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S.C. SUPREME COURT

STATE OF SOUTH CAROLINA
In the Supreme Court

APPEAL FROM THE PUBLIC SERVICE COMMISSION

Appellate Case No. 2018-001107

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 VII
(R. pp. 966 to 1465)

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there's – I think they call them sewage package plants, and they can be expanded as customers are added.

BY MR. WALKER:

Q Right, those are package plants, not an inground lagoon that's done like this one. Correct? It's a package plant?

A [LOY] Right, and an inground lagoon could probably be done the same way.

Q But you are not a civil engineer, are you?

A [LOY] No, I'm not.

Q And you don't have the expertise, really, to tell us that today, do you?

A [LOY] No, I don't.

Q Thank you. In your prefiled testimony – you would agree, before I get to it, that the entire plant is used and useful, would you not?

A [LOY] What I – from what I see, from the utilization factors, that it is not used and useful.

Q I'm not asking you about utilization factor at this moment. I am saying, or asking whether or not the entire plant is used and useful?

A [LOY] I would say no.

Q Looking at your prefiled testimony on page 21, line 15, you start, in an effort to justify your utilization

approach, by saying, "Yes. The adjustment follows the well-known ratemaking concept that only plant that is 'used and useful' should be included in rate base. Numerous authoritative texts on utility ratemaking cite this principle or rule. For example, *Accounting for Public Utilities* by Robert L. Hahne, states: 'Only plant currently providing service or capable of providing utility service to the consuming public is allowed in rate base.'" Correct?

A [LOY] Correct.

Q Would you not agree that the plant that is available to the availability customers is capable of providing utility service?

A [LOY] Yes, I guess I would.

Q So under this authoritative treatise, it's used and useful, right?

A [LOY] Yeah, it would be.

Q You are aware that the availability customers are customers of the utility, right?

A [LOY] Yes.

Q The company still has to take care of a line or part of a facility of the utility system that may be in an area where no houses are built, in order to comply with its availability requirement, correct?

A [LOY] I would agree with that.

Q And if, in fact, the utility did not charge availability rates, then wouldn't you expect the consumption rates for the owners with houses to be significantly higher to make up for lost revenue not provided by the availability customers?

A [LOY] Well, see, that's the problem, is that clearly the developer took a risk by building such a large, large system. So why he would expect or why we would expect the smaller customer base to pay for the developer's mistake – or in this case, the utility's mistake – that's not fair.

Q Well, you're doing 20/20 hindsight right now, are you not?

A [LOY] Well, I mean, it's pretty obvious that the system is underutilized, as developed by - and these were factors developed by your client.

Q That was my question. My question was, you're using 20/20 hindsight, aren't you, as to what was actually sold, in comparison to what the developer expected to do when it built – first developed Haig Point?

A [LOY] I would agree.

Q If they sold out in the first two years, that wouldn't be a question, would it?

A [LOY] Well, it hasn't sold out. It's been 20 years now, and it's at less than 50 percent.

Q But you don't think that that was their goal, to be less than 50 percent, do you?
A [LOY] Probably not, but the problem is, is that they took a big risk and they're expecting the ratepayer to pay for that risk.
Q When I started this cross-examination, we made a distinction between the utility and the developer, and I wanted to do it for that reason. That wasn't the utility's so-called decision, or gamble; that was the developer. Correct?
A [LOY] That's correct.
Q Thank you. Just as a fundamental principle, would you agree that the rates provided should provide sufficient revenue to cover all legitimate expenses of the utility?
A [LOY] Yes.
Q I'm going to turn to your testimony about the contribution-in-aid-of-construction. First, you put great emphasis on the fact that the first rate case filed by Haig Point Utility in 1986 or 1987 sought simply a return on costs. Correct?
A [LOY] Yeah, it was just to recover the costs of operating.
Q If the utility assets had not been transferred to the utility, the utility could not recover based on ownership of those assets, because it didn't own them,

correct?
A [LOY] Well, that's not apparent in the document, because it shows what the plant cost and the cost per lot of the plant, and it appears that they were expecting the plant to be recovered through lot sales.
Q I didn't ask you that question. What was the question I asked you?
A [LOY] Could you repeat the question?
Q The question was that, if the utility did not own – have title to the plant and own it, it can't apply for a rate of return on it, can it?
A [LOY] You know, I don't know. Probably not.
Q So, and you know for a fact they didn't own it in 1987, did they?
A [LOY] Well, I guess.
Q I can help you out. You've got the deed and bill of sale.
A [LOY] IP owned the utility 100 percent, so – and IP paid for the utility plant. So –
Q So now you're blurring the corporate distinctions. I think we started out by saying the utility - let's do it again, so that we can have it squared away now. The utility is different from Haig Point, the developer, correct?
A [LOY] No, at that point, the utility and Haig Point, the

developer, were really the same.
Q They're different entities.
A [LOY] But they were different legal entities, yes.
Q And Haig Point, Inc., the developer, was a subsidiary of International Paper, correct?
A [LOY] Correct.
Q International Paper Realty Company, to be specific, correct?
A [LOY] Yes.
Q The assets that we're here about today were not transferred in title to the utility until 2001, according to either your exhibits or those of Mr. Lanier, correct?
A [LOY] Yes. Yes. They were transferred at zero cost, yes.
Q You were not present - let me say it differently. You have no firsthand knowledge of any intent of Haig Point, Inc., the developer, what its intent was with respect to accounting treatment at the time it transferred title to the plant assets to the utility, do you?
A [LOY] No. I would think that -
Q I'm not asking - I asked if you had any firsthand knowledge. Do you or do you not?
A [LOY] No, I don't.
Q Would you agree that it is not unusual and may, in fact,

be typical for a developer utility to pay in its capital by transferring the assets that it constructed and paid for, transferring it as paid in capital to the utility?

A [LOY] Seventeen years later, like in this case?

Q I didn't ask you that. And it wasn't 17 years. If you would just answer the question, please?

A [LOY] Would you repeat the question?

Q It is not unusual - and I may not get this verbatim - it is not unusual and may, in fact, be often typical for a developer, private development entity, that establishes a utility company that basically has no customers in the beginning, at some later point, because it would have to pay for the assets, to transfer title to those assets as paid in capital. Capital can be paid in cash or it can be paid in kind as an asset. So it is feasible for the developer to have transferred the assets, intending it to be paid in capital, correct?

A [LOY] So when you ask this question, you're saying like it's typical for any developer. All developers do this?

Q No, I'm not saying all developers.

A [LOY] Okay.

Q It's not unusual for that to happen.

A [LOY] I don't know. I really can't say.

Q So, you don't know.

A [LOY] I don't – I mean, I haven't - I don't have

firsthand experience of working for or working with a developer that built a utility that then, later, turned it over to another entity. My work with developers has always been in the utility capacity where the developer has no intent of owning and operating the utility. They came – when I work for utilities and they – we help them work with our utility. But I've never worked for a developer and a developer utility, so I don't know.

Q So you have not had the experience with developer utilities that Mr. Guastella has had.

A [LOY] No.

Q Not by a long –

A [LOY] No.

Q – shot, correct?

A [LOY] No.

Q At this time, Mr. Loy, I'd like to turn your attention to your conclusory comments about the 10-K that appears at the bottom of page nine and page ten of your direct testimony.

A [LOY] [Indicating.]

Q At the top of page 10, you quote from the 10-K, do you not, in 1997?

A [LOY] Yes.

Q Is that correct? And the quote you selected was as follows: "The company," and that's Haig Point, Inc.;

it's not Haig Point Utility – "is the developer of a residential golf community named Haig Point at Daufuskie Island, S.C. As the developer, International Paper was responsible for operating this community until a specified number of lots were sold, at which time it 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 the continuing operating losses, $5 million in 1997, an updated marketing study, and the inability to find a buyer for this investment, we concluded that the investment was permanently impaired and wrote it down to zero. The operating loss in 1988 was $500,000." So what this is talking about is the entire Haig Point residential community development, correct?

A [LOY] Yeah, which includes the utility.

Q It may include the utility, but it looks like the overall loss was $5 million in a single year, correct?

A [LOY] It was an operating loss.

Q Correct. And, certainly, the utility didn't have an operating loss of $5 million in that year, did it?

A [LOY] You mean, $500,000?

Q No, I'm talking about 1997.

A [LOY] Oh. I have no idea. Most likely, not.

Q So here, we're talking principally about real estate

losses, correct?
A [LOY] I think it's the loss of their whole development. Everything they did. They went in, they developed the lots, they put in the streets, they put in the utility plant, they put in the clubhouse, the stables, everything.
Q That's right. The whole development.
A [LOY] The whole development.
Q But there's nothing in here that says, "You know, we'd be doing okay but for that utility company," does it?
A [LOY] No, it doesn't.
Q So there's no way for us reliably to know whether part of that loss was the utility company, or not, correct?
A [LOY] I would disagree, because Haig Point, Inc., the developer, owned that utility. And you can't - they said they wrote off all of Haig Point, Inc., which includes the utility.
Q They're talking about not the value of the assets of the utility; they're looking at it from an income approach, not - isn't it true?
A [LOY] No, they're looking at it from an investment. They said "the net book value of our investment." So that's their whole investment in it, which includes the utility.
Q So, yeah, but they do not say - let me come to that.

It's $13 million of investment, correct, non-allocated, correct?

A [LOY] It doesn't say non-allocated; it just said $13 million of investment.

Q Is it allocated?

A [LOY] What?

Q Is it allocated, the $13 million?

A [LOY] I'm not sure if I understand the question.

Q It does not contain any allocation between the real estate operations, the utility company, and any other assets, correct?

A [LOY] Yeah, but that's - yeah, but that's because it's the whole operation. It's their whole development, which includes the utility property.

Q Would you agree that the price that a buyer may pay to own a utility is not necessarily reflective of the value of the plant-in-service, or the rate base? For instance, one can have a rate base of $5 million and be losing $100,000 a year, and so the fact that the rate base is $5 million may not have any effect on the purchase price if it's based on the income approach, correct?

A [LOY] Correct.

Q Is it fair to say, from your answer earlier, that you have never done a used-and-useful study for a privately

owned water and sewer utility that charged availability rates to availability customers?

A [LOY] What is a used-and-useful study? I've never heard that, a used-and-useful study.

Q Thank you, that answers my question. If you've never heard of it, you've obviously never done one.

Mr. Lanier, I have a couple questions for you.

A [LANIER] Okay.

Q When you were talking in your either direct testimony or surrebuttal testimony about the property taxes, you were suggesting that - and I'm not sure I understood it; I just want to make sure I do - that given the adjustment that you two want to make to the plant, that the utility should go back to the Department of Revenue and ask for an adjustment down and a refund of taxes?

A [LANIER] Yes, I am. And there's a historical precedent for doing that.

Q I did not ask if there was precedent. I just asked if that was what you were suggesting.

A [LANIER] I am suggesting that, and there's a State statute that provides for that.

Q Were you just talking about the general statue that applies for refunds, right, applies to refunds within two years for -

A [LANIER] That's correct.

Q —income taxes paid? Right. But there's by no means an assurance that, even if the utility did that, that the Department of Revenue is going to agree, is there?
A [LANIER] No, there's not, and that's the reason I worded my testimony the way I did, which said whatever the company is able to achieve through that, that the difference between the go-forward amount and what it's able to achieve, that it should be allowed to recover the difference in the property taxes that it cannot have amended.
Q You have done a comparison with two utilities, I think, Kiawah Utility and Harbor Island? Is that correct?
A [LANIER] I did a rate —
Q A rate comparison?
A [LANIER] Yes.
Q And there's no showing that the assets and liabilities are relatively the same, is there?
A [LANIER] The comparison doesn't reveal that.
Q There's no showing that the revenues and expenses are relatively the same, is there?
A [LANIER] The comparison doesn't reveal that.
Q There's no showing that the number of customers is substantially the same, either, is there?
A [LANIER] The comparison doesn't reveal that, but the point of my testimony was that the difference in the

rates is not minor; it's not, you know, 5 percent. It's 30 percent or 80 percent. So there's a lot can go into that.

Q Do you know whether either of those utilities charge availability fees?

A [LANIER] Not specifically, I don't. But I would think, if they don't charge availability fees, the rates would be even higher.

Q You refer to a rate of depreciation, or there's a big fight about depreciation here. NARUC does not prescribe a specific depreciation rate, does it?

A [LANIER] That was not my testimony.

Q I did not ask if it was your testimony. NARUC does not prescribe or dictate a particular depreciation rate for utility assets, does it?

A [LANIER] I'm not sure I can answer that question accurately. That was part of Mr. Loy's testimony.

Q Good point. And your testimony and all those calculations that you did depend in large part on Mr. Loy's testimony, correct, and his conclusions?

A [LANIER] A lot of it does. Not all of it, but all of it that has to do with the changes in the plant and the changes in accumulated depreciation, CIAC, and depreciation expense is based on his testimony.

Q The big-time adjustments are based on his testimony?

A [LANIER] For the most part.

MR. WALKER: With the Chairman's indulgence, I'd like to check with my client for one second to see if there are any further questions.

CHAIRMAN WHITFIELD: Go ahead, Mr. Walker.

MR. WALKER: Thank you.

[Brief pause]

That's all we have at this time.

CHAIRMAN WHITFIELD: Thank you.

Commissioners? Commissioner Elam.

EXAMINATION

BY COMMISSIONER ELAM:

Q Good afternoon. Mr. Loy, on page 24 of your prefiled testimony, in Table 9, you show net contributions-in-aid-of-construction of about $2.2 million, correct?

A [LOY] Yes.

Q Now, have you reviewed ORS's testimony?

A [LOY] No, I haven't.

Q You don't know what ORS's opinions are on that issue? You haven't looked at it?

A [LOY] No, I haven't.

Q All right. There's an issue that you were hitting around when you were crossed a moment ago, about the property owners' recommendation as to what the rate base should be. Explain your position on what the rate base

for the utility should be.

A [LOY] I believe that a large part of utility was contributed by the developer. And that's just given from the evidence that I see with the sales documents that tell the lot buyers that a water and sewer utility will be paid for, covered, and the corresponding rate document that shows that the plant is recovered from lot sales and all they want is the operating costs. And then we have – later, we have International Paper writing off the entire investment, which includes the utility plant. Everything. And then there was zero utility plant balances on their annual reports that they filed up until 2003, and then once they – in 2004, they do a study, which they go out and they try to figure out where all the utility plant is, and they attach a value to it, or they estimate, and then they put it on the books. It's my belief that that plant was donated.

Q Okay. And it's the property owners' position that the level of the rate base is an open issue due to language in orders or settlement agreements in the prior cases, correct?

A [LOY] Yes.

Q Are you familiar with situations where commissions don't use a return on rate base to set small utilities' rates?

A [LOY] Yes, they use a margin method. Yeah.

Q Right. Now, using the margin method, is there any reason in a rate case to establish a rate base?
A [LOY] No, there's not.
Q It doesn't affect any other expenses?
A [LOY] Well, I think probably - I haven't seen a margin rate case in a long time, but maybe there's depreciation in it that would affect it.
Q Could be depreciation? Could be taxes?
A [LOY] Yeah. Taxes, depreciation.

COMMISSIONER ELAM: Okay. Thank you.

CHAIRMAN WHITFIELD: Thank you, Commissioner Elam.

Commissioner Howard.

EXAMINATION

BY COMMISSIONER HOWARD:

Q Mr. Lanier.
A [LANIER] Yes, sir.
Q Good afternoon.
A [LANIER] Good afternoon.
Q How about respond to the assertions that Mr. Guastella made on page 22, that there is no evidence that the purchasers of the lots paid for anything other than the value of the real estate and the minor tap-in fees, to help fund the utility's plant assets. Can you comment on that statement? It's page 22 of his rebuttal

testimony. There's several bullet points, and it's the last bullet point.

A [LANIER] I'm having trouble finding that. Are you referring to my testimony or Mr. Guastella's testimony?

Q Mr. Guastella's testimony, commenting on your statements.

A [LANIER] Okay. I don't have that.

CHAIRMAN WHITFIELD: Why don't you take just a second and get Mr. Guastella's testimony, Mr. Lanier?

COMMISSIONER HOWARD: Mr. Guastella's testimony, page 22.

MR. BEACH: Mr. Commissioner, okay, the date of that?

COMMISSIONER HOWARD: Rebuttal.

MR. BEACH: The rebuttal testimony.

COMMISSIONER HOWARD: Correct.

MR. BEACH: [Indicating.]

WITNESS LANIER: [Indicating.]

MR. BEACH: And you are talking about one of these bullet points?

COMMISSIONER HOWARD: The last one.

WITNESS LANIER: I don't believe that's part of my testimony. I think that's part of Mr. Loy's testimony.

COMMISSIONER HOWARD: I'm sorry.

BY COMMISSIONER HOWARD:

Q Mr. Loy?

A [LOY] Well, there is evidence, like I said in that rate study where they have the lot - the plant per-lot cost in the initial rate filing that they did, that Haig Point Utility did.

Q Mr. Guastella, as I understand it, was supporting the use of the AICA – AIAC – and why he did it this way, and the comment that one of you two made that the person, the lot owner, only paid for the value of the utility – I mean, the value of the real estate plus a small tap-in fee, and nothing else contributed to the plant assets.

A [LOY] Well, yeah. I understand that he testified to that, but I can't say that there's no evidence. Like I said, there is a rate filing, their initial rate filing in there, where they have the total plant they were going to install and divided by the total lots. And they have a cost of plant per lot. So, I would think that when you're in development and you've put in stables, pools, golf courses, roads, utilities, all that kind of thing to serve the lots, that when you buy a lot it's to cover that cost, plus more, profit, because they're in it to make a profit.

COMMISSIONER HOWARD: Thank you.

CHAIRMAN WHITFIELD: Thank you, Commissioner Howard.

Commissioners? Commissioner Fleming.

COMMISSIONER FLEMING: Yes.

EXAMINATION

BY COMMISSIONER FLEMING:

Q Good afternoon.

A [LANIER] Good afternoon.

Q I wanted to ask you, you said that – I wanted to ask a question about donated property or donated utilities. As I understood you to say, according to the NARUC accounting practices – according to NARUC accounting practices, they are put in under construction – I mean, CAIC.

A [LOY] Yes.

Q I always mess that up. They're put in under CAIC, rather than the paid-in-capital, correct?

A [LOY] Correct.

Q And do you know about any of the utilities in our State? Do you know how they deal with donated property?

A [LOY] Yeah, I would assume that they book it to CIAC. It's the proper thing to do.

Q Okay. So you feel like that is the standard way and the proper way of allowing for donated property.

A [LOY] Correct, that's the proper way of doing it.

That's what NARUC would require.

Q Okay.

A [LOY] The NARUC Chart of Accounts, which this Commission follows.

Q Okay. And I just wanted to hear a little bit more about the depreciation, the differences that – is that you, too?

A [LOY] Yeah.

Q Oh, okay. If you could talk about it being how – the difference in the way you see it and the way the company has seen it.

A [LOY] Well, the company applies utilization factors to the depreciation expense, to reflect the fact that there's a lot more plant there to serve customers who aren't there, right? So they proportionately say, "Well, there's – you know, 40 percent of our customers are here, so we're just going to charge 40 percent of the depreciation expense." Now, I – you know, one of my options is, since – if you're going to apply 40 percent to the depreciation expense that applies to plant, you should take off the – you should take out the plant, too, because the reason they say they're reducing the depreciation expense is to say, "Well, this is unfair to the current customers. We have to share the costs with the future customers," something to that effect. And so

why would they not have to pay for the depreciation expense and not - and have to pay for the return in taxes on the plant, okay? So my thing is - and when you look up the term "utilization" it's basically the definition for "used and useful." So I would say that you should take out the plant, along with the depreciation.

Now since - but they haven't been doing that. What they've been doing is, instead of putting the full - well, let me back up. The typical way that you would do this is that you would record the full depreciation expense, and then, since you aren't recovering 60 percent of it – because only 40 percent of the customers are there – you put it in a deferral account, saying, "Well, Commission, I'm only able to cover 40 percent of rates, and I didn't get 60 percent, so I'm going to put it over here on the balance sheet as a deferral. Maybe I can recover it later from future customers." But you don't underdepreciate plant, because the requirement is to hit it with the full depreciation to show the true age and condition of the plant. And, basically, what happens is they have been pumping up the plant, so now it's underdepreciated. If you look at, say, their net plant, a lot of this plant is like 30 years old, yet it's only 10 percent appreciated. There should be a lot

more depreciation there to show the age and condition, and that's because they've been underdepreciating the plant. They haven't been deferring that expense. They've been leaving the deferral inside the plant, so they could earn more return and tax on it, and, you know, so the current customers have to pay for the plant that's not utilized. They've got to pay return and taxes on the plant that's not utilized. They don't have to pay the depreciation expense on the plant, but they – you know, so it seems to me you could apply the matching principle, which is GAAP, and should take them both out, the depreciation and the plant.

Q Is that – what they've done, is that a common practice?

A [LOY] I've never seen it in the 30 years that I've been doing this. I've never seen that.

Q Okay. And I believe it was Mr. Beach, in his opening statement, said you can't use depreciation in a way that hurts the ratepayer and then use it in a way that helps the owner? Is that –

A [LOY] That's basically what they're doing, is that they're able to make a higher return in taxes on underdepreciated plant, on plant that – on net plant value that really doesn't show its true age and condition. I mean, you're looking at – there's a lot of plant in their rate base that's 30 years old. It's been

in there a long time.

Q And they've only depreciated it 10 percent, you said.

A [LOY] Yeah, about 10 percent or so.

COMMISSIONER FLEMING: Okay. All right. Thank you.

CHAIRMAN WHITFIELD: Thank you, Commissioner Fleming.

EXAMINATION

BY CHAIRMAN WHITFIELD:

Q I've got one quick one for you, Mr. Lanier. I think you were in the room when I asked Mr. Guastella about what we had heard from the residents previously, in the previous case, about the recession hitting the folks hard. I wanted to - since I asked him, I wanted to ask you. You actually touched on it a little bit in your testimony. You kind of - I think, toward the end of your testimony, you make some comments toward DIUC's expenses and expectation for equity return are excessive, when you said it ignores the potential impact on the future development of the land. Are you concerned - of course, I realize, and I think we all do, when people make real estate investments, it's a real estate investment. But to live over there and enjoy the property, you obviously have to have these services. So could you comment a little further on what you said in

you testimony?
A [LANIER] Could you refer me, specifically, to what you're quoting?
Q I think it's near the end of your testimony. I'll have to see whether I've got it. Give me just a minute [indicating]. Near the end – 24 maybe, out of 25 pages?
A [LANIER] [Indicating.] Yes, I see what you're referring to. And would you mind repeating the question you wanted me to answer?
Q Yeah. I guess, just address your concern about the – your concerns here about future development of the Island. You say that in answering that last question, in your direct testimony, prefiled direct testimony.
A [LANIER] Well, what I was referring to there is that the unusually high rates, both for the water and sewer charges and the availability fees, have a tendency to inhibit the development of the Island, because anyone who comes there and looks at property there, and once they learn that those high water and sewer rates, and availability fees are in place, would have a tendency for that to affect their decision on purchasing property.
Q That's it. It was about halfway down through that last page.
A [LANIER] Did I answer your question?

Q I think so, yes, sir.
A [LANIER] Okay.
CHAIRMAN WHITFIELD: Commissioners, any further questions? Commissioner Fleming, did you have one more? I see your light on.
COMMISSIONER FLEMING: [Shaking head.]
CHAIRMAN WHITFIELD: Well, if not, I'm going to turn it back to your attorneys, Mr. Pringle and Mr. Beach, for any redirect.
MR. PRINGLE: It'll be very quick, Mr. Chairman.

REDIRECT EXAMINATION

BY MR. PRINGLE:
Q Mr. Loy, you and Mr. Walker had a discussion about the developer's gamble versus something that was separate, the utility's gamble. Can you look at some testimony and identify for me something of the developer's that ended up on the utility's balance sheet?
A [LOY] Can I look at – can you repeat the question, please? Can I look at my testimony?
Q Or anything. Just recite something that was of the developer's that ended up on the utility's balance sheet.
A [LOY] I can't think of anything right now.
Q Have you testified about paid-in-capital, for example?

A [LOY] Yes. Yes.
Q Okay. Can you answer that question now?
A [LOY] Yeah. The plant. The plant.
Q Okay. All right.
A [LOY] Yes. Sorry.
Q Thanks. Mr. Lanier – well, I'll go back to Mr. Loy again. You had a discussion with several people about depreciation expense versus – and the utilization factors. Please explain a little bit more specifically about depreciation expense, accumulated depreciation, and how those things affect plant.
A [LOY] Okay, so, as you record depreciation expense, there's an expense part and then the other part, the credit, goes into what is accumulating depreciation. That reduces the plant each year, as you record depreciation. The plant gets lower and lower. The net plant gets lower and lower and lower. That's the rate base. So if you have less depreciation, the plant, then that plant will go - will drop less than what it did the previous year.
Q Let's be clear about our terms here. When you say "less depreciation," you mean less depreciation expense or less accumulated depreciation?
A [LOY] Less depreciation expense. And it would be less accumulated depreciation.

Q How does depreciation expense affect accumulated depreciation?
A [LOY] It is - it's accumulation of all the years' depreciation expense.
Q Okay, so it adds up?
A [LOY] It adds up, yes.
Q And it reduces plant.
A [LOY] Yes, it does.

MR. PRINGLE: Okay. That's all I have.

CHAIRMAN WHITFIELD: That's it, Mr. Pringle and Mr. Beach? Nothing further?

MR. PRINGLE: [Shaking head.]

CHAIRMAN WHITFIELD: Okay. ORS, any follow-up to that?

MR. NELSON: No.

CHAIRMAN WHITFIELD: Mr. Walker?

MR. WALKER: I have a question, but it's related to your question. Is it permissible for me to ask?

CHAIRMAN WHITFIELD: If you can get to a microphone, yes, sir.

RECROSS EXAMINATION

BY MR. WALKER:

Q Mr. Lanier, you were asked some questions about the rate and real estate sales, by the Chair? Do you recall

that?
A [LANIER] Yes, I do.
Q What is the current club dues or homeowners' association assessment at Haig Point? Isn't it around or greater than $10,000 a year?
A [LANIER] I don't know the exact numbers. I've heard some numbers, but I don't know the exact numbers.
Q You would agree that there are a lot of factors that might enter into somebody's decision whether to purchase a lot on Daufuskie, correct?
A [LANIER] Well, I think there would be a number of factors, but I think one of the factors would be what I suggested, would be the utility rates. I think that's not an uncommon thing for homeowners to consider in purchasing real estate.
Q And if the assessment was 10 times the annual utility fee, might that be a factor, too?
A [LANIER] Well, it might be. But, you know, we're not talking about just one development; we're talking about several developments over there, and so we're not talking about just Haig Point. We're talking about Melrose and Bloody Point and I think maybe even another one. So I don't know what the situation is, with respect to all three of those.
Q Last question. So, basically, you're just speculating

what a purchaser might find material, correct?

A [LANIER] I said that.

MR. WALKER: Thank you.

MR. PRINGLE: And I'd just pose – I guess it's the objection – I was trying to let it finish – is that the whole line of questions was based on speculation, as well, so – I'm not objecting. I'm not objecting. I mean, I can.

MR. WALKER: I'm sitting down. No further questions.

CHAIRMAN WHITFIELD: I guess I had to let him go there. I started it.

So if nothing further, these two witnesses may step down. Thank you for your testimony. You may step down.

[WHEREUPON, the witnesses stood aside.]

Then, at this time, we're going to turn it over to the Office of Regulatory Staff: Mr. Nelson and Mr. Bateman.

MR. NELSON: Thank you, Mr. Chairman. If you'll give us a minute, we'll go ahead and set up our panel.

CHAIRMAN WHITFIELD: Yes, sir.

[Brief pause]

MR. NELSON: I don't think I put this on

record, so I'll say ORS calls its panel of Douglas Carlisle, Daniel Sullivan, and Dawn Hipp to the witness stand.

CHAIRMAN WHITFIELD: If you would let Ms. Wheat swear you.

[Witnesses affirmed]

THEREUPON came,

D O U G L A S H . C A R L I S L E , J R . , P h . D . ,

D A N I E L F . S U L L I V A N ,

D A W N M . H I P P ,

called as witnesses on behalf of the South Carolina Office of Regulatory Staff, who, having been first duly affirmed, were examined and testified as follows:

MR. NELSON: Mr. Chairman, Mr. Bateman and I are both going to switch off on some of these witnesses, here, as we present portions of the panel. And I'm going to start with Dr. Carlisle, if I could, please.

CHAIRMAN WHITFIELD: And we're going to hold questions until you finish with your panel.

MR. NELSON: Thank you, Mr. Chairman.

DIRECT EXAMINATION

BY MR. NELSON:

Q Dr. Carlisle, if you'd please state your full name and occupation, for the Commission?

A [CARLISLE] My name is Douglas H. Carlisle, Jr., and my occupation is Economist at the Office of Regulatory Staff.

Q And are you the same Douglas Carlisle who prefiled three pages of rehearing direct testimony in this case on October 16th of this year?

A [CARLISLE] I am.

Q Do you have any changes, edits, or corrections to that prefiled testimony?

A [CARLISLE] I do not.

MR. NELSON: Mr. Chairman, we would ask that Dr. Carlisle's testimony be entered in the record as if given orally from the stand.

CHAIRMAN WHITFIELD: Dr. Carlisle's testimony will be entered into the record as if given orally from the stand.

[See pgs 431-433 ~ Rehrg. Direct]

MR. NELSON: Thank you, Mr. Chairman.

BY MR. NELSON:

Q Dr. Carlisle, did you prepare a summary of that testimony?

A [CARLISLE] Yes, I did.

Q Please present it to the Commission.

A The purpose of my direct testimony and exhibits filed on October 2, 2015, is to adopt that testimony, and adopt

it as provided to the Commission on October 28, 2015. I reaffirm my capital structure recommendation of 46 percent long-term debt and 54 percent equity. And I reaffirm the cost rate or debt at 5.29 and for common equity at 9.31 percent.

This concludes my testimony.

MR. NELSON: Thank you, Dr. Carlisle.

[PURSUANT TO PREVIOUS INSTRUCTION, THE PREFILED REHEARING DIRECT TESTIMONY OF DOUGLAS H. CARLISLE, JR., Ph.D., FOLLOWS AT PGS 431-433]

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THE OFFICE OF REGULATORY STAFF

REHEARING TESTIMONY

OF

DR. DOUGLAS H. CARLISLE

NOVEMBER 16, 2017

DOCKET NO. 2014-346-WS

Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates Terms and Conditions

ELECTRONICALLY FILED - 2017 November 16 1:15 PM - SCPSC - Docket # 2014-346-WS - Page 2 of 3

REHEARING TESTIMONY OF

DOUGLAS H. CARLISLE

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2014-346-WS

IN RE: APPLICATION OF DAUFUSKIE ISLAND UTILITY COMPANY, INCORPORATED FOR APPROVAL OF AN INCREASE FOR WATER AND SEWER RATES, TERMS AND CONDITIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Douglas H. Carlisle. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Economist at the South Carolina Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Arts from Brown University, a Master's Degree in Public Administration and a Ph.D. in Government and International Relations from the University of Virginia. I am a Certified Rate of Return Analyst and a board member of the Society of Utility Regulatory Financial Analysts. I have previously testified before the Public Service Commission of South Carolina ("Commission") concerning return on equity ("ROE").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS REHEARING PROCEEDING?

A. The purpose of my rehearing testimony is to adopt my direct testimony and exhibits filed on October 2, 2015 and to adopt my testimony provided to the Commission on

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October 28, 2015. I reaffirm my capital structure recommendation of 46% Long-term Debt and 54% Equity. In addition, I reaffirm my ROE range of 8.91% to 9.71%. The high end of my range was based upon my Discounted Cash Flow analysis and the low end is based upon my Comparable Earnings Model analysis. My Capital Assets Pricing Model analysis produced a ROE of 9.30%, very close to the mid-point of the other two results. As noted in my direct testimony, ROE analysis necessarily involves comparisons between the Daufuskie Island Utility Company, Inc. ("DIUC") and publicly traded companies.

Q. HAVE YOU PERFORMED AN UPDATED ROE ANALYSIS FOR THE PURPOSE OF THIS REHEARING?

A. No. I did not perform further analysis because the South Carolina Supreme Court did not provide guidance in its Opinion No. 27729 related to ROE and DIUC did not introduce evidence related to ROE in its rehearing testimony and exhibits of witnesses John Guastella and Gary White. In addition, the rehearing proceeding schedule did not allow sufficient time for me to adequately update the application of my ROE methods.

Q. DOES THIS CONCLUDE YOUR REHEARING TESTIMONY?

A. Yes, it does.

MR. NELSON: I'll turn it over to Mr. Bateman.

DIRECT EXAMINATION

BY MR. BATEMAN:

Q Good afternoon. Mr. Sullivan, please state your full name and occupation.

A [SULLIVAN] My name is Daniel F. Sullivan. I'm employed by the Office of Regulatory Staff as Deputy Director of the Audit Department.

Q Thank you. And are you the same Daniel Sullivan who prefiled 14 pages of rehearing direct testimony and nine exhibits in this case, on November 16, 2017?

A [SULLIVAN] Yes, I am.

Q And did you also prefile 14 pages of revised rehearing direct testimony and nine exhibits in this case, on November 29, 2017?

A [SULLIVAN] Yes, I did.

Q What was the purpose behind filing the revised rehearing direct testimony?

A [SULLIVAN] The purpose was to update the total amount of bond cost included in rate-case expenses. Fifty-six thousand seven hundred and twenty-six dollars [$56,726] was originally included in my rehearing testimony and exhibits. The correct amount of bond cost is $53,726 and is the amount included in my revised rehearing testimony and exhibits.

Q Thank you. Do you have any changes to your revised testimony or exhibits?
A [SULLIVAN] Yes, I do.
Q Would you please go through your changes?
A [SULLIVAN] Sure. First, on page 2-of-14 of my prefiled revised rehearing testimony, I state that the purpose of my revised rehearing testimony is to adopt the testimony of Ivana C. Gearheart, filed on October 2, 2015. I would like to clarify that I only adopt the prefiled testimony of Ivana C. Gearheart that was filed with the Commission on October 2, 2015, taking into account the adjustments modified due to the Supreme Court Opinion No. 27729. I am not adopting the testimony she provided at the hearing on October 28, 2015.

I also have several corrections that I would like to make to my Revised Rehearing Exhibit DFS-9. On page 7-of-16, ORS Adjustment 5A: The part of the adjustment description that reads "Rehearing Audit Exhibit DFS-5" should read "Revised Rehearing Audit Exhibit -9, page 13."

Also, on that same page, page 7-of-16, ORS Adjustment 5B: The part of the adjustment description that reads "Rehearing Audit Exhibit DFS-5" should read "Revised Rehearing Audit Exhibit -9, page 13."

On page 8-of-16, same Exhibit DFS-9, ORS Adjustment

8: The part of the adjustment description that reads "Rehearing Audit Exhibit DFS-6" should read "Revised Rehearing Audit Exhibit -9, page 14."

Also on page 8-of-16, ORS Adjustment 10: The part of the adjustment that reads "Rehearing Audit Exhibit DFS-5" should read "Revised Rehearing Audit Exhibit -9, page 13."

Same DFS Exhibit 9, page 10-of-16, ORS Adjustment 15: The part of the adjustment description that reads "Rehearing Audit Exhibit DFS-7" should read "Revised Rehearing Audit Exhibit -9, page 15."

Also, on page 12-of-16, ORS Adjustment No. 23, the part of the adjustment that reads "Rehearing Audit Exhibit DFS-6" should read "Revised Rehearing Audit Exhibit -9, page 14."

Those are all my corrections.

MR. BATEMAN: Thank you, Mr. Sullivan.

And I saw some of the Commissioners were searching through. Subsequent to the hearing, we'll file an amended testimony that includes all of these, and we've let Ms. Wheat know that.

CHAIRMAN WHITFIELD: That would be helpful.

MR. BATEMAN: Yes, sir.

BY MR. BATEMAN:

Q Mr. Sullivan, did you also cause four pages of

surrebuttal testimony to be filed in this case, on December 5, 2017?

A [SULLIVAN] Yes, I did.

Q And do you have any changes to your surrebuttal testimony or exhibits?

A [SULLIVAN] No, I do not.

MR. BATEMAN: Mr. Chairman, we ask that Mr. Sullivan's revised rehearing direct testimony, as amended, and surrebuttal testimony be entered into the record as if it were given orally from the stand, and that his nine revised rehearing direct exhibits be marked for identification and entered into the record as the next hearing exhibit.

CHAIRMAN WHITFIELD: Mr. Sullivan's revised rehearing direct testimony will be entered into the record as if given orally from the stand.

[See pgs 441-455 ~ Rehrg. Revised direct]

And I believe you had nine exhibits, DFS-1 through DFS-9, will be entered in as Hearing Exhibit No. 8.

And did you have another request?

MR. BATEMAN: Yes, it's –

CHAIRMAN WHITFIELD: As – I'm sorry. As corrected.

[WHEREUPON, Hearing Exhibit No. 8 was

marked and received in evidence.]

MR. BATEMAN: Thank you. And also that his surrebuttal testimony be entered into the record.

CHAIRMAN WHITFIELD: Surrebuttal, yes, sir. Mr. Sullivan's surrebuttal testimony will be entered into the record, also.

[See pgs 457-461 ~ Rehrg. Surrebuttal]

MR. BATEMAN: Thank you.

BY MR. BATEMAN:

Q Mr. Sullivan, would you please summarize your testimonies for the Commission?

A [SULLIVAN] Sure.

Good afternoon, Mr. Chairman and members of the Commission.

The primary purpose of my revised rehearing testimony is to adopt the prefiled testimony of Ivana C. Gearheart filed with the Commission on October 2, 2015, taking into account the adjustments as set forth in South Carolina Supreme Court Opinion No. 27729, for the rehearing of Docket No. 2014-346-WS, and address the analysis conducted by the ORS Audit Department on new evidence submitted by the company.

In summary, South Carolina Supreme Court Opinion No. 27729 gave guidance on three issues related to ORS's adjustments:

(1) DIUC owns the utility equipment located on the elevated tank site, and is, therefore, entitled to include the value of this property in its rate base.

(2) The adjustment to property taxes disregarded DIUC's binding obligation under the settlement agreement with Beaufort County in order to conform more closely to the 2014 test year with regard to property taxes. Also, an annual bill of $65,856 for back taxes, alone, is a substantial expense for which the test-year data should be adjusted.

(3) Bad-debt expense of $30,852 is unsupported by the evidence in the record. In order to comply with the Supreme Court's guidance, ORS determined that plant-in-service, property taxes, and bad-debt expense should be adjusted. Also through discovery, DIUC submitted invoices to support additional rate-case expenses that have been incurred. Based on a review of the invoices provided by the company, ORS updated total rate-case expenses and the amortization of rate-case expenses. ORS also updated all fall-out adjustments, such as depreciation expense, accumulated depreciation, taxes other than income tax, income taxes, cash working capital, and interest expense for the changes. ORS has prepared revised rehearing Audit Exhibits DFS-1 through DFS-8, based on these changes, using the company's

proposed increase in its rehearing testimony and exhibits. ORS also prepared revised rehearing Audit Exhibit DFS-9, which shows the revenue increase necessary, based on ORS' revised rehearing accounting and pro forma adjustments, to derive the PSC-approved 9.28 percent return on equity.

And to summarize my surrebuttal testimony: ORS's review for the rehearing was specific and limited to the procedures just discussed. Due to the expedited schedule in this remand case, as requested by the company, ORS did not re-audit the books and records of the company for the rehearing nor did it investigate further the audit performed as part of Docket No. 2011-229-WS or revisit the audit performed by Ivana C. Gerhart as part of this docket.

This concludes my summary.

MR. BATEMAN: Thank you, Mr. Sullivan.

[PURSUANT TO PREVIOUS INSTRUCTION, THE PREFILED REVISED REHEARING DIRECT TESTIMONY {W/CLARIFICATION} OF DANIEL F. SULLIVAN FOLLOWS AT PGS 441-455]

Please note: Clarification noted herein on pg 2-of-14 reflects testimony given during the 12/7/17 hearing in this matter.

THE OFFICE OF REGULATORY STAFF

REVISED REHEARING TESTIMONY AND EXHIBITS

OF

DANIEL F. SULLIVAN

NOVEMBER 29, 2017

DOCKET NO. 2014-346-WS

Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates Terms and Conditions

REVISED REHEARING TESTIMONY OF

DANIEL F. SULLIVAN

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2014-346-WS

IN RE: APPLICATION OF

DAUFUSKIE ISLAND UTILITY COMPANY, INCORPORATED

FOR APPROVAL OF AN INCREASE FOR WATER AND SEWER RATES, TERMS AND CONDITIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Daniel F. Sullivan. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as the Deputy Director of the Audit Department.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a major in Accounting from the University of South Carolina in December 1998. From February 1999 to February 2005, I was employed as an auditor with the South Carolina Auditor's Office. In that capacity, I performed audits and reviews of cost reports filed by institutional providers of Medicaid services for the South Carolina Department of Health and Human Services. The primary purpose of these audits and reviews was to establish the applicable reimbursement rates to be paid to Medicaid providers for services rendered

to qualified Medicaid patients. In February 2005, I began my employment with ORS and since then have been involved in cases dealing with the regulation of telecommunication, natural gas, electric, low-level radioactive waste disposal, water and wastewater companies.

Q. DO YOU ADOPT THE ORS TESTIMONY AND EXHIBITS OF IVANA C. GEARHEART PREVIOUSLY FILED IN THIS DOCKET IN ITS ENTIRETY?

A. Yes. In addition, ORS has made adjustments to include the items identified in the guidance provided by South Carolina Supreme Court Opinion No. 27729.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose* of my revised rehearing testimony is to adopt the testimony of Ivana C. Gearheart filed on October 2, 2015, taking into account the adjustments as set forth in South Carolina Supreme Court Opinion No. 27729, and to set forth the findings and recommendations resulting from ORS's examination of the rehearing testimony and exhibits filed by John F. Guastella and Gary C. White, on behalf of Daufuskie Island Utility Company, Inc. ("DIUC" or "Company") on October 18, 2017, for the Rehearing of South Carolina Public Service Commission ("PSC") Docket No. 2014-346-WS.

Q. PLEASE DESCRIBE THE FINDINGS OF THE SOUTH CAROLINA SUPREME COURT IN ITS OPINION NO. 27729 AS THEY RELATE TO ORS'S ADJUSTMENTS.

A. In summary, South Carolina Supreme Court Opinion No. 27729 gave guidance on three issues related to ORS's adjustments:

1. DIUC owns the utility equipment located on the elevated tank site, and is therefore entitled to include the value of this property in its rate base.

* Re lines 10-12 above, please see witness' clarification at 12/7/17 Hearing Transcript Pg 435 (Vol 2) at lines 5-14.

2. In adopting ORS's adjustments, the PSC disregarded DIUC's binding obligation under the settlement agreement with Beaufort County in order to conform more closely to the 2014 test year (property taxes). Also, an annual bill of $65,856 for back taxes (property) alone is a substantial expense for which the PSC should have adjusted the test year data.

3. The PSC's decision to allow a bad debt expense of $30,852 is unsupported by the evidence in the record.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO EXAMINE THE REHEARING TESTIMONY AND EXHIBITS FILED BY DIUC AND INFORMATION PROVIDED DURING THE COURSE OF DISCOVERY.

A. ORS reviewed the South Carolina Supreme Court Opinion No. 27729. In order to comply with the Court's guidance, ORS determined that plant-in-service, property taxes and bad debt expense should be adjusted. Also, through discovery, DIUC submitted invoices to support additional rate case expenses that had been incurred since the original PSC hearing, on October 28, 2015. Based on a review of the invoices provided by the Company, ORS updated total rate case expenses and the amortization of rate case expenses. ORS also updated all "fall-out" adjustments such as depreciation expense, accumulated depreciation, taxes other than income tax, income taxes, cash working capital and interest expense for the changes to plant in service, property taxes, bad debt expense and amortization of rate case expenses. ORS prepared Revised Rehearing Audit Exhibits DFS-1 through DFS-8 based on these changes and using the Company's proposed increase in its rehearing testimony and exhibits. ORS also prepared Revised Rehearing Audit Exhibit DFS-9, which shows the revenue increase necessary, based on

ORS rehearing accounting and pro forma adjustments, to derive the PSC approved 9.28% return on equity.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my rehearing testimony:

- Revised Rehearing Audit Exhibit DFS-1: Operating Experience, Rate Base and Rates of Return for Combined Operations
- Revised Rehearing Audit Exhibit DFS-2: Operating Experience, Rate Base and Rates of Return for Water Operations
- Revised Rehearing Audit Exhibit DFS-3: Operating Experience, Rate Base and Rates of Return for Sewer Operations
- Revised Rehearing Audit Exhibit DFS-4: Explanation of Accounting and Pro Forma Adjustments
- Revised Rehearing Audit Exhibit DFS-5: Computation of Depreciation and Amortization Expense
- Revised Rehearing Audit Exhibit DFS-6: Computation of Income Taxes
- Revised Rehearing Audit Exhibit DFS-7: Cash Working Capital Allowance
- Revised Rehearing Audit Exhibit DFS-8: Return on Equity
- Revised Rehearing Audit Exhibit DFS-9: Schedules Supporting a 9.28% Return on Equity

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for water and wastewater utility rate cases. These exhibits show various aspects of the Company's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF REVISED REHEARING AUDIT EXHIBIT DFS-1 AND ELABORATE ON THE CALCULATIONS.

A. Revised Rehearing Audit Exhibit DFS-1 details the Company's combined operating experience, rate base and rates of return for water and sewer operations for the test year. The exhibit's format is designed to reflect the Application per books, the accounting and pro forma adjustments resulting from the guidance given in South Carolina Supreme Court Opinion No. 27729, the ORS proposed accounting and pro forma adjustments resulting from ORS's examination of the Company's rehearing testimony, exhibits, and information provided by the Company for this rehearing, and the remaining, unaltered, proposed accounting and pro forma adjustments as included in Audit Exhibit ICG-1 necessary to normalize the results of the Company's test year operations, and calculate the impact of DIUC's rehearing proposed increase on the normalized test year.

Column (1) details the Application per books amounts reported by DIUC for the test year ended December 31, 2014.

Column (2) details ORS's accounting and pro forma adjustments based on the guidance given in South Carolina Supreme Court Opinion No. 27729, ORS's examination of the Company's rehearing testimony, exhibits, and information provided by the Company for this rehearing, and the remaining, unaltered, proposed accounting and pro forma adjustments as included in Audit Exhibit ICG-1 designed to normalize the Application per books. An explanation of each adjustment is contained in Revised Rehearing Audit Exhibit DFS-4.

Column (3) details ORS's results for a normalized test year for DIUC by adding columns (1) and (2). After the accounting and pro forma adjustments, net income for

return of ($161,616) was computed using total operating revenues of $1,073,577, less total operating expenses of $1,235,193. Total rate base of $5,867,632, produced a return on rate base of -2.75%. As shown on Revised Rehearing Audit Exhibit DFS-8, the resulting return on equity ("ROE") was -9.61%.

Column (4) details the Company's proposed increase based on its rehearing testimony and exhibits and ORS's calculation of the bad debt, taxes other than income tax, income tax and customer growth adjustments associated with the proposed increase. An explanation of each adjustment is contained in Revised Rehearing Audit Exhibit DFS-4.

Column (5) details the effect of the Company's proposed increase based on its rehearing testimony by adding columns (3) and (4). Net income for return of $616,246 was computed using total operating revenues of $2,255,876, less total operating expenses of $1,641,767 plus customer growth of $2,137. Total rate base of $5,867,632 produced a return on rate base of 10.50%. As shown on Revised Rehearing Audit Exhibit DFS-8, the resulting ROE was 14.94%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN REVISED REHEARING AUDIT EXHIBIT DFS-4.

A. For comparative purposes, ORS's revised rehearing accounting and pro forma adjustments based on guidance given in South Carolina Supreme Court Opinion No. 27729, and the Company's proposed adjustments for the rehearing are both presented in Revised Rehearing Audit Exhibit DFS-4.

Adjustment 1 – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 2 – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 3 – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4 – ORS's operation and maintenance expense adjustments total ($31,228) and are comprised of the following:

Adjustment 4(a) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(b) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(c) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(d) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(e) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(f) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(g) – No change from Audit Exhibit ICG-4. ORS proposes to adjust outside services for management fees to reflect the PSC approved amount of $132,211 in Docket No. 2011-229-WS. This resulted in an ORS proposed adjustment of ($25,439) to the per book amount of $157,650. See ORS Utility Rates Department witness Dawn Hipp's testimony for further details.

