Ongoing assistance with GRIP filings

Markwest Energy Partners

Ongoing transportation rates and regulatory consulting

Consolidated Asset Management Services (CAMS)

Ongoing assistance regarding RRC Transmission pipeline issues

City of Alexandria, Louisiana

Financial review, allocated cost of service and rate study for the gas system.

City of George West, Texas

Gas utility rate study

Alamo Transmission

Assisted with initial tariff development and related cost of service

Dynamic Energy Concepts Incorporated

Assisted with the review of gas contracts, tariffs, analyzed usage data and assessed procurement practices for a number of US Veteran Hospitals across the country.

ELECTRIC UTILITY RATES AND REGULATION EXPERIENCE

Public Utility Commission of Texas

Docket No. 43731

Prepared a cash working capital study and testimony on behalf of Cross Texas Transmission LLC 2015 Rate Application to establish rates.

Docket No. 41474

Prepared a cash working capital study and testimony on behalf of Sharyland Utilities L.P.'s 2013 Rate Application to establish retail distribution rates.

Docket No. 31250

Presented testimony and rate filing on behalf of Rio Grande Electrical Cooperatives 2005 Change in rates for wholesale transmission service.

Docket No. 8702

Assisted in the analysis of Gulf States Utilities 1987 rate request.

Public Utility Commission of Texas-cont.

Docket 8646

Assisted in the analysis of Central Power & Light's 1988 rate request.

Docket 7661

Assisted in the analysis of the City of Fredericksburg's proposed amendment to Certificate of Convenience.

Docket 7510

Assisted in the analysis of West Texas Utilities Company's 1987 rate request.

Federal Energy Regulatory Commission

Docket No. ER88-202-0000

Assisted in the analysis of the Maine Yankee Atomic Power Plant Decommissioning.

Docket No. ER88-224-0000

Assisted in the analysis of the Carolina Power & Light Company Atomic Power Plant Decommissioning.

City of Bryan

- Developed and programmed data management system for the city electric department.

City of Fredericksburg

- Organized and performed an electric rate survey of Central Texas.
- Assisted in a load and rate design study.

City of Austin

- Assisted in the analysis of the City Electric Utility Department's 1989 rate request.

Other Electric Related Engagements

Dynamic Energy Concepts Incorporated

Assisted with the review of electric contracts, tariffs, analyzed usage data and assessed procurement practices for a number of US Veteran Hospitals across the country

Northeast Texas Electrical Cooperative

- Ongoing review/analysis of Southwest Power Administration's annual Integrated Power Repayment Studies and resulting rates.
- Ongoing review/analysis of Southwest Electric Power Company's annual formulary wholesale rate adjustments.

Other Electric Related Engagements-cont.

Tex-La Electric Cooperative

- Ongoing review/analysis of Southwest Power Administration's annual Integrated Power Repayment Studies and resulting rates.
- Ongoing review/analysis of Southwest Electric Power Company's annual formulary wholesale rate adjustments

Sam Rayburn G&T Electrical Cooperative

- Ongoing review/analysis of Southwest Power Administration's annual Integrated Power Repayment Studies and resulting rates.
- Ongoing review/analysis of Southwest Power Administration's annual Robert D. Willis Power Repayment Studies and resulting rates.

East Texas Electrical Cooperative

- Ongoing review/analysis of Southwest Electric Power Company's annual formulary wholesale rate adjustments
- Ongoing review/analysis of Southwest Power Administration's annual Robert D. Willis Power Repayment Studies and resulting rates.

H.E. Butt Grocery Company

Electricity procurement assistance and analysis of supply alternatives

Martin Marietta Materials

Electricity procurement assistance and analysis of supply alternatives

C.H. Guenther & Son, Inc.

Electricity procurement assistance and analysis of supply alternatives

Van Tuyl, Inc.

Electricity procurement assistance and analysis of supply alternatives

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
DCF Proxy Group Characteristics
Docket #2014-346-WS

<u>Company</u>	<u>Dividend</u> <u>Yield¹</u>	<u>Market</u> <u>Cap'n²</u>	<u>β</u>	<u>Bond</u> <u>Rating</u>	<u>Last</u> <u>Rating</u> <u>Date</u>	<u>Common</u> <u>Equity %</u>
American States Water	2.30%	\$1,500	0.70	A+	2/22/2015	60.90%
American Water Works	2.70%	\$9,200	0.70	A	5/7/2015	47.40%
Aqua America	2.80%	\$4,500	0.75	A+ ³	9/3/2015	51.50%
Artesian Resources	4.10%	\$126	0.60	n/a	n/a	54.00%
California Water	2.90%	\$1,100	0.75	A+	5/6/2013	59.90%
Connecticut Water Service	3.10%	\$400	0.70	A	1/17/2014	54.10%
Middlesex Water	3.50%	\$375	0.75	A-	8/20/2015	58.80%
SJW Corp.	2.60%	\$625	0.80	A ³	5/18/2010	48.40%
York Water Co.	2.90%	\$275	0.75	A-	3/16/2014	52.20%
	<u>2.99%</u>		<u>0.72</u>			<u>54.00%</u>

Sources:

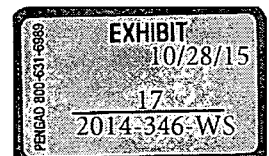
All columns except Credit Rating: Exhibit DHC-2
Bond Rating column from S&P online

Footnotes:

¹ Average Water Company Dividend Yield before reduction in capital gains = $(3.5\% + 3.6\%) / 2$; see Exhibit DHC-2, p. 10 of 10

² "Cap'n" = "Capitalization"; numbers are in \$1,000,000's

³ Ratings of Aqua Pennsylvania & San Jose Water Companies, respectively



AMER. STATES WATER NYSE:AWR										RECENT PRICE	38.79	P/E RATIO	24.2	(Trading: 24.1 Median: 20.0)	RELATIVE P/E RATIO	1.27	DIVID YLD	2.3%	VALUE LINE												
TIME LINESS	2	Raised 6/1/15	High:	13.4	17.3	21.9	23.1	21.0	19.4	19.8	18.2	24.1	33.1	38.7	41.7				Target Price Range												
SAFETY	2	Raised 7/20/12	Low:	10.4	12.2	15.1	16.8	13.5	14.9	16.6	15.3	17.0	24.0	27.0	35.9				2018 2019 2020												
TECHNICAL	2	Raised 7/1/15	LEGENDS																												
BETA	70	(1.00 - Market)	1.25 Dividend p sh divided by Interest Rate																												
2018-20 PROJECTIONS										Price Gain Return																					
High Low										30 35 40 45 50 55 60 65 70 75 80																					
Insider Decisions										Institutional Decisions																					
1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016																															
6.45 6.08 6.53 6.89 6.99 6.81 7.03 7.88 8.75 9.21 9.74 10.71 11.12 12.12 12.19 12.17 12.35 13.35																															
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.43 .43 .43 .44 .44 .44 .45 .46 .48 .50 .51 .52 .55 .84 .78 .83 .88 .93																															
2.15 1.51 1.59 1.34 1.68 2.51 2.12 1.95 1.45 2.23 2.09 2.12 2.13 1.77 2.52 1.89 2.05 2.19																															
5.91 6.37 6.61 7.02 6.98 7.51 7.86 8.32 8.77 8.97 9.70 10.13 10.84 11.80 12.72 13.24 13.80 14.25																															
26.87 30.24 30.24 30.38 33.60 34.40 34.48 34.50 37.06 37.28 37.70 38.53 38.72 38.28 38.00 37.50																															
17.1 15.9 16.7 18.3 31.9 23.2 21.9 27.7 24.0 22.6 21.2 15.7 15.4 14.3 17.2 20.1																															
.97 1.03 .88 1.00 1.82 1.23 1.17 1.50 1.27 1.38 1.41 1.00 .97 .91 .97 1.08																															
4.2% 4.2% 3.9% 3.6% 3.5% 3.6% 3.1% 2.5% 2.5% 2.9% 2.9% 3.0% 3.2% 3.1% 2.7%																															
CAPITAL STRUCTURE as of 3/31/15										Revenues per sh																					
Total Debt \$326.0 mill. Due in 5 Yrs \$41.6 mill.																															
LT Debt \$325.7 mill. LT Interest \$21.5 mill. (40% of Cap)																															
Leases, Uncapitalized: Annual rentals \$0.4 mill.																															
Pension Assets-12/14 \$140.6 mill. Oblig. \$185.2 mill.																															
Pfd Stock None.																															
Common Stock 37,779,864 shs. as of 5/1/15																															
MARKET CAP: \$1.5 billion (Mid Cap)																															
CURRENT POSITION										BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden States Water Company, it supplies water to 258,191 customers in 75 communities and 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to 23,718 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (8/11). Has 707 employees. Blackrock, Inc. owns 9.8% of out. shares; Vanguard, 6.5% off. & dr. 1.5% (4/15 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls, Inc. CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.																					
Cash Assets 38.2 76.0 74.7																															
Other 153.4 133.5 114.7																															
Current Assets 191.6 209.5 189.4																															
Accts Payable 49.8 41.9 37.0																															
Debt Due 8.3 5.3 5.3																															
Other 44.8 57.1 59.4																															
Current Liab. 100.0 89.3 88.7																															
Flx. Chg. Cov. 531% 533% 545%																															
ANNUAL RATES										American States Water's main subsidiary should not be impacted by the ongoing drought in California. As is the case with two other water utilities in this group, the company's main business is located in the Golden State. Governor Jerry Brown implemented mandatory restrictions on water usage aimed at reducing demand about 25%. A decline in consumption used to have a negative impact on a utility's bottom line. This has not been the case for the last few years, as the California Public Utility Commission (CPUC) changed the way companies operating under its jurisdiction calculated net income. Based on the new structure, utilities' income is more of a fixed rate charge (similar to a service fee) rather than one determined by the quantity of water sold. Earnings growth probably will not be too impressive over the next two years. One reason is that American States is close to the allowed return on equity that is set by the CPUC. All told, we expect the company's share earnings to only rise 2% in 2015, followed by a 3% gain in 2016.																					
of change (per cent)																															
Revenues 8.0% 9.5% 4.0%																															
Cash Flow 8.5% 9.0% 6.0%																															
Earnings 11.0% 14.0% 6.5%																															
Dividends 5.5% 8.8% 8.0%																															
Book Value 6.0% 6.5% 4.0%																															
QUARTERLY REVENUES (\$ mill.)										strong for a water utility. Of the nine members in this industry, only one of the company's peers can match its A Financial Strength rating. Indeed, American States was the only regulated company to end last year with an equity-to-total capital ratio over the 60% level. Like the rest of the industry, the company has a large projected capital budget through late in the decade. And even though certain of its financial metrics will decline through that time, American States should remain in sound financial condition.																					
Cat-ender																															
2012 107.6 114.3 133.5 111.5 466.9																															
2013 110.6 120.7 130.9 108.9 472.1																															
2014 102.0 115.6 138.3 109.9 465.6																															
2015 100.9 117.7 140 112 470																															
2016 105 125 130 120 500																															
EARNINGS PER SHARE										Short-term and technical investors may find these shares of interest. Early last month, our proprietary system raised the ranking of American States' stock one notch to 2 (Above Average) for year-ahead relative price performance. On July 3rd, the Technical rank was also raised to 2.																					
Cat-ender																															
2012 27 40 49 26 1.41																															
2013 35 43 53 30 1.61																															
2014 29 39 54 36 1.57																															
2015 32 44 54 30 1.60																															
2016 31 48 57 31 1.65																															
QUARTERLY DIVIDENDS PAID										On the other hand, long-term investors may want to wait on the sidelines for now. Total return prospects for American Water shares through 2018-2020 are subpar, as they are already trading within our projected Target Price Range.																					
Cat-ender																															
2011 13 14 14 14 .55																															
2012 14 14 17.75 17.75 .64																															
2013 17.75 17.75 20.25 20.25 .75																															
2014 20.25 20.25 21 21 .83																															
2015 21 21																															
American States' balance sheet is																				James A. Flood											
July 17, 2015																															

AMERICAN WATER NYSE:AWK										RECENT PRICE	51.08	P/E RATIO	19.6 (Trading: 28.9 Median: 10.6)	RELATIVE P/E RATIO	1.03	DIVID YLD	2.7%	VALUE LINE														
TIMELESSNESS 2 Lowered 7/10/15 SAFETY 3 New 7/25/03 TECHNICAL 2 Raised 7/7/15 BETA .70, (1.00 = Market)										High: 23.7 Low: 18.5	23.0 18.2	25.8 19.4	32.8 25.2	39.4 31.3	45.1 37.0	56.2 41.1	67.5 48.4	Target Price Range 2018 2019 2020														
LEADS 0.15 + Dividends p sh divided by Interest Rate Relative Price Strength Options: Yes Stacked area indicates recession																				2018 2019 2020												
2018-20 PROJECTIONS Price Gain Ann'l Total High 18 (+55%) 74% Low 18 (Nil) 3%																				2018 2019 2020												
Insider Decisions bBuy 0 0 0 0 0 0 0 0 0 0 bSell 4 0 0 3 0 0 0 0 0 0 Options to Sell 0 0 0 0 0 0 0 0 0 0																				2018 2019 2020												
Institutional Decisions bBuy 208 223 213 bSell 189 201 222 Options to Sell 146606 143322 147183																				2018 2019 2020												
										1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
										13.08	13.84	14.61	13.98	15.49	15.18	16.25	16.28	16.78	17.25	18.50	Revenues per sh	21.40										
										.65	.47	.28	.28	.356	.373	.427	4.38	4.75	4.65	"Cash Flow" per sh	6.15											
										.497	.6214	1.10	1.25	1.53	1.72	2.11	2.06	2.39	2.50	Earnings per sh	3.25											
										..	..	..	..	..	..	..	.84	1.21	1.33	Div'd Decl'd per sh	1.70											
										4.31	4.74	6.31	4.50	4.38	5.27	5.25	5.50	5.33	5.55	Cap'l Spending per sh	6.25											
										23.88	28.39	25.64	22.91	23.59	24.11	25.11	28.52	27.39	27.60	Book Value per sh	34.55											
										160.00	160.00	160.00	174.83	175.00	175.50	176.59	178.25	178.45	178.50	Common Shs Outstanding	143,000											
										..	..	..	..	..	..	..	..	..	..	Avg Ann'l P/E Ratio	20.0											
										1.14	1.04	.93	1.05	1.06	1.12	1.05	1.12	1.05	1.05	Relative P/E Ratio	1.25											
										1.9%	4.2%	3.8%	3.1%	3.4%	2.0%	2.5%	2.0%	2.5%	2.5%	Avg Ann'l Div'd Yield	2.6%											
CAPITAL STRUCTURE as of 3/31/15 Total Debt \$634.5 mil. Due in 5 Yrs \$1294.5 mil. LT Debt \$5428.9 mil. LT Interest \$278.0 mil. (52% of Cap't)										2033.1	2214.2	2338.9	2440.7	2710.7	2668.2	2876.9	2901.9	3011.3	3100	2325	Revenues (mil)	3560										
Leases, Uncapitalized: Annual rentals \$14.0 mil. Pension Assets 12/14 \$1428.2 mil. Oblg. \$1748.5 mil. Pfd Stock \$14.3 mil. Pfd Div'd \$5.5 mil.										..	..	..	..	..	..	..	..	..	..	505	Net Profit (mil)	600										
Common Stock 179,992,233 shs. as of 4/30/2015										..	..	..	..	..	..	..	..	..	..	505	Income Tax Rate	37.5%										
MARKET CAP: \$8.3 billion (Large Cap)										..	..	..	..	..	..	..	..	..	..	505	AFUDC % to Net Profit	6.0%										
CURRENT POSITION 2013 2014 3/31/15 (mil.)										..	..	..	..	..	..	..	..	..	..	505	Long-Term Debt Ratio	58.0%										
Cash Assets 27.0 23.1 24.3 Other 523.3 638.3 704.7 Current Assets 550.3 661.4 729.0										58.1%	50.9%	53.1%	58.9%	58.9%	53.7%	53.9%	52.4%	52.4%	51.6%	53.0%	Long-Term Debt Ratio	58.0%										
Accounts Payable 284.1 285.8 203.4 Debt Due 644.5 511.1 605.6 Other 328.9 444.1 418.5										..	..	..	..	..	..	..	..	..	..	505	Common Equity Ratio	43.0%										
Current Liab. 1235.5 1247.0 1227.5 Fld. Chg. Cov. 307% 300% 302%										6692.8	6245.7	6750.2	6289.0	6561.3	6560.3	6835.5	6940.7	10384	10955	11500	Total Capital (mil)	13300										
ANNUAL RATES Past Past Est'd '12-'14 of change (per sh) 10 Yrs. 8 Yrs. 10 Yrs.										..	..	..	..	..	..	..	..	..	..	505	Return on Total Cap'l	6.0%										
Revenues 3.0% 4.5% "Cash Flow" 20.5% 6.0% Earnings 20.5% 7.5% Dividends 21.5% 8.0% Book Value 5% 5.0%										..	..	..	..	..	..	..	..	..	..	505	Return on Bk. Equity	8.0%										
QUARTERLY REVENUES (\$ mil.) Full Year Calendar Mar.31 Jun.30 Sep.30 Dec.31										..	..	..	..	..	..	..	..	..	..	505	Return on Com Equity	8.0%										
2012 618.5 745.6 831.8 681.0 2878.9 2013 636.1 724.3 829.2 712.3 2901.9 2014 679.0 754.8 846.1 731.4 3011.3 2015 698.1 733 880 766.9 3100 2016 735 840 920 830 3325										..	..	..	..	..	..	..	..	..	..	505	AB Div'ds to Net Prof	51%										
EARNINGS PER SHARE Full Year Calendar Mar.31 Jun.30 Sep.30 Dec.31										..	..	..	..	..	..	..	..	..	..	505	AB Div'ds to Net Prof	51%										
2012 .28 .68 .87 .30 2.11 2013 .32 .57 .84 .33 2.06 2014 .39 .62 .96 .52 2.39 2015 .44 .70 1.00 .48 2.60 2016 .50 .75 1.65 .50 2.89										..	..	..	..	..	..	..	..	..	..	505	AB Div'ds to Net Prof	51%										
QUARTERLY DIVIDENDS PAID Full Year Calendar Mar.31 Jun.30 Sep.30 Dec.31										..	..	..	..	..	..	..	..	..	..	505	AB Div'ds to Net Prof	51%										
2011 .22 .23 .23 .23 .91 2012 .23 .23 .25 .50 1.21 2013 .28 .28 .28 .28 .84 2014 .28 .31 .31 .31 1.21 2015 .31 .34										..	..	..	..	..	..	..	..	..	..	505	AB Div'ds to Net Prof	51%										

(A) Divided earnings. Excludes nonrecurring losses: '08, \$4.52; '09, \$2.83; '11, \$0.07. Discontinued operations: '08, \$0.04; '11, \$0.03; '12, (\$0.10); '13, (\$0.01). GAAP used as of 2015.

(B) Dividends paid in March, June, September, and December. (C) Dividends reinvested.

(D) Next earnings report due early Aug. Quarterly earnings may not sum due to rounding. (E) Dividends paid in March, June, September, and December. (F) Dividends reinvested.

(G) Pro forma numbers for '08 & '07.

(H) Pro forma numbers for '08 & '07.

(I) Pro forma numbers for '08 & '07.

(J) Pro forma numbers for '08 & '07.

(K) Pro forma numbers for '08 & '07.

(L) Pro forma numbers for '08 & '07.

(M) Pro forma numbers for '08 & '07.

(N) Pro forma numbers for '08 & '07.

(O) Pro forma numbers for '08 & '07.

(P) Pro forma numbers for '08 & '07.

(Q) Pro forma numbers for '08 & '07.

(R) Pro forma numbers for '08 & '07.

(S) Pro forma numbers for '08 & '07.

(T) Pro forma numbers for '08 & '07.

(U) Pro forma numbers for '08 & '07.

(V) Pro forma numbers for '08 & '07.

(W) Pro forma numbers for '08 & '07.

(X) Pro forma numbers for '08 & '07.

(Y) Pro forma numbers for '08 & '07.

(Z) Pro forma numbers for '08 & '07.

2014. Next earnings report due early Aug. Quarterly earnings may not sum due to rounding. (B) Dividends paid in March, June, September, and December. (C) Dividends reinvested. (D) Next earnings report due early Aug. Quarterly earnings may not sum due to rounding. (E) Dividends paid in March, June, September, and December. (F) Dividends reinvested. (G) Pro forma numbers for '08 & '07. (H) Pro forma numbers for '08 & '07. (I) Pro forma numbers for '08 & '07. (J) Pro forma numbers for '08 & '07. (K) Pro forma numbers for '08 & '07. (L) Pro forma numbers for '08 & '07. (M) Pro forma numbers for '08 & '07. (N) Pro forma numbers for '08 & '07. (O) Pro forma numbers for '08 & '07. (P) Pro forma numbers for '08 & '07. (Q) Pro forma numbers for '08 & '07. (R) Pro forma numbers for '08 & '07. (S) Pro forma numbers for '08 & '07. (T) Pro forma numbers for '08 & '07. (U) Pro forma numbers for '08 & '07. (V) Pro forma numbers for '08 & '07. (W) Pro forma numbers for '08 & '07. (X) Pro forma numbers for '08 & '07. (Y) Pro forma numbers for '08 & '07. (Z) Pro forma numbers for '08 & '07.

available. Two payments made in 4th quarter of 2012. (C) in millions. (D) includes intangibles. In 2014: \$1.21 billion, \$8.73/share. (E) Pro forma numbers for '08 & '07.

Company's Financial Strength
Stock's Price Stability
Price Growth Persistence
Earnings Predictability

100
85
25

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James A. Flood

July 17, 2015

(A) Divided earnings. Excludes nonrecurring losses: '08, \$4.62; '09, \$2.63; '11, \$0.07. Discontinued operations: '06, (\$0.04); '11, \$0.03; '12, (\$0.10); '13, (\$0.01). GAAP used as of 1/1/01.

2014. Next earnings report due early Aug. Quarterly earnings may not sum due to rounding. (B) Dividends paid in March, June, September, and December. (C) Div. reinvestment. (D) Pro forma numbers for '06 & '07.

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Company's Financial Strength 8+
 Stock's Price Stability 100
 Price Growth Persistence 85
 Earnings Predictability 25

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AQUA AMERICA NYSE-WTR

RECENT PRICE **25.64** P/E RATIO **20.5** (Trailing: 20.1; Median: 21.6) RELATIVE P/E RATIO **1.08** DIV YLD **2.8%** VALUE LINE

TIMELINESS 3 Lowered 5/21/13
SAFETY 2 Raised 4/20/12
TECHNICAL 3 Raised 6/12/11
Beta 75 (1.00 - Market)

2013-20 PROJECTIONS

	Price	Gain	Ann'l Total
High	40	+55%	14%
Low	30	+15%	7%

Insider Decisions

	A	B	O	M	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	139	137	153
to Sell	126	140	133

Percent Shares Traded

	3Q2014	4Q2014	1Q2015
to Buy	139	137	153
to Sell	126	140	133

MARKET CAP: \$4.5 billion (Mid Cap)

CURRENT POSITION (2013, 2014, 3Q1/15)

	2013	2014	3Q1/15
Cash Assets	5.1	4.1	9.3
Receivables	95.4	97.0	95.4
Inventory (Avg/Cst)	11.4	12.8	12.6
Other	69.8	38.8	46.9
Current Assets	171.7	152.5	164.2
Acc'ts Payable	65.8	60.0	34.7
Debt Due	123.0	70.0	80.1
Other	78.1	95.3	80.3
Current Liab.	266.9	225.3	205.1

ANNUAL RATES of change (per %)

	2013	2014	3Q1/15
Revenues	5.5%	8.0%	4.5%
"Cash Flow"	8.9%	13.0%	8.0%
Earnings	7.5%	7.0%	9.0%
Dividends	7.5%	0.5%	8.5%

QUARTERLY REVENUES (\$ mil)

	Mar-31	Jun-30	Sep-30	Dec-31	Full Year
2012	184.0	191.7	214.8	187.5	778.0
2013	180.0	195.7	204.3	188.6	768.6
2014	182.7	195.3	210.5	191.4	779.9
2015	190.3	200	215	199.7	805
2016	190	205	220	210	825

EARNINGS PER SHARE

	Mar-31	Jun-30	Sep-30	Dec-31	Full Year
2012	.15	.24	.29	.19	.87
2013	.26	.30	.36	.24	1.16
2014	.24	.31	.38	.27	1.20
2015	.27	.32	.39	.37	1.25
2016	.26	.33	.41	.30	1.30

QUARTERLY DIVIDENDS PAID

	Mar-31	Jun-30	Sep-30	Dec-31	Full Year
2011	.124	.124	.124	.132	.50
2012	.132	.132	.132	.14	.54
2013	.14	.14	.152	.152	.58
2014	.152	.152	.165	.165	.63
2015	.165	.165			

Next earnings report due mid-Aug.
(B) Dividends historically paid in early March.
(C) In millions, adjusted for stock splits.

Company's Financial Strength

	Score
Stock's Price Stability	85
Price Growth Persistence	60
Earnings Predictability	100

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ARTESIAN RES. CORP. NDQ-ARTNA				RECENT PRICE	21.50	TRADING P/E RATIO	19.4	RELATIVE P/E RATIO	0.99	DIVID YLD	4.1%	VALUE LINE						
RANKS				20.67 18.26	19.31 13.00	16.73 12.81	19.59 16.47	19.99 15.16	24.43 18.20	24.27 21.52	23.82 19.85	22.79 20.00	High Low					
PERFORMANCE	4	Below Average												18				
Technical	5	Lowest												13				
SAFETY	3	Average												8				
BETA	.60	(1.00 = Market)												5				
														4				
Financial Strength	8												3					
Price Stability	95												2					
Price Growth Persistence	40																	
Earnings Predictability	80												500 VOL (mo)					
O VALUE LINE PUBLISHING LLC				2007	2008	2009	2010	2011	2012	2013	2014	2015	2016/2017					
SALES PER SH				7.20	7.59	8.11	8.48	7.56	8.10	7.82	8.13	-						
"CASH FLOW" PER SH				1.57	1.65	1.84	1.92	1.84	2.04	1.87	2.04	-						
EARNINGS PER SH				.90	.88	.97	1.00	.83	1.13	.94	1.07	1.19 AD	1.30 D/NA					
DIV'DS DECL'D PER SH				.66	.71	.72	.75	.78	.79	.82	.85	-						
CAP'L SPENDING PER SH				3.66	6.09	2.32	2.57	1.83	2.38	2.40	2.68	-						
BOOK VALUE PER SH				11.66	11.88	12.15	12.44	13.12	13.67	13.60	14.09	-						
COMMON SHS OUTST'G (MILL)				7.30	7.40	7.61	7.69	8.61	8.71	8.83	8.91	-						
AVG ANNU'L P/E RATIO				21.5	20.1	16.4	18.2	22.5	18.3	23.9	20.5	18.1	16.5/NA					
RELATIVE P/E RATIO				1.14	1.21	1.09	1.16	1.41	1.17	1.34	1.08	-						
AVG ANNU'L DIV'D YIELD				3.4%	4.1%	4.5%	4.1%	4.1%	3.6%	3.7%	3.9%	-						
SALES (\$MILL)				52.5	59.2	60.9	64.9	65.1	70.6	69.1	72.5	-	Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.					
OPERATING MARGIN				43.6%	45.1%	48.9%	46.5%	45.6%	48.7%	47.0%	48.8%	-						
DEPRECIATION (\$MILL)				5.2	5.8	6.6	7.0	7.4	7.9	8.3	8.7	-						
NET PROFIT (\$MILL)				6.3	8.4	7.3	7.8	8.7	9.8	8.3	9.5	-						
INCOME TAX RATE				39.8%	40.8%	40.1%	40.0%	40.8%	40.2%	40.2%	40.1%	-						
NET PROFIT MARGIN				11.9%	11.4%	11.9%	11.7%	10.4%	14.0%	12.0%	13.1%	-						
WORKING CAP'L (\$MILL)				2.6	620.9	623.3	627.9	611.4	611.4	612.3	613.5	-						
LONG-TERM DEBT (\$MILL)				91.8	107.6	106.0	105.1	108.5	108.3	105.5	105.0	-						
SHR. EQUITY (\$MILL)				85.1	87.8	91.2	95.1	113.0	118.2	121.8	125.6	-						
RETURN ON TOTAL CAP'L				5.3%	4.7%	5.2%	5.6%	4.6%	5.9%	5.1%	5.5%	-						
RETURN ON SHR. EQUITY				7.4%	7.3%	8.0%	8.0%	8.0%	8.3%	6.8%	7.6%	-						
RETAINED TO COM EQ				2.1%	1.4%	2.1%	2.0%	.5%	2.5%	.9%	1.6%	-						
ALL DIV'DS TO NET PROF				.71%	.81%	.74%	.75%	.82%	.70%	.87%	.79%	-						
No. of analysts changing name: ast. in last 3 days: 0 up, 0 down, consensus 5-year earnings growth not available. AD Based upon 7 analysts' estimates. D Based upon one analyst's estimate.																		
ANNUAL RATES				ASSETS (\$mill)				2013	2014	3/31/15	INDUSTRY: Water/Utility							
of change (per share)				Cash Assets				4	2	4	BUSINESS: Artesian Resources Corporation, through its subsidiaries, provides water, wastewater, and other services on the Delmarva Peninsula. It distributes and sells water to residential, commercial, industrial, municipal, and utility customers in the states of Delaware, Maryland, and Pennsylvania. The company also offers water for public and private fire protection to customers in its service territories. In addition, it provides contract water and wastewater services, water and sewer service line protection plans, and wastewater management services, as well as design, construction, and engineering services. As of May 5, 2015, the company supplied water through 1,201 miles of water mains to approximately 300,000 people on the Delmarva Peninsula. Has 237 employees. Chairman, C.E.O. & President: Dian C. Taylor. Address: 664 Churchmans Rd., Newark, DE 19702. Tel.: (302) 453-6900. Internet: http://www.artesianwater.com .							
Sales				Receivables				8.1	8.4	7.8								
"Cash Flow"				Inventory				1.5	1.9	1.9								
Earnings				Other				3.3	6.1	4.8								
Dividends				Current Assets				13.3	16.6	14.5								
Book Value																		
Fiscal Year	QUARTERLY SALES (\$mill)				Property, Plant & Equip., at cost				472.9	495.2	-							
	1Q	2Q	3Q	4Q	Accum Depreciation				69.8	88.4	-							
12/31/13	16.3	17.8	18.1	18.9	Net Property				383.1	397.8	396.1							
12/31/14	16.9	17.9	19.6	18.1	Other				7.4	7.8	7.9							
12/31/15	18.0				Total Assets				403.8	422.2	421.5							
12/31/16																		
Fiscal Year	EARNINGS PER SHARE				LIABILITIES (\$mill)													
	1Q	2Q	3Q	4Q	Accts Payable				4.1	3.8	3.4							
12/31/12	.28	.32	.33	.20	Debt Due				12.2	19.9	15.8							
12/31/13	.20	.28	.29	.17	Other				9.3	6.5	9.0							
12/31/14	.24	.22	.37	.24	Current Liab				25.8	30.2	28.2							
12/31/15	.28																	
				LONG-TERM DEBT AND EQUITY as of 3/31/15														
				Total Debt \$120.4 mill				Due in 5 Yrs. NA										
				LT Debt \$104.6 mill														
				Including Cap. Leases NA														
				(46% of Cap'l)														
				Leases, Uncapitalized Annual rentals NA														
				Pension Liability \$3 mill. in '14 vs. \$3 mill. in '13							J.V.							
				Pfd Stock None				PM Div'd Paid None										
				Common Stock 8,920,173 shares				(54% of Cap'l)										
INSTITUTIONAL DECISIONS												TOTAL SHAREHOLDER RETURN						
				3Q'14	4Q'14	1Q'15					Dividend plus appreciation as of 8/30/2015							
to Buy				27	30	38					3 Mos.				6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
to Sell				33	28	21					-0.39%				-4.74%	-2.37%	9.69%	38.63%
Hld'g(000)				2988	3004	3048												



CONNECTICUT WATER										RECENT PRICE	34.88	P/E RATIO	17.4 (Trading: 18.1 Median: 21.8)	RELATIVE P/E RATIO	0.92	DYD	3.1%	VALUE LINE
TIMELINESS 3 Lowered 11/21/14	High: 29.8	29.2	27.7	25.8	29.0	28.4	27.8	29.1	32.8	38.4	37.5	38.8						
SAFETY 3 Rev 1/11/13	Low: 23.8	21.9	20.3	22.4	19.3	17.3	20.0	23.3	26.2	27.8	31.0	33.2						
TECHNICAL 3 Raised 5/29/15	LEGENDS										Target Price Range							
BETA .70 (1.00 = Market)	120 d Dividends p sh										2018 2019 2020							
	Divided by Interest Rate																	
	Stock Price Index																	
2018-20 PROJECTIONS																		
	Price	Gain	Ann'l Total															
	High	Low	(N1)															
Insider Decisions																		
	Buy	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Sell	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Hold	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Institutional Decisions																		
	Buy	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Sell	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Hold	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MARKET CAP: \$400 million (Small Cap)																		
CURRENT POSITION																		
	Cash Assets	18.4	2.5	2.3														
	Accounts Receivable	12.3	12.0	11.4														
	Other	16.2	21.7	22.8														
	Current Assets	46.9	36.2	36.5														
	Accounts Payable	10.8	10.0	7.2														
	Debt Due	4.1	4.4	7.3														
	Other	7.8	9.2	10.0														
	Current Liab.	22.7	23.8	25.1														
ANNUAL RATES																		
	Revenues	4.0%	4.5%	6.0%														
	"Cash Flow"	4.0%	7.5%	4.5%														
	Earnings	4.0%	9.0%	4.5%														
	Dividends	2.0%	2.0%	5.0%														
	Book Value	6.5%	9.8%	4.0%														
QUARTERLY REVENUES (\$ mil)																		
	Cal-ender	Mar 31	Jun 30	Sep 30	Dec 31	Full Year												
	2012	18.5	21.3	24.5	19.5	83.8												
	2013	19.7	22.6	27.6	21.8	91.7												
	2014	20.3	25.4	27.6	20.7	94.0												
	2015	20.0	28.3	28.0	21.5	97.8												
	2016	22.5	27.5	30.0	22.0	102.0												
EARNINGS PER SHARE																		
	Cal-ender	Mar 31	Jun 30	Sep 30	Dec 31	Full Year												
	2012	22	47	67	17	153												
	2013	24	39	55	17	168												
	2014	27	67	76	22	192												
	2015	28	67	80	25	200												
	2016	36	67	83	27	213												
QUARTERLY DIVIDENDS PAID																		
	Cal-ender	Mar 31	Jun 30	Sep 30	Dec 31	Full Year												
	2011	233	233	238	238	942												
	2012	238	238	2425	2425	965												
	2013	2425	2425	2475	2475	98												
	2014	2475	2475	2575	2575	1.01												
	2015	2575	2575															
BUSINESS: Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from earnings of its wholly-owned subsidiary companies (regulated water utilities). In 2014, 93% of net income was derived from these activities. Provides water services to 400,000 people in 77 municipalities throughout Connecticut and Maine. Acquired The Maine Water Company, January, 2012; Biddford and Saco Water, December, 2012. Incorporated: Connecticut. Has 265 employees. Chairman/President/Chief Executive Officer: Eric W. Thornburg. Officers and directors own 2.3% of the common stock; BlackRock, Inc. 7.0%; (4/15 proxy). Address: 93 West Main Street, Clinton, CT 06413. Telephone: (860) 669-8835. Internet: www.ctwater.com.																		
Connecticut Water Service should record decent bottom-line results over the next two years. Following a very successful 2014, we think the company will be able to post increases in share net of 4% in 2015, and 5% in 2016. Higher rates being permitted in Maine, an IRS tax rebate, and cost savings, will all contribute to the gains.																		
Dividend growth prospects have improved. The utility has only been able to increase its annual payout an average of 2% annually over both the last five- and 10 year-periods. In 2014, the trend was broken, as the dividend was hiked 3%. Moreover, when the board meets in September, the quarterly dividend could be boosted another \$0.01 a share, to around \$0.2875. This would be a 4% increase, which would put the utility closer, but still below, the industry norm.																		
The company has been successful in expanding the business. Unless located in a service area experiencing strong economic growth, it can be hard for a utility to grow its customer base. Over the past several years, Connecticut Water has made two decent size acquisitions, and has																		
been able to improve margins by wringing duplicate costs from the consolidated operations. Moreover, the utility will be expanding the pipeline infrastructure to supply the University of Connecticut and the greater Mansfield area. A key permit was approved in late May and construction should take around 18 months to complete.																		
Connecticut Water might not be big, but it is solid. With a market capitalization of only \$400 million, the utility is on the small side. Still, the balance sheet is healthy, and should remain so for the foreseeable future. This is very positive in light of the larger amounts that have to be spent to replace an aging distribution system. (The industry is in the midst of a major refurbishing program.)																		
Shares of Connecticut Water are expected to perform in line with the broader market averages in the year ahead. The dividend yield is 100 basis points above that of the typical stock in the Value Line universe. Potential total return through 2018-2020 is lower than the average equity, however.																		
James A. Flood July 17, 2015																		
(A) Divided earnings. Next earnings report due mid-August. Quarterly earnings do not add in 2012 due to rounding.																		
(B) Dividends historically paid in mid-March.																		
(C) In millions, adjusted for split.																		
(D) Includes intangibles. In 2014: \$31.7 mil.																		
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Company's Financial Strength B+ Stock's Price Stability 90 Price Growth Potential 50 Earnings Predictability 65																		
To subscribe call 1-800-VALUELINE																		

MIDDLESEX WATER NDQ-MSEX				RECENT PRICE	22.46	P/E RATIO	19.5 (Trailing 12 Months)	RELATIVE P/E RATIO	1.03	YOY YLD	3.5%	VALUE LINE	Target Price Range				
TIMELINESS	3	Lowered 7/1/14	High: 21.8	23.5	20.5	20.2	19.8	17.9	19.3	19.4	19.6	22.6	23.7	23.8	2018	2019	2020
SAFETY	2	New 10/1/11	Low: 18.7	17.1	19.6	18.9	12.0	11.6	14.7	18.5	17.5	22.6	19.1	21.2			
TECHNICAL	2	Raised 7/1/15	LEGENDS: 1.20 x Dividends p sh divided by Interest Rate Relative Price Strength 4 for 3rd 100 Options: No Standard price industry correlation														
BETA	.78	(1.00 - Market)	2010-20 PROJECTIONS														
Price		Gain	Return														
High	38	+35%	11%														
Low	25	+18%	4%														
Insider Decisions																	
A	0 <th>S</th> <td>0<th>O</th><td>0<th>R</th><td>0<th>D</th><td>0<th>J</th><td>0<th>F</th><td>0<th>M</th><td>0<th>A</th><td>0</td></td></td></td></td></td></td></td>	S	0 <th>O</th> <td>0<th>R</th><td>0<th>D</th><td>0<th>J</th><td>0<th>F</th><td>0<th>M</th><td>0<th>A</th><td>0</td></td></td></td></td></td></td>	O	0 <th>R</th> <td>0<th>D</th><td>0<th>J</th><td>0<th>F</th><td>0<th>M</th><td>0<th>A</th><td>0</td></td></td></td></td></td>	R	0 <th>D</th> <td>0<th>J</th><td>0<th>F</th><td>0<th>M</th><td>0<th>A</th><td>0</td></td></td></td></td>	D	0 <th>J</th> <td>0<th>F</th><td>0<th>M</th><td>0<th>A</th><td>0</td></td></td></td>	J	0 <th>F</th> <td>0<th>M</th><td>0<th>A</th><td>0</td></td></td>	F	0 <th>M</th> <td>0<th>A</th><td>0</td></td>	M	0 <th>A</th> <td>0</td>	A	0
to Buy	0 <th>to Sell</th> <td>0<th>to Buy</th><td>0<th>to Sell</th><td>0<th>to Buy</th><td>0<th>to Sell</th><td>0<th>to Buy</th><td>0<th>to Sell</th><td>0<th>to Buy</th><th>to Sell</th></td></td></td></td></td></td></td>	to Sell	0 <th>to Buy</th> <td>0<th>to Sell</th><td>0<th>to Buy</th><td>0<th>to Sell</th><td>0<th>to Buy</th><td>0<th>to Sell</th><td>0<th>to Buy</th><th>to Sell</th></td></td></td></td></td></td>	to Buy	0 <th>to Sell</th> <td>0<th>to Buy</th><td>0<th>to Sell</th><td>0<th>to Buy</th><td>0<th>to Sell</th><td>0<th>to Buy</th><th>to Sell</th></td></td></td></td></td>	to Sell	0 <th>to Buy</th> <td>0<th>to Sell</th><td>0<th>to Buy</th><td>0<th>to Sell</th><td>0<th>to Buy</th><th>to Sell</th></td></td></td></td>	to Buy	0 <th>to Sell</th> <td>0<th>to Buy</th><td>0<th>to Sell</th><td>0<th>to Buy</th><th>to Sell</th></td></td></td>	to Sell	0 <th>to Buy</th> <td>0<th>to Sell</th><td>0<th>to Buy</th><th>to Sell</th></td></td>	to Buy	0 <th>to Sell</th> <td>0<th>to Buy</th><th>to Sell</th></td>	to Sell	0 <th>to Buy</th> <th>to Sell</th>	to Buy	to Sell
Institutional Decisions																	
to Buy	32	to Sell	39	to Buy	30	to Sell	40 <th>to Buy</th> <td>37</td> <th>to Sell</th> <td>38<th>to Buy</th><td>30</td><th>to Sell</th><td>40<th>to Buy</th><th>to Sell</th></td></td>	to Buy	37	to Sell	38 <th>to Buy</th> <td>30</td> <th>to Sell</th> <td>40<th>to Buy</th><th>to Sell</th></td>	to Buy	30	to Sell	40 <th>to Buy</th> <th>to Sell</th>	to Buy	to Sell
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SJW CORP. NYSE: SJW										RECENT PRICE	30.82	P/E RATIO	21.3 (Trailing: 11.3 Median: 24.0)	RELATIVE P/E RATIO	1.12	DIVID YLD	2.6%	VALUE LINE
TIMELINESS	3	Rated 5/8/15	High: 19.8	19.8	27.8	45.3	43.0	35.1	30.4	28.2	28.8	28.8	30.1	33.7	35.7		Target Price Range	
SAFETY	3	Rev 4/22/11	Low: 14.8	14.8	18.1	21.2	27.7	20.0	18.2	21.6	20.9	22.6	24.5	29.6	28.6		2018 2019 2020	
TECHNICAL	3	Unrated 7/10/15																
BETA	80	(1.00 - Market)																
2018-20 PROJECTIONS																		
Price	45	Gain	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	
High	45	Low	38	38	38	38	38	38	38	38	38	38	38	38	38	38	38	
Insider Decisions																		
A	5	S	0	R	0	J	F	M	A									
to Buy	1	1	0	0	2	0	1	3	0									
Options	0	0	0	0	1	0	0	0	0									
to Sell	0	1	0	1	0	0	0	0	0									
Institutional Decisions																		
to Buy	38	49	81															
to Sell	45	47	47															
traded	5																	
1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016																		
6.40	6.74	7.45	7.97	8.20	9.14	9.88	10.35	11.25	12.12	11.68	11.62	12.85	14.01	13.73	13.78	14.40	14.39	
1.43	1.23	1.49	1.59	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	4.42	3.50	3.60	
.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.18	1.12	2.54	1.45	1.45	
.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.68	.69	.71	.73	.75	.78	.78	.81	
1.77	1.89	2.83	2.68	3.41	2.31	2.83	3.87	6.62	3.79	3.17	6.65	3.75	5.67	4.88	5.02	3.00	4.93	
7.68	7.00	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.68	13.75	14.20	14.71	15.92	17.75	18.30	19.05	
18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.38	18.18	18.50	18.55	18.59	18.67	20.17	20.29	20.50	21.00	
15.5	33.1	18.5	17.3	15.4	18.8	19.7	21.3	33.4	28.2	28.7	28.1	21.2	20.4	24.3	11.2	11.2	11.2	
.88	2.15	.85	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.33	1.30	1.37	.59	.59	.59	
3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	3.0%	2.7%	2.6%			
CAPITAL STRUCTURE as of 3/31/15																		
Total Debt	\$396.5 mil.	Due in 5 Yrs	\$21.2 mil.	180.1	189.2	206.6	220.3	218.1	215.6	239.0	261.5	278.9	319.7	293	300			
LT Debt	\$384.2 mil.	LT Interest	\$18.1 mil.	20.7	22.2	19.3	20.2	15.2	15.8	20.9	22.3	23.5	31.8	29.5	30.0			
		(52% of Cap)		41.6%	40.6%	38.4%	39.5%	40.4%	38.6%	41.1%	41.1%	38.7%	32.5%	37.0%	34.0%			
Leases, Uncapitalized	Annual rentals \$5.5 mil.			1.6%	2.1%	2.7%	2.7%	2.0%				2.0%	1.0%	1.0%	1.0%			
Pension Assets	12/14 \$91.4 mil.			42.6%	41.8%	47.7%	48.0%	49.4%	53.7%	56.6%	58.0%	51.1%	51.6%	51.0%	50.0%			
Pfd Stock None.	Obhg. \$128.7 mil.			57.4%	58.2%	52.3%	54.0%	50.6%	48.3%	43.4%	45.0%	48.9%	48.4%	49.0%	50.0%			
Common Stock	20,341,489 shs.			341.2	391.8	453.2	470.9	488.8	500.7	607.9	610.2	666.2	744.5	778	805			
as of 4/22/15				484.8	541.7	645.5	684.2	718.5	785.5	758.2	831.8	898.7	963.0	1000	1055			
MARKET CAP: \$625 million (Small Cap)				7.8%	7.0%	6.7%	5.8%	4.4%	4.3%	4.9%	5.0%	5.0%	8.3%	8.0%	8.0%			
CURRENT POSITION	2013 2014 3/31/15			10.6%	8.7%	8.2%	8.0%	8.0%	6.2%	7.9%	8.1%	7.3%	14.4%	7.5%	8.0%			
Cash Assets	2.3	2.4	5.4	10.6%	9.7%	8.2%	8.0%	8.0%	6.2%	7.9%	8.1%	7.3%	14.4%	7.5%	8.0%			
Other	37.4	65.7	57.7	10.6%	9.7%	8.2%	8.0%	8.0%	6.2%	7.9%	8.1%	7.3%	14.4%	7.5%	8.0%			
Current Assets	39.7	68.1	63.1	47%	46%	57%	59%	80%	80%	81%	59%	62%	29%	54%	58%			
Accts Payable	12.8	7.0	11.8															
Debt Due	23.0	13.8	12.3															
Other	23.6	23.9	24.6															
Current Liab.	58.2	44.7	48.7															
Fix. Chg. Cov.	268%	270%	286%															
ANNUAL RATES																		
Post	10 Yrs	5 Yrs	Post Est'd '12-'14															
Revenue	5.5%	4.5%	4.0%															
"Cash Flow"	7.0%	8.0%	6.5%															
Earnings	8.5%	10.5%	6.5%															
Dividends	4.0%	3.0%	5.5%															
Book Value	6.0%	3.5%	5.0%															
QUARTERLY REVENUES (\$ mil.)																		
Cal. ender	Mar 31	Jun 30	Sep 30	Dec 31	Full Year													
2012	51.1	65.8	62.4	62.4	261.5													
2013	50.1	74.2	85.2	67.4	276.9													
2014	54.6	70.4	125.4	69.3	319.7													
2015	62.1	73.0	89.0	70.9	293													
2016	60.0	75.0	80.0	75.0	300													
EARNINGS PER SHARE																		
Cal. ender	Mar 31	Jun 30	Sep 30	Dec 31	Full Year													
2012	.08	.28	.53	.31	1.18													
2013	.07	.37	.44	.24	1.12													
2014	.04	.34	1.88	.28	2.54													
2015	.23	.37	.53	.32	1.45													
2016	.09	.41	.57	.38	1.43													
QUARTERLY DIVIDENDS PAID																		
Cal. ender	Mar 31	Jun 30	Sep 30	Dec 31	Full Year													
2011	.173	.173	.173	.173	.69													
2012	.1775	.1775	.1775	.1775	.71													
2013	.1825	.1825	.1825	.1825	.73													
2014	.1875	.1875	.1875	.1875	.75													
2015	.1950	.195																

LEGENDS

- 1.50 x Dividends p/h divided by Interest Rate
- Relative Price Strength
- 3-Mo 1-yr 3-yr 5-yr 10-yr 20-yr
- Options: No
- Stocked Area: Indicates recession

% TOT. RETURN 6/15

1 yr.	3 yr.	5 yr.
15.7	34.7	50.5
5.2	64.2	113.9

VALUE LINE PUB. L.L.C. (1999-2016)

Revenue per sh	17.60
"Cash Flow" per sh	3.60
Earnings per sh	1.75
Div'd Decl'd per sh	1.05
Cap'l Spending per sh	4.90
Book Value per sh	21.30
Common Bk's Outing	22.00
Avg Ann'l P/E Ratio	22.0
Relative P/E Ratio	1.40
Avg Ann'l Div'd Yield	2.6%

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 229,000 connections that serve a population of approximately one million people in the San Jose area and 12,000 connections that serve approximately 38,000 residents in a service area in the region between San Antonio and Austin, Texas. The company offers nonregulated water-related services. Also owns and operates commercial real estate investments. Has about 395 employees. Officers & directors (including Nancy O. Moss) own 27.9% of outstanding shares. Chm.: Charles J. Toeniskoetter, Inc. CA Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int: www.sjwater.com.