Adjustment 4(h) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(i) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(j) – ORS proposes to adjust bad debt expense. ORS computed total bad debt expense of $105,384, less the per book amount of $105,668 for a total adjustment of ($284). This is the adjustment filed by ORS on Audit Exhibit ICG-4 and complies with the guidance given by South Carolina Supreme Court Opinion No. 27729.

Adjustment 4(k) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(l) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 4(m) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 5 – Based on guidance from South Carolina Supreme Court Opinion No. 27729, the ORS computed depreciation expense and amortization of contributions in aid of construction ("CIAC") adjustment is now $9,488. The ORS proposed adjustment to depreciation expense and amortization of CIAC on Audit Exhibit ICG-4 was ($2,002).

Adjustment 5(a) - Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS has adjusted the gross plant in service to include the water tank and well located on the elevated tank site that were removed in Docket No. 2011-229-WS. As a result, ORS computes an adjustment to depreciation expense of $9,394, which is shown on Revised Rehearing Audit Exhibit DFS-5. The ORS adjustment to annualize

depreciation on Audit Exhibit ICG-4 was ($2,096). See the description for Adjustment 10 for further details.

Adjustment 5(b) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 6 – Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS computed an amortization adjustment of $27,912. The ORS proposed adjustment to amortization expense on Audit Exhibit ICG-4 was ($42,308).

Adjustment 6(a) – ORS proposes to adjust amortization expense for rate case expenses totaling $272,382 amortized over five (5) years. These expenses include unamortized rate case expenses of $22,500 from the previous rate case, current rate case expenses of $75,000 as included on Audit Exhibit ICG-4, and additional legal, bond premiums and letter of credit fees associated with the appeal of $174,882. ORS's amortization expense adjustment amounted to $54,476 ($272,382/5 years), less per book amount of $ 92,421, for total adjustment of ($37,945).

Adjustment 6(b) – Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS computed an adjustment to amortization expense for property taxes of $526,848 amortized over eight (8) years for an annual amortization of property taxes of $65,856. This adjustment amount agrees with the Company's adjustment in its rehearing testimony and exhibits.

Adjustment 7 – The taxes other than income taxes adjustment of $191,271 is comprised of the following:

Adjustment 7(a) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 7(b) – Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS computed an adjustment to property taxes to reflect the calendar year 2015 level. Calendar year 2015 property taxes amounted to $192,302 less the per book amount of $4,210, for an adjustment of $188,092. This adjustment amount agrees with the Company's adjustment in its rehearing testimony and exhibits.

Adjustment 7(c) – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 8 – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 9 – ORS does not propose to adjust customer growth after the accounting and pro forma adjustments.

Adjustment 10 – Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS proposes to adjust gross plant in service to include the water tank and well located on the elevated tank site. In Docket No. 2011-229-WS, ORS removed $863,379 from plant in service for the elevated water storage tank and $61,956 for a well located on the elevated tank site due to ownership disputes in regards to the property. The ORS adjustment to plant in service on Audit Exhibit ICG-4 was ($1,624,696). Based on the Supreme Court guidance, ORS now computes an adjustment to gross plant in service of ($699,361) which is shown on Revised Rehearing Audit Exhibit DFS-5. Audit Exhibit ICG-5 showed the adjusted water total for reservoirs and standpipes as $34,700. Revised Rehearing Audit Exhibit DFS-5 includes the elevated water storage tank amount of $863,379, and shows the adjusted water total for reservoirs and standpipes as $898,079. Audit Exhibit ICG-5 showed the adjusted water total for wells as $732,908.

Revised Rehearing Audit Exhibit DFS-5 includes the $61,956 for the well removed in Docket No. 2011-229-WS and shows the adjusted water total for wells as $794,864. Revised Rehearing Audit Exhibit DFS-5 reflects all other adjustments to plant-in-service included on Audit Exhibit ICG-5.

Adjustments 11 – Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS adjusted gross plant in service to include the water tank and well located on the elevated tank site that were removed in Docket No. 2011-229-WS. As a result, ORS now computes an adjustment to accumulated depreciation of ($180,067). The ORS adjustment to accumulated depreciation on Audit Exhibit ICG-4 was ($141,198). See the description for Adjustment 10 for further details.

Adjustment 12 – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 13 – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 14 – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 15 – ORS proposes to adjust cash working capital after accounting and pro forma adjustments using an allowable rate of 20% (1/5 of Operating & Maintenance expenses) based on the quarterly billing cycle. The formula is based on the average number of days per billing cycle, plus a 30-day collection period, divided by 360 days (45 + 30 / 360 = 20%). ORS proposes to increase cash working capital by $87,676. This is the same adjustment amount as shown on Audit Exhibit ICG-4. Details of this adjustment are included in Revised Rehearing Audit Exhibit DFS-7.

Adjustment 16 – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

Adjustment 17 – ORS proposes to synchronize allowable interest expense to reflect the rate base after accounting and pro forma adjustments, using the capitalization ratio of 54% for equity and 46% for debt and a cost of debt of 5.29%. These are the debt, equity and cost of debt percentages applied by ORS on Audit Exhibit ICG-8. ORS computed an adjustment of ($34,743), resulting in allowable interest expense of $142,783. See Revised Rehearing Audit Exhibit DFS-8 for ORS's computation of interest expense.

Adjustment 18 – The Company's rehearing proposed increase would produce additional revenues of $383,382 for residential, $139,081 for commercial and $108,369 for irrigation for a total adjustment of $630,832.

Adjustment 19 – The Company's rehearing proposed increase would produce additional revenues of $518,553 for availability billing.

Adjustment 20 – The Company's rehearing proposed increase would produce additional revenues of $32,914 for miscellaneous other revenue.

Adjustment 21 – Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS computed an adjustment to bad debt expense for the rehearing proposed increase using the methodology and percentages used to calculate the adjustment on Audit Exhibit ICG-4. ORS applied a bad debt percentage of 9.82% (rounded) to the Company's rehearing proposed increase to calculate an adjustment to bad debt expense of $116,056.

Adjustment 22 – ORS proposes to adjust gross receipts and utility/commission taxes for the Company's rehearing proposed increase. ORS used a factor of .00856574,

which is comprised of the PSC and ORS factor of .00556574 and the Department of Revenue's factor of .003. ORS's proposes to increase gross receipts taxes by $10,128.

Adjustment 23 – ORS proposes to adjust income taxes for the Company's proposed increase by $280,390. See Revised Rehearing Audit Exhibit DFS-6 for the computation of income taxes.

Adjustment 24 – ORS proposes to adjust customer growth after the proposed increase resulting in an adjustment of $2,137. ORS used growth factors of 0.18519% for water operations and 0.48985% for sewer operations as was done on Audit Exhibit ICG-4.

Q. PLEASE DESCRIBE REVISED REHEARING AUDIT EXHIBIT DFS-5 THROUGH REVISED REHEARING AUDIT EXHIBIT DFS-8.

A. Revised Rehearing Audit Exhibit DFS-5 shows ORS's calculation of depreciation expense and amortization of CIAC for the Company's rehearing proposed increase. Revised Rehearing Audit Exhibit DFS-6 shows ORS's computation of income taxes for the Company's rehearing proposed increase. Revised Rehearing Audit Exhibit DFS-7 shows the calculation of the cash working capital allowance for the Company's rehearing proposed increase. Revised Rehearing Audit Exhibit DFS-8 shows the calculation of return on common equity for the Company's rehearing proposed increase.

Q. PLEASE DESCRIBE REVISED REHEARING AUDIT EXHIBIT DFS-9.

A. Revised Rehearing Audit Exhibit DFS-9 is comprised of schedules showing the revenue increase necessary, based on ORS's revised rehearing accounting and pro forma adjustments and guidance handed down from South Carolina Supreme Court Opinion No. 27729, to derive a 9.28% return on equity, as ordered by the PSC in Order No. 2015-846,

and is within the return on equity range recommended by ORS witness Dr. Douglas H. Carlisle in his pre-filed direct testimony.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[PURSUANT TO PREVIOUS INSTRUCTION, THE PREFILED REHEARING SURREBUTTAL TESTIMONY OF DANIEL F. SULLIVAN FOLLOWS AT PGS 457-461]

THE OFFICE OF REGULATORY STAFF

REHEARING SURREBUTTAL TESTIMONY

OF

DANIEL F. SULLIVAN

DECEMBER 5, 2017

DOCKET NO. 2014-346-WS

Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions

SURREBUTTAL TESTIMONY OF

DANIEL F. SULLIVAN

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2014-346-WS

IN RE: APPLICATION OF

DAUFUSKIE ISLAND UTILITY COMPANY, INCORPORATED

FOR APPROVAL OF AN INCREASE FOR WATER AND SEWER RATES, TERMS AND CONDITIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Daniel F. Sullivan. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as the Deputy Director of the Audit Department.

Q. ARE YOU THE SAME DANIEL SULLIVAN WHO PRE-FILED 14 PAGES OF REVISED REHEARING TESTIMONY AND 9 EXHIBITS MARKED AS REVISED REHEARING AUDIT EXHIBIT DFS-1 THROUGH DFS-9 IN THIS DOCKET ON NOVEMBER 29, 2017?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of Daufuskie Island Utility Company, Inc. ("DIUC" or "Company") witness Gary C. White

filed on November 30, 2017 and further explain the procedures used by ORS for the rehearing.

Q. PLEASE FURTHER DESCRIBE THE PROCEDURES USED BY ORS FOR THE REHEARING.

A. As stated in my revised rehearing testimony, ORS reviewed the South Carolina Supreme Court Opinion No. 27729 and updated the exhibits filed by Ivana C. Gearheart in this case on October 2, 2015 in order to comply with the Court's guidance. ORS also updated its rate case expense amortization adjustment for additional rate case expenses that had been incurred by the Company and updated all "fall-out" adjustments. ORS prepared Revised Rehearing Audit Exhibits DFS-1 through DFS-8 based on these changes and using the Company's proposed increase in its rehearing testimony and exhibits. ORS also prepared Revised Rehearing Audit Exhibit DFS-9, which shows the revenue increase necessary, based on ORS rehearing accounting and pro forma adjustments, to derive the PSC approved 9.28% return on equity.

ORS's review for the rehearing was specific and limited to the procedures in the above paragraph. Due to the expedited schedule in this remand case, as requested by the Company, ORS did not re-audit the books and records of the Company for the rehearing nor did it investigate further the audit performed as part of Docket No. 2011-229-WS or revisit the audit performed by Ivana C. Gearheart as part of this docket.

Q. PLEASE ADDRESS THE ASSERTIONS MADE BY COMPANY WITNESS GARY C. WHITE IN HIS REBUTTAL TESTIMONY IN REGARDS TO PLANT-IN-SERVICE, ACCUMULATED DEPRECIATION, RETIREMENT UNITS, THE ORS ROLL-FORWARD OF PLANT AND THE SERVICE LIFE OF ASSETS.

A. The Company states that the ORS plant-in-service balances are in conflict with the amounts shown on the Company's books and records. ORS agrees. ORS's plant-in-service figures have differed from the Company's plant-in-service figures since at least Docket No. 2011-229-WS due to nonallowable plant and adjustments made by ORS in previous cases that have not been made by the Company. With regards to specific ORS plant amounts such as organization costs, water mains, sewer pumping equipment and general plant differing from the Company, ORS did not review these plant items or possible ORS and Company plant-in-service variances as part of the rehearing due to the limited time for review.

With regards to the ORS accumulated depreciation, retirement units not properly reducing accumulated depreciation, the ORS roll-forward of plant, and the ORS service lives of assets, ORS also did not review these items as part of this rehearing.

ORS performed its review of the items in the preceding two paragraphs during the review conducted to prepare testimony in the original proceeding. Given the expedited timeline of the rehearing, as requested by the Company, ORS limited its procedures to applying the guidance from Supreme Court Opinion 27729, updating rate case expenses and all "fall-out" adjustments.

Q. PLEASE ADDRESS THE ASSERTION MADE BY COMPANY WITNESS GARY C. WHITE IN HIS REBUTTAL TESTIMONY IN REGARDS TO PRO FORMA PLANT-IN-SERVICE AS OF 12/31/15.

A. The Company states that it is not an accurate conclusion that plant-in-service and depreciation expense were calculated as of December 31, 2014 and include no plant additions subsequent to December 31, 2014. The Company then refers to its Exhibit

GCW-R1, Schedules W-B.2 and S-B.2, Schedules W-B.3 and S-B.3, and Schedules W-B.4 and S-B.4. ORS does not dispute that the Company's original application and rehearing exhibits include amounts for pro forma plant-in-service for water of $44,698 and sewer of $111,733. However, ORS Audit Exhibit ICG-5 did not include any amounts for plant-in-service after December 31, 2014, and depreciation expense and accumulated depreciation were calculated using the year ending December 31, 2014. Based on my review of the general ledger provided by the Company for the original proceeding for the period 1/1/15 – 6/30/15, the Company had additions to water plant-in-service of $24,464 and sewer plant-in-service of $6,981. ORS did not include the additions to water plant-in-service of $24,464 and sewer plant-in-service of $6,981 in the calculations of plant-in-service, depreciation expense and accumulated depreciation on Audit Exhibit ICG-5. For the purpose of the rehearing, ORS limited its procedures to applying the guidance from Supreme Court Opinion 27729, updating rate case expenses and all "fall-out" adjustments. Therefore, Revised Rehearing Audit Exhibit DFS-5 also does not include any additions for pro forma plant. ORS would also note that since no pro forma plant was included by ORS in its calculation of plant-in-service, calculating depreciation expense and accumulated depreciation through December 31, 2015 would only serve to increase accumulated depreciation, lower the Company's rate base, and lower the income necessary to calculate the approved return on equity.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

BY MR. BATEMAN:

Q Ms. Hipp, would you please state your full name and occupation?

A [HIPP] My name is Dawn Hipp, and I'm the Director of Utilities Rates and Services for the Office of Regulatory Staff.

Q Are you the same Dawn Hipp who prefiled nine pages of rehearing direct testimony and five exhibits in this case, on November 16, 2017?

A [HIPP] Yes, I am.

Q Did you file both a public version with the Commission, as well as a version filed under seal that included a Motion that the Commission provide confidential treatment of your Exhibit DMH-1 on a provisional basis?

A [HIPP] Yes, I did.

Q Did you also prefile nine pages of revised rehearing direct testimony, along with your five exhibits in this case, on November 29, 2017?

A [HIPP] Yes, I did.

Q Did you file your revised rehearing direct testimony for the same purpose as stated previously by ORS Witness Sullivan?

A [HIPP] Yes.

Q Do you have any changes to your revised testimony or exhibits?

A [HIPP] I do not.

Q And did you also cause 13 pages of surrebuttal testimony and one exhibit to be filed in this case, on December 5, 2017?

A [HIPP] Yes, I did.

Q Do you have any changes to your surrebuttal testimony or exhibits?

A [HIPP] I have a slight change to my surrebuttal testimony. On page eight, line 17, there's a page reference next to the phrase "Rehearing Exhibit DMH-1," which references page 17. That should be updated and corrected to read "page 11." So the phrase would be "Rehearing Exhibit DMH-1 from page 11."

MR. BATEMAN: Thank you.

Mr. Chairman, we ask that Ms. Hipp's revised direct and surrebuttal testimonies be entered into the record as if given orally from the stand, with that one amendment to Ms. Hipp's revised direct, and that her five exhibits – both the public redacted version and the confidential version filed under seal, and her one surrebuttal exhibit – be marked for identification and entered into the record is a composite hearing exhibit.

CHAIRMAN WHITFIELD: Mr. Bateman, you're going to have to do this one at a time. I'm going to

enter Ms. Hipp's Exhibits DMH-1 through DMH-5. We'll enter that in as Hearing Exhibit No. 9, noting that DMH-1 is confidential.

[WHEREUPON, Hearing Exhibit No. 9 was marked and received in evidence.]

And your other requests were to –

MR. BATEMAN: Enter her revised[sic] direct testimony, as amended, as if given orally from the stand.

CHAIRMAN WHITFIELD: We will enter her revised[sic] direct testimony as if given orally from the stand, with the noted correction.

[See pgs 470-478 ~ Rehrg. revised direct]

MR. BATEMAN: Thank you. Her surrebuttal testimony, to enter that into the record as if given orally from the stand.

CHAIRMAN WHITFIELD: And Ms. Hipp's surrebuttal will be entered into the record as if given orally from the stand.

[See pgs 480-493 ~ Rehrg. Surrebuttal]

MR. BATEMAN: And her one surrebuttal exhibit be marked as the following –

CHAIRMAN WHITFIELD: The confidential?

MR. BATEMAN: The confidential was DMH-1, part of the – it's very confusing. I apologize. The

confidential was DMH-1, part of the revised direct testimony.

We have one exhibit attached to her surrebuttal testimony.

[Brief pause]

CHAIRMAN WHITFIELD: We have a little bit of an issue here, and I'm going to let Mr. Butler do some housekeeping and address what we have.

MR. BUTLER: Okay. Mr. Bateman, let me ask you, with reference to the DMH-1 Redacted, we clearly have a label for it but we don't actually have a redacted version of DMH-1. So I just wanted to make you aware.

MR. BATEMAN: So, from my understanding, when we filed the public version of Ms. Hipp's direct testimony, the redacted version, where DMH-1 existed in the exhibit order, the entire exhibit is redacted because the exhibit in its entirety was marked confidential by the company. So out of an understanding for the company's concern, we redacted the entire exhibit. So the public version that is currently on DMS of Ms. Hipp's direct testimony, where DMH-1 would be, I believe, has just a single cover sheet stating "DMH-1 Redacted."

MR. BUTLER: Okay.

MR. BATEMAN: We are happy to provide whatever the Commission would like, if there's something we could do to be of help.

MR. BUTLER: I believe what we're saying is we need a DMH-1 Redacted.

Hold on one second, sir. Let me confer.

[Brief pause]

MR. BATEMAN: I apologize if I'm misunderstanding –

MR. BUTLER: Okay. Well, I think, Mr. Bateman – and I agree, that on DMH-1 Redacted, it's just a cover sheet where the exhibit otherwise would've been.

MR. BATEMAN: Yes, sir.

MR. BUTLER: Okay. All right. That's fine.

MR. BATEMAN: And each page on DMH-1 was marked confidential. So rather than – we redacted the entire exhibit –

MR. BUTLER: Okay, so – but what we're filing today is the DMH-1 that is confidential.

CHAIRMAN WHITFIELD: And I've already made that confidential.

MR. BATEMAN: Yes, sir.

MR. BUTLER: Okay. And, then, I believe, Mr. Chairman, we may not have addressed the rehearing

surrebuttal exhibit.

CHAIRMAN WHITFIELD: I'm going to make the rehearing surrebuttal exhibit Hearing Exhibit No. 10. We're going to put that in a separate Hearing Exhibit No. 10, and I think that will do it.

[WHEREUPON, Hearing Exhibit No. 10 was marked and received in evidence.]

MR. BATEMAN: And, again, I apologize if the way in which I went about that created more confusion.

BY MR. BATEMAN:

Q Ms. Hipp, would you please summarize your testimonies for the Commission?

A [HIPP] Certainly.

Good afternoon, Chairman and members of the Commission.

The purpose of my revised rehearing testimony is threefold: One, it was to adopt the direct testimony and exhibits of Willie Morgan that he filed on October 2, 2015, and to reaffirm the positions that he took during the hearing on October 28, 2015. In addition, my testimony – my rehearing testimony – discusses the ORS' adjustment to the bond premiums, which were in response to the Supreme Court Order that was issued on November 15, 2017. And, finally, my revised rehearing testimony

addresses our findings, ORS's findings, and recommendations related to Daufuskie's rate-case expenses, as they updated their testimony, management fees, and a request for a deferral account of $155,328.

I also filed surrebuttal in this case, and just as a summary, my limited review during surrebuttal indicated that, just to affirm, that ORS did make an adjustment to rate-case expenses - oh, pardon me, let me back up a minute.

The results of my revised rehearing testimony - see, I'm making it just more confusing than it needs to be - indicated that ORS made a rate-case adjustment, in this case, to include $53,726 in bond premiums. We also recommended that Daufuskie be allowed to recover $272,382 in rate-case expenses. We recommended that they recover those expenses over a period of five years. And we affirm our position that management fees paid to Guastella Associates should be limited to $132,211. We also recommend that the deferral requested by the company be denied.

In my surrebuttal testimony, which responded to the rehearing rebuttal of Daufuskie Witness Guastella, ORS affirmed its recommendation again that Daufuskie be allowed to only recover rate-case expenses previously set out in my revised rehearing testimony. We didn't

recommend any recovery of rate-case expenses that could not be verified, including estimates and vendor invoices that were not supported by sufficient detail or weren't paid by the company.

We disagree with Daufuskie's position that a five-year amortization period results in full recovery of rate-case expenses in 2023, and we feel we conducted a fair analysis of the management fees assessed by Guastella, and we do affirm our position that they be limited to $132,211.

And that concludes the summary of both my revised rehearing testimony and my surrebuttal.

MR. BATEMAN: Thank you, Ms. Hipp.

And just to make sure I'm clear, the exhibit that contains Ms. Hipp's revised direct testimony, that contains the confidential DMH-1 and the remaining four exhibits; is that correct?

MR. BUTLER: Yes, sir.

MR. BATEMAN: Thank you, so much.

[PURSUANT TO PREVIOUS INSTRUCTION, THE PREFILED REVISED REHEARING DIRECT TESTIMONY OF DAWN M. HIPP FOLLOWS AT PGS 470-478]

THE OFFICE OF REGULATORY STAFF

REVISED REHEARING TESTIMONY AND EXHIBITS

OF

DAWN M. HIPP

NOVEMBER 29, 2017

DOCKET NO. 2014-346-WS

Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates Terms and Conditions

REHEARING REVISED TESTIMONY AND EXHIBITS OF DAWN M. HIPP

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2014-346-WS

IN RE: APPLICATION OF DAUFUSKIE ISLAND UTILITY COMPANY, INCORPORATED FOR APPROVAL OF AN INCREASE FOR WATER AND SEWER RATES, TERMS AND CONDITIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Dawn M. Hipp. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Director of the Utility Rates and Services Department of the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor's Degree in Political Science from Minnesota State University - Moorhead. Prior to my employment with ORS, I managed the financial, operations and regulatory aspects for an environmental company that provided turn-key hazardous waste consulting services for the United States Department of Defense.

In 2004, I joined ORS as a Program Specialist for the Water and Wastewater Department. I became a Director in 2007 and currently manage the regulatory operations of the ORS Utility Rates and Services Department. In this role, I supervise the daily activities to provide regulatory analysis and monitor compliance related to electric,

natural gas, water and wastewater investor-owned utilities. In addition, I am responsible for the operations of the ORS Consumer Services Division.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION")?

A. Yes. I have testified on numerous occasions before the Commission in connection with general rate cases and other proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS REHEARING PROCEEDING?

A. The purpose of my rehearing testimony is to adopt the direct testimony and exhibits of Willie J. Morgan filed on October 2, 2015, and re-affirm the positions taken by ORS witness Morgan during the October 28, 2015, hearing with the exception of any changes made to comply with the South Carolina Supreme Court Opinion No. 27729, Supreme Court Order issued on November 15, 2017, or resulting from new evidence presented by Daufuskie Island Utility Company, Inc. ("DIUC" or "Company"). The ORS adjustments to comply with the South Carolina Supreme Court Opinion and Order include incorporating the elevated water storage tank and other utility equipment on the "Elevated Tank Site" property in rate base, property tax expenses, bad debt expense and bond premiums. In addition, I will present ORS's findings and recommendations related to the ORS review of the rehearing testimony and exhibits filed by John F. Guastella and Gary C. White on behalf of DIUC and applicable discovery related to DIUC's rate case invoices, management fees and request for a deferral of $155,328.

Q. HAVE YOU REVIEWED SOUTH CAROLINA SUPREME COURT OPINION NO. 27729 AND THE SOUTH CAROLINA SUPREME COURT ORDER DATED NOVEMBER 15, 2017?

A. Yes.

Q. DID THE SOUTH CAROLINA SUPREME COURT ORDER DATED NOVEMBER 15, 2017 PROVIDE GUIDANCE RELATED TO HOW THE COMMISSION IS TO HANDLE COSTS RELATED TO BOND PREMIUMS?

A. Yes. ORS made an adjustment to rate case expenses to include $53,726 in bond premiums in response to the Supreme Court Order. DIUC provided invoices and documentation to support the bond premium expenses and ORS verified DIUC incurred $53,726 in bond premium expenses related to obtaining bonds required by S.C. Code Laws Ann. § 58-5-240(D).

Q. DOES DIUC REQUEST ADDITIONAL RATE CASE EXPENSES IN THIS REHEARING?

A. Yes. DIUC witness Guastella requests recovery of rate case expenses of $794,210 plus $60,782 in bond costs over a period of three (3) years (Rehearing Testimony Guastella p.14, line 4). On October 24, 2017, ORS requested DIUC provide detailed invoices and other documentation to support all rate case and bond cost expenses incurred since August 11, 2015, for which the Company is seeking recovery. In response, DIUC provided 56 invoices to support the rate case expenses which total $705,210.23. In addition, DIUC provided four (4) invoices to support the bond cost expenses totaling $60,781.56. The invoices and supporting documentation provided by

DIUC on October 27, 2017, in response to ORS's October 24, 2017 request are attached as Rehearing Exhibit DMH-1.

Q. DID ORS REVIEW THE INVOICES AND SUPPORTING DOCUMENTATION PROVIDED BY DIUC TO SUPPORT ITS REQUEST FOR RECOVERY OF RATE CASE EXPENSES?

A. Yes. ORS reviewed the invoices and supporting documentation provided by DIUC (Rehearing Exhibit DMH-1). ORS applied the following criteria to ensure the DIUC invoices and supporting documentation included for ratemaking meet "known and measurable" standards:

1) The invoice is mathematically correct;

2) The invoice is for a valid business purpose;

3) The expense was incurred during the period under review;

4) The invoice was properly recorded on the books and records of the Company; and

5) The invoice was paid by the Company.

Q. WHAT IS ORS'S RECOMMENDATION RELATED TO THE RATE CASE EXPENSES REQUESTED BY DIUC?

A. ORS recommends that DIUC be allowed to recover $272,382 of the total requested $794,210 in rate case expenses. DIUC did not provide invoices to support approximately $88,999. Therefore, ORS did not include $88,999 in unsupported rate case expense. ORS witness Daniel Sullivan provides the detailed calculation of the ORS recommended rate case expense amount of $272,382 in Adjustment 6(a).

Q. PLEASE EXPLAIN THE ORS RECOMMENDED ADJUSTMENTS TO DIUC'S REQUESTED RATE CASE EXPENSES.

A. ORS recommends the following adjustments to the rate case expenses requested by DIUC in the rehearing testimony of DUIC witness Guastella:

1) Remove Prolegal invoice #CHS145021 for $3,905.65. The expense from Prolegal is for printing, binding, and legal brief prints. DIUC sought and received recovery of the same expense from the South Carolina Supreme Court. See DIUC's Motion for Costs filed with the South Carolina Supreme Court and the South Carolina Supreme Court Order issued November 15, 2017 provided as Rehearing Exhibit DMH-2.

2) Remove $1,470 for portions of the invoices the law firms of Pratt-Thomas Walker and Walker, Gressette, Freeman, Linton. Rehearing Exhibit DMH-3 provides a detailed listing of the invoices and amounts to be removed. Based on the invoice descriptions provided by the law firms, the work detailed corresponds to the law firm's assistance on utility customer matters, loan financing, and issues concerning DIUC's condemnation proceeding for the Elevated Tank Site. The legal work relates to routine customer matters and loan financing and is not recoverable in this rate case because the expenses were incurred outside of the original test year ending December 31, 2014. In addition, ORS believes the DIUC shareholders should bear the cost of the law firm's work to regain the ownership and resolve property tax issues related to the Elevated Tank Site. DIUC customers should not pay to re-acquire assets lost through a property tax sale.

3) Reduce rate case expenses by $1,000 to account for the legal cost DIUC requested to be recovered at the South Carolina Supreme Court. DIUC sought and received recovery

of the same expense from the South Carolina Supreme Court. See DIUC's Motion for Costs filed with the South Carolina Supreme Court and the South Carolina Supreme Court Order issued November 15, 2017 provided as Rehearing Exhibit DMH-2.

4) Reduce Pratt-Thomas Walker invoice #82258 by $3,905.65 for copies by Prolegal. DIUC has sought and received recovery of the same expense from the South Carolina Supreme Court. Invoice #82258 for Pratt-Thomas Walker includes a charge for Prolegal for $3,905.65 and DIUC provided a Prolegal invoice #CHS145021 for the exact same charges. See DIUC's Motion for Costs filed with the South Carolina Supreme Court and the South Carolina Supreme Court Order issued November 15, 2017 provided as Rehearing Exhibit DMH-2.

5) Remove $542,978 of Guastella Associates, LLC ("GA") invoices. In general, the GA invoices:

- Contain mathematical errors;
- Do not contain sufficient detail to describe the work performed, the specific dates and hours of work, employee name, and business purpose;
- Contain expenses such as air fare, lodging, and meals for which no detail or receipt was provided; and,
- Do not appear to be paid by DIUC.

Q. WHAT AMORTIZATION PERIOD DOES ORS RECOMMEND FOR RATE CASE EXPENSES?

A. ORS recommends that rate case expenses be recovered over a period of five (5) years instead of the three (3) years recommended by DIUC witness Guastella. ORS

affirms its position that a five (5) year amortization period is a reasonable balance between the shareholders and ratepayers for this proceeding.

Q. WHAT RECOMMENDATIONS DOES ORS MAKE REGARDING THE MANAGEMENT FEES FOR GUASTELLA ASSOCIATES, LLC?

A. ORS affirms its previously taken position that management fees paid to GA should be limited to $132,211. GA invoices DIUC for various services under a Management Agreement that has an initial term beginning June 18, 2015, and extending through December 31, 2018. See Guastella Associates, LLC Management Agreement provided as Rehearing Exhibit DMH-4. Through the management agreement, DIUC and its apparent parent company, Daufuskie Island Utility Holding Company, LLC (which is registered with the South Carolina Secretary of State as Daufuskie Island Holding Company, LLC) have delegated to GA the authority to act on behalf of DIUC and its parent. It is ORS's position that the services provided by GA to DIUC did not increase during the test year from those provided by GA in Docket No. 2011-229-WS.

In addition, it is ORS's position that the management agreement lacks sufficient checks and balances to protect DIUC, its parent company and its ratepayers from decisions made by its vendor, GA. For example, under GA's management, the Elevated Tank Site was sold to a third-party due to the failure of GA to pay property taxes. This does not reflect the goals set by DIUC for GA, which include "...operate the Company efficiently and manage its assets in order to minimize the rates charged to customers..." (Rehearing Exhibit DMH-4 page 3). The owners of DIUC have remained silent while

DIUC's vendor, GA, seeks to pass all costs related to resolving the property tax issues and Elevated Tank Site ownership to the ratepayers.

ORS's analysis as presented in Rehearing Exhibit DMH-5 indicates the dollar amount of management fees requested by DIUC are in excess of what other similarly situated investor-owned water and wastewater utilities pay for similar services. ORS calculated that, on a monthly basis, a DIUC customer would pay over $30 per month for management services if the Commission approved DIUC's request. By comparison, Kiawah Island Utility, Inc. customers spend approximately $7 per month for management services.

Q. PLEASE EXPLAIN ORS'S POSITION WITH REGARD TO THE AMOUNT OF THE PERFORMANCE BOND FOR DIUC.

A. ORS affirms its previously stated position that the amount of DIUC's bond should remain at $350,000 for water operations and $350,000 for wastewater operations.

Q. DOES ORS RECOMMEND ANY ADDITIONAL ADJUSTMENTS TO THE TEST YEAR REVENUES OF DIUC?

A. No. ORS affirms its previously stated position and does not recommend any further adjustments to revenue. ORS does not agree to the Pro Forma Proposed Rates operating revenue calculated by DIUC's witness Gary White in Rehearing Exhibit GCW-R1. The Pro Forma Proposed Rates operating revenue listed in Rehearing Exhibit GCW-R1 exceed the rates that DIUC noticed to customers.

Q. DOES ORS AGREE WITH THE DEFERRAL OF $155,328 REQUESTED BY DIUC?

[PURSUANT TO PREVIOUS INSTRUCTION, THE PREFILED REHEARING SURREBUTTAL TESTIMONY {W/CORRECTION} OF DAWN M. HIPP FOLLOWS AT PGS 480-493]

THE OFFICE OF REGULATORY STAFF

REHEARING SURREBUTTAL TESTIMONY AND EXHIBITS

OF

DAWN M. HIPP

DECEMBER 5, 2017

DOCKET NO. 2014-346-WS

Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions

REHEARING SURREBUTTAL TESTIMONY AND EXHIBIT OF

DAWN M. HIPP

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2014-346-WS

IN RE: APPLICATION OF DAUFUSKIE ISLAND UTILITY COMPANY, INCORPORATED FOR APPROVAL OF AN INCREASE FOR WATER AND SEWER RATES, TERMS AND CONDITIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Dawn M. Hipp. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Director of the Utility Rates and Services Department of the Office of Regulatory Staff ("ORS").

Q. DID YOU FILE REHEARING DIRECT TESTIMONY AND EXHIBITS RELATED TO THIS PROCEEDING?

A. Yes. I filed rehearing direct testimony and exhibits on November 16, 2017, which were revised on November 29, 2017.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS REHEARING PROCEEDING?

A. The purpose of my rehearing surrebuttal testimony is to respond to the rehearing rebuttal testimony filed by Daufuskie Island Utility Company, Inc. ("DIUC" or

"Company") witnesses John F. Guastella on November 29, 2017. Specifically, I will provide a response on the following items:

1) DIUC's assertions related to ORS's recommendation to remove $542,978 in rate case expenses associated with Guastella Associates, LLC ("GA");

2) DIUC's assertion that ORS's recommendation to apply a five (5) year amortization period for rate case expenses results in DIUC receiving full recovery of rate case expenses in 2023;

3) DIUC's assertion that ORS did not "...engage in a fair analysis of management fees"; and

4) DIUC's assertion that GA has "...helped with the financial stability of DIUC."

Q. DOES DIUC ACCURATELY CHARACTERIZE ORS'S RECOMMENDED AMOUNT FOR RATE CASE EXPENSES?

A. No. DIUC's witness Guastella indicates ORS recommends that DIUC be allowed to recover $275,382 in rate case expenses. In another area of rehearing rebuttal testimony, DUIC witness Guastella identifies the ORS recommendation for rate case expenses is $275,882. Neither of these dollar amounts is correct. ORS recommends DIUC be allowed to recover $272,382 in rate case expenses per ORS Witness Sullivan's Revised Rehearing Audit Adjustment 6(a).

Q. WHAT IS ORS'S POSITION REGARDING THE INCLUSION OF RATE CASE EXPENSES INCURRED BY DIUC AFTER SEPTEMBER 30, 2017?

A. On October 24, 2017, ORS requested DIUC provide detailed invoices and other documentation to support all rate case and bond cost expenses incurred since August 11,

2015, for which the Company is seeking recovery. The invoices and supporting documentation provided by DIUC on October 27, 2017, did not include invoices or supporting documentation for rate case expenses incurred after September 30, 2017. ORS did not include the $120,000 estimate of rate case costs as the cost estimate is not known or measurable. In addition, ORS could not verify the costs.

Should the Commission allow DIUC to update its rate case expenses up to and through the date of the rehearing, ORS will review the invoices and supporting documentation for rate case expenses incurred after September 30, 2017, and report our findings to the Commission.

Q. WHAT IS ORS'S RESPONSE TO DIUC'S ASSERTIONS RELATED TO THE SERVICES PROVIDED BY GA FOR THIS RATE PROCEEDING?

A. DIUC, its parent company, Daufuskie Island Holding Company, LLC and its individual stockholders have entered into a Management Agreement with GA to provide a specific scope of services. The Scope of Services to be provided by GA does not include work related to "...the preparation and filing of general rate increases... or other matters that are not routine in the day-to-day management or that would typically require the services of outside consultants." The Scope of Services requires DIUC to "...employ GA for such work under a separate agreement with the prior approval of the president of the Company." See Rehearing Exhibit DMH-4, p.4.

It is ORS's position that no such "separate agreement" exists to indicate what work GA is contracted to perform in a general rate increase and at what rate GA is to be paid for the work. DIUC did not provide any such agreement to ORS in its June 25,

2015, response to ORS's First Continuing Information Request Question 1.7 which requested:

> 1.7 Provide copies of all existing and proposed special contracts binding DIUC to a third party. Special contracts would include, but not be limited to, contracts for maintenance, construction agreements and **rate agreements**. If any reimbursement of cost for work performed by DIUC is made, provide the set formula and calculated amount(s) used to reimburse DIUC.
>
> ***RESPONSE:*** *The only third party contract is the management agreement with Guastella Associates. Please see PDF file named "DIUC-ORS Attachment 1.9" for a copy of this agreement.*

ORS understands GA performed services in connection with this rate proceeding, but, due to the lack of a written agreement, ORS cannot verify what services GA is required to perform related to general rate increases and at what price DIUC agreed to pay GA for those services. The fact that GA is also managing the day-to-day operations of DIUC presents certain challenges in verifying where the work performed by GA under the management agreement ends and work performed to support the rate case and appeal proceedings begin. As a result, ORS cannot verify that DIUC's characterization of the efforts GA undertook to "...complete discovery, try the rate case, then file an appeal..." is accurate.

Q. PLEASE EXPLAIN THE DEFICIENCIES ORS FOUND IN ITS REVIEW OF $542,978 IN RATE CASE EXPENSES RELATED TO THE GA INVOICES.

A. It might be helpful to provide several examples of why ORS's recommends removal of $542,978 in rate case expenses attributed to GA. ORS Response to DIUC Discovery Question 3a – Attachment 1 (5 pages) provides a detailed breakdown of each GA rate case invoice and the deficiencies ORS identified. This response was provided to DIUC on November 28, 2017 and is attached as Rehearing Surrebuttal Exhibit DMH-1.

As stated earlier in my rehearing surrebuttal testimony, ORS cannot verify what specific services GA is required to perform related to general rate increases and at what price DIUC agreed to pay GA for those services. This is due to the lack of a "separate agreement" between the Company and GA. I will rely on several documents filed with the Commission including Rehearing Exhibit DMH-1 (120 pages) to provide several examples of why the GA invoices are deficient. Below, I will address each of DIUC witness Guastella's rebuttal responses listed on page 6 through page 9 in his Rehearing Rebuttal testimony.

Example #1: GA invoice #133 (Rehearing Exhibit DMH-1 p.1) contains a mathematical error.

The invoice erroneously lists a rate for Principal 1 as $35. Based on ORS's review of the other 30 invoices provided by DIUC for GA, this rate appears to be in error as the rate range for Principal 1 (later the title is changed to President) ranges from $345/hour to $375/hour.

Example #2: GA invoice #236 (Rehearing Exhibit DMH-1 p.42) does not contain a sufficiently detailed description of the work performed, the employee who performed the work and the specific dates/times the work was performed.

The invoice does not contain the GA employee name, the specific dates/times the employee performed their duties and what duties each employee performed. Due to the lack of detail, ORS is unable to test whether or not the services were actually performed by GA as reflected on the invoice and to ensure GA did not also bill DIUC for the same employee time under its management agreement with DIUC. Because DIUC is required to use GA to prepare and file general rate cases and GA is also used by DIUC to manage the day-to-day operations, the verification of these less-than-arms-length transactions are critical to ensure ratepayers are protected.

In contrast, ORS included in rate case expense Invoice #78767 for Pratt-Thomas-Walker Invoice (Rehearing Exhibit DMH-1, p.43-45). The invoice lists employee names, specific dates/times of work for each employee, and detailed work description for each employee. Invoice #78767 included the beginning and end dates of the work performed and the total amounts for services, previous balance and balance due.

In response to DIUC witness Guastella's assertion that the format of GA invoices "...have been acceptable to regulatory agencies...", ORS's review of invoices and supporting documentation, has resulted in ratepayer savings. ORS finds the information provided in these invoices to be insufficient. DIUC witness Guastella mis-characterizes ORS's prior review of GA invoices when he states "...ORS did not express any concern about their format or the information provided." Of the 31 invoices for GA, which are attributed to rate case work, ORS received five (5) of the GA invoices for review prior to August 11, 2015, which was the ORS cut-off for receipt of DIUC supporting information. In 2015, ORS was not able to verify work performed due to the lack of detailed invoices

provided by GA. ORS hosted an exit conference with DIUC on August 24, 2015, and the GA invoice deficiencies were discussed as ORS provided detail to support an ORS adjustment to limit rate case expenses to $75,000.

In response to DIUC's assertion that ORS did not follow up, request more detail, or express any concerns during the rehearing phase of this proceeding related to the GA invoices, ORS is not obligated to ask the Company to properly support its rate case expenses – the burden of proof is on the Company. Due to the compressed timelines requested by DIUC for this rehearing, ORS requested and received information through discovery, conducted its analysis and pre-filed its rehearing direct testimony in a short timeframe. DIUC has not provided additional support for the work performed by GA.

In response to DIUC's assertion that the GA invoices are not deficient because GA used a similar invoice format for rate case work performed for Kiawah Island Utilities, Inc. ORS asserts this is an "apples-to-oranges" comparison. The Kiawah Island Utilities, Inc. vendor invoice review process scrutinized the GA rate case invoices to ensure ratepayers received the agreed upon services. However, for DIUC, GA controls the day-to-day vendor invoice payment which, appear to include approval of its own invoices for work performed on general rate cases. The apparent lack of arms-length transaction requires a careful review by ORS.

Example #3: GA invoice #228 (Rehearing Exhibit DMH-1 p. 36) does not provide a detailed breakdown of travel expenses incurred by GA and no receipts for travel expenses were provided.

ORS cannot accept DIUC's unsupported assertion that travel conducted on this invoice by three (3) employees was reasonable. Expenses which the Company seeks to recover through rates must be transparent and supported by adequate receipts and documentation to describe the travel expenses of its vendor, GA. In other utility rate cases, ORS's review of travel expenses has found situations where regulated utilities incurred lavish expenditures related to employee travel (i.e. private jets, $50 alcoholic drinks) and included those lavish expenditures in a rate application. ORS's scrutiny of utility travel expenses is necessary to protect ratepayers.

As for DIUC's assertion that ORS has surprised DIUC with this position, the burden of proof is on the Company to properly support its rate case expenses. In addition, ORS provided, through discovery, a detailed breakdown of each GA invoice which detailed ORS's reasons for removal of the specific travel expenses (Rehearing Surrebuttal Exhibit DMH-1, page 3 line 15). Due to the compressed timelines requested by DIUC for this rehearing, ORS requested and received information through discovery, conducted its analysis and pre-filed its rehearing direct testimony in a short timeframe. DIUC has not provided additional support for the work performed by GA.

Example #4: GA invoice #184 (Rehearing Exhibit DMH-1 p. 11/17) reflects a Total Balance Due of $499,496.84 and does not appear to be paid.

In ORS's review of the GA invoices for rate case expenses, ORS found it unusual that the Total Balance Due of $499,496.84 appeared on all 31 invoices which were generated during the time period of 2014 through 2017. GA invoice #184 was rendered for work performed in February 2015, yet it is unclear by looking at the invoice if the

work is inclusive of all days in February or if the work extends into January or March. The lack of a start date, specific dates of service and an unusually high balance prior to the original rate hearing make it impossible for ORS to verify the validity and accuracy of the GA invoices.

None of the GA invoices provided to ORS indicate that GA has been paid by DIUC. Because DIUC has been collecting its requested rates under bond, but has still not paid any GA invoice, it would be purely speculative as to whether DIUC will pay the GA invoices in the future. For comparison purposes, invoices provided by DIUC for rate case services by Pratt-Thomas-Walker include a verification that payments were made by DIUC

DIUC asserts that "...the $97,500 was found to be unsupported by the Supreme Court..." ORS strongly disagrees with characterization of the content of the Supreme Court Opinion No. 27729 and as a result, did not revisit its position to include $97,500 in rate case expense up to August 11, 2015.

Q. WHAT IS ORS'S RESPONSE TO DIUC'S SUMMARY OF THE WORK PERFORMED BY GA RELATED TO THIS RATE CASE?

A. DIUC witness Guastella asserts that GA provided a suite of services to support DIUC in its efforts related to this general rate proceeding in exchange for payment of $542,978. It is obvious to ORS that GA is financially invested in the outcome of this proceeding as it is the acting manager of DIUC and its primary rate case consultant. With that said, ORS affirms its recommendation to remove the $542,978 in rate case

expenses attributed to GA because the invoices and supporting documentation are lacking sufficient detail for ORS to verify their validity, purpose and reasonableness.

DIUC witness Guastella mis-characterizes ORS's role by asserting that "...ORS seeks to deny DIUC the ability to cover its debt to GA for its work." ORS disagrees with this characterization. ORS merely points out flaws in the GA invoices that render ORS unable to properly verify the expenditures. ORS cannot arbitrarily pick a dollar value and attribute it to the GA rate case expense invoices. The ORS review is critical to ORS determining the value of its adjustments and ORS was unable to verify the GA rate case invoices.

Q. DOES ORS AGREE WITH DIUC'S CALCULATION THAT A 5-YEAR AMORTIZATION PERIOD FOR RATE CASE EXPENSES WOULD BEGIN IN 2018 AND ENDS IN 2023?

A. No. DIUC witness Guastella indicates the "...actual rate case expense would not be fully recovered until January of 2023..." ORS disagrees. The rate case expense amortization period should begin on July 1, 2016 - the same date DIUC chose to implement higher rates under bond, which the Commission approved in Order No. 2016-156. If the ratepayers are paying higher rates under bond, the amortization period for rate case expenses should begin on the same date.

Q. DID DIUC REQUEST RECOVERY OF CARRYING COSTS ON THE UNAMORTIZED BALANCE OF RATE CASE EXPENSE?

A. Yes. In its Application, DIUC requested the unamortized balance of rate case expense be included in rate base. ORS made an adjustment to remove the unamortized

balance of rate case expense. The ORS adjustment was accepted by DIUC witness Gary White and is reflected on his rehearing exhibit GCW-R1 pages 14 and 24. DIUC witness Guastella continues to discuss the significant impact of carrying cost on DIUC, its stockholders and its ratepayers on page 12 of DIUC witness Guastella's Rehearing Rebuttal testimony even though DIUC witness Gary White has accepted the adjustment. The impact of a 5-year amortization period for rate case expenses on the unamortized balance of rate case expense is irrelevant because DIUC accepted the adjustment to remove the unamortized balance of rate case expense from rate base.

Q. DID ORS ENGAGE IN A FAIR ANALYSIS OF THE MANAGEMENT FEE ISSUES ASSOCIATED WITH DIUC?

A. Yes. ORS fairly analyzed the management fee charged by GA to DIUC and has affirmed its position that management fees paid to GA should be limited to $132,211. ORS disagrees with DIUC's position that the management agreement's Termination provision is the only "check and balance" that should exist in this type of vendor and utility relationship. It is ORS's position that DIUC, its parent company, and individual stockholders have delegated all managerial, executive and policy decisions related to DIUC to its vendor, GA. Because DIUC, its parent company and individual stockholders appear to exercise limited decision-making authority, there is little to protect the ratepayer from unfair dealings by DIUC's management company, GA.

GA has not acknowledged that it could have prevented the sale of the Elevated Tank Site by proactively reviewing its records to ensure all taxes were paid and resolving discrepancies on the county tax records in a timely manner. GA provides consulting

services to DIUC as it attempts to regain ownership through condemnation and DIUC seeks to pass along the legal and consulting fees associated with the condemnation to its ratepayers. ORS's analysis of the management relationship between GA and DIUC has identified that GA has a vested financial interest in a prolonged effort to regain ownership. ORS's position to limit the recovery of management fees to the ratepayer serves to insulate the ratepayer from the negative effects of the DIUC management agreement.

Q. WAS THE HELIPAD CONSTRUCTED DURING THE TEST YEAR?

A. No. DIUC witness Guastella provides examples of the accomplishments of GA that benefit DIUC customers. ORS does not dispute the ratepayers have experienced some benefits. However, ORS would point out that ORS could not verify the calculations of specific savings offered by DIUC witness Guastella in Rehearing Rebuttal testimony.

Q. DOES THE MANAGEMENT FEE INCLUDE COMPENSATION FOR GA FOR ACTIVITIES RELATED TO LONG-TERM FINANCING OR ADMINISTRATION OF CAPITAL PROJECTS?

A. No. The listing of accomplishments provided by DIUC witness Guastella included efforts to obtain financing and administration/supervision of capital projects. Both of those accomplishments are not covered by the monthly management fee as DIUC witness Guastella has characterized in his Rehearing Rebuttal testimony. Instead, GA is compensated by DIUC through a separate Finance Fee and Capital Fee (Rehearing Exhibit DMH-4 p. 5) as specified in the management agreement.

Q. DOES ORS AGREE THAT GA AND THE OWNERS OF DIUC HAVE ACTED IN THE BEST INTEREST OF THE CUSTOMERS?

A. No. DIUC's contract with GA for management fees and lack of contract with GA for work performed related to general rate increase proceedings has resulted in DIUC delegating all management, executive and policy functions to its vendor, GA. As such, the risks associated with those decisions have been passed to the ratepayer.

Q. DOES THIS CONCLUDE YOUR REHEARING SURREBUTTAL TESTIMONY?

A. Yes it does.

MR. BATEMAN: Ms. Hipp is available for questions from the other parties and the Commission.

CHAIRMAN WHITFIELD: Mr. Beach and Mr. Pringle, we're going to start with you, so, you're up.

MR. BEACH: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. BEACH:

Q Good afternoon. Ms. Hipp, I have a few questions for you. Did you read and hear Mr. Loy's and Mr. Lanier's testimony where they recommend that the Commission remove donated plant from the utility's rate base by reclassifying the accounting entry that was made from paid-in-capital over to contributions-in-aid-of-construction?

A [HIPP] I did hear their testimony.

Q Okay. Thank you. And was this proposed treatment of donated plant reasonable?

A [HIPP] Well, ORS did not apply that methodology laid out by the POAs. ORS does find that treatment to be reasonable – a reasonable alternative.

Q And does ORS find it to be consistent with generally accepted ratemaking principles?

A [HIPP] It is an alternative and could be considered by

the Commission.

Q Okay. Did you read Mr. Loy's and Mr. Lanier's testimony in which they recommended, as an alternative to the treatment of donated plant, for the Commission to reduce the utility's rate base to reflect the actual system utilization on the Island?

A [HIPP] I did read that.

Q And was - was it ORS's position that that proposal was a reasonable proposal, from a ratemaking perspective?

A [HIPP] Yes.

Q And does that proposal comport with generally accepted ratemaking principles, from ORS's perspective?

A [HIPP] Yes, it's a reasonable alternative.

MR. BEACH: Okay. Thank you, very much.

CHAIRMAN WHITFIELD: Thank you Mr. Beach. Mr. Gressette or Mr. Walker? I'm assuming Mr. Mr. Pringle has nothing, so I'm going to you.

MR. GRESSETTE: Thank you, sir.

CROSS EXAMINATION

BY MR. GRESSETTE:

Q Good afternoon, panel.

A [PANEL] Good afternoon.

Q Thank you for your testimony. I have a couple of questions for Ms. Hipp and a couple of questions for Mr. Sullivan.

Mr. Sullivan, just so that I understand and the record is clear, your testimony is limited to making the adjustments that the Office of Regulatory Staff believes are required by the Supreme Court Opinion in this case, and then you rely on all of the previous testimony from Ms. Gearhart; is the correct?

A [SULLIVAN] Yes, her prefiled direct testimony, everything else, correct.

Q Okay. And do you rely on her testimony provided live at the hearing?

A [SULLIVAN] No, I do not. And the reason being, she testified to some things that I'm not familiar with, due to my limited review in this docket.

Q Okay. And a couple of times in your surrebuttal testimony, you refer to only conducting a limited review. Is it because of an expedited schedule requested by the Applicant?

A [SULLIVAN] Yes, that's the reason.

Q Okay. And do you know why the Applicant requested that expedited schedule?

A [SULLIVAN] I do have an understanding that it was necessary for the utility to get these rates in effect before the end of the year.

Q Okay. And you made the adjustment in your analysis for plant-in-service related to the Supreme Court ruling.

Can you tell me what that amount was?
A [SULLIVAN] Sure.
Q It would have been the difference between your testimony and Ms. Gearhart's testimony, to account for the Supreme Court decision.
A [SULLIVAN] Correct. It's noted on my revised rehearing Audit Exhibit DFS-5, at the bottom. It's defining the highlight, reservoirs and standpipes, water total per Audit Exhibit ICG-5 was $34,700. Inclusion of the elevated storage tank of $863,379, reservoir and standpipes is now $898,079. Also, wells, per Audit Exhibit ICG-5, was $732,908. And with the inclusion of the well on that elevated tank site of $65,956, the new wells' total is $794,864.
Q So, aside from those changes, ORS's position remains the same as to utility plant-in-service adjustments, as articulated by Ms. Gearhart's testimony.
A [SULLIVAN] Correct.
Q This is really an accounting question. When, in conducting your audit reviews, you reduce accumulated depreciation, do you make any other corresponding adjustments to depreciation?
A [SULLIVAN] I'm sorry, I'm confused by the question.
Q I'm sorry. Let me say it another way. When you reduce plant assets in a rate analysis, does it require any

corresponding adjustments, credits, or debits?

A [SULLIVAN] Sure. If the plant is in service, if the plant is removed, then also the depreciation expense and the accumulated should be removed also.

Q And are there any times when that would not be the appropriate analysis?

A [SULLIVAN] No.

Q So that's what should've been done in this case?

A [SULLIVAN] Sure.

Q Okay, that's all I have. Thank you.

Ms. Hipp, you've been patiently waiting. Ms. Hipp, you did not testify at the original hearing, correct?

A [HIPP] Correct.

Q And in your efforts for this case, you rely on the previous witness's analysis of management fees and rate-case expenses; is that correct?

A [HIPP] To the extent that new evidence or new information was provided by the company, that was reviewed by myself. Any testimony that was filed by Daufuskie in this case was reviewed and analyzed by myself. But the adjustments, yes.

Q And did you apply the same criteria that were applied by the previous witness, for these two adjustments?

A [HIPP] For the most part.

Q Did the previous witness, in examining some of these

costs, apply the five criteria you have listed on page four of your testimony?

A [HIPP] Yes.

Q And is that explicitly stated in the previous witness's testimony?

A [HIPP] It is not.

Q How do you know, then, that the previous witness applied those criteria?

A [HIPP] Well, Mr. Morgan works under my supervision. And the review of invoices by both the Audit Department, which Mr. Sullivan works in, and my department is consistent. And we consistently look at those five principles that I laid out.

Q So am I understanding your testimony correctly that, in reviewing Mr. Morgan's testimony, he does not explicitly state that he analyzed the adjustments pursuant to the five applied criteria, but it is your assumption that he must have, because that is the way things are done in the department.

A [HIPP] His testimony does not explicitly detail his review of each invoice related to rate-case expense in this case. However, when we do review rate-case expenses – and we reviewed a limited number, which were five – we noticed, during the 2014 audit review that we did, that those invoices had some issues.

Q And when was the first time any reference to that audit review, that you just identified, was presented to this Commission in testimony?
A [HIPP] I don't know.
Q Is it included in Mr. Morgan's testimony?
A [HIPP] He did not explicitly discuss rate-case expense, no.
Q So, in fact, isn't the first time that anyone ever used that audit conference as evidence in this case, for any position, is when you raised it in your surrebuttal testimony?
A [HIPP] I did raise it in my surrebuttal testimony.
Q And isn't that the first time it was raised in this case?
A [HIPP] It was - it would be the first time that it's raised in testimony, yes.
Q And when it was raised in testimony, for what purpose did you assert that the audit conference was important to the analysis of rate-case or management fees?
A [HIPP] The reason that information was provided during my surrebuttal testimony was to refute the claim that Daufuskie made that they had not heard that the invoices had any sort of discrepancy or problem, or what ORS's concerns were.
Q Okay. So am I correct in understanding that Daufuskie

asserted that ORS had raised new and additional grounds to support their adjustment that had not been previously provided to the company, and in response, to support ORS's position, you relied upon conversations that you had with Mr. Guastella during the audit –

MR. BATEMAN: Objection, Your Honor.

BY MR. GRESSETTE:

Q – conference?

MR. BATEMAN: Mr. Gressette is testifying. These questions have already been asked and answered. I would ask that he just get straight to the question for Ms. Hipp.

CHAIRMAN WHITFIELD: Mr. Gressette, if you could rephrase, and just get straight to the question, that would be good.

BY MR. GRESSETTE:

Q Does ORS rely upon events and occurrences that happened during the audit conference for its positions in this case as to the appropriateness of rate-case expenses?

A [HIPP] As to the question whether or not we rely upon the information conveyed, in order for me to include it in my testimony in this case, the answer is yes.

Q Okay. So ORS provided original testimony about adjustments. Then, in rehearing, you provided direct testimony. In response to Daufuskie's assertions about

how the adjustments were being analyzed, you provided additional information related to the exit conference, and you rely on that information.

A [HIPP] Is that a question?

Q Yes.

A [HIPP] Yes.

Q Okay.

A [HIPP] Sorry.

Q That's okay. I just wanted to lay it all out in one line, because here is my concern: In your testimony, you talk about the rate-case expenses for Mr. Guastella and Guastella Associates not being supported by proper evidence. Is that correct?

A [HIPP] No. The rate-case expenses don't meet the guidance that ORS has set out. They do not meet the criteria that the NARUC Chart of Accounts requires for record-keeping, and nor do they conform to the guidance that NARUC lays out when it sets out its auditing protocol for different regulators to follow.

Q But aren't you the first ORS personnel that's ever raised that issue in a rate-case proceeding?

A [HIPP] In the rehearing process, I reviewed the invoices and am presenting that information. In the original case in this, number one, we talked about it with the company in the exit conference, which is our normal

process. That's not unusual or unique to this company or this case. We arrived at our adjustment positions in the original testimony in an effort to resolve those matters. We did alert the company that there were deficiencies. We had to arrive at a position; we ultimately reached a settlement agreement with the POAs in this case, and not the company. And that has come back on remand, and we are reviewing these invoices – additional invoices. Remember, we looked at five invoices of Guastella Associates during the original case. We are now looking at approximately 30 more.

Q Okay. How much rate-case expense does ORS suggest should be adjusted because of the invoices submitted by Guastella Associates?

A [HIPP] It's roughly $542,978 – I guess that's specific, not rough.

Q Okay. So about $540,000 of invoices submitted by Guastella Associates, ORS is rejecting because of things like lack of detail –

MR. BATEMAN: Again.

BY MR. GRESSETTE:

Q – to support them?

MR. BATEMAN: Mr. Chairman, we had this conversation just a second ago. Mr. Gressette is testifying –

CHAIRMAN WHITFIELD: Can you get to a mic for us, Mr. Bateman?

MR. BATEMAN: Certainly [indicating]. Mr. Gressette is testifying and, in this case, he's actually testifying to matters that Ms. Hipp has not yet stated on the stand. I would ask that he just get to the question and ask Ms. Hipp.

MR. GRESSETTE: I'm not trying to belabor the point. I can rephrase the question and move directly –

CHAIRMAN WHITFIELD: I'm going to overrule you, Mr. Bateman.

But I do want to ask you to get to the question and not try to put anything, any answer, out there for her. So let's get to the question.

BY MR. GRESSETTE:

Q Why is it fair for ORS to use what happened in the audit interview against Daufuskie, to reduce rate-case expenses, but, knowing that he was there and that he was with you, you won't even give him credit for that in his recovery for expenses?

A [HIPP] Our audit review isn't about fairness. It isn't based on what's fair and what's not. It's based on being able to verify the expenses that Mr. Guastella proposes to recover through his vendor, GA & Associates.

What further complicates the matter here today is that GA & Associates has a contract to perform management services and, supposedly, they have some sort of agreement to provide rate-case expense expertise – or, rate-case expertise. And ORS has got to scrutinize those costs to make sure that, under the management agreement, he is not somehow - those employees are not double-dipping, being double-billed, being overbilled to the customer. That is our level of scrutiny.

Q But doesn't that level of scrutiny have to be applied fairly?

A [HIPP] It is applied fairly.

Q And so, if I understand your surrebuttal testimony, you did state on page four that Guastella Associates performed services in this rate-case proceeding, but ORS is not allowing any recovery.

A [HIPP] I did make that statement, yes.

Q So my point is this, or my question is this: Why is every single charge submitted by Guastella for rate-case expenses excluded, when ORS knows, by virtue of your testimony and your personal experience, that he was present for many of those things he submitted bills for, yet nothing is credited?

A [HIPP] How do I look at a ratepayer in the face and say, because I saw Mr. Guastella in my office, then he should

receive recovery for every cent that he billed? That's not subjective[sic] criteria. We apply subjective - objective criteria to each and every invoice, to verify.

Q Did Guastella Associates submit an invoice for time related to the exit interview about which you spoke?

A [HIPP] I would not know, because the invoices were not sufficiently detailed for me to tell whether or not it was related to the exit conference.

Q So if the exit conference occurred on the 15th of the month, and the bills supplied by Guastella Associates covered that period of time and included time, even though it didn't contain a description that ORS found sufficient, you did not consider anything else, like the fact that you knew he was there and performed the work.

A [HIPP] No. It needed to meet those criteria in order to be included.

Q With regard to Exhibit DMH-5, which I believe is a comparison chart of some utilities, in your testimony - is that what DMH-5 is?

A [HIPP] Let me wrestle my binder here for a minute [indicating]. Yes. DMH-5 was provided as an analysis of other companies' management fees in comparison with Daufuskie.

Q And did you undertake any investigation to determine the accuracy of the information included in that chart?

A [HIPP] I reviewed the information supporting what appears in the Excel spreadsheet, or the chart, in this exhibit, yes.
Q Do you know where the data came from, that's in there?
A [HIPP] Yes.
Q Where did it come from?
A [HIPP] The data for Harbor Island, the first line item, that comes from a management agreement that Harbor Island has with The Beaufort Group and that ORS had in its possession. For Kiawah Island Utility, the data for their yearly management fee comes right out of their Application that they filed with the Commission. And for the other two, for Daufuskie, those come from - it was either the Application or the information we had during both cases.
Q Okay. Does one of the criteria that you have testified regarding the invoices rejected by ORS relate to whether it was paid by the utility?
A [HIPP] Yes.
Q And can you explain what you mean by "paid by the utility"?
A [HIPP] Well, in this - in all cases, we look to the books and records to make sure that the utility is paying its bills. So we look to see on the general ledger if there's actually transactions, to make sure

that they're paying their bills. And that's a function within our Audit Department, as well. In this case, we took a look to see if these, indeed, had been paid, and on the Guastella Associates invoices, the balance due on each invoice we reviewed is the same, which indicates that, potentially, they're not being paid. Either that, or the invoice isn't sufficiently detailed to discern that.

If you look, for example, at the invoices that were provided by the law firms, you can clearly see that there's a beginning balance, if one existed, there are payment amounts listed, and then there's a balance due – or a services-rendered area that indicates current charges, and then a total balance due. And we don't see that on Guastella Associates' invoices.

Q And was ORS, or were you aware in conducting your analysis of previous testimony by Mr. Guastella that certain of the charges to Guastella Associates were being maintained on an accounts payable, not actually paid by the utility, because of lack of cash flow?

A [HIPP] I understand that he has testified, and his testimony in this case indicates that Guastella Associates is not being paid.

Q If those invoices had been paid by the utility and other bills had not been paid, what position would ORS take?

A [HIPP] Hypothetically? If they were not paying other bills, we would be concerned - I mean, we are, in general, concerned about utilities that are not able to meet their obligations. In this case, the obligation for Guastella Associates is one that is not documented in a reasonable manner to understand if the cost should be passed on to the ratepayer, or should be recovered. I'm not able to determine that. But assuming the cost was acceptable and was incurred to provide service to the customers, and was not being paid, that is concerning.

Q To cut straight to it, you can understand why Guastella Associates, as a contracted vendor to Daufuskie Island Utility that had not been paying itself, as testified, because of lack of cash flow, would feel as if ORS now taking the position that it's an account payable and shouldn't be reimbursed because it wasn't actually paid, is penalizing Guastella Associates for holdings its payment until later. That makes sense, right?

A [HIPP] Not to me. The quality of the invoices that were provided by the vendor are very poor. And to expect payment on that – you know, whoever is conducting the oversight related to whether that invoice should be paid, you know, should use good judgment. That does not seem to me that the invoice is providing sufficient

detail to demonstrate that they should be paid in the first place. Whether or not ORS is penalizing them, ORS cannot verify these and, as such, cannot recommend them in the amount to be recovered.

Q But so we're clear, the first time this issue about the Guastella Associates invoicing has ever been raised in this case is when you raised it, correct?

A [HIPP] Raised through testimony, yes.

Q That's all I have. Thank you. Thank you, Ms. Hipp.

A [HIPP] Thank you.

CHAIRMAN WHITFIELD: Thank you, Mr. Gressette.

We'll now take questions from Commissioners. Commissioner Randall.

VICE CHAIRMAN RANDALL: Thank you, Mr. Chairman. Mr. Chairman, I'd like to point out that, through the last couple of days, we've had a lot of folks who've said, "I've just got a couple of questions, and I'm going to be brief." I think if you read the record, they - well, that hasn't happened.

CHAIRMAN WHITFIELD: Are you going somewhere with that?

VICE CHAIRMAN RANDALL: I've got a couple of questions, and I will be brief. Take notice.

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EXAMINATION

BY VICE CHAIRMAN RANDALL:

Q Mr. Carlisle – Dr. Carlisle, I was having an internal discussion with myself, and I couldn't remember, what was the appropriate ROE that you had for Daufuskie Island Utility Company? Was it 9.28?

A [CARLISLE] That was the one in the settlement. The midpoint of mine was – [indicating] yeah, the midpoint of mine – was 9.31.

Q Okay. That's why I was having that argument with myself. Nine point three-one [9.31], okay.

Ms. Hipp.

A [HIPP] Yes, sir.

Q Would you say that, based on your analysis, Guastella Associates has managed the company prudently?

A [HIPP] I would say that Guastella Associates' management activities are necessary for the utility to conduct its day-to-day operations. As to whether or not they are prudent, I will allow the Commission to go ahead and make that decision. I can't make that.

VICE CHAIRMAN RANDALL: Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Well, that was brief, Commissioner Randall.

Commissioners. Commissioner Bockman.

COMMISSIONER BOCKMAN: Thank you, Mr. Chairman. I'm not sure I can be as brief as Commissioner Randall, but I will do my best.

EXAMINATION

BY COMMISSIONER BOCKMAN:

Q I'm not entirely familiar with the record in the last proceeding, so I know, Mr. Sullivan and Ms. Hipp, you both have incorporated in your testimony, or documented in your testimony, the testimony of previous witnesses who testified in the same general area. So if I ask a question, perhaps whoever is the appropriate witness might be responsive. I have a question about the bad-debt expense that ORS has analyzed here. What is the adjustment that ORS proposes with respect to the company's bad-debt expense?

A [SULLIVAN] There's actually two adjustments – actually, four adjustments, because my testimony on my Exhibits DFS-1 through -8 was showing the results of our examination using the company's requested increase. And then my DFS-9 was the revenue necessary to generate the 9.28 that had been originally included in the settlement agreement.

But for the first, based on the company's proposed increase, the pro forma adjustment was a negative $284, pro forma. And then, based on the increase, the

adjustment was an additional $116,056. The total, if I can get to that – I believe the total is $221,440.

Q Okay. I'm less concerned - whatever the number is is in the record, Mr. Sullivan. What was the reason for the adjustment? What's your rationale?

A [SULLIVAN] Okay. Back to the original filing, our office, the Utility Rates Department, conducted an analysis and determined that bad debt was approximately 9.82 percent of total revenues. And so, that 9.82 percent was used to adjust the bad-debt expense. When our Utility Rates Department - and I'm speaking for Dawn here.

A [HIPP] No, you're fine.

A [SULLIVAN] – they examined the test-year revenues, and they usually make some adjustment to the revenues, to true it up for actual customers or actual experience during the year. And so, based on that adjustment to revenues, we adjust bad debt by that 9.82 percent. Then, the company proposes an increase, and the increase, of course, is additional revenues. And so, we adjust bad debts 9.82 percent of that increase in revenues.

Q Okay. The company's treatment – where does your treatment differ from the company's?

A [SULLIVAN] Well, I actually learned that through this

hearing yesterday and today. And if I heard correctly, I believe the company has now used a more recent period to determine the percentage of bad debt to apply, or an actual bad debt that they've experienced here more recently, to come up with their bad-debt number. That's my understanding.

A [HIPP] And not to correct you, because you heard what you heard, but I heard through cross-examination that the company is using an estimate, based on actual – on their projected experience at the higher rates under bond.

Q And so, what's your response to the use of an estimate?

A [HIPP] We don't use estimates. We use actual. So in this case, we used the actual bad-debt percentage that we computed during the test year, which was test year ending 2014, and then we applied that and pulled it forward.

Q If we were to agree with all the adjustments that ORS proposes and using the 9.28 percent return, what would the rates and charges for this company look like?

A [HIPP] I'm sorry, can you ask that again?

Q Sure. If we were to adopt all the adjustments that ORS proposes and found that 9.28 percent was a reasonable return, what would the rates and charges for this company look like?

A [HIPP] Well, the revenue - and, Mr. Sullivan, you may want to speak to the total revenue requirement, that 9.28, because that's in your exhibits.

But we have not computed, Commissioner, any rates and charges or rate design to go along with incorporating those adjustments that the Supreme Court handed back as guidance, or any of the other adjustments that have come through, that ORS has recommended through the new evidence. But it would be somewhere less than what is currently under bond.

Q Is it normal procedure for ORS not to recommend a particular schedule of rates and charges?

A [HIPP] Yes, it is.

COMMISSIONER BOCKMAN: Well, I have a lot to learn, then.

Thank you, so much, Mr. Chairman.

CHAIRMAN WHITFIELD: Commissioner Howard?

EXAMINATION

BY COMMISSIONER HOWARD:

Q Good afternoon. Ms. Hipp, why did you choose or did ORS choose to use the five-year amortization of the rate-case expense, instead of the three suggested by the company?

A [HIPP] That's a good question. We thought the five-year was a good balance between the rate-case - the

additional rate-case expense incurred, which was a large value, and minimizing the impact on ratepayers. So that's the genesis for our five-year amortization. And we would recommend that the amortization period begin on the date that rates went into effect under bond.

Q Mr. Sullivan, do you find these rate-case expenses larger than normal, or are they pretty well in line with other rate-case expenses you've dealt with?

A [SULLIVAN] Well, we see a wide range of rate-case expenses, depending on the utility, and the experience the utility has gone through. So, I do think the total, as proposed by the company, is very high, considering the number of customers they have. And the recommended amount by Ms. Hipp is more in line.

COMMISSIONER HOWARD: Thank you, very much.

CHAIRMAN WHITFIELD: Thank you, Commissioner Howard.

Commissioner Fleming.

COMMISSIONER FLEMING: Yes.

EXAMINATION

BY COMMISSIONER FLEMING:

Q Good afternoon.

A [PANEL] Good afternoon.

Q I just – I kind of have several things I'm trying to understand. I guess, Mr. Sullivan, you would be the

first one that I want to ask about. We've heard about the CIAC and how there was testimony that that was standard practice to put donated utility, according to NARUC standards, in that bracket. Is that your understanding, as well?

A [SULLIVAN] Well, unfortunately, I'm not familiar with what all occurred back in, I'm hearing, 2004 and – a long time ago. I'm not familiar with that exact situation. But what we typically see here is, developers, when they construct a system and they hand it over to a utility, it usually is treated as contributions-in-aid-of-construction. I'm not going to say it's always treated that way, but typically what we see is a developer wanting to build houses in the neighborhood, and they have to have the utility plant there to build the houses and serve the houses. And as soon as the developer's done with the neighborhood, they turn it over to the utility and it becomes CIAC on the utility's books.

Q Okay. That's the usual practice in South Carolina that you're –

A [SULLIVAN] I'm going to say it's the practice that I am more accustomed to seeing.

Q And we also heard from both parties that the previous two settlements didn't confine what went in rate base at

this particular hearing.
A [SULLIVAN] That is correct.
Q Okay. So, just – so it could go in, if that would be the decision of the Commission, correct? It –
A [SULLIVAN] The Commission –
Q – could –
A [SULLIVAN] Go ahead, sorry.
Q If the decision, or – I mean, we can adjust it in rate-case – whatever we think is best, correct?
A [SULLIVAN] Well, I hate to say what the Commission can do, but I –
Q Well, no, let me rephrase that. So the rate base is open for adjustments.
A [SULLIVAN] I believe, based on, again, my limited experience with Daufuskie Island, that rate base has been – has never been ordered by this Commission. It's always been a settlement agreement that left it open for interpretation in the next case.
Q But this is not a settlement agreement.
A [SULLIVAN] Correct.
Q Okay. All right. And I wanted to go to the depreciation. We heard that the plant is 30 years old, but they've only - the issue of underdepreciation at 10 percent, could you address that?
A [SULLIVAN] I think that's a good point that, utilizing

the method that's being utilized, the accumulated depreciation is low, due to the utilization factors reducing depreciation expense. However, it still does not change the fact that that plant will have been in service, or been in the ground, or et cetera, for the amount of time it has been used or installed.

Q Okay. And I wanted to ask about your standards for verifying - Ms. Hipp – standards for verifying – or Mr. Sullivan, whichever – for verifying expenses that are given to you. Do you treat every company the same –

A [HIPP] We do.

Q – as to standards?

A [HIPP] We do. For the sample of invoices that we test to verify whether or not the company is incurring costs and requesting recovery, we do apply those standards

Q And are those standards available for companies to know what they are?

A [HIPP] Certainly, a company can ask. It's not posted on our website, but in all of our interactions with a company, if they have a question, as we are testing invoices, as to what we're looking for - usually, when we test invoices – and, Mr. Sullivan, feel free to weigh in – we will ask the company questions about specific invoices. In addition, we will ask if they have additional supporting documentation, if something might

not be explicitly listed on the front of an invoice.

In the case of this rehearing, the invoices that we received came to us, and we had such a short time period in order to examine them and make decisions, to meet the deadlines that the Applicant had asked for, that there wasn't that give-and-take. But in a normal rate case, we do have the luxury of having several months to go back and forth with the company, to make sure we thoroughly understand the expenditures for which they're seeking recovery.

Q And if they wanted to, before they came for a rate case, are you all open to sitting down and explaining what you expect from the company when they come for a rate case? Or do you all do that?

A [HIPP] No, we do. We do do –

Q As a normal –

A [HIPP] – that, yeah.

Q – procedure?

A [HIPP] Yeah. And we try to really focus on – all companies, it doesn't matter. Electric, natural gas, you know, the RSA, or water and wastewater. It's more common in water and wastewater cases. The services we offer include sitting down and talking to them about the rate case that they intend to do a notice of filing on, taking a look at their proposed schedules related to

rate cases. Potentially, if they have identified a test year, we will be glad to begin looking through their general ledger and selecting samples, to kind of - that's a lot of work. There's a lot of work that we do in a very short period of time, in a general rate case, and so we try to look for ways to assist the company in not having, you know, a burden of discovery requests that need to come back, you know, and examining all of those issues, should they have questions. As was mentioned in the cross-examination, we do have an exit conference. It is typically held - depending on timeframes, we'll hold an exit conference either before the company files its direct testimony or very soon after and before ORS files its testimony. So when we file our testimony with schedules, the company usually has an advantage of being able to see those, as would any other party that was a party to that case. So if we have intervenors, we try and provide that same information to them.

Q And just help me to understand, because this rate case is back to us on remand. So, in addition to the test year for the rate case, what can be additionally added to the expenses that are incurred?

A [HIPP] In our view - and, Mr. Sullivan, weigh in, as well, from your perspective - of course, we rolled in

any of the guidance that the Supreme Court had given. So you're seeing additional bond fees and the elevated storage tank and those kind of things that have been discussed.

We did - the company itself proposed to add expenses related to rate-case expenses. And so we reviewed those, and have added those. We did not add things such as management fees incurred outside of the test year, or any other litigation, or things that weren't pertinent to this case.

Q Okay. And I believe, with previous testimony, the legal fees were about - that the company had submitted – were about, approximately, $800,000. Two hundred for the attorneys, and about four - or maybe, was at $600,000. Four hundred - or six - well, anyway, it was much more proportioned to the company than to the attorneys, the legal fees. Could you just tell me, with the 273, how much goes to the attorneys and how much goes to Guastella Associates?

A [HIPP] Zero goes to Guastella Associates, is the quick and easy answer. They have submitted, roughly, $540,000 worth of invoices that were insufficient, and we removed those. So the remaining balance of what is left for that 272 is going to be legal fees from their legal team, and then the bond premiums and the letter of

credit.

Q So it was about 800, then. I just didn't -

Q [HIPP] They had proposed $794,000, roughly. Of the 794, there was an estimate in there to take them through the date of this hearing. I think it was approximately $120,000. We don't consider estimates.

Q Okay. And let me, also, just quickly ask you - and you talked about how you had discussed with them some of the issues with the expenses that they had.

A [HIPP] Yes.

Q Yes. Now, going back to the schedule, and maybe I'm not understanding about how it comes to us. And maybe this is done in-house here and I never realized it. But we usually know, for 1000 gallons of water use, how much that's going to be for a customer, with the rates, depending on what comes before us. That is not something you do for us?

A [HIPP] No, what we do - just to clarify, of course, you're looking at the Application as filed by the applicant. So that comes to the Commission, along with a schedule of rates that they propose. So that's your starting point. When we analyze an Application, what we will generally present to the Commission is a comparison between what the current rates are, that the company is filing, and the rates that they are proposing.

Unless ORS has reached a settlement with the parties in the case, we would not, at the hearing, present a rate schedule to you. However - so in the case of a settlement, it's possible that we would bring you a rate schedule that would show the current rates being charged to the customer, the rates the company proposed, and what the parties have agreed to in a settlement. In the event that we do not have a settlement, ORS will bring its analysis and recommendations, including an ROE recommendation, and we, in the proposed order that we submit to the Commission, will provide you a rate schedule that will tally back to the revenue requirement that we are recommending.

So you may be thinking of that piece – and I didn't provide that to you, Commissioner Bockman. Sorry about that. But we would provide that in the order that we propose.

Q Is that different for water, from electricity?

A [HIPP] Yes. Yes. In electricity, we do not provide a tariff sheet to the Commission at the time of the hearing, but the tariffs are filed after the hearing and after all of the Commission-ordered adjustments are rolled in.

Q So maybe our staff does the scheduling.

A [HIPP] They may do something, just based on the testimony that's been filed, or the adjustments that – speculating.

Q So that we do have a proposed schedule when we come to a hearing - in electricity, I'm thinking more specifically.

A [HIPP] Oh, okay. Yeah, that –

Q But I've seen that with water, too, before we - you know, a proposed schedule. Okay. All right. Well, that clears that up for me, too. And so I was curious about the undocumented cost. Do you have anything to add to that, Mr. Sullivan?

CHAIRMAN WHITFIELD: I'm going to hold you up just a minute, Mr. Sullivan. Ms. Wheat needs a break, so we're going to take about five minutes. Just hold that thought.

[WHEREUPON, a recess was taken from 4:50 to 5:05 p.m.]

CHAIRMAN WHITFIELD: Please be seated.

Yes, sir, Mr. Pringle? We still have Commissioner Fleming asking Commissioner questions, but go ahead, Mr. Pringle.

MR. PRINGLE: This is sort of a housekeeping, procedural matter. I know we have some witnesses for some of the other parties who have already

testified, who, frankly, may have flights they need to make. And I would ask if the Commission - I know they've already testified, and I didn't know if there was a procedure that they could be released if they needed to be, and catch their flights.

CHAIRMAN WHITFIELD: Are you talking about Mr. Loy and Mr. Lanier.

MR. PRINGLE: Well, not just Mr. Loy and Mr. Lanier, but I think – I think that probably would characterize it, too, but I didn't know whether others had some flights they needed to make. I know in the past, there had been a practice that, even though people had testified, you would ask them to be released.

CHAIRMAN WHITFIELD: I don't believe any of the Commissioners have any reason to call any of them back, and I don't see any reason not to excuse them. So at this time, Mr. Pringle, I don't think we'll be here much longer, but they are excused.

MR. PRINGLE: Thank you, just in the event. It's possible that they'll still be sitting here when we finish. But I appreciate that.

[WHEREUPON, Witnesses Guastella, White, Loy, and Lanier were excused.]

CHAIRMAN WHITFIELD: Thank you, Mr. Pringle.

Commissioner Fleming, I think, was asking Mr. Sullivan a question. So we will resume with Commissioner questions.

BY COMMISSIONER FLEMING:

Q I think I was just asking about the auditing and what the criteria –

A [SULLIVAN] I believe you asked about undocumented costs?

Q Yes, that's what it was.

A [SULLIVAN] I'm just going to speculate in this case, because I did not perform the original audit. But when I hear "undocumented" that means something that support was not given for. The invoice wasn't provided or, et cetera.

Q Okay. And so that was the reason for all of the things that are not counted into it?

A [SULLIVAN] I wouldn't say all. I think it's just a portion, because there could be other reasons items weren't included, if they weren't used and useful, or they weren't known and measurable, or, like I said, they weren't supported by an invoice. So I wouldn't say all adjustments are due to undocumented. It might have been documented but they just might have been deemed not being used by the utility and not for the benefit of providing utility service.

COMMISSIONER FLEMING: Okay, very good. Thank you. That's what I was interested in.

CHAIRMAN WHITFIELD: Thank you, Commissioner Fleming.

Commissioners, any other questions for this panel? Commissioner Elam, did you have a question?

COMMISSIONER ELAM: No.

CHAIRMAN WHITFIELD: If not, I have just one.

EXAMINATION

BY CHAIRMAN WHITFIELD:

Q And it's going to be for you, Ms. Hipp, or at least primarily. I'm going to get away from rate-case expenses for a minute. I know you had a lot of discussion on that that you were involved in. But back to the management fee or management contract, you acknowledged early on, before you got into the rate-case expenses, that Guastella Associates' management was needed to run this utility. I think you said this just a little while ago, here, on the stand. My question is, in your opinion, do you think that Guastella Associates' management contract should have been submitted to the Commission for approval?

A [HIPP] Just to make sure that I clarify our position on the management fees and Guastella Associates, we would agree that the services provided under the management

agreement are necessary for the utility to operate. I don't know that our position is that Guastella Associates is the only company that could provide those services, but those services are definitely critical to the operation of the utility.

Q Well, you just answered my next question. I was going to ask you what you thought how it impacted or affected the company's ability –

A [HIPP] Well, they provide –

Q – to provide service.

A [HIPP] Yeah, they provide all the operations and maintenance services under the management agreement. And, I'm sorry, Chairman. You had a second part to your question.

Q No, that was it.

A [HIPP] Okay.

COMMISSIONER FLEMING: Should we approve it.

CHAIRMAN WHITFIELD: Oh, should –

WITNESS HIPP: Thank you.

BY CHAIRMAN WHITFIELD:

Q I think you said you thought – or, maybe – don't let me put words in your mouth. Did you say that?

A [HIPP] The contract itself certainly could be approved by the Commission. I don't believe that it is approved, expressly, by the Commission. It is a critical

component of the viability of the utility. And, so, if you read your regulations on contracts that the company must file, I believe it's 103-540 – don't quote me on that – but that would indicate, you know, if it is of substantial importance to the financial viability of the utility, it should be filed with the Commission, and the Commission could consider as being – meeting that criteria.

Q Certainly, should be filed. You're not saying whether the Commission would approve it or not.

A [HIPP] Correct, that would be up to the Commission.

CHAIRMAN WHITFIELD: All right. Well, that's all I have.

Commissioners, anything else? Any other Commission questions?

[No response]

If not, Mr. Nelson or Mr. Bateman, I'll turn it over to you for any redirect.

MR. NELSON: Commissioner, I'm not certain on procedure here, so I want to ask a procedural question on whether or not I can proceed with asking any redirect questions. If I waive redirect, are all of the parties then prohibited from answering questions, including those as follow-ups to the Commissioners'?

CHAIRMAN WHITFIELD: I think the parties can still ask related questions that came from the Commissioners, but probably not others, if you waive. Is that – does that –

MR. NELSON: If that's the case, then I'm going to ask some questions on redirect. If the case was that everybody's done and we're ready to go to closing arguments, then I'd be prepared to do that. However, if the other parties would have a chance to come back up, then I'll go ahead and ask a few questions.

CHAIRMAN WHITFIELD: Go ahead, if they're related to Commissioner questions.

REDIRECT EXAMINATION

BY MR. NELSON:

Q Ms. Hipp, both, I believe, Mr. Gressette and Commissioner Fleming had asked you some questions regarding adjustments to the rate-case expenses of Guastella Associates. In particular, I think there was a discussion by Mr. Gressette of – is it $540,000? Is that correct?

A [HIPP] Five hundred forty-two, nine hundred seventy-eight [$542,978].

Q That's very specific. And ORS allowed zero of that; is that correct?

A [HIPP] That's correct.
Q Is there a number in between zero and $548,000 that ORS could just randomly pick?
A [HIPP] No.
Q Something that would be approved? And why is that?
A [HIPP] It would be an arbitrary number. We're unable to verify that the invoices, you know, have a specific purpose or are used to provide ser- – that services are used to provide service to the customer, and the other items that I mentioned in my testimony.
Q Thank you. And also, you talked about $273,000, I believe, in approved rate-case expenses so far; is that right?
A [HIPP] Correct, thereabouts.
Q ORS does, or would, allow additional – Mr. Gressette and Mr. Walker obviously spent two days here – would allow those updated rate-case expenses if they were properly documented and audited; is that correct?
A [HIPP] It's our process that, if the Commission should allow the company to file additional rate-case expenses up to and through the date of the hearing, ORS will be more than happy to verify those and report our findings to the Commission, and if they meet the threshold for inclusion, we would do that.
Q Okay. Going to the invoices that you said - did you see

any evidence on the invoices regarding – from Guastella Associates – showing that they had been paid?

A [HIPP] No.

Q Was that one of your issues, or was that the main issue?

A [HIPP] No, the - that is one of the issues. I wouldn't consider it main. They are all weighted the same, to us, and the issues with lack of sufficient detail on the invoices were pervasive throughout all of the invoices rendered by Guastella Associates.

Q Do you know who is responsible with or for the utility, in approving the expenses of Guastella Associates?

A [HIPP] I don't.

Q Was there ever any documentation that was provided to you on any of those invoices, indicating whether they had been reviewed by anybody other than Mr. Guastella with the utility?

A [HIPP] No.

Q Mr. Sullivan, I've got a question for you. Regarding the bad-debt issue that was discussed – and I believe Commissioner Bockman followed up with you today – is the method that you used in calculating bad debt consistent with how the ORS and the Commission have treated bad-debt expenses in the past?

A [SULLIVAN] Yes.

MR. NELSON: Thank you. No further questions.

CHAIRMAN WHITFIELD: Thank you, Mr. Nelson.

We're going to come back to the Intervenors. Mr. Pringle, Mr. Beach?

MR. BEACH: No questions, Mr. Chairman.

CHAIRMAN WHITFIELD: Mr. Gressette, Mr. Walker?

MR. GRESSETTE: No questions, sir.

CHAIRMAN WHITFIELD: In that case, we're going to go to closing arguments, and I'll start with the company first.

I'm sorry, excuse me. Let me excuse the ORS panel, let them down. Please step down. And we'll let Mr. Walker start, after you are down.

[WHEREUPON, the witnesses stood aside.]

MR. WALKER: Thank you, Mr. Chairman and Commissioners. And, particularly, thank you for everything that you have heard and endured over the last two days. Your attention is so much appreciated.

I initially wasn't even going to give a closing statement because I'm aware this whole room is fatigued. I'm fatigued. If you are not fatigued, you're superhuman. But we are human, and, being human, I became extremely concerned over the last hour or two. I became concerned because

of what I was hearing and, perhaps, my own perceptions - I could be totally wrong. And I'm always told, "Don't intuit too much or put too much into remarks or questions." I may have done that. But my biggest concern is this: My concern is about the utility, and it's about the customer, too. And I don't think these two are always at odds, but when we get in this forum, boy, are we at odds. We're trying to suggest a rate base and a rate and a revenue requirement, and the consumer comes in, through the property owners' association, trying to beat us down. And it's the usual – I don't want to say "extremes" but we are polar opposites. And I would suggest to you to take a step back. I'm trying to take a step back. I'm an advocate. But if we take a step back and we look at this, what do we have? We have a utility that's been struggling the whole time it's been before the Commission. And that's clear. This utility - and you can blame it on X, you can blame it on Y, but it's just never had enough cash, and went to the bank, and thank God the bank was willing to make the loan.

There's no testimony here that money has been siphoned off or spent for things that shouldn't have been spent. One thing we hear about the most

is Mr. Guastella; he does this, he does that, you know, he charged this fee. Well, you know what, he hasn't been paid any of that. All the money has gone back into the utility. The only thing he's received has been his management fee, which is not — given this utility, we would submit it's not excessive. This thing has had more problems than Heinz has catsups. It's unbelievable. It's on an island. If you want to drive over there, you want to take a piece of equipment, you've got to put it on a barge and push it over there. And this is not your typical utility. It's got a lagoon. A lagoon broke. All kinds of things happened here that require a lot of attention. It's not an easy utility to manage. And I would just hope that you would look at that.

And, also, when you get to make your decision, really look at the revenue requirement hard. We spent so much time on rate of return, and there was a question from the Commission about could it be operating margin. That's another way to do it. But even their witnesses admit that the revenue has to cover the expenses. If we can't cover the expenses, we've got a real mess on our hands.

And if you look at what's being proposed by

the Property Owners and Intervenors, they are focusing on rate base and rate of return, but if you look at the revenue that's generated, which was just 20 percent of the request – 20 percent addition – plain and simple, this utility is done. Maybe you want to manage it in receiver, but we looked at the statistics; if you just look at it on a cash basis, and not even look at depreciation as an expense, cash going to expenses, at 20 percent, you would have $7000 left over to pay over $300,000 in debt. That's not what we want to do.

And I'm maybe going against the filings here in saying please look at the real expenses and the revenues, and consider that before you make a final decision, because we all want this utility to survive. Whether you like John – it's not a question whether you think it's fair, or this, or that. Let's just let this utility have enough money to proceed.

And this has been a heck of a rate case. We started this in 2014, I think we gave our notice. We still don't have the rates. And for the company to survive over the last 18 months it had to put these rates in effect under bond. And, yes, the bond is a rate-case expense. So I just ask you to

look at that, number one. Number two, just on rate-case expense, we, being the utility, never received a question about the sufficiency of the invoices until – out of a four-year case or a three-year case – until a couple of days before the hearing when ORS says, "We're rejecting all of them, because it's insufficient. You gave us the documentation. We don't think your timesheets are accurate enough." Certainly, they put in the time. And if they had a question, they could've done that last time. And we're just totally ambushed. What can we say? Certainly, they were incurred. We can't – there are – I hope you look at them. Are they – I don't know if they're sealed. If they are sealed, we unseal them. We agree to unseal them. You look at them, and you decide as a fact-finder whether there's a basis to award some amount, because you make that decision as the fact-finder. If the time has been spent, and it has been spent, then you determine what's reasonable, and you have a reasonable basis to do it. You can't just take it all and throw it out the window and say, "Well, it just wasn't documented."

The other thing I'd say is that ORS has never taken the position that those assets did not belong

in the rate base. I agree completely with the Commission and ORS and everybody in the room. Those statements were not binding in the sense they constitute any precedent of this Commission; they certainly aren't. But there's been a consistency of treatment throughout, and that consistency of treatment has been that that $4,300,000 exists. It is used and useful. Even their expert admitted, ultimately, that utilization did not equate to used-and-useful because, if they were available for use, and consumers are paying for them to be available for use, they are used and useful.

I'm going to end where I started, which is, I'm fatigued, too, and I'm out of gas. But I just wanted to say these few remarks, and thank you, and not consider that this is a battle about who's going to win but how can you come up with a fair revenue that will pay the expenses and allow this company to continue. Thank you.

CHAIRMAN WHITFIELD: Thank you, Mr. Walker.

Intervenors? Mr. Beach.

MR. BEACH: Thank you, Mr. Chairman, Commissioners. We genuinely appreciate all of your attention here.

And I'm really glad to hear some of the things

that Mr. Walker said in his closing, because I was actually prepared to explain to you why you are free now to make a decision on this case based on the evidence. You can finally make a decision on what is the appropriate rate base for this company.

There have been, you know, filings since 2005, as we know, where it's been proposed. There were settlements. Everyone managed to work out those prior cases in 2005 and 2011 in a way that left that issue open. And it is still very much open today. The reason we've never actually gotten to the point where we are talking about what happened in 2004 with this study, and why it was wrong, is because we really haven't been at a point until today when it mattered. The settlement rates that were agreed upon in 2005 and 2011 were sufficient, and so it didn't make any sense to fight over that question. It wouldn't have made a bit of sense to spend, you know, property owners' association resources or Commission resources or utility resources to litigate the question of rate base.

So we are here today because the Supreme Court remanded this, and it used the words "*de novo*" for a hearing. And, in fact, if you'll excuse me for one moment – [indicating] – what they exactly said

is for a new hearing as to all issues. So please know that all of the issues are on the table right now, and the Commission is free to make the decision that is right.

Now, I will just disagree with one thing that Mr. Walker said, and that is that he said that the only thing that Mr. Guastella has been paid for is his management fees. I believe that's not correct, given the testimony.

Now, the management fees are substantial. It's $180,000 a year, or around that amount, right now. I think it was a little bit less because of the calculated amount in the management agreement, as we go back. But, surely, he did say he was completely paid up as a result of the utility's paying him. That amount certainly, for eight or nine years, is over a million dollars, I would think. He also was paid for the charges that were related to the refinancing amounts, and the reason is because those amounts were paid at closing, as part of the refinancing. And so Guastella Associates has done fine.

Now, they are poised right now - I think he said they were owed about $600,000 at this point, and that's a lot of money. There's no question

about it. But he also said that, if you give them everything that they've asked for, they'll be able to pay that amount. He said he believed that the utility would be postured for potential sale, if the rates are - if you give them everything they've asked for. Which, again, result, under the management agreement, if there's an $800,000 sale - I mean, an $8 million sale, that $600,000 to Guastella Associates. That's a pretty good thing for them. And so there is a real incentive for Guastella Associates to ask for the best rates possible for this utility, and it's built into the management agreement. So I think you can take that into account when you consider how much weight you're going to place on Mr. Guastella's testimony.

Let me just put it out on the table. Mr. Guastella, heck, he's taught a lot of the Commissioners in the NARUC school. And he has an aura of authority as a result of that. But I caution you not to believe everything that he is proposing simply because he's been around for that long. Instead - and I know you've done this - I think you need to consider some of the responses that he gave today in response to questions. A lot of that, to my ear, trying to be as objective as

possible, sounded like doubletalk. I heard some answers coming from him that I didn't understand, and then in the next minute I would hear an answer from his colleague that made complete sense to me. And so I just think you've got to be careful and understand that there are good, solid experts that have presented testimony for the property owners' association and also for the Office of Regulatory Staff that is contrary to Guastella Associates' testimony and the utility's testimony, and we think that testimony that was provided is good, solid. It gives you a firm foundation to make a decision in this case that - and I'm going to agree with Mr. Walker on this point - balances the needs of the utility to remain viable, along with the best interests of the customers.

Now, to make - and I do think that if you look at the testimony, you're going to see that, to cover costs, the rates don't need to be nearly - and when I'm talking about costs, I'm talking about operating costs. If we were in here today on an operating-margin case, which is the way all but one other water and sewer utility in South Carolina is regulated, we wouldn't be talking about rates that were twice as high as Kiawah's, or 50 percent

higher than Harbor Island, and the highest in the State. We'd be talking about rates that aren't too far off from the ones that have been suggested by the property owners' association experts. But, nevertheless, there are a number of different components to this that all of the parties have testified to, and I know that you will look at all of them and give them careful consideration. And in the end, I'm convinced – and I think everyone else in this room is convinced – that you'll make a wise and prudent decision that's going to be in the best interests of the parties, as it should be. Thank you.

CHAIRMAN WHITFIELD: Thank you, Mr. Beach.

Mr. Nelson?

MR. NELSON: Thank you, Mr. Chairman. Always great to be the last speaker. I will try to wrap this up as quickly as possible. I agree with Mr. Walker; it certainly has been a long two days.

I'd like to start by saying that, aside from the rate base issue – and that's something between the property owners' association and the utility; we didn't get into that - I don't really think that there are a lot of issues that are in dispute between the Office of Regulatory Staff and the

utility. However, these couple of issues obviously kind of have some big dollars attached to them, and that's why I think we've gone back and forth so much.