A new pricing structure will most surely have an impact on the amount of water consumed by SJW's customers. Faced with the ongoing drought, California's governor established rules aimed at reducing water usage approximately 25%. The mandatory program, which went into effect on June 1st, also contains other restrictions and fines.

Water utilities operating in the state should not be affected, however. The California Public Utility Commission had already instituted policies that changed the methodology of how water companies generate profits. Now, SJW can promote conservation and not see its net income decline.

SJW's bottom line should do well this year. First-quarter results were considerably above expectations as the company benefited from an unusual one-time gain and an earlier decision to extend rate relief into 2015. For the full year, we think SJW's share net will reach \$1.45. If last year's profits weren't impacted by a one-time gain, the comparison would appear better.

Capital spending will remain at rela-

tively high levels out to late decade. All of the regulated utilities we cover are in the midst of extensive programs intended to replace antiquated pipes and related structures. The industry had been deferring these expenditures until the past few years because companies weren't sure that any investments made would be recouped. Once states, such as California, began working closer with water companies, more capital began to be spent on improving systems.

Earnings momentum should stall in 2016. This will be partially due to there not being any unforeseen one-time gains in our estimate, as has been the case in 2014 and 2015. Another factor adding some uncertainty is how much surface water will be available. Should supplies remain tight, more-expensive options, including drilling and buying on the open market, would be required.

Shares of SJW do not have much appeal at this juncture. Over the pull to 2018-2020, the stock's total return potential is lower than the typical stock in our universe.

James A. Flood

July 17, 2015

(A) Debuted earnings. Excludes nonrecurring losses: '03, \$1.97; '04, \$3.78; '05, \$1.09; '06, \$18.36; '08, \$1.22; '10, \$0.48. Next earnings report due mid-August. Quarterly earnings may not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. * Div'd reinvestment plan available.
(C) In millions, adjusted for stock splits.
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Company's Financial Strength 8+
Stock's Price Stability 85
Price Growth Persistence 80
Earnings Predictability 55
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James A. Flood July 17, 2015

YORK WATER NDQ:YORW										RECENT PRICE	21.47	P/E RATIO	22.6	(Trading: 21.1 Median: 23.0)	RELATIVE P/E RATIO	1.19	DIVID YLD	2.9%	VALUE LINE
TIMELINESS 3 Raised 12/27/15										High: 21.0	18.5	18.0	18.0	18.1	18.5	22.0	24.3	26.0	Target Price Range 2018 2019 2020
SAFETY 3 Lowered 1/17/15										Low: 11.0	11.7	11.7	11.7	11.8	11.8	17.8	18.8	20.7	
TECHNICAL 2 Raised 6/25/15										LEGENDS									
BETA .75 (1.00 = Market)										1.0 = Dividends p/sh divided by Interest Rate									
2018-20 PROJECTIONS										2-yr-1 split 1400									
Price Gain Return										3-yr-2 split 9000									
High Low										Options: No									
Insider Decisions										Standard price following regression									
Institutional Decisions																			
CAPITAL STRUCTURE as of 3/31/15																			
Total Debt \$84.8 mil. Due in 5 Yrs \$30.5 mil.																			
LT Debt \$84.8 mil. LT Interest \$5.1 mil.																			
Pension Assets 12/14 \$30.8 mil.																			
Oblig. \$40.9 mil.																			
Ptd Stock None																			
Common Stock 12,858,271 shs as of 5/5/15																			
MARKET CAP: \$275 million (Small Cap)																			
CURRENT POSITION (MILL)																			
Cash Assets																			
Accounts Receivable																			
Other																			
Current Assets																			
Accs Payable																			
Debt Due																			
Other																			
Current Liab.																			
Fix. Chg. Cov.																			
ANNUAL RATES of change (per sh)																			
Revenue																			
Cash Flow																			
Earnings																			
Dividends																			
Book Value																			
QUARTERLY REVENUES (\$ mil)																			
Cal. ender																			
Mar.31 Jun.30 Sep.30 Dec.31																			
2012																			
2013																			
2014																			
2015																			
2016																			
EARNINGS PER SHARE																			
Cal. ender																			
Mar.31 Jun.30 Sep.30 Dec.31																			
2012																			
2013																			
2014																			
2015																			
2016																			
QUARTERLY DIVIDENDS PAID																			
Cal. ender																			
Mar.31 Jun.30 Sep.30 Dec.31																			
2011																			
2012																			
2013																			
2014																			
2015																			
2016																			
BUSINESS: The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2014, the company's average daily availability was 35.2 million gallons and its service territory had an estimated population of 190,000. Has more than 65,100 customers. Residential customers accounted for 63% of 2014 revenue; commercial and industrial (29%); other (8%). It also provides sewer billing services. Incorporated: PA. York had 108 full-time employees at 12/31/14. President/CEO: Jeffrey R. Hines. Officers/directors own 1.1% of the common stock (4/15 proxy). Address: 130 East Market Street York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: www.yorkwater.com.																			
York Water has been turning in solid results recently. For the fourth consecutive quarter, the utility posted strong year-over-year earnings comparisons. In the March period, share earnings rose 25%, mostly due to a lower tax rate and higher tariffs implemented in March.																			
Wall Street seemingly has not been impressed, however. Since our April report, the price of the stock has decreased 14%. We think some investors may have viewed the equity as overpriced. Another possibility is that a major institutional shareholder sold its entire position all at once, which can substantially move the price of a stock with a market capitalization of only \$275 million.																			
Future bottom-line comparisons are expected to be decent. York should continue to benefit from a reduced tax rate, the higher fees that regulators allowed the company to charge its customers, and an ongoing program aimed at reducing costs that is proving to be successful. However, with a small customer base in a region not expected to experience much economic growth, demand for water should be fairly subdued. All in all, we think earnings per																			
share should rise \$0.06 a share (8.7%) in 2015, and \$0.05 a share (5.3%) next year. The capital budget has expanded. York's spending to upgrade and modernize its infrastructure rose 40% in 2014. Over the next three-to-five-year period, we think similar annual outlays will be required for this process. The company will not differ too much from other water utilities, as the industry is in the midst of increasing funds spent on improving current pipelines and equipment.																			
York's finances appear healthy enough to handle this burden. While we expect some of the utility's financial metrics to decline through the end of the decade, they still should remain better than the industry norm. For example, even if its equity-to-total capital ratio declines as it takes on more debt, the ratio should remain a solid 52% by late decade. York shares are expected to be market performers in the year ahead. And while long-term total return prospects have improved due to the dip in the stock price, we believe there are more-attractive candidates available in the group.																			
James A. Flood										July 17, 2015									
(A) Diluted earnings. Next earnings report due mid-August.																			
(B) Dividends historically paid in mid-January, April, July, and October.																			
(C) In millions, adjusted for splits.																			
Company's Financial Strength										8+									
Stock's Price Stability										85									
Price Growth Persistence										55									
Earnings Predictability										85									
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January 30, 2004

WATER UTILITY INDUSTRY

1421

INDUSTRY TIMELINESS: 90 (of 97)

The Water Utility Industry came under significant pressure in 2003. The majority of the companies covered in the next few pages experienced earnings declines last year, as unfavorable weather conditions resulted in weak demand for water throughout the United States.

Infrastructure costs are expected to continue to rise. As a result, further consolidation appears to be inevitable. Water utility stocks are ranked to lag the market over the next 12 months. However, conservative investors may find the risk-adjusted, total return potential of these issues attractive.

Dampened Results

Most of the Water companies in our Survey were hampered by unfavorable weather conditions in 2003. *American States Water Co.* and *California Water Service Group* both most likely suffered year-over-year earnings declines because of the cool, wet-weather conditions. *Aqua America*, formerly Philadelphia Suburban Corp., however, was probably able to eke out a modest gain last year, despite the sluggish demand. (Investors should note that full-year results for each of the companies covered in this industry were not available as of the date of this issue's publication.) Although weather conditions are nearly impossible to predict, we expect more normal weather to help the Water Utility Industry rebound in 2004.

Increasingly Strict Regulations

In order to stay in compliance with the plethora of state and local regulations put in place to ensure the health levels of drinking water, the Water Utility Industry continues to face stricter purification standards. Amended in 1996, the Safe Drinking Water Act (SDWA) of 1974 authorizes the Environmental Protection Agency (EPA) to work with state and local governments to periodically test for impurities in drinking water and to regulate the levels of contaminants that are acceptable per a specified amount of water. These standards take into account the health effects of chemicals, measurement capabilities, and technical feasibility. One of the most significant contaminants that the industry screens for is arsenic, a naturally occurring substance. These laws and regulations are likely to continue to grow more stringent as the threat of bioterrorism against our water pipelines has already prompted officials to tighten regu-

lation requirements.

Rising Infrastructure Costs

Water companies are also feeling the pressure to maintain and even to upgrade aging facilities. Indeed, many water/wastewater systems that are presently in use were built over 100 years ago and are outdated. The costs associated with replacing these systems continue to grow and, according to the EPA, are expected to venture into the hundreds of billions of dollars over the next 20 years. Given the astronomical expenses, it appears that long-term relief from the federal government is needed. Nevertheless, for now, state and local funding woes will probably leave the water companies to cover most of the expenses.

Rapid Consolidation

The rising costs associated with water purification and facility upgrades are straining many of the smaller companies in the water industry that do not have sufficient cash flow and liquidity to foot the bill for the costly improvements. Therefore, the industry has seen massive consolidation in recent years, as the smaller operations have been forced to sell to larger suitors with significantly greater capital resources. The larger utilities are benefiting from economies of scale, as well as enhanced geographic diversity. In turn, the companies are becoming less susceptible to state or region-specific problems and/or state requirements. *Aqua America*, which has been acquisition-friendly over the past few years, is on the cusp of buying Hester Utilities, which would likely increase its customer base fivefold in North Carolina.

Investment Advice

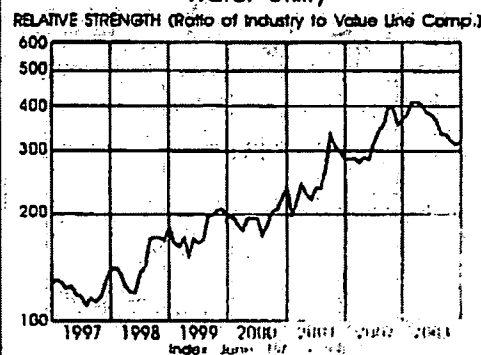
Growth-minded investors ought to look elsewhere. The water company stocks in this review are not timely and offer little capital gains appeal out to 2005-2008. However, attractive dividend yields may appeal to income-minded individuals. As always is the case, though, potential investors are advised to carefully review individual reports before making any new commitments to these issues.

Andre J. Costanza

Composite Statistics: Water Utility Industry

1999	2000	2001	2002	2003	2004		00-03
637.2	704.3	731.6	734.4	843	843	Revenues (\$Bn)	223
72.4	92.9	95.4	102.6	103	130	Net Profit (\$Bn)	160
40.0%	41.2%	40.2%	38.8%	41.8%	41.8%	Income Tax Rate	41.8%
...	...	...	...	...	...	AFUDC % to Net Profit	...
51.1%	50.3%	52.4%	53.9%	53.0%	51.8%	Long-Term Debt Ratio	51.8%
48.3%	49.3%	47.2%	45.9%	46.5%	46.5%	Common Equity Ratio	46.5%
1444.7	1681.0	1840.7	1972.6	2383	2545	Total Capital (\$Bn)	3053
2100.3	2342.3	2532.3	2731.1	3180	3370	Net Plant (\$Bn)	4000
7.4%	7.0%	6.8%	7.0%	6.5%	7.0%	Return on Total Cap'l	7.5%
11.5%	10.7%	10.6%	11.2%	8.5%	10.5%	Return on Eq. Equity	12.0%
11.5%	10.8%	10.7%	11.2%	8.5%	10.5%	Return on Com Equity	12.0%
3.8%	3.8%	3.3%	3.9%	3.0%	4.0%	Paid Div to Com Eq	3.3%
68%	67%	69%	68%	75%	69%	AD Div'ds to Net Profit	64%
18.5	16.8	22.8	21.5	24.8		Avg Ann'l P/E Ratio	32.5
1.11	1.21	1.16	1.17	1.42		Relative P/E Ratio	.80
3.5%	3.5%	3.1%	3.1%	3.2		Avg Ann'l Div'd Yield	3.0%

Water Utility



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Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.

Earnings per Share

Docket #2014-346-WS

SECRET #2014-346-778

		\$ per share											
COMPANIES	YEARS	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water		\$0.39	\$0.53	\$0.66	\$0.67	\$0.81	\$0.78	\$0.81	\$1.11	\$1.12	\$1.41	\$1.61	\$1.57
American Water Works							\$1.10	\$1.25	\$1.53	\$1.72	\$2.11	\$2.06	\$2.39
Aqua America		\$0.46	\$0.51	\$0.57	\$0.56	\$0.57	\$0.58	\$0.62	\$0.72	\$0.83	\$0.87	\$1.16	\$1.20
Artesian Resources		\$0.64	\$0.72	\$0.81	\$0.97	\$0.90	\$0.86	\$0.97	\$1.00	\$0.83	\$1.13	\$0.94	\$1.07
California Water		\$0.61	\$0.73	\$0.74	\$0.67	\$0.75	\$0.95	\$0.98	\$0.91	\$0.86	\$1.02	\$1.02	\$1.19
Connecticut Water Service		\$1.15	\$1.16	\$0.88	\$0.81	\$1.05	\$1.11	\$1.19	\$1.13	\$1.13	\$1.53	\$1.66	\$1.92
Middlesex Water		\$0.61	\$0.73	\$0.71	\$0.82	\$0.87	\$0.89	\$0.72	\$0.96	\$0.84	\$0.90	\$1.03	\$1.13
SJW Corp.		\$0.91	\$0.87	\$1.12	\$1.19	\$1.04	\$1.08	\$0.81	\$0.84	\$1.11	\$1.18	\$1.12	\$2.54
York Water Co.		\$0.47	\$0.49	\$0.56	\$0.58	\$0.57	\$0.57	\$0.64	\$0.71	\$0.71	\$0.72	\$0.75	\$0.89

Source: Value Line, Exhibit DHC-2

		Year-over-Year Change Ratios											
COMPANIES	YEARS	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water			1.36	1.25	1.02	1.21	0.96	1.04	1.37	1.01	1.26	1.14	0.98
American Water Works								1.14	1.22	1.12	1.23	0.98	1.16
Aqua America			1.11	1.12	0.98	1.02	1.02	1.07	1.16	1.15	1.05	1.33	1.03
Artesian Resources			1.13	1.13	1.20	0.93	0.96	1.13	1.03	0.83	1.36	0.83	1.14
California Water			1.20	1.01	0.91	1.12	1.27	1.03	0.93	0.95	1.19	1.00	1.17
Connecticut Water Service			1.01	0.76	0.92	1.30	1.06	1.07	0.95	1.00	1.35	1.08	1.16
Middlesex Water			1.20	0.97	1.15	1.06	1.02	0.81	1.33	0.88	1.07	1.14	1.10
SJW Corp.			0.96	1.29	1.06	0.87	1.04	0.75	1.04	1.32	1.06	0.95	2.27
York Water Co.			1.04	1.14	1.04	0.98	1.00	1.12	1.11	1.00	1.01	1.04	1.19

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
Earnings per Share – Historical Summary
Docket #2014-346-WS

COMPANIES	10-yr. Averages		5-yr. Averages		3-Yr. Averages	
	Compound	Simple	Compound	Simple	Compound	Simple
American States Water	11.47%	12.26%	14.15%	15.11%	11.92%	12.53%
American Water Works			13.84%	14.23%	11.59%	12.11%
Aqua America	8.93%	9.35%	14.12%	14.60%	13.08%	13.87%
Artesian Resources	4.04%	5.26%	1.98%	3.85%	8.83%	11.05%
California Water	5.01%	5.63%	3.96%	4.53%	11.43%	11.76%
Connecticut Water Service	5.17%	6.50%	10.04%	10.90%	19.33%	19.85%
Middlesex Water	4.47%	5.42%	9.43%	10.43%	10.39%	10.43%
SJW Corp.	11.31%	16.51%	25.68%	32.77%	31.78%	42.67%
York Water Co.	6.15%	6.36%	6.82%	7.04%	7.82%	8.08%

							Average of
Means	7.07%	8.41%	11.11%	12.61%	14.02%	15.82%	Period
Medians	5.66%	6.43%	10.04%	10.90%	11.59%	12.11%	Averages
Average of Mean & Median		6.89%		11.17%		13.38%	10.48%

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
Earnings per Share – Estimates & Overall Summary
Docket #2014-346-WS

COMPANIES - YEARS		Value Line [*]		Zacks ²	Yahoo ¹	Reuters
COMPANIES	YEARS	\$'s	%'s			
American States Water	American States Water	2.15	7.24%	5.00%	5.00%	5.00%
American Water Works	American Water Works	3.25	7.07%	7.40%	7.50%	7.50%
Aqua America	Aqua America	1.65	7.33%	5.30%	5.00%	5.00%
Artesian Resources	Artesian Resources	1.30	8.10%	9.70%	4.00%	4.24%
California Water	California Water	1.55	6.05%	5.00%	5.00%	5.00%
Connecticut Water Service	Connecticut Water Service	2.25	3.59%	5.00%	5.00%	5.00%
Middlesex Water	Middlesex Water	1.35	4.03%	5.00%	2.70%	5.00%
SJW Corp.	SJW Corp.	1.75	-7.95%	4.40%	14.00%	6.58%
York Water Co.	York Water Co.	1.15	<u>5.86%</u>	<u>7.50%</u>	<u>4.90%</u>	<u>7.53%</u>
			4.59%	6.03%	5.90%	5.65%
			6.05%	5.00%	5.00%	5.00%
			<u>5.32%</u>	<u>5.52%</u>	<u>5.45%</u>	<u>5.33%</u>

COMPANIES - YEARS
American States Water
American Water Works
Aqua America
Artesian Resources
California Water
Connecticut Water Service
Middlesex Water
SJW Corp.
York Water Co.

^{*}Value Line, see Exhibit DHC-9; % = Compound Annual Growth Rate

¹"Yahoo" = Yahoo! Finance web site ²"Zacks" = Zacks web site

/ Estimated growth for this year over next

Average of estimates above: **5.40%**

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.

BVPS – Historical Data

Docket #2014-346-WS

		S per share											
COMPANIES	YEARS	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water		\$6.98	\$7.51	\$7.86	\$8.32	\$8.77	\$8.97	\$9.70	\$10.13	\$10.84	\$11.80	\$12.72	\$13.24
American Water Works							\$25.64	\$22.91	\$23.59	\$24.11	\$25.11	\$26.52	\$27.39
Aqua America		\$4.27	\$4.71	\$5.04	\$5.57	\$5.85	\$6.26	\$6.50	\$6.81	\$7.21	\$7.90	\$8.63	\$9.27
Artesian Resources		\$9.01	\$9.26	\$9.60	\$10.15	\$11.66	\$11.86	\$12.15	\$12.44	\$13.12	\$13.57	\$13.80	\$14.09
California Water		\$7.22	\$7.83	\$7.90	\$9.07	\$9.25	\$9.72	\$10.13	\$10.45	\$10.76	\$11.28	\$12.54	\$13.11
Connecticut Water Service		\$10.46	\$10.94	\$11.52	\$11.60	\$11.95	\$12.23	\$12.67	\$13.05	\$13.50	\$20.95	\$17.92	\$18.83
Middlesex Water		\$7.60	\$8.02	\$8.26	\$9.52	\$10.05	\$10.03	\$10.33	\$11.13	\$11.27	\$11.48	\$11.82	\$12.24
SJW Corp.		\$9.11	\$10.11	\$10.72	\$12.48	\$12.90	\$13.99	\$13.66	\$13.75	\$14.20	\$14.71	\$15.92	\$17.75
York Water Co.		\$4.06	\$4.65	\$4.85	\$5.84	\$5.97	\$6.14	\$6.92	\$7.19	\$7.45	\$7.73	\$7.98	\$8.15

Source: Value Line, Exhibit DHC-2

		Ratios of Change over Previous Year										
COMPANIES	YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water		1.08	1.05	1.06	1.05	1.02	1.08	1.04	1.07	1.09	1.08	1.04
American Water Works							0.89	1.03	1.02	1.04	1.06	1.03
Aqua America		1.10	1.07	1.11	1.05	1.07	1.04	1.05	1.06	1.10	1.09	1.07
Artesian Resources		1.03	1.04	1.06	1.15	1.02	1.02	1.02	1.05	1.03	1.02	1.02
California Water		1.08	1.01	1.15	1.02	1.05	1.04	1.03	1.03	1.05	1.11	1.05
Connecticut Water Service		1.05	1.05	1.01	1.03	1.02	1.04	1.03	1.03	1.55	0.86	1.05
Middlesex Water		1.06	1.03	1.15	1.06	1.00	1.03	1.08	1.01	1.02	1.03	1.04
SJW Corp.		1.11	1.06	1.16	1.03	1.08	0.98	1.01	1.03	1.04	1.08	1.11
York Water Co.		1.15	1.04	1.20	1.02	1.03	1.13	1.04	1.04	1.04	1.03	1.02

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.

Book Value per Share – Historical Summary, Estimates & Overall Summary

Docket #2014-346-WS

COMPANIES	10-yr Averages		5-yr Averages		3-Yr Averages	
	Compound	Simple	Compound	Simple	Compound	Simple
American States Water	5.83%	5.85%	6.42%	6.44%	6.89%	6.91%
American Water Works			3.64%	3.64%	4.34%	4.35%
Aqua America	7.01%	7.03%	7.36%	7.37%	8.74%	8.74%
Artesian Resources	4.29%	4.35%	3.02%	3.02%	2.41%	2.41%
California Water	5.29%	5.37%	5.29%	5.33%	6.81%	6.85%
Connecticut Water Service	5.58%	6.72%	8.25%	10.45%	11.73%	15.27%
Middlesex Water	4.32%	4.40%	3.45%	3.48%	2.79%	2.79%
SJW Corp.	5.76%	5.60%	2.66%	2.72%	2.50%	2.51%
York Water Co.	7.08%	7.59%	5.30%	5.37%	3.76%	3.76%
Means	5.64%	5.86%	5.04%	5.31%	5.55%	5.95%
Medians	5.67%	5.73%	5.29%	5.33%	4.34%	4.35%
Average of Mean & Median		5.73%		5.25%		5.05%

Average of
Period
Averages
5.34%

EXHIBIT DHC-4

Page 3 of 3

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
BVPS -- Estimates & Summary
Docket #2014-346-WS

COMPANIES	Value Line ^a	
	\$	%
American States Water	\$15.45	3.49%
American Water Works	\$34.55	5.30%
Aqua America	\$11.40	4.70%
Artesian Resources		
California Water	\$16.00	4.53%
Connecticut Water Service	\$24.15	5.69%
Middlesex Water	\$14.30	3.52%
SJW Corp.	\$21.30	4.13%
York Water Co.	\$9.60	3.71%
		4.38%
		4.38%
		4.38%

*Source: Exhibit DHC-2

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
Sales/Revenues -- Historical Data

Docket #2014-346-WS

\$-000,000's

COMPANIES YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water	\$228.00	\$236.20	\$268.60	\$301.40	\$318.70	\$361.00	\$398.90	\$419.30	\$466.90	\$472.10	\$465.80
American Water Works					\$2,336.90	\$2,440.70	\$2,710.70	\$2,666.20	\$2,876.90	\$2,901.90	\$3,011.30
Aqua America	\$442.00	\$496.80	\$533.50	\$602.50	\$627.00	\$670.50	\$726.10	\$712.00	\$757.80	\$768.60	\$779.90
Artesian Resources	\$39.60	\$45.30	\$47.30	\$52.59	\$56.20	\$60.90	\$64.90	\$65.10	\$70.60	\$69.10	\$72.50
California Water	\$315.60	\$320.70	\$334.70	\$367.10	\$410.30	\$449.40	\$460.40	\$501.80	\$560.00	\$584.10	\$597.50
Connecticut Water Service	\$48.50	\$47.50	\$46.90	\$59.00	\$61.30	\$59.40	\$66.40	\$69.40	\$83.80	\$91.50	\$94.00
Middlesex Water	\$71.00	\$74.60	\$81.10	\$86.10	\$91.00	\$91.20	\$102.70	\$102.10	\$110.40	\$114.80	\$117.10
SJW Corp.	\$166.90	\$180.10	\$189.20	\$206.60	\$220.30	\$216.10	\$215.60	\$239.00	\$261.60	\$276.90	\$319.70
York Water Co.	\$22.50	\$26.80	\$28.70	\$31.40	\$32.80	\$37.00	\$39.00	\$40.60	\$41.40	\$42.40	\$45.90

Source: Value Line, Exhibit DHC-2

Ratios of Change over Previous Year

COMPANIES YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water	1.07	1.04	1.14	1.12	1.06	1.13	1.10	1.05	1.11	1.01	0.99
American Water Works						1.04	1.11	0.98	1.08	1.01	1.04
Aqua America	1.20	1.12	1.07	1.13	1.04	1.07	1.08	0.98	1.06	1.01	1.01
Artesian Resources	1.09	1.14	1.04	1.11	1.07	1.08	1.07	1.00	1.08	0.98	
California Water	1.14	1.02	1.04	1.10	1.12	1.10	1.02	1.09	1.12	1.04	1.02
Connecticut Water Service	1.03	0.98	0.99	1.26	1.04	0.97	1.12	1.05	1.21	1.09	1.03
Middlesex Water	1.11	1.05	1.09	1.06	1.06	1.00	1.13	0.99	1.08	1.04	1.02
SJW Corp.	1.11	1.08	1.05	1.09	1.07	0.98	1.00	1.11	1.09	1.06	1.15
York Water Co.	1.08	1.19	1.07	1.09	1.04	1.13	1.05	1.04	1.02	1.02	1.08

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
Sales/Revenues -- Historical Summary

Docket #2014-346-WS

COMPANIES	10-yr. Averages		5-yr. Averages		3-Yr. Averages		
	Compound	Simple	Compound	Simple	Compound	Simple	
American States Water	7.41%	7.53%	5.23%	5.35%	3.57%	3.71%	
American Water Works			4.29%	4.39%	4.14%	4.18%	
Aqua America	5.84%	5.94%	3.07%	3.14%	3.08%	3.11%	
Artesian Resources	6.38%	6.49%	3.21%	3.30%	3.03%	3.16%	
California Water	6.59%	6.66%	5.86%	5.93%	5.99%	6.07%	
Connecticut Water Service	6.84%	7.22%	9.61%	9.79%	10.64%	10.89%	
Middlesex Water	5.13%	5.20%	5.13%	5.23%	4.68%	4.71%	
SJW Corp.	6.72%	6.83%	8.15%	8.28%	10.18%	10.25%	
York Water Co.	7.39%	7.50%	4.41%	4.43%	4.17%	4.21%	
Means	6.54%	6.67%	5.44%	5.54%	5.50%	5.59%	Period
Medians	6.65%	6.74%	5.13%	5.23%	4.17%	4.21%	Averages
Average of Mean & Median		6.65%		5.33%		4.87%	5.62%

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
Sales/Revenues — Estimates & Overall Summary

Docket #2014-346-WS

COMPANIES	Value Line		Yahoo	Reuters
	S's	%s		
American States Water	575	4.79%	3.80%	3.82%
American Water Works	3960	6.28%	4.70%	4.73%
Aqua America	970	4.97%	6.00%	6.05%
Artesian Resources			4.50%	4.45%
California Water	840	7.86%	4.60%	4.62%
Connecticut Water Service	150	10.94%	5.40%	5.42%
Middlesex Water	155	6.43%	2.88%	3.34%
SJW Corp.	405	5.40%	5.20%	5.22%
York Water Co.	57	4.93%	3.50%	3.53%
		6.45%	4.51%	4.58%
		5.84%	4.60%	4.62%
		6.14%	4.55%	4.60%
			7/8/15	7/10/15

*numbers in the left column are actual predictions

*"Yahoo"=Yahoo!Finance web site; 1-year estimates

Average of averages above: 5.10%

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.

DPS -- Historical Data

Docket #2014-346-WS

		S per share										
COMPANIES	YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water		\$0.44	\$0.45	\$0.46	\$0.48	\$0.50	\$0.51	\$0.52	\$0.55	\$0.64	\$0.76	\$0.83
American Water Works						\$0.80	\$0.82	\$0.86	\$0.91	\$0.96	\$0.84	\$1.21
Aqua America		\$0.29	\$0.32	\$0.35	\$0.38	\$0.41	\$0.44	\$0.47	\$0.50	\$0.54	\$0.58	\$0.63
Artesian Resources		\$0.55	\$0.58	\$0.61	\$0.66	\$0.71	\$0.72	\$0.75	\$0.76	\$0.79	\$0.82	\$0.85
California Water		\$0.57	\$0.57	\$0.58	\$0.58	\$0.59	\$0.59	\$0.60	\$0.62	\$0.63	\$0.64	\$0.65
Connecticut Water Service		\$0.84	\$0.85	\$0.86	\$0.87	\$0.88	\$0.90	\$0.92	\$0.94	\$0.96	\$0.98	\$1.01
Middlesex Water		\$0.66	\$0.67	\$0.68	\$0.69	\$0.70	\$0.71	\$0.72	\$0.73	\$0.74	\$0.75	\$0.76
SJW Corp.		\$0.51	\$0.53	\$0.57	\$0.61	\$0.65	\$0.66	\$0.68	\$0.69	\$0.71	\$0.73	\$0.75
York Water Co.		\$0.39	\$0.42	\$0.45	\$0.48	\$0.49	\$0.51	\$0.52	\$0.53	\$0.54	\$0.55	\$0.57

Note: American Water Works began paying dividends in mid-2008, after it became publicly traded; these are pro-rated to a full year.

Source: Exhibit DHC-2

		Ratios of Change over Previous Year										
COMPANIES	YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water		1.00	1.02	1.02	1.04	1.04	1.02	1.02	1.06	1.16	1.19	1.09
American Water Works							1.03	1.05	1.06	1.05	0.88	1.44
Aqua America			1.10	1.09	1.09	1.08	1.07	1.07	1.06	1.08	1.07	1.09
Artesian Resources		1.04	1.05	1.05	1.08	1.08	1.01	1.04	1.01	1.04	1.04	1.04
California Water		1.02	1.00	1.02	1.00	1.02	1.00	1.02	1.03	1.02	1.02	1.02
Connecticut Water Service		1.01	1.01	1.01	1.01	1.01	1.02	1.02	1.02	1.02	1.02	1.03
Middlesex Water		1.02	1.02	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01
SJW Corp.		1.04	1.04	1.08	1.07	1.07	1.02	1.03	1.01	1.03	1.03	1.03
York Water Co.		1.05	1.08	1.07	1.07	1.02	1.04	1.02	1.02	1.01	1.03	1.04

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
DPS -- Historical Data Summary

Docket #2014-346-WS

COMPANIES	10-yr Averages		5-yr Averages		3-Yr. Averages		
	Compound	Simple	Compound	Simple	Compound	Simple	
American States Water	6.55%	6.71%	10.23%	10.41%	14.70%	14.77%	
American Water Works			8.09%	9.55%	9.96%	12.35%	
Aqua America	8.07%	8.07%	7.44%	7.45%	8.01%	8.01%	
Artesian Resources	4.45%	4.47%	3.38%	3.38%	3.80%	3.80%	
California Water	1.32%	1.33%	1.96%	1.96%	1.59%	1.59%	
Connecticut Water Service	1.86%	1.86%	2.33%	2.33%	2.42%	2.42%	
Middlesex Water	1.42%	1.42%	1.37%	1.37%	1.35%	1.35%	
SJW Corp.	3.93%	3.95%	2.59%	2.59%	2.82%	2.82%	
York Water Co.	3.87%	3.89%	2.25%	2.25%	2.45%	2.46%	
Means	3.93%	3.96%	4.40%	4.59%	5.23%	5.51%	Period
Medians	3.90%	3.92%	2.59%	2.59%	2.82%	2.82%	Averages
Average of Mean & Median		3.93%		3.54%	4.09%	3.86%	

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
DPS -- Estimates & Summary
Docket #2014-346-WS

COMPANIES	DPS Projection*	Compound %
American States Water	1.12	6.89%
American Water Works	1.70	7.85%
Aqua America	0.98	10.32%
Artesian Resources		
California Water	0.97	9.30%
Connecticut Water Service	1.30	5.77%
Middlesex Water	0.85	2.52%
SJW Corp.	1.05	7.76%
York Water Co.	0.79	7.52%
	Mean	7.24%
	Median	7.64%
	Average of Mean & Median	7.44%

Average of Historical & Projected DPS Growth 5.65%

*Source: Exhibit DHC-2

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.

DCF Summary
Docket #2014-346-WS

<u>Indicator</u>	<u>Historical</u>	<u>Estimates</u>	<u>Average of Historical and Estimates</u>	<u>Source</u>
EPS	10.48%	5.40%	7.94%	Exhibit DHC-3
BVPS	5.34%	4.38%	4.86%	Exhibit DHC-4
Sales/Rev.	5.62%	5.10%	5.36%	Exhibit DHC-5
DPS	3.86%	7.44%	<u>5.65%</u>	Exhibit DHC-6
			5.95%	Calculated average/mean
			3.55%	Exhibit DHC-1
			<u>0.21%</u>	Calculated, multiplication of above two lines
			<u>9.71%</u>	DCF Recommendation

Note: 3.55% + 0.21 = 3.76%

2 ■ BLUE CHIP FINANCIAL FORECASTS ■ AUGUST 1, 2015

Consensus Forecasts Of U.S. Interest Rates And Key Assumptions¹

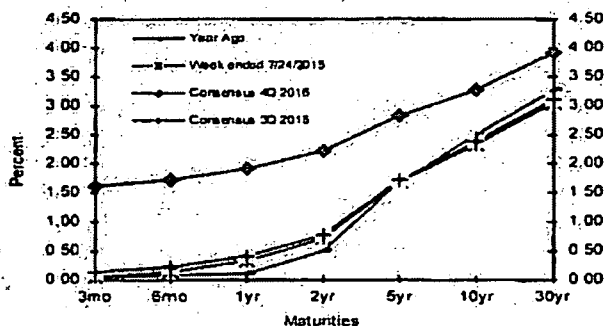
Interest Rates	History				Average For Week Ending				Average For Month				Consensus Forecasts-Quarterly Avg.					
	July 24	July 17	July 10	July 3	Jun.	May	Apr.	Latest Q	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	2015	2016	2016
Federal Funds Rate	0.13	0.13	0.13	0.12	0.13	0.12	0.12	0.12	0.12	0.2	0.5	0.7	1.0	1.3	1.6	0.2	0.5	0.7
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.3	3.5	3.8	4.1	4.4	4.7	3.3	3.5	3.8
LIBOR, 3-mo.	0.30	0.30	0.29	0.28	0.28	0.28	0.28	0.28	0.28	0.4	0.6	1.0	1.3	1.6	1.9	0.4	0.6	1.0
Commercial Paper, 1-mo.	0.08	0.08	0.09	0.09	0.09	0.02	0.07	0.06	0.06	0.2	0.4	0.8	1.1	1.5	1.8	0.2	0.4	0.8
Treasury bill, 3-mo.	0.04	0.02	0.02	0.01	0.02	0.02	0.02	0.02	0.02	0.1	0.4	0.7	1.0	1.3	1.6	0.1	0.4	0.7
Treasury bill, 6-mo.	0.13	0.10	0.08	0.11	0.09	0.08	0.09	0.09	0.09	0.2	0.5	0.8	1.1	1.4	1.7	0.2	0.5	0.8
Treasury bill, 1 yr.	0.33	0.28	0.26	0.27	0.28	0.24	0.23	0.25	0.25	0.4	0.7	1.0	1.3	1.6	1.9	0.4	0.7	1.0
Treasury note, 2 yr.	0.72	0.67	0.60	0.65	0.69	0.61	0.54	0.61	0.61	0.8	1.1	1.4	1.7	1.9	2.2	0.8	1.1	1.4
Treasury note, 5 yr.	1.68	1.67	1.57	1.65	1.68	1.54	1.35	1.52	1.52	1.7	1.9	2.2	2.4	2.6	2.8	1.7	1.9	2.2
Treasury note, 10 yr.	2.32	2.38	2.31	2.38	2.36	2.20	1.94	2.17	2.17	2.4	2.6	2.8	2.9	3.1	3.3	2.4	2.6	2.8
Treasury note, 30 yr.	3.03	3.15	3.08	3.15	3.11	2.96	2.59	2.89	2.89	3.1	3.3	3.4	3.6	3.8	3.9	3.1	3.3	3.4
Corporate Aaa bond	4.13	4.22	4.15	4.23	4.19	3.98	3.52	3.90	3.90	4.1	4.3	4.5	4.7	4.8	5.0	4.1	4.3	4.5
Corporate Baa bond	5.18	5.27	5.17	5.22	5.13	4.89	4.48	4.83	4.83	5.1	5.2	5.4	5.5	5.7	5.8	5.1	5.2	5.4
State & Local bonds	3.75	3.82	3.76	3.85	3.82	3.76	3.51	3.70	3.70	3.8	4.0	4.2	4.4	4.5	4.6	3.8	4.0	4.2
Home mortgage rate	4.04	4.09	4.04	4.08	3.98	3.84	3.67	3.83	3.83	4.1	4.3	4.5	4.7	4.9	5.1	4.1	4.3	4.5

Key Assumptions	History				Average For Week Ending				Average For Month				Consensus Forecasts-Quarterly					
	2013	2013	2014	2014	2014	2014	2015	2015	2015	2015	2015	2015	2015	2016	2016	2016	2016	2016
Major Currency Index	76.7	76.0	77.1	76.6	77.8	82.6	89.4	89.9	89.9	91.4	92.3	92.6	92.6	92.6	92.6	92.4	91.4	92.3
Real GDP	3.0	3.8	-0.9	4.6	4.3	2.1	0.6	2.3	2.3	3.1	3.0	2.6	2.7	2.7	2.7	2.7	3.1	3.0
GDP Price Index	2.0	1.8	1.5	2.2	1.6	0.1	0.1	2.0	2.0	1.8	1.7	1.9	2.0	2.0	2.1	2.1	1.8	1.7
Consumer Price Index	2.3	1.4	2.1	2.4	1.2	-0.9	-3.1	3.0	3.0	2.0	1.9	2.1	2.3	2.4	2.4	2.4	2.0	1.9

Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Interest rate definitions are same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for Fed's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS).

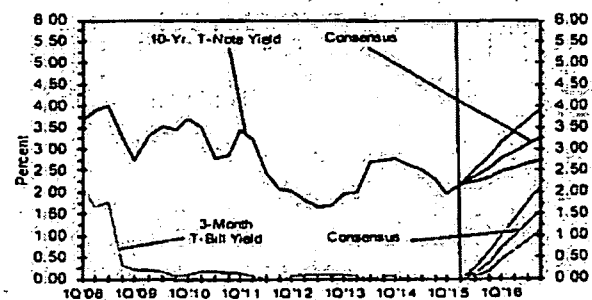
U.S. Treasury Yield Curve

Week ended July 24, 2015 and Year Ago vs.
3Q 2015 and 4Q 2016 Consensus Forecasts



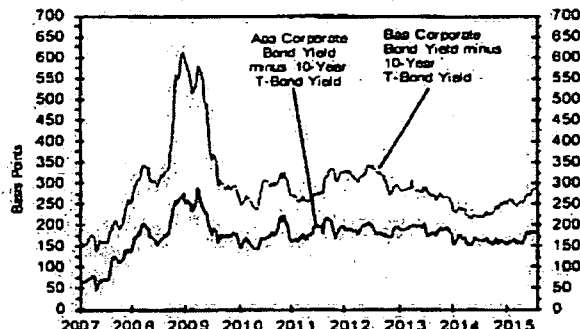
U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield

(Quarterly Average) Forecast



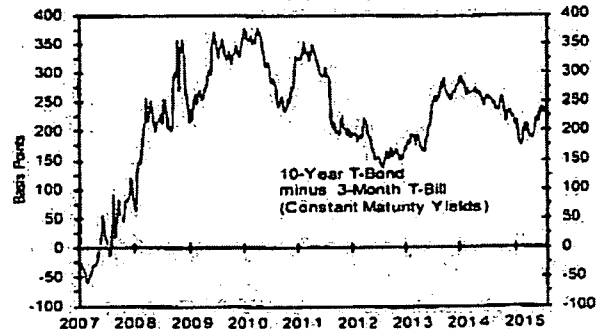
Corporate Bond Spreads

As of week ended July 24, 2015



U.S. Treasury Yield Curve

As of week ended July 24, 2015



Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
CAP-M Calculation
Docket #2014-346-WS

<u>Deciles of Company</u> <u>Size</u>	<u>Compound Annual</u> <u>Growth Rate (%)</u>	<u>Quarter in Blue</u> <u>Chip Forecast</u>	<u>30-Yr. Treasury</u> <u>Bond Rate</u>
Largest: 1	9.3		
2	10.7	2Q 2015	2.89
3	11.1	3Q 2015	3.10
4	11.1	4Q 2015	3.30
5	11.6	1Q 2016	3.40
6	11.6	2Q 2016	3.60
7	11.6	3Q 2016	3.80
8	11.8	4Q 2016	3.90
9	11.9		
Smallest: 10	13.4		
Average	11.4		

$$K = R_f + ((R_m - R_f) * \beta)$$

$$K = 3.9 + ((11.4 - 3.9) * .72)$$

$$K = 3.9 + (7.5 * .72)$$

$$K = 9.30$$

@ 3.9% T-BOND

Sources:

Long-Term stock returns from 2014 Ibbotson SBBi Classic Yearbook, p.100

30-Year Treasury Bond projected interest rate: Blue Chip Financial Forecasts, Exhibit DHC-8

β is from Exhibit DHC-1

COMPARABLE EARNINGS METHOD

Company Name	Ticker	Beta	Book Value 10 Yr Growth Rate	Book Value Proj 3 To 5 Year Growth Rate	Industry	Beta 10- Year
1 Lancaster Colony Corporation	LANC	0.75	2.50	5.00	Household Products	0.46
2 Suburban Propane	SPH	0.65	25.00	-4.00	Pipeline MLPs	0.46
3 Plains All American Pipeline	PAA	0.75	13.50	4.00	Pipeline MLPs	0.47
4 PepsiCo Inc	PEP	0.65	9.50	10.00	Beverage	0.47
5 Vertex Pharmaceuticals Inc	VRTX	0.80	0.50	23.50	Biotechnology	0.48
6 Hormel Foods Corporation	HRL	0.70	10.50	11.00	Food Processing	0.48
7 Colgate Palmolive Co	CL	0.70	34.00	10.50	Household Products	0.49
8 Kellogg Company	K	0.60	10.50	17.50	Food Processing	0.49
9 McCormick and Co	MKC	0.70	12.00	9.50	Food Processing	0.49
10 O'Reilly Automotive Inc	ORLY	0.65	12.00	12.00	Retail Automotive	0.50
11 McDonalds Corp	MCD	0.60	6.00	2.50	Restaurant	0.50
12 WR Berkley Corp	WRB	0.70	16.00	8.50	Insurance (Prop/Cas.)	0.51
13 Questar Corp	STR	0.80	-1.50	7.00	Natural Gas (Div.)	0.51
14 Magellan Health Inc	MGLN	0.75	21.50	16.50	Medical Services	0.51
15 Actavis Plc New	ACT	0.80	6.00	26.50	Drug	0.52
16 Village Super Market Inc	VLGEA	0.80	7.50	6.50	Retail/Wholesale Food	0.52
17 Procter and Gamble Co	PG	0.60	16.00	7.00	Household Products	0.52
18 National Bank of Canada	NA.TO	0.70	7.50	9.00	Bank	0.52
19 Altria Group Inc	MO	0.60	-16.00	13.00	Tobacco	0.52
20 Verizon Communications Inc	VZ	0.70	-0.50	5.00	Telecom. Services	0.52
21 Edwards Lifesciences	EW	0.80	11.00	17.00	Med Supp Invasive	0.53
22 Goldcorp Inc	GG	0.80	30.50	5.00	Precious Metals	0.53
23 Coca Cola Company	KO	0.70	11.00	5.50	Beverage	0.53
24 Myriad Genetics Inc	MYGN	0.80	12.00	15.50	Biotechnology	0.54
25 Monro Muffler Brake Inc	MNRO	0.70	10.50	14.50	Retail Automotive	0.54
26 RLI Corp	RLI	0.80	7.00	8.50	Insurance (Prop/Cas.)	0.54
27 Renaissance Holdings Ltd	RNR	0.70	12.50	19.50	Reinsurance	0.54
28 Amgen Inc	AMGN	0.80	8.50	13.50	Biotechnology	0.55
29 Coca Cola Bottling Company	COKE	0.70	15.00	21.50	Beverage	0.55
30 Arch Cap Group Ltd	ACGL	0.65	16.00	9.50	Insurance (Prop/Cas.)	0.55
31 Novartis AG	NVS	0.75	11.00	4.00	Drug	0.55
32 FTI Consulting Inc	FCN	0.80	19.00	8.50	Industrial Services	0.56
33 Johnson and Johnson	JNJ	0.75	11.00	9.50	Med Supp Non-Invasive	0.56
34 Kroger Co	KR	0.75	5.50	14.00	Retail/Wholesale Food	0.56
35 Waste Connections	WCN	0.70	12.00	8.50	Environmental	0.56
36 Concurrent Computer Corp	CCUR	0.75	-12.00	-13.50	Entertainment Tech	0.56
37 Silgan Holdings Inc	SLGN	0.80	27.50	14.50	Packaging & Container	0.56
38 Laboratory Corp	LH	0.80	10.00	14.00	Medical Services	0.56
39 Chubb Corp	CB	0.80	11.50	7.00	Insurance (Prop/Cas.)	0.57
40 Frisch's Restaurants Inc	FRS	0.60	3.50	10.00	Restaurant	0.57
41 Alleghany Corp	Y	0.70	6.50	5.50	Insurance (Prop/Cas.)	0.57
42 AT&T	T	0.75	5.00	5.50	Telecom. Services	0.57
43 Papa John's International Inc	PZZA	0.75	7.00	16.00	Restaurant	0.58
44 Bristol Myers Squibb Co	BMJ	0.75	6.00	5.00	Drug	0.59
45 Perrigo Company Plc Ireland	PRGO	0.80	18.50	13.50	Drug	0.59
46 Everest Re Group Ltd	RE	0.75	12.00	7.00	Reinsurance	0.60
47 AstraZeneca PLC	AZN	0.80	11.00	3.00	Drug	0.61
48 JM Smucker Company	SJM	0.70	9.50	5.00	Food Processing	0.61