As the Commission is well aware, this case was tried before this Commission in 2015. It went up on appeal, came back with the Supreme Court Order. And in that order that came back from the Supreme Court, which reversed this Commission's Opinion, it threw out the settlement agreement; it found that the elevated tank and property was to be included in this rate base, and it ordered adjustments to property taxes and bad-debt expenses. And that's pretty much it. There's some dicta in there, maybe, but those are the points that were specifically addressed by the Supreme Court.

After this case was remitted back to the Commission in August of this year, a very aggressive timeframe was established to try and get this case heard and get an order issued by the end of this year, for good reasons.

As testified to by both Ms. Hipp and Mr. Sullivan in the prefiled testimonies, ORS really had a limited amount of time to try and complete an audit in this case. We did not have the time to

complete a full re-audit, which normally happens. When we get a brand-new rate case filed, we go through everything start to finish. In this case, ORS was forced to rely on adopting results of the prior audit examination of the company's books and records and property which had been conducted in 2015. Now, we did make adjustments for those items that were specifically noted in the Supreme Court Order, and which I just talked about, as well as including additional rate-case expenses and bond costs that were associated with the appeal and the remand.

So what we have now, we have a rate case – instead of having what we normally look at here, which is a rate case with a fairly recent test year and kind of a clean case, we have a case here with a 2014 test year, which is obviously close to three years old now. It's been on an expedited schedule, and it's an ROE case. And this is one of the limited water and wastewater companies in the State which has a rate base.

So all of those factors kind of conspire to make this case, really, appear very difficult. And, again, though, I think really we're just focused on a couple of issues here. The issues

which separate ORS and the utility are a difference of approximately $700,000 in rate base, the rate-case expenses of Guastella Associates, and the cost of the utility which it pays the management services of Guastella Associates. There's some other lesser issues which have come out in the last two days, but those are really the big-dollar issues here.

Regarding rate base, we – I – strongly disagree with Mr. Guastella's legal interpretation of the Supreme Court Order. Again, it's my opinion that the Supreme Court Order did order very specific actions be taken by this Commission on remand. And in its preparation of this case and the numbers it represented to the Commission, ORS did include the tank to its rate-base calculation, and the property associated with it, which accounted for about $924,000 of the $1.6 million in rate-base adjustments, which ORS recommended in its 2015 testimony to the Commission. And there really hasn't been a challenge to any evidence submitted by the Applicant contesting those adjustments, other than just a broad allegation – and if y'all read the Supreme Court Order, that's fine; I don't, but if y'all read the Order as

saying that all of those rate-base adjustments were to be thrown out. Other than that, we're looking at what we audited and our adjustments that were made in 2015 rate case.

As to the rate-case expenses, we've heard a lot of discussion about that. And we've heard testimony from Ms. Hipp. The standard which ORS used in this case to review the invoices for rate-case expenses is one which ORS consistently applies in these cases. We believe, or she believed in conducting her review that the Guastella Associates invoices failed to meet the standards which ORS applies in all cases, and we only recommended those expenses which are proven to be known and measurable for inclusion in rates.

Further, I think it was brought out yesterday and Mr. Guastella testified that he hadn't even been paid for his rate-case expenses from the 2011 rate case. You've got to understand, then, that those rate-case expenses included in that 2011 case have been being paid by the ratepayers since that time. And I don't think there's any better reason to consider not allowing rate-case expenses when you realize that, if you include them, apparently they're not even going to be actually – those

invoices, those costs, are never actually being paid by the utility, even though those costs are included in rates.

We don't dispute the legal invoices, or the legal fees and costs, that have been incurred by the company. Because, again, this case had to go to appeal, it's come back to the Commission, we understand that. The invoices we received in those cases were very detailed and met our standards, and that's why we recommend approval of those.

We don't deny that Mr. Guastella has obviously put a lot of work in this case, and he obviously is an expert in this field. However, and again, the question I put to Ms. Hipp just now was, we either have zero, which is the amount of invoices that we found met our standard, or you have the $524,000. And we can't just arbitrarily pick a number in between that we think is a fair amount. We have to go by the standards which we have, and, based on those audit standards, we found that he's entitled to zero. If there's some other number out there, it can't be our job, as the people that perform the audit of the company, to pick that random number.

I think that is, then, tied to my last discussion here, which is our concern with the

management agreement. There's some concern about it not being arm's-length, about the relationship between the person who apparently approves Guastella Associates' actions being the president of Daufuskie Island Utilities, which then also owns the construction company that does the work for Guastella Associates. There's some concern that was raised, I think, by Commissioner Bockman's questions in that area.

While the utility asserts that the costs with the management agreement are reasonable and allowable and known and measurable, we don't really find that to be the case, and that's why we stayed with the number that had been approved back in the 2011 rate case. We didn't see any increase or additional costs or work that was being done, to allow additional costs above those that were allowed in 2011.

And, in conclusion, I believe ORS Staff has provided the Commission with a reasonable position on all the issues. They've taken the materials, documentation, and information prepared in a prior hearing in this matter, and on an expedited timeline we have updated what we believe to be reasonable and allowable rate-case expenses and

adjusted our calculations and final recommendations in accordance with the guidance provided by the Supreme Court. We believe that our testimony in this case would produce rates which are fair and reasonable to both the utility and the ratepayer, and would allow the company to continue operations, provided it makes reasonable efforts to contain its costs. Thank you.

CHAIRMAN WHITFIELD: Thank you, Mr. Nelson.

At this time, I'm going to ask our attorney, Mr. Butler, as a matter of housekeeping, to read the list of exhibits, and he'll do that now.

CHAIRMAN WHITFIELD: Yes, sir. Thank you, Mr. Chairman. Just as a side note, Mr. Chairman, I would ask the parties that, if indeed they did have corrections to their witnesses' testimony and/or exhibits, if they would please submit those, e-file those with the Commission, so that we'll have the corrected copies in the DMS.

Mr. Chairman, the exhibits are as follows: Exhibit 1 would be Mr. Guastella's exhibits. That would be direct and rebuttal. Exhibit 2 is the transcript of the 2015 hearing. Exhibit 3 would be Mr. White's direct exhibits and rebuttal exhibits. Exhibit 4 is the 2008 utility tax return – that is,

the Daufuskie Island Utility Company tax return. Exhibit 5 would be Mr. Loy's exhibits. Exhibit 6 would be Mr. Lanier's exhibits, direct. Exhibit 7, Mr. Lanier's surrebuttal exhibits. Exhibit 8 would be Mr. Sullivan's exhibits. Exhibit 9 would be Ms. Hipp's direct exhibits. And Exhibit 10 would be Ms. Hipp's surrebuttal exhibits.

So, Mr. Chairman and Commissioners, that completes the list of exhibits as I have recorded them. Thank you.

CHAIRMAN WHITFIELD: Thank you, Mr. Butler.

If nothing further, I'm going to ask that proposed orders be due on or before the close of business on Friday, December 15th. Proposed orders due Friday, December 15th.

Mr. Pringle, any questions about that?

MR. PRINGLE: Well, perhaps precipitated by my own actions earlier in this week, close-of-business is 5?

CHAIRMAN WHITFIELD: 5:00.

MR. PRINGLE: Okay. Perfect. For the purposes of the proposed order.

CHAIRMAN WHITFIELD: 5 p.m., yes, sir.

MR. PRINGLE: Not establishing any larger Commission policy or State agency directive.

CHAIRMAN WHITFIELD: For this case only, for this proposed order due date, 5 p.m., December 15th.

MR. PRINGLE: Excellent.

CHAIRMAN WHITFIELD: And with that, hearing adjourned.

[WHEREUPON, Witnesses Carlisle, Sullivan, and Hipp were excused.]

[WHEREUPON, at 5:42 p.m., the hearing in the above-entitled matter was adjourned.]

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 rehearing on remand 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 by me 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 14th day of December, 2017.

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

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DIUC-ORS 1.77 Attachment A – Loan Covenants

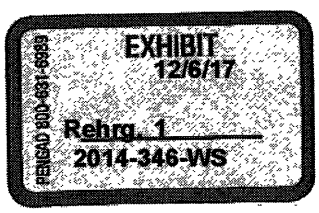


Exhibit JFG-R1 (p. 001)

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SUNTRUST

Agreement to Commercial Note

This Agreement dated November 1, 2013, between Daufuskie Island Utility Company, Inc., a South Carolina corporation ("Borrower"), and SunTrust Bank ("SunTrust") constitutes the "Agreement" referenced under "Additional Terms and Conditions" in the Commercial Note from Borrower to SunTrust dated as of the date hereof, in the original principal amount of $2,750,000.00 and (ii) the Commercial Note from Borrower to SunTrust dated as of the date hereof, in the original principal amount of $500,000.00 (collectively the "Note"). The term "Loan Amount" shall include all amounts evidenced by the Note. The terms and conditions of this Agreement and the terms and conditions of the Note constitute the entire agreement between Borrower and SunTrust. All defined terms used herein that are not defined herein shall have the meanings ascribed to such terms in the above referenced Note.

Borrower and SunTrust hereby agree to the following terms and conditions:

I. **AFFIRMATIVE COVENANTS**

A. **Financial Information.** Borrower shall deliver the following financial information to SunTrust as indicated below:

Borrower's Annual Financial Statement that has been internally prepared and certified by an authorized officer of Borrower. Such Financial Statement shall be prepared on a GAAP (generally accepted accounting principles) basis and shall be delivered to SunTrust within one hundred twenty (120) days after Borrower's fiscal year-end, commencing with the fiscal year ending December 31, 2013. "Financial Statement" shall include at a minimum, a balance sheet, income statement, statement of retained earnings, statement of cash flows, footnotes, appropriate supporting schedules and other information reasonably requested by SunTrust.

Borrower's Federal income tax returns (including all schedules) shall be delivered to SunTrust on an annual basis within one hundred twenty (120) days from filing with the Internal Revenue Service, commencing with the December 31, 2012, Federal income tax returns.

Annual Financial Statement of each guarantor (if any) that is a corporation, limited liability company, partnership or other type of business organization that has been internally prepared and certified by an authorized officer of such guarantor. Such Financial Statement shall be prepared on a GAAP (generally accepted accounting principles) basis and shall be delivered to SunTrust within one hundred twenty (120) days after such guarantor's fiscal year-end, commencing with each such guarantor's fiscal year ending December 31, 2012. "Financial Statement" shall include, at a minimum, a balance sheet, income statement, statement of retained earnings, statement of cash flows, footnotes, appropriate supporting schedules and other information requested by SunTrust.

Federal income tax returns (including all schedules) of each guarantor that is a corporation or other type of business organization shall be delivered to SunTrust on an annual basis within one hundred twenty (120) days from filing with the Internal Revenue Service, commencing with the December 31, 2012 Federal income tax returns.

Personal financial statement, on SunTrust's form, and a current tax return with all schedules, of each individual guarantor or other type of surety shall be delivered to SunTrust annually, within one hundred fifty (150) days after the end of each fiscal year of Borrower, and, in any event no later than twelve (12) months from the last submission of a personal financial statement from each individual guarantor.

Borrower shall deliver within five (5) days of such request, any additional financial information with respect to Borrower or any guarantor as SunTrust may reasonably request.

B. **Compliance Certificate.** Concurrently with the delivery of Borrower's Annual Financial Statement (and also concurrently with the delivery of Borrower's Federal income tax returns) required hereunder, Borrower shall deliver to SunTrust a certificate of a duly authorized officer of Borrower in a form satisfactory to SunTrust (i) certifying as to whether there exists an event of default or any circumstances which, with notice or the passage of time or both, would constitute an event of default and if there exists an event of default or any such circumstance, specifying the details thereof and the action which Borrower has taken or proposes to take with respect thereto and (ii) setting forth in reasonable detail calculations demonstrating compliance with the financial covenants included in this Agreement.

C. **Notification.** Borrower shall immediately notify SunTrust of (i) the occurrence of any event of default (or any circumstances which, with notice or the passage of time or both, would constitute an event of default) under the Note, (ii) the commencement

Exhibit JFG-R1 (p. 002)

of any action, suit, or proceeding or any other matter that could reasonably be expected to have a material adverse effect on the financial condition, operations, assets or prospects of Borrower, (iii) any event or development that could reasonably be expected to have a material adverse effect on the assets, operations or financial condition of Borrower and (iv) any change in the senior management of Borrower.

D. **Deposit Accounts.** Borrower shall maintain its primary operating account with SunTrust.

E. **Loan Documentation and Additional Requirements.** All required documentation, including but not limited to Commercial Note(s) and Addendum(s) thereto, Mortgage(s), Security Agreement(s), borrowing resolutions, Unconditional Guaranty(s), Borrower's proposed capital improvement cost schedule and budget, and any and all other documents required by SunTrust for closing, shall be delivered to SunTrust in form and substance satisfactory to SunTrust.

F. **Capital Fund Account.** Loan proceeds in the amount of $750,000 shall be deposited in a separate and exclusive capital fund account maintained at SunTrust to be used solely for funding the capital improvement costs of Borrower, subject to the reasonable approval of SunTrust.

II. NEGATIVE COVENANTS

A. **Liens.** Borrower shall not, and shall not permit any Subsidiary (if any) to, create, incur, assume or permit any lien, security interest or other type of encumbrance (a "Lien") on any of its assets, except Liens granted to SunTrust, statutory Liens that do not secure indebtedness and other Liens that have been consented to by SunTrust in writing.

B. **Additional Indebtedness.** Borrower shall not, and shall not permit any Subsidiary (if any) to, create, incur, assume or permit any indebtedness for money borrowed, reimbursement obligations under letters of credit, capital lease obligations or hedging obligations (collectively, "Indebtedness") or any guarantees or endorsements of any Indebtedness, other than Indebtedness to SunTrust without written permission of SunTrust.

C. **Dividend Payments.** Upon the occurrence and during the continuation of an Event of Default or any event or condition that with the passage of time or the giving of notice or both could become an Event of Default, Borrower will not declare or make, or agree to pay or make, directly or indirectly, any cash dividend on any class of its stock.

D. **No Change in Ownership.** Borrower shall not, and Daufuskie Island Holding Company, LLC shall not have a change in ownership without written permission of SunTrust.

III. FINANCIAL COVENANTS

So long as any portion of the Loan Amount under the Note remains unpaid and in the case of an open-end revolving borrowing arrangement, the Loan Amount remains available for advances, Borrower covenants and agrees as follows (unless otherwise indicated, all accounting terms used in the following financial covenants shall be construed in conformity with generally accepted accounting principles in the U.S. as in effect from time to time):

A. **Debt Service Coverage Ratio**

The Debt Service Coverage Ratio of the Borrower shall not at the end of each fiscal year be less than 1.20 to 1.0.

"*Debt Service Coverage Ratio*" means the ratio of EBITDA less distributions divided by Debt Service.

The following definitions apply to the determination of Debt Service Coverage Ratio:

"*EBITDA*" means net income plus Interest Expense income tax expense, depreciation expense and amortization expense determined for such fiscal year.

"*Debt Service*" means the sum of (a) all scheduled principal payments due by Borrower on Funded Debt plus (b) Interest Expense, each determined for such fiscal year.

"*Funded Debt*" means (1) all obligations for money borrowed, (2) all obligations evidenced by a bond, indenture, note, letter of credit or similar instrument, (3) all obligations under capital leases and (4) all other obligations upon which interest charges are customarily paid.

"*Interest Expense*" means interest expense (including without limitation the interest component of any payments in respect of capital leases capitalized or expensed during such period) determined for such fiscal year.

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B. Excess Cash Flow Recapture

One-half (1/2) of the Free Cash Flow (as defined below) generated during each fiscal year will be used by Borrower to reduce the outstanding loan balance or, at the election of Borrower, placed into a sinking fund account with SunTrust. The accumulated free cash flow recaptured will be capped at $1,000,000.00. This recapture transaction will occur annually, and no later than May 31st of each calendar year, and with the first reduction to be received no later than May 31, 2014. Any change in the fiscal year end of the Borrower would require this covenant to be re-set such that the timing of the payment meets the requirements of SunTrust in its sole discretion.

The following definitions apply to the determination of Excess Cash Flow Recapture:

"*Capital Expenditures*" means all additions (Column C) for each fiscal year as detailed in Schedule 201 Utility Plant in service for the combined statements for the Water Utility Annual Report of Borrower and the Wastewater Utility Annual Report of Borrower/Melrose WWTP.

"*Free Cash Flow*" means EBIDA less debt service and Capital Expenditures determined for such fiscal year.

"*EBIDA*" means net income plus Interest Expense, depreciation expense and amortization expense each determined for such fiscal year.

"*Interest Expense*" means interest expense (including without limitation the interest component of any payments in respect of capital leases capitalized or expensed during such period) determined for such fiscal year.

IV. CONDITION PRECEDENT TO THE MAKING OF EACH ADVANCE

A. The making of each advance under the Note is subject to accuracy of representations and warranties and the further condition that no Event of Default or event which with the passing of time or the giving of notice or both would constitute an Event of Default shall exist at such time.

B. With regard to Advances requested by Borrower under the Commercial note in the amount of $500,000 (the "Line of Credit Note"), the following requirements shall apply to each Advance:
Borrower shall submit for review and approval by SunTrust copies of the purchase orders or invoices, which purchase orders or invoices must be for capital expenditures reasonably necessary for Borrower's business.

V. ADDITIONAL EVENTS OF DEFAULT

A. Any guarantor terminates or cancels or seeks to terminate or cancel its Guaranty.

B. Failure of Borrower on or before November 1, 2015, to re-acquire that certain water tank and well site depicted on the plat attached hereto as Exhibit A and pledge Borrower's interest in said property by executing and delivering the following:
(1) a Mortgage in form and substance satisfactory to SunTrust; and
(2) an endorsement to SunTrust's title insurance policy which insures title to said property, subject only to such encumbrances and exceptions as are reasonably satisfactory to SunTrust; provided, however, that Borrower shall also provide DHEC's confirmation that the improvements, structures and diesel tank on this property do not violate the restrictions, covenants or agreements referenced in Deed Book 2298, Page 2090, Beaufort County records.

IN WITNESS WHEREOF, Borrower and SunTrust have caused this Agreement to be executed as of the date first above written.

Daufuskie Island Utility Company, Inc.,
a South Carolina corporation

By _____
Terry R. Lee, its President

[SEAL]

SunTrust Bank

By: _____

CAROL COPPOLA VP
Name and title

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EXHIBIT A

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Exhibit JFG-R1 (p. 007)

Exhibit "A"

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ATTACHMENT A

Impact of Commisson's Order
Accepting ORS/POA Settlement

		PSC Revenue Allowance
REVENUES		
Operating Revenues-Water		$821,375
Operating Revenues-Sewer		715,000
Total Revenues		$1,536,375
OPERATING EXPENSES		
O & M Expenses		$906,611
Rate Case Expense		47,800
Depreciation	b	93,089
Payroll Tax		13,212
Property Tax		258,227
Other Taxes		13,520
Income Taxes		22,904
Total Operating Deductions		$1,355,363
Net Operating Income	a	$181,012
Interest Expense		142,510
NET INCOME		$38,501
DEBT SERVICE		
$2.75 Million Term Loan		$265,974
$500,000 Line-of-Credit		12,150
	c	$278,124
CASH FLOW	a+b-c	($4,024)

SunTrust Bank - Loan Requirements

		$2.75M Note
Debt Service Coverage:		
Net Income + Deprec + Amort + Interest		$274,101
Principal & Interest		$265,974
Coverage Ratio	>1.50	1.03
Passed Test		**NO**
EBITDA Ratio:		
NOI + IT + Deprec + Amort		$297,005
Total Debt		$2,750,000
Ratio	< 6.00	9.26
Passed Test		**NO**

Exhibit JFG-R2 (p. 001)

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DIUC

Rate Case Expense From June 2014 Through August 2017

Pending Rate Case

	Month/Year	Amount GA LLC	PTW/WGFL	Total
1	Jun. 2014	$ 1,612.50		$ 1,612.50
2	Aug. 2014	16,687.50		16,687.50
3	Sept. 2014	5,130.00	313.98	5,443.98
4	Oct. 2014	13,122.50		13,122.50
5	Nov. 2014	14,600.00		14,600.00
6	Dec. 2014	19,932.50		19,932.50
7	Jan. 2015	25,239.02	116.44	25,355.46
8	Feb. 2015	15,692.50		15,692.50
9	Mar. 2015	4,792.50		4,792.50
10	Apr. 2015	17,992.50		17,992.50
11	May. 2015	19,067.48		19,067.48
12	June. 2015	53,810.00	6,420.50	60,230.50
13	July. 2015	67,860.00		67,860.00
14	Aug. 2015		9,544.98	9,544.98
15	Sept. 2015	19,870.00	6,382.60	26,252.60
16	Oct. 2015	82,695.50	-	82,695.50
17	Nov. 2015	37,812.50	12,847.64	50,660.14
18	Dec. 2015	17,412.50	7,059.58	24,472.08
19	Jan. 2016	14,652.50	-	14,652.50
20	Feb. 2016	3,772.00	5,295.00	9,067.00
21	Mar. 2016	-	1,213.00	1,213.00
22	Apr. 2016	5,562.50	382.00	5,944.50
23	May. 2016	8,522.50	6,284.00	14,806.50
24	Jun. 2016	5,617.50	12,433.00	18,050.50
25	Jul. 2016	2,537.50	140.00	2,677.50
26	Aug. 2016	15,357.50	15,970.00	31,327.50
27	Sep. 2016	-	1,238.00	1,238.00
28	Oct. 2016	1,307.50	4,524.22	5,831.72
29	Nov. 2016	-	192.50	192.50
30	Dec. 2016	22,117.50	15,639.33	37,756.83
31	Jan. 2017	-	-	-
32	Feb. 2017	-	3,905.65	3,905.65
33	Mar. 2017	-	35.00	35.00
34	Apr. 2017	-	-	-
35	May. 2017	-	2,985.00	2,985.00
36	Jun. 2017	7,825.00	2,040.00	9,865.00
37	Jul. 2017	2,325.00	1,435.00	3,760.00
38	Aug. 2017	9,700.00	3,740.00	13,440.00
39	Sep. 2017	10,351.25	11,095.00	21,446.25
	Total	$ 542,977.75	$ 131,232.42	$ 674,210.17
	Total to PSC Decision on 12-8-2015	$ 415,917.00	$ 35,626.14	$ 451,543.14
	Post PSC Decision From Dec. 2015 - September 2017	$ 127,060.75	$ 95,606 28	$ 222,667.03
	Estimate to Complete Rehearing	$ 60,000.00	$ 60,000.00	$ 120,000.00
	TOTAL	$ 602,977.75	$ 191,232.42	$ 794,210.17
	Bond Costs			$ 60,781.56

Exhibit JFG-R3 (p. 001)

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From: Coppola.Carol [mailto:Carol.Coppola@SunTrust.com]
Sent: Monday, October 16, 2017 11:26 AM
To: John Guastella <jfg@guastella.com>
Cc: Kutcher.Emily.A <Emily.A.Kutcher@SunTrust.com>
Subject: RE: DIUC - Another LOC

John, we really need an answer on the outstanding billing rates from the commission before we extend any additional credit to Daufuskie Island Water Co. It is difficult to complete our files without the outstanding uncertainties.

Carol Coppola | FVP, Commercial Banking | SunTrust Bank, Savannah Region | 33 Bull Street Savannah, GA 31401 | Office: 912-944-1196 | Cell: 912-308-4377 | Fax: 912-238-1135|

From: John Guastella [mailto:jfg@guastella.com]
Sent: Friday, October 13, 2017 1:14 PM
To: Coppola.Carol
Cc: Kutcher.Emily.A
Subject: DIUC - Another LOC

Hi Carol,

The PSC will conduct a rehearing in response to the Supreme Court's decision rejecting the PSC's 43% rate increase order. Early indications are that the revised rate increase will significantly exceed 84% as compared to the 43% allowed in the PSC's original order. That rehearing and PSC decision, however, will not be completed until after January 1, 2018 so that we would again bill at the 108.9% original rate increase on January 1st, and again be subject to refund as well as extending the existing bonds ($1,203,595) and adding another $430,042 bond to cover the first quarter of 2018.

You recall that the bond company required a letter of credit in order to renew and add to the previous bonding, for which SunTrust provided a $650,000 LOC, a little more than half of the total amount of the bond renewals. As I recall, SunTrust only provided the LOC because of Terry Lee's assistance, but would not do so on the strength of DIUC's own rate and financial circumstances. The renewal and additional bonds for the first quarter of 2018 will be $1,623,637 which would likely require about an $850,000 LOC, if the bond company would renew the bond at all. Assuming the bond company will renew the bonds again, would SunTrust be willing to provide a LOC without Terry Lee's assistance?

I am working on a plan to expedite the PSC's process an avoid the need for a bond renewal, but that effort would include whether DIUC can obtain a bond renewal. So, am taking the liberty of asking

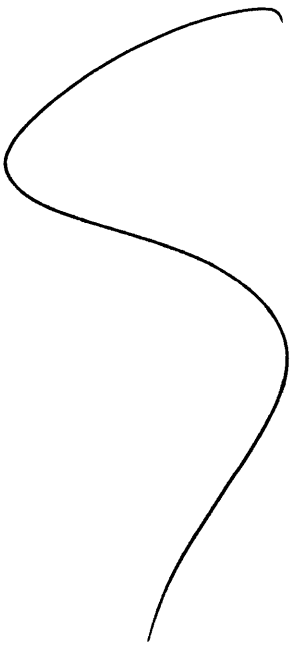
Exhibit JFG-R4 (p. 001)

for your response ASAP.

Thanks,
John

LEGAL DISCLAIMER
The information transmitted is intended solely for the individual or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of or taking action in reliance upon this information by persons or entities other than the intended recipient is prohibited. If you have received this email in error please contact the sender and delete the material from any computer.
By replying to this e-mail, you consent to SunTrust's monitoring activities of all communication that occurs on SunTrust's systems.
SunTrust is a federally registered service mark of SunTrust Banks, Inc.
[ST:XCL]

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Attachment to ORS Request 1-2 Infusions

Exhibit JFG-R5 (p. 001)

Funds Advanced to Utility

Provider of Funds	Date Provided	Amount
Lee	Sep. 21, 2015	$ 25,000.00
Hutt	Feb. 11, 2016	$ 6,666.66
Shimanowitz	Feb. 11, 2016	$ 6,666.67
Lee	Feb. 11, 2016	$ 26,668.00
Hutt	Mar. 25, 2016	$ 7,333.00
Lee	Mar.31, 2016	$ 100,000.00
Shimanowitz	Apr. 4, 2016	$ 7,333.00
Lee	Jul. 29, 2016	$ 66,993.98
		$ 246,661.31

Direct Payments to Vendors

Provider of Funds	Date Provided	Amount
Lee	Coastal Bank Loan Payments - 2010	$ 20,704.56
Lee	Bond Balance Payments - 2011	$ 1,640.24
Lee	Coastal Bank Loan Payments - 2011	$ 41,361.63
Lee	Coastal Bank Loan Payments - 2012	$ 3,000.00
Lee	Surety Bond Payment - 2012	$ 10,500.00
Lee	SC Dept of Revenue Payment - 2013	$ 17,722.41
Lee	Mar. 29, 2016 - Insurance	$ 853.99
Lee	Apr. 12, 2016 - Insurance	$ 3,397.22
Lee	Jun. 2, 2016 - Insurance	$ 5,051.96
Lee	Jun. 2, 2016 - Insurance	$ 434 85
Lee	May 26, 2016 - Surety Bond	$ 10,500.00
		$ 115,166.86

Open Account Payable to Stockholders

Provider of Funds	Date Provided	Amount
Hutt	Directors Fees - 2010	$ 1,500.00
Hutt	Directors Fees - 2011	$ 1,500.00
Hutt	Directors Fees - 2012	$ 1,500.00
Hutt	Directors Fees - 2013	$ 1,500.00
Hutt	Directors Fees - 2014	$ 1,500.00
Hutt	Directors Fees - 2015	$ 1,500.00
Hutt	Directors Fees - 2016	$ 1,500.00
Hutt	Directors Fees - at 10/31/17	$ 1,250.00
Shimanowitz	Directors Fees - 2010	$ 1,500.00
Shimanowitz	Directors Fees - 2011	$ 1,500.00
Shimanowitz	Directors Fees - 2012	$ 1,500.00
Shimanowitz	Directors Fees - 2013	$ 1,500.00
Shimanowitz	Directors Fees - 2014	$ 1,500 00
Shimanowitz	Directors Fees - 2015	$ 1,500.00
Shimanowitz	Directors Fees - 2016	$ 1,500 00
Shimanowitz	Directors Fees - at 10/31/17	$ 1,250.00
Lee	Directors Fees - 2014	$ 1,500.00
Lee	Directors Fees - 2015	$ 1,500.00
Lee	Directors Fees - 2016	$ 1,500.00
Lee	Directors Fees - at 10/31/17	$ 1,250.00
Lee	Officer's Salary - 2014	$ 12,000.00
Lee	Officer's Salary - 2015	$ 12,000.00
Lee	Officer's Salary - 2016	$ 12,000.00
Lee	Officer's Salary - at 10/31/17	$ 10,000.00
TRL Contracting	Balance on Oct 27, 2014 Invoice	$ 42,390.91
TRL Contracting	Truck Purchase - Sep. 1, 2015	$ 7,500.00
		$ 125,140.91

Open Account Payable to Manager

Provider of Funds	Date Provided	Amount
Guastella Associates	Balance of Mgmt Fees - 2016	$ 56,290.96
Guastella Associates	Balance of Financing Fees - 2013	$ 34,357.50
Guastella Associates	Balance of Financing Fees - 2016	$ 8,160.00
Guastella Associates	Balance of Capital Project Mgmt - 2014	$ 3,742 19
Guastella Associates	Rate Case - 2015	$ 369,056.84
Guastella Associates	Rate Case - 2016	$ 74,922.50
Guastella Associates	Balance of Condemnation Proceeding - 2016	$ 23,988.28
Guastella Associates	Balance of Acquisition Project Costs (G2 Util)	$ 70,780.10
		$ 641,298.37

TOTAL **$ 1,128,267.45**

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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	**INTERROGATORIES OF INTERVENORS HAIG POINT CLUB AND COMMUNITY ASSOCIATION, MELROSE PROPERTY OWNER'S ASSOCIATION AND BLOODY POINT PROPERTY OWNER'S ASSOCIATION**

TO: Jack Pringle, Esquire, Attorney for Haig Point Club and Community Association, Inc. ("HPCCA"), Melrose Property Owner's Association, Inc. ("MPOA"), and Bloody Point Property Owner's Association ("BPPOA")

YOU WILL PLEASE TAKE NOTICE THAT Daufuskie Island Utility Company, Inc. ("DIUC" or the "Applicant") hereby responds to the Interrogatories of HPCCA, MPOA, and BPPOA (collectively herein "Intervenors" or "POAs") dated October 27, 2017.

GENERAL OBJECTIONS

DIUC objects to the Interrogatories of Intervenors on the following grounds:

DIUC objects to the Instructions and Definitions set forth in the Interrogatories of Intervenors dated October 27, 2017, to the extent they require responses beyond the scope of permissible discovery under the South Carolina Rules of Civil Procedure and the applicable Policies and Procedures of the South Carolina Public Service Commission, including those set forth in the South Carolina Code of Laws and/or Regulations.

To the extent the Interrogatories of Intervenors dated October 27, 2017, seek information that was already the subject of discovery in this proceeding prior to appeal, these Interrogatories are

repetitive, burdensome, and seek to impose a time-consuming effort that will not produce any new useful information. Responses herein do no waive any objection previously asserted as to requested information or documents.

DIUC objects on the grounds that Interrogatories of Intervenors dated October 27, 2017, are overly broad as to time, scope and subject matter, are unduly burdensome, and are not reasonably calculated to lead to the discovery of admissible evidence.

DIUC objects to the Interrogatories of Intervenors dated October 27, 2017, to the extent they seek information protected from disclosure, including, but not limited to, attorney-client communications, attorneys' work-product documents, and/or materials prepared in anticipation of litigation which are outside the scope of discovery permitted by the South Carolina Rules of Civil Procedure and the applicable Policies and Procedures of the South Carolina Public Service Commission, including those set forth in the South Carolina Code of Laws and/or Regulations.

DIUC objects to the Interrogatories of Intervenors dated October 27, 2017, on the grounds that they seek disclosure of confidential documents and communications, including, but not limited to, confidential settlement communications. DIUC reserves the right to have any privileged work-product, communications, information, or documents inadvertently produced by DIUC returned by Intervenors and any other parties.

When the Interrogatories of Intervenors dated October 27, 2017, seek identification or production of documents or things that are described with reasonable specificity, DIUC will attempt to identify, produce and/or make available such specific responsive documents as reasonably interpreted. However, DIUC does not make any representation that the documents so made available are actually responsive.

The Intervenors have participated in every proceeding that DIUC has had before the Commission. Those proceedings involved Commission rulings, ORS findings that were approved by the

Commission over Intervenors' objections, and ORS findings that were not objected to by the Intervenors. Such rulings and findings cannot now be relitigated by the Intervenors; the Intervenors are precluded from asserting certain positions as to transactions, values, amount, or any other information. As such, DIUC objects to these Interrogatories when they seek information related to those previous findings and rulings. By answering these Interrogatories, DIUC does not waive and specifically hereby asserts that Intervenors are estopped from taking certain positions by operation of law, collateral estoppel, issue preclusion, res judicata, judicial estoppel, estoppel by inconsistent positions, waiver, and/or laches and other equitable doctrines. By answering these Interrogatories, DIUC does not waive its rights to object to Intervenors' use of any information provided in the responses.

DIUC incorporates these General Objections by reference as though fully set forth in its specific response to each and every Interrogatory.

DIUC reserves the right to amend and supplement these responses to the Interrogatories of Intervenors dated October 27, 2017, as additional information or documents become known to DIUC.

RESPONSES TO INTERROGATORIES

1. With respect to the Company's bad debt expense for the year ended 12/31/14 of $105,667 for the combined systems and $ 52,834 for the water system and $52,834 for the sewer system, please provide the following:
    a. A complete list by account number, of bad debts that are reflected in the bad debt expense for 2014, for the water and sewer system separately.
    b. By each item, indicate if the bad debt expense is for water service, sewer service, water availability fees, or sewer availability fees.

RESPONSE: See Attachment to Intervenors 1a and 1b.

2. Provide the bad debt expense booked by the Company for the combined system and for the water and sewer systems separately for each year, 2009-2016 in the format requested in 1b above, totals for each year.

RESPONSE: DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence Demanding information as to 8 separate years is excessive. Further, to the extent the requested information was the subject of PSC filing(s) and/or action(s) and is, therefore, available to Intervenors as a matter of public record, the Applicant is not required to assemble that information for Intervenors. Even if provided, however, the requested information would not produce any meaningful information with respect to an appropriate level of bad debts for the pending Application. There have been rate and revenue changes during the periods requested, including mid-year changes, that impact bad debt amounts and therefore the requested amounts serve no useful purpose in establishing or analyzing proforma estimates of bad debts.

3. Provide the Company's projected bad debt expense for Calendar Year 2017 broken down according to 1b above.

RESPONSE: Projection of bad debts cannot yet be produced on an individual account basis for calendar year 2017. A reasonable estimate of the proforma level bad debts is reflected in the Exhibit GCW-R1, pages 24 and 43, for water and sewer, respectively. Adjustment 20 in those Exhibits increases the test year bad debt by the overall percentage rate increase. DIUC can provide analysis for the 12 month period ended June, 30 2017, which is the first full year of billing the 108.9% increase (subject to refund). In that period, the billings amounted to and the collections amounted to a shortfall of $191,222.36. See Attachment to Intervenors 3 – Part 1 Billing and Attachment to Intervenors 3 – Part 2 Collections. Further evidence of the magnitude of the bad debt level is reflected in Attachment to Intervenors 3 – Part 3 Liens. It contains two tabs, one shows to date the outstanding liens in the amount of $586,728.64 and the other shows the additional needed liens in the amount of $74,702.70.

4. Identify and describe the Company's policy and procedures for the collection of past due accounts, including but not limited to water service, sewer service, water availability fees, and/or sewer availability fees.

RESPONSE: See Attachment Intervenors 4 Collection Policy.

5. Please refer to the deeds attached as **Exhibit One.**

   a. With respect to the deed recorded May 27, 1986, by which real property was transferred from International Paper Realty Company, Inc. to Haig Point Utility Company, Inc., what consideration was paid by Haig Point Utility Company, Inc. to International Paper Realty Company, Inc.?

   b. With respect to the deed recorded April 5, 2001, by which real and personal property were transferred from Haig Point, Inc. to Haig Point Utility Company, Inc., what consideration was paid by Haig Point Utility Company, Inc. to Haig Point, Inc.?

   c. With respect to the deed recorded February 6, 2001, by which real and personal property were transferred from Haig Point, Inc. to Haig Point Utility Company, Inc., what consideration was paid by Haig Point Utility Company, Inc. to Haig Point, Inc.?

   d. Please identify the values of these real estate parcels, if any, reflected in the Company's response to DIUC ORS 1.56 Attachment CPR (**Exhibit Five**).

RESPONSE: The referenced transactions occurred as far back as 30 years ago and they are not relevant to the pending Application, nor are they likely to lead to relevant information. DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence; the term "what consideration was paid" is not defined, is vague and confusing, and it improperly requires the assumption of certain facts in order to be answered as phrased. Further, to the extent the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record, the Applicant is not

required to assemble that information for Intervenors. Subject to these objections and as a courtesy to the Intervenors, DIUC states as follows:

In response to Interrogatories 5a, 5b, and 5c: Haig Point Utility Company, Inc. ("HPUC") has never been an unaffiliated entity, that would buy utility facilities from International Paper Realty Corporation as if it were a third-party contractor. Instead, HPUC was an affiliated utility company created and owned by International Paper Realty Corporation as part of its newly formed real estate development project on Daufuskie Island. As with all developer-created water and sewer utilities created as part of a real estate project, HPUC started out with no revenues and no ability to finance the construction of utility facilities, and also insufficient revenues to cover operating expenses during some period of growth that only occurs as real estate is being sold by the developer. The transfer of title, assets, rights, easements, etc. by International Paper Realty Corporation (then Haig Point Inc.), as contemplated in the Haig Point Covenants, represents Haig Points, Inc.'s equity investment in the utility, for which the financial transactions were reflected on HPUC's balance sheets by debiting utility plant in service on the assets side of the balance sheet and crediting such equity accounts as advances in aid of construction and paid in capital on the liabilities side of the balance sheet. This type of financial structuring for developer-related utilities in newly formed developments is customary for all such utilities.

In response to Interrogatory 5d: "Exhibit Five" referenced in this Interrogatory is a schedule of the cost of assets and related depreciation for depreciable assets through June of 2014, by year of installation. DIUC objects to the use of the term the term "value" is vague and confusing and it improperly requires the assumption of certain facts in order to be answered as phrased. Assuming the term "value" is referring to book value for rate setting purposes, deducting the accumulated depreciation shown from the respective cost of each item of depreciable utility plant will produce the book value portion of rate base, unadjusted for any post-test year proforma additions or retirements.

6. What, if any, consideration was paid by Haig Point Utility Company, Inc. to Haig Point, Inc. and/or International Paper Realty Company, Inc. in exchange for the real estate and personal property owned and used by Haig Point Utility Company, Inc. in providing water and wastewater service on Daufuskie Island?

RESPONSE: See response to Request 5, including objections, above.

7. How was any transfer of real property and/or personal property from Haig Point, Inc. and/or International Paper Realty Company, Inc. to Haig Point Utility Company, Inc. shown on the financial records of Haig Point Utility Company, Inc.?

RESPONSE: See response to Request 5, including objections, above. The balance sheet accounting is explained in response to request 5, above.

8. Please identify any document that memorializes or describes the transfer of real and personal property to Haig Point Utility Company, Inc. from International Paper Realty Company, Inc. and/or Haig Point, Inc.

RESPONSE: DIUC objects to this Interrogatory which was asked and answered in Interrogatory 1 of Intervenors' First Set of Interrogatories to which DIUC responded on August 26, 2015, as follows:

> 1. Identify all documents memorializing and supporting the assignment of ownership of all easements, rights and plant from Haig Point, Inc. (formerly IP) to Haig Point Utility Company (HPUC) in 2005 (the "2005 Transfer").
>
> Response: The referenced transaction occurred ten years ago and is not relevant to the pending Application. Further, the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record. DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence; the term "documents memorializing and supporting" is vague and confusing. Subject to these objections and as a courtesy to the Intervenors, please see attached document, Intervenors' Interrogatory #1 - Attachment.

DIUC Responses to Intervenors' First Interrogatories at p. 1. This Interrogatory is repetitive, burdensome, and seeks to impose a time-consuming effort that will not produce any new useful information. Further, having failed to move to compel further response beyond the August 26, 2015, response herein quoted, Intervenors are estopped from moving for any additional response.[1] DIUC further objects because the referenced transaction occurred over a 12 years ago and is not relevant to the pending Application, nor is the Interrogatory likely to lead to relevant information. Further, to the extent the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record, the Applicant is not required to assemble that information for Intervenors. Subject to these objections and as a courtesy to the Intervenors, DIUC states as follows:

Except for discussion as to the Elevated Tank Site and Facilities, DIUC's ownership of all of the utility plant in service assets is well established before the Commission. In HPUC's application for a rate increase in Docket No. 2005-34-WS, ORS Staff witnesses testified that on the basis of its audit, the book figures on HPUC's balance sheet as of June 30, 2004 (including utility plant in service of $4,359,264) were verified to the books and records. In 2008, the Commission approved the Joint Application of Haig Point Utility Company, Inc. and CK Materials, LLC for Approval of the Sale, Transfer of Stock, Assets and Operating Authority of Haig Point Utility Company, Inc., Docket No. 2007-414-WS, in which counsel for the Haig Point Club and Community Association, Inc. set forth the final agreement that HPCCA and CK Materials, LLC reached in settlement of all of HPCCA's concerns in the matter. HPCCA's concerns in that proceeding did not include an issue as to ownership of the utility plant in service as to the descriptions or amounts set forth in the application for the sale. See Attachment to Intervenors 8 Part 1- HPCCA and CK Materials Settlement Agreement and Attachment to Intervenors 8 Part 2 - Application for Sale. In Docket No. 2011-229-WS, despite the issue raised regarding the elevated storage facilities, the Commission approved a $5.0 million rate base reflected in a settlement by all parties, including each of the POAs that have intervened in the current rate case.

[1] Although each repetitive discovery response has not been repeated herein, DIUC reserves the objection for all such requests.

9. Please refer to the Balance Sheet for Haig Point Utility Company, Inc. as of June 30, 2004 attached hereto as **Exhibit Two**. This document was Schedule A-1 to the Application of Haig Point Utility Company, Inc. filed in Docket No. 2005-34-W/S.

   a. What is the basis for the entry of $4,635,782 for "Paid-In Capital," and how was this amount determined?

   b. Please identify all supporting documentation for the "plant in service" figure of $4,339,598 shown on **Exhibit Two**.

   c. Please identify any evidence of payment from Haig Point Utility Company, Inc. to Haig Point, Inc. and/or International Paper Realty Co. in connection with any of the Plant in Service listed on **Exhibit Two**.

RESPONSE: The referenced documents are over a decade old and they are not relevant to the pending Application, nor are they likely to lead to relevant information. DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence. Further, to the extent the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record, the Applicant is not required to assemble that information for Intervenors. As previously stated herein, DIUC objects to the Intervenors' attempts to relitigate any prior matter, adjudication, or order of the Commission and DIUC objects to this Interrogatory to the extent it seeks to do the same, particularly regarding the 2005 rate case. Subject to these objections and as a courtesy to the Intervenors, DIUC states as follows:

In response to 9a, 9b and 9c, please see Responses to Interrogatories 5 and 8, above.

10. Please refer to the Trial Balance for Haig Point Utility Company, Inc. for Year Ended June 30, 2004 attached hereto as **Exhibit Three**. This document was part of an exhibit to the Pre-filed Testimony of DIUC filed in Docket No. 2005-34-W/S.

   a. What amount is booked as paid-in-capital in the General Ledger for the Total Year Ended 6/30/04 before adjustments?

b. What is the basis for the paid-in-capital amount of $4,635,782 in the "Adjustments" column of **Exhibit Two**, and how was this amount determined?

c. Please identify all supporting documentation for this paid-in capital adjustment.

RESPONSE: The referenced documents are over a decade old and they are not relevant to the pending Application, nor are they likely to lead to relevant information. DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence. Further, to the extent the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record, the Applicant is not required to assemble that information for Intervenors. As previously stated herein, DIUC objects to the Intervenors' attempts to relitigate any prior matter, adjudication, or order of the Commission and DIUC objects to this Interrogatory to the extent it seeks to do the same, particularly regarding the 2005 rate case. Subject to these objections and as a courtesy to the Intervenors, DIUC states as follows:

In response to 10a, 10b and 10c, please see Responses to Interrogatories 5 and 8, above.

11. Identify any document (such as a system plat or series of plats) that shows all the water and sewer lines in the Company's system and that indicates active connections, as well as those lots subject to the payment of availability fees, current as of the close of the test year (2014) in this case.

RESPONSE: This Interrogatory improperly seeks to require DIUC to accumulate information in a manner that is it nor ordinarily maintained. DIUC further objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence.

Subject to these objections and as a courtesy to the Intervenors, DIUC states as follows: see Attachment to Intervenors 11 – Sewer Map and Attachment to Intervenors 11 – Water Map. These maps contain the sewer collection and water distribution mains. DIUC is in possession of additional large scale maps which will be made available at its operators' office on Daufuskie

Island for viewing under limited circumstances. It is DIUC's understanding, however, that the Intervenors may already have the addresses and specific locations of water, sewer, and availability customers.

12. With respect to **Exhibit Three** identified above, identify all supporting documentation to support the Adjustment No. 2 of $4,339,598 described as "To tie to Thomas & Hutton property schedule ...", including any detailed description or listing of all amounts that sum to the amount of the adjustment, and the basis for making this adjustment as "Property, Plant, and Equipment."

RESPONSE: The referenced documents are over a decade old and they are not relevant to the pending Application, nor are they likely to lead to relevant information. DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence. Further, to the extent the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record, the Applicant is not required to assemble that information for Intervenors. As previously stated herein, DIUC objects to the Intervenors' attempts to relitigate any prior matter, adjudication, or order of the Commission and DIUC objects to this Interrogatory to the extent it seeks to do the same, particularly regarding the 2005 rate case. Subject to these objections and as a courtesy to the Intervenors, DIUC states as follows:

In response to 12, please see Responses to Interrogatories 5 and 8, above.

13. With respect to **Exhibit Three** identified above, identify all supporting documentation to support the Adjustment No. 8 of $4,635,782 described as "To record plant and equipment and other adjustments to paid in capital," including any detailed description or listing of all amounts that sum to the amount of the adjustment, and the basis for making this adjustment as "Paid in capital."

RESPONSE: The referenced documents are over a decade old and they are not relevant to the pending Application, nor are they likely to lead to relevant information. DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant

to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence. Further, to the extent the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record, the Applicant is not required to assemble that information for Intervenors. As previously stated herein, DIUC objects to the Intervenors' attempts to relitigate any prior matter, adjudication, or order of the Commission and DIUC objects to this Interrogatory to the extent it seeks to do the same, particularly regarding the 2005 rate case. Subject to these objections and as a courtesy to the Intervenors, DIUC states as follows:

In response to 13, please see Responses to Interrogatories 5 and 8, above.

14. Please refer to the "Fixed Asset Additions Haig Point Utility, Inc." attached hereto as **Exhibit Four**. This document was part of an exhibit to the Prefiled Testimony of Haig Point Utility Company, Inc. filed in Docket No. 2005-34-W/S. Please identify the amounts contained on **Exhibit Four** that are also on DIUC ORS 1.56 Attachment CPR (attached as **Exhibit Five**).

RESPONSE: Exhibit Four is over a decade old and is are not relevant to the pending Application, nor is it likely to lead to relevant information. DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence. Further, to the extent the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record, the Applicant is not required to assemble that information for Intervenors. As previously stated herein, DIUC objects to the Intervenors' attempts to relitigate any prior matter, adjudication, or order of the Commission and DIUC objects to this Interrogatory to the extent it seeks to do the same, particularly regarding the 2005 rate case. DIUC further objects to the Interrogatory to the extent it seeks to have DIUC interpret documents, which is beyond the scope of discovery.

15. Please identify the original cost documentation used to book the items to DIUC CPR on the attached **Exhibit Six**, taken from DIUC ORS 1.56 Attachment CPR.

RESPONSE: DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence. Further, to the extent the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record, the Applicant is not required to assemble that information for Intervenors. As previously stated herein, DIUC objects to the Intervenors' attempts to relitigate any prior matter, adjudication, or order of the Commission and DIUC objects to this Interrogatory to the extent it seeks to do the same. DIUC objects to the use of the term the term "original cost documentation" is not defined, is vague and confusing, and it improperly requires the assumption of certain facts in order to be answered as phrased. Subject to these objections and as a courtesy to the Intervenors, DIUC states as follows:

The original costs reflected are the amounts previously booked and accepted by the Commission in various proceedings.

16. Identify all accounting entries made by CK Materials, LLC to reflect the acquisition of HPUC.

RESPONSE: DIUC objects to this Interrogatory on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Interrogatory is not reasonably calculated to lead to the discovery of any relevant or admissible evidence. Further, to the extent the requested information was the subject of PSC action and is, therefore, available to Intervenors as a matter of public record, the Applicant is not required to assemble that information for Intervenors. As previously stated herein, DIUC objects to the Intervenors' attempts to relitigate any prior matter, adjudication, or order of the Commission and DIUC objects to this Interrogatory to the extent it seeks to do the same. Subject to these objections and as a courtesy to the Intervenors, DIUC states as follows:

The ownership structure of the Applicant no longer includes CK Materials, as approved by the PSC. DIUC does not possess or control accounting documents of CK Materials, LLC.

Respectfully submitted,

/s/ Thomas P. Gressette, Jr.

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November 6, 2017
Charleston, South Carolina

BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET NO. 2014-346-WS

IN RE: Application of Daufuskie Island Utility Company, Inc. for Adjustment of Rates and Charges

VERIFICATION

I, John F. Guastella, General Manager of Daufuskie Island Utility Company, hereby affirm that the foregoing Responses to Interrogatories of HPCCA, MPOA, and BPPOA (collectively herein "Intervenors" or "POAs") dated October 27, 2017 are true and accurate to the best of my knowledge based on my understanding of the questions.

John F. Guastella

SWORN to before me this
6th day of November 2017.

Notary Public for State of Florida / County of Palm Beach
My Commission Expires: 07-30-2021

Notary Public State of Florida
Edward Ezzard
My Commission GG 129813
Expires 07/30/2021

Attachment to Intervenors 1-a&b Bad Debt Detail

acct_no	tran_date	service	amount	rate_code
B-303632	7/1/2014	IRRIG - MBP	-121.19	WM3
B-303632	10/23/2014	AVAIL - SWR	-85.10	SAM
B-303632	10/1/2014	WATER - MBP	-80.72	WM1
B-303632	10/1/2014	SEWER - MBP	-80.72	SM1
B-303632	10/23/2014	AVAIL - WTR	-76.38	WAM
B-303632	10/1/2014	IRRIG - MBP	-72.13	WM3
B-303632	7/17/2014	WATER - MBP Penalty	-4.83	PWM
B-303832	9/10/2014	AVAIL - SWR	-2.43	SAM
B-306332	7/17/2014	AVAIL - SWR Penalty	-1.28	PSM
B-306332	7/17/2014	AVAIL - WTR Penalty	-1.15	PWM
B-310632	7/16/2014	AVAIL - SWR Penalty	-7.75	PSM
B-310632	7/16/2014	AVAIL - WTR Penalty	-6.95	PWM
B-322132	1/1/2014	AVAIL - WTR	-24.57	WAM
B-38817	9/22/2014	AVAIL - SWR	-7.56	SAM
B-38817	9/22/2014	AVAIL - WTR	-6.79	WAM
B-38889	7/23/2014	AVAIL - SWR Penalty	-1 28	PSM
B-38889	7/23/2014	AVAIL - WTR Penalty	-1.15	PWM
B-40321	10/1/2014	AVAIL - SWR	-255.24	SAM
B-40321	10/1/2014	AVAIL - WTR	-229.14	WAM
B-41181	1/14/2014	SEWER - MBP	-100.00	SM1
D-100400	5/1/2014	AVAIL - WTR Penalty	-93.20	PWD
D-106300	8/13/2014	WATER - D Penalty	-2.57	PWD
D-106300	8/13/2014	SEWER - D Penalty	-2.44	PSD
D-107400	1/1/2014	IRRIG - D	-1367.80	WD3
D-107400	1/1/2014	IRRIG - D Penalty	-25.92	PWD
D-107400	2/12/2014	SEWER - D Penalty	-1.68	PSD
D-107400	1/1/2014	SEWER - D Penalty	-1.68	PSD
D-107400	2/12/2014	WATER - D Penalty	-0.98	PWD
D-107400	1/1/2014	WATER - D Penalty	-0.98	PWD
D-107800	5/1/2014	SEWER - D Penalty	-1.66	PSD
D-107800	5/1/2014	WATER - D Penalty	-0.93	PWD
D-113600	8/13/2014	SEWER - D Penalty	-1.66	PSD
D-113600	8/13/2014	WATER - D Penalty	-0.93	PWD
D-118500	3/3/2014	SEWER - D Penalty	-2.15	PSD
D-118500	3/3/2014	WATER - D Penalty	-1.97	PWD
D-118800	8/11/2014	SEWER - D Penalty	-1.71	PSD
D-118800	8/11/2014	WATER - D Penalty	-1.04	PWD
D-118800	8/11/2014	IRRIG - D Penalty	-0.37	PWD
D-118900	11/18/2014	IRRIG - D Penalty	-2.20	PWD
D-118900	11/18/2014	SEWER - D Penalty	-1.66	PSD
D-118900	11/18/2014	WATER - D Penalty	-0.93	PWD
D-132000	7/1/2014	SEWER - D	-68.68	SD1
D-132000	7/1/2014	WATER - D	-38.63	WD1
D-135000	5/12/2014	SEWER - D Penalty	-1.66	PSD
D-135000	5/12/2014	WATER - D Penalty	-0.93	PWD
D-141400	8/18/2014	AVAIL - SWR Penalty	-0.83	PSD
D-141400	8/18/2014	AVAIL - WTR Penalty	-0 47	PWD
D-141900	11/13/2014	WATER - MBP	-50.00	WM1
D-141900	11/13/2014	SEWER - MBP	-50.00	SM1

Exhibit JFG-R6 (Page 16)

D-141900	11/18/2014	AVAIL - SWR	-13.67	SAM
D-141900	11/18/2014	AVAIL - SWR Penalty	-1.06	PSM
D-141900	11/18/2014	AVAIL - WTR Penalty	-0.95	PWM
D-145500	11/25/2014	IRRIG - D Penalty	-3.62	PWD
D-145500	11/25/2014	SEWER - D Penalty	-1 72	PSD
D-145500	11/25/2014	WATER - D Penalty	-1.07	PWD
D-146600	1/14/2014	AVAIL - SWR	-165.57	SAD
D-146600	1/14/2014	AVAIL - WTR	-93.12	WAD
D-146600	1/14/2014	AVAIL - SWR Penalty	-1.66	PSD
D-146600	1/14/2014	AVAIL - WTR Penalty	-0.93	PWD
D-150900	8/11/2014	SEWER - D Penalty	-1.83	PSD
D-150900	8/11/2014	IRRIG - D Penalty	-1.65	PWD
D-150900	8/11/2014	WATER - D Penalty	-1 29	PWD
D-151800	12/30/2014	AVAIL - SWR Penalty	-0.83	PSD
D-151800	12/30/2014	AVAIL - WTR Penalty	-0.45	PWD
D-151800	12/30/2014	AVAIL - WTR	1.28	DWA
D-151900	11/17/2014	AVAIL - SWR Penalty	-4.27	PSD
D-151900	11/17/2014	AVAIL - WTR Penalty	-2.40	PWD
D-152950	4/1/2014	AVAIL - SWR	-13.49	DSA
D-152950	4/1/2014	AVAIL - WTR	-7.59	DWA
D-152950	4/1/2014	AVAIL - SWR Penalty	-2.50	PSD
D-152950	4/1/2014	AVAIL - WTR Penalty	-1.41	PWD
D-154300	2/26/2014	AVAIL - WTR	-1952.03	WAD
D-154300	2/26/2014	AVAIL - WTR	-1929.04	WAD
D-154300	2/26/2014	AVAIL - WTR	-1929.04	WAD
D-154300	2/26/2014	AVAIL - WTR	-1802.64	WAD
D-154300	2/26/2014	AVAIL - WTR	-816.20	WAD
D-154300	2/26/2014	AVAIL - WTR	-700.61	WAD
D-154300	2/26/2014	AVAIL - SWR	-177.44	SAD
D-154300	2/26/2014	AVAIL - SWR	-177.44	SAD
D-154300	2/26/2014	AVAIL - SWR	-177.44	SAD
D-154300	2/26/2014	AVAIL - SWR	-177.44	SAD
D-154300	2/26/2014	AVAIL - SWR	-177.44	SAD
D-154300	2/26/2014	AVAIL - SWR	-165.57	SAD
D-154300	2/26/2014	AVAIL - WTR Penalty	-87.52	PWD
D-154300	2/26/2014	AVAIL - WTR Penalty	-87.52	PWD
D-154300	2/26/2014	AVAIL - WTR Penalty	-87.52	PWD
D-154300	2/26/2014	AVAIL - WTR Penalty	-83.89	PWD
D-154300	2/26/2014	AVAIL - WTR Penalty	-39.41	PWD
D-154300	2/26/2014	AVAIL - WTR Penalty	-34.39	PWD
D-154300	2/26/2014	AVAIL - SWR Penalty	-5.56	PSD
D-154300	2/26/2014	AVAIL - SWR Penalty	-4.52	PSD
D-154300	2/26/2014	AVAIL - SWR Penalty	-4.52	PSD
D-154300	2/26/2014	AVAIL - SWR Penalty	-4.52	PSD
D-154300	2/26/2014	AVAIL - SWR Penalty	-4.52	PSD
D-154300	2/26/2014	AVAIL - SWR Penalty	-4.17	PSD
D-154300	1/22/2014	AVAIL - WTR	23.45	DWA
D-154300	3/31/2014	AVAIL - WTR	31.04	DWA
D-154300	1/22/2014	AVAIL - SWR	41.70	DSA
D-154300	3/31/2014	AVAIL - WTR	54.49	DWA
D-154300	3/31/2014	AVAIL - SWR	96.89	DSA
D-154500	5/19/2014	AVAIL - SWR Penalty	-0.83	PSD

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D-154500	5/20/2014	AVAIL - SWR Penalty	-0.83	PSD
D-154500	5/19/2014	AVAIL - WTR Penalty	-0.47	PWD
D-154500	5/20/2014	AVAIL - WTR Penalty	-0.47	PWD
D-156910	9/4/2014	AVAIL - SWR Penalty	-5.02	PSD
D-156910	9/4/2014	AVAIL - WTR Penalty	-2.83	PWD
D-159200	8/6/2014	SEWER - D Penalty	-1.87	PSD
D-159200	8/6/2014	WATER - D Penalty	-1.38	PWD
D-162900	6/30/2014	WATER - MBP	-228.29	WM1
D-162900	6/30/2014	SEWER - MBP	-182.44	SM1
D-163010	7/14/2014	IRRIG - D	-100.00	WD3
D-163410	2/19/2014	AVAIL - WTR	-1672.60	WAD
D-163410	2/19/2014	AVAIL - SWR	-177.44	SAD
D-163410	2/19/2014	AVAIL - WTR Penalty	-94.22	PWD
D-163410	2/19/2014	AVAIL - SWR Penalty	-5.56	PSD
D-163410	9/18/2014	AVAIL - WTR Penalty	1.41	PWD
D-163410	9/18/2014	AVAIL - SWR Penalty	2.50	PSD
D-167100	4/1/2014	WATER - D	-104.47	WD1
D-167100	4/1/2014	SEWER - D	-49.96	SD1
D-167100	4/1/2014	WATER - D Penalty	-2.50	PWD
D-167100	4/1/2014	SEWER - D Penalty	-2.41	PSD
D-167200	1/1/2014	AVAIL - SWR Penalty	-2.48	PSD
D-167200	1/1/2014	AVAIL - WTR Penalty	-1.40	PWD
D-167400	5/21/2014	AVAIL - WTR Penalty	-30.03	PWD
D-170801	5/19/2014	SEWER - D Penalty	-1.80	PSD
D-170801	5/19/2014	WATER - D Penalty	-1.24	PWD
D-171300	1/7/2014	WATER - D	-86.23	WD1
D-180900	10/10/2014	WATER - D	-17.62	WD1
D-180900	10/10/2014	AVAIL - SWR	-13.42	DSA
D-201400	5/9/2014	AVAIL - SWR Penalty	-0.83	PSD
D-201400	11/13/2014	AVAIL - SWR Penalty	-0.83	PSD
D-201400	5/9/2014	AVAIL - WTR Penalty	-0.47	PWD
D-201400	11/13/2014	AVAIL - WTR Penalty	-0.47	PWD
D-204700	1/28/2014	WATER - D Penalty	-4.62	PWD
D-204700	1/28/2014	SEWER - D Penalty	-3.37	PSD
D-207600	7/1/2014	WATER - D	-722.07	WD1
D-207600	7/1/2014	SEWER - D	-345.34	SD1
D-207600	7/1/2014	WATER - D Penalty	-11.76	PWD
D-207600	7/1/2014	SEWER - D Penalty	-6.84	PSD
D-208200	2/26/2014	AVAIL - WTR	-539.77	WAD
D-208200	2/26/2014	AVAIL - SWR	-177.44	SAD
D-208200	1/1/2014	AVAIL - WTR	-73.77	DWA
D-208200	2/26/2014	AVAIL - WTR Penalty	-26.59	PWD
D-208200	2/26/2014	AVAIL - SWR Penalty	-5.56	PSD
D-208210	5/9/2014	AVAIL - SWR Penalty	-0.83	PSD
D-208210	5/9/2014	AVAIL - SWR Penalty	-0.83	PSD
D-208210	5/9/2014	AVAIL - WTR Penalty	-0.47	PWD
D-208210	5/9/2014	AVAIL - WTR Penalty	-0.47	PWD
D-208210	1/1/2014	AVAIL - WTR	26.24	DWA
D-208210	1/1/2014	AVAIL - WTR	26.24	DWA
D-208210	1/1/2014	AVAIL - SWR	47.53	DSA
D-208210	1/1/2014	AVAIL - SWR	47.53	DSA
D-209000	5/21/2014	AVAIL - WTR Penalty	-21.95	PWD

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D-300100	2/11/2014	AVAIL - WTR	-757.44	DWA
D-300100	2/11/2014	AVAIL - SWR	-151.45	DSA
D-300100	2/11/2014	AVAIL - WTR Penalty	-61.30	PWD
D-300100	2/11/2014	AVAIL - SWR Penalty	-5.56	PSD
D-300900	2/19/2014	AVAIL - WTR	-1305.22	WAD
D-300900	2/19/2014	AVAIL - SWR	-177.44	SAD
D-300900	9/18/2014	AVAIL - SWR	-110.38	DSA
D-300900	2/19/2014	AVAIL - WTR Penalty	-77.88	PWD
D-300900	9/18/2014	AVAIL - WTR	-62.08	DWA
D-300900	2/19/2014	AVAIL - SWR Penalty	-5.56	PSD
D-300900	9/18/2014	AVAIL - SWR Penalty	-2.50	PSD
D-300900	9/18/2014	AVAIL - WTR Penalty	-1.41	PWD
D-302100	2/11/2014	AVAIL - SWR	-80.43	DSA
D-302110	7/1/2014	AVAIL - SWR Penalty	-3.26	PSD
D-302110	7/1/2014	AVAIL - SWR Penalty	-2.12	PSD
D-302110	7/1/2014	AVAIL - WTR Penalty	-1.86	PWD
D-302110	7/1/2014	AVAIL - WTR Penalty	-1.16	PWD
D-302110	2/11/2014	AVAIL - WTR	15.0	DWA
D-302110	2/11/2014	AVAIL - SWR	30.99	DSA
D-302110	4/1/2014	AVAIL - SWR	80.43	DSA
D-303450	5/1/2014	AVAIL - SWR Penalty	-5.83	PSD
D-303450	5/1/2014	AVAIL - WTR Penalty	-3.28	PWD
D-305300	4/2/2014	AVAIL - SWR	-86.18	DSA
D-305300	4/2/2014	AVAIL - WTR	-46.04	DWA
D-305300	4/2/2014	AVAIL - WTR Penalty	-20.35	PWD
D-403500	5/21/2014	AVAIL - SWR	-29.43	DSA
D-403500	5/21/2014	AVAIL - WTR Penalty	-25.69	PWD
D-403500	5/21/2014	AVAIL - WTR	-16.55	DWA
D-403510	5/21/2014	AVAIL - WTR	47.59	DWA
D-403510	5/21/2014	AVAIL - SWR	84.62	DSA
D-403800	5/6/2014	SEWER - D Penalty	-1.72	PSD
D-403800	5/6/2014	WATER - D Penalty	-1.08	PWD
D-51160	2/1/2014	IRRIG - D Penalty	-19.67	PWD
D-51160	2/1/2014	AVAIL - WTR Penalty	-19.18	PWD
D-51160	2/1/2014	AVAIL - WTR Penalty	-19.18	PWD
D-51160	2/1/2014	AVAIL - WTR Penalty	-19.18	PWD
D-51160	2/1/2014	AVAIL - WTR Penalty	-14.49	PWD
D-51160	2/1/2014	AVAIL - SWR Penalty	-4.17	PSD
D-51160	2/1/2014	AVAIL - SWR Penalty	-4.17	PSD
D-51160	2/1/2014	AVAIL - SWR Penalty	-4.17	PSD
D-51160	2/1/2014	AVAIL - SWR Penalty	-4.17	PSD
D-51160	2/1/2014	AVAIL - SWR Penalty	-2.50	PSD
D-51160	2/1/2014	AVAIL - WTR Penalty	-2.34	PWD
D-601300	10/2/2014	AVAIL - SWR	-526.94	SAM
D-601300	10/2/2014	AVAIL - SWR	-510.48	SAM
D-601300	10/2/2014	AVAIL - WTR	-458.28	WAM
D-601300	10/2/2014	AVAIL - WTR	-453.68	WAM
D-601300	10/2/2014	AVAIL - WTR Penalty	-219.87	PWM
D-601300	10/2/2014	AVAIL - WTR Penalty	-200.50	PWM
D-601300	10/2/2014	AVAIL - SWR Penalty	-26.72	PSM
D-601300	10/2/2014	AVAIL - SWR Penalty	-26.72	PSM
D-700110	3/31/2014	WATER - D Redist	506.82	WD1

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D-700400	2/26/2014	AVAIL - WTR	-1298.54	WAD
D-700400	2/26/2014	AVAIL - SWR	-177.44	SAD
D-700400	1/1/2014	AVAIL - WTR	-73.77	DWA
D-700400	2/26/2014	AVAIL - WTR Penalty	-61.25	PWD
D-700400	2/26/2014	AVAIL - SWR Penalty	-5.56	PSD
D-700903	5/7/2014	AVAIL - WTR	-151.38	DWA
D-700903	5/7/2014	AVAIL - WTR Penalty	-30.21	PWD
D-700903	5/7/2014	AVAIL - SWR Penalty	-8.08	PSD
D-700923	5/7/2014	SEWER - D Penalty	-5.60	PSD
D-700923	5/7/2014	WATER - D Penalty	-3.88	PWD
D-700923	5/7/2014	IRRIG - D Penalty	-2.40	PWD
D-700940	1/22/2014	AVAIL - SWR Penalty	-5 83	PSD
D-700940	1/22/2014	AVAIL - WTR Penalty	-3.28	PWD
D-700942	12/30/2014	SEWER - D	-110.38	SD1
D-700942	12/30/2014	WATER - D	-62.09	WD1
D-700942	12/30/2014	WATER - D Redist	172.47	WD1
D-700956	7/14/2014	IRRIG - D	-100.00	WD3
D-700977	1/23/2014	SEWER - D	-32.00	SD1
D-700980	7/1/2014	SEWER - D	-331.14	SD1
D-700980	7/1/2014	WATER - D	-186.27	WD1
HP1001	5/6/2014	AVAIL - WTR Penalty	155.41	PWD
M-111000	1/13/2014	AVAIL - SWR Penalty	-1.28	PSM
M-111000	1/13/2014	AVAIL - WTR Penalty	-1.15	PWM
M-125000	7/1/2014	AVAIL - WTR Penalty	-1.15	PWM
M-151500	1/1/2014	AVAIL - SWR	-85.08	SAM
M-151500	1/1/2014	AVAIL - WTR	-76.38	WAM
M-153100	9/29/2014	AVAIL - SWR	-170.16	SAM
M-153100	9/29/2014	AVAIL - WTR	-152.76	WAM
M-175000	5/6/2014	AVAIL - SWR Penalty	-1.28	PSM
M-175000	5/6/2014	AVAIL - SWR Penalty	-1.28	PSM
M-175000	5/6/2014	AVAIL - WTR Penalty	-1.15	PWM
M-175000	5/6/2014	AVAIL - WTR Penalty	-1.15	PWM
M-182201	11/17/2014	AVAIL - SWR Penalty	-1.28	PSM
M-182201	11/17/2014	AVAIL - WTR Penalty	-1.15	PWM
M-218011	7/1/2014	AVAIL - SWR	-58.61	SAM
M-218011	7/1/2014	AVAIL - WTR	-52.62	WAM
M-263000	1/1/2014	AVAIL - WTR Penalty	-227.76	PWM
M-263000	1/1/2014	AVAIL - SWR Penalty	-10.63	PSM
M-269000	8/18/2014	AVAIL - SWR Penalty	-1.28	PSM
M-269000	8/18/2014	AVAIL - WTR Penalty	-1.15	PWM
M-281000(	5/9/2014	AVAIL - SWR Penalty	-1.28	PSM
M-281000(	7/30/2014	AVAIL - SWR Penalty	-1.28	PSM
M-281000(	5/9/2014	AVAIL - SWR Penalty	-1.28	PSM
M-281000(	5/9/2014	AVAIL - WTR Penalty	-1.15	PWM
M-281000(	7/30/2014	AVAIL - WTR Penalty	-1.15	PWM
M-281000(	5/9/2014	AVAIL - WTR Penalty	-1.15	PWM
M-290001	1/31/2014	AVAIL - WTR Penalty	-58.62	PWM
M-290001	1/31/2014	AVAIL - SWR Penalty	-2.55	PSM
M-31302	4/1/2014	WATER - MBP Penalty	-600.00	PWM
M-31302	4/1/2014	SEWER - MBP Penalty	-43.90	PSM
M-350001	7/9/2014	AVAIL - WTR Penalty	-236.23	PWM
M-350001	7/9/2014	AVAIL - SWR Penalty	-17.98	PSM

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M-370001	1/31/2014	AVAIL - SWR	-85.08	SAM
M-370001	1/31/2014	AVAIL - WTR	-76.38	WAM
M-370001	1/31/2014	AVAIL - SWR Penalty	-1.28	PSM
M-370001	1/31/2014	AVAIL - WTR Penalty	-1.15	PWM
M-370001	1/31/2014	AVAIL - WTR Redist	171.14	WAM
M-49800	1/2/2014	SEWER - MBP Penalty	-54.05	PSM
M-49800	1/2/2014	WATER - MBP Penalty	-32.69	PWM
M-50012	2/28/2014	WATER - MBP Penalty	-209.93	PWM
M-50012	2/28/2014	SEWER - MBP Penalty	-39.32	PSM
M-50012	2/28/2014	WATER - MBP	-37.53	WM1
M-50113	7/1/2014	AVAIL - SWR	-85.08	SAM
M-50113	7/1/2014	AVAIL - WTR	-76.38	WAM
M-50127	9/30/2014	AVAIL - SWR	-28.98	SAM
M-50127	9/30/2014	AVAIL - WTR	-26.02	WAM
M-50127	12/15/2014	AVAIL - WTR Penalty	4.84	PWM
M-50702	7/1/2014	SEWER - MBP Penalty	-1.00	PSM
M-50702	7/1/2014	WATER - MBP Penalty	-0.79	PWM
M-51045	7/1/2014	AVAIL - SWR	-1.00	SAM
M-51045	7/1/2014	AVAIL - WTR	-0 80	WAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649 71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649 71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649 71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-649.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-629.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-617.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-617.71	SAM
M-51103	9/30/2014	AVAIL - SWR	-617.71	SAM

M-51103	9/30/2014 AVAIL - SWR	-617.71 SAM
M-51103	9/30/2014 AVAIL - SWR	-617.71 SAM
M-51103	9/30/2014 AVAIL - WTR	-580.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-580.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-564.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-560.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-560.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-560.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-560.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-560.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-560.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-548.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-548.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-548.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-548.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-500.80 WAM
M-51103	9/30/2014 AVAIL - WTR	-500.75 WAM
M-51103	9/30/2014 AVAIL - WTR	-500.75 WAM
M-51103	9/30/2014 AVAIL - WTR	-500.75 WAM
M-51103	9/30/2014 AVAIL - WTR	-500.75 WAM
M-51103	9/30/2014 AVAIL - WTR	-500.75 WAM
M-51103	9/30/2014 AVAIL - WTR	-463.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-463.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-463.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-463.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-431.20 WAM
M-51103	9/30/2014 AVAIL - WTR	-383.77 WAM
M-51103	9/30/2014 AVAIL - SWR	-327.67 SAM
M-51103	9/30/2014 AVAIL - WTR	-305.52 WAM
M-51103	9/30/2014 AVAIL - WTR	-285.64 WAM
M-51103	9/30/2014 AVAIL - WTR	-130.77 WAM
M-51103	9/30/2014 AVAIL - SWR	-90.71 SAM
M-51103	9/30/2014 AVAIL - SWR	-85 07 SAM
M-51103	9/30/2014 AVAIL - SWR	-85.07 SAM
M-51103	9/30/2014 AVAIL - SWR	-85.07 SAM
M-51103	9/30/2014 AVAIL - SWR	-85.07 SAM
M-51103	9/30/2014 AVAIL - SWR	-85.07 SAM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM

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M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-71.79 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-57.06 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-57.06 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-57.06 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-57.06 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-57.06 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-57.06 PWM
M-51103	9/30/2014 AVAIL - WTR Penalty	-57.06 PWM
M-51103	9/30/2014 AVAIL - WTR	-54.39 WAM
M-51103	9/30/2014 AVAIL - WTR	-54.39 WAM
M-51103	9/30/2014 AVAIL - WTR	-54.39 WAM
M-51103	9/30/2014 AVAIL - WTR	-54.39 WAM
M-51103	9/30/2014 AVAIL - WTR	-54.39 WAM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM
M-51103	9/30/2014 AVAIL - SWR Penalty	-30.28 PSM

M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30 28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-30.28	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-18.26	PSM
M-51103	9/30/2014	AVAIL - WTR Penalty	-16.39	PWM
M-51103	9/30/2014	AVAIL - WTR Penalty	-13.21	PWM
M-51103	9/30/2014	AVAIL - WTR Penalty	-13.21	PWM
M-51103	9/30/2014	AVAIL - WTR Penalty	-13.21	PWM
M-51103	9/30/2014	AVAIL - WTR Penalty	-13.21	PWM
M-51103	9/30/2014	AVAIL - WTR Penalty	-13.21	PWM
M-51103	9/30/2014	AVAIL - WTR Penalty	-13.21	PWM
M-51103	9/30/2014	AVAIL - SWR Penalty	-8.79	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-8.79	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-8.79	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-8.79	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-8.79	PSM
M-51103	9/30/2014	AVAIL - SWR Penalty	-8.79	PSM
M-51117	4/9/2014	AVAIL - WTR Penalty	-39.10	PWM
M-51117	4/9/2014	AVAIL - SWR Penalty	-10.63	PSM
M-51125	8/13/2014	AVAIL - SWR Penalty	-3.85	PSM
M-51125	8/13/2014	AVAIL - WTR Penalty	-3.46	PWM
M-51125	8/19/2014	AVAIL - SWR Penalty	-2.61	PSM
M-51125	8/19/2014	AVAIL - WTR Penalty	-2.31	PWM
M-51401	2/19/2014	SEWER - MBP Penalty	-4.10	PSM
M-51401	2/19/2014	WATER - MBP Penalty	-2.96	PWM
M-52002	1/1/2014	WATER - MBP	-93.77	WM1
M-52002	1/1/2014	SEWER - MBP	-74.94	SM1
M-52400	7/31/2014	SEWER - MBP	-65.07	SM2
M-52400	7/31/2014	SEWER - MBP Penalty	-0.98	PSM
M-540000	1/7/2014	WATER - MBP	-80.72	WM1
M-540000	1/7/2014	SEWER - MBP	-80.72	SM1
M-540000	1/7/2014	WATER - MBP Redist	161.44	WM1
M-55450	4/1/2014	SEWER - MBP	-130.50	SM2
M-57500	1/1/2014	WATER - MBP	-982.65	WM1
M-57500	1/1/2014	SEWER - MBP	-939.80	SM1
M-57500	1/1/2014	WATER - MBP Penalty	-125.54	PWM
M-57500	1/1/2014	SEWER - MBP Penalty	-29.75	PSM
M-57500	5/13/2014	SEWER - MBP Penalty	-1.21	PSM

M-57500	5/13/2014	WATER - MBP Penalty	-0.71	PWM
M-57810	1/28/2014	AVAIL - SWR	-143.00	SAM
M-57810	1/28/2014	AVAIL - WTR	-134.30	WAM
M-57810	1/28/2014	AVAIL - WTR Penalty	-18.75	PWM
M-57810	3/11/2014	AVAIL - WTR Penalty	-6.27	PWM
M-57810	1/28/2014	AVAIL - SWR Penalty	-4.64	PSM
M-57810	3/11/2014	AVAIL - SWR Penalty	-3.42	PSM
M-60017	8/13/2014	WATER - MBP Redist	572.92	WM1
M-60116	7/22/2014	WATER - MBP	-80.72	WM1
M-60116	7/22/2014	SEWER - MBP	-80.72	SM1
M-60116	7/22/2014	WATER - MBP Penalty	-1.21	PWM
M-60116	7/22/2014	SEWER - MBP Penalty	-1.21	PSM
PELORUS	4/1/2014	SEWER - MBP	130.50	SM2
PLANT1	7/31/2014	IRRIG - D	-28905.46	WD3
PLANT1	8/13/2014	IRRIG - D Penalty	-433.58	PWD
PLANT1	7/31/2014	WATER - D	-275.10	PWD
			-$105,667.08	

WATER - D	-1,298.65	WD1
SEWER - D	-1,253.50	SD1
IRRIG - D	-30,497.27	WD3
WATER - MBP	-2,509.38	WM1
SEWER - MBP	-1,315.49	SM1
IRRIG - MBP	-198.15	WM3
AVAIL - WTR	-36,486.96	WAM
AVAIL - SWR	-27,258.94	SAM
WATER - D Penalty	30.75	PWD
SEWER - D Penalty	-43.46	PSD
IRRIG - D Penalty	-489.41	PWD
WATER - MBP Penalty	-1,049.35	PWM
SEWER - MBP Penalty	-186.38	PSM
AVAIL - WTR Penalty	-4,433.71	PWM
AVAIL - SWR Penalty	-1,385.92	PSM
WATER - D Redist	679.29	WD1
WATER - MBP Redist	1,679.68	WM1
AVAIL - WTR Redist	349.77	WAD
	-$105,667.08	

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 DIUC's Responses to the Interrogatories of Intervenors dated October 27, 2017, via electronic mail service as follows:

Andrew M. Bateman, Esq. (abateman@regstaff.sc.gov)
South Carolina Office of Regulatory Staff

Jeff Nelson, Esq. (jnelson@regstaff.sc.gov)
South Carolina Office of Regulatory Staff

John J. Pringle, Jr., Esq. (jack.pringle@arlaw.com)
Adams & Reese, LLP

Vicki Volponi

November 6th, 2017
Columbia, South Carolina

Daufuskie Island Utility Company, Inc.

Transaction List

Sorted by Location No
From 07/01/2016 through 06/30/2017

Account No	Location No	Customer Name	Trans. Date	Trans. Type	Reason	Batch	Amount
Grand Totals							
				Charge			
				WATER - D			265862.86
				SEWER - D			310973.48
				IRRIG - D			178124.99
				WATER - MBP			190874.97
				SEWER - MBP			230475.19
				IRRIG - MBP			31370.97
				AVAIL - WTR			392897.73
				AVAIL - SWR			507592.26
				LABOR			0.00
							2108172.45

Daufuskie Island Utility Company, Inc.

Transaction List

Sorted by Location No
From 07/01/2016 through 06/30/2017

Account No	Location No	Customer Name	Trans. Date	Trans. Type	Reason	Batch	Amount
Grand Totals							
				Payment			
				WATER - D			-269852.19
				SEWER - D			-305730.70
				IRRIG - D			-166366.70
				WATER - MBP			-165518.61
				SEWER - MBP			-183249.15
				IRRIG - MBP			-31037.06
				AVAIL - WTR			-365075.62
				AVAIL - SWR			-444893.22
				WATER - D Penalty			-718.10
				SEWER - D Penalty			-872.83
				IRRIG - D Penalty			-340.93
				WATER - MBP Penalty			-661.78
				SEWER - MBP Penalty			-848.80
				IRRIG - MBP Penalty			-110.78
				AVAIL - WTR Penalty			-1793.82
				AVAIL - SWR Penalty			-1782.29
				WATER - D Miscellanous			-25.00
				IRRIG - D Miscellanous			-500.00
				WATER - MBP Miscellanous			-500.00
				AVAIL - WTR Miscellanous			-2616.25
				AVAIL - SWR Miscellanous			-1500.00
				WATER - D Redist			7022.66
				IRRIG - D Redist			43.19
				WATER - MBP Redist			2854.82
				IRRIG - MBP Redist			294.46
				AVAIL - WTR Redist			16828.61
							-1916950.09

Exhibit JFG-R6 (Page 28)

D-700914	$3,816.40 $5,875.32	$9,691.72	no activity to date lien 4.10.2014
M-80000	$4,796.40 $4,796.40 $4,793.86	$14,386.66	no activity to date lien 4.10.2014
D-137501	$2,902.30	$2,902.30	no activity to date lien 4.10 2014
M-263100	$4,145.85	$4,145.85	no activity to date lien 4.10.2014
D-205700	$5,912.45	$5,912.45	no activity to date LIEN 8.26.14
D-182300	$6,973.88	$6,973.88	WRITE OFF LIEN 8.26 14
D-198100	$2,607.04	$2,607.04	WRITE OFF LIEN 8.26.14
D-152000A	$5,935.96	$5,935.96	no activity to date LIEN 8.26.14
M-180010	$9,601.85	$9,601.85	WRITE OFF

(inactive)			
			LIEN 8.26.14
D-144300	$4,201.98	$4,201.98	no activity to date
			LIEN 8.26.14
M-350001	$3,825.11	$3,825.11	last pymnt 10/16/14
			LIEN 8.26.14
D-602200	$5,703 15	$5,703.15	WRITE OFF
			LIEN 8.26.14
D-150800	$5,511.67	$5,511.67	no activity to date
M-129000	$9,992.28	$22,743.28	no activity to date
			LIEN 8.26.14
M-50502	$6,500.57 $4,369.34 $8,219.25	$15,889.76	no activity to date LIEN 8.26.14
M-275000	$767.22	$1,015.44	Making payments as of 10.31.17 LIEN 8.26.14

M-51161	$4,613.49	$13,840.47	
	$4,613.49		
	$4,613.49		
			last pymnt 5.4.2015
			LIEN 8.26.14
D-700913	$2,499.37	$4,265.40	Write Off
	$1,444.56		
			LIEN 8.26.14
M-13501	$6,231.53	$16,300.76	no activity to date
	$5,921.83		
	$4,147.40		LIEN 8.26.14
D-301900	$5,024.08	$5,024.08	no activity to date
			LIEN 8.26 14
M-182011	$3,880.24	$7,761.55	no activity to date
	$3,881.31		
			LIEN 8.26.14
M-152502	$7,593.06	$7,593.06	no activity to date
			LIEN 8.26.14
M-48901	$5,418.00	$69,278.75	WRITE OFF
	$6,057.37		
	$5,919 18		LIEN 7/30/2014
	$4,813.10		
	$6,211.28		

	$6,451.26		
	$6,895.29		
D-146500	$3,615 74	$3,615.74	UPDATED ADDRESS
M-196001	$6,354.67	$6,354.67	FOUND NEW ADDRESS. TRY T
D-130500	$1,988.20	$1,988.20	write off
D-132600	$2,900 63	$2,900.63	write off
1st letter 5/28			
D-153900	$2,790 79	$2,790 79	LIEN 12.10 2014
1st letter 8/19			
D-163410	$2,540.55	$9,320.39	LIEN 12.10.2014
	$2,351.88		LIEN 12.10.2014
	$2,351.88		
	$2,076.08 SOLD		
D-700928	$2,459.74	$2,459.74	LIEN 12.10.2014
1st letter 8/19			

D-700985	$767.22	$1,015.44	MADE PYMT LIEN 12.10.2014
1st letter 8/19			
M-151401 (inactive)	$2,623.57	$2,623.57	write off LIEN 12.10.2014
1st letter 8/28			
D-158800	$2,675.29	$2,675.29	LIEN 5.18.15
1st letter 9/4			
M-182070	$3,445.72	$3,445.72	LIEN 5.18.15
1st letter 9/18			
M-50133	$3,470.38	$3,470.38	TO HARVEY 5.28.15
Letter 4/23			
M-240000	$2,115.10	$2,363.32	LIEN 6.03.2015 mking pymnts
Letter 4/23			
M-129010	$3,046.20 $3,032.53	$6,078.73	LIEN 6.03.2015
Letter 4/23			
D-403510	$903.77	$903.77	WRITE OFF

Letter 4/23			
D-208210		$4,293.57	WRITE OFF
Letter 4/23			
D-167210	$2,444.36	$6,861.69	LIEN 6.03.2015
	$2,097.45		PLEASE ADD LIEN 2.12.16
	$2,074.66		PLEASE ADD LIEN 2.12.16
Letter 4/23			
D-164010	$2,118.97	$4,571.57	LIEN 6.03.2015
	$2,452.60		
Letter 4/23			
D-163300	$2,103.66	$2,351.88	LIEN 6.03.2015
Letter 4/23			
B-42101	$2,872.93	$3,121 15	LIEN 6 03.2015
Letter 4/23			
D-113801	$2,971.70	$3,219.92	LIEN 6.03.2015
Letter 4/23			
D-303401	$795.91	$2,454.51	WRITE OFF
Letter 4/23			

M-51801	$15,348.05 $5,571.48 $4,334.30 $5,534 12	$30,787.95	LIEN 9.15.2.015
M-270001	$2,839.46 $2,833.83	$5,673.29	TO HARVEY FOR LIEN 9.15.2.0
PEL101	$1,015.44 $1,015.44 $1,015.44 $1,015.44	$4,061.76	To Harvey for Lien 1.20.16
D-151600	$1,698.24 $1,698 24	$4,126.16	WRITE OFF lien 4.10 2014
M-151301 (inactive)	$3,279.14	$3,532 56	WRITE OFF lien 4.10.2014
D-123300A	$2,533.05	$2,533.05	WRITE OFF lien 4.10.2014
M-332000	$3,023.65	$3,023.65	WRITE OFF lien 4.10.2014

M-268002	$5,983.31	$6,231.53	no activity to date
			lien 4.10.2014
M-51138	$4,613 49	$13,840 47	no activity to date
	$4,613 49		
	$4,613.49		lien 4.10.2014
D-108700	$2,655.76	$2,903.98	no activity to date
			lien 4.10 2014
D-204600	$3,917.73	$4,165.95	no activity to date
			lien 4.10.2014
D-155100	$2,785.78	$3,034:00	no activity to date
			lien 4.10.2014
D-167300	$3,410.76	$13,647.50	
	$3,410.99		
	$3,410.99		
	$3,414.76		
M-51108	$4,872.85	$9,469.44	
	$4,348.37		

D-149900	$6,455.98	$6,704.20	
D-303900	$2,417.12	$2,417.12	WRITE OFF
D-603000	$2,632.34 $3,846.43	$6,478.77	WRITE OFF
M-51110	$4,441.31	$4,689.53	
D-169800	$4,216.77	$4,464.99	
M-185000	$2,252.47	$2,500.69	
D-209000	$1,640.09	$1,640.09	WRITE OFF
D-136600	$3,027.73 $3,202.19	$6,229.92	WRITE OFF

M-356268	$1,335.75	$1,335.75	WRITE OFF
D-137000	$662.93	$662.93	WRITE OFF
M-149010	$727.27	$975.49	
D-107750	$863.40		WRITE OFF
	$863.40		
	$1,335.75	$3,062.55	
D-167400	$2,269.62	$2,269.62	WRITE OFF
M-152204	$493.37	$741.59	
M-150000	$775.42		
	$775.43	$1,550.85	

D-100400	$3,611.58	$3,611.58	WRITE OFF
PEL101		$100,266.31	
D-129500	$2,144.12	$2,144.12	
D-200201	$1,448.04	$1,448.04	
M-477370	$1,494.93	$1,494.93	no activity to date
D-700959	$1,015.44	$1,015.44	
TOTAL		$586,728.64	

ROA 1174

Customers with Overdue Balances

Customers to be sent Disconnect Notices, to Collections, or have Liens put on their properties

A. **Service Disconnections:** Usage Properties Only. Accounts with balances 90+ days past due

1. Use the billing system to search for delinquent usage accounts.
2. Once found, use 1st Disconnection Letter template to create letters notifying customers of potential disconnection. Customer has 10 days to respond before receiving second notice.
   a. Send letter with current invoice.
   b. Note comment and notes section of account including date letter was sent.
3. After 10 days, if customer has not paid or set up payment arrangement they must be sent a certified 2nd Disconnection Notice. Use the 2nd Disconnection Letter template to create letters notifying customers of potential disconnection.
   a. Letter must be sent certified.
   b. Send letter with current invoice.
   c. Note comment and notes section of account including date letter was sent. Customer has 30 days to respond before disconnection takes effect.

B. **Collections:** Availability accounts with 6 months nonpayment. Disconnected usage with 6 months nonpayment

1. Use the billing system to search for delinquent usage accounts.
   a. Use report to identify accounts eligible to be processed for collections.
2. Once found, use Collections Letter template to create letters notifying customers of potential placement in collections. Customer has 30 days to respond before being sent to McCormick Law Firm for pursuit of payment.
   a. Send letter with current invoice.
   b. Note comment and notes section of account including date letter was sent.
   c. Update "Liens & Collections Master List" accordingly.
3. After 30 days, if customer has not paid or set up payment arrangement they will be placed with McCormick Law Firm for collections.

A. **Liens:** Accounts in collections with 6 months nonpayment

   a. Customers do not have to be notified. After given time, place with McCormick Law Firm.
   b. Note comment and notes section of account including date sent for lien.
   c. Update "Liens & Collections Master List" accordingly.

ELLIS:LAWHORNE

John F. Beach
Direct dial: 803/343-1269
jbeach@ellislawhorne.com

April 23, 2008

VIA ELECTRONIC AND FIRST-CLASS MAIL SERVICE
Peter J. Strauss, Esquire
Novit & Scarminach, P.A.
The Jade Building, Suite 400
52 New Orleans Road
P.O. Drawer 14
Hilton Head Island, SC 29938

RE: Joint Application of Haig Point Utility Company, Inc. and CK Materials, LLC for Approval of the Sale, Transfer of Stock, Assets and Operating Authority of Haig Point Utility Company, Inc.
Docket No. 2007-414-W/S, ELS File No. 1030-11565

Dear Peter:

I am writing on behalf of Haig Point Club and Community Association, Inc. ("HPCCA") to set forth the final Agreement that HPCCA and CK Materials, LLC have reached in settlement of all of HPCCA's concerns in this matter.

1. **Performance Bonds**:

CK Materials agrees that it will maintain and keep on file with the Commission two $350,000 performance bonds: one for water and one for sewer. CK Materials agrees that these performance bonds will always be maintained with a commercial bonding and/or insurance entity possessing an A.M. Best Financial Strength Rating (or its equivalent) of A- or better.

CK Materials acknowledges that the current bond amounts are the maximum amount required by the Commission at this time. Should the Commission increase the maximum bond amount at any time, CK Materials agrees to increase both the water and sewer bond CK Materials and/or HPUC have in place to that new maximum amount.

CK Materials agrees that in no event shall it or HPUC ever attempt to satisfy its bonding requirements through a personal or individual surety bond, or any other form of guaranty other than as set forth in the two immediately preceding paragraphs.

2. **Letter of Credit**:

International Paper Company shall keep in effect the JPMorgan Letter of Credit issued November 7, 2003 in the amount of $450,000 to Haig Point Club and Community Association,

Inc. (the "LOC") for the time period of one (1) year from the date it closes the purchase transaction, or the date the Public Service Commission approves this transfer, whichever is later.

3. Water Availability:

a. CK Materials agrees that HPUC shall provide safe and adequate water to current and future members of the HPCCA through "Build-Out". CK Materials commits that HPUC will provide HPCCA and its members the total water volume "at Build-Out" in an amount per residential and commercial customer as determined to be adequate by South Carolina Department of Health and Environmental Control ("DHEC").

b. CK Materials agrees that neither it nor HPUC will provide water to any new or additional customers outside of the HPCCA members and HPUC's current customers unless it first 1) at least ninety (90) days before seeking regulatory approval to provide such additional service, provides written notice of its intention to provide such additional service, including the details and scope of such additional service, to the Chairman of the HPCCA Board of Directors and 2) receives permission from DHEC to extend service to the new customers, as determined by DHEC. In the event that HPUC, after a diligent effort, is unable to obtain DHEC approval for such expansion, HPUC may request HPCCA's written agreement to deviate from this requirement, and HPCCA shall not unreasonably withhold such written agreement.

c. CK Materials agrees that, upon Commission approval of the Transfer, it will immediately inform DHEC - through a formal filing - of the contractual and regulatory commitment to reserve water volume as set forth above. CK Materials and HPCCA agree that DHEC shall have the independent right to enforce this contractual and regulatory commitment.

d. CK Materials represents and warrants that, in the event DHEC should determine at any time that additional storage capacity is necessary, ~~CK Materials~~ HPUC JK will construct such additional storage capacity as is necessary in order to satisfy all applicable regulatory needs.

4. Sewer Availability:

a. CK Materials agrees that HPUC shall provide safe and adequate sewer treatment service to current and future members of the HPCCA through "Build-Out".

5. Ownership of CK Materials

CK Materials represents and warrants that HPUC will be owned by CK Materials, LLC, CK Materials will provide to HPCCA's attorney an Operating Agreement for CK Materials, LLC.

6. **Management of HPUC after Transfer:**

Guastella Associates, Inc. will be managing HPUC day-to-day. Management will include helping to make strategic decisions on permitting, system management, maintenance, and upgrades.

7. **Haig Point Trademark:**

CK Materials agrees that, upon the Commission's approval of this Transfer, it will, in a timely fashion, change the name of HPUC to a name that does not contain the words "Haig Point" and change its logo to something other than the Haig Point lighthouse.

8. **Approval of Settlement by Public Service Commission:**

Upon CK Materials' agreement to the matters set forth herein, and International Paper Company's agreement to the applicable matters set forth under the heading "Letter of Credit," HPCCA and CK Materials will present testimony at the hearing in this docket, currently scheduled for April 27 at 10:30 AM, requesting approval of the Agreement, and noting that HPCCA does not oppose the subject transfer.

Sincerely,

John F. Beach

cc: Mr. Mark Nordman
Elaine Fowler, Esquire

On behalf of the CK Materials, LLC, I hereby agree to all matters set forth herein, and also that all such matters shall bind HPUC going forward, following the Public Service Commission's approval of the subject Transfer of HPUC to CK Materials, LLC.