COMPARABLE EARNINGS METHOD

Company Name	Ticker	Beta	Book Value	Book Value	Industry	Beta 10-Year
			10 Yr Growth Rate	Proj. 3 To 5 Year Growth Rate		
49 PartnerRe Ltd	PRE	0.75	11.50	10.50	Reinsurance	0.61
50 Caseys General Stores Inc	CASY	0.70	7.00	18.50	Retail/Wholesale Food	0.61
51 Canadian Tire Corp (Class A)	CTCA.TO	0.70	10.00	8.50	Retail Automotive	0.61
52 American Tower Corporation	AMT	0.80	-1.50	8.50	Wireless Networking	0.61
53 Reynolds American Inc	RAI	0.65	-5.00	5.50	Tobacco	0.61
54 TJX Companies Inc	TJX	0.75	14.00	16.00	Retail (Softlines)	0.62
55 GlaxoSmithKline PLC	GSK	0.80	1.50	5.00	Drug	0.63
56 Advisory Board Company	ABCO	0.80	19.50	8.00	Information Services	0.64
57 WestJet Airlines Ltd	WJA.TO	0.75	11.50	9.50	Air Transport	0.64
58 World Wrestling Entertainment	WWE	0.80	-3.00	2.50	Entertainment	0.64
59 Bio-Techne Corp.	TECH	0.80	13.00	15.50	Biotechnology	0.65
60 ConAgra Foods Inc	CAG	0.70	3.50	8.50	Food Processing	0.65
61 Sherwin Williams	SHW	0.75	5.50	18.50	Retail Building Supply	0.66
62 Ecolab Inc	ECL	0.80	17.50	11.00	Chemical (Specialty)	0.67
63 Eli Lilly and Co	LLY	0.80	6.00	7.00	Drug	0.67
64 Snyders Lance Inc	LNCE	0.80	7.50	4.00	Food Processing	0.67
65 Costco Wholesale Corporation	COST	0.75	6.50	7.50	Retail Store	0.67
66 Merck and Co Inc	MRK	0.75	9.00	1.00	Drug	0.68
67 Wilhelmnia International Inc New	WHLM	0.65	-11.50	-13.50	Advertising	0.68
68 Erie Indemnity Company	ERIE	0.75	1.50	5.50	Insurance (Prop/Cas.)	0.69
69 Advance Auto Parts	AAP	0.75	14.00	19.50	Retail Automotive	0.70
70 Market Corp	MKL	0.65	12.50	5.00	Insurance (Prop/Cas.)	0.70
71 Becton Dickinson and Company	BDX	0.75	9.00	11.50	Med Supp Invasive	0.70
72 Aspen Insurance Holdings Limited	AHL	0.75	8.00	12.50	Reinsurance	0.70
73 Northwest Bancshares Inc	NWBI	0.70	15.00	1.50	Thrift	0.70
74 Wels Markets	WMK	0.70	4.00	5.50	Retail/Wholesale Food	0.71
75 AmerisourceBergen Corp	ABC	0.75	3.00	7.50	Med Supp Non-Invasive	0.71
76 Bank of Nova Scotia	BNS.TO	0.70	8.50	9.50	Bank	0.71
77 Ross Stores Inc	ROST	0.75	14.50	17.50	Retail (Softlines)	0.71
78 WD 40 Co	WDFO	0.80	7.00	8.50	Household Products	0.73
79 Royal Bank of Canada	RY.TO	0.70	8.00	8.00	Bank	0.73
80 Ball Corp	BLL	0.80	11.50	16.50	Packaging & Container	0.73
81 H and R Block Inc	HRB	0.80	0.50	1.00	Financial Svcs. (Div.)	0.73
82 Bank of Montreal	BMO.TO	0.75	7.00	7.00	Bank	0.74
83 CenturyLink Inc	CTL	0.75	4.00	2.00	Telecom. Utility	0.74
84 Carters Inc	CRI	0.80	24.50	11.50	Apparel	0.74
85 J and J Snack Foods Corp	JJSF	0.80	10.50	7.00	Food Processing	0.74
86 Mercury General Corp	MCY	0.65	5.50	2.00	Insurance (Prop/Cas.)	0.75
87 Sysco Corp	SYF	0.75	9.50	6.50	Retail/Wholesale Food	0.76
88 The Travelers Companies Inc	TRV	0.80	10.00	8.50	Insurance (Prop/Cas.)	0.76
89 Endurance Specialty Holdings Ltd	ENH	0.80	9.50	8.50	Reinsurance	0.76
90 Toronto Dominion Bank	TD.TO	0.70	10.50	6.00	Bank	0.76
91 McKesson Corp	MCK	0.75	8.00	13.50	Med Supp Non-Invasive	0.79
92 Copart Inc	CPRT	0.80	7.00	21.50	Retail Automotive	0.79
93 Lions Gate Entertainment Corp	LGF	0.70	7.50	42.00	Entertainment	0.80
94 BCE Inc	BCE	0.70	2.50	6.00	Telecom. Utility	0.80
95 Canadian Imperial Bank of Commerce	CM.TO	0.65	3.80	9.50	Bank	0.81
96 Safeway Inc	SWY	0.75	6.00	1.50	Retail/Wholesale Food	0.83
97 Dean Foods Company New	DF	0.70	-10.50	17.50	Food Processing	0.84

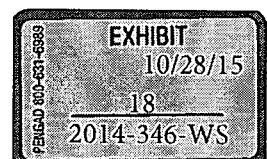
COMPARABLE EARNINGS METHOD

Company Name	Ticker	Beta	Book Value	Book Value	Industry	Beta 10: Year
			10 Yr Growth Rate	Proj 3 To 5 Year Growth Rate		
98 Nike Inc	NKE	0.80	12.00	13.50	Shoe	0.84
99 Forrester Research Inc	FORR	0.70	2.50	9.50	Information Services	0.85
100 Axis Capital Holdings Ltd	AXS	0.75	21.50	7.50	Reinsurance	0.86
101 Netflix Inc	NFLX	0.80	22.50	25.50	Internet	0.87
102 Wright Medical Group Inc	WMGI	0.80	7.00	-2.50	Med Supp Invasive	0.89
103 CAE Inc	CAE.TO	0.75	3.00	8.00	Aerospace/Defense	0.89
104 Target Corp	TGT	0.70	10.50	5.50	Retail Store	0.90
105 Arthur J Gallagher and Company	AJG	0.80	9.00	11.50	Financial Svcs. (Div.)	0.90
106 Open Text Corp	OTEX	0.80	18.50	13.00	E-Commerce	0.90
	mean	0.74	9.08	9.53		0.64
	median	0.75	9.25	8.50		0.62
		0.74	9.16	9.01		0.63
Average of Means and Medians						9.09
within range of water companies with traded stock	low β		6.25	6.14		
	medium β		8.67	8.59		
	high β		10.81	10.75		
			8.58	8.83		
Average of β ranges						8.70
Running average						8.89
			0.69	0.68		
			6.74	7.46		
			1.20	1.19		
Weighted averages			8.64	9.34		
Average of weighted averages			8.79	9.06	8.93	
Overall CEM ROE					8.91	

Daufuske Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Combined Operations

Audit Exhibit ICG-1
Page 1 of 1

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>OPERATING REVENUE</u>					
Residential revenue	307,239	4,913 1a	312,152	363,937 18a	676,089
Commercial Revenue	151,056	(4,780) 1b	146,276	135,500 18b	281,776
Irrigation Revenue	98,309	883 1c	99,192	101,988 18c	201,180
Availability Billing	489,665	(3,905) 2	485,760	482,793 19	968,553
Misc. Other Revenue	30,193	4 3	30,197	19,568 20	49,765
<u>TOTAL OPERATING REVENUE</u>	<u>1,076,462</u>	<u>(2,885)</u>	<u>1,073,577</u>	<u>1,103,786</u>	<u>2,177,363</u>
<u>OPERATION AND MAINTENANCE EXPENSES</u>					
Operation and Maintenance Expenses	848,818	(31,228) 4	817,590	108,349 21	925,939
<u>TOTAL OPERATION AND MAINTENANCE EXPENSES</u>	<u>848,818</u>	<u>(31,228)</u>	<u>817,590</u>	<u>108,349</u>	<u>925,939</u>
Depreciation and Amortization Expense	73,072	(2,002) 5	71,070	0	71,070
Amortization of Rate Case Expenses	92,420	(42,308) 6	50,112	0	50,112
Taxes Other than Income Tax Expense	23,440	139,849 7	163,289	9,455 22	172,744
Income Tax Expense	0	0 8	0	311,934 23	311,934
<u>TOTAL OPERATING EXPENSES</u>	<u>1,037,750</u>	<u>64,311</u>	<u>1,102,061</u>	<u>429,738</u>	<u>1,531,799</u>
<u>NET OPERATING INCOME</u>	<u>38,712</u>	<u>(67,196)</u>	<u>(28,484)</u>	<u>674,048</u>	<u>645,564</u>
Add: Customer Growth	0	63 9	63	2,200 24	2,263
<u>NET INCOME (LOSS) FOR RETURN</u>	<u>38,712</u>	<u>(67,133)</u>	<u>(28,421)</u>	<u>676,248</u>	<u>647,827</u>
<u>ORIGINAL COST RATE BASE:</u>					
Gross Plant in Service	7,964,379	(1,624,696) 10	6,339,683	0	6,339,683
Accumulated Depreciation	(790,024)	(141,198) 11	(931,222)	0	(931,222)
Construction Work In Progress (CWIP)	254,853	(254,853) 12	0	0	0
Contributions in Aid of Construction	(660,295)	0 13	(660,295)	0	(660,295)
Accumulated Amortization of CIAC	69,269	213 14	69,482	0	69,482
Net Plant	6,838,182	(2,020,534)	4,817,648	0	4,817,648
Working Capital	75,842	87,676 15	163,518	0	163,518
Unamortized Balances	0	0 16	0	0	0
<u>TOTAL RATE BASE</u>	<u>6,914,024</u>	<u>(1,932,858)</u>	<u>4,981,166</u>	<u>0</u>	<u>4,981,166</u>
<u>RETURN ON RATE BASE</u>	<u>0.56%</u>		<u>-0.57%</u>		<u>13.01%</u>
<u>OPERATING MARGIN</u>	<u>-12.90%</u>		<u>-13.94%</u>		<u>24.19%</u>
<u>INTEREST EXPENSE</u>	<u>177,526</u>	<u>(56,314) 17</u>	<u>121,212</u>	<u>0</u>	<u>121,212</u>



Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Water Operations

Audit Exhibit ICG-2
Page 1 of 1

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>OPERATING REVENUE</u>					
Water Residential	139,071	491 1a	139,562	164,988 18a	304,550
Water Commercial	72,479	432 1b	72,911	57,006 18b	129,917
Water Irrigation	98,309	883 1c	99,192	101,988 18c	201,180
Availability Billing	213,004	(1,926) 2	211,078	208,347 19	419,425
Misc. Other Revenue	20,444	(715) 3	19,729	11,922 20	31,651
<u>TOTAL OPERATING REVENUE</u>	<u>543,307</u>	<u>(835)</u>	<u>542,472</u>	<u>544,251</u>	<u>1,086,723</u>
<u>WATER OPERATION AND MAINTENANCE EXPENSES</u>					
Operation and Maintenance Expense	469,605	(23,034) 4	446,571	53,192 21	499,763
<u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u>	<u>469,605</u>	<u>(23,034)</u>	<u>446,571</u>	<u>53,192</u>	<u>499,763</u>
Depreciation and Amortization Expense	36,921	(6,383) 5	30,538	0	30,538
Amortization of Rate Case Expenses	46,210	(21,154) 6	25,056	0	25,056
Taxes Other than Income Tax Expense	11,748	69,946 7	81,694	4,662 22	86,356
Income Tax Expense	0	0 8	0	149,970 23	149,970
<u>TOTAL OPERATING EXPENSES</u>	<u>564,484</u>	<u>19,375</u>	<u>583,859</u>	<u>207,824</u>	<u>791,683</u>
<u>NET OPERATING INCOME</u>	<u>(21,177)</u>	<u>(20,210)</u>	<u>(41,387)</u>	<u>336,427</u>	<u>295,040</u>
Add: Customer Growth	0	0 9	0	546 24	546
<u>NET INCOME (LOSS) FOR RETURN</u>	<u>(21,177)</u>	<u>(20,210)</u>	<u>(41,387)</u>	<u>336,973</u>	<u>295,586</u>
<u>ORIGINAL COST RATE BASE:</u>					
Gross Plant in Service	3,899,032	(1,353,024) 10	2,546,008	0	2,546,008
Accumulated Depreciation	(382,950)	(80,727) 11	(463,677)	0	(463,677)
Construction Work In Progress (CWIP)	29,511	(29,511) 12	0	0	0
Contributions in Aid of Construction	(458,500)	0 13	(458,500)	0	(458,500)
Accumulated Amortization of CIAC	51,580	39 14	51,619	0	51,619
Net Plant	3,138,673	(1,463,223)	1,675,450	0	1,675,450
Working Capital	0	89,314 15	89,314	0	89,314
Unamortized Balances	0	0 16	0	0	0
<u>TOTAL RATE BASE</u>	<u>3,138,673</u>	<u>(1,373,909)</u>	<u>1,764,764</u>	<u>0</u>	<u>1,764,764</u>
<u>RETURN ON RATE BASE</u>	<u>-0.67%</u>		<u>-2.35%</u>		<u>16.75%</u>
<u>OPERATING MARGIN</u>	<u>-20.24%</u>		<u>-15.55%</u>		<u>23.25%</u>
<u>INTEREST EXPENSE</u>	<u>88,763</u>	<u>(45,819) 17</u>	<u>42,944</u>	<u>0</u>	<u>42,944</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Sewer Operations

Audit Exhibit ICG-3
Page 1 of 1

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>OPERATING REVENUE</u>					
Sewer Residential	168,168	4,422 1a	172,590	198,949 18a	371,539
Sewer Commercial	78,577	(5,212) 1b	73,365	78,494 18b	151,859
Sewer Irrigation	0	0 1c	0	0 18c	0
Availability Billing	276,661	(1,979) 2	274,682	274,446 19	549,128
Misc. Other Revenue	9,749	719 3	10,468	7,646 20	18,114
<u>TOTAL OPERATING REVENUE</u>	<u>533,155</u>	<u>(2,050)</u>	<u>531,105</u>	<u>559,535</u>	<u>1,090,640</u>
<u>SEWER OPERATION AND MAINTENANCE EXPENSES</u>					
Operation and Maintenance Expense	379,213	(8,194) 4	371,019	55,157 21	426,176
<u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u>	<u>379,213</u>	<u>(8,194)</u>	<u>371,019</u>	<u>55,157</u>	<u>426,176</u>
Depreciation and Amortization Expense	36,151	4,381 5	40,532	0	40,532
Amortization of Rate Case Expenses	46,210	(21,154) 6	25,056	0	25,056
Taxes Other than Income Tax Expense	11,692	69,903 7	81,595	4,793 22	86,388
Income Tax Expense	0	0 8	0	161,964 23	161,964
<u>TOTAL OPERATING EXPENSES</u>	<u>473,266</u>	<u>44,936</u>	<u>518,202</u>	<u>221,914</u>	<u>740,116</u>
<u>NET OPERATING INCOME</u>	<u>59,889</u>	<u>(46,986)</u>	<u>12,903</u>	<u>337,621</u>	<u>350,524</u>
Add: Customer Growth	0	63 9	63	1,654 24	1,717
<u>NET INCOME (LOSS) FOR RETURN</u>	<u>59,889</u>	<u>(46,923)</u>	<u>12,966</u>	<u>339,275</u>	<u>352,241</u>
<u>ORIGINAL COST RATE BASE:</u>					
Gross Plant in Service	4,065,347	(271,672) 10	3,793,675	0	3,793,675
Accumulated Depreciation	(407,074)	(60,471) 11	(467,545)	0	(467,545)
Construction Work In Progress (CWIP)	225,342	(225,342) 12	0	0	0
Contributions in Aid of Construction	(201,795)	0 13	(201,795)	0	(201,795)
Accumulated Amortization of CIAC	17,689	174 14	17,863	0	17,863
Net Plant	3,699,509	(557,311)	3,142,198	0	3,142,198
Working Capital	75,842	(1,638) 15	74,204	0	74,204
Unamortized Balances	0	0 16	0	0	0
<u>TOTAL RATE BASE</u>	<u>3,775,351</u>	<u>(558,949)</u>	<u>3,216,402</u>	<u>0</u>	<u>3,216,402</u>
<u>RETURN ON RATE BASE</u>	<u>1.59%</u>		<u>0.40%</u>		<u>10.95%</u>
<u>OPERATING MARGIN</u>	<u>-5.42%</u>		<u>-12.30%</u>		<u>25.12%</u>
<u>INTEREST EXPENSE</u>	<u>88,763</u>	<u>(10,495) 17</u>	<u>78,268</u>	<u>0</u>	<u>78,268</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Description	DIUC ORS Adj. Adj.	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Accounting and Pro forma Adjustments</u>				
(1) <u>Service Revenues</u>				
Residential	(1a) 1a To adjust residential revenue to reflect the pro forma number of customers at present rates.			
	Per ORS	4,913	491	4,422
	Per DIUC	20,165	7,519	12,646
Commercial	(1c) 1b To adjust commercial revenue to reflect the pro forma number of customers at present rates.			
	Per ORS	(4,780)	432	(5,212)
	Per DIUC	(2,549)	452	(3,001)
Irrigation	(1e) 1c To adjust irrigation revenue to reflect the pro forma demand at present rates.			
	Per ORS	883	883	0
	Per DIUC	6,559	6,559	0
(1) <u>Total Service Revenues</u>		<u>1,016</u>	<u>1,806</u>	<u>(790)</u>
(2) <u>Availability Billing Revenue</u>				
Availability Billing	(1g) 2 To adjust availability revenue to reflect the pro forma number of customers at present rates.			
	Per ORS	(3,905)	(1,926)	(1,979)
	Per DIUC	(15,338)	(10,848)	(4,490)
(2) <u>Total Availability Billing Revenue</u>		<u>(3,905)</u>	<u>(1,926)</u>	<u>(1,979)</u>
(3) <u>Miscellaneous Other Revenue</u>				
Miscellaneous Other Revenue	(1g, 1i) 3 To adjust miscellaneous revenues to reflect the pro forma number of customers at present rates.			
	Per ORS	4	(715)	719
	Per DIUC	121	88	33
(3) <u>Total Miscellaneous Other Revenue</u>		<u>4</u>	<u>(715)</u>	<u>719</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Description	DIUC ORS		\$	\$	\$
	Adj.	Adj.	Combined Operations	Water Operations	Sewer Operations
(4) Operation & Maintenance Expenses					
Wages	(2)	4a	To annualize salary expense.		
			Per ORS	19,988	9,994
			Per DIUC	8,149	4,075
Benefits	(3)	4b	To annualize employee benefits.		
			Per ORS	(2,780)	(1,390)
			Per DIUC	1,706	853
Officer & Director Fees	(4)	4c	To adjust Directors' Fees to reflect annual Officer's fees of \$12,000 and Directors' fees of \$4,500. These fees were included in the per book amounts.		
			Per ORS	0	0
			Per DIUC	0	0
Power	(5)	4d	To adjust for the most recent 12 months of power expenses.		
			Per ORS	14,744	7,372
			Per DIUC	51,281	25,514
Chemicals	(6)	4e	ORS does not propose to adjust for increased demand.		
			Per ORS	0	0
			Per DIUC	490	230
Supplies & Maintenance	(7)	4f	To adjust supplies and maintenance for undocumented expense. ORS does not propose to adjust for an increase in customers in this adjustment.		
			Per ORS	(21)	(21)
			Per DIUC	1,406	695
Outside Services - Mgmt.	(8)	4g	To adjust outside management services by removing customer growth, a 3.5% yearly increase and reducing management fees.		
			Per ORS	(25,439)	(12,720)
			Per DIUC	13,714	6,857

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Description	DIUC	ORS		\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
	Adj.	Adj.				
Outside Services - Engineering	(9)	4h	ORS does not propose to adjust Outside Services-Engineering to reflect a 4-year average cost.			
			Per ORS	0	0	0
			Per DIUC	(2,124)	2,145	(4,269)
Transportation	(10)	4i	ORS does not propose to adjust transportation cost for an increase in employees.			
			Per ORS	0	0	0
			Per DIUC	306	153	153
Bad Debt	(11)	4j	To adjust bad debt expense to reflect test period revenue write-off percentages applied to ORS pro forma revenue under present rates.			
			Per ORS	(284)	(36)	(248)
			Per DIUC	(90,905)	(46,158)	(44,747)
Insurance	(12)	4k	ORS proposes to adjust insurance to reflect the most recent actual bills.			
			Per ORS	8,706	1,258	7,448
			Per DIUC	18,117	5,964	12,153
Regulatory Expense (DHEC)	(13)	4l	To reflect the most recent DHEC drinking water bills and land permits.			
			Per ORS	(109)	2,645	(2,754)
			Per DIUC	(109)	2,645	(2,754)
Nonallowable Expense		4m	To remove nonallowable expenses for ratemaking purposes. Additionally, test year Rate Case expenses were removed and amortized in adjustment 6a.			
			Per ORS	(46,033)	(30,136)	(15,897)
			Per DIUC	0	0	0
(4) Total Operation & Maintenance Expenses				(31,228)	(23,034)	(8,194)

Danfuskle Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Description	DIUC ORS		\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
	Adj.	Adj.			
(5) <u>Depreciation Expense and Amortization of Contributions In Aid of Construction ("CIAC")</u>					
Depreciation Expense	(14)	5a	To adjust annual depreciation for pro forma plant in service. See Audit Exhibit ICG-5.		
		Per ORS	(2,096)	(6,356)	4,260
		Per DIUC	28,367	9,525	18,842
Amortization of CIAC	(14)	5b	To adjust for amortization of CIAC. See Audit Exhibit ICG-5.		
		Per ORS	94	(27)	121
		Per DIUC	(6,173)	(4,508)	(1,665)
(5) <u>Total Depreciation Expense and Amortization of CIAC</u>			(2,002)	(6,383)	4,381
(6) <u>Amortization Expense</u>					
Rate Case Amortization Expense	(15)	6a	To adjust for the 5-year amortization of rate case expenses and include unamortized rate case expenses from the previous rate case. Current expenses are capped @75,000.		
		Per ORS	(72,920)	(36,460)	(36,460)
		Per DIUC	47,800	23,900	23,900
Property Tax Amortization Expense	(15)	6b	To adjust for Property Tax Amortization over 8 years.		
		Per ORS	30,612	15,306	15,306
		Per DIUC	65,856	32,928	32,928
(6) <u>Total Amortization Expense</u>			(42,308)	(21,154)	(21,154)
(7) <u>Taxes Other Than Income Tax Expense</u>					
Revenue Taxes	(16)	7a	To reflect gross receipts on ORS's pro forma revenue under present rates.		
		Per ORS	3,148	1,595	1,553
		Per DIUC	807	403	404
Property Taxes	(17)	7b	To adjust property taxes to reflect actual tax bills for property owned by DIUC.		
		Per ORS	136,671	68,336	68,335
		Per DIUC	188,093	89,863	98,230

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Description	DIUC ORS			\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
	Adl.	Adl.				
Payroll Taxes	(18)	7c	To adjust payroll taxes to reflect pro forma wages.			
			Per ORS	30	15	15
			Per DIUC	548	274	274
(7) <u>Total Taxes Other Than Income Tax Expense</u>				<u>139,849</u>	<u>69,946</u>	<u>69,903</u>
(8) <u>Income Tax Expense</u>						
Income Taxes - State and Federal	(19)	8	To adjust for State and Federal Income Taxes			
			Per ORS	0	0	0
			Per DIUC	0	0	0
(8) <u>Total Income tax Expense</u>				<u>0</u>	<u>0</u>	<u>0</u>
(9) <u>Customer Growth</u>		9	To adjust for customer growth after the accounting and pro forma adjustments. The growth factors of 0.18519% for water and 0.48985% for sewer were computed by the Water and Wastewater Department.			
			Per ORS	63	0	63
			Per DIUC	63	0	63
(9) <u>Total Customer Growth</u>				<u>63</u>	<u>0</u>	<u>63</u>
<u>Rate Base (RB)</u>						
(10) <u>Plant in Service</u>						
Plant in Service	RB1	10	To remove undocumented expenses from gross plant in service.			
			Per ORS	(1,624,696)	(1,353,024)	(271,672)
			Per DIUC	174,882	50,925	123,957
(10) <u>Total Plant in Service</u>				<u>(1,624,696)</u>	<u>(1,353,024)</u>	<u>(271,672)</u>
(11) <u>Accumulated Depreciation</u>						
Accumulated Depreciation	RB2	11	To adjust accumulated depreciation based on rates and utilization factors recommended by ORS W/WW Department.			
			Per ORS	(141,198)	(80,727)	(60,471)
			Per DIUC	9,784	(46,446)	56,230
(11) <u>Total Accumulated Depreciation</u>				<u>(141,198)</u>	<u>(80,727)</u>	<u>(60,471)</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Audit Exhibit ICG-4
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Description	DIUC	ORS		\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Add.	Add.					
(12) <u>Construction Work in Progress (CWIP)</u>						
Construction Work in Progress (CWIP)	RB3	12	To adjust CWIP to move completed projects to plant and remove non-allowable legal fees.			
			Per ORS	(254,853)	(29,511)	(225,342)
			Per DIUC	(254,853)	(29,511)	(225,342)
(12) <u>Total CWIP</u>				<u>(254,853)</u>	<u>(29,511)</u>	<u>(225,342)</u>
(13) <u>CIAC</u>						
Contributions in Aid of Construction (CIAC)	RB4	13	ORS does not propose to adjust CIAC for customer growth.			
			Per ORS	0	0	0
			Per DIUC	(31,000)	(19,250)	(11,750)
(13) <u>Total CIAC</u>				<u>0</u>	<u>0</u>	<u>0</u>
(14) <u>Accumulated Amortization of CIAC</u>						
Accumulated Amortization of CIAC	RB5	14	To include amortization expense in Accumulated CIAC.			
			Per ORS	213	39	174
			Per DIUC	5,408	4,508	900
(14) <u>Total Accumulated Amortization of CIAC</u>				<u>213</u>	<u>39</u>	<u>174</u>
(15) <u>Cash Working Capital</u>						
Cash Working Capital (1/5 O&M)	RB6	15	To adjust cash working capital after ORS accounting and pro forma adjustments. See Audit Exhibit ICG-7.			
			Per ORS	87,676	89,314	(1,638)
			Per DIUC	115,622	95,955	19,667
(15) <u>Total Cash Working Capital</u>				<u>87,676</u>	<u>89,314</u>	<u>(1,638)</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

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Description	DIUC ORS Adj. Adj.	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(16) Unamortized Balances				
Unamortized Balances	RB7 16 ORS does not propose to include the unamortized balance of rate case expense in rate base.			
	Per ORS	0	0	0
	Per DIUC	167,300	83,650	83,650
(16) Total Unamortized Balances		<u>0</u>	<u>0</u>	<u>0</u>
(17) Interest Expense				
Interest Expense	17 To adjust the interest expense on long-term debt for accounting and pro forma adjustments.			
	Per ORS	(56,314)	(45,819)	(10,495)
	Per DIUC	180,680	83,602	97,078
(17) Total Interest Expense		<u>(56,314)</u>	<u>(45,819)</u>	<u>(10,495)</u>
Proposed Increase				
(18) Service Revenues				
Residential	(1b) 18a To adjust residential revenue to reflect the pro forma number of customers at proposed rates.			
	Per ORS	363,937	164,988	198,949
	Per DIUC	383,382	173,488	209,894
Commercial	(1d) 18b To adjust commercial revenue to reflect the pro forma number of customers at proposed rates.			
	Per ORS	135,500	57,006	78,494
	Per DIUC	139,081	58,633	80,448
Irrigation	(1f) 18c To adjust irrigation revenue to reflect the pro forma number of customers at proposed rates.			
	Per ORS	101,988	101,988	0
	Per DIUC	108,369	108,369	0
(18) Total Service Revenues		<u>601,425</u>	<u>323,982</u>	<u>277,443</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Description	DIUC ORS Adl. Adl.		\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(19) Availability Billing Revenue					
Availability Billing	(1f, 1h)	19 To adjust availability revenue to reflect the pro forma number of customers at proposed rates.			
		Per ORS	482,793	208,347	274,446
		Per DIUC	<u>518,553</u>	<u>227,804</u>	<u>290,749</u>
(19) Total Availability Billing Revenue			<u>482,793</u>	<u>208,347</u>	<u>274,446</u>
(20) Miscellaneous Other Revenue					
Miscellaneous Other Revenue	(1h, 1i)	20 To adjust miscellaneous revenues to reflect pro forma number of customers at proposed rates.			
		Per ORS	19,568	11,922	7,646
		Per DIUC	<u>32,914</u>	<u>22,159</u>	<u>10,755</u>
(20) Total Miscellaneous Other Revenue			<u>19,568</u>	<u>11,922</u>	<u>7,646</u>
(21) Operating Expenses					
Bad Debt	(20)	21 To adjust bad debt expense for pro forma revenues.			
		Per ORS	108,349	53,192	55,157
		Per DIUC	<u>16,090</u>	<u>7,203</u>	<u>8,887</u>
(21) Total Operating Expenses			<u>108,349</u>	<u>53,192</u>	<u>55,157</u>
(22) Taxes Other than Income Taxes					
Revenue Taxes	(21)	22 To adjust gross receipts to reflect pro forma revenue under proposed rates.			
		Per ORS	9,455	4,662	4,793
		Per DIUC	<u>7,466</u>	<u>3,729</u>	<u>3,737</u>
(22) Total Taxes Other than Income Taxes			<u>9,455</u>	<u>4,662</u>	<u>4,793</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Audit Exhibit ICG-4
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Description	DIUC ORS Adj. Adj.		\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(23) <u>Income Taxes</u>					
State and Federal Income Taxes	(22)	23 To adjust State and Federal income taxes for the proposed increase:			
		Per ORS	311,934	149,970	161,964
		Per DIUC	<u>260,495</u>	<u>120,533</u>	<u>139,962</u>
(23) <u>Total Taxes Other than Income Taxes</u>			<u>311,934</u>	<u>149,970</u>	<u>161,964</u>
(24) <u>Customer Growth</u>		24 To adjust for customer growth after the accounting and pro forma adjustments. The growth factors of 0.18519% for water and 0.48985% for sewer were computed by the Water and Wastewater Department:			
			2,200	546	1,654
			<u>2,200</u>	<u>546</u>	<u>1,654</u>
(24) <u>Total Customer Growth</u>			<u>2,200</u>	<u>546</u>	<u>1,654</u>

Danforth Island Utility Company, Inc.
Docket No. 2014-346-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2014

Depreciation Expense Adjustment

Description	Plant Balance 12/31/14	ORS Adjustment	Water Total	Service Life	Dep. Rate	Utilization Factor	2014 Depr. Expense	Less: Per Books	ORS Adjustment
Organizational Costs	\$ 73,597	\$ (73,597)	\$ -						
Land & Land Rights	\$ 56,702	\$ (56,702)	\$ -						
General Plant			\$ 17,547	6	16.67%	100.00%	\$ 2,925		
General Plant			\$ 597	15	6.67%	100.00%	\$ 40		
General Plant			\$ 5,143	16	6.25%	100.00%	\$ 321		
General Plant			\$ 22,175	40	2.50%	100.00%	\$ 554		
Total General Plant	\$ 59,599	\$ (14,137)	\$ 45,462						
Other Intangible Plant	\$ 404	\$ -	\$ 404	10	10.00%	100.00%	\$ 40		
Meters	\$ 8,786	\$ 1,718	\$ 10,504	20	5.00%	45.28%	\$ 238		
Pumping	\$ 61,307	\$ (24,605)	\$ 36,702	20	5.00%	45.28%	\$ 831		
Reservoirs & Standpipes	\$ 907,325	\$ (872,625)	\$ 34,700	37	2.70%	45.28%	\$ 424		
Storage	\$ 81,907	\$ (75,907)	\$ 6,000	37	2.70%	45.28%	\$ 73		
Treatment			\$ 4,816	30	3.33%	45.28%	\$ 73		
Treatment			\$ 234,776	32	3.13%	45.28%	\$ 3,327		
Total Treatment	\$ 321,643	\$ (82,051)	\$ 239,592						
Water & Sewer Mains	\$ 1,509,687	\$ (91,176)	\$ 1,418,511	45	2.22%	45.28%	\$ 14,259		
Wells	\$ 794,864	\$ (61,936)	\$ 732,908	30	3.33%	45.28%	\$ 11,051		
Well Site	\$ 23,211	\$ (1,986)	\$ 21,225	18	5.56%	45.28%	\$ 534		
Total	\$ 3,899,032	\$ (1,353,024)	\$ 2,546,008				\$ 34,690	41,046	(6,356)

Description	Plant Balance 12/31/14	ORS Adjustment	Wastewater Total	Service Life	Dep. Rate	Utilization Factor	2014 Depr. Expense	Less: Per Books	ORS Adjustment
Organizational Costs	\$ 73,597	\$ (73,597)	\$ -						
Land & Land Rights	\$ 63,710	\$ (63,710)	\$ -						
General Plant			\$ 17,547	6	16.67%	100.00%	\$ 2,925		
General Plant			\$ 597	15	6.67%	100.00%	\$ 40		
General Plant			\$ 4,780	16	6.25%	100.00%	\$ 299		
General Plant			\$ 4,592	18	5.56%	100.00%	\$ 255		
General Plant			\$ 22,175	40	2.50%	100.00%	\$ 554		
Total General Plant	\$ 54,868	\$ (5,177)	\$ 49,691						
Other Intangible Plant	\$ 204	\$ -	\$ 204	10	10.00%	100.00%	\$ 20		
Power Generation Equipment	\$ 4,632	\$ 4,514	\$ 9,146	20	5.00%	33.88%	\$ 155		
Pumping			\$ 85,323	18	5.56%	33.88%	\$ 1,607		
Pumping			\$ 53,027	25	4.00%	33.88%	\$ 719		
Total Pumping	\$ 158,189	\$ (19,839)	\$ 138,350						
T&D Equipment			\$ 29,163	15	6.67%	33.88%	\$ 639		
T&D Equipment			\$ 4,114	18	5.56%	33.88%	\$ 77		
T&D Equipment			\$ 380,128	32	3.13%	33.88%	\$ 4,031		
Total T&D Equipment	\$ 417,412	\$ (4,007)	\$ 413,405						
Treatment			\$ 3,600	15	6.67%	33.88%	\$ 81		
Treatment			\$ 91,380	18	5.56%	33.88%	\$ 1,721		
Treatment			\$ 121,491	32	3.13%	33.88%	\$ 1,288		
Total Treatment	\$ 289,565	\$ (73,094)	\$ 216,471						
Water & Sewer Mains	\$ 2,118,279	\$ (36,762)	\$ 2,081,517	45	2.22%	33.88%	\$ 15,656		
Outfall Main	\$ 66,704	\$ -	\$ 66,704	30	3.33%	33.88%	\$ 753		
WW Treatment Plant	\$ 818,187	\$ -	\$ 818,187	32	3.13%	33.88%	\$ 8,676		
Total	\$ 4,065,347	\$ (271,672)	\$ 3,793,675				\$ 39,516	35,256	4,260
Total Water/Wastewater	\$ 7,964,379	\$ (1,624,696)	\$ 6,339,683				\$ 74,206	\$ 76,302	\$ (2,096)

Amortization of CIAC

Description	Per Books	Adjustment	Water	Service Life	Dep. Rate	Utilization Factor	2014 Amort. Expense	Less: Per Books	ORS Adjustment
Water - CIAC @ 12/31/2014	\$ (458,500)	\$ -	\$ (458,500)	50	2.00%	45.28%	(4,152)	(4,125)	(27)
Wastewater - CIAC @ 12/31/2014	\$ (201,795)	\$ -	\$ (201,795)	50	2.00%	33.88%	(1,367)	(1,488)	121
Total Water/Wastewater CIAC	\$ (660,295)	\$ -	\$ (660,295)				\$ (5,519)	\$ (5,613)	\$ 94

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2014

After Accounting & Pro Forma Adjustments			
Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	1,073,577	542,472	531,105
Operating Expenses	1,102,061	583,859	518,202
Net Operating Income Before Taxes	(28,484)	(41,387)	12,903
Less: Annualized Interest Expense	121,212	42,944	78,268
Taxable Income - State	(149,696)	(84,331)	(65,365)
State Taxable Income	5%	5%	5%
State Income Taxes (Note)	(7,485)	(4,217)	(3,268)
Less: State Income Taxes Per Book	0	0	0
Adjustment to State Income Taxes	0	0	0
Taxable Income - Federal (Note)	(142,211)	(80,114)	(62,097)
Federal Income Tax @ 34%	(48,352)	(27,239)	(21,113)
Less: Federal Income Taxes Per Book	0	0	0
Adjustment to Federal Income Taxes	0	0	0
Total Adjustment to Income Taxes (Note)	0	0	0
After Applicant's Proposed Increase			
Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	2,177,363	1,086,723	1,090,640
Operating Expenses	1,219,865	641,713	578,152
Net Operating Income Before Taxes	957,498	445,010	512,488
Less: Annualized Interest Expense	121,212	42,944	78,268
Taxable Income - State	836,286	402,066	434,220
State Taxable Income	5%	5%	5%
State Income Taxes	41,814	20,103	21,711
Less: State Income Taxes Per Book	0	0	0
Adjustment to State Income Taxes	41,814	20,103	21,711
Taxable Income - Federal	794,472	381,963	412,509
Federal Income Tax @ 34%	270,120	129,867	140,253
Less: Federal Income Taxes Per Book	0	0	0
Adjustment to Federal Income Taxes	270,120	129,867	140,253
Total Adjustment to Income Taxes	311,934	149,970	161,964

Note: Taxable income is based on the calculation of net operating income before taxes less annualized interest expense. Since this amount is negative after accounting and pro forma adjustments, there are no income taxes as shown on Audit Exhibits ICG-1, 2 and 3, Column 3.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Cash Working Capital Allowance
For the Test Year Ended December 31, 2014

After Accounting & Pro Forma Adjustments

<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
Total Expenses for Computation	817,590	446,571	371,019
Allowable Rate (1/5 O&M)	20.00%	20.00%	20.00%
Computed Cash Working Capital	163,518	89,314	74,204
Cash Working Capital - Application Per Books	75,842	0	75,842
Cash Working Capital Adjustment - ORS Accounting & Pro Forma Adjustment	87,676	89,314	(1,638)

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Return on Equity
For the Test Year Ended December 31, 2014

Combined Operations

Description	Capital Structure	Ratio	Application Per Books (Note 1)				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
			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	\$ 2,750,000	46.0%	\$ 3,180,451	5.29%	2.43%	\$ 168,246	\$ 2,291,336	5.29%	2.43%	\$ 121,212	\$ 2,291,336	5.29%	2.43%	\$ 121,212
Common Equity	5,358,573	54.0%	3,733,573	-3.47%	-1.87%	(129,534)	2,689,830	-5.56%	-3.00%	(149,633)	2,689,830	19.58%	10.58%	526,615
Totals	\$ 8,108,573	100.00%	\$ 6,914,024		0.56%	\$ 38,712	\$ 4,981,166		-0.57%	\$ (28,421)	\$ 4,981,166		13.01%	\$ 647,827

Water Operations

Description	Capital Structure	Ratio	Application Per Books (Note 1)				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
			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	\$ 2,750,000	46.0%	\$ 1,443,790	5.29%	2.43%	\$ 76,376	\$ 811,791	5.29%	2.43%	\$ 42,944	\$ 811,791	5.29%	2.43%	\$ 42,944
Common Equity	5,358,573	54.0%	1,694,883	-5.76%	-3.10%	(97,553)	952,973	-8.85%	-4.78%	(84,331)	952,973	26.51%	14.32%	252,642
Totals	\$ 8,108,573	100.00%	\$ 3,138,673		-0.67%	\$ (21,177)	\$ 1,764,764		-2.35%	\$ (41,387)	\$ 1,764,764		16.75%	\$ 295,586

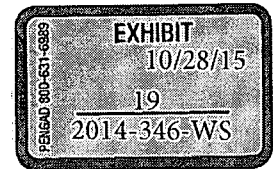
Sewer Operations

Description	Capital Structure	Ratio	Application Per Books (Note 1)				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
			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	\$ 2,750,000	46.0%	\$ 1,736,661	5.29%	2.43%	\$ 91,869	\$ 1,479,545	5.29%	2.43%	\$ 78,268	\$ 1,479,545	5.29%	2.43%	\$ 78,268
Common Equity	5,358,573	54.0%	2,038,690	-1.57%	-0.84%	(31,980)	1,736,857	-3.76%	-2.03%	(65,302)	1,736,857	15.77%	8.52%	273,973
Totals	\$ 8,108,573	100.00%	\$ 3,775,351		1.59%	\$ 59,889	\$ 3,216,402		0.40%	\$ 12,966	\$ 3,216,402		10.95%	\$ 352,241

Note 1: The Interest Expense calculations reflect ORS's capital structure ratios and cost of debt applied to the Company's per book numbers.



ORS BUSINESS OFFICE COMPLIANCE REVIEW



Utility: Daufuskie Island Utility Company, Inc.
Inspector: Willie Morgan, P.E.
Office: Corporate: 6 Beacon St, Suite 200, Boston, MA
 Local Office: 803 Haig Point Rd., Daufuskie Island, SC
Utility Type: Water and Wastewater Utility
Date: June 2015-August 2015
Company Representative: Eric Johanson, John Guastella

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510 and R. 103-710.	X		Customers can contact DIUC representatives via telephone or visit local office
2	Complaint records maintained in accordance with R.103-516 and R. 103-716.	X		All customer complaints are inserted into DIUC database which tracks service orders, complaint types and related resolutions.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530 and R.103-730.	X		
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the Commission and that the customer has the right to register the complaint in accordance with R.103-530 and R. 103-730.	X		
5	Deposits charged within the limits established by R.103-531 and R. 103-731.	X		No customer deposits charged
6	Timely and accurate bills being rendered to customers in accordance with R.103-532 and R.103-732.	X		DIUC bills in arrears on a quarterly basis.
7	Bill forms in accordance with R.103-532 and R.103-732.	X		Bill form is clear with adequate after-hours emergency contact information.

Exhibit WJM-1

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
8	Adjustments of bills handled in accordance with R.103-533 and 103-733.	X		Invoice adjustments are compliant with R.103-533 and 103-733.
9	Policy for customer denial or discontinuance of service in accordance with R.103-535 and 103-735.	X		
10	Notices sent to customers prior to termination in accordance with R.103-535 and 103-735.	X		
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C and 103-714-C.	X		
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions of service in accordance with R.103-530 and 103-730.	X		
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514 and 103-714.	X		No unscheduled interruption of service has occurred on systems since the previous rate case review.
14	Utility advised the Commission, in accordance with Rule 103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, and emergencies during non-office hours.	X		
15	Company verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the company has at present time.	NA	NA	DIUC provides service to 680 active water and 493 active sewer customers.
17	Company has a current performance bond on file with the Commission. Combined Amount of bond: \$700,000	X		DIUC currently has an insurance certificate on file with the PSC/ORS. The bond amount is \$350,000 for water service and \$350,000 for sewer service.

Exhibit WJM-1

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
18	Company has a current annual report on file with the Office of Regulatory Staff.	X		
19	Company has paid annual Gross Receipts assessment.	X		



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	8/12/15
Inspector Name:	Willie Morgan, Dawn Hipp
Docket Number:	2014-346-WS
Utility Name:	Daufuskie Island Utility Company, Inc.
Utility Representative:	Eric Johanson, Michael Guastella
Number of Customers:	~467 service units
System Type (collection, force main, lagoon, etc):	Collection and Biological Treatment System with spray field
Location of System:	Haig Point/Melrose Community, Daufuskie Island
Location of Utility Office:	Daufuskie Island
Treatment Type:	Biological Treatment with spray field discharge to Haig Point Golf Club
Permit #:	ND0062286 (Haig Point/Melrose WWTF)
Last SC DHEC Compliance Rating:	Satisfactory – 3/24/15
Frequency checked by WWTF Operator:	Daily
Drinking Water Provider:	Daufuskie Island Utility Company, Inc.

Inspection Results

	System Components Inspected	Compliance		Comments
		Yes	No	
1	Chlorinator	X		Gas (Melrose/Haig Point)
2	Other chemicals in use	NA	NA	None
3	Aerators present	X		11 aerators operating at time of inspection
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		Duckweed present
11	Grease build-up acceptable	X		
12	Plant free of debris	X		
13	Effluent Color acceptable	X		
14	Lift Stations present	X		63 on Haig Point/Melrose system
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		

Additional Comments: The toe for the newly installed lagoon liner has become untied in one corner and is beginning to slip along the dike. Onsite generator not operational and WWTF does not have an alternate standby power. Sign on fence in rear of WWTF needs to display the DIUC contact phone number.



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected: 8/12/15
Inspector Name: Willie Morgan, Dawn Hipp
Docket Number: 2014-346-WS
Utility Name: Daufuskie Island Utility Company, Inc.
Utility Representative: Eric Johanson, Michael Guastella
Number of Customers: ~26 service units
System Type (collection, force main, lagoon, etc): Collection and Biological Treatment System with spray field
Location of System: Bloody Point, Daufuskie Island
Location of Utility Office: Daufuskie Island
Treatment Type: Biological Treatment with spray field discharge to Bloody Point Golf Club
Permit #: ND0068179 (Melrose WWTF)
Last SC DHEC Compliance Rating: Satisfactory - 3/24/15
Frequency checked by WWTF Operator: Daily
Drinking Water Provider: Daufuskie Island Utility Company, Inc.

Inspection Results

	System Components Inspected	Compliance		Comments
		Yes	No	
1	Chlorinator	X		Gas
2	Other chemicals in use	NA	NA	None
3	Aerators present	X		5 aerators operating at time of inspection.
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		Duckweed present
11	Grease build-up acceptable	X		
12	Plant free of debris	X		
13	Effluent Color acceptable	X		
14	Lift Stations present	X		3 on Bloody Point system
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		

Additional Comments:



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected: 8/12/15
Inspector Name: Willie Morgan, Dawn Hipp
Docket Number: 2014-346-WS
Utility Name: Daufuskie Island Utility Company, Inc.
Utility Representative: Eric Johanson, Michael Guastella
Number of Customers: ~184 service units
System Type (distribution, well, etc): Wells & distribution
Location of System: Melrose Community, Daufuskie Island
Location of Utility Office: Daufuskie Island
Treatment Type: Chlorination
Permit #: 0750043 (Melrose)
Last SC DHEC Compliance Rating: Satisfactory - 12/29/14
Frequency checked by Licensed Operator: Daily
Wastewater Provider: Daufuskie Island Utility Company, Inc.

Inspection Overview

	System Components Inspected	Specific Type	#	Capacity (gallons)	Compliance		Comments
					Yes	No	
1	Well Sites		2		X		
2	Pump Houses		2		X		
3	Storage Tank	Pressurized	2	→→→→	X		1 - 5k gal, 1 - 10k gal
3a	Storage Tank	Non-Pressurized	0				
3b	Storage Tank	Overhead	0				
4	Chlorinator				X		Chlorine Gas
5	Other Chemicals in use				NA	NA	None
6	Meters		184		X		
7	Fire Hydrants		~100		X		
8	Electrical Wiring acceptable				X		
9	Piping acceptable				X		
10	System free of leaks				X		
11	Access road adequate				X		
12	Ability for service area to expand				X		

Additional Comments:



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected: 8/12/15
Inspector Name: Willie Morgan, Dawn Hipp
Docket Number: 2014-346-WS
Utility Name: Daufuskie Island Utility Company, Inc.
Utility Representative: Eric Johanson, Michael Guastella
Number of Customers: ~455 service units
System Type (distribution, well, etc): Wells & distribution
Location of System: Haig Point/Melrose Community, Daufuskie Island
Location of Utility Office: Daufuskie Island
Treatment Type: Chlorination
Permit #: 0750036 (Haig Point)
Last SC DHEC Compliance Rating: Satisfactory - 3/18/15
Frequency checked by Licensed Operator: Daily
Wastewater Provider: Daufuskie Island Utility Company, Inc.