CK Materials, LLC

STATE OF SOUTH CAROLINA)

(Caption of Case)
Joint Application of Haig Point, Inc. and CK Materials LLC for Approval of the Sale and Transfer of Stock, Assets and Operating Authority of Haig Point Utility Company, Inc.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET NUMBER: 2007 - 414 - W/S

(Please type or print)

Submitted by:	Laura Johnson Evans	SC Bar Number:	5843
Address:	Pratt-Thomas Walker	Telephone:	843-727-2226
	16 Charlotte St.	Fax:	843-727-2236
	Charleston, SC 29401	Other:	
		Email:	ljc@wiselaw.com

NOTE. The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously

☐ Other:

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
☐ Electric	☐ Affidavit	☐ Letter	☐ Request
☐ Electric/Gas	☐ Agreement	☐ Memorandum	☐ Request for Certificatio
☐ Electric/Telecommunications	☐ Answer	☐ Motion	☐ Request for Investigatior
☐ Electric/Water	☐ Appellate Review	☐ Objection	☐ Resale Agreement
☐ Electric/Water/Telecom.	☒ Application	☐ Petition	☐ Resale Amendment
☐ Electric/Water/Sewer	☐ Brief	☐ Petition for Reconsideration	☐ Reservation Letter
☐ Gas	☐ Certificate	☐ Petition for Rulemaking	☐ Response
☐ Railroad	☐ Comments	☐ Petition for Rule to Show Cause	☐ Response to Discovery
☐ Sewer	☐ Complaint	☐ Petition to Intervene	☐ Return to Petition
☐ Telecommunications	☐ Consent Order	☐ Petition to Intervene Out of Time	☐ Stipulation
☐ Transportation	☐ Discovery	☐ Prefiled Testimony	☐ Subpoena
☐ Water	☐ Exhibit	☐ Promotion	☐ Tariff
☒ Water/Sewer	☐ Expedited Consideration	☐ Proposed Order	☐ Other:
☐ Administrative Matter	☐ Interconnection Agreement	☐ Protest	
☐ Other:	☐ Interconnection Amendment	☐ Publisher's Affidavit	
	☐ Late-Filed Exhibit	☐ Report	

RECEIVED
NOV 19 2007
DOCKETING DEPT.

Exhibit JFG-R6 (Page 44)

PRATT-THOMAS | WALKER
PROFESSIONAL ASSOCIATION

E-MAIL: LJE@WISELAW.COM
DIRECT DIAL: 843 727 2225
DIRECT FAX: 843 805 6518

ATTORNEYS AT LAW

November 15, 2007

RECEIVED
2007 NOV 16 AM 9:25
SC PUBLIC SERVICE COMMISSION

VIA FEDERAL EXPRESS

Public Service Commission of South Carolina
ATT: Docketing
101 Executive Center Drive, Suite 100
Columbia, SC 29210

RE: Joint Application for Sale and Transfer of Stock, Assets and Operating Authority

Dear Docketing:

Enclosed please find the Application of Haig Point Inc. and CK Materials LLC for approval of the sale of Haig Point Utility Company, as described within the documents.

I will look forward to hearing from you when this matter is placed on the docket. With kindest regards, I am

Sincerely yours,

PRATT THOMAS WALKER PA

Laura J. Evans

Enclosures

Exhibit JFG-R6 (Page 45)

RECEIVED
2007 NOV 16 AM 9:25
SC PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No.:_____

Re: Joint Application of Haig Point, Inc. and CK Materials, LLC for Approval of the Sale, Transfer of Stock, Assets Operating Authority of Haig Point Utility Company, Inc.	)**JOINT APPLICATION FOR**)**THE SALE AND TRANSFER**) **OF STOCK, ASSETS AND**) **OPERATING AUTHORITY**)

CK Holdings, LLC ("Applicant") and Haig Point, Inc., on behalf of Haig Point Utility Company, Inc. ("Present Certificate Holder" or "Joint Applicant") (collectively "Joint Applicants"), pursuant to South Carolina Regulations R.103-504 and 103-704, and other applicable Rules and Regulations of the Public Service Commission of South Carolina (the "Commission"), hereby request that the Commission approve the sale and transfer of the ownership of the water and sewer utility known as Haig Point Utility Company, Inc. ("HPUC"), located on Daufuskie Island, Beaufort County, South Carolina, specifically including all stock, infrastructure and all assets and income and ownership without limitation, and all rights, operating authority, and *Indicia* of ownership as broadly as those terms may be defined. In support of their Application, the Joint Applicants would show the following:

1. HPUC is presently certified by this Commission to provide water and sewer services in a specified service area, including Haig Point Plantation and the

Cedar Cove development, both located on Daufuskie Island (Exhibit A, Service Area Map);

2. HPUC is a public utility subject to the jurisdiction of the Commission;

3. HPUC is a South Carolina corporation in good standing under the laws of the State of South Carolina with its most current Articles of Incorporation on file with the Commission;

4. The Joint Applicants seek approval to transfer the stock of HPUC which includes the infrastructure, assets, income, ownership, liabilities and rights and operating authority of HPUC, as broadly as those terms may be defined;

5. All communications concerning this Application may be directed to:

Applicant	Joint Applicant
CK Holdings, LLC ATTN: Mr. Jamie J. Karabinchak 10 Liberty Street Edison, NJ 08837	Haig Point Utility Company, Inc. ATTN: Mr. Tom Connor 6400 Poplar Avenue Memphis, TN 38197
Attorney of Record	Attorney of Record
Charles A. Scarminach, Esq. Novit & Scarminach, PA The Jade Building Suite 400 52 New Orleans Road Hilton Head Island, SC 29938 Telephone: 843-785-5850	Laura J. Evans, Esq. Pratt-Thomas Walker, PA 16 Charlotte Street Charleston, SC 29403 Telephone: 843-727-2200

6. Present Certificate Holder, HPUC, by and through Haig Point, Inc., has agreed to sell and transfer and Applicant has agreed to buy all the issued and outstanding stock of HPUC and thereby receive all assets, including but not limited to, all easements and all rights and privileges contained therein and operating authority of HPUC as is more fully set forth hereinabove and

memorialized in the Stock Purchase Agreement dated October 26, 2007 (Exhibit B).

7. The transfer and sale contemplated, after regulatory approvals, will be a final transfer and sale of HPUC and Applicant assumes all liability attendant to

8. The transfer and sale contemplated herein will be carried out in accordance with and subject to the regulations of the Commission and in coordination with the customers of HPUC.

9. The Applicant possesses the skill, knowledge and expertise to operate HPUC, including the continued utilization of current HPUC employees and the contracted services of Guastella Associates (Exhibit C, Qualifications), upon the approval of this Commission.

10. This transfer, if approved by this Commission, is subject to the terms, conditions and rates previously approved by the Commission and currently governing HPUC and is subject to the terms and conditions of all permits issued by the South Carolina Department of Health and Environmental Control ("SCDHEC"), and all applicable consent orders between the HPUC and SCDHEC, if any.

11. HPUC currently has sufficient capacity to properly provide service to its customers. HPUC currently services a total of approximately two hundred ninety (290) customers, two hundred eighty six (286) of which are residential customers and four (4) of which are commercial customers.

12. Based upon the foregoing, it is in the best interest of the customers of

HPUC and in the public interest that this Commission approve the proposed transfer of HPUC, as set forth in more detail hereinabove and in Exhibit B.

13. The South Carolina Office of Regulatory Staff is being served with a copy of these pleadings.

14. SCDHEC is also being served with a copy of these pleadings.

WHEREFORE, having fully set forth the reasons in their Application, the Joint Applicants respectfully request that this Commission:

1. inquire into this matter; and

2. if substantial opposition does not develop, hear and decide this matter at an appropriate weekly agenda session; and

3. grant its approval of the transfer and sale requested hereinabove; and

4. grant such further and other relief as this Commission deems fit and proper.

PRATT-THOMAS WALKER, P.A.
P.O. Drawer 22247
Charleston, S.C. 29413-2247
Tel: (843) 727-2226

By: _____ FOR

Laura J. Evans, Esquire
Daniel S. McQueeney, Jr., Esquire
Attorneys for Haig Point Utility Co., Inc.

Subscribed and sworn to or affirmed before me
this 15th day of November, 2007

Diane A. Bolton
Notary Public for South Carolina
My Commission expires: July 9, 2009

Exhibit JFG-R6 (Page 50)

NOVIT & SCARMINACH, P.A.
Post Office Drawer 14
Hilton Head Island, SC 29938
(843) 785-5850

BY: _____
Charles A. Scarminach, Esquire
Its: Managing Shareholder
Attorney-in-Fact for CK Holdings, LLC
[a South Carolina Limited Liability Company]

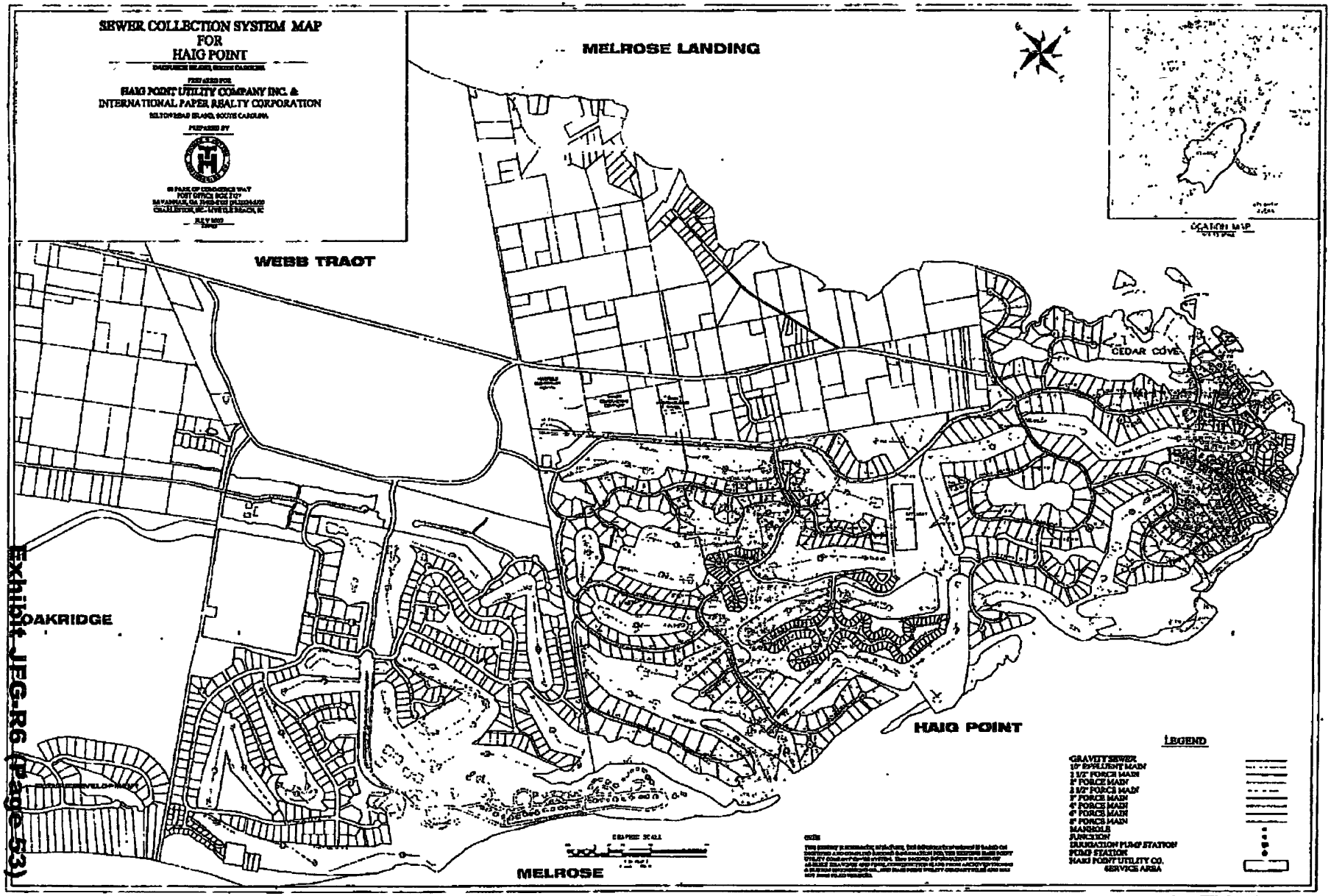
Subscribed and sworn to or affirmed before
me this 13th day of November, 2007

_____
Notary Public for South Carolina
My Commission Expires: MY COMMISSION EXPIRES SEPT. 5, 2016

Exhibit JFG-R6 (Page 51)

EXHIBIT A

[SERVICE AREA MAP]



ROA 1188

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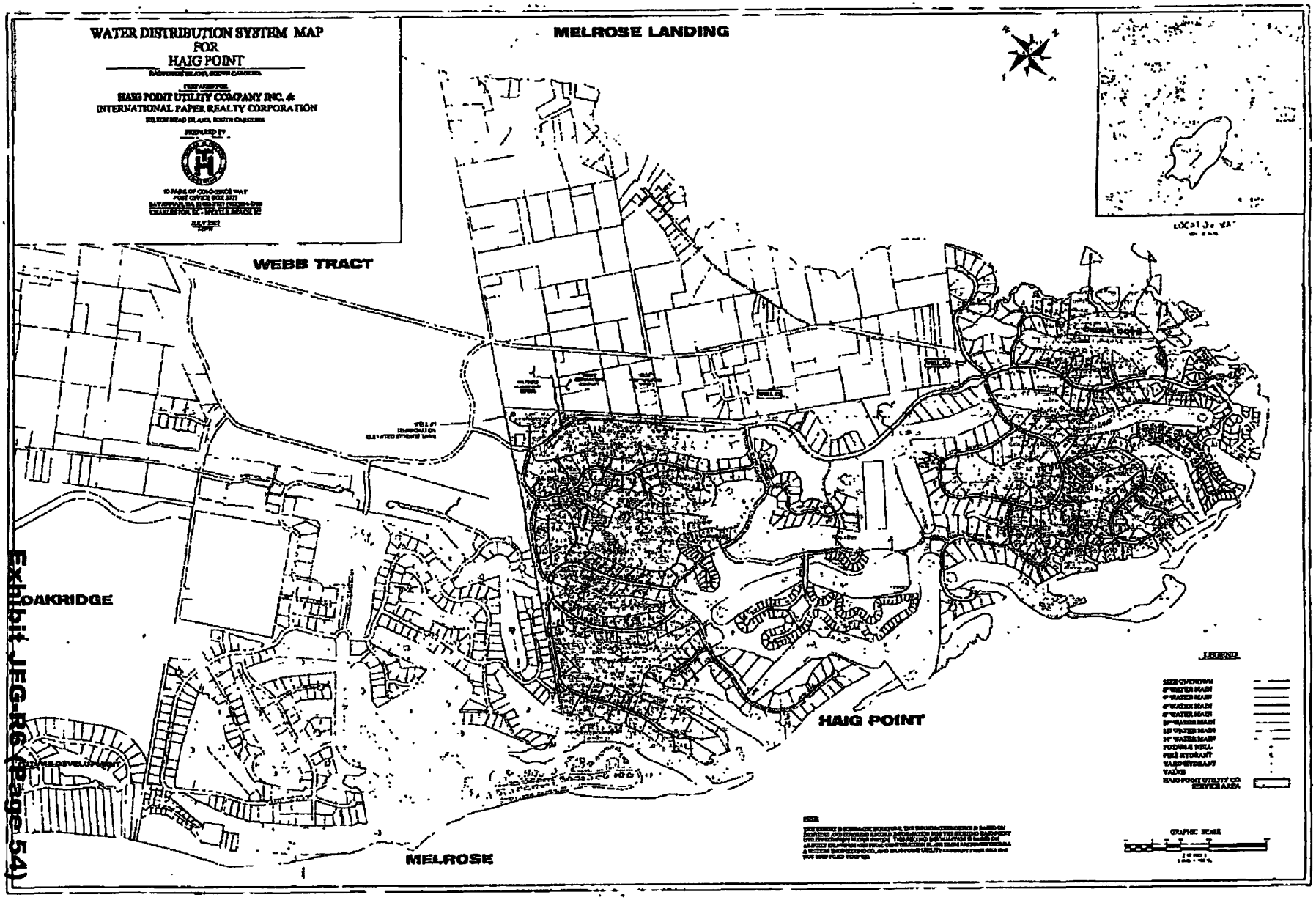


Exhibit JEG-R6 (Page 54)

ROA 1189

EXHIBIT B

[STOCK PURCHASE AGREEMENT]

EXECUTION COPY

STOCK PURCHASE AGREEMENT

BY AND BETWEEN

HAIG POINT, INC.

AND

CK MATERIALS, LLC

DATED AS OF OCTOBER 26, 2007

CLT 1072233v9

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (this "**Agreement**"), dated as of October 26, 2007 (the "**Effective Date**"), is by and between CK MATERIALS, LLC, a South Carolina limited liability company ("**Buyer**"), and HAIG POINT, INC., a Delaware corporation ("**Seller**").

WITNESSETH:

WHEREAS, Seller directly owns certain capital stock in the entities comprising the Haig Point Entities as set forth on Schedule 3.05(a) (the "**Interests**"); and

WHEREAS, Seller desires to sell, and Buyer desires to purchase, the Interests, upon the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants contained herein, the parties hereto (each, a "**Party**" and collectively, the "**Parties**") agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Definitions. Capitalized terms used in this Agreement have the meanings set forth in this Agreement. In addition, for purposes of this Agreement, the following terms, when used in this Agreement, have the meanings assigned to them in this Section 1.01.

"**Affiliate**" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person; *provided* that none of the Haig Point Entities shall be considered an Affiliate of Seller.

"**Business**" means the business conducted by the Haig Point Entities on the Effective Date with respect to the provision of water and wastewater services.

"**Business Day**" means any day that is not a Saturday, Sunday or other day on which banks are required or authorized by law to be closed in the City of New York, New York.

"**Buyer Plan**" means any "employee benefit plan", as defined in Section 3(3) of ERISA, and each other policy, program or arrangement providing for compensation, bonuses, profit-sharing, stock option or other stock-related rights or other forms of incentive or deferred compensation, vacation benefits, insurance, health, medical or dental benefits, employee assistance program, disability or sick leave benefits, severance benefits, workers' compensation, supplemental unemployment benefits and post-employment or retirement benefits which is maintained, administered or contributed to by Buyer or any of its ERISA Affiliates and covers any employee or director of Buyer or any of its ERISA Affiliates, or with respect to which Buyer or any of its ERISA Affiliates has any liability.

"**Closing Date**" means the date of the Closing.

"**Code**" means the Internal Revenue Code of 1986, as amended, from time to time.

"**Combined Tax**" means any income, franchise or similar Tax and any property Tax payable to any state, local or foreign taxing jurisdiction in which any Haig Point Entity has filed or will file a Return with a member of the Seller Group on an affiliated, consolidated, combined or unitary basis with respect to such Tax.

"**Confidentiality Agreement**" means that certain Confidentiality Agreement, dated as of September 11, 2007, between Seller and Buyer.

"**Control**" as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management of that Person, whether through ownership of voting securities or otherwise.

"**Due Diligence Period**" means the period commencing on the Effective Date and ending at 5:00 p.m. (Eastern Time) on December 15, 2007.

"**Employee Plan**" means any employee benefit plan, each written employment, severance or similar agreement and each other policy, program or arrangement providing for compensation, bonuses, profit-sharing, stock option or other stock-related rights or other forms of incentive or deferred compensation, vacation benefits, insurance, health, medical or dental benefits, employee assistance program, disability or sick leave benefits, severance benefits, workers' compensation, supplemental unemployment benefits and post-employment or retirement benefits which is maintained, administered or contributed to by any Haig Point Entity or any of their ERISA Affiliates and covers any employee or director of any Haig Point Entity or any of their ERISA Affiliates, or with respect to which any Haig Point Entity or any of their ERISA Affiliates has any liability.

"**Environmental Laws**" means all United States federal, state and local laws, rules and regulations, in existence as of the Closing Date, where the Business currently is conducted, any of which govern (or purport to govern) or relate to pollution, protection of the environment, Releases or threatened Releases of Hazardous Substances, solid or hazardous waste, as any of these terms are or may be defined in such statutes, laws, rules or regulations relating to the manufacture, processing, distribution, use, treatment, storage, Release, transport or handling of Hazardous Substances and all laws and regulations with regard to record keeping, notification, disclosure and reporting requirements respecting Hazardous Substances.

"**Environmental Permit**" means any permit, approval, identification number, license or other authorization required under any applicable Environmental Law.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

"**ERISA Affiliate**" of any entity means any other entity which, together with such entity, would be treated as a single employer under Section 414 of the Code.

"**Escrow Agent**" means Chicago Title Insurance Company.

"**Federal Tax**" means any Tax imposed under Subtitle A of the Code with respect to which HPUC has filed or will file a Return with a member of the Seller Group on a consolidated basis.

"**Final Determination**" means (i) any final determination of liability in respect of a Tax that, under applicable law, is not subject to further appeal, review or modification through proceedings or otherwise (including the expiration of a statute of limitations or a period for the filing of claims for refunds, amended returns or appeals from adverse determinations), including a "determination" as defined in Section 1313(a) of the Code or execution of an Internal Revenue Service Form 870AD or (ii) the payment of Tax by Buyer, Seller or any of their respective Affiliates, whichever is responsible for payment of such Tax under applicable law, with respect to any item disallowed or adjusted by a Taxing Authority; *provided* that such responsible party determines that no action should be taken to recoup such payment and the other party agrees.

"**GAAP**" means United States generally accepted accounting principles as in effect on the Effective Date.

"**Governmental Authority**" means any supranational, national, regional, state, local, municipal, other governmental or regulatory authority, administrative body or government, department, board, body, instrumentality, commission, court or other judicial authority.

"**Haig Point Entities**" means HPMWTC and HPUC.

"**Hazardous Substance**" means any chemicals, materials or substances defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "hazardous constituents", "restricted hazardous materials", "extremely hazardous substances", "toxic substances", "contaminants", "pollutants", "toxic pollutants", or words of similar meaning and regulatory effect under any applicable Environmental Law.

"**HPMWTC**" means Haig Point / Melrose Wastewater Treatment Company, Inc., a South Carolina corporation.

"**HPUC**" means Haig Point Utility Company, Inc., a South Carolina corporation.

"**Income Taxes**" means all Taxes based upon, measured by, or calculated with respect to (a) gross or net income or gross or net receipts of profits (including any capital gains, minimum taxes and any Taxes on items of tax preference, but not including sales, use, goods and services, real or personal property transfer or other similar Taxes), (b) multiple bases (including corporate franchise, doing business or occupation Taxes) if one or more of the bases upon which such Tax may be based upon, measured by, or calculated with respect to, is described in (a) above, or (c) withholding taxes measured by, or calculated with respect to, any payments or distributions (other than wages).

"**Initial Review Period**" means the period commencing on the Effective Date and ending at 5:00 p.m. (Eastern Time) on the earlier of (a) the thirtieth (30th) day after the Effective Date and (b) November 23, 2007.

"Knowledge of Seller" means the actual knowledge of Tom Connor, Vice President and Treasurer of Seller.

"Lien" means any mortgage, pledge, lien (statutory or otherwise and including environmental and tax liens), security interest, easement, right of way, limitation, encroachment, covenant, claim, restriction, right, option, conditional sale or other title retention agreement, charge or encumbrance of any kind or nature (except for any restrictions arising under any applicable securities laws).

"Material Adverse Effect" means a material adverse effect on the business, results of operations, properties, assets or financial condition of the Business, taken as a whole, other than any event, change or effect resulting from, relating to or arising out of (a) the announcement of the execution of this Agreement and the transactions contemplated hereby, including by reason of the identity of Buyer or communication by Buyer of its plans or intentions regarding operation of the Haig Point Entities or the Business, (b) any action taken by Seller or Buyer or any of their respective representatives pursuant to the terms of this Agreement or necessary to consummate the transactions contemplated by this Agreement, (c) any actions taken, or failures to take action, or such other changes or events, in each case, to which Buyer has consented, (d) any change in law, rule or regulation or GAAP or interpretations thereof applicable to the Haig Point Entities, Seller or Buyer, (e) acts of God, national or international political or social conditions, including the engagement by any nation or Person in hostilities, whether commenced before or after the Effective Date, and whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack, (f) general economic conditions in any of the geographic areas in which the Haig Point Entities operate, (g) changes or events affecting the financial, banking, currency or capital markets in general (whether in the United States or any other country or in any international market), (h) changes or events affecting the industry and markets in which the Haig Point Entities generally operate, (i) increases in water, energy, electricity, natural gas, raw materials or other operating costs or (j) any matter of which the Buyer or its representatives has actual knowledge on the Effective Date.

"Melrose" means The Melrose Group Limited Partnership, a South Carolina limited partnership, and its successors and assigns.

"Permits" means permits, licenses, variances, exemptions, orders, approvals, authorizations, certificates, franchises, qualifications, registrations, consents, notices and rights.

"Permitted Encumbrances" means (a) Liens for Taxes that are not delinquent or are being contested in good faith, (b) mechanic's, materialman's and other Liens for work, labor, materials or supplies provided with respect to such Real Property incurred in the ordinary course of business for amounts which are not delinquent or are being contested in good faith, (c) zoning, building, land use and other similar laws, rules or regulations regulating the use or occupancy of such Real Property or the activities conducted thereon that do not prevent the current use or occupancy of such Real Property or the current operation of the Business thereon, (d) Liens created in the ordinary course of business, (e) easements, rights of way, servitudes, covenants, conditions, restrictions, oil, gas or other mineral (whether similar or dissimilar) leases, rights, royalties or other interests, defects, irregularities, impediments, imperfections, exceptions in or to title, and other matters of public record in the jurisdiction where such Real Property is located

that do not prevent the current use or occupancy of such Real Property or the current operation of the Business thereon, (f) Liens identified in the Disclosure Schedules, (g) conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business, (h) Liens created by or on behalf of Buyer, and (i) other Liens that do not prevent the use of the respective underlying asset to which such Liens relate as used on the Effective Date.

"**Person**" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"**Post-Closing Tax Period**" means any Tax period beginning after the Closing Date and the portion of any Straddle Period occurring after the Closing Date.

"**Pre-Closing Tax Period**" means any Tax period ending on or prior to the Closing Date and the portion of any Straddle Period occurring on or prior to the Closing Date.

"**Real Property**" means the real property listed by address on Schedule 3.13(a) owned by any Haig Point Entity and used in the Business.

"**Release**" means any spill, emission, discharge, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching, release, presence or migration of Hazardous Substances in or into the environment above regulatory standards or into or out of any property.

"**Seller Group**" means, with respect to federal and foreign Income Taxes, the affiliated group of corporations (as defined in Section 1504(a) of the Code and any similar provision of foreign law) of which Seller is a member and, with respect to state income, property or franchise Taxes, the consolidated, combined or unitary group of which Seller or any of its Affiliates is a member.

"**Solvent**" with regard to any Person, means that (a) the sum of the assets of such Person, both at a fair valuation and at present fair salable value, exceeds its liabilities, including contingent, subordinated, unmatured, unliquidated, and disputed liabilities, (b) such Person has sufficient capital with which to conduct its business, and (c) such Person has not incurred debts, and does not intend to incur debts, beyond its ability to pay such debts as they mature. For purposes of this definition, "**debt**" means any liability on a claim, and "**claim**" means (i) a right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured or (ii) a right to an equitable remedy for breach of performance if such breach gives rise to a payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured. With respect to any such contingent liabilities, such liabilities shall be computed at the amount which, in light of all the facts and circumstances existing at the time, represents the amount which can reasonably be expected to become an actual or matured liability.

"**Stockholders Agreement**" means that certain Stockholders Agreement by and among Haig Point/Melrose Wastewater Treatment Company, Inc., a South Carolina corporation, Seller (f/k/a International Paper Realty Corporation of South Carolina) and Melrose.

"**Straddle Period**" means any taxable year or period beginning on or before and ending after the Closing Date.

"**Subsidiary**" means, with respect to any Person, any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time, directly or indirectly, owned by such Person.

"**Tax**" means (a) any tax, governmental fee or other like assessment or charge of any kind whatsoever (including withholding on amounts paid to or by any Person), together with any interest, penalty, addition to tax or additional amount imposed by a Taxing Authority, and (b) any liability for the payment of any amount of the type described in the immediately preceding clause (a) as a result of being included as a member of an affiliated, consolidated or combined group with any other corporation.

"**Tax Asset**" means any net operating loss, net capital loss, investment tax credit, foreign tax credit, charitable deduction or any other credit or tax attribute that could be carried forward or back to reduce Taxes (including deductions and credits related to alternative minimum Taxes) and losses or deductions deferred by the Code or other applicable law (including pursuant to Section 163(e)(3) or 163(j) of the Code).

"**Taxing Authority**" means any Governmental Authority responsible for the imposition of any Tax.

"**Utility & Water Laws**" means (a) all United States federal, state and local laws, rules and regulations, in existence as of the Closing Date, where the Business currently is conducted, any of which govern (or purport to govern) or relate to the ownership, operations, safety, engineering standards, recordkeeping, accounting or billing functions, ratemaking or customer relations of any public or private utility, (b) Environmental Laws, and (c) all United States federal, state and local laws, rules and regulations, in existence as of the Closing Date, where the Business currently is conducted, any of which govern (or purport to govern) or relate to water withdrawal, use, treatment, storage or discharge.

ARTICLE II
PURCHASE AND SALE

Section 2.01 Sale of the Interests. The closing (the "**Closing**") of the purchase and sale of the Interests and the consummation of the other transactions contemplated hereby shall take place at the offices of Novit & Scarminach, P.A., The Jade Building, Suite 400, 52 New Orleans Road, Hilton Head, South Carolina on December 20, 2007 or on such other date and at such other time or place as the Parties shall mutually agree. At the Closing and subject to the terms and conditions set forth in this Agreement, Seller will sell, assign and transfer to Buyer all of Seller's right, title and interest in and to the Interests, free and clear of any Liens other than Permitted Encumbrances.

Section 2.02 The Purchase Price. Upon the terms, and subject to the satisfaction or, if permissible, waiver, of the conditions of this Agreement, in consideration of the aforesaid sale,

assignment, transfer and delivery to Buyer of the Interests, at the Closing, Buyer shall pay or cause to be paid in full to Seller ($), less the Deposit (as defined below) upon Seller's full receipt thereof at the Closing, in cash by wire transfer of immediately available federal funds to the bank account(s) designated by Seller (the "**Purchase Price**"). The Purchase Price shall be allocated among the Interests as set forth on Schedule 2.02. Seller and Buyer shall (i) be bound by the allocations set forth on Schedule 2.02 for purposes of Section 8.04 ("Section 338(h)(10) Election") and determining any Taxes, (ii) prepare and file all Returns in a manner consistent with such allocations, and (iii) take no position inconsistent with such allocations in any Return, any proceeding before any Taxing Authority or otherwise. In the event any of such allocations is disputed by any Taxing Authority, the Party receiving notice of such dispute shall promptly notify and consult with the other Party concerning resolution of such dispute.

Section 2.03 Due Diligence.

(a) Due Diligence. On the Effective Date, Buyer shall deliver Dollars ($) in cash by wire transfer of immediately available federal funds (the "**Deposit**") to Escrow Agent. The Escrow Agent shall hold, administer and disburse the Deposit in accordance with the terms and conditions of the Escrow Agreement, dated as of the Effective Date, by and among Buyer, Seller and Escrow Agent (the "**Escrow Agreement**"). Except as otherwise expressly provided in this Agreement, the Deposit shall become non-refundable to Buyer upon the execution of this Agreement and shall be delivered to Seller as liquidated damages hereunder forthwith without demand, deduction, offset or delay upon termination of this Agreement. Notwithstanding anything in this Agreement to the contrary, Seller shall have the right, in its sole, absolute discretion and without any liability, to terminate this Agreement at any time during the Due Diligence Period if Seller reasonably believes Buyer is not (i) proactively conducting due diligence activities or (ii) using its reasonable best efforts to obtain the Required Approvals. If Seller terminates this Agreement pursuant to this Section 2.03(a), Buyer shall be entitled to receive a refund of the Deposit. During the Due Diligence Period, Buyer shall be entitled to perform the inspections delineated under Section 5.02 of this Agreement.

(b) Indemnification. Buyer agrees to keep the Real Property free from all Liens and to indemnify, defend and hold harmless Seller, the Haig Point Entities, their respective Affiliates, and each of their respective officers, directors, members, managers, employees, agents, advisors, representatives, successors and assigns, from and against all damages, loss, charges, judgments, penalties, fines, costs, liability, fees and expenses (including expenses of investigation or remediation, any consulting or engineering fees in connection with any action, suit or proceeding, incurred or suffered by Seller by reason of any damage to the Real Property or injury to Persons caused by Buyer and/or any of its Affiliates, agents, contractors or other representatives exercising the rights of Buyer under this Section 2.03 or Section 5.02 of this Agreement. The indemnity provided pursuant to this Section 2.03(b) shall survive the Closing and any termination of this Agreement.

(c) Termination Prior to Expiration of the Due Diligence Period. Prior to the expiration of the Initial Review Period, Buyer may terminate this Agreement for any reason in its sole discretion by means of written notice thereof to Seller and receive a refund of the Deposit. Following the expiration of the Initial Review Period and prior to the expiration of the Due Diligence Period, Buyer may terminate this Agreement by means of written notice thereof to Seller and receive a refund of the Deposit if, and only if.

(i) SCPSC, SCDHEC or any other applicable Governmental Authority has affirmatively denied a Required Approval and such denial is not subject to appeal;

(ii) Melrose exercises the right of first refusal set forth in the Stockholders Agreement; or

(iii) Buyer discovers during the course of its due diligence any liability of any of the Haig Point Entities that has had or, within one hundred eighty (180) days will have, a Material Adverse Effect.

(d) Effect of Termination Prior to Expiration of Due Diligence Period. If Buyer properly terminates this Agreement pursuant to Section 2.03(c) and Buyer is not then in breach of any of its obligations under this Agreement, Buyer shall be (i) entitled to receive the Deposit and any interest thereon, and (ii) deemed to have thereby waived all right, title and interest in and to the Interests, the Haig Point Entities, the Business, the Real Property and all other assets which may be conveyed under this Agreement, whereupon the parties thereafter shall have no further rights, liabilities or obligations under this Agreement except as otherwise provided in this Agreement. If Buyer does not notify Seller in writing of Buyer's election to terminate this Agreement pursuant to this Section 2.03 on or before the last day of the Due Diligence Period, Buyer shall be deemed to have waived its right to terminate this Agreement pursuant to this Section 2.03, and the Deposit and any interest thereon shall be fully-earned by Seller and non-refundable to Buyer.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SELLER

Except as disclosed in the disclosure schedules contained in a separate disclosure letter, a copy of which is being delivered by Seller to Buyer (the "**Disclosure Schedules**"), Seller represents and warrants to Buyer as follows:

Section 3.01 Existence and Power. Each of Seller and the Haig Point Entities is a corporation duly incorporated, validly existing and, to the extent relevant in its jurisdiction of incorporation, in good standing under the laws of its jurisdiction of incorporation and has all corporate powers required to carry on its business as now conducted.

Section 3.02 Authorization. The execution, delivery and performance by Seller of this Agreement and the Escrow Agreement, and the consummation of the transactions contemplated hereby and thereby, are within Seller's corporate powers and have been duly authorized by all

necessary corporate action on the part of Seller. Assuming the valid execution and delivery by all counterparties thereto, each of this Agreement and the Escrow Agreement constitutes a valid and binding agreement of Seller, in each case enforceable against Seller in accordance with its respective terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization and other laws affecting the enforcement of creditors' rights generally and by general principles of equity.

Section 3.03 Governmental Authorization. Except as set forth in Schedule 3.03, the execution, delivery and performance by Seller of this Agreement and the Escrow Agreement, and the consummation of the transactions contemplated hereby and thereby, require no action by or in respect of, or filing with, any Governmental Authority, other than (a) compliance with any applicable requirements of any Utility & Water Laws, (b) any such action or filing as to which the failure to make or obtain would not have, individually or in the aggregate, a Material Adverse Effect.

Section 3.04 Noncontravention. Except as set forth in Schedule 3.04, The execution, delivery and performance by Seller of this Agreement and the Escrow Agreement, and the consummation of the transactions contemplated hereby and thereby, do not and will not, violate the organizational documents of Seller or any of the Haig Point Entities.

Section 3.05 Capitalization.

(a) Schedule 3.05(a) sets forth, as of the Effective Date, a list of the Haig Point Entities, including, for each, its name, its jurisdiction of incorporation or formation, its authorized and outstanding capital stock, and the percentage of its outstanding capital stock owned by Seller.

(b) Except as set forth in Schedule 3.05(b), the Interests have been duly authorized and validly issued and are fully paid and non-assessable and are held of record by Seller, free and clear of any Liens other than Permitted Encumbrances. Except as set forth in Schedule 3.05(b), as of the Effective Date, there are no outstanding (i) obligations, options, warrants, convertible securities, exchangeable securities or other rights, agreements or other commitments relating to the capital stock of the Haig Point Entities or obligating the Haig Point Entities to issue or sell or otherwise transfer shares of capital stock of the Haig Point Entities or any securities convertible into or exchangeable for any shares of capital stock of the Haig Point Entities, (ii) obligations of any of the Haig Point Entities to repurchase, redeem or otherwise acquire any outstanding securities of any of the Haig Point Entities or to make any investment (in the form of a loan, capital contribution or otherwise) in any other Person or (iii) voting trusts, proxies, or other agreements or understandings with respect to the voting of the capital stock of the Haig Point Entities.

Section 3.06 Financial Statements. Set forth on Schedule 3.06 are (a) the unaudited balance sheet of HPUC as of December 31, 2006 and the related unaudited statement of income for the 12-month period then ended, and (b) the unaudited balance sheet of HPMWTC as of December 31, 2006 and the related unaudited statement of income for the 12-month period then ended (collectively, the "**Financial Statements**"). The Financial Statements were prepared from

the books of account and other financial records of the applicable Haig Point Entity, and fairly present, in all material respects, the financial position and results of operations of the applicable Haig Point Entity as of the dates thereof and for the period covered thereby, subject to normal year-end adjustments and except for the absence of footnote disclosure.

Section 3.07 Litigation. Except as disclosed in Schedule 3.07; there is no action, suit, investigation or proceeding pending against or, to the Knowledge of Seller, threatened against or affecting Seller or any of the Haig Point Entities or any of their respective properties before any arbitrator or Governmental Authority that would have, individually or in the aggregate, a Material Adverse Effect.

Section 3.08 Compliance with Laws and Court Orders. To the Knowledge of Seller, except as disclosed in Schedule 3.08, none of the Haig Point Entities is in violation of any applicable law, rule, regulation, judgment, injunction, order, decree or Permit, except for violations that do not have, individually or in the aggregate, a Material Adverse Effect.

Section 3.09 Certain Properties. Except as disclosed in Schedule 3.09, the Haig Point Entities have good title to, or in the case of any leased property and assets, have valid leasehold interests in, all property and assets (whether personal, tangible or intangible, but excluding Real Property which is addressed separately in Section 3.13) normally used in connection with the Business, except where the failure to have such good title or valid leasehold interests would not have, either individually or in the aggregate, a Material Adverse Effect. None of such property or assets is subject to any Lien other than Permitted Encumbrances.

Section 3.10 Employees. Schedule 3.10 sets forth a true and complete list of the titles and annual salaries of all employees of the Haig Point Entities.

Section 3.11 Employee Benefit Plans.

(a) Schedule 3.11(a) lists each Employee Plan. True and complete copies of all material Employee Plans and all amendments thereto have been made available to Buyer or its representatives.

(b) Each Employee Plan has been administered in accordance with its terms and in substantial compliance with applicable law (including, where applicable, ERISA and the Code), except where the failure to so administer such Employee Plan would not have, individually or in the aggregate, a Material Adverse Effect.

(c) There are no pending or, to the Knowledge of Seller, threatened claims (other than routine claims for benefits) by, on behalf of or against any Employee Plan, except those claims that would not have, individually or in the aggregate, a Material Adverse Effect.

Section 3.12 Environmental Matters. To the Knowledge of Seller, except as set forth in Schedule 3.12:

(a) Each of the Haig Point Entities is in material compliance with all Environmental Laws applicable to it in the conduct of the Business, except for any non-

compliance which would not, individually or in the aggregate, have a Material Adverse Effect;

(b) There has been no Release (except for Releases in accordance with Environmental Permits) of any Hazardous Substances at any of the Real Property, the condition of which remains uncured, and which requires remedial action pursuant to any Environmental Laws, except for Releases that would not, individually or in the aggregate, have a Material Adverse Effect; and

(c) Within the last twelve (12) months, no Haig Point Entity has received written notice of, and no Haig Point Entity is the subject of, any actions, causes of action, claims, investigations, demands or notices by any Person alleging liability under or noncompliance with any Environmental Law relating to the Real Property or the Business that would, individually or in the aggregate, have a Material Adverse Effect.

Section 3.13 Real Property.

(a) The applicable Haig Point Entity has fee simple title to its Real Property(ies) listed in Schedule 3.13(a), free and clear of all Liens other than Permitted Encumbrances.

(b) The Real Property constitutes all of the real property owned, leased or occupied in connection with the Business. Except as disclosed in Schedule 3.13(b), there are no parties in possession or parties having any right to occupy any of the Real Property. Except as disclosed in Schedule 3.13(b), there are no outstanding agreements, options, rights of first offer or rights of first refusal to purchase any of the Real Property. To the Knowledge of Seller, there is no pending or threatened condemnation proceeding affecting any Real Property that is material to the Business.

Section 3.14 Taxation. To the Knowledge of Seller and except as set forth in Schedule 3.14, (a) all Tax returns, statements, reports and forms (collectively, the "**Returns**") that are material and required to be filed with any Taxing Authority on or before the Closing Date with respect to any Pre-Closing Tax Period by, or with respect to, any Haig Point Entity have been, or will be, timely filed on or before the Closing Date, (b) the Haig Point Entities have timely paid all Taxes shown as due and payable on the Returns that have been filed, (c) the Returns that have been filed are true, correct and complete in all material respects at the time such Returns were filed, (d) there is no action, suit, proceeding, investigation, audit or claim now proposed or pending against or with respect to any of the Returns the unfavorable resolution of which would have, individually or in the aggregate, a Material Adverse Effect and (e) none of the assets of the Haig Point Entities are "tax-exempt use property" within the meaning of Section 168(h) of the Code or are required to be treated as "tax-exempt bond financed property" within the meaning of Section 168 of the Code.

Section 3.15 Brokers. There is no investment banker, broker, finder or other intermediary which has been retained by, or authorized to act on behalf of, Seller or any of its respective Affiliates who is entitled to any fee or commission in connection with the consummation of the transactions contemplated by this Agreement.

Section 3.16 No Material Adverse Effect. Since the date of the Financial Statements, there has not been any Material Adverse Effect, and no event has occurred or circumstance exists that is reasonably likely to result in a Material Adverse Effect.

Section 3.17 Personal Property. Schedule 3.17 sets forth a true and complete list of the material tangible personal property owned by the Haig Point Entities and used by the Haig Point Entities to operate the Business.

Section 3.18 Contracts. Schedule 3.18 sets forth a true and complete list of the material contracts to which the Haig Point Entities or any one of them is a party. Except as set forth on Schedule 3.18, each such contract is in full force and effect and has not been modified or amended in any way.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

Section 4.01 Existence and Power. Buyer is duly organized, validly existing and in good standing under the laws of the State of South Carolina and has all organizational powers required to carry on its business as now conducted.

Section 4.02 Authorization. The execution, delivery and performance by Buyer of this Agreement and the Escrow Agreement and the consummation of the transactions contemplated hereby and thereby are within the organizational powers of Buyer and have been duly authorized by all necessary organizational action on the part of Buyer. Assuming the valid execution and delivery by all counterparties thereto, each of this Agreement and the Escrow Agreement constitutes a valid and binding agreement of Buyer, in each case enforceable against Buyer in accordance with its respective terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization and other laws affecting the enforcement of creditors' rights generally and by general principles of equity.

Section 4.03 Governmental Authorization. The execution, delivery and performance by Buyer of this Agreement and the Escrow Agreement and the consummation of the transactions contemplated hereby and thereby require no action by or in respect of, or filing with, any Governmental Authority, other than (a) compliance with any Utility & Water Laws and (b) any such action or filing as to which the failure to make or obtain would not adversely affect the ability of, or timing for, Buyer to consummate the transactions contemplated by this Agreement or the Escrow Agreement.

Section 4.04 Noncontravention. The execution, delivery and performance by Buyer of this Agreement and the consummation of the transactions contemplated hereby do not and will not, violate the organizational documents of Buyer.

Section 4.05 Availability of Funds. Buyer and its Affiliates have available sufficient cash in immediately available funds to pay the Purchase Price and all costs, fees and expenses necessary to consummate the transactions contemplated by this Agreement and the Escrow Agreement.

Section 4.06 Solvency. As of the Closing, assuming satisfaction or, if permissible, waiver of the conditions of this Agreement, and after giving effect to the transactions contemplated by this Agreement, including the payment of the Purchase Price and all costs, fees and expenses necessary to consummate the transactions contemplated by this Agreement and the Escrow Agreement, Buyer will be Solvent.

Section 4.07 Purchase for Investment. Buyer is purchasing the Interests for investment for its own account and not with a view to, or for sale in connection with, any distribution thereof. Buyer (alone or together with its advisors) has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of Buyer's investment in the Interests and Buyer is capable of bearing the economic risks of such investment.

Section 4.08 Inspections; No Other Representations. Buyer is an informed and sophisticated purchaser who has engaged expert advisors, experienced in the evaluation and purchase of companies such as the Haig Point Entities as contemplated hereunder. Buyer has undertaken such investigation and has been provided with and has evaluated such documents and information as it has deemed necessary to enable it to make an informed and intelligent decision with respect to the execution, delivery and performance of this Agreement and the Escrow Agreement. Buyer acknowledges that Seller has given its complete and open access to the key employees, documents and facilities of the Haig Point Entities. Buyer will undertake prior to Closing such further investigation and request such additional documents and information as it deems necessary. Buyer agrees to accept the Interests, the Business and the Haig Point Entities in the condition they are in on the Closing Date based upon its own inspection, examination and determination with respect thereto as to all matters and without reliance upon any express or implied representations or warranties of any nature made by or on behalf of or imputed to Seller, except as expressly set forth in Article III hereof. Without limiting the generality of the foregoing, Buyer acknowledges that Seller makes no representation or warranty with respect to (a) any projections, estimates or budgets delivered to or made available to Buyer of future revenues, future results of operations, future cash flows or future financial condition (or, in each case, any component thereof) of the Haig Point Entities or the future business and operations of the Haig Point Entities or (b) any other information or documents made available to Buyer or its counsel, accountants or advisors with respect to the Haig Point Entities or their respective businesses or operations, except as expressly set forth in the representations and warranties of Seller in Article III hereof.

Section 4.09 Brokers. There is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of Buyer or any of its respective Affiliates who is entitled to any fee or commission in connection with the consummation of the transactions contemplated by this Agreement.

ARTICLE V
COVENANTS OF SELLER

Section 5.01 Conduct of the Haig Point Entities. During the period from the Effective Date until the Closing, except as set forth in Schedule 5.01 or as contemplated by this Agreement or consented to by Buyer (which consent shall not be unreasonably withheld or delayed), Seller

shall use commercially reasonable efforts to cause each of the Haig Point Entities to conduct its businesses in the ordinary course of business consistent with past practices.

Section 5.02 Access to Information.

(a) Between the Effective Date and the Closing Date, Seller shall, and shall cause the Haig Point Entities to, subject to applicable law and any applicable restrictions as to confidentiality, (i) give Buyer and its authorized representatives reasonable access to books, records, offices and other facilities and properties of the Haig Point Entities as Buyer may reasonably request, (ii) permit Buyer and its authorized representatives to make such inspections thereof as Buyer may reasonably request (except that Buyer and its representatives shall specifically be prohibited from conducting any environmental testing at any property of the Haig Point Entities), and (iii) furnish Buyer and its authorized representatives with such existing financial and operating data and other information with respect to the Haig Point Entities as Buyer may from time to time reasonably request; *provided, however*, that (A) any such access shall be provided after reasonable notice during normal business hours under the supervision of Seller's designated personnel or representatives and in such a manner as to not interfere unreasonably with the operations of the Business or the other businesses of Seller or its Affiliates, (B) neither Seller, the Haig Point Entities nor any of their Affiliates shall be required to furnish or make available such books, records or data to the extent that they are subject to a legal privilege that, in the good faith judgment of Seller, may be lost or impaired by virtue of such disclosure and (C) none of Seller, the Haig Point Entities or any of their Affiliates shall be required to provide to Buyer access to or copies of any documents or to disclose any information from individual personnel records with respect to any employee or Affected Employee, other than name, service dates, current base compensation, accrued but unused vacation, and the amount of deductibles or co-payment amounts for applicable benefits. In an effort to prevent any interference or disruption caused by such access, Seller may, at its sole discretion, reasonably limit the number of individuals and the number of visits to facilities. Buyer shall coordinate all such access with an employee or representative of Seller who will be identified to Buyer promptly after the execution of this Agreement, and shall not directly or indirectly contact any other employee of Seller, the Haig Point Entities or any of their Affiliates without the prior approval of such designated employee or representative.

(b) Subject to applicable law and any applicable restrictions as to confidentiality, any books and records relating to the Haig Point Entities that are not delivered to Buyer hereunder shall be preserved by Seller in accordance with the document retention policy of Seller as in effect on the Effective Date (including any legal holds placed on books and records relating to litigated matters) and will be made available (for review and copying) to Buyer and its authorized representatives following the Closing at Buyer's expense upon reasonable notice during normal business hours, and in a manner as to not unreasonably interfere with Seller's business to the extent reasonably required by Buyer, except (i) to the extent that such books and records are subject to a legal privilege that, in the good faith judgment of Seller, may be lost or impaired by virtue of such disclosure or (ii) for any Returns.

Section 5.03 Notices of Certain Events. Between the Effective Date and the Closing Date, Seller shall promptly notify Buyer of:

(a) any notice delivered to Seller, its Affiliates or the Haig Point Entities from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement;

(b) any notice delivered to Seller, its Affiliates or the Haig Point Entities from any Governmental Authority in connection with the transactions contemplated by this Agreement; and

(c) any actions, suits, claims, investigations or proceedings commenced relating to Seller, its Affiliates or any of the Haig Point Entities that, if pending on the Effective Date, would have been required to have been disclosed pursuant to Section 3.07.

Section 5.04 FIRPTA Certificate; Owner's Affidavit. On or prior to the Closing Date, Seller shall deliver to Buyer (a) a certificate of Seller's non-foreign status which complies with the requirements of Section 1445 of the Code and (b) an owner's affidavit in the form attached hereto as Exhibit A.

Section 5.05 Intercompany Accounts. Prior to the Closing, Seller shall settle intercompany accounts payable and accounts receivable, other than intercompany payables or receivables that will be settled following the Closing in the ordinary course of business consistent with past practice. Seller shall determine the method by which such intercompany accounts are eliminated including by means of setoff, settlement or capital contribution.

Section 5.06 Supplemental Disclosure. Seller shall have the right from time to time prior to Closing to supplement of amend the Disclosure Schedules with respect to any matter required to be set forth or described in such Disclosure Schedules; *provided, however*, that if the matter giving rise to such supplement or amendment to the Disclosure Schedules has a Material Adverse Effect, Buyer shall have the right, within five (5) days of receipt by Buyer of such supplemental or amended disclosure, to terminate this Agreement pursuant to Section 12.01(e) hereof by written notice to Seller.

Section 5.07 Accounts Payable; Accounts Receivable. Prior to the expiration of the Initial Review Period, Seller shall deliver to Buyer a schedule of the accounts receivable and accounts payable for the Haig Point Entities. Such schedule shall be true and complete as of the date noted thereon.

Section 5.08 Right of First Refusal. On the Effective Date, Seller shall request that Melrose waive its right of first refusal set forth in the Stockholders Agreement.

ARTICLE VI
COVENANTS OF BUYER

Section 6.01 Confidentiality; Access.

(a) All information concerning the Haig Point Entities that is furnished or provided to (or is developed or is based upon, in whole or in part, any such information that was furnished or provided to) Buyer, its Affiliates or any of their respective officers, directors, employees, accountants, counsel, consultants, advisors, agents or other representatives (whether furnished before or after the Effective Date, pursuant to Section 5.02, Section 5.03 or otherwise) shall be held subject to the Confidentiality Agreement. If this Agreement is terminated, Buyer and its Affiliates will, and will cause their respective officers, directors, employees, accountants, counsel, consultants, advisors, agents or other representatives to, destroy or deliver to Seller all documents and other materials, and all copies thereof, obtained by Buyer or its Affiliates or on their behalf from Seller or its Affiliates (or which was developed or based upon, in whole or in part, any such information) in connection with this Agreement and the Escrow Agreement.

(b) Buyer shall preserve and make available (for review and copying) to Seller and its authorized representatives following the Closing upon reasonable notice during normal business hours the records transferred by Seller in accordance with the document retention policy of the Haig Point Entities as in effect on the Effective Date (including any legal holds placed on books and records relating to litigated matters) and, with respect to records that may be relevant to any actual Tax audits or proceedings, such additional period as is reasonably required by Seller; *provided, however*, that Buyer shall notify Seller prior to destroying any such record during such period. Buyer shall permit, to the extent permitted by law, Seller, and any of its agents, representatives, advisors and consultants, to have reasonable access to the employees of the Haig Point Entities for information relating to periods up to and including the Closing that is reasonably requested by Seller, subject to the same types of conditions and limitations as set forth in Section 5.02(a)

(c) From and after the Closing, Buyer shall, and shall cause each of its Affiliates and the Haig Point Entities to, keep confidential and not use for any purpose all nonpublic information regarding Seller or its Affiliates (other than the Haig Point Entities) of which Buyer, its Subsidiaries, the Haig Point Entities or the Affected Employees may be aware. Buyer will cause each of the Haig Point Entities, on and after the Closing Date, to afford promptly Seller and their agents reasonable access to the properties, books, records, employees and auditors of the Haig Point Entities to the extent necessary to permit Seller to determine any matter relating to its rights and obligations hereunder or to any period ending on or before the Closing Date; *provided* that any such access by Seller and its agents shall not unreasonably interfere with the conduct of the business of Buyer. Seller will hold, and will use its best efforts to cause its officers, directors, employees, accountants, counsel, consultants, advisors and agents to hold, in confidence, unless compelled to disclose by judicial or administrative process or by other requirements of law, all confidential documents and information concerning any of the Haig Point Entities provided to it pursuant to this Section 6.01.

Section 6.02 Certain Transactions.

(a) Buyer shall not, and shall not permit any of its Affiliates to, acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of or equity in, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets if the entering into of a definitive agreement relating to or the consummation of such acquisition, merger or consolidation would reasonably be expected to (i) impose any material delay in the obtaining of, or significantly increase the risk of not obtaining, any authorizations, consents, orders, declarations or approvals of any Governmental Authority necessary to consummate the transactions contemplated by this Agreement, including the Required Approvals, (ii) significantly increase the risk of any Governmental Authority entering an order prohibiting the consummation of the transactions contemplated by this Agreement, (iii) significantly increase the risk of not being able to remove any such order on appeal or otherwise or (iv) materially delay or prevent the consummation of the transactions contemplated by this Agreement.

(b) Prior to Closing, Buyer shall not, and shall not permit any of its Affiliates to, agree to divest or otherwise dispose of, or cause the divestiture or disposition of, any of the assets of or equity in, or by any other manner, the Business, except as set forth in Section 7.02 hereof.

Section 6.03 Communications with Customers and Suppliers. Prior to the Closing, Buyer shall not, and shall cause its Affiliates and representatives not to, contact, or engage in any discussions or otherwise communicate with, any of the Haig Point Entities' customers, suppliers and others with whom the Haig Point Entities have material commercial dealings without obtaining the prior written consent of Seller (which may be given at Seller's sole discretion and, if given, conditioned on Seller or an Affiliate of Seller having the right to participate in any meetings or discussion with any such customers, suppliers or others).

Section 6.04 Sufficient Available Funds. Prior to the expiration of the Initial Review Period, Buyer shall provide Seller with evidence reasonably satisfactory to Seller that Buyer has sufficient cash in immediately available funds to complete the transactions contemplated by this Agreement, including the payment of the Purchase Price at the Closing.

Section 6.05 Release of Guarantees. Prior to the Closing, Buyer shall use its reasonable best efforts to either (a) arrange for substitute letters of credit, guarantees and other obligations on commercially reasonable terms to replace in all respects the indemnities, performance bonds, performance guarantees, other guaranty obligations, letters of credit and other similar arrangements of Seller or its Affiliates (collectively, the "**Released Parties**") in favor of any third parties with respect to obligations of the Haig Point Entities (collectively, "**Guarantees**") or (b) assume all obligations under each such Guarantee, obtaining from the creditor or other counterparty a full release of the Released Parties. To the Knowledge of Seller, Schedule 6.05 contains a true and accurate list of such Guarantees. Following the Closing, Buyer shall continue to use their reasonable best efforts to terminate, or cause Buyer or one of its Affiliates to be substituted in all respects for the Released Parties in respect of, all obligations of the Released

Parties under any such Guarantees. Buyer shall, to the extent the beneficiary or counterparty under any Guarantee refuses to accept such a substitute letter of credit, guarantee or other obligation, (i) obtain a back-up letter of credit on behalf of Seller, (ii) indemnify and hold harmless the Released Parties for any Seller Damages arising from such Guarantees that relate to events or circumstances arising after the Closing, and (iii) not permit any of the Haig Point Entities to renew or extend the term of or increase its obligations under, or transfer to another third party, any loan, lease, contract or other obligation for which any Released Party is or would reasonably be expected to be liable under such Guarantee. To the extent that any Released Party has performance obligations under any such Guarantee, Buyer shall use its reasonable best efforts to (i) perform such obligations on behalf of such Released Party or (ii) otherwise take such action as reasonably requested by Seller so as to put such Released Party in the same position as if Buyer, and not such Released Party, had performed or was performing such obligations.

ARTICLE VII
COVENANTS OF BUYER AND SELLER

Section 7.01 Reasonable Best Efforts.

(a) Upon the terms and subject to the conditions of this Agreement, each of the Parties shall use its reasonable best efforts to take, or cause to be taken, all appropriate actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement and the Escrow Agreement as promptly as practicable including (i) the preparation and filing of all forms, registrations and notices required to be filed to consummate the transactions contemplated by this Agreement and the Escrow Agreement and the taking of such actions as are necessary to obtain any requisite approvals, consents, orders, exemptions or waivers by any third party or Governmental Authority, including submission of a request that Melrose waive its right of first refusal set forth in the Stockholders Agreement, and (ii) using its reasonable best efforts to cause the satisfaction of all conditions to Closing. Each Party shall promptly consult with the other with respect to, provide any necessary information with respect to, and provide copies of all filings made by such Party with any Governmental Authority or any other information supplied by such Party to a Governmental Authority in connection with this Agreement and the Escrow Agreement and the transactions contemplated hereby.

(b) Each Party shall promptly inform the other of any communication from any Governmental Authority regarding any of the transactions contemplated by this Agreement. If any Party or Affiliate thereof receives a request for additional information or documentary material from any such Governmental Authority with respect to the transactions contemplated by this Agreement, then such Party shall use its reasonable best efforts to make, or cause to be made, as soon as practicable and after consultation with the other Party, an appropriate response in compliance with such request.

Section 7.02 Regulatory Consents and Approvals.

(a) Without limiting the generality of the undertakings set forth in Section 7.01, Buyer shall use its reasonable best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary under all Utility & Water Laws to consummate and make effective the transactions contemplated by this Agreement, including furnishing all information required by applicable law in connection with approvals of or filings with any Governmental Authorities.

(b) In furtherance of the covenants in Section 7.02(a), prior to the expiration of the Initial Review Period, Buyer shall deliver all applications, petitions, modification requests, requests for approval, notifications, or other documentation required to obtain the approvals and Permits necessary to complete the acquisition of the Haig Point Entities and the other transactions contemplated by this Agreement (collectively, the "Required Approvals") to the South Carolina Public Service Commission ("SCPSC") and the South Carolina Department of Health and Environmental Control ("SCDHEC") and any other applicable Governmental Authority. Thereafter, Buyer shall use its reasonable best efforts to provide any additional information or data required or requested by any Governmental Authority in order to process and review said applications, petitions, modification requests, requests for approval, notifications, or other documentation necessary to complete the transactions contemplated herein, and shall provide copies of all such documents to Seller at such time as it is provided to the Governmental Authority.

(c) In connection with its efforts to obtain all Required Approvals, Buyer shall (i) promptly inform Seller of any communication received by Buyer, its Affiliates or representatives from, or proposed to be given by Buyer, its Affiliates or representatives to, any Governmental Authority and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby, (ii) permit Seller a reasonable opportunity to review and comment upon all filings and submissions to any Governmental Authorities or other Persons regarding the transactions contemplated hereby prior to submitting such filings or submissions, and (iii) promptly inform Seller of the timing and content of any communications with any Governmental Authority or, in connection with any proceeding by a private party, with any other Person, and to the extent permitted by such Governmental Authority or other Person, give Seller the opportunity to attend and participate in such meetings and conferences.

(d) If any objections are asserted with respect to the transactions contemplated by this Agreement under any Utility & Water Laws or if any objection, intervention, suit or proceeding is instituted or threatened by any Governmental Authority or any private Party challenging any of the transactions contemplated by this Agreement as violative of any Utility & Water Laws, Buyer shall use its best efforts to promptly resolve such issues. In furtherance of the foregoing, Buyer shall, and shall cause its Affiliates to, take all action, including agreeing to hold separate or to divest any of the businesses or properties or assets of Buyer or any of its Affiliates (including the Interests) and to terminate any existing relationships and contractual rights and obligations, as may be required (i) by the applicable Governmental Authority in order to resolve such objections as such

Governmental Authority may have to such transactions under any Utility & Water Laws, or (ii) by any court or other tribunal, in any action or proceeding brought by a private party or Governmental Authority challenging such transactions as violative of any Utility & Water Laws, in order to avoid the entry of, or to effect the dissolution, vacating, lifting, altering or reversal of, any order that has the effect of restricting, preventing or prohibiting the consummation of the transactions contemplated by this Agreement. In addition, Buyer shall, and shall cause its Affiliates to, vigorously defend any action or proceeding brought by a private Party or Governmental Authority challenging the transactions contemplated hereby as violative of any Utility & Water Laws, in order to avoid the entry of, or to effect the dissolution, vacating, lifting, altering or reversal of, any order that has the effect of restricting, preventing or prohibiting the consummation of the transactions contemplated by this Agreement (including by pursuing any available appeal process).

Section 7.03 Further Assurances. The Parties shall cooperate and use their respective reasonable best efforts to execute any additional documents necessary to effect the transfer of the Interests in the applicable jurisdictions. In addition, on and after the Closing Date, Seller and Buyer shall cooperate and use their respective reasonable best efforts to take or cause to be taken all appropriate actions and do, or cause to be done, all things necessary or appropriate to consummate and make effective the transactions contemplated hereby, including the execution of any additional documents or instruments of any kind, the obtaining of consents which may be reasonably necessary or appropriate to carry out any of the provisions hereof and the taking of all such other actions as such Party may reasonably be requested to take by another Party hereto from time to time, consistent with the terms of this Agreement and the Escrow Agreement, in order to effectuate the provisions and purposes of this Agreement and the Escrow Agreement and the transactions contemplated hereby and thereby. Notwithstanding the foregoing, neither Seller or its Affiliates shall be obligated to make any payments or otherwise pay any consideration to any third party to obtain any applicable consent, waiver or approval.

Section 7.04 Public Announcements. Neither Seller nor Buyer shall issue any press release or otherwise make any public announcement with respect to this Agreement and the transactions contemplated hereby without the prior consent of the other (which consent shall not be unreasonably withheld, conditioned or delayed), except as may be required by applicable law or stock exchange regulation.

Section 7.05 IP Marks. Nothing herein shall convey or be deemed to convey to Buyer any right, title or interest in or to any trademarks or service marks owned by Seller or its Affiliates, including the INTERNATIONAL PAPER mark and any variations thereof (collectively, the "**IP Marks**"). From and after the Closing, neither Buyer, the Haig Point Entities nor any of their Affiliates will have any rights to use the IP Marks.

Section 7.06 Distributions. The Parties agree that Seller shall have the right, at or prior to the Closing, to cause the Haig Point Entities to distribute all cash held by the Haig Point Entities to Seller or its Affiliates by one or more cash dividends, repurchase of existing stock and/or other distributions. No adjustment shall be made to the Purchase Price as a result of any such dividends, repurchases or other distributions paid to Seller or its Affiliates.

Section 7.07 No Ongoing or Transition Services. At the Closing, all data processing, accounting, insurance, banking, personnel, legal, communications and other services provided to the Haig Pointe Entities by Seller of any Affiliate of Seller, including any agreements or understandings (written or oral) with respect thereto, will terminate.

ARTICLE VIII
TAX MATTERS

Section 8.01 Tax Covenants.

(a) Buyer covenants that it will not cause or permit any Haig Point Entity or any Affiliate of Buyer to (i) take any action other than in the ordinary course of business, including the distribution of any dividend or the effectuation of any redemption, that could give rise to any Tax liability or reduce any Tax Asset of Seller or the Seller Group or give rise to any loss of Seller or the Seller Group under this Agreement, (ii) make any election or deemed election under Section 338 of the Code without the consent of Seller or (iii) make or change any Tax election, amend any Return or take any Tax position on any Return, take any action, omit to take any action or enter into any transaction, merger or restructuring that results in any increased Tax liability or reduction of any Tax Asset of Seller or the Seller Group in respect of any Pre-Closing Tax Period.

(b) Notwithstanding the provisions of Section 8.04(a), Buyer agrees that neither Seller nor any of its Affiliates is to have any liability for any Tax resulting from any breach of the obligations set forth in Section 8.01(a), and Buyer agrees to indemnify and hold harmless Seller and its Affiliates against any such Tax (together with any interest, penalty, addition to Tax or additional amount) and any liabilities, costs, expenses (including reasonable expenses of investigation and attorney's fees and expenses), losses, damages, assessments, settlements or judgments arising out of or incident to the imposition, assessment or assertion of any such Tax.

(c) Seller shall file, or cause to be filed, all Federal Tax and Combined Tax returns required to be filed after the Closing Date with respect to HPUC for any Pre-Closing Tax Period on or before the date that any such filing is due (taking into account any extension of a required filing date). With respect to any Straddle Period Return, upon the written request of Seller setting forth in reasonable detail the computation of the amount owed, Buyer shall pay to Seller, no later than ten (10) days prior to the due date for the applicable Return, the amount of Taxes due with respect to such Straddle Period that relate to the period beginning the day after the Closing Date. Buyer's Tax liability for a Straddle Period under the preceding sentence shall be determined on the basis of an interim closing of the books, except for any Taxes imposed on a periodic basis (e.g., property Taxes), which shall be apportioned on a pro rata per diem basis.

(d) Seller shall include HPUC in its consolidated Federal Tax return, and Seller shall include the Haig Point Entities in any applicable Combined Tax Return, as required by applicable Tax law, through the close of business on the Closing Date.

(e) Buyer shall promptly pay or cause to be paid to Seller all refunds of Taxes and interest thereon received by Buyer, any Affiliate of Buyer or any Haig Point Entity attributable to Taxes paid by Seller or any Haig Point Entity (or any predecessor or Affiliate of Seller or a Haig Point Entity) with respect to any Pre-Closing Tax Period; *provided* that Buyer shall pay to Seller any such Tax refunds paid by or on behalf of HPMWTC only up to Seller's ownership percentage of HPMWTC immediately prior to Closing and Buyer shall pay the balance of such HPMWTC refunds to Melrose.

(f) All transfer, documentary, property, value added, sales, use, stamp, registration and other similar Taxes and fees (including any penalties and interest and any Taxes imposed by way of withholding) incurred in connection with the transactions contemplated by this Agreement (including any real property transfer Tax and any similar Tax) (collectively, "**Transfer Taxes**") shall be borne and paid by Buyer, and Buyer will, at its own expense, file all necessary Returns and other documentation with respect to all such Taxes and fees, and, if required by applicable law, Seller will, and will cause its Affiliates to, join in the execution of any such Returns and other documentation. Seller shall not be responsible for any increased assessments resulting from the transactions contemplated hereby.

Section 8.02 Tax Sharing.

(a) Any and all existing Tax sharing agreements between any Haig Point Entity and any member of the Seller Group shall be terminated as of the Closing Date. After such date neither any of the Haig Point Entities, Seller nor any Affiliate of Seller shall have any further rights or liabilities thereunder. This Agreement shall be the sole Tax sharing agreement relating to any Haig Point Entity for all Pre-Closing Tax Periods.

(b) Immediately prior to the Closing, each Haig Point Entity shall pay to Seller an amount estimated by Seller to be equal to the Federal Tax liability and Combined Tax liability of such Haig Point Entity with respect to all Pre-Closing Tax Periods for which no Return has yet been filed.

Section 8.03 Cooperation on Tax Matters. Buyer and Seller agree to furnish or cause to be furnished to each other, upon request, as promptly as practicable, such information (including access to books and records) and assistance relating to the Haig Point Entities as is reasonably necessary for the filing of any Return (including any report required pursuant to Section 6043 of the Code and all Treasury Regulations promulgated thereunder), for the preparation for any audit, and for the prosecution or defense of any claim, suit or proceeding relating to any proposed adjustment. Buyer and Seller agree to retain or cause to be retained all books and records pertinent to the Haig Point Entities until the applicable period for assessment under applicable law (giving effect to any and all extensions or waivers) has expired, and to abide by or cause the abidance with all record retention agreements entered into with any Taxing Authority. Buyer agrees to give Seller reasonable notice prior to transferring, discarding or destroying any such books and records relating to Tax matters and, if Seller so requests, Buyer shall allow Seller to take possession of such books and records. Buyer and Seller shall cooperate with each other in the conduct of any audit or other proceedings involving any Haig Point Entity for any Tax

purposes and each shall execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this Section 8.03.

Section 8.04 Section 338(h)(10) Election

(a) Seller and Buyer shall jointly make and file an election under section 338(h)(10) of the Code (and any comparable provisions of state, local or foreign Tax law) with respect to the purchase of the Interests issued by HPUC and, as soon as practicable after the Closing, Seller and Buyer shall mutually prepare a Form 8023 (or successor form), with all attachments, with respect to such purchase. Buyer and the Seller shall cooperate with each other to take all actions necessary and appropriate (including filing such additional forms, returns, elections, schedules and other documents as may be required) to effect and preserve such election in accordance with the provisions of Treasury Regulations section 1.338(h)(10)-1 (or any comparable provisions of state, local or foreign Tax law) or any successor provisions.

(b) In connection with such election, on or prior to the date that is ninety (90) days prior to the last date for filing any of the elections that are required to be filed pursuant to this Section 8.04, Seller shall provide to Buyer a proposed determination of (i) the "Aggregate Deemed Sale Price," within the meaning of, and in accordance with, Treasury Regulations section 1.338-4 (the "ADSP"), of HPUC, (ii) the "Adjusted Grossed-Up Basis," within the meaning of, and in accordance with, Treasury Regulation section 1.338-5 (the "AGUB"), of the assets of HPUC, (iii) the allocation of the ADSP and the AGUB among the assets of HPUC (in accordance with Treasury Regulations sections 1.338-6 and 1.338-7). Within thirty (30) days following receipt thereof, Buyer shall have the right to object to any such determination or allocation. If Buyer objects to any such determination or allocation, the Parties shall attempt to resolve such dispute between them. If the Parties are unable to reach an agreement within thirty (30) days thereafter, then the Parties shall submit all such disputed items for resolution to a nationally recognized accounting firm mutually acceptable to Seller and Buyer, whose decision shall be final and binding upon all persons involved and whose fees and expenses shall be borne equally by the Parties. Seller and Buyer shall (i) be bound by each such determination and allocation for purposes of determining any Taxes, (ii) prepare and file their Returns on a basis consistent with each such determination and allocation, and (iii) take no position inconsistent with each such determination and allocation on any applicable Return or in any proceeding before any Taxing Authority except to the extent required by a Final Determination. In the event that any of such determinations and allocations is disputed by any Taxing Authority, the Party receiving notice of the dispute shall promptly notify the other Party of the dispute.

Section 8.05 Indemnification.

(a) If the Closing occurs, Seller shall indemnify Buyer against and agrees to hold it harmless from any (i) Federal Tax of HPUC relating to a Pre-Closing Tax Period, (ii) Combined Tax of any Haig Point Entity included on the applicable Combined Tax Return of Seller and (iii) Tax liability imposed on any Haig Point Entity pursuant to Treasury Regulations Section 1.1502-6 or any similar provision of foreign, state or local

law by reason of such Haig Point Entity ever having been a member of any consolidated, combined or unitary group of which Seller or any Affiliate of Seller is a member on or prior to the Closing Date (the sum of (i), (ii) and (iii) being referred to as a "Loss"); *provided, however*, that (A) Seller shall be obligated to make payments to Buyer pursuant to this Section 8.05(a) only to the extent that the cumulative amount that would otherwise be payable by Seller pursuant to this Section 8.05(a) (notwithstanding this proviso) exceeds the aggregate amount of the provisions for Federal Tax liabilities (in the case of HPUC) and Combined Tax liabilities (in the case of the Haig Point Entities) reflected in any financial statement of any Haig Point Entity and (B) Buyer shall not be entitled to indemnification for any Loss pursuant to this Section 8.05(a) to the extent that a Tax Asset attributable to a Pre-Closing Tax Period of a Haig Point Entity is available to offset or reduce such Loss.

(b) If the Closing occurs, Buyer shall indemnify Seller against and agrees to hold it harmless from any Tax imposed with respect to the Haig Point Entities for any Post-Closing Tax Period.

(c) If the indemnification obligation of Seller or Buyer under this Section 8.05 arises in respect of an adjustment which makes allowable to either Buyer or Seller, any of their Affiliates or, effective upon the Closing, any Haig Point Entity any deduction, amortization, exclusion from income or other allowance (a "**Tax Benefit**") which would not, but for such adjustment, be allowable, then any indemnification under this Section 8.05 shall be in an amount equal to (x) the amount otherwise due but for this Section 8.05(c), minus (y) the present value of the Tax Benefit multiplied by the Tax rate applicable to the highest level of income with respect to such Tax or, in the case of a credit, by one hundred percent (100%). The present value referred to in the preceding sentence shall be determined using a discount rate equal to the mid-term applicable federal rate in effect at the time the relevant adjustment is made and assuming that the Tax Benefit will be used at the earliest date or dates allowable by applicable law.

(d) Seller shall not be liable under this Section 8.05 for any Tax the payment of which was made without Seller's prior written consent.

ARTICLE IX
EMPLOYEES

Section 9.01 Employees and Employee Benefits.

(a) Employment. Immediately following the Closing, Buyer shall, or shall cause the Haig Point Entities to continue to employ all of the persons who are full-time or part-time employees of any of the Haig Point Entities and are employed immediately prior to the Closing Date, including any such employee who is on short-term disability leave or any approved leave of absence immediately prior to the Closing Date (collectively, the employees described above are referred to as the "**Affected Employees**"). As to each Affected Employee whose terms and conditions of employment are not governed by a collective bargaining agreement immediately prior to the Closing Date such employment or offer of employment, as the case may be, shall (i)

be on terms no less favorable in the aggregate (including with respect to position, duties, responsibilities, compensation and incentives) than those provided to such Affected Employee immediately prior to the Closing, (ii) provide for such Affected Employee to continue working at the same work location at which such Affected Employee customarily provided services prior to the Closing, and (iii) provide a base rate of pay or salary not less than the rate in effect for such Affected Employee immediately prior to the Closing Date. Each such Affected Employee who continues such employment shall be referred to herein as a "**Continuing Employee**". Buyer shall assume the employment contract of any Affected Employee who has an employment contract with Seller, any of its Affiliates or any Haig Point Entity.

(b) Substantially Equivalent Benefits. For a twelve (12) month period following the Closing, Buyer shall provide, or shall cause the Haig Point Entities to provide, each Continuing Employee with benefits that are at least substantially equivalent in the aggregate to the benefits provided to each such Continuing Employee immediately prior to the Closing; *provided* that Buyer, in providing such substantially equivalent benefits, shall not be required to provide or maintain any particular plan or benefit that was provided to or maintained for Continuing Employees prior to the Closing.

(c) Service Credit; Deductibles and Pre-Existing Conditions. Buyer agrees that, for purposes of all Buyer Plans in which the Affected Employees may participate following the Closing, credit will be given to the Affected Employees for any prior service with the Haig Point Entities, Seller or Seller's Affiliates prior to the Closing; *provided* that such crediting of service does not result in duplication of benefits; *provided, further*, that such crediting of service need not be given for benefit accrual purposes under any Buyer Plan that is a "defined benefit plan", as defined in Section 3(35) of ERISA. The Affected Employees shall also be given credit for any deductible or co-payment amounts paid in respect of the plan year in which the Closing occurs, to the extent that, following the Closing, they participate in any Buyer Plan for which deductibles or co-payments are required. Buyer shall also cause each Buyer Plan to waive any pre-existing condition, restriction or any waiting period limitation to the extent such exclusions, restrictions or limitations would be waived or have been satisfied under the terms of any Employee Plan immediately prior to the Closing.

Section 9.02 Severance Pay. In the event that any Continuing Employee who participates in Seller's employee severance plan (the "ESP") immediately prior to the Closing is discharged by Buyer or any Haig Point Entity within twelve (12) months after the Closing Date (other than for "cause" or because of such Continuing Employee's voluntary termination or retirement), then Buyer shall treat (or cause the Haig Point Entities to treat) such Continuing Employee in accordance with the provisions of the ESP and the ESP Benefits Exhibit, as referenced in Schedule 9.02. Buyer shall be responsible for the described severance and six (6) months medical and dental continuation coverage at no cost to such Continuing Employee (but not outplacement services and the post-employment Employee Assistance Program). Buyer shall maintain (or cause Haig Point Entities to maintain) the described severance and benefits program for at least twelve (12) months after the Closing Date.

Section 9.03 Vacation. As of the Closing, Buyer shall assume, or shall cause the Haig Point Entities to assume, all obligations of Seller, Haig Point Entities and any Affiliate of Seller to Affected Employees for any accrued vacation entitlement and vacation pay entitlement. Subject to applicable law, none of the Haig Point Entities, Seller nor Seller's Affiliates shall have any obligation to make any payment to Affected Employees after the Closing with respect to any such accrued vacation entitlement and vacation pay entitlement. Buyer will give the Affected Employees full credit for their respective service with the Haig Point Entities, Seller and Seller's Affiliates prior to the Closing Date for purposes of entitlement and accrual of vacation and vacation pay from and after the Closing Date.

Section 9.04 No Right of Employment. Nothing contained herein, expressed or implied, is intended to confer upon any Affected Employee any right to continued employment by Buyer, any Haig Point Entity or Seller or their respective Affiliates for any period by reason of this Agreement, except as required by applicable law. Nothing contained herein is intended to confer upon any Affected Employee any particular term or condition of employment other than as expressly specified in this Agreement.

Section 9.05 Indemnification.

(a) If the Closing occurs, Buyer shall indemnify Seller, its Affiliates and their respective officers, directors, employees, affiliates and agents and the fiduciaries (including plan administrators) of any Employee Plans against and agrees to hold each of them harmless from any and all damages and other liabilities and obligations relating to or arising out of (i) all salaries, commissions and vacation entitlement accrued but unpaid as of the Closing and post-Closing bonuses due to any Affected Employee, (ii) the liabilities assumed by Buyer under this Article IX (other than benefits accrued by Affected Employees prior to the Closing Date which are provided by Buyer's retirement plans) or any failure by Buyer to comply with the provisions of this Article IX, and (iii) any claims of, or damages or penalties brought by, any Affected Employee, or any Governmental Authority on behalf of or concerning any Affected Employee, with respect to any act or failure to act by Buyer or its Affiliates to the extent arising from the employment, discharge, layoff or termination of any Affected Employee who becomes an employee of Buyer or its Affiliates (or remains employed by a Haig Point Entity) on and after the Closing Date.

(b) If the Closing occurs, Seller shall indemnify Buyer, its Affiliates and their respective officers, directors, employees, affiliates and agents and the fiduciaries (including plan administrators) of any Buyer Plans against and agrees to hold each of them harmless from any and all damages and other liabilities and obligations relating to or arising out of (i) any failure by Seller to comply with the provisions of this Article IX, and (ii) any claims of, or damages or penalties brought by, any Affected Employee, or any Governmental Authority on behalf of or concerning any Affected Employee, with respect to any act or failure to act by Seller or its Affiliates to the extent arising from the employment, discharge, layoff or termination of any Affected Employee prior to the Closing Date.

Section 9.06 Subsequent Terminations or Lay-offs; WARN Act Compliance. Buyer shall be responsible and assume all liability for all notices or payments due to any Affected Employee, and all notices, payments, assessments due to any Governmental Authority, pursuant to any applicable federal, state, local or foreign law, common law, statute, rule or regulation with respect to the employment, discharge or layoff of employees by Buyer or any Haig Point Entity after the Closing, including the Worker Adjustment and Retraining Notification Act of 1988, as amended, and the rules or regulations promulgated thereunder (the "**WARN Act**"). For a period of ninety (90) days immediately following the Closing, Buyer shall not cause or permit any Affected Employee to suffer an "employment loss" (as defined under the WARN Act) if such employment loss would trigger the requirements of, or any liability under, the WARN Act or any similar state, local or foreign law when aggregated with any "employment losses" experienced prior to the Closing by employees of the Haig Point Entities and employees of Seller or any Affiliate of Seller who were employed primarily in connection with the Business.

ARTICLE X
CONDITIONS TO CLOSING

Section 10.01 Conditions to Obligations of Buyer and Seller. The obligations of Buyer and Seller to consummate the Closing are subject to the satisfaction of the following conditions:

(a) SCPSC, SCDHEC and all other applicable Governmental Authorities shall have granted the Required Approvals;

(b) Any applicable waiting, notice, or review period (and any extension thereto) under any Utility & Water Laws relating to the transactions contemplated hereby, which by its terms is required to have expired or been terminated prior to the Closing, shall have expired or been terminated; and

(c) No provision of any applicable law or regulation and no judgment, injunction, order or decree shall prohibit the consummation of the Closing.

Section 10.02 Conditions to Obligation of Buyer. The obligation of Buyer to effect the transactions contemplated by this Agreement shall further be subject to the satisfaction at or prior to the Closing of the following conditions, which are for the benefit of Buyer only and may be waived only by Buyer at or prior to the Closing in its sole discretion:

(a) all representations and warranties of Seller in this Agreement (without taking into account any materiality or Material Adverse Effect qualification therein) shall be true and correct as of the Closing Date with the same effect as though such representations and warranties had been made as of the Closing Date (except for representations and warranties that speak as of a specific date or time, which shall be true and correct only as of such date or time), except (i) for changes specifically contemplated or permitted by this Agreement, and (ii) where such failure to be so true and correct would not have, individually or in the aggregate, a Material Adverse Effect as of the Closing Date;

(b) Seller has in all material respects performed and complied with all of its covenants, undertakings and agreements required by this Agreement to be performed or complied with by it at or prior to the Closing;

(c) Seller shall have delivered to Buyer a certificate as to the satisfaction of the conditions set forth in Sections 10.02(a) and (b), dated as of the Closing and executed by an officer of Seller;

(d) Buyer shall have received the resignations, effective as of the Closing, of each director and officer of the Haig Point Entities who will not be a Continuing Employee;

(e) Seller shall have delivered, or caused to be delivered, to Buyer the stock certificates representing the Interests and accompanying stock powers evidencing the transfer of such stock certificates to Buyer;

(f) Seller shall have delivered, or caused to be delivered, to Buyer a certificate by the Secretary or any Assistant Secretary of Seller, dated the Closing Date, (i) certifying the effectiveness of any board or shareholder resolutions of Seller adopted in connection with this Agreement and transactions contemplated hereby, and (ii) attaching true, correct and complete copies of Seller's articles of incorporation and bylaws; and

(g) Seller shall have delivered, or caused to be delivered, to Buyer (i) a Certificate of Tax Compliance from the South Carolina Department of Revenue for each Haig Point Entity and (ii) a certificate of existence from the South Carolina Secretary of State for each Haig Point Entity.

Section 10.03 Conditions to Obligation of Seller. The obligation of Seller to effect the transactions contemplated by this Agreement shall be further subject to the satisfaction at or prior to the Closing of the following conditions, which are for the benefit of Seller only and may be waived only by Seller at or prior to the Closing in its sole discretion:

(a) all representations and warranties of Buyer in this Agreement (without taking into account any materiality qualification therein) shall be true and correct as of the Closing Date with the same effect as though such representations and warranties had been made as of the Closing Date (except for representations and warranties that speak as of a specific date or time, which shall be true and correct only as of such date or time), except (i) for changes specifically contemplated or permitted by this Agreement and (ii) where such failure to be so true and correct, individually or in the aggregate, would not have a material adverse effect on Buyer's ability to consummate the transactions contemplated hereby as of the Closing Date;

(b) Buyer shall have in all material respects performed and complied with all of its respective covenants, undertakings and agreements required by this Agreement to be performed or complied with by it at or prior to the Closing;

(c) Buyer shall have delivered to Seller a certificate as to the satisfaction of the conditions set forth in Sections 10.03(a) and (b), dated as of the Closing and executed by an officer of Buyer;

(d) The right of first refusal granted to Melrose in the Stockholders Agreement shall have expired or Melrose has waived its rights thereunder;

(e) Buyer shall have delivered, or caused to be delivered, to Seller the Purchase Price;

(f) Buyer shall have delivered, or caused to be delivered, to Seller a certificate by the Secretary of Buyer, dated the Closing Date, (i) certifying the effectiveness of any member or manager resolutions of Buyer adopted in connection with this Agreement and transactions contemplated hereby, and (ii) attaching true, correct and complete copies of Buyer's articles of organization and operating agreement; and

(g) Buyer shall have delivered, or caused to be delivered, to Seller (i) a Certificate of Tax Compliance from the South Carolina Department of Revenue for Buyer and its Affiliates and (ii) a certificate of existence from the South Carolina Secretary of State for Buyer.

ARTICLE XI
SURVIVAL; INDEMNIFICATION

Section 11.01 Survival. All representations and warranties made in this Agreement shall survive the Closing hereunder for a period of one (1) year after the Closing Date, except for representations and warranties contained in Section 3.01 (Existence and Power), Section 3.02 (Authorization), Section 3.05 (Capitalization), Section 3.14 (Taxation), Section 4.01 (Buyer's Existence and Power) and Section 4.02 (Buyer's Authorization), which shall survive for the applicable statute of limitations (such time period, the "**Indemnity Period**"). The Parties intend to shorten the applicable statute(s) of limitations and agree that no claims or causes of action may be brought against Seller, Buyer or any of their respective directors, officers, employees, Affiliates, controlling persons, agents or representatives based upon, directly or indirectly, any of the representations and warranties contained in this Agreement after the Indemnity Period or, except as provided in Section 12.02, any termination of this Agreement. For purposes of this Article XI, the provisions of Section 5.01 shall be treated as a representation and warranty. This Section 11.01 shall not limit any covenant or agreement of the Parties that contemplates performance after the Closing.

Section 11.02 Seller's Agreement to Indemnify.

(a) If the Closing occurs, subject to the terms of this Article XI, from and after the Closing, Seller shall indemnify and hold harmless Buyer and its Affiliates (each, a "**Buyer Indemnified Party**") from and against all out of pocket liabilities, claims, assessments losses, judgments, settlements, damages, costs and expenses (including reasonable attorneys' fees and expenses) (collectively, the "**Buyer Damages**") incurred by a Buyer Indemnified Party as a result of or arising out of (i) a breach of any

representation or warranty contained in Article III of this Agreement (in each case when made) or (ii) a breach in any material respect of any agreement or covenant of Seller in this Agreement (other than agreements and covenants relating to Employee Matters and Taxes, which shall be governed by Section 9.09(b) and Section 8.04). Buyer agrees that, except as contemplated by the immediately preceding sentence, from and after the Closing, the indemnification provided in this Section 11.02 is the exclusive remedy for a breach by Seller of any representation, warranty, agreement or covenant contained in this Agreement.

(b) Seller's obligations to indemnify a Buyer Indemnified Party pursuant to Sections 11.02 hereof are subject to the following limitations:

(i) No indemnification shall be made by Seller with respect to any claim ("**Buyer Claim**") unless (a) the aggregate amount of Buyer Damages incurred by the Buyer Indemnified Parties with respect to such Buyer Claim exceeds Five Thousand Dollars ($5,000) (the "**Minimum Claim Amount**") and (b) the aggregate amount of Buyer Damages, under all Buyer Claims that exceed the Minimum Claim Amount, exceeds an amount equal to Seventy-Five Thousand Dollars ($75,000) (the "**Basket Amount**") and, in such event, indemnification shall be made by Seller only for the amount by which such Buyer Damages exceed, in the aggregate, the Basket Amount;

(ii) In no event shall Seller's aggregate obligation to indemnify the Buyer Indemnified Parties exceed an amount equal to thirty percent (30%) of the Purchase Price (the "**Cap**");

(iii) In calculating amounts payable to a Buyer Indemnified Party, the amount of any indemnified Buyer Damages shall be determined without duplication of any other Buyer Damages for which a Buyer Claim has been made or could be made under any other representation, warranty, covenant, or agreement included herein;

(iv) The amount of any Buyer Damages shall be reduced by any amount actually received by a Buyer Indemnified Party with respect thereto under any insurance coverage or from any other Party alleged to be responsible therefor. If a Buyer Indemnified Party makes a claim for indemnification under Section 11.02, such Buyer Indemnified Party shall use its reasonable best efforts to collect any amounts available under such insurance coverage and from such other Party alleged to have responsibility. If a Buyer Indemnified Party receives an amount under insurance coverage or from such other Party with respect to Buyer Damages at any time subsequent to any indemnification provided by Seller pursuant to Section 11.02, then such Buyer Indemnified Party shall promptly reimburse Seller for any payment made or expense incurred by Seller in connection with providing such indemnification up to such amount received by a Buyer Indemnified Party, but net of any expenses incurred by such Buyer Indemnified Party in collecting such amount. To the extent Seller makes any indemnification payment pursuant to Section 11.02 in respect of Buyer Damages

for which a Buyer Indemnified Party has a right to recover against a third party (including an insurance company), Seller shall be subrogated to the right of the Buyer Indemnified Party to seek and obtain recovery from such third party; *provided, however*, that if Seller shall be prohibited from such subrogation, the Buyer Indemnified Party shall seek recovery from such third party on Seller's behalf and pay any such recovery to Seller;

(v) Seller shall be obligated to indemnify, subject to the terms and conditions of this Article XI, a Buyer Indemnified Party for breach of representation or warranty only for those Buyer Claims as to which the Buyer Indemnified Party has given Seller written notice prior to the end of the Indemnity Period;

(vi) Any written notice delivered by a Buyer Indemnified Party to Seller seeking indemnification pursuant to this Agreement with respect to Buyer Damages shall set forth, with as much specificity as is reasonably practicable, the basis of the claim for Buyer Damages, the sections of this Agreement which form the basis for the claim, copies of all material written materials relating to such claim and, to the extent reasonably practicable, a reasonable estimate of the amount of the Buyer Damages that have been or may be sustained by the Buyer Indemnified Party;

(vii) Any indemnity amounts payable by Seller to or on behalf of a Buyer Indemnified Party pursuant to this Agreement (including any indemnity payment made under this Article XI) shall be reduced by any Tax Benefit arising from the claim, loss or damage for which the indemnity is being paid;

(viii) If on the Closing Date, a Buyer Indemnified Party knows of any information that would cause one or more of the representations and warranties made by Seller to be inaccurate as of the date made or as of the Closing Date, Buyer shall have no right or remedy after the Closing with respect to such inaccuracy and shall be deemed to have waived its rights to indemnification in respect thereof;

(ix) Notwithstanding any other provision of this Agreement, in no event shall a Buyer Indemnified Party be entitled to indemnification pursuant to this Agreement to the extent any Buyer Damages were attributable to gross negligence or willful misconduct of a Buyer Indemnified Party; and

(x) Notwithstanding any other provision of this Agreement, neither the Basket Amount nor the Cap shall apply with respect to any Buyer Claim for Buyer Damages arising out of fraud by Seller in connection with this Agreement.

Section 11.03 Buyer's Agreement to Indemnify.

(a) If the Closing occurs, subject to the terms of this Article XI, from and after the Closing, Buyer shall indemnify and hold harmless Seller and its Affiliates (each, a "**Seller Indemnified Party**") from and against all out of pocket liabilities, claims,

assessments, losses, judgments, settlements, damages, costs and expenses (including reasonable attorneys' fees and expenses) (collectively, the "**Seller Damages**") incurred by a Seller Indemnified Party as a result of or arising out of (i) a breach of any representation or warranty contained in Article IV of this Agreement (in each case when made), (ii) a breach in any material respect of any agreement or covenant of Buyer contained herein (other than agreements and covenants relating to Employee Matters and Taxes, which shall be governed exclusively by Section 9.09 and Section 8.04) or (iii) the use, operation or ownership of the Business after the Closing. Seller agrees that, except as contemplated by the immediately preceding sentence, from and after the Closing, the indemnification provided in this Section 11.03 is the exclusive remedy for a breach by Buyer of any representation, warranty, agreement or covenant contained in this Agreement.

(b) Buyer's obligations to indemnify a Seller Indemnified Party pursuant to Section 11.03 are subject to the following limitations (for the avoidance of doubt, such limitations shall not apply to Buyer's indemnification obligations pursuant to Sections 9.9 and 8.04):

(i) No indemnification shall be made by Buyer with respect to any claim ("**Seller Claim**") unless (a) the aggregate amount of Seller Damages incurred by the Seller Indemnified Parties with respect to such Seller Claim exceeds the Minimum Claim Amount and (b) the aggregate amount of Seller Damages, under all Seller Claims that exceed the Minimum Claim Amount, exceeds the Basket Amount and, in such event, indemnification shall be made by Buyer only for the amount by which such Seller Damages exceed, in the aggregate, the Basket Amount;

(ii) In no event shall Buyer's aggregate obligation to indemnify the Seller Indemnified Parties exceed an amount equal to the Cap;

(iii) In calculating amounts payable to a Seller Indemnified Party, the amount of any indemnified Seller Damages shall be determined without duplication of any other Seller Damages for which a Seller Claim has been made or could be made under any other representation, warranty, covenant, or agreement included herein;

(iv) The amount of any Seller Damages shall be reduced by any amount actually received by a Seller Indemnified Party with respect thereto under any third party insurance coverage or from any other Party alleged to be responsible therefor. If a Seller Indemnified Party makes a claim for indemnification under Section 11.03, such Seller Indemnified Party shall use its reasonable best efforts to collect any amounts available under such insurance coverage and from such other Party alleged to have responsibility. If a Seller Indemnified Party receives an amount under insurance coverage or from such other Party with respect to Seller Damages at any time subsequent to any indemnification provided by Buyer pursuant to Section 11.03, then such Seller Indemnified Party shall promptly reimburse Buyer for any payment made or

expense incurred by Buyer in connection with providing such indemnification up to such amount received by a Seller Indemnified Party, but net of any expenses incurred by such Seller Indemnified Party in collecting such amount. To the extent Buyer makes any indemnification payment pursuant to Sections 11.03 in respect of Seller Damages for which a Seller Indemnified Party has a right to recover against a third party (including an insurance company), Buyer shall be subrogated to the right of the Seller Indemnified Party to seek and obtain recovery from such third party; *provided, however*, that if Buyer shall be prohibited from such subrogation, the Seller Indemnified Party shall seek recovery from such third party on Buyer's behalf and pay any such recovery to Buyer;

(v) Buyer shall be obligated to indemnify, subject to the terms and conditions of this Article XI, a Seller Indemnified Party for breach of representation or warranty only for those Seller Claims as to which the Seller Indemnified Party has given Buyer written notice prior to the end of the Indemnity Period;

(vi) Any written notice delivered by a Seller Indemnified Party to Buyer seeking indemnification pursuant to this Agreement with respect to Seller Damages shall set forth, with as much specificity as is reasonably practicable, the basis of the claim for Seller Damages, the sections of this Agreement which form the basis for the claim, copies of all material written materials relating to such claim and, to the extent reasonably practicable, a reasonable estimate of the amount of the Seller Damages that have been or may be sustained by the Seller Indemnified Party;

(vii) Any indemnity amounts payable by Buyer to or on behalf of a Seller Indemnified Party pursuant to this Agreement (including any indemnity payment made under this Article XI) shall be reduced by any Tax Benefit arising from the claim, loss or damage for which the indemnity is being paid;

(viii) If on the Closing Date, a Seller Indemnified Party knows of any information that would cause one or more of the representations and warranties made by Buyer to be inaccurate as of the date made or as of the Closing Date, Seller shall have no right or remedy after the Closing with respect to such inaccuracy and shall be deemed to have waived its rights to indemnification in respect thereof; and

(ix) Notwithstanding any other provision of this Agreement, in no event shall a Seller Indemnified Party be entitled to indemnification pursuant to this Agreement to the extent any Seller Damages were attributable to gross negligence or willful misconduct of a Seller Indemnified Party.

(x) Notwithstanding any other provision of this Agreement, neither the Basket Amount nor the Cap shall apply with respect to any Seller Claim for Seller Damages arising out of fraud by Buyer in connection with this Agreement.