Inspection Overview

	System Components Inspected	Specific Type	#	Capacity (gallons)	Compliance		Comments
					Yes	No	
1	Well Sites		3		X		
2	Pump Houses		3		X		
3	Storage Tank	Pressurized	2	→→→	X		2 – 5k gal
3a	Storage Tank	Non-Pressurized	0				
3b	Storage Tank	Overhead	1	125,000	X		
4	Chlorinator				X		Chlorine Gas
5	Other Chemicals in use				NA	NA	None
6	Meters		455		X		
7	Fire Hydrants		~100		X		
8	Electrical Wiring acceptable				X		
9	Piping acceptable				X		
10	System free of leaks				X		
11	Access road adequate				X		
12	Ability for service area to expand				X		

Additional Comments: Elevated storage tank and land associated with site is not currently owned by DIUC. Well #2 was off-line at time of inspection due to replacement of chlorinating equipment.



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected: 8/12/15
Inspector Name: Willie Morgan, Dawn Hipp
Docket Number: 2014-346-WS
Utility Name: Daufuskie Island Utility Company, Inc.
Utility Representative: Eric Johanson, Michael Guastella
Number of Customers: ~41 service units
System Type (distribution, well, etc): Wells & distribution
Location of System: Melrose (Bloody Point) Community, Daufuskie Island
Location of Utility Office: Daufuskie Island
Treatment Type: Chlorination
Permit #: 0750043 (Melrose)
Last SC DHEC Compliance Rating: Satisfactory - 12/29/14
Frequency checked by Licensed Operator: Daily
Wastewater Provider: Daufuskie Island Utility Company, Inc.

Inspection Overview

	System Components Inspected	Specific Type	#	Capacity (gallons)	Compliance		Comments
					Yes	No	
1	Well Sites		2		X		
2	Pump Houses		2		X		
3	Storage Tank	Pressurized	2	→→→	X		2 – 10k gal
3a	Storage Tank	Non-Pressurized	0				
3b	Storage Tank	Overhead	0				
4	Chlorinator				X		Chlorine Gas
5	Other Chemicals in use				NA	NA	None
6	Meters		41		X		
7	Fire Hydrants		~12		X		
8	Electrical Wiring acceptable				X		
9	Piping acceptable				X		
10	System free of leaks				X		
11	Access road adequate				X		
12	Ability for service area to expand				X		

Additional Comments:

DAUFUSKIE ISLAND UTILITY COMPANY, INC.
2014-346-WS
REVENUE IMPACT ANALYSIS

EXHIBIT WJM-2

Calculated DIUC Test Year Revenue Overview

	Customer Type	Customer Classification	Consumption In Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues ¹
WATER	Haig Point RESIDENTIAL WATER	3/4" Residential			1,061	\$62.09	\$65,877
		0 to 22,500 gallons	8,360,179	\$2.76			\$23,074
		Over 22,500 gallons	3,192,728	\$2.76			\$8,812
	Haig Point RESIDENTIAL & COMMERCIAL IRRIGATION	0 to 18,000 gallons	8,367,838	\$2.76	727		\$23,095
		18,001 to 60,000 gallons	9,829,270	\$3.09			\$30,372
		Over 60,000 gallons	10,049,342	\$3.50			\$35,173
	Melrose RESIDENTIAL WATER	3/4" Residential			452	\$80.72	\$36,485
		0 to 22,500 gallons	4,105,940	\$0.00			\$0
		Over 22,500 gallons	2,177,808	\$2.44			\$5,314
	Melrose RESIDENTIAL & COMMERCIAL IRRIGATION	0 to 18,000 gallons	1,368,330	\$1.66	100		\$2,271
		18,001 to 60,000 gallons	2,002,230	\$1.66			\$3,324
		Over 60,000 gallons	2,986,298	\$1.66			\$4,957
	Haig Point COMMERCIAL WATER	Commercial			106	\$86.93	\$9,215
		0 to 22,500 gallons	2,413,190	\$2.76			\$6,660
		Over 22,500 gallons	2,132,690	\$2.76			\$5,886
	Melrose COMMERCIAL WATER	Commercial			329	\$136.60	\$44,941
		0 to 22,500 gallons	1,752,659	\$0.00			\$0
		Over 22,500 gallons	2,544,703	\$2.44			\$6,209
Water Service Total			61,283,205		2,775		\$311,665
SEWER	Haig Point RESIDENTIAL SEWER	Residential			1,061	\$110.38	\$117,113
		0 to 22,500 gallons	8,360,179	\$1.32			\$11,035
		Over 22,500 gallons	3,192,728	\$1.32			\$4,214
	Melrose RESIDENTIAL SEWER	Residential			448	\$80.72	\$36,163
		0 to 22,500 gallons	3,926,008	\$0.00			\$0
		Over 22,500 gallons	2,296,390	\$1.77			\$4,065
	Haig Point COMMERCIAL SEWER	Commercial			102	\$178.21	\$18,177
		0 to 22,500 gallons	2,362,530	\$1.32			\$3,119
		Over 22,500 gallons	2,132,690	\$1.32			\$2,815
	Melrose COMMERCIAL SEWER	Commercial			329	\$136.60	\$44,941
		0 to 22,500 gallons	1,559,487	\$0.00			\$0
		Over 22,500 gallons	2,436,565	\$1.77			\$4,313
Sewer Service Total			26,266,577		1,940		\$245,955
Total Residential Water and Sewer Service Revenue							\$312,152
Total Commercial Water and Sewer Service Revenue							\$146,276
Total Irrigation Service Revenue							\$99,192
Total Water and Sewer Service Revenues							\$557,620
Availability Billing - Haig Point (Water)					1,917	\$31.04	\$59,504
Availability Billing - Melrose (Water)					1,617	\$76.36	\$123,474
Availability Billing - Bloody Point (Water)					368	\$76.36	\$28,100
Availability Billing - Haig Point (Sewer)					1,917	\$55.19	\$105,799
Availability Billing - Melrose (Sewer)					1,617	\$85.08	\$137,574
Availability Billing - Bloody Point (Sewer)					368	\$85.08	\$31,309
Total Availability Billing							\$485,760
Misc. Other Revenue - Other Revenue							\$11,000
Misc. Other Revenue - Other Revenue (Return Check Fee)							\$25
Misc. Other Revenue - Late Fees (Metered Sales)							\$6,058
Misc. Other Revenue - Late Fees (Availability Charges)							\$13,114
Total Misc. Other Revenue							\$30,197
Total Operating Revenues							\$1,073,577

¹ Deposits and Interest on Deposits are not included in any of the above computations. Consumption and Units reflected as reported during test year.

DAUFUSKIE ISLAND UTILITY COMPANY, INC.
2014-346-WS
REVENUE IMPACT ANALYSIS

EXHIBIT WJM-2

Calculated DIUC Proposed Revenue Overview

	Customer Type	Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues at Proposed Rates ¹	Increase Amount	% Increase
WATER	Haig Point RESIDENTIAL WATER	3/4" Residential			1,061	\$149.30	\$158,407	\$92,530	140.46%
		0 to 22,500 gallons	8,360,179	\$4.41			\$36,868	\$13,794	59.78%
		Over 22,500 gallons	3,192,728	\$4.41			\$14,080	\$5,268	59.78%
	Haig Point RESIDENTIAL & COMMERCIAL IRRIGATION	0 to 18,000 gallons	8,367,838	\$4.85	727		\$40,584	\$17,489	75.73%
		18,001 to 60,000 gallons	9,829,270	\$5.73			\$56,322	\$25,950	85.44%
		Over 60,000 gallons	10,049,342	\$6.61			\$66,426	\$31,253	88.86%
	Melrose RESIDENTIAL WATER	3/4" Residential			452	\$149.30	\$67,484	\$30,999	84.96%
		0 to 22,500 gallons	4,105,940	\$4.41			\$18,107	\$18,107	N/A
		Over 22,500 gallons	2,177,808	\$4.41			\$9,604	\$4,290	80.73%
	Melrose RESIDENTIAL & COMMERCIAL IRRIGATION	0 to 18,000 gallons	1,368,330	\$4.85	100		\$6,636	\$4,365	192.21%
		18,001 to 60,000 gallons	2,002,230	\$5.73			\$11,473	\$8,149	245.16%
		Over 60,000 gallons	2,986,298	\$6.61			\$19,739	\$14,782	298.20%
	Haig Point COMMERCIAL WATER	Commercial			106	\$209.01	\$22,155	\$12,940	140.42%
		0 to 22,500 gallons	2,413,190	\$4.41			\$10,642	\$3,982	59.79%
		Over 22,500 gallons	2,132,690	\$4.41			\$9,405	\$3,519	59.79%
SEWER	Melrose COMMERCIAL WATER	Commercial			329	\$209.01	\$68,764	\$23,823	53.01%
		0 to 22,500 gallons	1,752,659	\$4.41			\$7,729	\$7,729	N/A
		Over 22,500 gallons	2,544,703	\$4.41			\$11,222	\$5,013	80.74%
		Water Service Total	61,283,205		2,775		\$635,647	\$323,982	103.95%
	Haig Point RESIDENTIAL SEWER	Residential			1,061	\$218.18	\$231,489	\$114,376	97.66%
		0 to 22,500 gallons	8,360,179	\$2.38			\$19,897	\$8,862	80.31%
		Over 22,500 gallons	3,192,728	\$2.38			\$7,599	\$3,385	80.33%
	Melrose RESIDENTIAL SEWER	Residential			448	\$218.18	\$97,745	\$61,582	170.29%
		0 to 22,500 gallons	3,926,008	\$2.38			\$9,344	\$9,344	N/A
		Over 22,500 gallons	2,296,390	\$2.38			\$5,465	\$1,400	34.44%
	Haig Point COMMERCIAL SEWER	Commercial			102	\$305.45	\$31,156	\$12,979	71.40%
		0 to 22,500 gallons	2,362,530	\$2.38			\$5,623	\$2,504	80.28%
		Over 22,500 gallons	2,132,690	\$2.38			\$5,076	\$2,261	80.32%
	Melrose COMMERCIAL SEWER	Commercial			329	\$305.45	\$100,493	\$55,552	123.61%
		0 to 22,500 gallons	1,559,487	\$2.38			\$3,712	\$3,712	N/A
		Over 22,500 gallons	2,436,565	\$2.38			\$5,799	\$1,486	34.45%
		Sewer Service Total	26,266,577		1,940		\$523,398	\$277,443	112.80%
Total Residential Water and Sewer Service Revenue							\$676,089	\$363,937	116.59%
Total Commercial Water and Sewer Service Revenue							\$281,776	\$135,500	92.63%
Total Irrigation Service Revenue							\$201,180	\$101,988	102.82%
Total Water and Sewer Service Revenues							\$1,159,045	\$601,425	107.86%
Availability Billing - Haig Point (Water)					1,917	\$107.49	\$206,058	\$146,554	246.29%
Availability Billing - Melrose (Water)					1,617	\$107.49	\$173,811	\$50,337	40.77%
Availability Billing - Bloody Point (Water)					368	\$107.49	\$39,556	\$11,456	40.77%
Availability Billing - Haig Point (Sewer)					1,917	\$140.73	\$269,779	\$163,980	154.99%
Availability Billing - Melrose (Sewer)					1,617	\$140.73	\$227,560	\$89,986	65.41%
Availability Billing - Bloody Point (Sewer)					368	\$140.73	\$51,789	\$20,480	65.41%
Total Availability Billing					7,804		\$968,553	\$482,793	99.39%
Misc. Other Revenue - Other Revenue							\$11,000	\$0	0.00%
Misc. Other Revenue - Other Revenue (Return Check Fee)							\$25	\$0	0.00%
Misc. Other Revenue - Late Fees (Metered Sales)							\$12,592	\$6,534	107.86%
Misc. Other Revenue - Late Fees (Availability Charges)							\$26,148	\$13,034	95.39%
Total Misc. Other Revenue							\$49,765	\$19,568	64.80%
Total Operating Revenues							\$2,177,363	\$1,103,786	102.81%

¹ Deposits and Interest on Deposits are not included in any of the above computations. Consumption and Units reflected as reported during test year.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Customer Growth Analysis

Exhibit WJM-3

Date	Water Customers	Sewer Customers	Total Customers
12/31/2013	1,617	1,422	3,039
7/1/2014	1,623	1,436	3,059
Average	1,620	1,429	3,049

Growth Factor for Water

Date	# of Customers	
7/1/2014	1,623	
Average	1,620	
Growth Factor	0.0018519	0.18519%

Growth Factor for Sewer

Date	# of Customers	
7/1/2014	1,436	
Average	1,429	
Growth Factor	0.0048985	0.48985%

Growth Factor for Combined Operations

Date	# of Customers	
7/1/2014	3,059	
Average	3,049	
Growth Factor	0.0032798	0.32798%

Daufuskie Island Utility Company, Inc.
Schedule of Current and Proposed Rates
Docket No. 2014-346-WS

		Haig Pt. Present Rates	Melrose Present Rates	DIUC Proposed Rates
I. Residential Rates				
A. Water:				
1) Tapping Fees & 3/4" Meter Box		\$500.00	\$500.00	\$500.00
2) Base Quarterly Charge		\$62.09	\$80.72	\$149.30
3) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	\$2.76	\$0.00	\$4.41
	Over 22,500 gallons	\$2.76	\$2.44	\$4.41
B. Sewer:				
1) Tapping Fees & Service Lateral		\$500.00	\$500.00	\$500.00
2) Base Quarterly Charge		\$110.38	\$80.72	\$218.38
3) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	\$1.32	\$0.00	\$2.38
	Over 22,500 gallons	\$1.32	\$1.77	\$2.38
C. Irrigation:				
1) Tapping Fees & 3/4" Meter Box		\$500.00	\$500.00	\$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	\$2.76	\$1.66	\$4.85
	18,001 to 60,000 gallons	\$3.09	\$1.66	\$5.73
	Over 60,000 gallons	\$3.50	\$1.66	\$6.61
II. Commercial Rates				
A. Water:				
1) Tapping Fees per Hotel or Inn Room		\$250.00	\$250.00	\$250.00
2) Tapping Fees up to 1-1/2" Meter		\$500.00	\$500.00	\$500.00
3) Tapping Fees 2" or 3" Meter		\$1,500.00	\$1,500.00	\$1,500.00
4) Tapping Fees for 6" Meter		\$3,500.00	\$3,500.00	\$3,500.00
Note: Larger meters on a case by case basis.				
5) Base Quarterly Charge		\$86.93	\$136.60	\$209.01
6) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	\$2.76	\$0.00	\$4.41
	Over 22,500 gallons	\$2.76	\$2.44	\$4.41
B. Sewer:				
1) Tapping Fees per Hotel or Inn Room		\$250.00	\$250.00	\$250.00
2) Tapping Fees 4" - 8" Sewer Pipe		\$500.00	\$500.00	\$500.00
3) Base Quarterly Charge		\$178.21	\$136.60	\$305.45
4) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	\$1.32	\$0.00	\$2.38
	Over 22,500 gallons	\$1.32	\$1.77	\$2.38
C. Irrigation:				
1) Tapping Fees & 3/4" Meter Box		\$500.00	\$500.00	\$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	\$2.76	\$1.66	\$4.85
	18,001 to 60,000 gallons	\$3.09	\$1.66	\$5.73
	Over 60,000 gallons	\$3.50	\$1.66	\$6.61

III. Availability Rates (Quarterly)

A. <u>Water</u>	\$31.04	\$76.36	\$107.49
B. <u>Sewer</u>	\$55.19	\$85.08	\$140.73

III. Special Conditions**A. Tapping Fees:**

Haig Point - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.*

*This applies to lots purchased prior to date of this order, but not to lots sold after the date of this order. (See Commission Order No. 93-761 in Docket No. 87-333-WS)

Melrose - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.

- B. Backflow Prevention: All irrigation systems and pipes running from potable water lines must have approved backflow prevention devices installed.
- C. System Development Charge: Should new customers or their agent(s) petition to connect to the systems where there are no existing lines, pumps, hydrants, etc.; and should such petitions be approved, the following requirements shall apply:

1. New customers or their agent(s) shall be responsible for the cost of installation of the new water and sewer systems, including points of connection with existing systems and effluent return systems. The installation shall be according to the requirements and satisfaction to the utility company, and costs shall include observation, testing, and certification services provided by utility company.

2. New customers or their agent(s) who install their systems must pay an amount equal to their share of the net investment in the existing plant and system facilities. This payment, on a cost per gallon of design flow, will be made according to the System Buy-In Pricing Basis (AWWA Manual 26, First Edition), based on the following formula.

$$\begin{array}{llll}
 \text{a. System Original Cost} & - & \text{Accumulated Depreciation} & = \text{Net Cost} \\
 \text{b. Net Cost} & - & \text{Outstanding Debt} & = \text{Total Equity*} \\
 & & \text{Total Equity Investment} & \\
 & & \text{System Water or Sewer} & \\
 \text{c. Flow (Total design gallons per day)} & & & = \$/\text{gallons}
 \end{array}$$

*For these calculations, the utility company's annual report to the PSC for the preceding year shall be used. Extra strength wastewaters will be charged accordingly.

DAUFUSKIE ISLAND UTILITY COMPANY, INC.
2014-346-WS
PERFORMANCE BOND REQUIREMENT

EXHIBIT WJM-5

Daufuskie Island Utility Company, Inc. - Water			
Bond Value Components	Application Per Books	After Accounting & Pro Forma Adjustments	After Proposed Increase
Operation and Maintenance Expense	\$469,605	\$446,571	\$499,763
Taxes Other than Income Tax Expense	\$11,748	\$81,694	\$86,356
Income Taxes Expense	\$0	\$0	\$149,970
Interest Expense	\$88,763	\$42,944	\$42,944
Bond Value Requirement	\$570,116	\$571,209	\$779,033
Daufuskie Island Utility Company, Inc. - Wastewater			
Bond Value Components	Application Per Books	After Accounting & Pro Forma Adjustments	After Proposed Increase
Operation and Maintenance Expense	\$379,213	\$371,019	\$426,176
Taxes Other than Income Tax Expense	\$11,692	\$81,595	\$86,388
Income Taxes Expense	\$0	\$0	\$161,964
Interest Expense	\$88,763	\$78,268	\$78,268
Bond Value Requirement	\$479,668	\$530,882	\$752,796
Daufuskie Island Utility Company, Inc. - Combined			
Bond Value Components	Application Per Books	After Accounting & Pro Forma Adjustments	After Proposed Increase
Operation and Maintenance Expense	\$848,818	\$817,590	\$925,939
Taxes Other than Income Tax Expense	\$23,440	\$163,289	\$172,744
Income Taxes Expense	\$0	\$0	\$311,934
Interest Expense	\$177,526	\$121,212	\$121,212
Bond Value Requirement	\$1,049,784	\$1,102,091	\$1,531,829

Current Performance Bond Structure (1)	Bond Value	Expiration Date	
The Hanover Insurance Company - Insurance Certificate	\$350,000	Auto Renewal	Water
The Hanover Insurance Company - Insurance Certificate	\$350,000	Auto Renewal	Sewer
Total Performance Bond	\$700,000		

(1) Insurance Certificate secures performance bond of \$350,000 for water operations and \$350,000 for wastewater operations.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-348-WS
Highest Billed Customers

Exhibit WJM-6

Acct No.	First Name	Last Name	Address	Classification	Service Area	WATER	SEWER	IRRIGATION	Average Quarterly Bill at Current Rates	Average Quarterly Bill Proposed Rates
			BEACH CLUB	COMMERCIAL	HAIG POINT	842,600	842,600		\$1,124.58	\$1,944.77
			SANDY LANE CONDOS - IRRIG	COMMERCIAL	BLOODY POINT	698,600	698,600	488,100	\$1,115.48	\$2,189.00
			PLAT 11 ID	RESIDENTIAL	HAIG POINT			1,177,300	\$898.60	\$1,876.85
			PLAT 11 ID - 9531	RESIDENTIAL	HAIG POINT			950,800	\$801.24	\$1,502.23
			HAIG POINT CLUB HOUSE ID	COMMERCIAL	HAIG POINT	525,400	525,400		\$801.05	\$1,408.33
			HAIG POINT EQUESTRIAN CEN	RESIDENTIAL	HAIG POINT			911,500	\$767.02	\$1,437.61
			HALANDY LANE	RESIDENTIAL	HAIG POINT	3,020	3,020	806,440	\$850.85	\$1,836.61
			BLOODY POINT - CLUBHOUSE	COMMERCIAL	BLOODY POINT	461,390	461,390		\$684.09	\$1,297.67
			POOL	COMMERCIAL	HAIG POINT	341,300	341,300		\$613.27	\$1,093.82
			PLANTATION HOMES	COMMERCIAL	HAIG POINT	257,280	257,280		\$527.57	\$951.19
			FUSKIE LANE	RESIDENTIAL	BLOODY POINT	390,050	390,050	91,540	\$515.23	\$826.63
			SEA ISLAND LANE	RESIDENTIAL	HAIG POINT	325,238	325,238	4,450	\$507.28	\$824.97
			GOLF MAINTENANCE AREA-WAS	COMMERCIAL	HAIG POINT	225,600	225,600		\$495.25	\$897.42
			LAKE RIDGE COURT	RESIDENTIAL	HAIG POINT	187,820	187,820	152,850	\$475.98	\$889.08
			FREEPORT DRIVE	RESIDENTIAL	HAIG POINT	291,910	291,910		\$470.22	\$863.00
			MARSH LAKE LANE	RESIDENTIAL	HAIG POINT	288,720	288,720		\$486.96	\$857.58
			RANGE OVERLOOK	RESIDENTIAL	HAIG POINT	284,450	284,450		\$482.61	\$850.33
			GOLF MAINTENANCE AREA-WAS	COMMERCIAL	HAIG POINT	185,500	185,500		\$454.35	\$829.35
			REST STATION	COMMERCIAL	HAIG POINT	172,500	172,500		\$441.09	\$807.28
			FUSKIE - SEA OAK MANOR	COMMERCIAL	BLOODY POINT	245,500	245,500		\$436.86	\$931.20

RECORDED
2011 Dec -09 10:00 AM

Shane Q. Burns
BEAUFORT COUNTY AUDITOR
THE STATE OF SOUTH CAROLINA)

COUNTY OF BEAUFORT)

BEAUFORT COUNTY SC - RSD
BX 02182 PGS 0169-0178
FILE NUM 2011061014
12/01/2011 04:28:00 PM
REC'D BY S SMITH RCPT# 662013
RECORDING FEES 10.00
County Tax 1.10
State Tax 2.60

TAX TT.

NOT WARRANTY TITLE

TO ALL WHOM THESE PRESENTS MAY CONCERN:

WHEREAS, the provisions of Title 12, Chapter 51, Section 10 through 170 of the South Carolina Code, 1976, as amended, entitled "Alternate procedure for Collection of Property Taxes" duly enacted by the General Assembly of the State of South Carolina, provide an additional method and procedure for the collection of delinquent property taxes, penalties and costs due to counties and other political subdivisions of the State; and

WHEREAS, the provisions of the aforesaid Title 12, Chapter 51, Sections 10 through 170, authorize the levy by distress and sale of so much of the defaulting taxpayer's estate, real, or personal, or both, as may be sufficient to satisfy the taxes, penalties and costs of sale of property following proper advertisement of the property for sale; and

WHEREAS, I, DOUGLAS HENDERSON, TREASURER OF BEAUFORT COUNTY, pursuant to the authority of the aforesaid provisions and amendments thereto, issued a warrant or execution in duplicate against Haig Point Utility Company Inc., a defaulting taxpayer of said Beaufort County, to levy by distress and sale of so much of the defaulting taxpayer's estate, real or personal, or both as may be sufficient to satisfy the 2009 taxes and costs in the amount of \$338.96; and

WHEREAS, by virtue of said warrant or execution, Herschel J. Evans Jr. (authorized officer) did on May 1, 2010, mail a notice of tax delinquency under cover of certified mail, restricted delivery, return receipt to said delinquent taxpayer and this notice was not received; and

WHEREAS, (in the event the certified mail notice was undelivered) the authorized officer directed to collect delinquent taxes, penalties and costs did, on Sept. 23, 2010 take exclusive possession of the property against which such taxes were assessed by posting a notice at one or more conspicuous places on the property hereinafter described, reading "seized by The Beaufort County Treasurer to be sold for delinquent taxes"; and

WHEREAS, The Beaufort County Treasurer did thereafter properly advertise for sale once a week for three successive weeks for sale in September 2010; and

WHEREAS, upon the failure of the delinquent taxpayer, or anyone acting in his behalf, to pay the taxes, penalties and costs, the property described hereinafter was duly sold at public auction on the sales day of the month of October in the year 2010 during the usual hours of sale, to Mamdouh Sabry Abdelrahman, the purchaser and the highest bidder at such sale for the sum of \$26.70 and furnished the purchaser a receipt for such purchase money and annexed such receipt to the duplicate warrant for the enforcement thereof of his actions there under; and

WHEREAS, under cover of certified mail, restricted delivery, return receipt, Troy Hodges, Deputy Treasurer did, on August 31, 2011, mail a notice addressed Haig Point Utility Company Inc. that the property described on the notice had been sold for taxes and advising said owner if not redeemed by paying taxes, penalties and costs in the amount of \$789.90, on or before October 5, 2011, a tax title would be issued to the successful purchaser at the tax sale; and was not redeemed; and

WHEREAS, twelve months have elapsed since the date of the sale for delinquent taxes, and the said Haig Point Utility Company Inc. or other parties interested after due notice have failed to redeem said property so sold.

NOW THEREFOR, I, DOUGLAS HENDERSON, TREASURER OF THE COUNTY OF BEAUFORT, in consideration of the premises, and the sum of \$526.70 to me by the said Mamdouh Sabry Abdelrahman have granted, bargained, sold and released, and by these presents do grant, bargain, sell and release unto the said Mamdouh Sabry Abdelrahman.

ADD DMP Record 12/6/2011 09:22:18 AM
BEAUFORT COUNTY TAX MAP REFERENCE

Dist	Map	SMap	Parcel	Block	Week
R800	025	000	0045	0000	00

All those certain pieces, parcels or lots of land situate, lying and being in Haig Point, Daufuskie Island, Beaufort County, South Carolina, shown as "Elevated Tank Site" having and containing 0.337 acres, more or less, as depicted on that certain plat entitled "9.591 Acre Tract known as: Equestrian Center, being a portion of Haig Point, Daufuskie Island, South Carolina," which plat was prepared by Thomas & Hutton Engineering Co., Boyce L. Young, S.C.P.L.S. #11079, dated May 14, 1999 and recorded in plat book 70 at page 29 in the Office of the Register of Deeds for Beaufort County, South Carolina. For a more accurate description of the distances, courses, metes and bounds of the property, reference to said plats of record is hereby made.

Derivation: Book 1402 Page 2190

This is the same lot of land sold at the delinquent tax sale of October 4, 2010, for delinquent 2009 taxes in the name of Haig Point Utility Company Inc..

District: 800 Map: 025 Sub-map: 008 Parcel: 00045 Block: 0000

TOGETHER with all and singular, the Rights, Members, Hereditaments and Appurtenances to the said Premises belonging, or in any wise incident or appertaining, TO HAVE AND TO HOLD, all and singular, the said Premises hereby granted, and with the appurtenances, unto the said Mamdouh Sabry Abdelrahman, his Heirs and Assigns forever, according to the form, force and effect of the laws and usages of the State of South Carolina, in such cases made provided.

Witness my Hand and Seal this 1st day of December in the year of our Lord Two Thousand Eleven

Signed, Sealed and Delivered in the presence of:

Johnna L. Neil
State of South Carolina

Douglas Henderson
Treasurer of Beaufort County

County of Beaufort

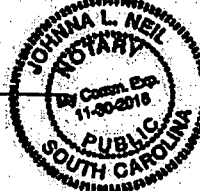
Probate

Personally appeared before me Johnna L. Neil who being duly sworn, deposed and said that (s)he saw the within named Douglas Henderson as Treasurer of Beaufort County sign, seal and deliver the within deed, and that (s)he, together with Johnna L. Neil Witness the execution thereof.

Sworn to and subscribed before me

This 1st day of December 2011
Johnna L. Neil (Seal)
Notary Public of South Carolina

My commission expires: _____



The State of South Carolina Deed

Treasurer of Beaufort County

TO

Mamdouh Sabry Abdelrahman
8300 Hinton Mill Rd
Ostrander, OH 43061

Exhibit WJM-7



Beaufort County, South Carolina

generated on 9/23/2015 9:23:19 PM EDT

Property ID (PIN)	Alternate ID (AIN)	Parcel Address	Data refreshed as of	Assess Year	Pay Year
R800 025 000 0045 0000	08975353		9/19/2015	2014	2014

Current Parcel Information

Owner	ABDELRAHMAN MAMDOUH SABRY	Property Class Code	Recr&CultImp Resort&GroupCamp
Owner Address	8300 HINTON MILL RD OSTRANDER OH 43061	Acreage	.3400
Legal Description	PAR 3 EQUESTRIAN CENTER PB70 P29		

Historic Information

Tax Year	Land	Building	Market	Taxes	Payment
2014	\$20,400	\$3,800	\$24,200	\$272.21	\$272.21
2013	\$20,400	\$3,800	\$24,200	\$262.93	\$262.93
2012	\$34,000	\$3,660	\$37,660	\$193.27	\$193.27
2011	\$34,000	\$3,660	\$37,660	\$190.23	\$190.23
2010	\$34,000	\$3,660	\$37,660	\$187.74	\$187.74
2009	\$34,000	\$3,660	\$37,660	\$186.05	\$338.96
2008	\$3,400	\$9,900	\$13,300	\$182.63	\$335.02
2007	\$3,400	\$9,900	\$13,300	\$174.16	\$174.16

Exhibit WJM-7

2006	\$500	\$500	\$6.41	\$7.05
2005			\$6.06	\$6.06

Grantor	Book & Page	Date	Deed	Vacant	Sale Price
HAIG POINT UTILITY COMPANY INC.	3102 169	12/1/2011	De		\$526
INTERNATIONAL PAPER REALTY CORP OF	1402 2190	4/1/2001	Fu		\$10
		12/31/1776	Or		\$0
UNKNOWN OWNER 08975353		12/31/1776	Or		\$0

Improvements							
Building	Type	Use Code Description	Constructed Year	Stories	Rooms	Square Footage	Improvement Size
R01	UTLSHED	Residential Shed - Small Util	2006	0	0		320

Features & Exterior Features						
Building	Type	Feature Code	Description	No. / Sq.Ft.	Value	

Exhibit WJM-8



Beaufort County, South Carolina

generated on 9/25/2015 12:38:39 PM EDT

Property ID (PIN)	Alternate ID (AIN)	Parcel Address	Data refreshed as of	Assess Year	Pay Year
R800 027 00A 0087 0000	00490249	26 RIVER RD,	9/19/2015	2014	2014

Current Parcel Information:

Owner	BLOODY POINT PROPERTIES LLC	Property Class Code	Recr&CultImp Resort&GroupCamp
Owner Address	9390 OLD SOUTHWICK PASS ALPHARETTA GA 30022	Acreage	5.6300

Legal Description FUTURE DEVELOPMENT PB 61 P5 ~ACRES CHANGED BY PLATPB35 P223 ***SEE
 NOTEM****QC DEED.05360177SPLIT 4/90 85.81 AC27A/1-75 PB37 P127.10 AC RD
 R/WSPLIT 3/91 201.88 AC TO27A/76 77 785.65 AC TO ROAD R/WSPLIT 2/92 6.09 AC
 27A/79-840.59 AC RD R/W 27A/85SPLIT 3/98 1.66 AC 27A/89-90SPLIT 6/98 0.59 AC
 27A/119SPLIT 6/01 6.20 AC 27A/123~06/11 AC CORRECTION

Historic Information

Tax Year	Land	Building	Market	Taxes	Payment
2014	\$108,200	\$136,400	\$244,600	\$4,140.68	\$4,140.68
2013	\$108,200	\$136,400	\$244,600	\$4,012.09	\$4,012.09
2012	\$106,900	\$136,400	\$243,300	\$3,420.85	\$4,702.27
2011	\$563,000	\$312,346	\$875,346	\$7,323.33	\$7,323.33
2010	\$1,491,000	\$312,346	\$1,803,346	\$7,229.92	\$8,314.41
2009	\$1,491,000	\$312,346	\$1,803,346	\$7,165.91	\$8,315.80
2008	\$223,700	\$277,700	\$501,400	\$7,052.77	\$8,235.69
2007	\$223,700	\$277,700	\$501,400	\$6,715.58	\$7,387.14
2006	\$223,700	\$277,700	\$501,400	\$6,153.00	\$7,150.95
2005	\$223,700	\$277,700	\$501,400	\$5,801.02	\$6,796.17

Sales Disclosure

Grantor	Book & Page	Date	Deed	Vacant	Sale Price
MCCARTHY BRIAN J	3082 1981	7/26/2011	Ge		\$10
DAUFUSKIE ISL PROPERTIES LLC	3066 3364	6/17/2011	Fu		\$1,640,000

Exhibit WJM-8

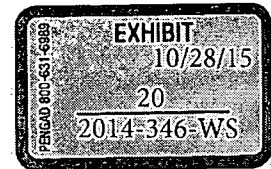
BLOODY POINT ASSET CORP % DAUFUSKIE	1589 1591	5/30/2002	QC	\$10
BLOODY POINT GROUP LTD P/S	697 1314	2/28/1994	10	\$10
BLOODY POINT LTD P/S	539 1333	10/1/1989	Fu	\$668,000
BLOODY POINT GROUP LTD P/S	539 1342	10/1/1989	QC	\$0
BLOODY POINT LTD P/S	506 1937	7/1/1988	QC	\$0
BLOODY POINT LTD P/S	506 1907	7/1/1988	QC	\$0
SURFSIDE DEVEL CO	506 1902	7/1/1988	Fu	\$0
BLOODY POINT LTD P/S	506 1925	7/1/1988	QC	\$0
SURFSIDE DEVEL CO	382 401	1/1/1980	Ot	\$0
		12/31/1776	Or	\$0

Improvements

Building	Type	Use Code Description	Constructed Year	Stories	Rooms	Square Footage	Improvement Size
C03	STORGAR	Storage Garage	1991	0	0	1,250	
C03	GUARDHS	Guard House	1994	0	0		63
C03	LOAFING	Livestock Loafing Shed	1994	0	0		440
C03	COMCNPYA	Commercial Canopy - Average	1991	0	0		5,000

Features & Exterior Features

Building	Type	Feature Code	Description	No. / Sq.Ft.	Value



Daufuskie Island Utility Company, Inc.
 (Company Name)

FOR THE YEAR ENDED 2012

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or system shall be stated at a cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	20,593				20,593
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	Total Intangible Plant	20,593				20,593
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	794,865				794,865
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment					
17	Total Source of Supply and Pumping Plant	794,865				794,865
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	159,384				159,384
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	316,323				316,323
23	339.3 Other Plant and Miscellaneous Equipment					
24	Total Water Treatment Equipment	475,707				475,707
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	81,907				81,907
28	311.4 Pumping Equipment	53,272	2,504			55,775
29	330.4 Distribution Reservoirs and Standpipes	869,379				869,379
30	331.4 Transmission and Distribution Mains	1,517,358	1,116			1,518,474
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	Total Transmission and Distribution Plant	2,521,916	3,620			2,525,535
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	22,772				22,772
40	340.5 Office Furniture and Equipment	240	2,850			3,090
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,331				4,331
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant					
49	Total General Plant	45,409	2,850			48,259
50	101 TOTAL UTILITY PLANT-IN-SERVICE	3,858,489	6,470			3,864,959

Daufuskie Island Utility Company, Inc.
 (Company Name)

FOR THE YEAR ENDED 2012 - REVISED

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or system shall be stated at a cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	20,593				20,593
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	Total Intangible Plant	20,593	0	0	0	20,593
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	553,761			9,919	563,680
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment					
17	Total Source of Supply and Pumping Plant	553,761	0	0	9,919	563,680
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	111,038			1,989	113,027
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	220,374			3,947	224,321
23	339.3 Other Plant and Miscellaneous Equipment					
24	Total Water Treatment Equipment	331,412	0	0	5,936	337,348
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	57,062			1,022	58,084
28	311.4 Pumping Equipment	37,113	2,504		(64)	39,553
29	330.4 Distribution Reservoirs and Standpipes	605,673			10,849	616,522
30	331.4 Transmission and Distribution Mains	1,057,102	1,116		18,610	1,076,828
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	Total Transmission and Distribution Plant	1,756,950	3,620	0	30,417	1,790,987
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	15,865			284	16,149
40	340.5 Office Furniture and Equipment	240	2,850			3,090
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,330				4,330
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant					
49	Total General Plant	38,502	2,850	0	284	41,636
50	101 TOTAL UTILITY PLANT-IN-SERVICE	2,701,218	6,470	0	46,556	2,754,244

Footnote:

Column (c) - Adjusted to reflect the rate base allowed in Docket No. 2011-229-WS

Daufuskie Island Utility Company, Inc.
(Company Name)

FOR THE YEAR ENDED 2013

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or system shall be stated at a cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	20,593	53,005			73,597
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	Total Intangible Plant	20,593	53,005	0	0	73,597
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	794,865				794,865
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment					
17	Total Source of Supply and Pumping Plant	794,865	0	0	0	794,865
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	159,384			(113,534)	45,850
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	316,323	4,301	(2,540)		318,084
23	339.3 Other Plant and Miscellaneous Equipment					
24	Total Water Treatment Equipment	475,707	4,301	(2,540)	(113,534)	363,934
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	81,907				81,907
28	311.4 Pumping Equipment	55,775	11,223	(6,628)		60,370
29	330.4 Distribution Reservoirs and Standpipes	869,379				869,379
30	331.4 Transmission and Distribution Mains	1,518,474				1,518,474
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	Total Transmission and Distribution Plant	2,525,535	11,223	(6,628)	0	2,530,130
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	22,772				22,772
40	340.5 Office Furniture and Equipment	3,090				3,090
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,331				4,331
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant					
49	Total General Plant	48,259	0			48,259
50	101 TOTAL UTILITY PLANT-IN-SERVICE	3,864,959	68,528	(9,168)	(113,534)	3,810,785

Daufuskie Island Utility Company, Inc.
 (Company Name)

FOR THE YEAR ENDED 2013 - REVISED

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or system shall be stated at a cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	20,593	53,005			73,598
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	Total Intangible Plant	20,593	53,005	0	0	73,598
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	563,680			37,387	601,067
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment					
17	Total Source of Supply and Pumping Plant	563,680	0	0	37,387	601,067
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	113,027			(67,177)	45,850
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	224,321	4,301	(2,540)	14,449	240,531
23	339.3 Other Plant and Miscellaneous Equipment					
24	Total Water Treatment Equipment	337,348	4,301	(2,540)	(52,728)	286,381
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	58,084			3,853	61,937
28	311.4 Pumping Equipment	39,553	11,223	(6,628)	1,503	45,651
29	330.4 Distribution Reservoirs and Standpipes	616,522			40,891	657,413
30	331.4 Transmission and Distribution Mains	1,076,828			71,422	1,148,250
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	Total Transmission and Distribution Plant	1,790,987	11,223	(6,628)	117,669	1,913,251
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	16,149			1,071	17,220
40	340.5 Office Furniture and Equipment	3,090				3,090
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,330				4,330
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant					
49	Total General Plant	41,636	0	0	1,071	42,707
50	101 TOTAL UTILITY PLANT-IN-SERVICE	2,754,244	68,528	(9,168)	103,399	2,917,004

Footnote:

Column (e) - Adjusted to reflect the rate base allowed in Docket No. 2011-229-WS

Daufuskie Island Utility Company, Inc.
 (Company Name)

FOR THE YEAR ENDED 2014

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or systems shall be stated at a cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	73,598				73,598
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	Total Intangible Plant	73,598	0	0	0	73,598
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	601,067			(117,816)	483,251
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment		9,104			9,104
17	Total Source of Supply and Pumping Plant	601,067	9,104	0	(117,816)	492,355
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	45,850	15,980			61,830
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	240,531	1,735		(47,827)	194,439
23	339.3 Other Plant and Miscellaneous Equipment					
24	Total Water Treatment Equipment	286,381	17,715	0	(47,827)	256,269
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	61,937			(12,141)	49,796
28	311.4 Pumping Equipment	45,651	15,044		(14,846)	45,849
29	330.4 Distribution Reservoirs and Standpipes	657,413	37,946		(143,736)	551,623
30	331.4 Transmission and Distribution Mains	1,148,250	2,922		(226,215)	924,957
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	Total Transmission and Distribution Plant	1,913,251	55,912	0	(396,938)	1,572,225
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	17,220			(3,375)	13,845
40	340.5 Office Furniture and Equipment	3,090	10,134			13,224
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,330	1,205			5,535
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant		404			404
49	Total General Plant	42,707	11,743	0	(3,375)	51,075
50	101 TOTAL UTILITY PLANT-IN-SERVICE	2,917,004	94,474	0	(565,956)	2,445,522

Footnote:

15

Column (e) - Adjusted to reflect the rate base allowed in Docket No. 2011-229-WS

October 27, 2015

John J. Pringle, Jr.
Direct: 803.343.1270
E-Fax: 803.343.1238
jack.pringle@arlaw.com

FILED ELECTRONICALLY

The Honorable Jocelyn G. Boyd
Clerk
South Carolina Public Service Commission
Post Office Drawer 11649
Columbia, South Carolina 29211

RE: Application of Daufuskie Island Utility Company, Inc. for Approval of Water and
Sewer Rates, Terms and Conditions
Docket No. 2014—346-WS

Dear Jocelyn:

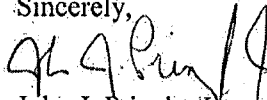
Attached for filing please find the **Settlement Agreement** ("Settlement") by and among Haig Point Club and Community Association, Inc. ("HPCCA"); Melrose Property Owner's Association, Inc. ("MPOA"); Bloody Point Property Owner's Association ("BPPOA") (collectively the "POAs") and the Office of Regulatory Staff of South Carolina ("ORS").

The POAs are aware of the Commission's Settlement Procedures, and understand that the Settlement is being filed on the day before the hearing in this Docket. However, this Settlement is the result of a great deal of communication and collaboration between the POAs and the ORS, and is being filed at the first possible opportunity following its negotiation and execution.

The revenue reflected in the Settlement reflects all of the adjustments made by the ORS, with the exception that the ORS amended its bad debt methodology to utilize the methodology proposed by Daufuskie Island Utility Company, Inc. (the "Company") in its Application. No other changes were made by ORS in reaching the Settlement.

If you have any questions, please do not hesitate to contact me.

Sincerely,


John J. Pringle, Jr.

cc: parties of record (via electronic mail service)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2014-346-WS
OCTOBER 27, 2014

IN RE:

Application of Daufuskie Island Utility	)	
Company, Incorporated for Approval	)	
of an Increase for Water and Sewer Rates,	)	SETTLEMENT AGREEMENT
Terms and Conditions	)	
_____	)	

This Settlement Agreement is made by and among Haig Point Club and Community Association, Inc. ("HPCCA"); Melrose Property Owner's Association, Inc. ("MPOA"); Bloody Point Property Owner's Association ("BPPOA") (collectively the "POAs") and the Office of Regulatory Staff of South Carolina ("ORS"), (all hereinafter collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, on June 11, 2015, DIUC filed with the Public Service Commission of South Carolina ("Commission") an Application for Approval of an Adjustment in Rates and Charges for Water and Sewer Services ("Application");

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket;

WHEREAS, the other parties in this case, Daufuskie Island Utility Company, Incorporated ("DIUC" or "the Company") and Beach Field Properties, LLC ("Beach Field"), are not signatories to this Settlement Agreement;

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (the "Commission") pursuant to the procedure established in S.C.

Code Ann. § 58-5-240 (Supp. 2014) and 10 S.C. Code Ann. Regs. 103-503, 103-512.4.A, 103-703 and 103-712.4.A;

WHEREAS, as calculated by ORS, the Company provides water supply/distribution services to 680 active residential and commercial service units and wastewater collection/treatment services to 493 active residential and commercial service units, all of which is located on Daufuskie Island, in Beaufort County, South Carolina;

WHEREAS, ORS examined the books and records of the Company relative to the issues raised in the Application and conducted financial, business, and site inspections of DIUC; and

WHEREAS, the Parties have engaged in discussions to determine whether a settlement in this proceeding would be in their best interests and in the public interest;

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

1. The Parties agree to stipulate into the record the pre-filed testimonies and exhibits of the following without objection or cross examination:

A. ORS

1. Douglas H. Carlisle (direct)
2. Ivana C. Gearheart (direct)
3. Willie J. Morgan (direct and surrebuttal)

B. HPCCA, MPOA, and BPPOA

1. Lynn M. Lanier (direct)
2. Charles Loy (direct and surrebuttal)

Page 2 of 7

3. Paul Vogel (direct)
4. Tony Simonelli (direct)
5. Doug Egly (direct)
6. Harry Jue (direct)

2. By and between these Parties, the Parties agree that no other evidence will be offered in the proceeding by the Parties other than the stipulated testimony and exhibits and this Settlement Agreement unless the additional evidence is in support of the Settlement Agreement or to respond to Commission questions. The Parties agree that nothing herein will preclude each party from advancing its respective positions in the event that the Commission does not approve the Settlement Agreement.

3. The Parties stipulate and agree to the rate schedule attached hereto and incorporated herein by reference as Settlement Agreement Exhibit 1. Settlement Agreement Exhibit 2 shows the percentage increase for the rates.

4. The Parties agree that the rates in Settlement Agreement Exhibits 1 and 2 along with the adjustments and revenues in Settlement Agreement Exhibits 3, 4 and 5 are fair, just, and reasonable to customers of the Company's system while also providing the opportunity to earn a fair operating margin which produces additional revenues of \$462,798. The Parties stipulate that the resultant operating margin is 16.18% with a return on equity of 9.28%.

5. The Parties agree to accept all adjustments and recommendations in ORS's testimony and exhibits, as modified by this Settlement Agreement and its Exhibits.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding.

7. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2014). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

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

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

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

8. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair in any way their arguments or positions they may choose to make in future Commission proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

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

10. This Settlement Agreement 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, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

11. Each Party acknowledges its consent and agreement to this Settlement Agreement 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 this Settlement Agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

12. The Parties represent that the terms of this Settlement Agreement are based upon full and accurate information known as of the date this Settlement Agreement 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 Settlement Agreement is based, either Party may withdraw from the Settlement Agreement with written notice to the other Party.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Representing and binding the South Carolina Office of Regulatory Staff

Shannon B. Hudson

Shannon Bowyer Hudson, Esquire

Andrew M. Bateman, Esquire

South Carolina Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, South Carolina 29201

Tel.: (803) 737-0889

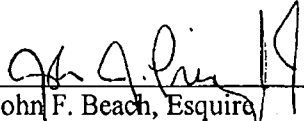
(803) 737-8440

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E-mail: abateman@regstaff.sc.gov

shudson@regstaff.sc.gov

**Representing and binding the Haig Point Club and Community Association, Inc., Melrose
Property Owner's Association, Inc., and the Bloody Point Property Owner's Association:**



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Daufuskie Island Utility Company, Inc.
Schedule of Current and Proposed Rates
Docket No. 2014-346-WS

		<u>Haig Pt.</u> <u>Settlement</u> <u>Rates</u>	<u>Melrose</u> <u>Settlement</u> <u>Rates</u>
I. Residential Rates			
A. <u>Water:</u>			
1) Tapping Fees & 3/4" Meter Box		\$500.00	\$500.00
2) Base Quarterly Charge		\$80.81	\$105.05
3) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	\$4.41	\$4.41
	Over 22,500 gallons	\$4.41	\$4.41
B. <u>Sewer:</u>			
1) Tapping Fees & Service Lateral		\$500.00	\$500.00
2) Base Quarterly Charge		\$143.65	\$105.05
3) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	\$2.38	\$2.38
	Over 22,500 gallons	\$2.38	\$2.38
C. <u>Irrigation:</u>			
1) Tapping Fees & 3/4" Meter Box		\$500.00	\$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	\$4.85	\$4.85
	18,001 to 60,000 gallons	\$5.73	\$5.73
	Over 60,000 gallons	\$6.61	\$6.61
II. <u>Commercial Rates</u>			
A. <u>Water:</u>			
1) Tapping Fees per Hotel or Inn Room		\$250.00	\$250.00
2) Tapping Fees up to 1-1/2" Meter		\$500.00	\$500.00
3) Tapping Fees 2" or 3" Meter		\$1,500.00	\$1,500.00
4) Tapping Fees for 6" Meter		\$3,500.00	\$3,500.00
Note: Larger meters on a case by case basis.			
5) Base Quarterly Charge		\$113.17	\$177.77
6) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	\$4.41	\$4.41
	Over 22,500 gallons	\$4.41	\$4.41
B. <u>Sewer:</u>			
1) Tapping Fees per Hotel or Inn Room		\$250.00	\$250.00
2) Tapping Fees 4" - 8" Sewer Pipe		\$500.00	\$500.00
3) Base Quarterly Charge		\$231.93	\$177.77
4) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	\$2.38	\$2.38
	Over 22,500 gallons	\$2.38	\$2.38
C. <u>Irrigation:</u>			
1) Tapping Fees & 3/4" Meter Box		\$500.00	\$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	\$4.85	\$4.85
	18,001 to 60,000 gallons	\$5.73	\$5.73
	Over 60,000 gallons	\$6.61	\$6.61

III. Availability Rates (Quarterly)

A. <u>Water</u>	\$40.40	\$99.38
B. <u>Sewer</u>	\$71.83	\$110.72

III. Special Conditions**A. Tapping Fees:**

Haig Point - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.*

*This applies to lots purchased prior to date of this order, but not to lots sold after the date of this order. (See Commission Order No. 93-761 in Docket No. 87-333-WS)

Melrose - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.

B. Backflow Prevention: All irrigation systems and pipes running from potable water lines must have approved backflow prevention devices installed.**C. System Development Charge:** Should new customers or their agent(s) petition to connect to the systems where there are no existing lines, pumps, hydrants, etc.; and should such petitions be approved, the following requirements shall apply:

1. New customers or their agent(s) shall be responsible for the cost of installation of the new water and sewer systems, including points of connection with existing systems and effluent return systems. The installation shall be according to the requirements and satisfaction to the utility company, and costs shall include observation, testing, and certification services provided by utility company.

2. New customers or their agent(s) who install their systems must pay an amount equal to their share of the net investment in the existing plant and system facilities. This payment, on a cost per gallon of design flow, will be made according to the System Buy-in Pricing Basis (AWWA Manual 26, First Edition), based on the following formula.

a. System Original Cost	-	Accumulated Depreciation	= Net Cost
b. Net Cost	-	Outstanding Debt	= Total Equity*
<u>Total Equity Investment</u>			
System Water or Sewer			
c. Flow (Total design gallons per day)			= \$/gallons

*For these calculations, the utility company's annual report to the PSC for the preceding year shall be used. Extra strength wastewaters will be charged accordingly.

DAUFUSKIE ISLAND UTILITY COMPANY, INC.
2014-346-WS
REVENUE IMPACT ANALYSIS

Settlement EXHIBIT WJM-2

Calculated DIUC Test Year Revenue Overview

	Customer Type	Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues ¹	
WATER	Haig Point RESIDENTIAL WATER	3/4" Residential			1,061	\$62.09	\$65,877	
		0 to 22,500 gallons	8,360,179	\$2.76			\$23,074	
		Over 22,500 gallons	3,192,728	\$2.76			\$8,812	
	Haig Point RESIDENTIAL & COMMERCIAL IRRIGATION				727			
		0 to 18,000 gallons	8,367,838	\$2.76			\$23,095	
		18,001 to 60,000 gallons	9,829,270	\$3.09			\$30,372	
		Over 60,000 gallons	10,049,342	\$3.50			\$35,173	
	Melrose RESIDENTIAL WATER	3/4" Residential			452	\$80.72	\$36,485	
		0 to 22,500 gallons	4,105,940	\$0.00			\$0	
		Over 22,500 gallons	2,177,808	\$2.44			\$5,314	
	Melrose RESIDENTIAL & COMMERCIAL IRRIGATION				100			
		0 to 18,000 gallons	1,368,330	\$1.66			\$2,271	
		18,001 to 60,000 gallons	2,002,230	\$1.66			\$3,324	
		Over 60,000 gallons	2,986,298	\$1.66			\$4,957	
	Haig Point COMMERCIAL WATER	Commercial			106	\$86.93	\$9,215	
	0 to 22,500 gallons	2,413,190	\$2.76			\$6,660		
	Over 22,500 gallons	2,132,690	\$2.76			\$5,886		
Melrose COMMERCIAL WATER	Commercial			329	\$136.60	\$44,941		
	0 to 22,500 gallons	1,752,659	\$0.00			\$0		
	Over 22,500 gallons	2,544,703	\$2.44			\$6,209		
		Water Service Total	61,283,205		2,775		\$311,665	
SEWER	Haig Point RESIDENTIAL SEWER	Residential			1,061	\$110.38	\$117,113	
		0 to 22,500 gallons	8,360,179	\$1.32			\$11,035	
		Over 22,500 gallons	3,192,728	\$1.32			\$4,214	
	Melrose RESIDENTIAL SEWER	Residential			448	\$80.72	\$36,163	
		0 to 22,500 gallons	3,926,008	\$0.00			\$0	
		Over 22,500 gallons	2,296,390	\$1.77			\$4,065	
	Haig Point COMMERCIAL SEWER	Commercial			102	\$178.21	\$18,177	
		0 to 22,500 gallons	2,362,530	\$1.32			\$3,119	
		Over 22,500 gallons	2,132,690	\$1.32			\$2,815	
	Melrose COMMERCIAL SEWER	Commercial			329	\$136.60	\$44,941	
		0 to 22,500 gallons	1,559,487	\$0.00			\$0	
		Over 22,500 gallons	2,436,565	\$1.77			\$4,313	
			Sewer Service Total	26,266,577		1,940		\$245,955
	Total Residential Water and Sewer Service Revenue							\$312,152
Total Commercial Water and Sewer Service Revenue							\$146,276	
Total Irrigation Service Revenue							\$99,192	
Total Water and Sewer Service Revenues							\$557,620	
Availability Billing - Haig Point (Water)					1,917	\$31.04	\$59,504	
Availability Billing - Melrose (Water)					1,617	\$76.36	\$123,474	
Availability Billing - Bloody Point (Water)					368	\$76.36	\$28,100	
Availability Billing - Haig Point (Sewer)					1,917	\$55.19	\$105,799	
Availability Billing - Melrose (Sewer)					1,617	\$85.08	\$137,574	
Availability Billing - Bloody Point (Sewer)					368	\$85.08	\$31,309	
Total Availability Billing							\$485,760	
Misc. Other Revenue - Other Revenue							\$11,000	
Misc. Other Revenue - Other Revenue (Return Check Fee)							\$25	
Misc. Other Revenue - Late Fees (Metered Sales)							\$6,058	
Misc. Other Revenue - Late Fees (Availability Charges)							\$13,114	
Total Misc. Other Revenue							\$30,197	
Total Operating Revenues							\$1,073,577	

¹ Deposits and Interest on Deposits are not included in any of the above computations. Consumption and Units reflected as reported during test year.

DAUFUSKIE ISLAND UTILITY COMPANY, INC.
2014-346-WS
REVENUE IMPACT ANALYSIS

Settlement EXHIBIT WJM-2

Calculated DIUC Proposed Revenue Overview at 9.28%

	Customer Type	Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues at Proposed Rates ¹	Increase Amount	% Increase
WATER	Haig Point RESIDENTIAL WATER	3/4" Residential			1,061	\$80.81	\$85,739	\$19,862	30.15%
		0 to 22,500 gallons	8,360,179	\$4.41			\$36,868	\$13,794	59.78%
		Over 22,500 gallons	3,192,728	\$4.41			\$14,080	\$5,268	59.78%
	Haig Point RESIDENTIAL & COMMERCIAL IRRIGATION				727		\$0		
		0 to 18,000 gallons	8,367,838	\$4.85			\$40,584	\$17,489	75.73%
		18,001 to 60,000 gallons	9,829,270	\$5.73			\$56,322	\$25,950	85.44%
	Melrose RESIDENTIAL WATER	Over 60,000 gallons	10,049,342	\$6.61			\$66,426	\$31,253	88.86%
		3/4" Residential			452	\$105.05	\$47,483	\$10,998	30.14%
		0 to 22,500 gallons	4,105,940	\$4.41			\$18,107	\$18,107	N/A
	Melrose RESIDENTIAL & COMMERCIAL IRRIGATION	Over 22,500 gallons	2,177,808	\$4.41			\$9,604	\$4,290	80.73%
					100		\$0		
		0 to 18,000 gallons	1,368,330	\$4.85			\$6,636	\$4,365	192.21%
	Haig Point COMMERCIAL WATER	18,001 to 60,000 gallons	2,002,230	\$5.73			\$11,473	\$8,149	245.16%
		Over 60,000 gallons	2,986,298	\$6.61			\$19,739	\$14,782	298.20%
		Commercial			106	\$113.17	\$11,996	\$2,781	30.18%
Melrose COMMERCIAL WATER	0 to 22,500 gallons	2,413,190	\$4.41			\$10,642	\$3,982	59.79%	
	Over 22,500 gallons	2,132,690	\$4.41			\$9,405	\$3,519	59.79%	
	Commercial			329	\$177.77	\$58,486	\$13,545	30.14%	
SEWER	Haig Point RESIDENTIAL SEWER	0 to 22,500 gallons	1,752,659	\$4.41			\$7,729	\$7,729	N/A
		Over 22,500 gallons	2,544,703	\$4.41			\$11,222	\$5,013	80.74%
	Melrose RESIDENTIAL SEWER	Commercial							
		0 to 22,500 gallons							
		Over 22,500 gallons							
	Haig Point COMMERCIAL SEWER	Commercial							
		0 to 22,500 gallons							
		Over 22,500 gallons							
	Melrose COMMERCIAL SEWER	Commercial							
		0 to 22,500 gallons							
		Over 22,500 gallons							
	Sewer Service Total								
Total Residential Water and Sewer Service Revenue							\$453,661	\$141,509	45.33%
Total Commercial Water and Sewer Service Revenue							\$211,833	\$65,557	44.82%
Total Irrigation Service Revenue							\$201,180	\$101,988	102.82%
Total Water and Sewer Service Revenues							\$866,674	\$309,054	55.42%
Availability Billing - Haig Point (Water)					1,917	\$40.40	\$77,447	\$17,943	30.15%
Availability Billing - Melrose (Water)					1,617	\$99.38	\$160,697	\$37,223	30.15%
Availability Billing - Bloody Point (Water)					368	\$99.38	\$36,572	\$8,472	30.15%
Availability Billing - Haig Point (Sewer)					1,917	\$71.83	\$137,698	\$31,899	30.15%
Availability Billing - Melrose (Sewer)					1,617	\$110.72	\$179,034	\$41,460	30.14%
Availability Billing - Bloody Point (Sewer)					368	\$110.72	\$40,745	\$9,436	30.14%
Total Availability Billing					7,804		\$632,193	\$146,433	30.15%
Misc. Other Revenue - Other Revenue							\$11,000	\$0	0.00%
Misc. Other Revenue - Other Revenue (Return Check Fee)							\$25	\$0	0.00%
Misc. Other Revenue - Late Fees (Metered Sales)							\$9,416	\$3,358	55.43%
Misc. Other Revenue - Late Fees (Availability Charges)							\$17,067	\$3,953	30.14%
Total Misc. Other Revenue							\$37,508	\$7,311	24.21%
Total Operating Revenues							\$1,536,375	\$462,798	43.11%

¹ Deposits and Interest on Deposits are not included in any of the above computations. Consumption and Units reflected as reported during test year.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Combined Operations

Settlement Exhibit ICG-3
Page 1 of 1

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>OPERATING REVENUE</u>					
Residential revenue	307,239	4,913 1a	312,152	141,509 18a	453,661
Commercial Revenue	151,056	(4,780) 1b	146,276	65,557 18b	211,833
Irrigation Revenue	98,309	883 1c	99,192	101,988 18c	201,180
Availability Billing	489,665	(3,905) 2	485,760	146,433 19	632,193
Misc. Other Revenue	30,193	4 3	30,197	7,311 20	37,508
<u>TOTAL OPERATING REVENUE</u>	<u>1,076,462</u>	<u>(2,885)</u>	<u>1,073,577</u>	<u>462,798</u>	<u>1,536,375</u>
<u>OPERATION AND MAINTENANCE EXPENSES</u>					
Operation and Maintenance Expenses	848,818	(122,422) 4	726,396	6,194 21	732,590
<u>TOTAL OPERATION AND MAINTENANCE EXPENSES</u>	<u>848,818</u>	<u>(122,422)</u>	<u>726,396</u>	<u>6,194</u>	<u>732,590</u>
Depreciation and Amortization Expense	73,072	(2,002) 5	71,070	0	71,070
Amortization of Rate Case Expenses	92,420	(42,308) 6	50,112	0	50,112
Taxes Other than Income Tax Expense	23,440	139,849 7	163,289	3,964 22	167,253
Income Tax Expense	0	0 8	0	147,179 23	147,179
<u>TOTAL OPERATING EXPENSES</u>	<u>1,037,750</u>	<u>(26,883)</u>	<u>1,010,867</u>	<u>157,337</u>	<u>1,168,204</u>
<u>NET OPERATING INCOME</u>	<u>38,712</u>	<u>23,998</u>	<u>62,710</u>	<u>305,461</u>	<u>368,171</u>
Add: Customer Growth	0	286 9	286	939 24	1,225
<u>NET INCOME (LOSS) FOR RETURN</u>	<u>38,712</u>	<u>24,284</u>	<u>62,996</u>	<u>306,400</u>	<u>369,396</u>
<u>ORIGINAL COST RATE BASE:</u>					
Gross Plant in Service	7,964,379	(1,624,696) 10	6,339,683	0	6,339,683
Accumulated Depreciation	(790,024)	(141,198) 11	(931,222)	0	(931,222)
Construction Work In Progress (CWIP)	254,853	(254,853) 12	0	0	0
Contributions in Aid of Construction	(660,295)	0 13	(660,295)	0	(660,295)
Accumulated Amortization of CIAC	69,269	213 14	69,482	0	69,482
Net Plant	6,838,182	(2,020,534)	4,817,648	0	4,817,648
Working Capital	75,842	69,437 15	145,279	0	145,279
Unamortized Balances	0	0 16	0	0	0
<u>TOTAL RATE BASE</u>	<u>6,914,024</u>	<u>(1,951,097)</u>	<u>4,962,927</u>	<u>0</u>	<u>4,962,927</u>
<u>RETURN ON RATE BASE</u>	<u>0.56%</u>		<u>1.27%</u>		<u>7.44%</u>
<u>OPERATING MARGIN</u>	<u>-12.90%</u>		<u>-5.38%</u>		<u>16.18%</u>
<u>INTEREST EXPENSE</u>	<u>177,526</u>	<u>(56,759) 17</u>	<u>120,767</u>	<u>0</u>	<u>120,767</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Water Operations

Settlement Exhibit ICG-4
Page 1 of 1

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>OPERATING REVENUE</u>					
Water Residential	139,071	491 1a	139,562	72,319 18a	211,881
Water Commercial	72,479	432 1b	72,911	36,569 18b	109,480
Water Irrigation	98,309	883 1c	99,192	101,988 18c	201,180
Availability Billing	213,004	(1,926) 2	211,078	63,638 19	274,716
Misc. Other Revenue	20,444	(715) 3	19,729	4,389 20	24,118
<u>TOTAL OPERATING REVENUE</u>	<u>543,307</u>	<u>(835)</u>	<u>542,472</u>	<u>278,903</u>	<u>821,375</u>
<u>WATER OPERATION AND MAINTENANCE EXPENSES</u>					
Operation and Maintenance Expense	469,605	(68,723) 4	400,882	3,733 21	404,615
<u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u>	<u>469,605</u>	<u>(68,723)</u>	<u>400,882</u>	<u>3,733</u>	<u>404,615</u>
Depreciation and Amortization Expense	36,921	(6,383) 5	30,538	0	30,538
Amortization of Rate Case Expenses	46,210	(21,154) 6	25,056	0	25,056
Taxes Other than Income Tax Expense	11,748	69,946 7	81,694	2,389 22	84,083
Income Tax Expense	0	0 8	0	87,417 23	87,417
<u>TOTAL OPERATING EXPENSES</u>	<u>564,484</u>	<u>(26,314)</u>	<u>538,170</u>	<u>93,539</u>	<u>631,709</u>
<u>NET OPERATING INCOME</u>	<u>(21,177)</u>	<u>25,479</u>	<u>4,302</u>	<u>185,364</u>	<u>189,666</u>
Add: Customer Growth	0	0 9	0	351 24	351
<u>NET INCOME (LOSS) FOR RETURN</u>	<u>(21,177)</u>	<u>25,479</u>	<u>4,302</u>	<u>185,715</u>	<u>190,017</u>
<u>ORIGINAL COST RATE BASE:</u>					
Gross Plant in Service	3,899,032	(1,353,024) 10	2,546,008	0	2,546,008
Accumulated Depreciation	(382,950)	(80,727) 11	(463,677)	0	(463,677)
Construction Work In Progress (CWIP)	29,511	(29,511) 12	0	0	0
Contributions in Aid of Construction	(458,500)	0 13	(458,500)	0	(458,500)
Accumulated Amortization of CIAC	51,580	39 14	51,619	0	51,619
Net Plant	3,138,673	(1,463,223)	1,675,450	0	1,675,450
Working Capital	0	80,176 15	80,176	0	80,176
Unamortized Balances	0	0 16	0	0	0
<u>TOTAL RATE BASE</u>	<u>3,138,673</u>	<u>(1,383,047)</u>	<u>1,755,626</u>	<u>0</u>	<u>1,755,626</u>
<u>RETURN ON RATE BASE</u>	<u>-0.67%</u>		<u>0.25%</u>		<u>10.82%</u>
<u>OPERATING MARGIN</u>	<u>-20.24%</u>		<u>-7.08%</u>		<u>17.93%</u>
<u>INTEREST EXPENSE</u>	<u>88,763</u>	<u>(46,042) 17</u>	<u>42,721</u>	<u>0</u>	<u>42,721</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Sewer Operations

Settlement Exhibit ICG-5
Page 1 of 1

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>OPERATING REVENUE</u>					
Sewer Residential	168,168	4,422 1a	172,590	69,190 18a	241,780
Sewer Commercial	78,577	(5,212) 1b	73,365	28,988 18b	102,353
Sewer Irrigation	0	0 1c	0	0 18c	0
Availability Billing	276,661	(1,979) 2	274,682	82,795 19	357,477
Misc. Other Revenue	9,749	719 3	10,468	2,922 20	13,390
<u>TOTAL OPERATING REVENUE</u>	<u>533,155</u>	<u>(2,050)</u>	<u>531,105</u>	<u>183,895</u>	<u>715,000</u>
<u>SEWER OPERATION AND MAINTENANCE EXPENSES</u>					
Operation and Maintenance Expense	379,213	(53,699) 4	325,514	2,461 21	327,975
<u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u>	<u>379,213</u>	<u>(53,699)</u>	<u>325,514</u>	<u>2,461</u>	<u>327,975</u>
Depreciation and Amortization Expense	36,151	4,381 5	40,532	0	40,532
Amortization of Rate Case Expenses	46,210	(21,154) 6	25,056	0	25,056
Taxes Other than Income Tax Expense	11,692	69,903 7	81,595	1,575 22	83,170
Income Tax Expense	0	0 8	0	59,762 23	59,762
<u>TOTAL OPERATING EXPENSES</u>	<u>473,266</u>	<u>(569)</u>	<u>472,697</u>	<u>63,798</u>	<u>536,495</u>
<u>NET OPERATING INCOME</u>	<u>59,889</u>	<u>(1,481)</u>	<u>58,408</u>	<u>120,097</u>	<u>178,505</u>
Add: Customer Growth	0	286 9	286	588 24	874
<u>NET INCOME (LOSS) FOR RETURN</u>	<u>59,889</u>	<u>(1,195)</u>	<u>58,694</u>	<u>120,685</u>	<u>179,379</u>
<u>ORIGINAL COST RATE BASE:</u>					
Gross Plant in Service	4,065,347	(271,672) 10	3,793,675	0	3,793,675
Accumulated Depreciation	(407,074)	(60,471) 11	(467,545)	0	(467,545)
Construction Work In Progress (CWIP)	225,342	(225,342) 12	0	0	0
Contributions in Aid of Construction	(201,795)	0 13	(201,795)	0	(201,795)
Accumulated Amortization of CIAC	17,689	174 14	17,863	0	17,863
Net Plant	3,699,509	(557,311)	3,142,198	0	3,142,198
Working Capital	75,842	(10,739) 15	65,103	0	65,103
Unamortized Balances	0	0 16	0	0	0
<u>TOTAL RATE BASE</u>	<u>3,775,351</u>	<u>(568,050)</u>	<u>3,207,301</u>	<u>0</u>	<u>3,207,301</u>
<u>RETURN ON RATE BASE</u>	<u>1.59%</u>		<u>1.83%</u>		<u>5.59%</u>
<u>OPERATING MARGIN</u>	<u>-5.42%</u>		<u>-3.64%</u>		<u>14.17%</u>
<u>INTEREST EXPENSE</u>	<u>88,763</u>	<u>(10,717) 17</u>	<u>78,046</u>	<u>0</u>	<u>78,046</u>

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2014-346-WS

RE:

Application of Daufuskie Island Utility
Company, Inc. for Approval for Water
and Sewer Rates, Terms and Conditions

CERTIFICATE OF SERVICE

This is to certify that I have caused to be served this day the **Settlement Agreement** via electronic mail service as follows:

G. Trenholm Walker, Esquire
gtw@p-tw.com

Thomas P. Gressette, Esquire
tpg@p-tw.com

Nancy Jane Dennis
njd@p-tw.com

John Bowen
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Andrew Bateman
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Shannon Hudson
shudson@regstaff.sc.gov

s/John J. Pringle, Jr.
John J. Pringle, Jr.

October 27, 2015
Columbia, South Carolina

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

[Daufuskie Island, South Carolina]

HEARING #15-11494

SEPTEMBER 15, 2015

6:00 P.M.

DOCKET NO. 2014-346-WS:

DAUFUSKIE ISLAND UTILITY COMPANY, INC. – Application for Approval
of an Increase for Water and Sewer Rates, Terms, and Conditions

TRANSCRIPT OF TESTIMONY
AND PROCEEDINGS

VOLUME 1

HEARING BEFORE: Nikiya M. 'Nikki' HALL, *Chairman*; Swain E.
WHITFIELD, *Vice Chairman*; and COMMISSIONERS John E.
'Butch' HOWARD, Elliott F. ELAM, JR., Comer H. 'Randy'
RANDALL, Elizabeth B. 'Lib' FLEMING, and G. O'Neal
HAMILTON

ADVISOR TO COMMISSION: F. David Butler, Esq.
SENIOR COUNSEL

STAFF: David W. Stark, III, Esq., Legal Staff; William O.
Richardson and Doug Pratt, Advisory Staff; Jo Elizabeth M. Wheat,
CVR-CM/M-GNSC, Court Reporter; and Afton Ellison, Hearing Room
Assistant

APPEARANCES:

JOHN J. PRINGLE, ESQUIRE, representing HAIG
POINT CLUB & COMMUNITY ASSOCIATION, MELROSE PROPERTY
OWNERS ASSOCIATION, and BLOODY POINT PROPERTY OWNERS'
ASSOCIATION, INTERVENORS

ANDREW M. BATEMAN, ESQUIRE, representing THE SOUTH
CAROLINA OFFICE OF REGULATORY STAFF

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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P R O C E E D I N G S

CHAIRMAN HALL: Good afternoon, everyone.
Thank you for having us this evening, here at
Daufuskie Island.

My name is Nikki Hall; I'm the Chair of the
Public Service Commission, and I'll introduce my
colleagues. To my far right, I have Commissioner
Elliot Elam. To his left, Commissioner Randy
Randall. Commissioner Lib Fleming. Starting on my
far left, I have Commissioner 'Butch' Howard – John
Howard. Commissioner O'Neal Hamilton.
Commissioner Swain Whitfield. And then we have our
attorney with us today, David Butler.

So we are here to hear all of your concerns,
and we're glad to be here, and I'm going to turn it
over to Mr. Butler so he can give us some
instructions.

MR. BUTLER: Okay. Thank you, Madam Chairman.
Appreciate it.

Good evening, and welcome also from the
Commission staff this evening. I'm an attorney
with the Commission. I'm David Butler, as the
Chairman stated. This proceeding is before the
Public Service Commission in Docket No. 2014-346-WS
and concerns proposed increases in rates and

NIGHT HEARING/DAUFUSKIE ISLAND - VOLUME I

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

1 charges, filed with the Commission by Daufuskie
2 Island Utility Company.

3 First of all, I'd like to ask that, if you
4 have them with you, I'd like you to mute or cut off
5 your cell phones, if you please.

6 At this time, we would like to introduce some
7 dignitaries here and also take appearances of the
8 attorneys who represent some of the parties.

9 First, as I understand it, we have Mr. Mike
10 Guastella, who is here from Daufuskie Island
11 Utility Company.

12 We also have, from the Office of Regulatory
13 Staff, in Columbia, Mr. Andrew Bateman. And, Mr.
14 Bateman, would you please introduce yourself and
15 your staff members? And then I understand Mr.
16 Bateman has some brief remarks, too, for the group.
17 So, Mr. Bateman, if you would.

18 **MR. BATEMAN:** Okay. Thank you, Mr. Butler.

19 Good evening. My name is Andrew Bateman. As
20 Mr. Butler mentioned, I'm an attorney with the
21 Office of Regulatory Staff. Thank you for coming
22 out tonight.

23 The Public Service Commission is hosting this
24 hearing tonight, and the agency I work for, the
25 Office of Regulatory Staff – which may sometimes be

NIGHT HEARING/DAUFUSKIE ISLAND - VOLUME I

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

1 referred to as ORS – is completely separate from
2 the Public Service Commission, sometimes referred
3 to as the PSC.

4 ORS is charged with representing the public
5 interest. We present our testimony for
6 consideration before the Commission, presided over
7 by these Commissioners –

8 **CHAIRMAN HALL:** Mr. Bateman, I don't think
9 everyone can hear you, so if you could speak
10 directly into that microphone.

11 **MR. BATEMAN:** Yes, ma'am. Would you like me
12 to –

13 **VOICES:** That's better. Yeah.

14 **MR. BATEMAN:** That's better? Okay. I
15 apologize, I'm a bit nervous.

16 This hearing is for you to share your thoughts
17 about Daufuskie Island Utility Company's – which
18 you may hear referred to as DIUC – proposed
19 adjustment for rates for its water and sewer
20 services. The Commission scheduled this night
21 hearing tonight because they know this is a
22 significant matter and they want to hear from you.
23 What you have to say is important.

24 Please note that, if you speak tonight, it
25 becomes part of the official record in this case.

NIGHT HEARING/DAUFUSKIE ISLAND - VOLUME I

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

1 Your testimony will be sworn in, and recorded by
2 the court reporter, Ms. Mary_[sic] Jo Wheat. The
3 Commission will keep in mind what to say, when they
4 deliberate on this case and make a decision. The
5 hearing is scheduled to occur on October 28th,
6 2015, in Columbia.

7 I may ask you some questions today after you
8 testify. The Commissioners may also ask you some
9 questions. Please don't get offended if we do ask
10 you questions; it's just because we are trying to
11 learn more about what you're saying. Additionally,
12 please don't get offended if we do not ask you
13 questions.

14 As for the Commissioners and Commission staff,
15 they are required to follow the same rules as a
16 judge. As a result, while they can ask you
17 questions, if you ask them questions, they are
18 prohibited from answering those questions. It
19 doesn't mean that they don't know the answers; they
20 most likely do, and would love to answer your
21 questions. But the rules of the judge prohibit
22 them from answering those questions.

23 If you do have questions, I have fellow
24 employees with me from the ORS. I have Dawn Hipp
25 from Consumer Services, standing up there in the

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1 back.

2 MS. HIPP: [Indicating.]

3 MR. BATEMAN: I have Chad Campbell, also from
4 Consumer Services, standing up.

5 MR. CAMPBELL: [Indicating.]

6 MR. BATEMAN: And I have Willie Morgan, right
7 here in front of me, from the Water/Wastewater
8 Department.

9 MR. MORGAN: [Indicating.]

10 MR. BATEMAN: If you have any questions,
11 please feel free to grab one of them during the
12 proceeding and take them out, and they'll be happy
13 to answer any questions you have. Unfortunately,
14 while the proceeding is going, I cannot answer any
15 questions; I have to be up here where I'll be
16 listening. However, subsequent to the proceeding,
17 if you have any questions, I'd be happy to help
18 you, as well.

19 ORS also has a 1-800 number, if you would like
20 to call our Consumer Services Department. Our
21 number - I can call it out, right now, and again if
22 you'd like it later, we can give it to you then, as
23 well. The number is 1-800-922-1531. Also, if you
24 would like to go online, you can get that off of
25 our website. Our staff is there from 8:30 to 5:00,

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1 and you can leave a message if you don't have the
2 opportunity to talk with someone, and they'll give
3 you a call back as soon as they can.

4 Lastly, please remember that we're all here to
5 listen to you tonight. You will be treated with
6 courtesy and respect. In turn, please be
7 considerate and respectful to the Commission as you
8 direct your remarks to them. Thank you for being
9 here, and thank you for your attention during my
10 opening remarks.

11 Madam Chairman, I'll turn it back to you, and
12 ask that tonight's sign-in sheets be marked for
13 identification and entered into the record as a
14 hearing exhibit.

15 **CHAIRMAN HALL:** Okay. Tonight's sign-in
16 sheets will be Hearing Exhibit No. 1.

17 *[See pg 30]*

18 **MR. BUTLER:** Thank you, very much, Mr.
19 Bateman. We appreciate that.

20 I'd also like to recognize one other attorney
21 that is with us tonight: Mr. Jack Pringle is here.
22 Mr. Pringle does represent the three property
23 owners' associations: The Haig Point Association,
24 the Melrose Association, and the Bloody Point
25 Association.

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1 So, Mr. Pringle, if you would just stand up
2 and let them know who you are, I'd appreciate it.

3 MR. PRINGLE: [Indicating.]

4 [Applause]

5 MR. BUTLER: Thank you, very much. We
6 appreciate that.

7 In just a moment, I'm going to call the names
8 of those who've signed up to speak to come forward,
9 and we would ask that you come to this podium that
10 is stationed in the middle of the room. There's a
11 microphone there. You will be sworn in, and please
12 give your name and address; then you can go ahead
13 and proceed with your testimony. Again, please
14 speak into the microphone so everyone can hear you
15 in the room.

16 Now, we will have – we have placed a time
17 limit of three minutes on all presentations. And
18 as you can see, we do have a timer which will aid
19 you in timing your testimony, and there'll be a
20 sound indicator at the end of the three minutes.
21 This is just to aid you in your testimony.

22 I would say, if you have not signed up to
23 testify tonight and you decide, somewhere in the
24 middle of the hearing that you'd like to be heard
25 after all, please proceed to the side door over

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1 here and sign in with a Commission staff member
2 located there; the staff member will notify us of
3 your wish to testify. And the Commission won't
4 hear from you unless you've signed up to speak.

5 I do want to, again, though, remind – as Mr.
6 Bateman said, I want to remind you that this public
7 hearing is your time to testify with regard to your
8 opinions on the proposal of Daufuskie Island
9 Utility Company's proposed rate increase, again,
10 but due to the judicial nature of the proceeding,
11 the General Assembly has ruled that the
12 Commissioners cannot take questions and they are
13 also prevented from making comments. Again, ORS
14 and the company will be available after the hearing
15 for any questions you may have.

16 If you are interested further, there will be
17 another hearing on this, where we have the
18 accountants and the engineers come and testify on
19 the same matter, in Columbia, again, on October 28,
20 2015, at 10:30, in the offices of the Commission in
21 Columbia. Please note that, if you provide
22 testimony tonight, you can't provide testimony a
23 second time if you do attend the merits hearing in
24 this case.

25 So, now that I have filled you in on all the

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1 details of the case, I will go ahead and call the
2 names of the witnesses who have signed up to speak
3 at this time. First, we have Ms. Norma Jenkins.
4 Ms. Jenkins, if you will come forward, please?

5 [Witness affirmed]

6 THEREUPON came,

7 N O R M A J E N K I N S ,

8 who, having been first duly affirmed, testified as follows:

9 WITNESS: My name is Norma Jenkins, I live in
10 Haig Point.

11 I have a request as a property owner and I
12 have a comment as a realtor. My request is to the
13 company that provides the water and sewer to us.
14 As a part of doing due diligence and looking at
15 this in perspective, the aggressive rates that they
16 are suggesting, I would like to have a list of at
17 least three other companies in the United States
18 who have similar type of business, and have been
19 successful in being able to extend the water rates
20 at such a high level of increase. If you could
21 give me those names, I would be very happy. Thank
22 you.

23 Second of all, as a realtor, I have a real
24 concern, because there are people who have multiple
25 properties across Daufuskie. Some of these people

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1 are — have a property at Haig Point, perhaps a
2 home, and perhaps another property either here or
3 at Melrose, or maybe at Bloody Point. And the
4 other night we were looking at this, and it seems a
5 little bit unusual that you would pay more money in
6 water and sewer than in taxes. I mean, that
7 doesn't have the right balance. And so, yeah, we
8 have many property owners at Haig Point who have
9 small properties. They would be maybe .013 to
10 .018, and pay relatively small taxes, in the \$200-
11 \$300 a year. And they're going to pay less in
12 taxes than they are going to be charged for water,
13 of which they use not a drop. And so I think it's
14 a very unusual and rather negative situation for
15 the island, and perhaps a bit too aggressive.
16 Thank you.

17 MR. BUTLER: Ma'am, if you would just wait?
18 I'm sorry, we may have a couple of questions.

19 CHAIRMAN HALL: Does anyone have any
20 questions?

21 MR. BATEMAN: Madam Chair, I may have missed
22 Ms. Jenkins' address.

23 WITNESS: 1 Berwick Court.

24 MR. BATEMAN: Berwick Court?

25 WITNESS: It's B-e-r-w-i-c-k.

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1 MR. BATEMAN: Thank you.

2 CHAIRMAN HALL: Thank you, Ms. Jenkins.

3 [WHEREUPON, the witness was excused.]

4 MR. BUTLER: I'd like to call Mr. Len
5 Pojetnic? And I apologize if I messed up the name.

6 MR. POJETNIC: No, you got it right.

7 VOICE: Perfect.

8 MR. BUTLER: Oh, well, thank you.

9 [Witness affirmed]

10 THEREUPON came,

11 L E N P O J E T N I C,

12 who, having been first duly affirmed, testified as follows:

13 WITNESS: My name is Len Pojetnic. I live at
14 14 Masters Drive, in Melrose. My wife, Eileen, and
15 I moved here three years ago. Like everyone in
16 this room, we love Daufuskie Island, but there are
17 some things we just cannot stand, and this rate
18 increase is one of them.

19 I will follow up on Norma's comments with
20 specifics. Our base water rate is being increased
21 2.4 times. Our consumption charge is being
22 increased 1.6 times. For sewer, our base rate is
23 being increased two times. Volumetric charge,
24 almost 2 times. Availability fees will be
25 increased 3.4 percent for water, 2.5 percent for

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1 sewer.

2 We own our home in Melrose, we own two
3 adjacent lots in Melrose, we own one lot in Haig
4 Point. We're not wealthy people, but we've
5 invested heavily in this island because we believe
6 in its future. When all is said and done, our tax
7 bill on those four properties will be \$3618.57.
8 Our water and sewer bill will be \$4910.28. I can't
9 imagine any community in the country - and I've
10 lived in several - where that condition exists. It
11 is totally upside-down. It will drive people from
12 this island. It will inhibit development on this
13 island. And I beg the Commission to give every
14 consideration to the arguments that we will make in
15 Columbia. Thank you, very much.

16 CHAIRMAN HALL: Thank you, Mr. Pojetnic.

17 Does anyone have any questions for Mr.
18 Pojetnic before we excuse him?

19 [No response]

20 Thank you, so much, sir.

21 [WHEREUPON, the witness was excused.]

22 MR. BUTLER: I'd like to call Mr. Andy Mason,
23 please?

24 [Witness affirmed]

25 <

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1 THEREUPON came,

2 A N D Y M A S O N ,

3 who, having been first duly affirmed, testified as follows:

4 WITNESS: my name is Andy Mason. I live at 10
5 Rosebud Lane, in Melrose.

6 First, I'd like to thank the PSC for providing
7 this opportunity to speak about the rate increase
8 tonight.

9 I'd like to provide some context for y'all.
10 In the past decade, our Federal Reserve has not
11 increased interest rates over concerns increased
12 rates would slow our economic recovery. The
13 average annual inflation rate, based on Bureau of
14 Labor Statistics over that same period, was 2.28
15 percent. More important, since 2012, which was the
16 year of the last rate increase from the utility,
17 the average rate of inflation was 1.73 percent.

18 The utility and its predecessors have sought
19 three rate increases in that same decade: A 73
20 percent increase was granted in 2005, a 37 percent
21 increase in 2012, and the aggregate proposed rate
22 today is about 120 percent. Bottom line, while the
23 costs of doing business have been relatively tame
24 over the decade, the utility company seeks repeated
25 extensive rate increases.

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1 In 2012, Beaufort County completed a mandatory
2 reassessment; countywide, assessed property values
3 decreased 29 percent. The Daufuskie Island market
4 values declined 43 percent. That's the largest
5 decrease in the County. Daufuskie Island property
6 values declined 33 percent. Again, the largest in
7 Beaufort County. Resale value of a representative
8 home in Melrose declined 63 percent. Locally,
9 since 2010, the average sale price per square foot
10 for an existing home on this island has gone from
11 \$2.42 a square foot to \$1.56 a square foot, a
12 decline of 64 percent. In other words, the
13 recession has hit this County extremely hard, but
14 no place harder than Daufuskie.

15 When the current management and ownership of
16 the utility purchased and consolidated the assets
17 of Haig Point Utility and Melrose Utility, the
18 ownership was fully aware of the size of the
19 customer base and, through its own due diligence,
20 should've been aware of its potential and its
21 limits. In Melrose, where I live, the average home
22 site, the proposed rate increase would make utility
23 rates 2¼ times the effective County tax rate. For
24 people that own homes, the proposed rate increase
25 would make utility rates 79 percent of the

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1 effective County tax rate.

2 Based on the information available, there
3 would seem to be no basis for any rate increase,
4 with the possible exception of a modest rate-of-
5 inflation adjustment that is in keeping with the
6 Bureau of Labor Statistics. Without specific,
7 measurable, time-based, and supervised goals and
8 objectives, I believe it is in the best interest of
9 the customers of this utility company - or DIUC -
10 to either live within its means, just as we do as
11 customers, or to look to a sale or merger with a
12 more efficient organization. Thank you.

13 [Applause]

14 CHAIRMAN HALL: Thank you, Mr. Mason. Would
15 you like to submit your notes to be in the record?

16 WITNESS: I can. There are some additional
17 things I didn't say, but I would be glad to hand
18 these over.

19 CHAIRMAN HALL: Okay. Thank you. Mr.
20 Richardson, if you could get them. Thank you.

21 WITNESS: [Indicating.]

22 MR. RICHARDSON: [Indicating.]

23 [WHEREUPON, Hearing Exhibit No. 2 was
24 marked and received in evidence.]

25 CHAIRMAN HALL: And do any of the parties have

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1 any questions for Mr. Mason?

2 [No response]

3 Okay. Thank you, so much, Mr. Mason.

4 [WHEREUPON, the witness was excused.]

5 MR. BUTLER: Madam Chair, I'd like to call
6 Reagan Hull, please.

7 [Witness affirmed]

8 THEREUPON came,

9 R E A G A N H U L L ,

10 who, having been first duly affirmed, testified as follows:

11 WITNESS: My name is Reagan Hall. I live at 4
12 Lighthouse Court, in Haig Point.

13 I received the postcard about the rate
14 increase from our utility company, and it got me
15 talking to my sister, who lives in Sea Pines, over
16 on Hilton Head. You probably know where that is.
17 And we got to talking about our water and sewer
18 bills, so we took out our bills and we started
19 comparing notes. And my sister, if you knew her,
20 she's pretty much a tightwad, so they only use 9000
21 gallons a year, which seems pretty low - but you've
22 got to know her.

23 [Laughter]

24 So I looked at our rates and the South Island
25 Public Utility - South Island - anyway, the utility

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1 that does the water at Sea Pines. And I looked at
2 our rates, and at 9000 gallons here at Haig Point,
3 and I compared what they were doing. And I'm
4 currently paying on a quarterly basis about \$209
5 for 9000 gallons; she's paying about \$90. So the
6 current rate structure on Sea Pines versus here,
7 we're paying 223 percent more: over double what
8 they're paying at the current rate.

9 Now I realize that there are economies of
10 scale. I'm not in the water business, and I don't
11 know, but my guess is there's certain
12 infrastructure and the more water you can sell -
13 it's probably inefficient here at Haig Point. But
14 2½ or 2¼ times the current rate does seem
15 unconscionable.

16 So then I plugged in the new rate structure
17 that they are proposing, and we would now be paying
18 458 percent, 4½ times more than they are paying at
19 Sea Pines on Hilton Head. Now I'm using 17,000,
20 and I'm kind of embarrassed about that, but we do
21 more watering. And if you do the same comparison,
22 the bottom line is that we pay about double Sea
23 Pines in the current rate, and would pay about four
24 times on the proposed rate. And I wondered why the
25 difference, and it's interesting: The Sea Pines

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1 structure, rate structure, is different here, and
2 we have a very high usage charge and a lower –
3 more-or-less lower – rate on the use of gallons.
4 And I like the Sea Pines model because that really
5 – they charge a different rate on the first 10,000,
6 a different rate on the next 10,000, and they go up
7 to four dollars and something a thousand gallons,
8 everything over 20. I like that because that
9 really penalizes you if you use a lot of water, and
10 I think that's what we're all about. So I would
11 hope you'd think about the rate structure, and I
12 would hope the company would think about the rate
13 structure, in terms of discouraging the use and
14 making a bigger charge on the usage than on the
15 fixed monthly rate.

16 The only final thing – I have a couple of
17 seconds. I looked at the Jasper Water rate –
18 Beaufort-Jasper. It's pretty much the same. But
19 if you look at their rate structure, pretty much
20 the same as Hilton Head, compared to us. And if
21 you look at their rate structure, again, they are
22 very heavy on the usage, very low on the fixed
23 charge. And I would recommend that the company
24 does that, because we need to conserve water, and
25 that helps you do that. Thank you.

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1 CHAIRMAN HALL: Thank you, Mr. Hull.

2 [Applause]

3 Do any of the parties have any questions for
4 Mr. Hull?

5 [No response]

6 Commissioners, questions?

7 [No response]

8 Thank you, so much, Mr. Hull.

9 [WHEREUPON, the witness was excused.]

10 MR. BUTLER: I'd like to call Steve Hill,
11 please.

12 [Witness affirmed]

13 THEREUPON came,

14 S T E V E H I L L ,

15 who, having been first duly affirmed, testified as follows:

16 WITNESS: My name is Steve Hill. I live at
17 1186 Haig Point Road. I've owned a home here for
18 approximately 14 years, and lived here full-time
19 for three years.

20 And, yes, when I received my postcard in the
21 mail, I read it closely, and the rates certainly
22 are aggressive, if not excessive. But I was
23 particularly disappointed to see that the reason
24 given for the rate increase had to do with the
25 return on investment. What I expected to see, for

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1 such a large rate increase, is more discussion
2 about investment in the future. Here in this area,
3 we are suffering the effects of saltwater intrusion
4 on the aquifer. It's already affected the water in
5 Hilton Head, Bull Island, and in the next few years
6 it will probably affect here on Daufuskie. So
7 there is planning and procedures that need to be
8 reviewed, studied, and possibly put in place, to
9 ensure that we do have access to clean water in the
10 future. And I don't see any direction that the
11 company is intending to take to address this
12 situation.

13 We also certainly have a very active
14 conservancy here on the island, and I was
15 disappointed to see that their proposed rates do
16 not provide for any progressive rates, encouraging
17 people to conserve water. This is something that
18 we all need to attend to, and I don't see - I think
19 the rates don't fully afford incentives for saving
20 water.

21 I was also concerned - this is the company
22 that - I believe they got into some altercation
23 over their water tower. They were not properly
24 answering their mail and they didn't pay the taxes
25 on the land that the water tower was on, and they

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1 lost the land that the water tower sits on. There
2 was some legal SNAFU and I'm not sure what the
3 ultimate resolution was, but it really causes me
4 concern that this aggressive rate increase but they
5 can't attend to the day-to-day business of
6 answering their mail. So I cannot — I do not have
7 a solid confidence that they are — that we can
8 trust them in the way that they are proceeding.
9 Thank you.

10 **CHAIRMAN HALL:** Thank you, Mr. Hill.

11 Parties, any questions for Mr. Hill?

12 [No response]

13 Commissioner Fleming.

14 **COMMISSIONER FLEMING:** Thank you, Madam Chair.

15 **EXAMINATION**

16 **BY COMMISSIONER FLEMING:**

17 **Q** You talked about progressive rates, and the company's
18 not proposing that. Have there been meetings with the
19 company executives to talk about the type of rates the
20 group would be interested in?

21 [Laughter]

22 **VOICE:** Where are they?

23 **WITNESS:** Not that I'm aware of, no.

24 **BY COMMISSIONER FLEMING:**

25 **Q** Would the groups — would the residents be interested in

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1 meetings like that?

2 **A** Yes. As indicated, we do have a very strong, active,
3 very, you know, environmentally conscious community
4 here. That's one of the reasons why we settled in this
5 wonderful location. And that would be something that I
6 believe we would be interested in engaging on.

7 **COMMISSIONER FLEMING:** Okay. Well, I gathered
8 that, that you do have an interest in the
9 environment, and it would seem that it could be
10 productive. Thank you.

11 **CHAIRMAN HALL:** Thank you, Mr. Hill.

12 [Applause]

13 [WHEREUPON, the witness was excused.]

14 **MR. BUTLER:** Madam Chair, I'd like to call Mr.
15 Jim Woodward.

16 [Witness affirmed]

17 THEREUPON came,

18 **J A M E S W O O D W A R D ,**

19 who, having been first duly affirmed, testified as follows:

20 **WITNESS:** My name is James Woodward, and I
21 reside at 5 Ocean Watch, here at Haig Point. We've
22 been Haig Point members and property owners since
23 2005. We've been here for about 10 years now, or a
24 little over 10 years. And like everybody else
25 here, we really enjoy it.

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1 I'm not going to repeat what a couple of the
2 other speakers have said, only to reinforce a few
3 things. Mr. Mason talked a little bit about the
4 difficulty of doing business on Daufuskie Island.
5 We are - I'm president of the board of Haig Point.
6 Haig Point is in the development business. If you
7 don't know, we have 720 sites here at Haig Point;
8 460 of those sites are unimproved home sites. So
9 the tremendous increase in the availability fee
10 impacts us dramatically. When you talk about 200-
11 300 percent, it helps to put it in dollar form
12 also. With 460 lots, with the proposed increase
13 right here, it's nearly a \$300,000-a-year increase
14 for those 460 lots. Haig Point, itself, owns
15 directly over 200 of those sites. So for us, it's
16 about a \$150,000-a-year - \$150-\$160,000-a-year
17 increase. That's not insubstantial, and it's a
18 cost that has to be borne by our members.

19 Our members and our Haig Point residents
20 already bear substantial costs for the pleasure,
21 granted, of living on a private island. Building
22 costs here, service costs, everything like that,
23 you're just gonna' tack on 20 percent. I just got
24 a quote recently from another company that said,
25 "Here's a quote that I normally do this job for,

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1 but on Daufuskie Island we triple it." So, there
2 it is.

3 So this is very difficult. And Mr. Mason
4 talked about how we have difficulty selling real
5 estate on Daufuskie, because it is a unique place.
6 You have to enjoy life on an island, which most of
7 us do. So the idea of being environmentally
8 conscious, of a rate structure which, you know,
9 incents people to reduce their usage, is something
10 that I think we've talked about or you've heard
11 today is something we'd be very interested in.

12 We continue to need to be competitive with
13 outside markets. As a former financial executive,
14 I can tell you of a couple of public companies -
15 these were competitive businesses, mind you; they
16 weren't utilities. You know, the kind of rate
17 increase we're talking about here would have been
18 not only unconscionable, it would've been suicidal
19 in a competitive environment. One of the things
20 they taught me - one of my predecessors, mentors -
21 early in my career, which, granted, was many years
22 ago now, was: If you do nothing else, be consistent
23 from year to year. And this is highly inconsistent
24 when you're looking at 200 and 300 percent
25 increases on our rates.

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1 It is - I'll use the term "unconscionable"
2 once again, for that kind of rate increase. It
3 appears to me, as Mr. Hill said, that we're paying
4 for not the future, not superior service - and I
5 have worked with companies that were the price-o-
6 meters - and people don't mind and we don't mind
7 paying for superior service.

8 Superior rates for superior service, superior
9 future investments: those types of things don't
10 bother us that much. And, in fact, we pay superior
11 rates to live here at Haig Point. I've already
12 mentioned it. But that's not what we're getting.
13 We're getting proposed increases to pay for what
14 appears to be flawed management and flawed due
15 diligence on the acquisition of this particular
16 utility, and we would appreciate the Commission's
17 help in either rectifying that or helping us modify
18 the ownership of this utility to be more
19 progressive, going forward. That's it.

20 **CHAIRMAN HALL:** Thank you Mr. Woodward.

21 Does anyone have any questions for Mr.
22 Woodward?

23 [No response]

24 All right. Commissioners?

25 [No response]

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1 Thank you, sir.

2 WITNESS: Thank you, very much.

3 [Applause]

4 [WHEREUPON, the witness was excused.]

5 MR. BUTLER: Thank you, sir. And we'd like to
6 call Mr. Adam Hersch

7 [Witness affirmed]

8 THEREUPON came,

9 A D A M H E R S C H ,

10 who, having been first duly affirmed, testified as follows:

11 WITNESS: My name is Adam Hersch. I live at
12 10 Sea Island Lane. And I just want to touch upon
13 three things that were said earlier. I just want
14 to reinforce them.

15 It is very clear, from what you've heard, that
16 simply on an absolute basis, the rates here are far
17 too high. What you've also heard is that, on a
18 relative basis, the rates here are already too high
19 and are suggested to go much higher.

20 And the third thing I want to mention that
21 you've heard is, based on Mr. Mason's testimony,
22 given the rate increase in 2005 and then the rate
23 increase in 2012, and the suggested increase this
24 year, our rates will have quadrupled that. You
25 have a 100 percent increase over that first seven-

NIGHT HEARING/DAUFUSKIE ISLAND - VOLUME I

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

1 year period and a suggested over-100-percent
2 increase in this suggestion. That's a doubling and
3 a redoubling of our rates. It's a quadrupling of
4 rates, in about a 10-year period. By any standard,
5 by any standard, it's outrageous and it's
6 egregious, and it simply shows that this utility
7 company is not qualified to run our utilities for
8 something that we have to have. This is why
9 utilities are regulated. And I implore you to use
10 your authority to help us, because we don't have
11 any choices. We don't have competitive choice.
12 You have the authority to help us through a very,
13 very difficult situation that, as you hear, is
14 going to have a very detrimental effect on our
15 current residents and our potential and future
16 residents here on Daufuskie. Thank you all for
17 listening.

18 **CHAIRMAN HALL:** Thank you, Mr. Hersch.

19 Parties, any questions for Mr. Hersch?

20 [No response]

21 Commissioners?

22 [No response]

23 Thank you, sir.

24 **WITNESS:** Thank you.

25 [Applause]

NIGHT HEARING/DAUFUSKIE ISLAND - VOLUME 1

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

1 [WHEREUPON, the witness was excused.]

2 MR. BUTLER: Well, Madam Chair, that does
3 complete the list of witnesses for tonight.

4 CHAIRMAN HALL: Okay. Again, thank you so
5 much to everyone for welcoming us to Haig Point.
6 We appreciate it.

7 Let us know when the merits hearing is, again,
8 Mr. Butler, please.

9 MR. BUTLER: Yes, ma'am. The hearing is, I
10 believe, on – yes – Wednesday, October 28, 2015, at
11 10:30, in the offices of the Commission, in
12 Columbia.

13 CHAIRMAN HALL: Thank you. So you're welcome
14 to come to Columbia to be at the full hearing.
15 And, again, thank you for having us tonight. Good
16 evening, everyone.

17 [Applause]

18 [WHEREUPON, at 6:33 p.m., the hearing in
19 the above-entitled matter was adjourned.]

20 _____
21 [WHEREUPON, Hearing Exhibit No. 1 was
22 marked and received in evidence.]

23 _____

24

25

NIGHT HEARING/DAUFUSKIE ISLAND - VOLUME I

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, Notary Public in and for the State of South Carolina, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of all the proceedings had and testimony adduced in a hearing held in the above-captioned matter before the PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA;

That the witnesses appearing during said hearing were sworn or affirmed to state the truth, the whole truth, and nothing but the truth;

IN WITNESS WHEREOF, I have hereunto set my hand and seal, on this the 18th day of September, 2015.


Jo Elizabeth M. Wheat / CVR-CM/M-GNSC
Hearings Reporter, PSC/SC

NIGHT HEARING/DAUFUSKIE ISLAND - VOLUME I

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 2014-346-WS: Application of Daufuskie Island Utility Company, Inc.
for Approval of an Increase for Water and Sewer Rates, Terms and Conditions

Haig Point Clubhouse,
130 Clubhouse Lane
Daufuskie Island, SC 29915



Tuesday, September 15, 2015 at 6:00 PM

PUBLIC WITNESS SIGN-IN SHEET

NAME <u>PLEASE PRINT</u>	ADDRESS <u>PLEASE PRINT</u>	DO YOU WISH TO TESTIFY? YES / NO
Tina Fine	1 Fuskie Lane	No
Tana Hoffman	1107 Haig Pt Rd	NO
Sue-Ann Romsdell	10 Clubhouse Court	?
✓ Adam Hersch	10 Sea Islands Lane	NO
Jennifer Hersch	10 SEA ISLANDS LANE	NO
William DeLeo	22 Freeport Drive	NO
Kathleen DeLeo	22 Freeport Drive	NO
JIM STRAINE	9 FRONT LIGHT WALK	NO
MARY STRAINE	9 FRONT LIGHT WALK	NO
Bill Taft	47 TABBY CIRCLE	NO
Nancy Kimball	41 Freeport	NO

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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PUBLIC WITNESS SIGN-IN SHEET

NAME <u>PLEASE PRINT</u>	ADDRESS <u>PLEASE PRINT</u>	DO YOU WISH TO TESTIFY? YES ☒ NO
Anne Speck	Melrose 80 MARTIN AVE	NO
1/12/15 [Signature]	11	NO
Sue Quarta	33 Plantation Homes Dr	NO
Steve Hill	1186 Haig Point Rd	YES
Mary Ellen Hill	" " "	NO
JOHN FINNEGAN	4 WOOD DUCK CT	NO
Karen Oplerbeck	24 Rivermarsh Run	NO
Geoff Saylor	1 Berwick Court	NO
Camille Tighe	8 SEA Island Lane	NO
JOHN Tighe	8 SEA Island Lane	NO
Jim Woodward	5 Ocean Watch	Yes

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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NAME <u>PLEASE PRINT</u>	ADDRESS <u>PLEASE PRINT</u>	DO YOU WISH TO TESTIFY? YES / NO
↓ NORMA JENKINS	1 Berwick Court Haig Point	Yes
CHARLES POLSEN	9 OCEAN REACH Haig Point	No
YVONNE CLEMONS	2 FIDDLERS CT. Haig Pt.	No
Deborah SWEENEY	8 Savannah Walk	No
Aaron Crosby	228 School Road	No
Tim Foley	12 Forest Lake Dr. Haig Point	No
Dick ARNOLD	5 Osprey Court, HP	No
Shawn Arnold	5 Osprey Court, HP	No
MARY FOWLER	5 PLANTATION Homes Dr.	No
Mary Ellen Hill	1186 Haig Pt Rd	No
JIM HOWE	46 FREEPORT DRIVE	No

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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PUBLIC WITNESS SIGN-IN SHEET

NAME <u>PLEASE PRINT</u>	ADDRESS <u>PLEASE PRINT</u>	DO YOU WISH TO TESTIFY? YES / NO
TOM BEAVER	8 Money Mow. D.I. 29915	NO
~~KEVIN HERBERT~~	~~PO Box 181 DI SC 29915~~	~~NO~~
Jerry Campbell	22 Osprey Links Dr. D.I.	NO
Janis Campbell	"	
DICK ARNOLD	5 Osprey Ct	NO
Virginia Teerlinic	27 Tabby Circle, DI	NO
Manveen Derrin	1080 Haig Point Rd DI	NO
SEAN DEJINE	1080 HAIG POINT ROAD DI	NO
PATRICIA MATAYA	21 Port Passage DI	NO
Kathy Franseen	1072 Haig Point Rd	NO
RAY FRANSEEN	1072 Haig Point Rd	NO

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 2014-346-WS: Application of Daufuskie Island Utility Company, Inc.
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NAME <u>PLEASE PRINT</u>	ADDRESS <u>PLEASE PRINT</u>	DO YOU WISH TO TESTIFY? YES / NO
David Oskin		
Jo Ellen Oskin	38 Freeport Dr	NO
✓ Len Poschke	14 Mustangs Drive, Hilton	Yes
Paul Vogel	3 Fiddlers Ct Daufuskie SC 29915	NO
✓ Andy Mason	10 ROSEBUD LANE DAUFUSKIE IS SC	YES
Henry Absner	1187 HAIG PT RD DAUFUSKIE ISLAND, SC	NO
Sarah Absner	" "	NO
Tony Cucco	Lot 490 Haig Pt	NO
Sara Deitch	94 Fuskie Lane Bloody Point	No
Milton Deitch	94 Fuskie Lane	NO
Tim Rivers	69 PRESTWICK GREEN	No
✓ Reagan Hull	4 LIGHTHOUSE COURT	YES

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 2014-346-WS: Application of Daufuskie Island Utility Company, Inc.
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NAME <u>PLEASE PRINT</u>	ADDRESS <u>PLEASE PRINT</u>	DO YOU WISH TO TESTIFY? YES / NO
GWEN HENRY	2 SEA ISLAND LN.	NO
CHUCK HENRY	2 SEA ISLAND LN.	NO
Tony Simanelli	30 FUSHIE LANE	NO
CHARLES SMALL	10 PORT PASSAGE	NO
PATRICK FORD	67 BRANDONS WAY	NO
JEFF MORGAN	9 CALMUSSEE CT	NO
MARK MCKWIFF	7 LAKE RIDGE COURT	NO
Michael Gilboy	1 Fushie Ln # 2302	No
Nicki Gilboy	"	N ^o
Debbie McKeeman	62 Prestwick GR.	N ^o
Dave McKeeman	62 Prestwick Green	N ^o

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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NAME <u>PLEASE PRINT</u>	ADDRESS <u>PLEASE PRINT</u>	DO YOU WISH TO TESTIFY? YES / NO
Tom Adams	6 LIGHTHOUSE CT	No
Ernest Fieger	1 Blodgett Way	
Tom Chase	35 FUSKIE LANE	N
Kristin Nelson	35 FUSKIE LANE	N

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 2014-346-WS: Application of Daufuskie Island Utility Company, Inc.
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PUBLIC WITNESS SIGN-IN SHEET

NAME <u>PLEASE PRINT</u>	ADDRESS <u>PLEASE PRINT</u>	DO YOU WISH TO TESTIFY? YES / NO
JORGENT CLARK MOLLIER	31, FREEPORT DR	NO
Gary Stewart	12 Lighthouse CT	no
Melissa Lehmanberg	25 Plantation Homes	NO
Eileen Fagan	14 MASTER DR. Melrose	no
Susan Taylor	2 Savannah Walk HP	No
JOHN TAYLOR	2 Savannah Walk HP	NO
HAZREDE PELL	15 FORT LIGHT WALK HP	NO

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 2014-346-WS: Application of Daufuskie Island Utility Company, Inc.
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Daufuskie Island, SC 29915

Tuesday, September 15, 2015 at 6:00 PM

PUBLIC WITNESS SIGN-IN SHEET

NAME <u>PLEASE PRINT</u>	ADDRESS <u>PLEASE PRINT</u>	DO YOU WISH TO TESTIFY? YES / NO
John Kimball	41 Freepoint Drive, DI	No

Introduction

MBLWSE
1

Andy Mason - 10 Rosebud Lane, Daufuskie Island

Thanks to the PSC for providing this opportunity to speak about the proposed rate increase. ~~I'd like to speak to both the big picture and local conditions in which we live~~

MACRO CONTEXT - In the past decade nationally -

The Federal Reserve has not increased interest rates over concerns increased rates would slow an economic recovery.

The average annual inflation rate was 2.28% (Bureau of Labor Statistics).

More important, since 2012 which was the year of the last rate increase, the average rate of inflation was 1.73%

In the twelve months through June of this year, inflation was one fifth of one percent (0.2%)

The utility and its predecessors have sought three rate increases in that same decade - 73% increase in 2005, - 37% increase in 2012 and now a proposed 120% increase in 2015.

AGG REGATE

Bottom line, while costs of doing business have been very tame, the utility company seeks repeated rate increases.

MICRO CONTEXT - Beaufort County Assessors Report from August 2013 discussed the 2012 county-wide reassessment -

County wide assessed property values decreased 29%

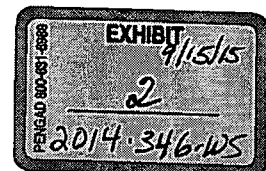
Daufuskie Island market values declined 43% - the largest decline in Beaufort County

Daufuskie Island property values declined 33% - Also the largest in Beaufort County

Resale value of a representative home in Melrose declined 63%

Locally, since 2010, the average sale price per square foot for an existing home on Daufuskie has dropped from \$242/sf to \$156/sf - a decline of 64%

In other words, Beaufort County property owners were hit hard by the recession, and Daufuskie Island was hit the hardest.



DAUFUSKIE CONTEXT -

When current management/ownership of the utility purchased and consolidated the assets of Haig Point Utility and Melrose Utility, ownership was fully aware of the size of the customer base and through its own due diligence should have been aware of both its potential and its limits.

There has been no reduction in the size or scope of the communities to be served.

In fact, since the last rate increase, DIUC has realized increased revenue from the inclusion of the Oak Ridge/Beachfield community where water/sewer fees had not previously been charged.

Speaking to the Melrose Community

Melrose Homesites Sample (5) - Assessed value between \$16,100 and \$132,000
AVG \$49,740 (Source - Beaufort County Tax Records)

- 1) Effective County tax rate is 1.48% of the assessed value
- 2) The current Utility rate is 1.3% of the assessed value
- 3) THE PROPOSED RATE INCREASE WOULD MAKE UTILITY RATES TWO and ONE QUARTER TIMES THE EFFECTIVE COUNTY TAX RATE

Melrose Homes Sample (5) - Assessed value between \$145,200 and \$663,200 - Avg assessed value of \$333,940 (Source - Beaufort County Tax Records)

- 1) Effective tax rate is .77% of the assessed value
- 2) The current Utility rate is .25% of the assessed value
- 3) THE PROPOSED RATE INCREASE WOULD MAKE UTILITY RATES 79% OF EFFECTIVE COUNTY TAX RATE

SUMMARY

Based on the information available, there would seem to be no basis for any rate increase with the possible exception of a modest rate of inflation adjustment that is in keeping with the Bureau of Labor Statistics CPI.

Without specific, measureable, time based and supervised goals and objectives, I believe it is in the best interest of the customers of this utility company for DIUC to either live within its means, just as its customers must, or look to a sale or merger with a more efficient organization.

BEFORE
THE PUBLIC SERVICE COMMISSION
OF
SOUTH CAROLINA

Docket No. 2014-346-WS

Application of Daufuskie Island Utility Company, Inc.)
For Approval of an Adjustment for Water and Sewer)
Rates, Terms and Conditions)
_____)

**PETITION TO
INTERVENE**

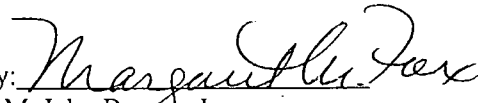
Beach Field Properties, LLC ("Beach Field") respectfully submits the within Petition to Intervene in the above-referenced docket. In support of its Petition, Beach Field would respectfully show unto this honorable Commission:

1. Beach Field is a limited liability company that owns property in the area served by Daufuskie Island Utility Company, Inc. ("DIUC").
2. Beach Field seeks to intervene in this proceeding with full rights to participate as a party of record in so far as its interests might appear.
3. DIUC has filed an application for approval of an adjustment in rates and charges for water and sewer service.
4. To the extent any such rates are properly assessed to the Beach Field property or any portion thereof, Beach Field has a direct and substantial interest in the amount of those rates and the manner in which they may be applied, and therefore will be directly affected by the outcome of this proceeding. While Beach Field has not fully developed a position regarding the Application at this time, Beach Field's position is that its participation in this proceeding is necessary to protect Beach Field's rights, and will aid the Commission in a full and fair consideration and resolution of the Application.

5. Correspondence and communications to Beach Field with respect to this proceeding should be directed to the undersigned counsel.

WHEREFORE, Beach Field Properties, LLC, respectfully requests that this honorable Commission permit its intervention in this proceeding as its interests might appear.

Respectfully submitted,

By: 
M. John Bowen, Jr.
Margaret M. Fox
McNair Law Firm, P.A.
Post Office Box 11390
Columbia, South Carolina 29211
Telephone: (803) 799-9800
Facsimile: (803) 753-3219
Email: jbowen@mcnair.net;
pfox@mcnair.net

ATTORNEYS FOR BEACH FIELD
PROPERTIES, LLC

Columbia, South Carolina

July 27, 2015

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-346-WS

IN RE:

Application of Daufuskie Island Utility
Company, Inc. for Approval of an
Adjustment for Water and Sewer Rates,
Terms, and Conditions

)
)
) **PETITION TO INTERVENE**
)
)
)

Haig Point Club and Community Association, Inc. ("HPCCA"), Melrose Property Owner's Association, Inc. ("MPOA"), and Bloody Point Property Owner's Association ("BPPOA") (together "Petitioners") hereby petition the South Carolina Public Service Commission ("Commission") pursuant to Rule 103-825 of its Rules of Practice and Procedure (10 S.C. Code Ann. Regs. 103-825), to be allowed to intervene as formal parties of record in the above-captioned proceeding. In support of this Petition, Petitioners would show as follows:

1. On June 9, 2015, Daufuskie Island Utility Company, Inc. ("DIUC" or "Applicant") filed an Application for approval to increase its rates for water and sewer services. The Application was filed pursuant to S.C. Code Ann. §58-5-210 *et. seq.*, and 10 S.C. Code Ann. Regs. 103-514.4, 103-712.4, and 103-834. According to the Application, DIUC provides general utility services on Daufuskie Island, Beaufort County, South Carolina. Within its service area, DIUC provides water supply and distribution service and sewer collection and treatment services to residential and commercial customers. In addition, the Company provides water service for landscaping and golf course irrigation. The subdivisions or tracts included in the Applicant's

service area are Haig Point, Cedar Cove Subdivision, Oakridge Subdivision, Beachfield Subdivision, Melrose, and Bloody Point.

Among other things, and according to DIUC, the Application seeks to:

- Eliminate the current water and sewer usage allowances that currently exist for Melrose and Bloody Point, and apply volumetric rates to water and sewer usage by all customers, as it currently applies under the DIUC tariff;
- Apply inclining block rates to all irrigation customers, as currently applicable in the DIUC tariff; and
- Establish uniform rates for all DIUC customers.

Upon information and belief, DIUC's proposed rates will result in an overall revenue increase of 108%, but some of the proposed rates would be between two and three times higher than the equivalent current rates, depending upon customer and usage.

2. HPCCA, MPOA and BPPOA are associations whose members include Daufuskie Island property owners and residents, many of whom are DIUC's residential and commercial water and sewer customers.

3. The Commission's Docketing department issued several Notices of Filing in this matter, the most recent on June 25, 2015, and scheduled a public hearing for Wednesday October 25, 2015. That Notice of Filing set a deadline for intervention in this Docket of July 27, 2015.

4. The Petitioners have a vital interest in this proceeding. Petitioners' members who are DIUC residential and commercial water and sewer customers will be affected by the proposed rate increase because it would:

- a. dramatically increase their water and sewer service rates;

- b. change the rate structure for many customers; and
- c. for the first time, establish unified system-wide water and sewer rates.

5. At this time, HPCCA, MPOA and BPPOA oppose the proposed rate increase, but do not possess sufficient information to form a more detailed position in this proceeding.

Participation in this Docket will allow Petitioners to obtain the information necessary to establish that position.

6. Petitioners seek to participate in this proceeding in order to more fully establish and assert their position and in order to assist in addressing the important issues raised.

Petitioners should therefore be permitted to intervene in this proceeding in order to participate fully and present testimony and other evidence as appropriate.

7. Petitioners' authorized representatives in this proceeding are:

John F. Beach
John J. Pringle, Jr.
Lyndey Ritz Zwing
ADAMS AND REESE LLP
1501 Main Street, 5th Floor
Post Office Box 2285 (29202)
Columbia, South Carolina 29201
Telephone: (803) 254-4190
Facsimile: (803) 779-4749
Email: john.beach@arlaw.com
jack.pringle@arlaw.com
lyndey.zwing@arlaw.com

8. Petitioners request that they be allowed to intervene in the above-captioned matter, that they be permitted to participate fully as parties of record, to present testimony, cross-examine witnesses, and assert whatever position they deem to be appropriate.

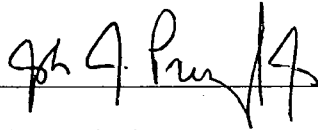
WHEREFORE, Petitioners pray for the following relief:

- a. That the Commission accept this Petition to Intervene and make Petitioners intervenors and parties of record;
- b. That the Commission allow Petitioners to participate fully in this proceeding and take such positions as they deem advisable; and
- c. That the Commission grant such other and further relief as is just and proper.

Respectfully submitted,

ADAMS AND REESE, LLP

BY:



John J. Pringle, Jr.
1501 Main Street, 5th Floor
Columbia, SC 29201
Telephone: (803) 254-4190
Facsimile: (803) 799-8479
jack.pringle@arlaw.com

Attorneys for Haig Point Club and
Community Association, Inc., Melrose
Property Owner's Association, Inc. and
Bloody Point Property Owner's Association

July 23, 2015
Columbia, South Carolina

Amended Statement of Proposed Rates

		Haig Pt. Present Rates	Melrose Present Rates	DIUC Proposed Rates
I. <u>Residential Rates</u>				
A.	<u>Water:</u>			
1)	Tapping Fees & 3/4" Meter Box	\$500.00	\$500.00	\$500.00
2)	Base Quarterly Charge	\$62.09	\$80.72	\$149.30
3)	Consumption Charge (per 1,000 gallons)			
	0 to 22,500 gallons per quarter	\$2.76	\$0.00	\$4.41
	Over 22,500 gallons	\$2.76	\$2.44	\$4.41
B.	<u>Sewer:</u>			
1)	Tapping Fees & Service Lateral	\$500.00	\$500.00	\$500.00
2)	Base Quarterly Charge	\$110.38	\$80.72	\$218.18
3)	Volumetric Charge (per 1,000 gallons)			
	0 to 22,500 gallons per quarter	\$1.32	\$0.00	\$2.38
	Over 22,500 gallons	\$1.32	\$1.95	\$2.38
C.	<u>Irrigation:</u>			
1)	Tapping Fees & 3/4" Meter Box	\$500.00	\$500.00	\$500.00
2)	Consumption Charge (per 1,000 gallons)			
	0 to 18,000 gallons per quarter	\$2.76	\$1.66	\$4.85
	18,001 to 60,000 gallons	\$3.09	\$1.66	\$5.73
	Over 60,000 gallons	\$3.50	\$1.66	\$6.61
II. <u>Commercial Rates</u>				
A.	<u>Water:</u>			
1)	Tapping Fees per Hotel or Inn Room	\$250.00	\$250.00	\$250.00
2)	Tapping Fees up to 1-1/2" Meter	\$500.00	\$500.00	\$500.00
3)	Tapping Fees 2" or 3" Meter	\$1,500.00	\$1,500.00	\$1,500.00
4)	Tapping Fees for 6" Meter	\$3,500.00	\$3,500.00	\$3,500.00
	Note: Larger meters on a case by case basis.			
5)	Base Quarterly Charge	\$86.93	\$136.60	\$209.01
6)	Consumption Charge (per 1,000 gallons)			
	0 to 22,500 gallons per quarter	\$2.76	\$0.00	\$4.41
	Over 22,500 gallons	\$2.76	\$1.95	\$4.41
B.	<u>Sewer:</u>			
1)	Tapping Fees per Hotel or Inn Room	\$250.00	\$250.00	\$250.00
2)	Tapping Fees 4" - 8" Sewer Pipe	\$500.00	\$500.00	\$500.00
2)	Base Quarterly Charge	\$178.21	\$136.60	\$305.45
3)	Volumetric Charge (per 1,000 gallons)			
	0 to 22,500 gallons per quarter	\$1.32	\$0.00	\$2.38
	Over 22,500 gallons	\$1.32	\$1.95	\$2.38
C.	<u>Irrigation:</u>			
1)	Tapping Fees & 3/4" Meter Box	\$500.00	\$500.00	\$500.00
2)	Consumption Charge (per 1,000 gallons)			
	0 to 18,000 gallons per quarter	\$2.76	\$1.66	\$4.85
	18,001 to 60,000 gallons	\$3.09	\$1.66	\$5.73
	Over 60,000 gallons	\$3.50	\$1.66	\$6.61

III. Availability Rates (Quarterly)

A. Water

\$31.05	\$76.38	\$107.49

B. Sewer

\$55.19	\$85.08	\$140.73

IV. Special Conditions

A. Tapping Fees:

Remain as in original tariff.

B. Backflow Prevention:

Remain as in original tariff.

C. System Development Charge:

Remain as in original tariff.

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO.: _____-WS

**APPLICATION OF DAUFUSKIE ISLAND UTILITY COMPANY, INC.
FOR APPROVAL OF AN ADJUSTMENT IN RATES AND CHARGES
FOR WATER AND SEWER SERVICES**

In accordance with S.C. Code Sections 58-5-210 et seq., R. 103-514.4, R. 103-712.4, and R. 103-834, the Applicant, Daufuskie Island Utility Company, Inc., requests adjustment of its rates and charges for water and sewer services, and submits the following information and Exhibits in support of its Application.

June 5, 2015

TABLE OF CONTENTS

1	Overview and Justification
2	Statement of Proposed Rates
3	Current Form of Customer Billing
4	Copy of Performance Bonds
5	Latest Evaluation by S.C. DHEC
6	Required Regulatory Financial Statements and Other Analyses
7	Operating Area Maps

OVERVIEW AND JUSTIFICATION

The Daufuskie Island Utility Company, Inc. ("DIUC" or "Company") formerly known as the Haig Point Utility Company, Inc. was established to provide water and sewer utility service to the 1,050 acre planned development with 750 single family homes and club, known as Haig Point, and the Cedar Cove Subdivision consisting of 18 single family residential lots, located on Daufuskie Island in Beaufort County, South Carolina.

In March of 2010, DIUC acquired the Melrose Utility Company ("MUC") also located on Daufuskie Island in Beaufort County, South Carolina. MUC was established to provide water and sewer service to the planned developments known as Melrose and Bloody Point consisting of approximately 580 residential lots and 60 commercial lots.

This application for approval of new rates and charges is based on the historical test year ended December 31, 2014. The test year is representative of the Company's consolidated Haig Point and Melrose normal utilities operation which is currently producing insufficient annual income. The pro forma rate period is based on the projected operations for the twelve months ending December 31, 2015 adjusted for known and measureable changes.

This application is necessary because the current rates do not enable the Company to cover its cost of providing service and earn a fair return on its investment. The Company has not applied for rate relief since 2010 and has not yet established unified rates under its current consolidated status. The test year revenues, under current rates, produced net operating losses of \$21,174 for the water operations or a negative .65% return on its investment. The sewer operations experienced net operating income of \$59,890 or a 1.59% return on its investment. As this application demonstrates, the pro forma rate year under the current rates, would produce even less income and result in a negative 5.27% return for water and a negative 2.81% return for sewer. The proposed rates developed in this application are essential for the Daufuskie Island Utility Company to continue to provide its customers with adequate water and wastewater service.

The proposed rate design would eliminate the current water and sewer usage allowances that currently exist under the Melrose tariff and apply volumetric rates to all water and sewer usage by all customers, as it currently applies under the DIUC tariff. The proposed irrigation rates would also apply inclining block rates, as it currently applies under the DIUC tariff, to all irrigation customers. The tiered rate structure is designed to promote water conservation. The proposed rates would establish uniform rates for all of the DIUC customers. The proposed rates result in very similar increases of the annual water and sewer charges for both the Haig Point and Melrose service area customers.

Statement of Proposed Rates

		Haig Pt. Present Rates	Melrose Present Rates	DIUC Proposed Rates
I. <u>Residential Rates</u>				
A. <u>Water:</u>				
1)	Tapping Fees & 3/4" Meter Box	\$500.00	\$500.00	\$500.00
2)	Base Quarterly Charge	\$62.09	\$80.72	\$149.30
3)	Consumption Charge (per 1,000 gallons)			
	0 to 22,500 gallons per quarter	\$2.76	\$0.00	\$4.41
	Over 22,500 gallons	\$2.76	\$2.44	\$4.41
B. <u>Sewer:</u>				
1)	Tapping Fees & Service Lateral	\$500.00	\$500.00	\$500.00
2)	Base Quarterly Charge	\$110.38	\$80.72	\$218.18
3)	Volumetric Charge (per 1,000 gallons)			
	0 to 22,500 gallons per quarter	\$1.32	\$0.00	\$2.38
	Over 22,500 gallons	\$1.32	\$1.95	\$2.38
C. <u>Irrigation:</u>				
1)	Tapping Fees & 3/4" Meter Box	\$500.00	\$500.00	\$500.00
2)	Consumption Charge (per 1,000 gallons)			
	0 to 18,000 gallons per quarter	\$2.76	\$1.66	\$4.85
	18,001 to 60,000 gallons	\$3.09	\$1.66	\$5.73
	Over 60,000 gallons	\$3.50	\$1.66	\$6.61
II. <u>Commercial Rates</u>				
A. <u>Water:</u>				
1)	Tapping Fees per Hotel or Inn Room	\$250.00	\$250.00	\$250.00
2)	Tapping Fees up to 1-1/2" Meter	\$500.00	\$500.00	\$500.00
3)	Tapping Fees 2" or 3" Meter	\$1,500.00	\$1,500.00	\$1,500.00
4)	Tapping Fees for 6" Meter	\$3,500.00	\$3,500.00	\$3,500.00
	Note: Larger meters on a case by case basis.			
5)	Base Quarterly Charge	\$86.93	\$136.60	\$209.01
6)	Consumption Charge (per 1,000 gallons)			
	0 to 22,500 gallons per quarter	\$2.76	\$0.00	\$4.41
	Over 22,500 gallons	\$2.76	\$1.95	\$4.41
B. <u>Sewer:</u>				
1)	Tapping Fees per Hotel or Inn Room	\$250.00	\$250.00	\$250.00
2)	Tapping Fees 4" - 8" Sewer Pipe	\$500.00	\$500.00	\$500.00
2)	Base Quarterly Charge	\$178.21	\$136.60	\$305.45
3)	Volumetric Charge (per 1,000 gallons)			
	0 to 22,500 gallons per quarter	\$1.32	\$0.00	\$2.38
	Over 22,500 gallons	\$1.32	\$1.95	\$2.38
C. <u>Irrigation:</u>				
1)	Tapping Fees & 3/4" Meter Box	\$500.00	\$500.00	\$500.00
2)	Consumption Charge (per 1,000 gallons)			
	0 to 18,000 gallons per quarter	\$2.76	\$1.66	\$4.85
	18,001 to 60,000 gallons	\$3.09	\$1.66	\$5.73
	Over 60,000 gallons	\$3.50	\$1.66	\$6.61

Daufuskie Island Utility Co.
c/o Guastella Associates
6 Beacon St, STE 200
Boston, MA 02108
888-635-7878

JOHN DOE
123 STREET
DAUFUSKIE ISLAND, SC 29915-

Account # SAMPLE
Billing Date 07/01/14
Due Date 07/31/14
Amount Due 1094.50

Detach and Submit with Payment

Service ID#	From Date	Thru Date	Days	Service Address
SAMPLE	04/01/14	07/01/14	91	123 A STREET
Charge Description	Previous Reading	Present Reading	Total Consumption	Charge
WATER - D	8000	8000	0	62.09
SEWER - D				110.38
IRRIG - D	12000	12000	0	0.00
AVAIL - WT				76.38
AVAIL - SW				85.08
				333.93

DEAR CUSTOMER: TO ENSURE PROPER DELIVERY
PLEASE UPDATE OUR MAILING ADDRESS AS SHOWN IN
THE TOP LEFT CORNER IN ALL OF YOU BILL PAY
ACCOUNTS. PLEASE CONTACT US WITH ANY QUESTIONS
AT ADMIN@DIUTILITY.COM OR THE TELEPHONE NUMBER
LISTED ABOVE.

TOTAL PREVIOUS BALANCE 760.57
CURRENT CHARGES 333.93

IF PAID BY 07/31/14 1094.50

IF PAID AFTER 07/31/14 1110.68

This invoice represents an "Availability Fee" that charges customers for the "availability" to tap-in water and sewer lines on Daufuskie Island, South Carolina. This fee was defined and identified in the contract and disclosure documents you received when you purchased your Daufuskie Island property.

Water charges include a base charge of \$62.09 (residential) and \$86.93 (commercial). Sewer charges include a base charge of \$110.38 (residential) and \$178.21 (commercial).

For questions regarding billing, call 888-635-7878. For emergencies regarding your utilities, call 843-686-9249 (business hours) or 843-247-3135 (after hours).

Daufuskie Island Utility is under the jurisdiction of the South Carolina Public Service Commission ("PSC"). Charges are based on a rate schedule filed and approved by the PSC and available for your inspection upon request. If you are not satisfied with the Utility's response to an inquiry you can contact the Office of Regulatory Staff's Consumer Services Division at 803-737-5231 or within S.C. at 800-922-1531.

If a previous payment was received after the invoice date ("bill date") show on this bill, the payment is not reflected on this invoice. However, the payment is reflected in our billing system and you should disregard the previous balance displayed. In addition, a Late Payment Charge of 1 1/2% will be added to any unpaid balance not paid before the Late Date shown.

Sterling Risk Advisors Inc.

P O Box 724137
Atlanta, GA 31139

Daufuskie Island Utility Company, Inc.
9688 Speedway Blvd.
Hardeeville, SC 29227

INVOICE

Customer	Terry R. Lee Contracting Company, Inc. 19748
Date	03/22/2015
Customer Service	Danny Sellers Debra Johnson
Page	1 of 1

Payment Information	
Invoice Summary	5,250.00
Payment Amount	
Payment for	Invoice#313291
BMA 1942391	

Thank You

Please detach and return with payment

Customer: Terry R. Lee Contracting Company, Inc.

Invoice	Effective	Transaction	Description	Amount
313291	02/14/2015	Renew policy	Policy #BMA 1942391 02/14/2015-02/14/2016 Hanover Insurance Company Renewal - SC Sewer Utilities Operation Bond Bond Amount \$350,000.00 Due Date: 4/1/2015	5,250.00
				Total 5,250.00

Thank You

Sterling Risk Advisors Inc. P O Box 724137 Atlanta, GA 31139		(678)424-6500	Date 03/22/2015

PERFORMANCE BOND

Bond No: 1942391

FINANCIAL STATEMENT

(SEWER UTILITIES)

KNOW ALL MEN BY THESE PRESENTS, that Daufuskie Island Utility Company, Inc.

being duly qualified to do business in the State of South Carolina, designated as "principal", and that

The Hanover Insurance Company, **designated as "surety"/"sureties" is/are held and firmly**

bound unto the Public Service Commission of South Carolina, designated as "obligee", in the penal

sum of \$ 350,000.00, for the payment of which well and truly to be made, the principal binds itself,

its successors and assigns, and the surety/sureties bind themselves, their personal representatives, and

their assigns, jointly and severally, firmly by these presents.

WHEREAS, in accordance with the provisions of S. C. Code Ann., §58-5-720 (1976, as amended), which requires the principal to furnish a bond with sufficient surety, to the satisfaction of the obligee, conditioned as provided in said §58-5-720, and

WHEREAS, the obligee has granted the principal a Certificate of Public Convenience and Necessity and approved a schedule of rates for sewer service in areas shown on operating maps filed with the obligee, and

WHEREAS, this bond, when approved by the obligee, conditioned as in said §58-5-720, is to cover any and all liability which may arise as a result of the principal failing to provide adequate and sufficient service within its service area as prescribed in §58-5-720, and

WHEREAS, the obligee, upon notice and hearing, shall have the right to declare all or any part of the bond forfeited upon a determination by the obligee that the principal shall have willfully failed to provide such service as prescribed above, without just cause or excuse, and that such failure has continued for an unreasonable length of time, and

WHEREAS, the liability under the terms of this bond is hereby extended so as to include any fines or penalties imposed or assessed by the obligee against the principal under the provisions of S.C. Code Ann. §58-5-710 (1976 as amended), and

WHEREAS, in the event that any judicial action or proceedings are initiated with respect to this bond, the parties hereby agree that the venue thereof shall be Richland County, State of South Carolina, and

WHEREAS, the surety/sureties, as stockholders of the principal, undertake this obligation for and in consideration of the principal being able to continue to operate a sewer utility providing service to the public for compensation under the jurisdiction of the obligee, and

WHEREAS, the surety/sureties, as shall file with this bond a Financial Statement showing personal assets, liabilities, and net worth; and shall file annually with the obligee a revised Financial Statement as long as the bond continues in effect, and

WHEREAS, this bond shall become effective on the date executed by the principal and surety/sureties, and shall continue from year to year unless the obligations of the principal and surety/sureties under this bond are expressly released by the obligee in writing, and

Page 3

NOW THEREFORE, in testimony whereof, said principal has hereunto subscribed its name and said principal has caused this instrument to be signed by its duly authorized officers, and its corporate seal to hereunto affixed this 14th day of February, 2011; and that said surety/sureties have caused this instrument to be signed this 14th day of February, 2011.

Joyce M Connor
Signature Joyce M Connor, Attorney-in-Fact

Daufuskie Island Utility Company, Inc.
Company

By

Raimona Neal
Witness # 1 Raimona Neal

Witness # 2 Sammy Forrester

Title

Signature

Witness # 1

Witness # 2

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

POWERS OF ATTORNEY
CERTIFIED COPY

KNOW ALL MEN BY THESE PRESENTS: That THE HANOVER INSURANCE COMPANY and MASSACHUSETTS BAY INSURANCE COMPANY, both being corporations organized and existing under the laws of the State of New Hampshire, and CITIZENS INSURANCE COMPANY OF AMERICA, a corporation organized and existing under the laws of the State of Michigan, do hereby constitute and appoint:

S Danny Sellers, Joyce M Connor, and/or Richmond Lanier Mitchell

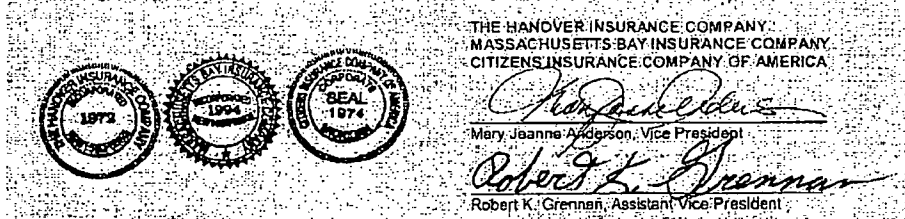
of Duluth, GA and each is a true and lawful Attorney(s)-in-fact to sign, execute, seal, acknowledge and deliver for, and on its behalf, and as its act and deed any place within the United States, or, if the following line be filled in, only within the area therein designated

any and all bonds, recognizances, undertakings, contracts of indemnity or other writings obligatory in the nature thereof, as follows:
Any such obligations in the United States, not to exceed Ten Million and No/100 (\$10,000,000.00) in any single instance

and said companies hereby ratify and confirm all and whatsoever said Attorney(s)-in-fact may lawfully do in the premises by virtue of these presents. These appointments are made under and by authority of the following Resolution passed by the Board of Directors of said Companies which resolutions are still in effect:

"RESOLVED, That the President or any Vice President, in conjunction with any Assistant Vice President, be and they are hereby authorized and empowered to appoint Attorneys-in-fact of the Company, in its name and as its acts, to execute and acknowledge for and on its behalf as Surety any and all bonds, recognizances, contracts of indemnity, waivers of citation and all other writings obligatory in the nature thereof, with power to attach thereto the seal of the Company. Any such writings so executed by such Attorneys-in-fact shall be as binding upon the Company as if they had been duly executed and acknowledged by the regularly elected officers of the Company in their own proper persons." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 - Massachusetts Bay Insurance Company; Adopted September 7, 2001 - Citizens Insurance Company of America)

IN WITNESS WHEREOF, THE HANOVER INSURANCE COMPANY, MASSACHUSETTS BAY INSURANCE COMPANY and CITIZENS INSURANCE COMPANY OF AMERICA have caused these presents to be sealed with their respective corporate seals, duly attested by a Vice President and an Assistant Vice President, this 14th day of June, 2010.



THE COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF WORCESTER) ss.

On this 13th day of June, 2010., before me came the above named Vice President and Assistant Vice President of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, to me personally known to be the individuals and officers described herein, and acknowledged that the seals affixed to the preceding instrument are the corporate seals of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, respectively, and that the said corporate seals and their signatures as officers were duly affixed and subscribed to said instrument by the authority and direction of said Corporations.



Barbara A. Gaudin
Notary Public

My commission expires on November 3, 2011

I, the undersigned Assistant Vice President of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, hereby certify that the above and foregoing is a full, true and correct copy of the Original Power of Attorney issued by said Companies, and do hereby further certify that the said Powers of Attorney are still in force and effect.

This Certificate may be signed by facsimile under and by authority of the following resolution of the Board of Directors of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America.

"RESOLVED, That any and all Powers of Attorney and Certified Copies of such Powers of Attorney and certification in respect thereto, granted and executed by the President or any Vice President in conjunction with any Assistant Vice President of the Company, shall be binding on the Company to the same extent as if all signatures therein were manually affixed, even though one or more of any such signatures thereon may be facsimile." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 Massachusetts Bay Insurance Company; Adopted September 7, 2001 - Citizens Insurance Company of America)

GIVEN under my hand and the seals of said Companies, at Worcester, Massachusetts, this _____ day of _____, 20____

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
Stephen L. Brault
Stephen L. Brault, Assistant Vice President

Sterling Risk Advisors Inc.

P O Box 724137
Atlanta, GA 31139

Daufuskie Island Utility Company, Inc.
9688 Speedway Blvd.
Hardeeville, SC 29227

INVOICE

Customer	Terry R. Lee Contracting Company, Inc. 19748
Date	03/22/2015
Customer Service	Danny Sellers Debra Johnson
Page	1 of 1

Payment Information	
Invoice Summary	5,250.00
Payment Amount	
Payment for:	Invoice#313292
BMA 1942392	

Thank You

Please detach and return with payment

Customer: Terry R. Lee Contracting Company, Inc.

Invoice	Effective	Transaction	Description	Amount
313292	02/14/2015	Renew policy	Policy #BMA 1942392 02/14/2015-02/14/2016 Hanover Insurance Company Renewal - SC Water Utilities Operation Bond Bond Amount \$350,000.00 Due Date: 4/1/2015	5,250.00
				Total
				5,250.00

Thank You

Sterling Risk Advisors Inc.
P O Box 724137
Atlanta, GA 31139

(678)424-6500

Date

03/22/2015

PERFORMANCE BOND

Bond No: 1942392

FINANCIAL STATEMENT

(WATER UTILITIES)

KNOW ALL MEN BY THESE PRESENTS, that Daufuskie Island Utility Company, Inc.
being duly qualified to do business in the State of South Carolina, designated as "principal", and that
The Hanover Insurance Company, designated as "surety"/"sureties" is/are held and firmly
bound unto the Public Service Commission of South Carolina, designated as "obligee", in the penal
sum of \$ 350,000.00, for the payment of which well and truly to be made, the principal binds
itself, its successors and assigns, and the surety/sureties bind themselves, their personal
representatives, and their assigns, jointly and severally, firmly by these presents.

WHEREAS, in accordance with the provisions of S. C. Code Ann., §58-5-720 (1976, as
amended), which requires the principal to furnish a bond with sufficient surety, to the satisfaction of
the obligee, conditioned as provided in said §58-5-720, and

WHEREAS, the obligee has granted the principal a Certificate of Public Convenience and
Necessity and approved a schedule of rates for water service in areas shown on operating maps filed
with the obligee, and

WHEREAS, this bond, when approved by the obligee, conditioned as in said §58-5-720, is to
cover any and all liability which may arise as a result of the principal failing to provide adequate and
sufficient service within its service area as prescribed in §58-5-720, and

FINANCIAL STATEMENT

Water Utilities

Page 2

WHEREAS, the obligee, upon notice and hearing, shall have the right to declare all or any part of the bond forfeited upon a determination by the obligee that the principal shall have willfully failed to provide such service as prescribed above, without just cause or excuse, and that such failure has continued for an unreasonable length of time, and

WHEREAS, the liability under the terms of this bond is hereby extended so as to include any fines or penalties imposed or assessed by the obligee against the principal under the provisions of S.C. Code Ann. §58-5-710 (1976 as amended), and

WHEREAS, in the event that any judicial action or proceedings are initiated with respect to this bond, the parties hereby agree that the venue thereof shall be Richland County, State of South Carolina, and

WHEREAS, the surety/sureties, as stockholders of the principal, undertake this obligation for and in consideration of the principal being able to continue to operate a water utility providing service to the public for compensation under the jurisdiction of the obligee, and

WHEREAS, the surety/sureties, as shall file with this bond a Financial Statement showing personal assets, liabilities, and net worth; and shall file annually with the obligee a revised Financial Statement as long as the bond continues in effect, and

WHEREAS, this bond shall become effective on the date executed by the principal and surety/sureties, and shall continue from year to year unless the obligations of the principal and surety/sureties under this bond are expressly released by the obligee in writing, and

FINANCIAL STATEMENT

Water Utilities

Page 3

WHEREAS, the obligee upon notice and opportunity to the principal and surety/sureties to be heard, may order that the face amount of this bond to be changed within the limits set forth in S.C. Code Ann., §58-5-720 (1976 as amended).

NOW THEREFORE, in testimony whereof, said principal has hereunto subscribed its name and said principal has caused this instrument to be signed by its duly authorized officers, and its corporate seal to hereunto affixed this 14th day of February, 2011; and that said surety/sureties have caused this instrument to be signed this 14th day of February, 2011.

SURETY/SURETIES:

The Hanover Insurance Company

Joyce M. Connor
Signature Joyce M. Connor, Attorney-in-Fact

Company

IN THE PRESENCE OF:

Raimona Neal
Witness # 1 Raimona Neal

Jimmy Forrester
Witness # 2 Jimmy Forrester

By

Title

IN THE PRESENCE OF

Signature

Witness # 1

Witness # 2

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

POWERS OF ATTORNEY
CERTIFIED COPY

KNOW ALL MEN BY THESE PRESENTS: That THE HANOVER INSURANCE COMPANY and MASSACHUSETTS BAY INSURANCE COMPANY, both being corporations organized and existing under the laws of the State of New Hampshire, and CITIZENS INSURANCE COMPANY OF AMERICA, a corporation organized and existing under the laws of the State of Michigan, do hereby constitute and appoint
S Danny Sellers, Joyce M Connor, and/or Richmond Lanier Mitchell

of Duluth, GA and each is a true and lawful Attorney(s)-in-fact to sign, execute, seal, acknowledge and deliver for, and on its behalf, and as its act and deed any place within the United States, or, if the following line be filled in, only within the area therein designated

any and all bonds, recognizances, undertakings, contracts of indemnity or other writings obligatory in the nature thereof, as follows:
Any such obligations in the United States, not to exceed Ten Million and No/100 (\$10,000,000.00) in any single instance

and said companies hereby ratify and confirm all and whatsoever said Attorney(s)-in-fact may lawfully do in the premises by virtue of these presents. These appointments are made under and by authority of the following Resolution passed by the Board of Directors of said Companies which resolutions are still in effect:

"RESOLVED, That the President or any Vice President, in conjunction with any Assistant Vice President, be and they are hereby authorized and empowered to appoint Attorneys-in-fact of the Company, in its name and as its acts, to execute and acknowledge for and on its behalf as Surety any and all bonds, recognizances, contracts of indemnity, waivers of citation and all other writings obligatory in the nature thereof, with power to attach thereto the seal of the Company. Any such writings so executed by such Attorneys-in-fact shall be as binding upon the Company as if they had been duly executed and acknowledged by the regularly elected officers of the Company in their own proper persons." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 - Massachusetts Bay Insurance Company; Adopted September 7, 2001 - Citizens Insurance Company of America)

IN WITNESS WHEREOF, THE HANOVER INSURANCE COMPANY, MASSACHUSETTS BAY INSURANCE COMPANY and CITIZENS INSURANCE COMPANY OF AMERICA have caused these presents to be sealed with their respective corporate seals, duly attested by a Vice President and an Assistant Vice President, this 14th day of June, 2010.



THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

Mary Jeanne Anderson
Mary Jeanne Anderson, Vice President

Robert K. Grennan
Robert K. Grennan, Assistant Vice President

THE COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF WORCESTER) ss.

On this 13th day of June, 2010, before me came the above named Vice President and Assistant Vice President of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, to me personally known to be the individuals and officers described herein, and acknowledged that the seals affixed to the preceding instrument are the corporate seals of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, respectively, and that the said corporate seals and their signatures as officers were duly affixed and subscribed to said instrument by the authority and direction of said Corporations.



Barbara A. Garlick
Notary Public

My commission expires on November 3, 2011

I, the undersigned Assistant Vice President of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, hereby certify that the above and foregoing is a full, true and correct copy of the Original Power of Attorney issued by said Companies, and do hereby further certify that the said Powers of Attorney are still in force and effect.

This Certificate may be signed by facsimile under and by authority of the following resolution of the Board of Directors of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America.

"RESOLVED, That any and all Powers of Attorney and Certified Copies of such Powers of Attorney and certification in respect thereto, granted and executed by the President or any Vice President in conjunction with any Assistant Vice President of the Company, shall be binding on the Company to the same extent as if all signatures therein were manually affixed, even though one or more of any such signatures thereon may be facsimile." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 Massachusetts Bay Insurance Company; Adopted September 7, 2001 - Citizens Insurance Company of America)

GIVEN under my hand and the seals of said Companies, at Worcester, Massachusetts, this

day of , 20

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

Stephen L. Brault
Stephen L. Brault, Assistant Vice President



W. Marshall Taylor Jr., Acting Director

Promoting and protecting the health of the public and the environment

May 1, 2015

Mr. Mike L. Guastella
Guastella Associates, LLC
PO Box 360
Northborough, MA 01532-0360

RE: **Consent Order 15-003-W**
Daufuskie Island Utility Company
Permits ND0068179 and ND0062286
Beaufort County

Dear Mr. Guastella,

We have received, via e-mail, your proposed Corrective Action Plan (CAP) in response to the referenced Consent Order. After review by staff, your proposed CAP has been determined to be acceptable. Pursuant to the terms of the Consent Order, the CAP will now become part of the Order. If you have any questions in this matter, please call me at (803) 898-1261.

Sincerely,

H. Michael Longshore, MPH, REHS
Water Enforcement Division
Bureau of Water

**Compliance Evaluation Inspection
DAUFUSKIE ISLAND CLUB
PERMIT ND0068179**

Introduction

On March 24, 2015, personnel from the South Carolina Department of Health and Environmental Control (SCDHEC) conducted a Compliance Evaluation Inspection (CEI) at the Daufuskie Island Club Wastewater Treatment Facility, Daufuskie Island, South Carolina. The inspector, Penny Cornett met with facility representatives Eric Johanson and Mike Guastella to explain the objectives and procedures of the inspection.

Permit

This facility is authorized to discharge under Land Application Discharge Permit No. ND0068179. Treated wastewater is discharged through outfall 001 to an 18 hole golf course at the Daufuskie Island Club development at Bloody Point. Permit information regarding the name and location of the land application site is correct. Permit information regarding the number and location of discharge points is correct. Outfall 001 is for discharge of treated effluent to the effluent holding pond and then to the golf course. Groundwater monitoring is required semi-annually on each of the 9 groundwater monitoring wells on the 18 hole golf course. The permit became effective on April 1, 2009 and expires on September 30, 2018.

Rating: Satisfactory

Consent Order

Consent order 15-003-W was executed March 4, 2015. The consent order requires that a Corrective Action Plan (CAP) to address deficiencies noted in the CEI reports and prevent future violations be submitted to the Department within 60 days of the execution date of the order.

Rating: Satisfactory

Records and Reports

Records and reports are being maintained as required by the permit. All information is available, complete, current and maintained for a minimum of three years. The Discharge Monitoring Reports (DMRs) for January 2014, January 2015 and February 2015 were reviewed. Analytical results are consistent with the data reported on the DMRs. Sampling and analysis data is adequate and includes dates, times, locations of sampling as well as methods and techniques, results and persons performing sampling and analysis.

The operator's logbook is maintained daily. A preventative maintenance program, emergency procedures, spare parts inventory and pump station inspection program have been established. In accordance with Part II E 3 of the NPDES Permit, the permittee shall develop and maintain at the facility a complete Operations and Maintenance Manual for the waste treatment facilities and/or land application system. The manual shall contain a general description of the treatment process(es), the operational procedures to meet the requirements of the permit and the corrective action to be taken should operating difficulties be encountered.

Rating: Satisfactory

Requirement: Develop an Operations and Maintenance Manual.

Flow Measurement

Flow is measured at the effluent using a 60-degree V notch weir. The weir plate appears to be level, plumb and its top edges are sharp and clean. The stilling basin is of sufficient size and clear of debris. Flow is measured at the effluent with an Endress/Hausser FM U90 flow meter. The flow meter was last calibrated on December 18, 2014. At the time of the inspection, there was no flow over the weir.

Rating: Satisfactory

Self-Monitoring

This facility's self-monitoring program is meeting the requirements of the permit. Samples are taken at sites specified in the permit and the locations are adequate for representative samples. Flow proportioned samples are being collected as required by the permit. Grab samples for fecal coliform, dissolved oxygen and pH are collected properly.

Sampling and analysis is completed on parameters specified by the permit and in the frequencies specified in the permit. The permit requires that samples be collected on the first Wednesday of each month but samples are collected on the first Tuesday of each month. A request to change the sampling date has previously been submitted to the Department. Samples are iced during compositing and proper preservation techniques are used. Containers and sample holding times before analysis conforms with Federal Register 40 CFR 136.3.

Rating: Satisfactory

Requirements: Check that the automatic sampler is pulling the set volume before each sampling event.

Facility Site Review

This 0.08 MGD facility consists of an influent bar screen, aeration pond, chlorine contact chamber, effluent holding pond and effluent pump station to deliver effluent to the golf course.

Operations and Maintenance

At the time of inspection, all treatment units were in service and operating properly with the exception of one aerator that has been removed for repairs. The influent channel was covered in a thick layer of solids. There was duckweed in the aeration basin and holding pond. One tear was noted in the aeration basin liner. All of the lift stations now have two pumps. The effluent pump station has been painted and the jockey pump has been removed as the engineer determined it was not needed. At the time of inspection, there was no discharge. The backflow prevention device at the plant was satisfactorily tested on June 25, 2014. The chlorine scales were calibrated on December 18, 2014.

Rating: Satisfactory

Requirements: 1. Clean the solids from the influent channel. 2. Repair the tear in the aeration basin liner. 3. Repair the aerator.

Sludge Handling/Disposal

This facility currently operates in a manner that does not require routine sludge removal.

Rating: Satisfactory

Laboratory

An on-site laboratory (SCDHEC Laboratory ID 07009, expiration July 3, 2017) at the facility is certified to analyze and report pH, temperature and dissolved oxygen. The other parameters are contracted out to General Environmental Labs (SCDHEC Laboratory ID 27553). A quality assurance manual is available as is a standard operating procedure (SOP).

Rating: Satisfactory

**Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems**

**Schedules in Support
of a
Rate Increase**

Historical Test Year 12/31/2014

With Known and Measurable Changes through 12/31/2015

GUASTELLA ASSOCIATES LLC

June 2015

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Comparative Balance Sheets

<u>Assets</u>	<u>Water</u>					
	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>
Utility Plant	\$3,211,843	\$3,851,101	\$3,858,489	\$3,864,959	\$3,814,485	\$3,905,259
Accumulated Depreciation	(208,008)	(250,512)	(283,720)	(317,092)	(341,904)	(382,950)
Construction Work in Progress	0	0	0	0	0	29,511
Cash	4,956	5,146	11,842	30,152	369,870	34,576
Accounts Receivable	97,128	212,594	228,274	312,173	205,909	202,206
Provision for Uncollectibles	(45,013)	(67,825)	(67,825)	(67,825)	0	0
Receivables from Associated Co.	0	0	0	0	0	0
Deferred Expenses	0	0	0	202,503	408,150	502,686
Accumulated Deferred Income Tax	0	0	0	0	0	0
Total Assets	\$3,060,906	\$3,750,504	\$3,747,060	\$4,024,870	\$4,456,510	\$4,291,287
<u>Liabilities & Equity</u>						
Common Stock	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Premium on Capital Stock	1,328,041	1,328,041	664,021	664,021	664,021	664,021
Paid in Capital	2,670,205	3,150,047	2,829,589	2,801,457	1,765,964	1,765,964
Retained Earnings	(1,305,625)	(1,211,687)	(212,815)	(65,714)	(69,317)	(18,326)
Notes and Loans Payable	0	0	0	0	1,369,979	1,307,975
Accounts Payable	42,523	75,245	82,296	272,010	61,678	100,225
Advances from Associated Co.	0	(20,586)	(42,109)	(61,577)	(25,615)	(25,615)
Accrued Taxes	0	0	0	2,130	(1,468)	157
Deferred Credits	0	0	0	0	269,779	72,195
Misc Accrued Liabilities	0	0	0	0	12,443	16,771
Misc Operating Reserves	0	10,659	10,659	0	0	0
Contributions in Aid of Construction	354,000	453,500	454,000	455,000	455,500	458,500
Accum. Amortization of CIAC	(29,238)	(35,715)	(39,581)	(45,456)	(47,455)	(51,580)
Total Liabilities & Equity	\$3,060,906	\$3,750,504	\$3,747,060	\$4,022,870	\$4,456,510	\$4,291,287
<u>Assets</u>						
	<u>Sewer</u>					
	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>
Utility Plant	\$2,679,330	\$3,637,399	\$3,642,884	\$3,645,734	\$3,474,402	\$4,077,571
Accumulated Depreciation	(258,167)	(317,217)	(347,008)	(376,912)	(369,432)	(404,688)
Construction Work in Progress	0	0	0	18,170	92,951	225,342
Cash	1,479	5,146	11,843	30,152	369,870	34,576
Accounts Receivable	100,732	227,191	279,018	278,142	194,956	198,409
Provision for Uncollectibles	(54,036)	(96,662)	(96,662)	(96,662)	0	0
Receivables from Associated Co.	282,366	5,139	0	0	0	0
Deferred Expenses	0	0	770	202,503	408,150	502,686
Accumulated Deferred Income Tax	0	0	0	0	0	0
Total Assets	\$2,751,704	\$3,460,995	\$3,490,845	\$3,701,129	\$4,170,897	\$4,633,896
<u>Liabilities & Equity</u>						
Common Stock	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Premium on Capital Stock	0	0	664,020	664,020	664,021	664,021
Paid in Capital	2,579,174	3,226,883	3,547,341	3,519,209	2,459,067	2,459,067
Retained Earnings	(15,339)	31,720	(901,197)	(879,745)	(851,298)	(178,173)
Notes and Loans Payable	0	0	0	0	1,369,979	1,307,975
Accounts Payable	52,443	31,915	32,633	272,010	61,678	100,255
Advances from Associated Co.	26,166	(20,586)	(42,109)	(61,577)	(25,615)	(25,615)
Accrued Taxes	(418)	(418)	(418)	1,674	6,440	8,065
Deferred Credits	0	0	0	0	265,359	72,195
Misc Accrued Liabilities	0	0	0	0	36,673	41,001
Misc Operating Reserves	0	5,118	5,118	0	0	0
Contributions in Aid of Construction	116,795	197,295	197,795	199,295	199,795	201,795
Accum. Amortization of CIAC	(8,117)	(11,932)	(13,338)	(14,757)	(16,202)	(17,689)
Total Liabilities & Equity	\$2,751,704	\$3,460,995	\$3,490,845	\$3,701,129	\$4,170,897	\$4,633,896

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Comparative Income Statements for 12 Months Ended

	Water					
	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>
Revenues:						
Metered Sales	\$152,708	\$219,825	\$234,370	\$281,237	\$315,254	\$309,860
Availability Billing	38,173	128,829	132,903	154,579	208,970	213,004
Interdepartmental Sales	0	0	0	0	0	0
Other Revenue	1,051	3,775	2,671	5,405	4,908	20,444
Total Operating Revenue	<u>191,932</u>	<u>352,429</u>	<u>369,944</u>	<u>441,221</u>	<u>529,131</u>	<u>543,308</u>
Expenses:						
O&M Expense	200,864	327,999	315,487	338,308	427,489	472,592
Depreciation	29,371	29,209	29,342	29,498	29,981	36,921
Amortization					46,210	46,210
Taxes, Other	616	9,132	10,721	11,684	7,633	8,759
Income Tax	0	0	0	0	0	0
Total Operating Expense	<u>230,851</u>	<u>366,340</u>	<u>355,550</u>	<u>379,490</u>	<u>511,313</u>	<u>564,482</u>
Net Operating Income	(38,919)	(13,911)	14,394	61,731	17,818	(21,174)
Other Income	0	0	0	0	65	122
Interest Expense	0	0	0	0	(6,061)	(88,763)
Other Expenses	0	0	0	0	0	(3,607)
Net Income	<u>(\$38,919)</u>	<u>(\$13,911)</u>	<u>\$14,394</u>	<u>\$61,731</u>	<u>\$11,822</u>	<u>(\$113,422)</u>

	Sewer					
	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>
Revenues:						
Metered Sales	\$111,102	\$172,731	\$171,405	\$195,602	\$224,335	\$246,745
Availability Billing	67,864	159,901	165,380	191,065	271,878	276,661
Interdepartmental Sales	137,080	0	0	0	0	0
Other Revenue	1,966	4,975	2,881	6,609	4,908	9,749
Total Operating Revenue	<u>318,012</u>	<u>337,607</u>	<u>339,666</u>	<u>393,276</u>	<u>501,120</u>	<u>533,155</u>
Expenses:						
O&M Expense	271,573	262,600	250,362	263,682	338,772	382,145
Depreciation	25,884	28,170	28,384	28,486	28,770	36,151
Amortization					46,210	46,210
Taxes, Other	1,963	6,498	9,358	9,645	11,392	8,759
Income Tax	0	0	0	0	0	0
Total Operating Expense	<u>299,420</u>	<u>297,268</u>	<u>288,104</u>	<u>301,813</u>	<u>425,144</u>	<u>473,265</u>
Net Operating Income	18,592	40,339	51,562	91,463	75,977	59,890
Other Income	0	0	0	0	65	122
Interest Expense	0	0	0	0	(6,061)	(88,763)
Other Expenses	0	0	0	0	0	(3,607)
Net Income	<u>\$18,592</u>	<u>\$40,339</u>	<u>\$51,562</u>	<u>\$91,463</u>	<u>\$69,981</u>	<u>(\$32,358)</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Water and Sewer Operations

Capital Structure and Rate of Return

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>	<u>Return</u>
L-T Debt	\$3,750,000	41.2%	6.20%	2.55%	\$232,269
S-T Debt	0	0.0%	2.42%	0.00%	0
Equity	5,358,573	58.8%	10.50%	6.18%	562,910
	<u>\$9,108,573</u>	<u>100.0%</u>		<u>8.73%</u>	<u>\$795,178</u>

Connecticut DPUC Formula:

Average Large Company	9.69%
Small Company Adder	0.50%
Performance Adder	0.50%
	<u>10.69%</u>

Florida PSC Leverage Graph Formula:

$$5.6\% + (2.279 / \text{Equity Ratio}) = \text{ROE}$$

Range	100% =	7.88%
	40% =	11.30%

Equity Ratio	58.8% =	<u>9.47%</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Combined Operating Statement

	Year-End 12/31/2014	Adjustments	12/31/2015		
			Pro Forma Present Rates	Adjustments	Pro Forma Proposed Rates
Operating Revenue:					
Residential	\$307,239	\$20,165	\$327,404	\$383,382	\$710,786
Commercial	151,057	(2,549)	148,507	139,082	287,589
Irrigation	98,309	6,559	104,868	108,369	213,238
Availability Billing	489,665	(15,338)	474,327	518,553	992,880
Misc. Other Revenue	30,193	121	30,314	32,915	63,229
Interdepartmental Sales	0	0	0	0	0
Billing Adjustments	0	0	0	0	0
Total Revenues	1,076,463	8,958	1,085,421	1,182,301	2,267,721
Operating Expense:					
Wages	156,602	8,149	164,751	0	164,751
Benefits	8,980	1,706	10,686	0	10,686
Director's Fees	16,500	0	16,500	0	16,500
Sludge Disposal	0	0	0	0	0
Power	115,437	51,281	166,718	0	166,718
Chemicals	9,019	491	9,510	0	9,510
Supplies & Maintenance	27,136	1,407	28,543	0	28,543
Outside Services-Mgmt	157,650	13,714	171,364	0	171,364
Outside Services-Engineering	10,137	9,002	8,013	0	8,013
Outside Services-Accounting	2,761	0	2,761	0	2,761
Outside Services-Legal	23,178	0	23,178	0	23,178
Outside Services-Testing	92,288	0	92,288	0	92,288
Outside Services-Other	38,621	(4,269)	38,621	0	38,621
Other Operating Expenses	0	0	0	0	0
Transportation	2,450	306	2,756	0	2,756
Bad Debt	105,667	(90,905)	14,762	16,090	30,852
Insurance	30,205	18,117	48,322	0	48,322
Regulatory Commission Expense	15,745	(109)	15,636	0	15,636
Other A&G Expenses	36,436	0	36,436	0	36,436
Total O&M Expense	848,814	8,890	850,846	16,090	866,936
Depreciation	73,072	22,194	95,266	0	95,266
Amortization	92,421	113,655	206,076	0	206,076
Revenue Taxes	6,048	806	6,854	7,466	14,320
Property Taxes	4,209	188,092	192,302	0	192,302
Payroll Taxes	13,183	549	13,731	0	13,731
State and Federal Income Taxes	0	0	0	260,495	260,495
Total Operating Expenses	1,037,747	334,186	1,365,076	284,051	1,649,127
Net Operating Income	\$38,716		(\$279,656)		\$618,595
Rate Base	\$7,014,171		\$7,085,475		\$7,085,475
Rate of Return	0.55%		-3.95%		8.73%
				Revenue Increase	108.9%

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Rate Base Calculation

	<u>12/31/2014</u>	<u>Test Year Additions</u>	<u>Adjusted Test Year</u>	<u>Pro Forma Adjustment</u>	<u>Pro Forma 12/31/2015</u>
Plant in Service	\$3,899,032	\$6,227	\$3,905,259	\$44,698	\$3,949,957
Accumulated Depreciation	(382,950)	0	(382,950)	(46,446)	(429,396)
CWIP	29,511	0	29,511	(29,511)	0
Contributions in Aid of Construction	(458,500)	0	(458,500)	(19,250)	(477,750)
Accum. Amortization of CIAC	51,580	0	51,580	4,508	56,088
Net Plant	3,138,672	6,227	3,144,899	(46,001)	3,098,898
Working Capital (1/5th O&M)	0	93,920	93,920	2,035	95,955
Unamortized Balances	0	0	0	83,650	83,650
Rate Base	<u>\$3,138,672</u>	<u>\$100,147</u>	<u>\$3,238,819</u>	<u>\$39,684</u>	<u>\$3,278,503</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Adjustments to Pro Forma Water System Rate Base

1 Adjustments to Utility Plant in Service.			
a) UPIS Pro Forma Additions			
Meter & Meter Boxes	\$	15,187	
b) UPIS Reclass from CWIP			
Storage Tank Land Costs		<u>29,511</u>	
	Adjustment		<u>\$ 44,698</u>
2 Adjust accumulated depreciation to reflect pro forma annual depreciation.			
a) Annual Depreciation (Schedule C-3)	\$	<u>46,446</u>	
	Adjustment		<u>\$ (46,446)</u>
3 Reclass Construction Work in Progress to Plant in Service.			
	Adjustment		<u>\$ (29,511)</u>
4 Adjust CIAC for Tap Fees related to pro forma customer growth.			
	Adjustment		<u>\$ (19,250)</u>
5 Adjust accumulated amortization of CIAC to reflect pro forma annual amortization.			
a) Annual Amortization (Schedule C-3)	\$	<u>(4,508)</u>	
	Adjustment		<u>\$ 4,508</u>
6 Adjust working capital allowance for changes to O&M expenses.			
Expense Adjustment		10,177	
Working Capital Allowance (Qtrly Billing)		<u>20%</u>	
	Adjustment		<u>\$ 2,035</u>
7 Adjustment to reflect the average unamortized balance of rate case expense and deferred property taxes.			
Rate Case Costs		95,600	
Amortization Period (yrs)		<u>4</u>	
Average Unamortized Balance		83,650	
	Adjustment		<u>\$ 83,650</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Utility Plant in Service

	UPIS Acct	Balance 12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Organizational Costs	301	\$ 73,597		\$ 73,597		\$ 73,597
Land	303	56,702	5,128	61,830	29,511	91,341
Wells	307	794,865		794,865		794,865
Misc Equipment-Source	339	9,104		9,104		9,104
Water Treatment Plant	320	321,643	(1,824)	319,819		319,819
Distribution Reservoirs	330	869,379		869,379		869,379
Storage - Other	330A	37,946		37,946		37,946
T&D Plant	311	75,414		75,414		75,414
Mains, Hydrts, Serv	331	1,509,688		1,509,688		1,509,688
Meters	334	8,786	2,922	11,708	15,187	26,896
Other Intangible Plant	348	404		404		404
Plant-Structures	304	104,082		104,082		104,082
Office Equipmt	340	13,820		13,820		13,820
Transportation Equipmt	341	18,067		18,067		18,067
General Plant-Tools & Equip	343	5,536		5,536		5,536
Total Water Plant		<u>\$ 3,899,032</u>	<u>\$ 6,227</u>	<u>\$ 3,905,259</u>	<u>\$ 44,698</u>	<u>\$ 3,949,957</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Accumulated Depreciation

	UPIS Acct	Balance 12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Wells	307	\$ 88,101		\$ 88,101	\$ 7,500	\$ 95,601
Misc Equipment-Source	339	82		82	172	254
Water Treatment Plant	320	21,797		21,797	3,749	25,546
Distribution Reservoirs	330	60,598		60,598	8,203	68,802
Storage - Other	330A	-		-	3,162	3,162
T&D Plant	311	(3,048)		(3,048)	907	(2,142)
Mains, Hydrts, Serv	331	195,966		195,966	14,245	210,212
Meters	334	649		649	846	1,495
Other Intangible Plant	348	8		8	16	24
General Plant-Structures	304	7,672		7,672	2,836	10,508
Office Equipmt	340	808		808	691	1,499
Transportation Equipmt	341	8,369		8,369	3,011	11,380
General Plant-Tools & Equip	343	1,947		1,947	1,107	3,054
		<u>\$ 382,950</u>	<u>\$ -</u>	<u>\$ 382,950</u>	<u>\$ 46,446</u>	<u>\$ 429,396</u>
Total Water Plant		<u>\$ 382,950</u>	<u>\$ -</u>	<u>\$ 382,950</u>	<u>\$ 46,446</u>	<u>\$ 429,396</u>

**Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems**

Water CIAC and Accumulated Amortization

	<u>Balance 12/31/2014</u>	<u>Additions</u>	<u>Adjusted Test Year</u>	<u>Pro Forma Adjustment</u>	<u>Pro Forma 12/31/2015</u>
CIAC - Tap Fees	\$ 339,500	\$ -	\$ 339,500	\$ 19,250	\$ 358,750
CIAC - Other	<u>119,000</u>	<u>-</u>	<u>119,000</u>	<u>-</u>	<u>119,000</u>
Water - CIAC	<u>\$ 458,500</u>	<u>\$ -</u>	<u>\$ 458,500</u>	<u>\$ 19,250</u>	<u>\$ 477,750</u>
Accum. Amortization - Tap Fees	\$ 38,193	\$ -	\$ 38,193	\$ 3,385	\$ 41,578
Accum. Amortization - Other	<u>13,387</u>	<u>-</u>	<u>13,387</u>	<u>1,123</u>	<u>14,510</u>
Water - CIAC Amortization	<u>\$ 51,580</u>	<u>\$ -</u>	<u>\$ 51,580</u>	<u>\$ 4,508</u>	<u>\$ 56,088</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Operating Statement

	Year-End 12/31/2014	Ref.	Adjustments	12/31/2015	
				Pro Forma Present Rates	Pro Forma Proposed Rates
Operating Revenue:					
Residential	\$139,071	E-1	\$7,519 (1a)	\$146,590	\$173,488 (1b)
Commercial	72,479	E-1	452 (1c)	72,931	58,633 (1d)
Irrigation	98,309	E-1	6,559 (1e)	104,868	108,369 (1f)
Availability Billing	213,004	E-1	(10,848) (1g)	202,156	227,804 (1h)
Misc. Other Revenue	20,444	E-1	88 (1i)	20,531	22,159 (1j)
Metered Sales-Other	0		0	0	0
Billing Adj (Remove Tap Fees)	0		0	0	0
Total Revenues	543,308		3,769	547,077	590,454
Operating Expense:					
Wages	78,301	C-2	4,075 (2)	82,376	82,376
Benefits	4,490	C-2	853 (3)	5,343	5,343
Officer & Director's Fees	8,250	C-2	0 (4)	8,250	8,250
Sludge Disposal	0	C-2		0	0
Purchased Water	0	C-2		0	0
Power	57,581	C-2	25,514 (5)	83,095	83,095
Chemicals	4,510	C-2	230 (6)	4,740	4,740
Supplies & Maintenance	13,849	C-2	695 (7)	14,544	14,544
Outside Services-Mgmt	78,825	C-2	6,857 (8)	85,682	85,682
Outside Services-Engineering	425	C-2	2,145 (9)	2,570	2,570
Outside Services-Accounting	1,381	C-2		1,381	1,381
Outside Services-Legal	11,589	C-2		11,589	11,589
Outside Services-Testing	81,578	C-2		81,578	81,578
Outside Services-Other	31,026	C-2		31,026	31,026
Other Operating Expenses	0	C-2		0	0
Transportation	1,225	C-2	153 (10)	1,378	1,378
Bad Debt	52,834	C-2	(46,158) (11)	6,676	7,203 (20)
Insurance	18,197	C-2	5,964 (12)	24,161	24,161
Regulatory Commission Expense	10,861	C-2	2,645 (13)	13,506	13,506
Other A&G Expenses	14,683	C-2		14,683	14,683
Total O&M Expense	469,602		2,974	472,576	479,779
Depreciation, Net	36,921	C-2	5,017 (14)	41,938	41,938
Amortization	46,210	C-2	56,828 (15)	103,038	103,038
Revenue Taxes	3,052	C-2	403 (16)	3,455	3,729 (21)
Property Taxes	2,105	C-2	89,863 (17)	91,967	91,967
Payroll Taxes	6,591	C-2	274 (18)	6,866	6,866
State and Federal Income Taxes	0	C-2	0 (19)	0	120,533 (22)
Total Operating Expenses	564,482		155,358	719,840	851,305
Net Operating Income	(\$21,174)			(\$172,763)	\$286,227
Rate Base	\$3,238,819			\$3,278,503	\$3,278,503
Rate of Return	-0.65%			-5.27%	8.73%
				Revenue Increase	107.9%

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Schedule W-C.1

Adjustment (1)

a) Adjust residential revenue to reflect the pro forma number of customers at present rates.			
Residential Revenue Per Schedule E.1	146,590		
Less: Residential Revenue - Test Year	139,071		
Adjustment			<u>7,519</u>
b) Adjust residential revenue to reflect the pro forma number of customers at proposed rates.			
Residential Revenue Per Schedule E.2	320,078		
Less: Residential Revenue Per Schedule E.1	146,590		
Adjustment			<u>173,488</u>
c) Adjust commercial revenue to reflect the pro forma number of customers at present rates.			
Commercial Revenue Per Schedule E.1	72,931		
Less: Commercial Revenue - Test Year	72,479		
Adjustment			<u>452</u>
d) Adjust commercial revenue to reflect the pro forma number of customers at proposed rates.			
Commercial Revenue Per Schedule E.2	131,564		
Less: Commercial Revenue Per Schedule E.1	72,931		
Adjustment			<u>58,633</u>
e) Adjust irrigation revenue to reflect the pro forma demand at present rates.			
Irrigation Revenue Per Schedule E.1	104,868		
Less: Irrigation Revenue - Test Year	98,309		
Adjustment			<u>6,559</u>
f) Adjust irrigation revenue to reflect the pro forma demand at proposed rates.			
Irrigation Revenue Per Schedule E.2	213,238		
Less: Irrigation Revenue Per Schedule E.1	104,868		
Adjustment			<u>108,369</u>
g) Adjust availability revenue to reflect the pro forma number of customers at present rates.			
Availability Revenue Per Schedule E.1	202,156		
Less: Availability Revenue - Test Year	213,004		
Adjustment			<u>(10,848)</u>
h) Adjust availability revenue to reflect the pro forma number of customers at proposed rates.			
Availability Revenue Per Schedule E.2	429,960		
Less: Availability Revenue Per Schedule E.1	202,156		
Adjustment			<u>227,804</u>
i) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at present rates relative to test year total revenue.			
Misc Revenue Per Schedule E.1	Total Rev.	Misc. Rev.	
Less: Misc Revenue - Test Year	547,077	3.75%	20,531
Adjustment	544,745	3.75%	<u>20,444</u>
			<u>88</u>
j) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at proposed rates relative to pro forma total revenue at present rates.			
Misc Revenue Per Schedule E.2	Total Rev.	Misc. Rev.	
Less: Misc Revenue Per Schedule E.1	1,137,531	3.75%	42,691
Adjustment	547,077	3.75%	<u>20,531</u>
			<u>22,159</u>

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (2)

Increase the previous level of wages for 4 full-time shared employees to reflect the wages of 4 full-time 1 part-time shared employee (an effort to reduce OT) including a 3% wage increase for the full-time employees.

Pro forma costs (WP 7.4)	82,376	
Less: Test period costs	<u>78,301</u>	
Adjustment		<u><u>4,075</u></u>

Adjustment (3)

Adjust employee insurance benefits to reflect current premiums.

Pro forma costs (WP 7.4)	5,343	
Less: Test period costs	<u>4,490</u>	
Adjustment		<u><u>853</u></u>

Adjustment (4)

Adjust Directors' Fees to reflect annual Officer's fees of \$12,000 and Directors' fees of \$4,500 split between water and sewer operations.

Pro forma costs	8,250	
Less: Test period costs	<u>8,250</u>	
Adjustment		<u><u>0</u></u>

Adjustment (5)

Adjust pro forma bills to reflect corrected 2nd and 3rd quarter SCE&G bills and increase the level of power costs for increased system demand.

	Test Period	Factor	Pro Forma	
July-YE Power	39,527			
Annualized SCE&G Corrected Bills	79,053	1.051	83,095	
less: Test Year			<u>57,581</u>	
Adjustment				<u><u>25,514</u></u>

Adjustment (6)

Increase the level of chemical costs for increased system demand.

	Test Period	Factor	Pro Forma	
Chemicals	4,510	1.051	4,740	
Adjustment				<u><u>230</u></u>

Adjustment (7)

Increase the level of operating supply costs for increased number of customers.

Test period costs	13,849	
Factor for increase in customers	<u>1,050</u>	
	14,544	
Adjustment		<u><u>695</u></u>

Adjustment (8)

Adjust Outside Services-Management to reflect contractual annual increases.

Test period costs	78,825	
Factor for increase in customers	<u>1,050</u>	
	82,785	
Annual Increase	<u>3.5%</u>	
	85,682	
Adjustment		<u><u>6,857</u></u>

Adjustment (9)

Adjust Outside Services-Engineering to reflect 2011-2014 average cost.

	2011	2012	2013	2014	Average	
Annual Cost	3,200	3,563	3,093	425	2,570	
Less: Test period costs					<u>425</u>	
Adjustment						<u><u>2,145</u></u>

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (10)

Adjust transportation costs relative to the number of employees.

	Test Period	Factor	Pro Forma	
Transportation	1,225	1.125	1,378	
Adjustment				<u>153</u>

Adjustment (11)

Adjust bad debt expense to reflect revenue write-off percentages established in prior case applied to pro forma revenue under present rates.

Metered Sales-Bad debt at .5% of revenues	324,390	0.5%	1,622	
Availability Sales-Bad Debt at 2.5% of revenue	202,156	2.5%	<u>5,054</u>	
			6,676	
Test period costs			<u>52,834</u>	
Adjustment				<u>(46,158)</u>

Adjustment (12)

Adjustment to record general liability insurance to reflect recent premiums.

	Vehicle	Op Bond	General	Flood	Water Syst.	
Pro Forma Expense	2,576	10,500	28,531	6,715	24,161	
Test Period Expense					<u>18,197</u>	
Adjustment						<u>5,964</u>

Adjustment (13)

Adjust Regulatory Expenses to reflect most recent DHEC drinking water annual bills.

	Melrose Area	Haig Pt.		
Pro Forma Expense	6,731	6,775	13,506	
Test Period Expense			<u>10,861</u>	
Adjustment				<u>2,645</u>

Adjustment (14)

Adjustment to reflect the annual depreciation for pro forma plant in service.

Pro Forma Depreciation Expense	41,938	
Test period Depreciation Expense	<u>36,921</u>	
Adjustment		<u>5,017</u>

Adjustment (15)

Adjustment to reflect the amortization of rate case expense and deferred Property Taxes.

	Cost	Years	Annual	
Total rate case cost	95,600	4	23,900	
Property Taxes	263,422	8	<u>32,928</u>	
Annual amortization				<u>56,828</u>

Adjustment (16)

Adjustment to reflect the revenue taxes on pro forma revenue under present rates.

Revenue	547,077	
Revenue Tax Rate	<u>0.63150%</u>	
	3,455	
Less: Test Year Revenue Tax	<u>3,052</u>	
Adjustment		<u>403</u>

Adjustment (17)

Adjustment property Taxes to reflect actual tax bills and rates for updated market values of Land, Building & Contents.

	Market Value	Assessed Value	Effective Tax Rate	Property Tax Amt	
Pro Forma Property Taxes	3,520,560	369,659	0.248790	91,967	
Less: Test Year Property Taxes				<u>2,105</u>	
Adjustment					<u>89,863</u>

Adjustment (18)

Increase the level of payroll taxes to reflect pro forma wages.

Pro forma costs (WP 7.4)	6,866	
Test period costs	<u>6,591</u>	
Adjustment		<u>274</u>

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (19)

Adjustment to reflect State and Federal Income Taxes.

Revenue	547,077			
O&M Expense	(472,576)			
Depreciation	(41,938)			
Amortization	(103,038)			
Taxes - Other	(102,288)			
Interest Expense	(83,602)			
State Taxable Income	(256,365)			
State Income Tax Rate		5.000%		
SIT			0	
Federal Taxable Income	(256,365)			
Federal Income Tax Rate		32.466%		
FIT			0	
Pro Forma Income Tax			0	
Test Period Income Tax			0	
Adjustment				<u>0</u>

Adjustment (20)

Adjust bad debt expense to reflect rate increase.

Pro forma Bad Debt at Present Rates	6,676		
Rate Increase Percentage	107.9%		
Adjustment			<u>7,203</u>

Adjustment (21)

Adjustment to reflect the revenue taxes on pro forma revenue under proposed rates.

Revenue Requirement	1,137,518		
Revenue Tax Rate	0.63150%		
Revenue Tax at Proposed Rates	7,183		
Revenue Tax at Present Rates	3,455		
Adjustment			<u>3,729</u>

Adjustment (22)

Adjustment to reflect State and Federal Income Taxes.

Revenue Requirement	1,137,518			
O&M Expense	(479,779)			
Depreciation	(41,938)			
Amortization	(103,038)			
Taxes - Other	(106,017)			
Interest Expense	(83,602)			
State Taxable Income	323,144			
State Income Tax Rate		5.000%		
SIT			16,157	
Federal Taxable Income	306,987			
Federal Income Tax Rate		34.000%		
FIT			104,376	
Pro Forma Income Tax-Proposed Rates			120,533	
Pro Forma Income Tax-Present Rates			0	
Adjustment				<u>120,533</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Operating Expenses - Water

	Acct	12 Months Ended 12/31/13 Expense	12 Months Ended 12/31/14 Expense	Adjusted Rate Year Expense
Wages	601	89,584	78,301	82,376
Benefits	603	5,495	4,490	5,343
Officer & Director's Fees	604	2,250	8,250	8,250
Sludge Disposal		0	0	0
Purchased Water		0	0	0
Power	615	36,586	57,581	83,095
Chemicals	618	5,936	4,510	4,740
Supplies & Maintenance	620	9,411	13,849	14,544
Outside Services-Mgmt	634	76,157	78,825	85,682
Outside Services-Engineering	631	3,093	425	2,570
Outside Services-Accounting	632	2,496	1,381	1,381
Outside Services-Legal	633	5,819	11,589	11,589
Outside Services-Testing	635	45,770	81,578	81,578
Outside Services-Other	636	11,438	31,026	31,026
Other Operating Expenses		0	0	0
Transportation	650	2,715	1,225	1,378
Bad Debt	670	71,457	52,834	6,676
Insurance	657	31,100	18,197	24,161
Regulatory Commission Expense	667	12,839	13,850	13,506
a) Reclass to Revenue Tax	667	(1,995)	(2,989)	
Other A&G Expenses	675	15,344	14,683	14,683
Total O&M Expense		425,494	469,602	472,576
Depreciation	403	29,981	36,921	41,938
Amortization	407	46,210	46,210	103,038
Revenue Taxes	408	63	63	3,455
a) Reclass from Reg. Comm. Exp.	408	1,995	2,989	0
Property Taxes	408	3,985	2,105	91,967
Payroll Taxes	408	3,586	6,591	6,866
State and Federal Income Taxes	409	0	0	0
Total Operating Expenses		511,313	564,482	719,840

**Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems**

Depreciation Expense - Water

	<u>Pro Forma UPIS Balance</u>	<u>Depreciation Rate</u>	<u>Pro Forma Utilization</u>	<u>Pro Forma Depreciation Expense</u>
Wells	\$ 794,865	2.000%	47.18%	\$ 7,500
Misc Equipment-Source	9,104	4.000%	47.18%	172
Water Treatment Plant	319,819	2.484%	47.18%	3,749
Distribution Reservoirs	869,379	2.000%	47.18%	8,203
Storage - Other	37,946	8.333%	100.00%	3,162
T&D Plant	75,414	2.548%	47.18%	907
Mains, Hydrts, Serv	1,509,688	2.000%	47.18%	14,245
Meters	26,896	6.667%	47.18%	846
Other Intangible Plant	404	4.000%	100.00%	16
General Plant-Structures	104,082	2.725%	100.00%	2,836
Office Equipmt	13,820	5.000%	100.00%	691
Transportation Equipmt	18,067	16.667%	100.00%	3,011
General Plant-Equipment	5,536	20.000%	100.00%	1,107
CIAC - Tap Fees	(358,750)	2.000%	47.18%	(3,385)
CIAC - Other	(119,000)	2.000%	47.18%	(1,123)
	<u>3,307,269</u>			<u>41,938</u>
Depreciation Expense				\$ 46,446
Amortization of CIAC				(4,508)
Net Depreciation				<u>\$ 41,938</u>

Schedule W-D

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Water Capital Structure and Rate of Return

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
L-T Debt	\$1,349,760	41.2%	6.20%	2.55%
S-T Debt	0	0.0%	2.42%	0.00%
Equity	<u>1,928,743</u>	<u>58.8%</u>	<u>10.50%</u>	<u>6.18%</u>
	<u><u>\$3,278,503</u></u>	<u><u>100.0%</u></u>		<u><u>8.73%</u></u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Billing Analysis at Present Rates
12/31/2014

	<u>Quarterly Bills</u>	<u>Annual Usage (tg)</u>	<u>Billed Usage (tg)</u>	<u>Quarterly Base Chg</u>	<u>Usage Charge</u>	<u>Base Chg Revenue</u>	<u>Usage Revenue</u>	<u>Total Revenue</u>
Residential-DIUC	1,044.0			\$62.09		\$64,822		\$64,822
Total gals		11,552.907	11,553.000		\$2.76		\$31,886	\$31,886
Residential-MUC/BP	447.0			\$80.72		\$36,082		\$36,082
Total gals		6,283.748	2,178.000		\$2.44		\$5,314	\$5,314
	<u>1,491.0</u>	<u>17,836.655</u>	<u>13,731.000</u>			<u>\$100,904</u>	<u>\$37,201</u>	<u>\$138,104</u>
Commercial-DIUC	106.0			\$86.93		\$9,215		\$9,215
Total gals		4,545.880	4,546.000		\$2.76		\$12,547	\$12,547
Commercial-MUC/BP	166.0			\$136.60		\$22,676		\$22,676
Total gals		4,297.362	2,544.703		\$1.95		\$4,962	\$4,962
Multi-Unit-MUC/BP	168.0			\$136.60		\$22,949		\$22,949
Total gals					\$1.95		\$0	\$0
	<u>440.0</u>	<u>8,843.242</u>	<u>7,090.703</u>			<u>\$54,839</u>	<u>\$17,509</u>	<u>\$72,348</u>
Irrigation-DIUC								
0 to 18,000 gals (quarterly)	817.0	8,367.838	8,368.000		\$2.76		\$23,096	\$23,096
18,001 to 60,000 gals		9,829.270	9,829.000		\$3.09		\$30,372	\$30,372
Over 60,000 gals		10,049.342	10,049.000		\$3.50		\$35,172	\$35,172
Irrigation-MUC/BP								
All gallons	184.0	6,356.858	6,356.858		\$1.66		\$10,552	\$10,552
	<u>1,001.0</u>	<u>34,603.308</u>	<u>34,602.858</u>				<u>\$99,191</u>	<u>\$99,191</u>
Total Water Revenues	2,932.0	61,283.205	55,424.561			\$155,743 50.3%	\$153,901 49.7%	\$309,644
Availability Billing-DIUC	2,063.0			\$31.04				\$64,036
Availability Billing-MUC/BP	1,972.0			\$76.38				\$150,621
	<u>4,035.0</u>							<u>\$214,657</u>
Misc. Revenue (Late Chgs)							3.75%	\$20,444
Total Water Operating Revenue								<u>\$544,745</u>
Revenue Per Books								<u>\$543,308</u>
Difference								<u>\$1,436</u> 0.26%

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Billing Analysis at Present Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,092.0			\$62.09		\$67,802		\$67,802
Total gals		12,038.050	12,038.000		\$2.76		\$33,225	\$33,225
Residential-MUC/BP	492.0			\$80.72		\$39,714		\$39,714
Total gals		6,916.301	2,397.000		\$2.44		\$5,849	\$5,849
	<u>1,584.0</u>	<u>18,954.351</u>	<u>14,435.000</u>			<u>\$107,517</u>	<u>\$39,074</u>	<u>\$146,590</u>
Commercial-DIUC	104.0			\$86.93		\$9,041		\$9,041
Total gals		4,545.000	4,545.000		\$2.76		\$12,544	\$12,544
Commercial-MUC/BP	164.0			\$136.60		\$22,402		\$22,402
Total gals		4,245.452	2,514.000		\$1.95		\$4,902	\$4,902
Multi-Unit-MUC/BP	176.0			\$136.60		\$24,042		\$24,042
Total gals					\$1.95		\$0	\$0
	<u>444.0</u>	<u>8,790.452</u>	<u>7,059.000</u>			<u>\$55,485</u>	<u>\$17,447</u>	<u>\$72,931</u>
Irrigation-DIUC	864.0							
0 to 18,000 gals (quarterly)		8,816.844	8,817.000		\$2.76		\$24,335	\$24,335
18,001 to 60,000 gals		10,356.694	10,357.000		\$3.09		\$32,003	\$32,003
Over 60,000 gals		10,588.575	10,589.000		\$3.50		\$37,062	\$37,062
Irrigation-MUC/BP	200.0							
0 to 18,000 gals (quarterly)		1,487.315	1,487.000		\$1.66		\$2,468	\$2,468
18,001 to 60,000 gals		2,176.337	2,176.000		\$1.66		\$3,612	\$3,612
Over 60,000 gals		3,245.976	3,246.000		\$1.66		\$5,388	\$5,388
	<u>1,064.0</u>	<u>36,671.741</u>	<u>36,672.000</u>				<u>\$104,868</u>	<u>\$104,868</u>
Total Water Revenues	3,092.0	64,416.544	58,166.000			\$163,001	\$161,389	\$324,390
						50.25%	49.75%	
Availability Billing-DIUC	2,280.0			\$31.05				\$70,783
Availability Billing-MUC/BP	1,720.0			\$76.38				\$131,374
	<u>4,000.0</u>							<u>\$202,156</u>
Misc. Revenue (Late Chgs)							3.75%	\$20,531
Total Water Operating Revenue								<u>\$547,077</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Billing Analysis at Proposed Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,092.0			\$149.30		\$163,036		\$163,036
Total gals		12,038.050	12,038.000		\$4.41		\$53,088	\$53,088
Residential-MUC/BP	492.0			\$149.30		\$73,456		\$73,456
Total gals		6,916.301	6,916.000		\$4.41		\$30,500	\$30,500
	<u>1,584.0</u>	<u>18,954.351</u>	<u>18,954.000</u>			<u>\$236,491</u>	<u>\$83,587</u>	<u>\$320,078</u>
Commercial-DIUC	104.0			\$209.01		\$21,737		\$21,737
Total gals		4,545.000	4,545.000		\$4.41		\$20,043	\$20,043
Commercial-MUC/BP	164.0			\$209.01		\$34,278		\$34,278
Total gals		4,245.452	4,245.000		\$4.41		\$18,720	\$18,720
Multi-Unit-MUC/BP	176.0			\$209.01		\$36,786		\$36,786
Total gals		0.000	0.000		\$4.41		\$0	\$0
	<u>444.0</u>	<u>8,790.452</u>	<u>8,790.000</u>			<u>\$92,800</u>	<u>\$38,764</u>	<u>\$131,564</u>
Irrigation-DIUC	864.0							
0 to 18,000 gals (quarterly)		8,816.844	8,817.000		\$4.85		\$42,762	\$42,762
18,001 to 60,000 gals		10,356.694	10,357.000		\$5.73		\$59,346	\$59,346
Over 60,000 gals		10,588.575	10,589.000		\$6.61		\$69,993	\$69,993
Irrigation-MUC	200.0							
0 to 18,000 gals (quarterly)		1,487.315	1,487.000		\$4.85		\$7,212	\$7,212
18,001 to 60,000 gals		2,176.337	2,176.000		\$5.73		\$12,468	\$12,468
Over 60,000 gals		3,245.976	3,246.000		\$6.61		\$21,456	\$21,456
	<u>1,064.0</u>	<u>36,671.741</u>	<u>36,672.000</u>				<u>\$213,238</u>	<u>\$213,238</u>
Total Water Revenues	3,092.0	64,416.544	64,416.000			\$329,292 28.95%	\$335,589 29.50%	\$664,881
Availability Billing-DIUC	2,280.0			\$107.49				\$245,077
Availability Billing-MUC/BP	<u>1,720.0</u>			<u>\$107.49</u>				<u>\$184,883</u>
	4,000.0							\$429,960
Misc. Revenue (Late Chgs)							3.75%	\$42,691
Total Water Operating Revenue								<u>\$1,137,531</u>

Daufuskie Island Utility Company, Inc.

Revenue Requirement

		Water
Equity Return		\$202,612
Gross Revenue Tax	0.63150%	2,054
Effective Income Tax Rate	37.3000%	120,533
Equity Grossed-Up	37.6960%	325,198
O&M Expenses		479,779
Depreciation		41,938
Amortization		103,038
Property Taxes		91,967
Payroll Taxes		6,866
Interest Expense		83,602
		807,190
Gross Revenue Tax		5,130
		812,320
Revenue Requirement		<u>\$1,137,518</u>
Revenue @ Present Rates		547,077
Percentage Increase		107.9%

Daufuskie Island Utility Company, Inc.

Rate Design - Water System

Metered Sales

	PRESENT Quarterly Rates	Factor	PROPOSED Quarterly Rates	Percentage Change
Base Service:				
Residential-DIUC	\$ 62.09	1.00	\$ 149.30	140.5%
Residential-MUC/BP	\$ 80.72	1.30	\$ 149.30	85.0%
Commercial-DIUC	\$ 86.93	1.40	\$ 209.01	140.4%
Commercial-MUC/BP	\$ 136.60	2.20	\$ 209.01	53.0%
Multi-Family-MUC/BP	\$ 136.60	2.20	\$ 209.01	53.0%
Availability Billing-DIUC	\$ 31.05	0.50	\$ 107.49	246.2%
Availability Billing-MUC/BP	\$ 76.38	1.23	\$ 107.49	40.7%
Usage:				
Residential-DIUC	\$ 2.76	1.00	\$ 4.41	59.8%
Residential-MUC/BP	\$ 2.44	0.88	\$ 4.41	80.7%
Commercial-DIUC	\$ 2.76	1.00	\$ 4.41	59.8%
Commercial-MUC/BP	\$ 1.95	0.71	\$ 4.41	126.2%
Multi-Family-MUC/BP	\$ 1.95	0.71	\$ 4.41	126.2%
TPL Treatment Plant-DIUC				
0 to 18,000 gals (quarterly)	\$ -	0.00	\$ -	0.0%
18,001 to 60,000 gals	\$ -	0.00	\$ -	0.0%
Over 60,000 gals	\$ -	0.00	\$ -	0.0%
Irrigation-DIUC				
0 to 18,000 gals (quarterly)	\$ 2.76	1.00	\$ 4.85	75.7%
18,001 to 60,000 gals	\$ 3.09	1.12	\$ 5.73	85.4%
Over 60,000 gals	\$ 3.50	1.27	\$ 6.61	88.9%
Irrigation-MUC				
0 to 18,000 gals (quarterly)	\$ 1.66	0.60	\$ 4.85	192.2%
18,001 to 60,000 gals	\$ 1.66	0.60	\$ 5.73	245.2%
Over 60,000 gals	\$ 1.66	0.60	\$ 6.61	298.2%

Pro Forma Existing Rates:

Service Charge Revenue	\$ 163,001.24	29.79%	66.75%	Base
Metered Usage Revenue	56,520.06	10.33%	29.50%	Usage
Irrigation Revenue	104,868.49	19.17%		
Availability Revenue	202,156.20	36.95%		
Subtotal	\$ 526,545.99			
Late Charge Revenue	20,531.50	3.75%	3.75%	
Total Revenue	\$ 547,077.49		100.00%	

Pro Forma Revenue Requirement:

		(Sch E.2 Results)	% Increase
Service Charge Revenue	\$ 338,922.50	\$ 329,291.64	102.0%
Metered Usage Revenue	117,520.09	122,351.04	116.5%
Irrigation Revenue	218,049.21	213,237.84	103.3%
Availability Revenue	420,335.98	429,960.00	112.7%
Subtotal	\$ 1,094,827.78	\$ 1,094,840.52	
Late Charge Revenue	42,690.39	42,690.88	107.9%
Total Revenue	\$ 1,137,518.16	\$ 1,137,531.40	107.9%

Service Charge Rates

	Quarterly Bills	Factor	Factored Bills	Proposed Rate
Residential-DIUC	1,092	1.00	1,092.0	\$ 149.30
Residential-MUC/BP	492	1.00	492.0	\$ 149.30
Commercial-DIUC	104	1.40	145.6	\$ 209.01
Commercial-MUC/BP	164	1.40	229.6	\$ 209.01
Multi-Family-MUC/BP	176	1.40	246.4	\$ 209.01
Availability Billing-DIUC	2,280	0.72	1,641.6	\$ 107.49
Availability Billing-MUC/BP	1,720	0.72	1,238.4	\$ 107.49
	6,028		5,085.6	
			\$ 759,258.48	
			\$ 149.30	

Usage Rates

	TG	Factor	Factored Bills	Proposed Rate
Residential-DIUC	12,038.0	1.00	12,038.0	\$ 4.41
Residential-MUC/BP	6,916.0	1.00	6,916.0	\$ 4.41
Commercial-DIUC	4,545.0	1.00	4,545.0	\$ 4.41
Commercial-MUC/BP	4,245.0	1.00	4,245.0	\$ 4.41
Multi-Family-MUC/BP	-	1.00	0.0	
0 to 18,000 gals (quarterly)	10,304.0	1.10	11,334.4	\$ 4.85
18,001 to 60,000 gals	12,533.0	1.30	16,292.9	\$ 5.73
Over 60,000 gals	13,835.0	1.50	20,752.5	\$ 6.61
	64,416.0		76,123.8	
			\$ 335,569.30	
			\$ 4.41	

**Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems**

Sewer Rate Base Calculation

	<u>12/31/2014</u>	<u>Test Year Additions</u>	<u>Adjusted Test Year</u>	<u>Pro Forma Adjustment</u>	<u>Pro Forma 12/31/2015</u>
Plant in Service	\$4,065,347	\$12,224	\$4,077,571	\$111,733	\$4,189,304
Accumulated Depreciation	(407,074)	2,386	(404,688)	56,230	(348,458)
CWIP	225,342	0	225,342	(225,342)	0
Contributions in Aid of Construction	(201,795)	0	(201,795)	(11,750)	(213,545)
Accum. Amortization of CIAC	17,689	(765)	16,924	1,665	18,589
Net Plant	3,699,510	13,844	3,713,354	(67,464)	3,645,890
Working Capital (1/5th O&M)	75,842	18,078	93,920	1,589	77,431
Unamortized Balances	0	0	0	83,650	83,650
Rate Base	<u>\$3,775,352</u>	<u>\$31,922</u>	<u>\$3,807,275</u>	<u>\$17,775</u>	<u>\$3,806,971</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Adjustments to Pro Forma Sewer System Rate Base

1	Adjustments to Utility Plant in Service.			
a)	General Plant-Structures (Lagoon)	\$	225,342	
	Retire Prior Lagoon Pond		<u>(113,609)</u>	
	Adjustment			<u>\$ 111,733</u>
2	Adjust accumulated depreciation to reflect pro forma annual depreciation.			
a)	Annual Depreciation (Schedule C-3)	\$	54,993	
	Retire Prior Lagoon Pond		<u>\$ (113,609)</u>	
	Adjustment			<u>\$ (58,616)</u>
3	Reclass Construction Work in Progress to Plant in Service.			
	Adjustment			<u>\$ (225,342)</u>
4	Adjust CIAC for Tap Fees related to pro forma customer growth.			
	Adjustment			<u>\$ (11,750)</u>
5	Adjust accumulated amortization of CIAC to reflect pro forma annual amortization.			
a)	Annual Amortization (Schedule C-3)	\$	<u>(1,665)</u>	
	Adjustment			<u>\$ 1,665</u>
e)	Adjust working capital allowance for changes to O&M expenses.			
	Expense Adjustment	\$	7,945	
	Working Capital Allowance (Qtrly Billing)		<u>20%</u>	
	Adjustment			<u>\$ 1,589</u>
f)	Adjustment to reflect the average unamortized balance of rate case expense and deferred property taxes.			
	Rate Case Costs	\$	95,600	
	Amortization Period (yrs)		<u>4</u>	
	Average Unamortized Balance		83,650	
	Adjustment			<u>\$ 83,650</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Utility Plant in Service

	UPIS Acct	12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Organizational Costs	351	\$ 73,597		\$ 73,597	\$ -	\$ 73,597
Land	353	63,710		63,710	-	63,710
Collection Mains	361	2,118,279		2,118,279	-	2,118,279
Flow Measuring Device	367		1,956	1,956		1,956
WW Pumping Plant	371	158,189	2,549	160,738	-	160,738
WW Treatment & Disposal Plant	380	259,462	4,411	263,873	(113,609)	150,264
T&D-Aeration Motors	380A	31,832		31,832	-	31,832
Plant Sewers	381	818,187		818,187		818,187
Outfall Sewer Lines	382	66,704		66,704	-	66,704
Power Generation Equip	355	4,632	3,308	7,940		7,940
Other Intangible Plant	398	204		204	-	204
General Plant-Structures	354	437,859		437,859	225,342	663,201
Office Equipment	390	14,117		14,117	-	14,117
Transportation Equipmt	391	5,103		5,103	-	5,103
General Plant-Tools & Equip	393	13,472		13,472	-	13,472
Total Sewer Plant		\$ 4,065,347	\$ 12,224	\$ 4,077,571	\$ 111,733	\$ 4,189,304

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Accumulated Depreciation

	UPIS Acct	12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Collection Mains	361	\$ 251,560		\$ 251,560	\$ 16,513	\$ 268,073
Flow Measuring Device	367			-	46	46
WW Pumping Plant	371	7,029		7,029	2,426	9,455
WW Treatment & Disposal Plant	380	21,103	(2,386)	18,717	(109,899)	(91,181)
T&D-Aeration Motors	380A	2,274		2,274	4,547	6,821
Plant Sewers	381	105,306		105,306	7,210	112,516
Outfall Sewer Lines	382	8,997		8,997	473	9,470
Power Generation Equip	355	34		34	122	157
Other Intangible Plant	398	4		4	8	12
General Plant-Structures	354	3,835		3,835	18,071	21,906
Office Equipment	390	791		791	706	1,497
Transportation Equipmt	391	2,224		2,224	850	3,075
General Plant-Tools & Equip	393	3,918		3,918	2,694	6,612
Total Sewer Plant		<u>\$407,074</u>	<u>-\$2,386</u>	<u>\$404,688</u>	<u>-\$56,230</u>	<u>\$348,458</u>

**Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems**

Sewer CIAC and Accumulated Amortization

	<u>12/31/2014</u>	<u>Additions</u>	<u>Adjusted Test Year</u>	<u>Pro Forma Adjustment</u>	<u>Pro Forma 12/31/2015</u>
CIAC - Tap Fees	\$ 201,795	\$ -	\$ 201,795	\$ 11,750	\$ 213,545
CIAC - Other	-	-	-	-	-
Water - CIAC	<u>\$ 201,795</u>	<u>\$ -</u>	<u>\$ 201,795</u>	<u>\$ 11,750</u>	<u>\$ 213,545</u>
Accum. Amortization - Tap Fees	\$ 17,689	\$ -	\$ 16,924	\$ 1,665	\$ 18,589
Accum. Amortization - Other	-	-	-	-	-
Water - CIAC Amortization	<u>\$ 17,689</u>	<u>\$ -</u>	<u>\$ 16,924</u>	<u>\$ 1,665</u>	<u>\$ 18,589</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Operating Statement

	Year-End 12/31/2014	Ref.	Adjustments	12/31/2015	
				Pro Forma Present Rates	Pro Forma Proposed Rates
Operating Revenue:					
Residential	\$168,168	E.1	\$12,646 (1a)	\$180,814	\$209,894 (1b)
Commercial	78,577	E.1	(3,001) (1c)	75,576	80,448 (1d)
Irrigation	0		0	0	0
Availability Billing	276,661	E.1	(4,490) (1e)	272,171	290,749 (1f)
Misc. Other Revenue	9,749	E.1	33 (1g)	9,783	10,755 (1h)
Interdepartmental Sales	0		0	0	0
Billing Adj (Remove Tap Fees)	0		0	0	0
Total Revenues	533,155		5,188	538,343	591,847
Operating Expense:					
Wages	78,301	C.2	4,074 (2)	82,376	82,376
Benefits	4,490	C.2	853 (3)	5,343	5,343
Officer & Director's Fees	8,250	C.2	0 (4)	8,250	8,250
Sludge Disposal	0	C.2		0	0
Power	57,856	C.2	25,767 (5)	83,623	83,623
Chemicals	4,510	C.2	260 (6)	4,770	4,770
Supplies & Maintenance	13,288	C.2	711 (7)	13,999	13,999
Outside Services-Mgmt	78,825	C.2	6,857 (8)	85,682	85,682
Outside Services-Engineering	9,712	C.2	(4,269) (9)	5,443	5,443
Outside Services-Accounting	1,381			1,381	1,381
Outside Services-Legal	11,589	C.2		11,589	11,589
Outside Services-Testing	10,711	C.2		10,711	10,711
Outside Services-Other	7,596	C.2		7,596	7,596
Other Operating Expenses	0	C.2		0	0
Transportation	1,225	C.2	153 (10)	1,378	1,378
Bad Debt	52,834	C.2	(44,747) (11)	8,086	8,887 (20)
Insurance	12,008	C.2	12,153 (12)	24,161	24,161
Regulatory Commission Expense	4,884	C.2	(2,754) (13)	2,130	2,130
Other A&G Expenses	21,753	C.2		21,753	21,753
Total O&M Expense	379,211		(942)	378,270	387,157
Depreciation	36,151	C.2	17,177 (14)	53,328	53,328
Amortization	46,210	C.2	56,828 (15)	103,038	103,038
Revenue Taxes	2,996	C.2	404 (16)	3,400	3,737 (21)
Property Taxes	2,105	C.2	98,230 (17)	100,334	100,334
Payroll Taxes	6,591	C.2	274 (18)	6,866	6,866
State and Federal Income Taxes	0	C.2	0 (19)	0	139,962 (22)
Total Operating Expenses	473,265		171,971	645,236	797,822
Net Operating Income	\$59,890			(\$106,893)	\$332,368
Rate Base	\$3,775,352			\$3,806,971	\$3,806,971
Rate of Return	1.59%			-2.81%	8.73%
				Revenue Increase	109.9%

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Schedule S-C.1

Adjustment (1)

a) Adjust residential revenue to reflect the pro forma number of customers at present rates.			
Residential Revenue Per Schedule E.1	180,814		
Less: Residential Revenue Per Books (Test Year)	<u>170,724</u>		10,090
b) Adjust residential revenue to reflect the pro forma number of customers at proposed rates.			
Residential Revenue Per Schedule E.2	390,708		
Less: Residential Revenue Per Schedule E.1	<u>180,814</u>		209,894
c) Adjust commercial revenue to reflect the pro forma number of customers at present rates.			
Commercial Revenue Per Schedule E.1	75,576		
Less: Commercial Revenue Per Books (Test Year)	<u>74,396</u>		1,180
d) Adjust commercial revenue to reflect the pro forma number of customers at proposed rates.			
Commercial Revenue Per Schedule E.2	156,024		
Less: Commercial Revenue Per Schedule E.1	<u>75,576</u>		80,448
e) Adjust availability revenue to reflect the pro forma number of customers at present rates.			
Availability Revenue Per Schedule E.1	272,171		
Less: Availability Revenue - Test Year	<u>281,635</u>		(9,464)
f) Adjust availability revenue to reflect the pro forma number of customers at proposed rates.			
Availability Revenue Per Schedule E.2	562,920		
Less: Availability Revenue Per Schedule E.1	<u>272,171</u>		290,749
g) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at present rates relative to test year total revenue.			
	Total Rev.	Misc. Rev.	
Misc Revenue Per Schedule E.1	538,343	1.82%	9,783
Less: Misc Revenue - Test Year	536,503	1.82%	<u>9,749</u>
Adjustment			33
h) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at proposed rates relative to pro forma total revenue at present rates.			
	Total Rev.	Misc. Rev.	
Misc Revenue Per Schedule E.2	1,130,190	1.82%	20,538
Less: Misc Revenue Per Schedule E.1	538,343	1.82%	<u>9,783</u>
Adjustment			10,755

Adjustment (2)

Increase the previous level of wages for 4 full-time shared employees to reflect the wages of 4 full-time 1 part-time shared employee (an effort to reduce OT) including a 3% wage increase for the full-time employees.			
Pro forma costs (WP 7.4)	82,376		
Less: Test period costs	<u>78,301</u>		4,074
Adjustment			

Adjustment (3)

Adjust employee insurance benefits to reflect current premiums.			
Pro forma costs (WP 7.4)	5,343		
Less: Test period costs	<u>4,490</u>		853
Adjustment			

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (4)

Adjust Directors' Fees to reflect annual Officer's fees of \$12,000 and Directors' fees of \$4,500 split between water and sewer operations.

Pro forma costs	8,250	
Less: Test period costs	8,250	
Adjustment		<u>0</u>

Adjustment (5)

Adjust pro forma bills to reflect corrected 2nd and 3rd quarter SCE&G bills and increase the level of power costs for increased system demand.

	Test Period	Factor	Pro Forma	
July-YE Power	39,527			
Annualized SCE&G Corrected Bills	79,053	1.058	83,623	
less: Test Year			57,856	
Adjustment				<u>25,767</u>

Adjustment (6)

Increase the level of chemical costs for increased system demand.

	Test Period	Factor	Pro Forma	
Test period costs	4,510	1.058	4,770	
Adjustment				<u>260</u>

Adjustment (7)

Increase the level of operating supply costs for increased number of customers.

Test period costs	13,288	
Factor for increase in customers	1,054	
	<u>13,999</u>	
Adjustment		<u>711</u>

Adjustment (8)

Adjust Outside Services-Management to reflect contractual annual increases.

Test period costs	78,825	
Factor for increase in customers	1,050	
	<u>82,785</u>	
Annual Increase	3.5%	
	<u>85,682</u>	
Adjustment		<u>6,857</u>

Adjustment (9)

Adjust Outside Services-Engineering to reflect 2010-2013 average cost to normalize expense.

	2011	2012	2013	2014	Average	
Annual Cost	2,350	6,617	3,093	9,712	5,443	
Less: Test period costs					9,712	
Adjustment						<u>(4,269)</u>

Adjustment (10)

Adjust transportation costs relative to the number of employees.

	Test Period	Factor	Pro Forma	
Transportation	1,225	1.125	1,378	
Adjustment				<u>153</u>

Adjustment (11)

Adjust bad debt expense to reflect revenue write-off percentages established in prior case applied to pro forma revenue under present rates.

Metered Sales-Bad debt at .5% of revenues	256,389	0.5%	1,282	
Availability Sales-Bad Debt at 2.5% of revenue	272,171	2.5%	6,804	
			<u>8,086</u>	
Test period costs			52,834	
Adjustment				<u>(44,747)</u>

Adjustment (12)

Adjustment to record general liability insurance to reflect recent premiums.

	Vehicle	Op Bond	General	Flood	Sewer Syst.	
Pro Forma Expense	2,576	10,500	28,531	6,715	24,161	
Test Period Expense					<u>12,008</u>	
Adjustment						<u>12,153</u>

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (13)

Adjust Regulatory Expenses to reflect most recent DHEC land application permits.

	Golf Course	WWTP		
Pro Forma Expense	800	1,330	2,130	
Test Period Expense			4,884	
Adjustment				<u>(2,754)</u>

Adjustment (14)

Adjustment to reflect the annual depreciation for pro forma plant in service.

Pro Forma Depreciation Expense	53,328	
Test period Depreciation Expense	36,151	
Adjustment		<u>17,177</u>

Adjustment (15)

Adjustment to reflect the amortization of rate case expense and deferred Property Taxes.

	Cost	Years	Annual	
Total rate case cost	95,600	4	23,900	
Property Taxes	263,422	8	32,928	
Annual amortization				<u>56,828</u>

Adjustment (16)

Adjustment to reflect the revenue taxes on pro forma revenue under present rates.

Revenue	538,343	
Revenue Tax Rate	0.63150%	
	3,400	
Less: Test Year Revenue Tax	2,996	
Adjustment		<u>404</u>

Adjustment (17)

Adjustment property Taxes to reflect actual tax bills and rates for updated market values of Land, Building & Contents.

	Market Value	Assessed Value	Effective Tax Rate	Property Tax Amt	
Pro Forma Property Taxes	3,840,846	403,289	0.24879	100,334	
Less: Test Year Property Taxes				2,105	
Adjustment					<u>98,230</u>

Adjustment (18)

Increase the level of payroll taxes to reflect pro forma wages.

Pro forma costs (WP 7.4)	6,866	
Test period costs	6,591	
Adjustment		<u>274</u>

Adjustment (19)

Adjustment to reflect State and Federal Income Taxes.

Revenue	538,343		
O&M Expense	(378,270)		
Depreciation	(53,328)		
Amortization	(103,038)		
Taxes - Other	(110,600)		
Interest Expense	(97,078)		
State Taxable Income	(203,970)		
State Income Tax Rate		5.000%	
SIT			0
Federal Taxable Income	(203,970)		
Federal Income Tax Rate		30.788%	
FIT			0
Pro Forma Income Tax			0
Test Period Income Tax			0
Adjustment			<u>0</u>

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (20)

Adjust bad debt expense to reflect rate increase.

Pro forma Bad Debt at Present Rates	8,086	
Rate Increase Percentage	109.9%	
Adjustment		<u>8,887</u>

Adjustment (21)

Adjustment to reflect the revenue taxes on pro forma revenue under proposed rates.

Revenue Requirement	1,130,171	
Revenue Tax Rate	0.63150%	
Revenue Tax at Proposed Rates	7,137	
Revenue Tax at Present Rates	3,400	
Adjustment		<u>3,737</u>

Adjustment (22)

Adjustment to reflect State and Federal Income Taxes.

Revenue	1,130,171		
O&M Expense	(387,157)		
Depreciation	(53,328)		
Amortization	(103,038)		
Taxes - Other	(114,337)		
Interest Expense	(97,078)		
State Taxable Income	375,233		
State Income Tax Rate		5.000%	
SIT			18,762
Federal Taxable Income	356,471		
Federal Income Tax Rate		34.000%	
FIT			121,200
Pro Forma Income Tax-Proposed Rates			139,962
Pro Forma Income Tax-Present Rates			<u>0</u>
Adjustment			<u>139,962</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Operating Expenses - Sewer

	Acct	12 Months Ended 12/31/13 Expense	12 Months Ended 12/31/14 Expense	Adjusted Rate Year Expense
Wages	701	49,297	78,301	82,376
Benefits	703	5,495	4,490	5,343
Officer & Director's Fees	704	2,250	8,250	8,250
Sludge Disposal		0	0	0
Power	715	36,833	57,856	83,623
Chemicals	718	5,936	4,510	4,770
Supplies & Maintenance	720	8,185	13,288	13,999
Outside Services-Mgmt	734	76,157	78,825	85,682
Outside Services-Engineering	731	3,093	9,712	5,443
Outside Services-Accounting	732	1,999	1,381	1,381
Outside Services-Legal	733	5,819	11,589	11,589
Outside Services-Testing	735	16,949	10,711	10,711
Outside Services-Other	736	11,426	7,596	7,596
Other Operating Expenses		0	0	0
Transportation	750	2,714	1,225	1,378
Bad Debt	770	69,756	52,834	8,086
Insurance	757	18,952	12,008	24,161
Regulatory Commission Expense	767	12,572	7,818	2,130
a) Reclass to Revenue Tax	767	(1,889)	(2,934)	
Other A&G Expenses	775	11,339	21,753	21,753
Total O&M Expense		336,882	379,211	378,270
Depreciation	403	28,770	36,151	53,328
Amortization	407	46,210	46,210	103,038
Revenue Taxes	408	63	63	3,400
a) Reclass from Reg. Comm. Exp.	408	1,889	2,934	
Property Taxes	408	3,985	2,105	100,334
Payroll Taxes	408	7,345	6,591	6,866
State and Federal Income Taxes	409	0	0	0
Total Operating Expenses		425,143	473,265	645,236

**Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems**

Depreciation Expense - Sewer

	Pro Forma UPIS Balance	Depreciation Rate	Pro Forma Utilization	Pro Forma Depreciation Expense
Collection Mains	\$ 2,118,279	2.198%	35.47%	\$ 16,513
Flow Measuring Device	1,956	6.667%	35.47%	46
WW Pumping Plant	160,738	4.255%	35.47%	2,426
WW Treatment & Disposal Plant	150,264	2.484%	35.47%	1,324
T&D-Aeration Motors	31,832	14.286%	100.00%	4,547
Plant Sewers	818,187	2.484%	35.47%	7,210
Outfall Sewer Lines	66,704	2.000%	35.47%	473
Power Generation Equip	7,940	4.348%	35.47%	122
Other Intangible Plant	204	4.000%	100.00%	8
General Plant-Structures	663,201	2.725%	100.00%	18,071
Office Equipment	14,117	5.000%	100.00%	706
Transportation Equipmt	5,103	16.667%	100.00%	850
General Plant-Tools & Equip	13,472	20.000%	100.00%	2,694
CIAC - Tap Fees	(213,545)	2.198%	35.47%	(1,665)
CIAC - Other	-	2.000%	35.47%	-
	<u>3,838,452</u>			<u>53,328</u>
Depreciation Expense				\$ 54,993
Amortization of CIAC				(1,665)
Net Depreciation				<u>\$ 53,328</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Sewer Capital Structure and Rate of Return

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
L-T Debt	\$1,567,330	41.2%	6.20%	2.55%
S-T Debt	0	0.0%	2.42%	0.00%
Equity	<u>2,239,641</u>	<u>58.8%</u>	10.50%	<u>6.18%</u>
	<u><u>\$3,806,971</u></u>	<u><u>100.0%</u></u>		<u><u>8.73%</u></u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Billing Analysis at Present Rates
12/31/2014

	<u>Quarterly Bills</u>	<u>Annual Usage (tg)</u>	<u>Billed Usage (tg)</u>	<u>Quarterly Base Chg</u>	<u>Usage Charge</u>	<u>Base Chg Revenue</u>	<u>Usage Revenue</u>	<u>Total Revenue</u>
Residential-DIUC	1,044.0			\$110.38		\$115,237		\$115,237
Total gals		11,552.907	11,553.000		\$1.32		\$15,250	\$15,250
Residential-MUC/BP	443.0			\$80.72		\$35,759		\$35,759
Total gals		6,222.398	2,296.390		\$1.95		\$4,478	\$4,478
	<u>1,487.0</u>	<u>17,775.305</u>	<u>13,849.390</u>			<u>\$150,996</u>	<u>\$19,728</u>	<u>\$170,724</u>
Commercial-DIUC	102.0			\$178.21		\$18,177		\$18,177
Total gals		4,495.220	4,495.000		\$1.32		\$5,933	\$5,933
Commercial-MUC/BP	166.0			\$136.60		\$22,676		\$22,676
Total gals		3,996.052	2,389.990		\$1.95		\$4,660	\$4,660
Multi-Unit-MUC/BP	168.0			\$136.60		\$22,949		\$22,949
Total gals					\$1.95		\$0	\$0
	<u>436.0</u>	<u>8,491.272</u>	<u>6,884.990</u>			<u>\$63,802</u>	<u>\$10,594</u>	<u>\$74,396</u>
Total Sewer Revenues	1,923.0	26,266.577	20,734.379			\$214,798 87.6%	\$30,322 12.4%	\$245,119
Availability Billing-DIUC	2,063.0			\$55.19				\$113,857
Availability Billing-MUC/BP	<u>1,972.0</u>			<u>\$85.08</u>				<u>\$167,778</u>
	4,035.0							\$281,635
Misc. Revenue (Late Chgs)							1.82%	\$9,749
Interdepartmental Revenue								\$0
Total Sewer Operating Revenue								<u>\$536,503</u>
Revenue Per Books								<u>\$533,155</u>
Difference								\$3,349

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Billing Analysis at Present Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,092.0			\$110.38		\$120,535		\$120,535
Total gals		12,038.050	12,038.000		\$1.32		\$15,890	\$15,890
Residential-MUC/BP	492.0			\$80.72		\$39,714		\$39,714
Total gals		6,916.301	2,397.000		\$1.95		\$4,674	\$4,674
	1,584.0	18,954.351	14,435.000			\$160,249	\$20,564	\$180,814
Commercial-DIUC	102.0			\$178.21		\$18,177		\$18,177
Total gals		4,585.124	4,585.000		\$1.32		\$6,052	\$6,052
Commercial-MUC/BP	164.0			\$136.60		\$22,402		\$22,402
Total gals		4,245.452	2,514.000		\$1.95		\$4,902	\$4,902
Multi-Unit-MUC/BP	176.0			\$136.60		\$24,042		\$24,042
Total gals					\$1.95		\$0	\$0
	442.0	8,830.577	7,099.000			\$64,621	\$10,955	\$75,576
Total Sewer Revenues	2,026.0	27,784.927	21,534.000			\$224,871 87.7%	\$31,519 12.3%	\$256,389
Availability Billing-DIUC	2,280.0			\$55.19				\$125,833
Availability Billing-MUC/BP	1,720.0			\$85.08				\$146,338
	4,000.0							\$272,171
Misc. Revenue (Late Chgs)							1.82%	\$9,783
Interdepartmental Revenue								\$0
Total Sewer Operating Revenue								<u>\$538,343</u>

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Billing Analysis at Proposed Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,092.0			\$218.18		\$238,253		\$238,253
Total gals		12,038.050	12,038.000		\$2.38		\$28,650	\$28,650
Residential-MUC/BP	492.0			\$218.18		\$107,345		\$107,345
Total gals		6,916.301	6,916.000		\$2.38		\$16,460	\$16,460
	<u>1,584.0</u>	<u>18,954.351</u>	<u>18,954.000</u>			<u>\$345,597</u>	<u>\$45,111</u>	<u>\$390,708</u>
Commercial-DIUC	102.0			\$305.45		\$31,156		\$31,156
Total gals		4,585.124	4,585.000		\$2.38		\$10,912	\$10,912
Commercial-MUC/BP	164.0			\$305.45		\$50,094		\$50,094
Total gals		4,245.452	4,245.000		\$2.38		\$10,103	\$10,103
Multi-Unit-MUC/BP	176.0			\$305.45		\$53,759		\$53,759
Total gals		0.000	0.000		\$2.38		\$0	\$0
	<u>442.0</u>	<u>8,830.577</u>	<u>8,830.000</u>			<u>\$135,009</u>	<u>\$21,015</u>	<u>\$156,024</u>
Total Sewer Revenues	2,026.0	27,784.927	27,784.000			\$480,606 87.91%	\$66,126 12.09%	\$546,732
Availability Billing-DIUC	2,280.0			\$140.73				\$320,864
Availability Billing-MUC/BP	<u>1,720.0</u>			<u>\$140.73</u>				<u>\$242,056</u>
	4,000.0							\$562,920
Misc. Revenue (Late Chgs)							1.82%	\$20,538
Interdepartmental Revenue								\$0
Total Sewer Operating Revenue								<u>\$1,130,190</u>

Daufuskie Island Utility Company, Inc.

Revenue Requirement

		<u>Sewer</u>
Equity Return		\$235,271
Gross Revenue Tax	0.63150%	2,385
Effective Income Tax Rate	37.3000%	139,962
Equity Grossed-Up	37.6960%	<u>377,617</u>
O&M Expenses		387,157
Depreciation		53,328
Amortization		103,038
Property Taxes		100,334
Payroll Taxes		6,866
Interest Expense		<u>97,078</u>
		747,801
Gross Revenue Tax		<u>4,752</u>
		752,553
Revenue Requirement		<u>\$1,130,171</u>
Revenue @ Present Rates		538,343
Percentage Increase		109.9%

Daufuskie Island Utility Company, Inc.

Rate Design - Sewer System

Metered Sales

	PRESENT Quarterly Rates	Factor	PROPOSED Quarterly Rates	Percentage Change
Base Service:				
Residential-DIUC	\$ 110.38	1.00	\$ 218.18	97.7%
Residential-MUC/BP	\$ 80.72	0.73	\$ 218.18	170.3%
Commercial-DIUC	\$ 178.21	1.61	\$ 305.45	71.4%
Commercial-MUC/BP	\$ 136.60	1.24	\$ 305.45	123.6%
Multi-Family-MUC/BP	\$ 136.60	1.24	\$ 305.45	123.6%
Availability Billing-DIUC	\$ 55.19	0.50	\$ 140.73	155.0%
Availability Billing-MUC/BP	\$ 85.08	0.77	\$ 140.73	65.4%
Usage:				
Residential-DIUC	\$ 1.32	1.00	\$ 2.38	80.3%
Residential-MUC/BP	\$ 1.95	1.48	\$ 2.38	22.1%
Commercial-DIUC	\$ 1.32	1.00	\$ 2.38	80.3%
Commercial-MUC/BP	\$ 1.95	1.48	\$ 2.38	22.1%
Multi-Family-MUC/BP	\$ 1.95	1.48	\$ 2.38	22.1%

Pro Forma Existing Rates:

Service Charge Revenue	\$ 224,870.62	41.77%	92.33%	Base
Metered Usage Revenue	31,518.81	5.85%	5.85%	Usage
Irrigation Revenue	-	0.00%		
Availability Revenue	272,170.80	50.56%		
Subtotal	\$ 528,560.23			
Late Charge Revenue	9,782.88	1.82%	1.82%	
Total Revenue	\$ 538,343.11		100.00%	

Pro Forma Revenue Requirement:

		(Sch E.2 Results)	% Increase
Service Charge Revenue	\$ 472,082.10	\$ 480,606.02	113.7%
Metered Usage Revenue	66,169.01	66,125.92	109.8%
Irrigation Revenue	-	-	
Availability Revenue	571,381.73	562,920.00	106.8%
Subtotal	\$ 1,109,632.84	\$ 1,109,651.94	
Late Charge Revenue	20,537.69	20,538.04	109.9%
Total Revenue	\$ 1,130,170.53	\$ 1,130,189.98	109.9%

Service Charge Rates

	Quarterly Bills	Factor	Factored Bills	Proposed Rate
Residential-DIUC	1,092	1.00	1,092.0	\$ 218.18
Residential-MUC/BP	492	1.00	492.0	\$ 218.18
Commercial-DIUC	102	1.40	142.8	\$ 305.45
Commercial-MUC/BP	164	1.40	229.6	\$ 305.45
Multi-Family-MUC/BP	176	1.40	246.4	\$ 305.45
Availability Billing-DIUC	2,280	0.645	1,470.6	\$ 140.73
Availability Billing-MUC/BP	1,720	0.645	1,109.4	\$ 140.73
	6,026		4,782.8	
			\$ 1,043,463.83	
			\$ 218.18	

Usage Rates

	TG	Factor	Factored Bills	Proposed Rate
Residential-DIUC	12,038.0	1.00	12,038.0	\$ 2.38
Residential-MUC/BP	6,916.0	1.00	6,916.0	\$ 2.38
Commercial-DIUC	4,585.0	1.00	4,585.0	\$ 2.38
Commercial-MUC/BP	4,245.0	1.00	4,245.0	\$ 2.38
Multi-Family-MUC/BP	-	1.00	0.0	\$ 2.38

0 to 18,000 gals (quarterly)

18,001 to 60,000 gals

Over 60,000 gals

	-	0.0
	-	0.0
	-	0.0
	27,784.0	27,784.0
		\$ 66,169.01
		\$ 2.38

WATER DISTRIBUTION MAP FOR DAUFUSKIE ISLAND

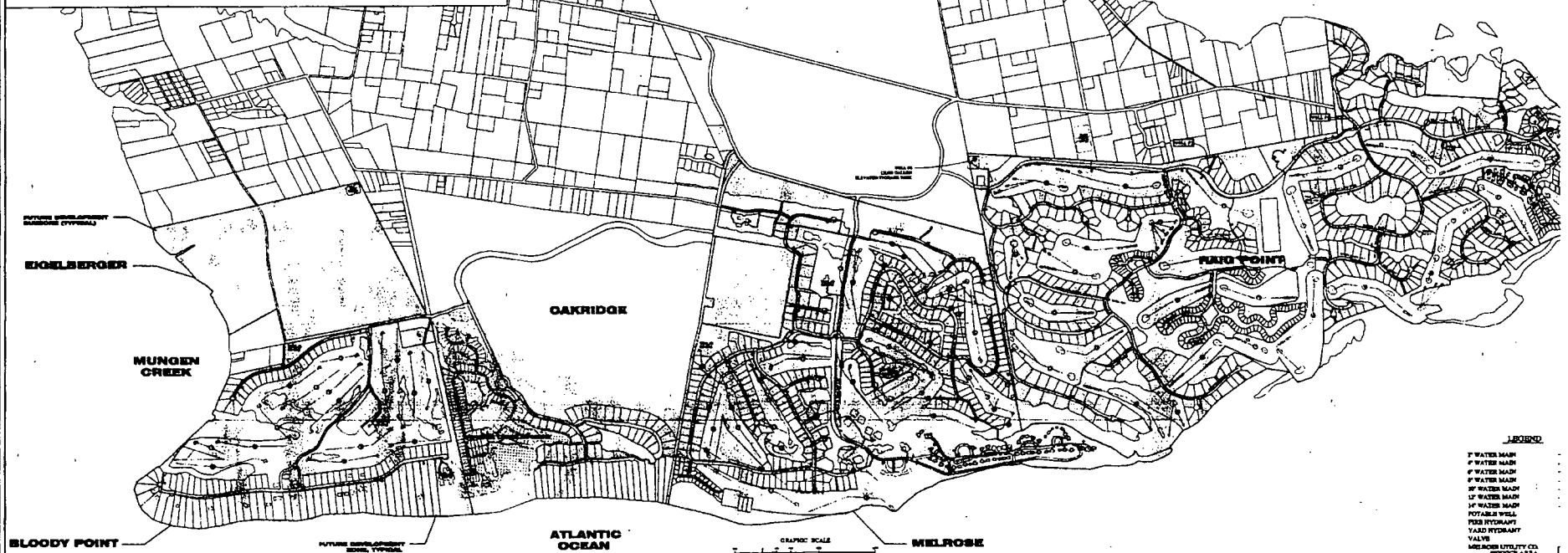
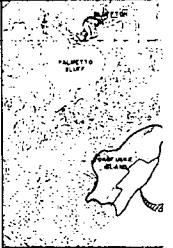
PREPARED FOR:
HAIG POINT UTILITY COMPANY INC. &
INTERNATIONAL PAPER REALTY CORPORATION
HILTON HEAD ISLAND, SOUTH CAROLINA

PREPARED BY:



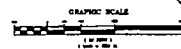
50 PARK OF COMMERCE WAY
PORT OFFICE BOX 2721
SAVANNAH, GA 31402-2721 (912) 334-1300
CHARLESTON, SC - MYRTLE BEACH, SC

JULY 2007
11/03



LEGEND

- 1" WATER MAIN
- 6" WATER MAIN
- 8" WATER MAIN
- 12" WATER MAIN
- 16" WATER MAIN
- 20" WATER MAIN
- POTABLE WELL
- POB HYDRANT
- YARD HYDRANT
- VALVE
- MELROSE UTILITY CO. SERVICE AREA



1477

[illegible]

[illegible]

Customer	Total	MR(E)	MR	MR(E)	Running	MR(E)
55018	232	187	187	187	187	23013
347 07332	300	240	240	240	240	0605667
341-3041528	277	227	227	227	227	12416

Land Application Discharge Permit

This State Permit Certifies That

Haig Point/Melrose WWTP
Haig Point/Melrose Wastewater Treatment Company, Inc.

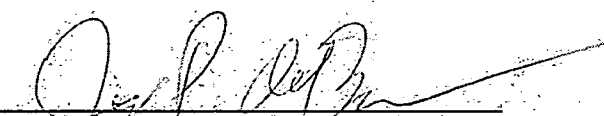
has been granted permission to discharge treated wastewater from a facility located at

the southwest boundary of Haig Point on Daufuskie Island
(Lat. 32° 07' 68" N; Long. 80° 51' 42" W)
Beaufort County

to property located at

a 27 holes golf course and drive range at Haig Point and
a 18 holes golf course and drive range at Melrose

in accordance with effluent limitations, monitoring requirements and other conditions set forth in Parts I, II, III, IV and V hereof. This permit is issued in accordance with the provisions of the Pollution Control Act of South Carolina (S.C. Code Sections 48-1-10 et seq., 1976), Regulation 61-9 and with the provisions of the Federal Clean Water Act (PL 92-500) as amended, 33 U.S.C. 1251 et seq. the "Act."



Jeffrey P. deBessonnet, P.E., Director
Water Facilities Permitting Division
Bureau of Water

Issued: January 15, 2010

Expires: January 31, 2020

Effective: February 1, 2010

Permit No.: ND0062286



Public Water System OPERATING PERMIT

Issued in accordance with the provisions of the State Safe Drinking Water Act (SDWA) (S.C. Code Ann. § 44-55-10 et seq., 1976) and the State Primary Drinking Water Regulations (SPDWR) (R.61-58).

This Permit is Issued to: *CK MATERIALS LLC*
CONTACT: *JOHN F GUASTELLA*
GUASTELLA ASSOCIATES LLC

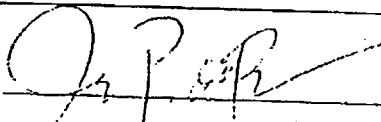
For the Operation of a Public Water System Serving: *DAUFUSKIE ISLAND*
UTILITY COMPANY INC
(HAIG POINT)

County: *Beaufort*

Public Water System Name: *DAUFUSKIE ISLAND UTILITY COMPANY INC*
(HAIG POINT)

Permit Number: *0750036*

Date of Issuance: *July 10, 2008*
MODIFIED: September 23, 2010



Jeffrey P. deBessonnet, P.E., Director
Water Facilities Permitting Division



STATE OF SOUTH CAROLINA

Public Water System OPERATING PERMIT

Issued in accordance with the provisions of the State Safe Drinking Water Act (SDWA) (S.C. Code Ann. § 44-55-10 et seq., 1976) and the State Primary Drinking Water Regulations (SPDWR) (R.61-58).

This Permit is Issued to: *CK MATERIALS LLC*
CONTACT: *JOHN F GUASTELLA, GUASTELLA ASSOCIATES LLC*

For the Operation of a Public Water System Serving: *MELROSE UTILITY COMPANY INC*

County: *Beaufort*

Public Water System Name: *MELROSE UTILITY COMPANY INC*

Permit Number: *0750043*

Date of Issuance: *October 12, 2006*
MODIFIED: January 21, 2010



Jeffrey P. deBessonnet, P.E., Director
Water Facilities Permitting Division



Land Application Discharge Permit

This State Permit Certifies That

DAUFUSKIE ISLAND PROPERTIES, LLC (Owner)
Daufuskie Island Club Development

has been granted permission to discharge treated wastewater from a facility located at

the southern end of Daufuskie Island
Beaufort County

to property located at

Bloody Point 18 hole golf course by spray irrigation

In accordance with effluent limitations, monitoring requirements and other conditions set forth in Parts I, II, III, IV and V hereof. This permit is issued in accordance with the provisions of the Pollution Control Act of South Carolina (S.C. Code Sections 48-1-10 et seq., 1976), Regulation 61-9 and with the provisions of the Federal Clean Water Act (PL 92-500), as amended, 33 U.S.C. 1251 et seq., the "Act."


Jeffrey P. deBessonet, P.E., Director
Water Facilities Permitting Division
Bureau of Water

Issued: February 25, 2009

Expires: September 30, 2018

Effective: April 1, 2009

Permit No.: ND0068179



Land Application Discharge Permit

This State Permit Certifies That

Haig Point/Melrose WWTP
Haig Point/Melrose Wastewater Treatment Company, Inc.

has been granted permission to discharge treated wastewater from a facility located at

the southwest boundary of Haig Point on Daufuskie Island
(Lat. 32° 07' 68" N; Long. 80° 51' 42" W)
Beaufort County

to property located at

a 27 holes golf course and drive range at Haig Point and
a 18 holes golf course and drive range at Melrose

in accordance with effluent limitations, monitoring requirements and other conditions set forth in Parts I, II, III, IV and V hereof. This permit is issued in accordance with the provisions of the Pollution Control Act of South Carolina (S.C. Code Sections 48-1-10 et seq., 1976), Regulation 61-9 and with the provisions of the Federal Clean Water Act (PL 92-500), as amended, 33 U.S.C. 1251 et seq., the "Act."


Jeffrey P. deBessonnet, P.E., Director
Water Facilities Permitting Division
Bureau of Water

Issued: January 15, 2010

Expires: January 31, 2020

Effective: February 1, 2010

Permit No.: ND0062286



Public Service Commission of South Carolina
Settlement Policies and Procedures
Revised 6/13/2006

The Public Service Commission of South Carolina (PSC) has had a significant number of settlements presented to it in the past year. To assist the parties and the Commission in efficiently and fairly dealing with settlements, to the end that the Commission is able to carry out its statutory duty of assuring that cases brought before it are resolved in a manner consistent with the public interest, the PSC has developed this policy. The following policies and procedures will be followed by the Commission in evaluating the settlements and stipulations presented by parties appearing before the PSC.

I. SETTLEMENTS TO BE ENCOURAGED

The Commission encourages the resolution of matters brought before it through the use of stipulations and settlements. Settlements must be supported by probative evidence.

II. CONSIDERATION OF SETTLEMENTS

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission's consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has no significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

III. BURDENS OF PROOF

Proponents of a proposed settlement carry the burden of showing that the settlement is reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Proponents of the settlement should be prepared to call witnesses and argue in favor of the settlement. The Commission may require the further development of an appropriate record in support of a proposed settlement as a condition of accepting or rejecting the settlement.

IV. SETTLEMENT NOT BINDING ON THE COMMISSION

The Commission is not bound by settlements. It will independently review any settlement proposed to it to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. When a settlement is filed, the Commission may accept the settlement, reject the settlement, or require the further development of an appropriate record in support of a proposed settlement. A settlement which fully or partially resolves a proceeding before the Commission shall have no precedential effect on future proceedings. If the Commission rejects the settlement, the matter shall continue, as though no settlement had been presented, and neither the settlement nor its terms shall be admitted in the hearing on the merits.

V. SETTLEMENT PROCEDURES

When all parties to a proceeding reach agreement with regard to all issues in the form of a settlement signed by all parties or their representatives, the following procedures shall be followed:

1. Notice to Commission

Upon the execution of a settlement, the parties shall promptly notify the Commission of the existence of the settlement.

2. Timing of Filing

Parties may file a settlement at any time after the deadline has passed for filing interventions, and are encouraged to file any settlements as soon as possible thereafter.

3. Filing and Scheduling of Hearing

A settlement hearing may be scheduled by the Commission upon the parties' filing of the following:

- a. Copies of any document, pre-filed testimony, financial analysis, or exhibit which support the settlement, and
- b. An explanatory brief and joint motion for the scheduling of a settlement hearing, which shall include a list of proposed witnesses to be presented to support the settlement.

Upon the filing of a complete settlement, executed by all parties, the Commission or an appointed Hearing Officer may, at their discretion, order a continuance of any previously established procedural schedule in the proceeding. If the settlement is filed in sufficient time before the originally scheduled hearing date, that date will generally be used as the date for the settlement hearing. However, in order to allow the Commission adequate time to evaluate the terms of the settlement and the documentation provided in support thereof, if a settlement (including supporting documentation for the settlement) is filed with the Commission less than seven calendar days prior to the originally scheduled hearing date, the Commission reserves the right to postpone the hearing date.

Alternatively, the Commission may elect to commence the settlement hearing on the original hearing date to allow public witnesses to offer testimony and to allow the parties to present evidence supporting the settlement, but thereafter, in order to have sufficient time to review the settlement terms and supporting documents, the Commission may elect to recess the hearing to be reconvened on a subsequent date, at which time witnesses are subject to recall. In no event shall parties wait until time of hearing to announce settlements if they have been executed prior to the day of the hearing. Hearings of matters in which any such settlements are announced at the time of hearing are likewise subject to postponement.

4. Procedure at a Settlement Hearing

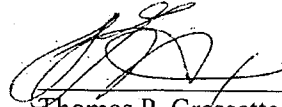
At a settlement hearing, the parties shall call witnesses to support the settlement, and shall introduce into evidence the signed settlement document, as well as the supporting documentation and an explanation of the underlying rationale for the settlement. The Commission may require evidence of any facts stipulated, notwithstanding the stipulation of the parties.

If the Commission finds that the record lacks substantial evidence to support the settlement, the Commission may establish procedures for the purpose of receiving additional evidence upon which a decision on the proposed settlement may reasonably be based.

Certificate of Counsel

The undersigned hereby certifies that the Record on Appeal contains all material proposed to be included by any of the parties and not any other material.

September 30, 2016



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