Section 11.04 Third Party Indemnification. The obligations of any indemnifying Party to indemnify any indemnified Party under this Article XI with respect to Buyer Damages or Seller Damages, as the case may be, resulting from the assertion of liability by third parties (including Governmental Authorities) (a "**Claim**"), shall be subject to the following terms and conditions:

(a) Any Party against whom any Claim is asserted shall give the Party that may be required to provide indemnity hereunder written notice of any such Claim promptly after learning of such Claim (with such notice satisfying the requirements of Section 11.02(b)(vi) or 11 03(b)(vi), as the case may be), and the recipient of the Claim notice (the "**Notified Party**") may at its option undertake the defense thereof by representatives of its own choosing and shall provide written notice of any such undertaking to the party that provided the Claim notice (the "**Notifying Party**"). Failure to give prompt written notice of a Claim hereunder shall not affect the Notified Party's obligations under this Article XI, except to the extent that the Notified Party is actually prejudiced by such failure to give prompt written notice. The Notifying Party shall, and shall cause its employees and representatives to, cooperate with the Notified Party in connection with the settlement or defense of such Claim and shall provide the Notified Party with all available information and documents concerning such Claim. If the Notified Party, within thirty (30) days after written notice of any such Claim, fails to assume the defense of such Claim, the Notifying Party shall (upon further written notice to the Notified Party) have the right to undertake the defense, compromise or settlement of such Claim, subject to the right of the Notified Party to assume the defense of such Claim at any time prior to settlement, compromise or final determination thereof upon written notice to the Notifying Party.

(b) Anything in this Section 11.04 to the contrary notwithstanding, (i) the indemnified party shall not settle a claim for which it is indemnified without the prior written consent of the indemnifying party, which consent shall not be unreasonably withheld, conditioned or delayed and (ii) the indemnifying party shall not enter into any settlement or compromise of any action, suit or proceeding, or consent to the entry of any judgment for relief other than monetary damages to be borne by the indemnifying party, without the prior written consent of the indemnified party, which consent shall not be unreasonably withheld, conditioned or delayed.

ARTICLE XII
TERMINATION

Section 12.01 Termination. This Agreement may be terminated at any time at or prior to the Closing by

(a) mutual written consent of Seller and Buyer;

(b) either the Seller or Buyer, upon written notice to the other, if the Closing shall not have occurred on or prior to December 20, 2007 (the "**Termination Date**"); *provided, however*, that if (i) the Closing has not occurred on or prior to the Termination Date by reason of nonsatisfaction of any of the conditions set forth in Section 10.01(a), (ii)

neither Seller nor Buyer has received any indication from any Governmental Authority that any of the Required Approvals may not be granted or may not be granted within a reasonable period of time, and (iii) all conditions set forth in Section 10.03 have heretofore been satisfied or are then capable of being satisfied, then Seller may elect to either (A) terminate this Agreement and return the Deposit to Buyer, or (B) extend the Termination Date to February 29, 2008 (*provided* that at Buyer's request and with the consent of Seller which shall not be unreasonably withheld, the Termination Date may be further extended to March 31, 2008); *provided, further*, that the right to terminate this Agreement under this Section 12.01(b) shall not be available to any Party whose failure to fulfill in any material respect any obligation under this Agreement has caused or resulted in the failure of the Closing to occur on or before the Termination Date, whether or not such date has been so extended;

(c) either Seller or Buyer, upon written notice to the other, if any court of competent jurisdiction or other competent Governmental Authority shall have issued a statute, rule, regulation, order, decree or injunction or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such statute, rule, regulation, order, decree or injunction or other action shall have become final and non-appealable, unless the failure to consummate the Closing because of such action by a Governmental Authority shall be due to the failure of the Party seeking to terminate this Agreement to have fulfilled any of its obligations under Sections 7.01 and 7.02; or

(d) Buyer, within five (5) days following receipt of any supplement or amendment to the Disclosure Schedules, by written notice to Seller, if the matter which gives rise to such supplement or amendment has a Material Adverse Effect.

Section 12.02 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 12.01 hereof, (i) this Agreement (except for Section 6.01, this Section 12.02 and Article XIII) shall forthwith become void and have no effect, without any liability on the part of any Party hereto or its Affiliates and (ii) all filings, applications and other submissions made pursuant to this Agreement, to the extent practicable, shall be withdrawn from the Governmental Authority or other Person to which they were made or appropriately amended to reflect the termination of the transactions contemplated hereby; *provided, however*, that nothing contained in this Section 12.02 shall relieve any Party from liability for any intentional or willful breach of this Agreement.

ARTICLE XIII
MISCELLANEOUS

Section 13.01 Remedies.

(a) Notwithstanding any other provision of this Agreement, the representations and warranties contained in Sections 3.11, 3.12 and 3.13 are the sole and exclusive representations and warranties of Seller relating to, and shall be the sole and exclusive basis for any claim by Buyer in relation to, employee benefit matters, environmental matters and real property matters, respectively.

(b) NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, INCLUDING ARTICLE XI, IN NO EVENT SHALL BUYER OR SELLER BE LIABLE FOR, OR BEAR ANY OBLIGATION IN RESPECT OF, ANY PUNITIVE, INCIDENTAL, INDIRECT, SPECIAL, EXEMPLARY OR CONSEQUENTIAL DAMAGES OF ANY KIND OR CHARACTER OR ANY DAMAGES RELATING TO, OR ARISING OUT OF, DIMINUTION IN VALUE, LOST PROFITS, OR LIMITATIONS OR RESTRICTIONS ON BUSINESS PRACTICES.

Section 13.02 Notices. All notices, requests and other communications to any Party hereunder shall be in writing (including facsimile transmission) and shall be given (a) by personal delivery to the appropriate address as set forth below (or at such other address for the Party as shall have been previously specified in writing to the other Party), (b) by reliable overnight courier service (with confirmation) to the appropriate address as set forth below (or at such other address for the Party as shall have been previously specified in writing to the other Party), or (c) by facsimile transmission (with confirmation) to the appropriate facsimile number set forth below (or at such other facsimile number for the Party as shall have been previously specified in writing to the other Party) with follow-up copy by reliable overnight courier service the next Business Day:

(a) if to Buyer, to:

CK Materials, LLC
10 Liberty Street
Edison, New Jersey 08837
Attention: Mr. Jamie J. Karabinchak
Facsimile: (732) 738-7149

with a copy to:

Novit & Scarminach, P.A.
The Jade Building, Suite 400
52 New Orleans Road
Post Office Drawer 14
Hilton Head, SC 29938
Attention: Charles A. Scarminach
Facsimile: (843) 785-2090

and

(b) if to Seller, to:

Haig Point, Inc
c/o International Paper Company
6400 Poplar Avenue
Memphis, TN 38197
Attention: General Counsel
Facsimile: (901) 214-1248

with a copy to:

Parker Poe Adams & Bernstein LLP
200 Meeting Street, Suite 301
Charleston, SC 29401
Attention: James S. Bruce
Facsimile: (843) 727-2680

and

Pratt-Thomas Walker, PA
16 Charlotte Street
Charleston, SC 29403
Attention: Laura Johnson Evans
Facsimile: (843) 805-6531

All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. (Eastern Time) and such day is a Business Day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding Business Day.

Section 13.03 Extensions, Waivers and Amendments. At any time prior to the Closing, each of the Parties hereto may (a) extend the time for the performance of any of the obligations or acts of the other Party hereto, (b) waive any inaccuracies in the representations and warranties of the other Party contained herein or in any document delivered pursuant hereto, (c) waive compliance with any of the agreements of the other Party contained herein or (d) waive any condition to its obligations hereunder. Any agreement on the part of a Party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such Party. No failure or delay in exercising any right, power or privilege hereunder will operate as a waiver thereof, nor will any single or partial exercise thereof preclude any other or further exercise of any right, power or privilege hereunder. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by an authorized officer of each Party.

Section 13.04 Headings. The table of contents and the article, section, paragraph and other headings contained in this Agreement are inserted for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 13.05 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

Section 13.06 Entire Agreement. This Agreement, the Escrow Agreement, the Exhibits hereto, the Disclosure Schedules hereto, and the Confidentiality Agreement constitute the entire agreement between the Parties with respect to the subject matter hereof, and supersede and cancel all prior agreements, negotiations, correspondence, undertakings, understandings and communications of the Parties, oral and written, with respect to the subject matter hereof.

Section 13.07 Governing Law. THIS AGREEMENT, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF SOUTH CAROLINA, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OR CHOICE OF LAWS OR ANY OTHER LAW THAT WOULD MAKE THE LAWS OF ANY OTHER JURISDICTION OTHER THAN THE STATE OF SOUTH CAROLINA APPLICABLE HERETO.

Section 13.08 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL ACTION, CLAIM, SUIT, LITIGATION OR OTHER PROCEEDING BETWEEN THE PARTIES HERETO IN ANY COURT.

Section 13.09 Assignment. This Agreement may not be assigned by any Party without the prior written consent of the other Party; provided, however, that this Agreement may be assigned by Buyer with the prior written consent of Seller, such consent not to be unreasonably withheld, to any Affiliate of Buyer.

Section 13.10 Fees and Expenses. Whether or not the transactions contemplated by this Agreement are consummated, each Party shall bear its own fees and expenses incurred in connection with the transactions contemplated by this Agreement, except for Transfer Taxes which shall be paid by Buyer.

Section 13.11 Binding Nature; Third-Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of the Parties and their respective successors (whether by operation of law or otherwise) and permitted assigns. Except as set forth in Section 6.06, nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person or Persons any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

Section 13.12 Severability. This Agreement shall be deemed severable; the invalidity or unenforceability of any term or provision of this Agreement shall not affect the validity or enforceability of this Agreement or of any other term hereof, which shall remain in full force and effect, for so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any Party. The Parties hereby acknowledge and agree that the covenants set forth in Section 7.05 are reasonable in scope and in all other respects. If it is ever held that any restriction hereunder is too broad to permit

enforcement of such restriction to its fullest extent, each Party agrees that such restriction may be enforced to the maximum extent permitted by law, and each Party hereby consents and agrees that such scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.

Section 13.13 No Right of Setoff. Neither Party nor any Affiliate thereof may deduct from, set off, holdback or otherwise reduce in any manner whatsoever any amount owed to it hereunder or pursuant to the Escrow Agreement against any amounts owed hereunder or pursuant to the Escrow Agreement by such Persons to the other Party or any of such other Party's Affiliates.

Section 13.14 Specific Performance. The Parties agree that irreparable damage would occur in the event that any provision of this Agreement was not performed in accordance with the terms hereof and that the Parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

Section 13.15 Construction.

(a) Information disclosed in any Disclosure Schedule shall be deemed to be disclosed with respect to such other sections of this Agreement which would reasonably pertain in light of the form and substance of the disclosure made. The inclusion of information in any Disclosure Schedule shall not be construed as an admission or indication (i) that such information is material, that it could have a Material Adverse Effect or that such information is required to be referred to or disclosed in such Disclosure Schedule, or (ii) that any referenced agreement or document is enforceable or currently in effect or that there are any obligations remaining to be performed or any rights that may be exercised under such agreement or document. No information in the Disclosure Schedules relating to any possible breach or violation of any agreement, law or regulation shall be construed as an admission or indication that any such breach or violation exists or has actually occurred. Matters reflected in the Disclosure Schedules are not necessarily limited to matters required by the Agreement to be reflected in the Disclosure Schedules. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar nature. In no event shall the inclusion of any such matter in the Disclosure Schedules be deemed or interpreted to broaden the Seller's representations, warranties, covenants or agreements contained in this Agreement. The attachments to the Disclosure Schedules are an integral part of the Disclosure Schedules and are incorporated by reference for all purposes as if set forth fully therein.

(b) The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provisions of this Agreement.

(c) As used in this Agreement, all references to Seller shall refer to Seller solely in connection with the conduct of the Business.

(d) For the purposes hereof, (i) words in the singular shall be held to include the plural and vice versa, and words of one gender shall be held to include the other genders as the context requires, (ii) the words "hereof," "herein," and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole (including the Disclosure Schedules and the Exhibits attached hereto) and not to any particular provision of this Agreement, and article, section, paragraph, exhibit and schedule references are to the articles, sections, paragraphs, and exhibits and schedules of this Agreement unless otherwise specified, (iii) the words "including" and words of similar import when used in this Agreement means "including, without limitation" unless otherwise specified, (iv) the word "or" shall not be exclusive, (v) Buyer and Seller will be referred to herein individually as a "Party" and collectively as "Parties" (except where the context otherwise requires) and (vi) the phrase "transactions contemplated by this Agreement" or "transactions contemplated herein" shall include the transactions contemplated by the Exhibits and Disclosure Schedules to this Agreement.

(e) Any reference to any federal, state, local or non-U.S. statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context otherwise requires.

Section 13.16 Schedules and Exhibits. All Schedules and Exhibits hereto, including any attachments, are hereby incorporated into this Agreement and are hereby made a part hereof as if set out in full in this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have caused this Stock Purchase Agreement to be duly executed by their respective authorized officers as of the day and year first written above.

BUYER:

CK MATERIALS, LLC

By: _____
Name: Janice Kordeinchuk
Title: Managing Member

SELLER:

HAIG POINT, INC.

By: _____
Name:
Title:

CLT 10722313v9

IN WITNESS WHEREOF, the Parties have caused this Stock Purchase Agreement to be duly executed by their respective authorized officers as of the day and year first written above.

BUYER:

CK MATERIALS, LLC

By: _____
Name:
Title:

SELLER:

HAIG POINT, INC.

By: Thomas F Connor
Name: THOMAS F. CONNOR
Title: VICE PRESIDENT, TREASURER AND SECRETARY

EXHIBIT A

Form of Owner's Affidavit

STATE OF _____)
)
COUNTY OF _____)

OWNER'S AFFIDAVIT

PERSONALLY APPEARED before me, the undersigned attesting officer, _____, who being duly sworn according to law, deposes and says on oath as follows:

(a) That he is an officer of _____, a _____ corporation (the "Corporation"), and is authorized and empowered to make and does make this affidavit on behalf of the Corporation; that the averments herein are likewise made as though for and by the Corporation; that the Corporation is the owner of certain real property lying and being in _____ County, _____, a legal description of which is set forth in Exhibit A attached hereto and made a part hereof;

(b) That to the best of his knowledge there are no parties in possession other than (i) as shown in the public records of _____ County, _____, (ii) as may relate to an interest in minerals, or (iii) as shown on a boundary survey (the "Survey") recorded in Plat Book _____, Page _____, office of the Register of Deeds of _____ County, _____;

(c) That to the best of his knowledge there are no disputes concerning the boundaries of said real property except as may be shown on the Survey;

(d) That to the best of his knowledge there has been no violation of any restriction which may have been imposed upon said real property either by a predecessor in title, governmental authority, or any other person whomsoever;

(e) That the Corporation has made no improvements or repairs to said real property during the three months immediately preceding the date of this affidavit; and there are no unpaid bills of any nature, including, but not limited to, those that are due for the services of any architects, engineers or surveyors or for labor or materials for any recent work, improvements, or repairs that may have been done to said real property due and owing by the Corporation;

(f) That to the best of his knowledge there are no liens against said real property for any past due assessments for paving, sidewalk, curbing, sewer or any other street improvements of any kind; and

(g) That to the best of his knowledge there are no suits, judgments, bankruptcies, or executions pending in any court that could in any way affect the title to said real property, or constitute a lien thereon, and that the Corporation is not a surety on any bond wherein, through a default of the principal thereof, a lien would be created against said real property.

Dated this _____ day of _____, 2007.

_____
Name:

Sworn to and subscribed
before me, this _____ day of
_____ _____, 2007.

_____
Notary Public

My commission expires:

(Notarial Seal)

CLT 1072233v9

DISCLOSURE SCHEDULES

DELIVERED IN CONNECTION WITH THE
STOCK PURCHASE AGREEMENT
BY AND BETWEEN
HAIG POINT, INC. AND CK MATERIALS, LLC

October 26, 2007

These Disclosure Schedules are being furnished by Haig Point, Inc. in connection with the execution and delivery of that certain Stock Purchase Agreement (the "Agreement") by and between Haig Point, Inc. ("Seller") and CK Materials, LLC ("Buyer"). Unless context otherwise requires, all capitalized terms used in these Schedules shall have the respective meanings ascribed to them in the Agreement.

Information disclosed in any Schedule shall be deemed to be disclosed with respect to such other sections of the Agreement which would reasonably pertain in light of the form and substance of the disclosure made. The inclusion of information in any Schedule shall not be construed as an admission or indication (i) that such information is material, that it could have a Material Adverse Effect or that such information is required to be referred to or disclosed in such Schedule, or (ii) that any referenced agreement or document is enforceable or currently in effect or that there are any obligations remaining to be performed or any rights that may be exercised under such agreement or document. No information in these Disclosure Schedules relating to any possible breach or violation of any agreement, law or regulation shall be construed as an admission or indication that any such breach or violation exists or has actually occurred. Matters reflected in these Disclosure Schedules are not necessarily limited to matters required by the Agreement to be reflected in these Disclosure Schedules. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar nature. In no event shall the inclusion of any such matter in these Disclosure Schedules be deemed or interpreted to broaden the Seller's representations, warranties, covenants or agreements contained in the Agreement.

The attachments to these Disclosure Schedules are an integral part of these Disclosure Schedules and are incorporated by reference for all purposes as if set forth fully herein. These Disclosure Schedules supersede and replace any other schedules previously provided to Buyer.

* * * * *

Schedule 2.02

1. **Preliminary Purchase Price Allocation**

The preliminary purchase price allocation based on the unaudited financial statements as of December 31, 2006 is as follows:

$ - Haig Point Utility Company, Inc.
$ - Haig point / Melrose Wastewater Treatment Company, Inc.
- Total Purchase Price

2. **Preliminary Allocation of Purchase Price to Assets of Haig Point Utility Company, Inc. Based on Unaudited Balance Sheet of December 31, 2006**

(To Be Adjusted to After Closing to Reflect Closing Date Balances of Haig Point Utility Company, Inc. With Respect to Assets Acquired and Liabilities Assumed)

Class I	Cash & cash equivalents	NONE
Class II	Actively traded personal property, certificates of deposit, and foreign currency	NONE
Class III	Marked-to-market assets and debt instruments (including accounts receivable)	$
Class IV	Inventory for sale to customers	NONE
Class V	Assets not covered in Classes I-IV, VI, and VII (including land, plant, property and equipment, construction in progress)	$
Class VI	Intangible assets other than goodwill and going concern value	NONE
Class VII	Goodwill and going concern value	NONE
Total		$

Schedule 3.03
Governmental Authorizations

1. **With regard to HPUC, the following Governmental Authorizations are necessary:**

   a. South Carolina Public Service Commission/Office of Regulatory Services. Pursuant to South Carolina Regulations 103-504 and 103-704, the Seller and Buyer must obtain from the South Carolina Public Service Commission "a certificate that the sale, transfer, or acquisition is in the public interest, or that public convenience and necessity require or will require construction or operation of any utility system, or extension" for both the water and sewer operations. The petition and subsequent proceedings are governed by South Carolina Regulations 103-800, *et. seq.*, Practice and Procedure before the Public Service Commission, and by applicable South Carolina laws and regulations.

   b. South Carolina Department of Health and Environmental Control. The Seller and Buyer must complete an Application for Transfer of Operating Permit for a Public Water System, which Application must approved by the Department of Health and Environmental Control's Bureau of Water. The Seller and Buyer must complete any and all actions requested by the South Carolina Department of Health and Environmental Control to transfer any applicable operating, groundwater withdrawal, or any other current Environmental Permit or license to operate or construct applicable to any HPUC service, equipment, wells, storage tanks, or other items necessary to provide water and sewer services.

2. **With regard to HPMWTC, the following Governmental Authorizations are necessary:**

   a. South Carolina Department of Health and Environmental Control. The Seller and Buyer may have to complete certain paperwork required by the South Carolina Department of Health and Environmental Control to indicate the change in ownership percentages of the permitee under HPMWWT's discharge permit, ND0062286, and/or any other operating or other current Environmental Permit or license to operate applicable to any HPMWTC service, equipment, or other items necessary to provide wastewater treatment services.

3. **With regard to the Haig Point Entities the following Governmental Authorizations are necessary:**

   Any currently held state, county, or local business licenses may be required to be transferred or reissued by the applicable governmental authority.

Schedule 3.04

Noncontravention

1. Stockholders Agreement between Haig Point / Melrose Wastewater Treatment, Inc., International Paper Realty Corporation of South Carolina, and The Melrose Group Limited

2. Settlement Agreement between Haig Point, Inc. and Doug Corkern, et al., Case No. 2001-CP-07-803 in the Court of Common Pleas for the Fourteenth Circuit, May 25, 2005

Schedule 3.05(a)

Ownership of Haig Point Entities

Name of Company	Jurisdiction of Incorporation	Authorized Shares	Issued Shares	% of issued shares held by Haig Point Inc.
Haig Point Utility Company, Inc.	South Carolina	1,000	1,000	100%
Haig Point/Melrose Wastewater Treatment Company, Inc.	South Carolina	1,000	1,000	60%

Schedule 3.05(b)

Exceptions to Clear Title (Stock)

Stockholders Agreement between Haig Point / Melrose Wastewater Treatment, Inc., International Paper Realty Corporation of South Carolina, and The Melrose Group Limited.

Schedule 3.06

Financial Statements

Haig Point Utility System
Income Statement (Unaudited)
Year Ended December 31, 2006

	Haig Point Utility	Haig Point Wastewater	Adjustments	Billing-Melrose	Consolidated Total
Water & sewer revenues	$ 283,030		$ (3,409) (1)		$ 279,621
Water & sewer availability	123,199				123,199
Total revenues	**406,229**		**(3,409)**		**402,820**
Salaries		$ 156,559		$ (72,064)	84,495
Employee benefits		34,995		(13,998)	20,997
Supplies and maintenance	207,620	127,315	(61,710) (2)	(50,926)	222,299
Consulting fees	16,813	6,518		(2,607)	20,724
Telephone	4,178	2,172		(869)	5,481
Bad debt (income)	4,565				4,565
Heat, light & power	21,693	32,960		(13,184)	41,469
State franchise tax		980		(392)	588
Fines & penalties		11,400		(4,560)	6,840
Other (income)	(5,550)				(5,550)
Plant charge – Utility	214,288	(214,288)			0
Plant charge – Melrose		(158,600)		158,600	0
Depreciation expense	42,912	70,222			113,134
Total costs	**506,519**	**70,233**	**(61,710)**	**0**	**515,042**
Pre-tax Income (loss)	**(100,290)**	**(70,233)**	**58,301**	**0**	**(112,222)**
Add Back:					
Depreciation	**42,912**	**70,222**	**0**	**0**	**113,134**
Pre-tax Cash Flow From Operations	**$ (57,378)**	**$ (11)**	**$ 58,301**	**$ 0**	**$ 912**

(1) To adjust revenues to match calendar year 2006 billings
(2) Construction payments to BRW Construction charged as maintenance expense

CLT 1082096v3

Exhibit JFG-R6 (Page 113)

Schedule 3.06

Haig Point Utility System
Balance Sheet (Unaudited)
December 31, 2006

	Haig Point Utility	Haig Point Wastewater	Adjustments	Adjusted Total
Assets:				
Accounts receivable	$ 74,605	$ 51,432		$ 126,037
Allowance for doubtful accounts	(43,204)			(43,204)
Construction in progress	1,345,451			1,345,451
Property, plant & equipment	1,715,103	2,628,049		4,343,152
Accumulated depreciation	(165,816)	(221,250)		(387,066)
Income taxes receivable	60,940			60,940
Total Assets	**$2,987,079**	**$2,458,231**	**$ 0**	**$5,445,310**
Liabilities & Shareholders' Equity:				
Advances due to parent company	$2,394,948	$ 44,980		$2,439,928
Accounts payable	64,032	5,464		69,496
Shareholders' Equity:				
Contribution in aid of construction	289,850	91,410		381,260
Common stock	1,000	1,000		2,000
Paid in capital	1,328,041	2,420,511		3,748,552
Retained earnings	(1,090,792)	(105,134)		(1,195,926)
Total Shareholders' Equity	*528,099*	*2,407,787*		*2,935,886*
Total liabilities & equity	**$2,987,079**	**$2,458,231**	**$ 0**	**$5,445,310**

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Schedule 3.07

Litigation

Settlement Agreement between Haig Point, Inc. and Doug Corkern, et al., Case No. 2001-CP-07-803 in the Court of Common Pleas for the Fourteenth Circuit, May 25, 2005

Schedule 3.08

Compliance with Laws

None.

Schedule 3.09

Title Exceptions

None.

Schedule 3.10

Employees

Name	Job Title	Weekly Salary	Year to Date 10/14/2007	Projected Annual	
Eric Johanson	Utility Manager	$ 892.26	$ 37,474.92	$ 46,397.52	Straight salary
William Donaldson	Utility Technician	$1,077.12	$ 36,361.26	$ 47,132.46	$16.83/hour
Gerald Fahringer	Part Time	-	$ 5,730.00	$ 5,730.00	
David Griffin	Part Time	$ 160.00	$ 1,270.00	$ 2,870.00	$20/hour
Cecil L Humbert	Part Time	-	$ 1,125.00	$ 1,125.00	$20/hour
Cecil Humbert Jr.	Part Time	-	$ 14,260.00	$ 14,260.00	$15/hour
Thomas Smith	Part Time	-	$ 5,400.00	$ 5,400.00	$15/ hour
Timothy Salem	Part Time	$ 600.00	$ 24,782.70	$ 30,782.70	$15/hour
	Totals	$2,729.38	$126,403.88	$153,697.68	

Schedule 3.11(a)

Employee Benefit Plans

See attached.

Schedule 3.11(a)
Employee Benefit Plans

SCHEDULE OF BENEFITS FOR PREFERRED BLUE®

Employer Name: Haig Point, Inc.
Client Number: 45-39090-00-9
Group Number: 45-39090-00-9
Client Effective Date: July 15, 2002
Coverage Effective Date: July 15, 2007
Anniversary Date: July 15
Benefit Period: July 15th thru July 14th

	PREFERRED BLUE PROVIDERS	ALL OTHER PROVIDERS
Inpatient Facility Benefits		
All Admissions require Preadmission Review or Emergency Admission Review and Continued Stay Review.		
Hospital (other than Mental Health Services and Substance Abuse care), Skilled Nursing Facility and out-of-country Facility charges for Medically Necessary Admissions	80% of Allowable Charges	$250 per admission Copayment, then 60% of Allowable Charges
Mental Health Services and Substance Abuse Hospital charges for Medically Necessary Admissions (limited to $2,000 per Member per Benefit Period with a $10,000 Lifetime Maximum Payment combined all Facility and Physician charges)	80% of Allowable Charges	$250 per admission Copayment, then 60% of Allowable Charges
Inpatient Rehabilitation services (limited to a Lifetime Maximum Payment of $100,000 when Preauthorized by the Corporation and performed at a Provider the Corporation designates.)	80% of Allowable Charges	$250 per admission Copayment, then 60% of Allowable Charges
Outpatient Facility Benefits		
Hospital (including Emergency Room charges) or Clinic charges for medical and surgical services, preadmission testing, lab and X-ray services (including magnetic resonance imaging (MRI), CT scan and ultrasound) and all diagnostic/other miscellaneous services	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible
Mental Health Services and Substance Abuse Benefits		
Medically Necessary outpatient Hospital and Clinic and all Physician charges for Mental Health Services and Substance Abuse care (limited to $2,000 per Member per Benefit Period with a $10,000 Lifetime Maximum Payment combined all Facility and Physician charges)	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible
Physician Services		
Inpatient Physician charges for Medically Necessary Admissions in a Hospital (including initial newborn pediatric exam) and Skilled Nursing Facility, Surgery, anesthesia, radiology and pathology services (except Mental Health Services, Substance Abuse care and maternity services)	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible
Physician office charges for Second Surgical Opinion, consultation, dialysis treatment	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible

Rev. 11/06
45-39090-00-9
Ord. #12485M

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Exhibit JFG-R6 (Page 120)

SCHEDULE OF BENEFITS FOR PREFERRED BLUE
(continued)

	PREFERRED BLUE PROVIDERS	ALL OTHER PROVIDERS
Physician Services (continued)		
Physician charges for services in an outpatient Hospital or Clinic, including Surgery, (except Mental Health Services, Substance Abuse care, physical therapy and maternity services), outpatient lab and X-ray services (including magnetic resonance imaging (MRI), CT scan and ultrasound) and all other miscellaneous services	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible
Physician office charges (except Mental Health Services, Substance Abuse care, dialysis treatment, physical therapy or maternity services), diagnostic lab and X-ray services and all other miscellaneous services in conjunction with the office charge	$20 per occurrence Copayment, then 100% of Allowable Charges	60% of Allowable Charges after the Deductible
Routine OB-GYN (gynecological) examination, limited to two annually, for any female Member	$20 per occurrence Copayment, then 100% of Allowable Charges	No Benefits
Routine pap smear services, limited to one annually, or more often if recommended by a Physician	$20 per occurrence Copayment, then 100% of Allowable Charges	No Benefits
Routine prostate exams, screenings and lab work according to the most recently published American Cancer Society guidelines	$20 per occurrence Copayment, then 100% of Allowable Charges	No Benefits
Other Services		
Human Organ and Tissue Transplants When preapproved by the Corporation, Benefits are payable for all expenses for medical and surgical services and supplies incurred while covered under this Contract for human organ and/or tissue transplants. All Benefits provided during a Transplant Benefit Period will apply toward the Transplant Lifetime Maximum. Prescription Drugs, however, do not apply toward the Transplant Lifetime Maximum.	80% of Allowable Charges after the Deductible	$250 per admission Copayment, then 60% of Allowable Charges after the Deductible
Each of the following transplant procedures are subject to a Transplant Benefit Period and a Transplant Lifetime Maximum that is listed below. For transplants not listed below, the Corporation will determine the Transplant Lifetime Maximum on an individual basis.		
. Kidney (single/double) — Transplant Lifetime Maximum: $60,000		
. Pancreas and Kidney — $150,000		
. Heart — $120,000		
. Lung (single/double) — $150,000		
. Liver — $200,000		
Pancreas — $80,000		
Heart and (single/double) Lung — $200,000		
. Bone Marrow — $200,000		
When Preauthorization by the Corporation is not obtained for human organ and/or tissue transplants.	No Benefits	No Benefits
Ambulance, prosthetics, oxygen, Durable Medical Equipment (purchase or rental - Preauthorization is required if $100 or more), all other charges for out-of-country services or supplies (including outpatient Facility and Physician)	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible

SCHEDULE OF BENEFITS FOR PREFERRED BLUE
(continued)

	PREFERRED BLUE PROVIDERS	ALL OTHER PROVIDERS
Other Services (continued)		
Home Health Care and Hospice Care with the required Preauthorization	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible
Physical therapy, other than inpatient (limited to a $1,000 Maximum Payment per Member, per Benefit Period)	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible
Routine maternity services inpatient and outpatient Physician services	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible
Medical supplies, syringes and related supplies for conditions such as diabetes, dressings for conditions such as cancer or burns, catheters, ostomy bags and related supplies, test tape, surgical trays and renal dialysis supplies	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible
Spinal subluxation services (limited to a $500 Maximum Payment per Member, per Benefit Period)	Not Purchased	Not Purchased
Supplemental Accidental Injury limited to a $500 Maximum Payment per Member, per Benefit Period	Not Purchased	Not Purchased
Prescription Drugs for the promotion of growth	80% of Allowable Charges after the Deductible	60% of Allowable Charges after the Deductible
Optional Preventive Benefits		
Routine physical exam - Limited to one exam per Member, each Benefit Period, with a maximum payment of $300 each Benefit Period	100% of Allowable Charges	No Benefits
Well baby care up to age 7 and immunizations as recommended by the American Academy of Pediatrics for Dependents	$20 per occurrence Copayment, then 100% of Allowable Charges	No Benefits
	MAMMOGRAPHY NETWORK PROVIDER	**ALL OTHER PROVIDERS**
Mammography Benefits		
Routine mammography screening (annually for any female Member age 40 or older) according to the most recently published American Cancer Society guidelines. The Deductible does not apply.	100% of Allowable Charges	No Benefits

	CONTRACTING MAIL SERVICE PHARMACY	PARTICIPATING NETWORK PHARMACY	NON-PARTICIPATING NETWORK PHARMACIES
Prescription Drugs			
Drug Card Generic, Preferred and Non-Preferred Drugs	$8 Prescription Drug Copayment for each Generic Drug and $55 Prescription Drug Copayment for each Preferred Drug and $125 Prescription Drug Copayment for each Non-preferred Drug with the balance paid at 100% of the Allowable Charge. Contraceptives are included. Benefits are limited to a 31-day supply except for maintenance drugs. 90-day supply of maintenance drugs.	$4 Prescription Drug Copayment for each Generic Drug and $25 Prescription Drug Copayment for each Preferred Drug and $50 Prescription Drug Copayment for each Non-preferred Drug with the balance paid at 100% of the Allowable Charge. Contraceptives are included. Benefits are limited to a 31-day supply except for maintenance drugs. 90-day supply of maintenance drugs with 3 Prescription Drug Copayments	$4 Prescription Drug Copayment for each Generic Drug and $25 Prescription Drug Copayment for each Preferred Drug and $50 Prescription Drug Copayment for each Non-preferred Drug with the balance paid at 60% of the Allowable Charge. Contraceptives are included. Benefits are limited to a 31-day supply except for maintenance drugs. 90-day supply of maintenance drugs with 3 Prescription Drug Copayments.

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MAXIMUM PAYMENT

$2,000,000 per Member per lifetime inclusive of $10,000 for Mental Health Services and Substance Abuse care combined per Member per lifetime, $100,000 for physical rehabilitation per Member per lifetime and amounts specified for human organ and/or tissue transplants per Member per lifetime.

BENEFIT PERIOD DEDUCTIBLE

The Deductible is $250. It is limited to three Deductibles per Family per Benefit Period. Deductible amounts do not apply to the Out-of-pocket Expense.

PER-OCCURRENCE COPAYMENT

Per-occurrence Copayment amounts do not accumulate toward the Out-of-pocket Maximum, and do not stop when the Out-of-pocket Maximum is reached.

OUT-OF-POCKET EXPENSES

When Out-of-pocket Covered Expenses rendered by Preferred Blue Providers are incurred in excess of $1500 per Member or $3000 per Family for Coinsurance amounts during any Benefit Period, Covered Expenses received from Preferred Blue Providers are payable at 100% of the Allowable Charges with the exception of Mental Health Services, Substance Abuse care and Spinal Subluxation Services (if purchased).

When Out-of-pocket Covered Expenses rendered by Non-preferred Blue Providers are incurred in excess of $3000 per Member or $6000 per Family for Coinsurance amounts during any Benefit Period, Benefits for Covered Expenses for Non-preferred Blue Providers are payable at 100% of the Allowable Charges with the exception of Mental Health Services, Substance Abuse care and Spinal Subluxation Services (if purchased). The incurred Out-of-pocket Covered Expenses contribute to both Out-of-pocket Maximums. The Coinsurance for Mental Health Services, Substance Abuse care and Spinal Subluxation Services (if purchased) does not contribute to the Out-of-pocket Maximums, nor does the percentage of reimbursement change from the amount indicated on the Schedule of Benefits.

PREADMISSION REVIEW, EMERGENCY ADMISSION REVIEW AND PREAUTHORIZATION

All Admissions require Preadmission Review or Emergency Admission Review, and Continued Stay Review. All cosmetic Surgery or procedures, treatment for outpatient Mental Health Services and Substance Abuse care, Home Health Care, Hospice Care, human organ and/or tissue transplants and inpatient rehabilitation services require Preauthorization Review. The following outpatient procedures or supplies require Preauthorization: chemotherapy or radiation therapy (first treatment only), hysterectomy, septoplasty, sclerotherapy and Durable Medical Equipment (DME) when the purchase price or rental cost of the DME is $100 or more.

If Preadmission Review is not obtained for all Facility Admissions, room and board will be denied. If approval is not obtained for Emergency Admissions within 24 hours or by 5 p.m. of the next working day following the Admission, room and board will be denied. If Preauthorization is not obtained for outpatient Mental Health Services and Substance Abuse services, appropriate Benefits will be paid after a 50% reduction in the Allowable Charge. If Preauthorization is not obtained for outpatient chemotherapy or radiation therapy (first treatment only), hysterectomy, septoplasty or sclerotherapy, appropriate Benefits will be paid after a 50% reduction in the Allowable Charge. If Preauthorization is not obtained for DME $100 or more, human organ and/or tissue transplants, Home Health Care, Hospice Care, inpatient rehabilitation services (or not performed by a Provider the Corporation designates) or all cosmetic Surgery or procedures, no Benefits will be paid.

MYBLUEDENTAL[SM]
SCHEDULE OF BENEFITS

Employer Name: Haig Point, Inc.

Client No.: 45-39090-00-9
Group No.: 45-39090-00-9
Client Effective Date: July 15, 2002
Coverage Effective Date: July 15, 2007
Anniversary Date: July 15
Benefit Year: July 15th thru July 14th
Option: Standard

Class I – Preventive Care	100% of the Allowable Charge
Class II – Restorative Care	80% of the Allowable Charge
Class III – Major Restorative Care	50% of the Allowable Charge
Maximum Payment per Member per Benefit Year for Class I, Class II and Class III Benefits	$1,000
Maximum Deductible Amount per Benefit Year	$ 50 per Member 3 per Family
This Deductible applies to	_X_ Class II _X_ Class III

A Predetermination of Benefits should be filed to the Corporation when the cost of dental treatment is $100.00 or more.

[SM]Service mark of the Blue Cross and Blue Shield Association, an association of independent Blue Cross and Blue Shield Plans.

Exhibit JFG-R6 (Page 124)

Schedule 3.12

Environmental Matters

None.

Schedule 3.13(a)

Real Property

A. **HAIG POINT UTILITY COMPANY**
Haig Point
Daufuskie Island, SC:

1. Well Site #1 (1.588 acres), Haig Point
Tax ID Number: R800-022-00D-0026-0000
Acquired from Haig Point, Inc. by deed dated 2/1/01

2. Well Site #2 (1.040 acres), Haig Point
Tax ID Number: R800-022-00G-0079-0000
Acquired from Haig Point, Inc. by deed dated 2/1/01

3 Elevated Tank Site (.337 acres) (Parcel 3 Equestrian Center), Haig Point
Tax ID Number: R800-025-000-0045-0000
Acquired from Haig Point, Inc. by deed dated 4/1/01

4. Ingress/Egress & Utility Easement, Haig Point, Daufuskie Island
Tax ID Number: R800-022-00C-0070-0000
Acquired from Plantation Land Company, Inc. by deed dated 10/23/84

B. **HAIG POINT/MELROSE WASTEWATER TREATMENT COMPANY, INC.**
Haig Point
Daufuskie Island, SC:

1. 8-3 Haig Point Road – Wastewater Treatment Plant, portion of Lot 47 Cooper River Place (5.853 acres)
Tax ID# R800-025-000-0014-0000
Acquired from Haig Point/Melrose Wastewater Treatment Company, Inc.

C. **Water & Sewer Infrastructure at the locations shown on the next page.**

Disclosure Schedule Water & Sewer Assets, September 30, 2007

Project	Date of Operating Permit Issuance	Asset Life	Water	Sewer	Total
Plat 1 & Maintenance Area	2/20/87	50 Years	$ 255,905.02		$ 255,905.02
Plat 1 & Maintenance Area	5/15/87	50 Years		$ 419,380.74	419,380.74
Well No. 1 & 2	2/2/87	50 Years	353,359.82		353,359.82
Phase 1 & 2 (Partial)	2/2/88	50 Years	28,334.20	14,681.70	43,015.90
Beach Club	7/7/87	50 Years	20,247.00	23,779.00	44,026.00
Beach Club	6/11/86	50 Years	83,220.40		83,220.40
Plat 2	12/1/87	50 Years		160,253.45	160,253.45
Plat 2	3/30/94	50 Years	15,735.35		15,735.35
Plat 2	3/14/94	50 Years		42,408.70	42,408.70
Plat 3	11/24/87	50 Years	47,829.45	74,301.30	122,130.75
Plat 3	12/9/88	50 Years	14,666.50		14,666.50
Plat 4	9/22/00	50 Years		18,724.75	18,724.75
Plat 4	12/9/88	50 Years	76,068.00		76,068.00
Plat 5	9/22/00	50 Years		113,052.70	113,052.70
Plat 6	6/14/89	50 Years	33,834.00	57,729.85	91,563.85
Plat 7	3/9/89	50 Years	9,623.15	28,962.45	38,585.60
Plat 8	5/25/89	50 Years	30,740.00	55,480.80	86,220.80
Plat 9	2/26/90	50 Years	3,797.20	15,223.25	19,020.45
Plat 10	2/26/90	50 Years	68,714.50	50,880.50	119,595.00
Plat 11 Blocks A & B	1/30/91	50 Years	53,728.60	69,783.00	123,511.60
Plat 11 Blocks A & B	6/1/94	50 Years	34,888.75	75,102.50	109,991.25
Osprey Island	8/22/00	50 Years	8,264.00	10,857.00	19,121.00
Equestrian Center	9/6/90	50 Years	34,451.17	24,282.50	58,733.67
Haig Point/Melrose WWTP Phase 1	2/5/87	50 Years		797,381.00	797,381.00
Less: Melrose Portion		50 Years		(318,952.40)	(318,952.40)
Village Square	5/12/87	50 Years	6,417.20	10,795.95	17,213.15
MF-3 Townhomes (Savannah Walk)	9/2/87	50 Years	6,620.00	13,545.00	20,165.00
Clubhouse	5/15/87	50 Years	99,226.84	40,973.06	140,199.90
Clubhouse	3/3/87	50 Years	44,062.95		44,062.95
Landing Building (Strachan Mansion)	4/27/87	50 Years		24,388.00	24,388.00
Haig Point/Melrose WWTP Phase 3	10/13/03	50 Years		58,500.00	58,500.00
Less: Melrose Portion		50 Years		(23,400.00)	(23,400.00)
Plat 15	4/9/96	50 Years	63,711.00	124,856.45	188,567.45
Plat 16	4/9/96	50 Years	14,246.25	15,023.00	29,269.25
Plat 18	2/22/00	50 Years	31,576.00	55,873.75	87,449.75
Plat 19	6/30/00	50 Years	95,733.75	192,818.75	288,552.50
Plat 20	8/9/00	50 Years	78,181.75	114,142.50	192,324.25
Plat 21 (River Place)	8/22/00	50 Years	35,311.00	56,438.80	91,749.80
Plat 22	12/14/00	50 Years	63,055.15	144,077.20	207,132.35
Haig Point Effluent Transmission Line	9/24/87	50 Years		66,703.75	66,703.75
400' Square Foot Office Building			0.00	0.00	0.00
Sub-Total			$1,711,549.00	$2,628,049.00	$4,339,598.00

Submersible Lift Station Pump			$ 3,554.00		$ 3,554.00
2007 Additions:					
Elevated Water Storage Tank	PIS 2/1/2007	50 Years	863,379.24		863,379.24
Potable Water Well No. 3	PIS 2/1/2007	50 Years	439,704.73		439,704.73
Wastewater Plant Upgrades	PIS 2/1/2007	4 Years	42,334.67		42,334.67
Lift Station Upgrades	PIS 2/1/2007	4 Years	39,572.00		39,572.00
	PIS 9/1/2007	1/3/00	12,964.00		12,964.00
Sub-Total			1,397,954.64		1,397,954.64
Total Assets			$3,113,057.64	$2,628,049.00	$5,741,106.64

Schedule 3.13(b)

Exceptions to Title (Real Property)

1. Matters as set forth in that certain title report from Walter Nester dated [_____] and in any owner's policy of title insurance issued in connection with the Real Property.

2. Matters set forth in the real estate records of Beaufort County, South Carolina with respect to the Real Property

3. Agreement for Water and Sewer Service, dated June 3, 2002, by and between Haig Point Utility Company, Inc., and Widewater Dunes Limited Partnership to provide certain water and sewer services to Cedar Cove Development, Daufuskie Island, Beaufort County, South Carolina.

4. Stockholders Agreement between Haig Point / Melrose Wasterwater Treatment, Inc., International Paper Realty Corporation of South Carolina, and The Melrose Group Limited.

5. Settlement Agreement between Haig Point, Inc. and Doug Corkern, et al., Case No. 2001-CP-07-803 in the Court of Common Pleas for the Fourteenth Circuit

Schedule 3.14

Taxation

State income and franchise tax returns of International Paper Company, of which the Haig Point Entities are a part, are currently under examination by the State of Illinois for the 2003 – 2004 taxable years. There are no known audit issues specific to the Haig Point Entities.

Schedule 3.17

Personal Property

Property	Description	Year	VIN# or Serial #
Truck	Ford F-350 XL	1996	1FDKF37H9TEB80554
Truck	GMC Sierra	2005	1GTEC14X05Z254126
Hand Held Meter Device	Psion Workabout	2005	A6224000402D
Emergency Generator	175kw Caterpillar Diesel Portable		
Emergency Generator	Baldor 3000w Powerchief		
Tractor	Double Axle Light Duty		
Tractor	Single Axle 200 Gallon Fuel Transfer Tractor		
Mower	Dixie Chopper XW2000		
Pump	4" AMT Trash Pump		
Pump	2" AMT Trash Pump		
Laboratory Equipment	Fisher Scientific Model 25 PH/ION Meter		
Laboratory Equipment	YSI 5000 Dissloved Oxygen Meter		
Laboratory Equipment	YSI 550A Portable Oxygen Meter		
Office	HP5110 Office Jet Copier		
Office	Dell Optiplex 210 Computer		
Office	Brother Intellifax 2480C Fax/Copier		
Office	2 Drawer File cabinet		
Office	4 Drawer File Cabinet		
Office	4 Drawer Legal File Cabinet		
Office	(2) Standard Size desks		
Office	(2) Swivel Desk Chairs		
Boat	12 Foot Aluminum Skiff		
Trailer	35' Construction Trailer		

Schedule 3.18

Contracts

1. Agreement for Water and Sewer Service, dated June 3, 2002, by and between Haig Point Utility Company, Inc. and Widewater Dunes Limited Partnership to provide certain water and sewer services to Cedar Cove development, Daufuskie Island, Beaufort County, South Carolina.

2. Consolidation Agreement executed in February, 1985, by and between International Paper Realty Corporation of South Carolina and The Melrose Group Limited Partnership in connection with plans to develop wastewater treatment systems to accommodate their respective developments.

3. Confidentiality Agreement dated November 1, 2005, from Haig Point Club and Community Association, Inc. to International Paper Company and its affiliates.

4. Confidentiality Agreement dated November 1, 2005, from Plantation Land Properties, LLC to International Paper Company and its affiliates.

5. Settlement Agreement between Haig Point, Inc. and Doug Corkern, et al., Case No. 2001-CP-07-803 in the Court of Common Pleas for the Fourteenth Circuit

6. Stockholders Agreement between Haig Point / Melrose Wasterwater Treatment, Inc., International Paper Realty Corporation of South Carolina, and The Melrose Group Limited.

Schedule 5.01

Conduct of the Haig Point Entities

None.

Schedule 6.05

Release of Guarantees

1. Bond No. 64S104330507 (dated effective 06/09/2004) and Surety Rider thereto (dated effective 07/21/2005) executed by HPUC as Principal and by Travelers Casualty and Surety Company of America as Surety, in the amount of Three Hundred Fifty Thousand ($350,000.00) Dollars in favor of the Public Service Commission of South Carolina as Obligee
   ax
2. Bond No. 64S104330508 (dated effective 06/09/2004) and Surety Rider thereto (dated effective 07/21/2005) executed by HPUC as Principal and by Travelers Casualty and Surety Company of America as Surety, in the amount of Three Hundred Fifty Thousand ($350,000.00) Dollars in favor of the Public Service Commission of South Carolina as Obligee

3. JPMorgan Letter of Credit issued November 7, 2003 in the amount of $450,000.00 to Haig Point Club and Community Association, Inc.

Schedule 9.02

Severance Pay

None.

EXHIBIT C

[GUASTELLA ASSOCIATES QUALIFICATIONS]

John F. Guastella, President

B.S., Mechanical Engineering, Stevens Institute of Technology, 1962

Registered Professional Engineer in: Florida, New York, and New Jersey

Member:
American Water Works Association
National Association of Water Companies
American Society of Appraisers

Committees:

AWWA, Water Rates Committee (Manual M-1, 1983 Edition)

National Association of Regulatory Utility Commissioners (NARUC)

NAWC, Joint-Committee on Rate Design

NAWC, Rates and Revenue Committee

NAWC, Small Water Company Committee

Currently, Mr. Guastella is President of Guastella Associates, Inc., which provides management, valuation and rate consulting services for municipal and investor-owned utilities. His clients include utilities in half of the continental States of the USA.

Mr. Guastella also served for more than four years as President of Country Knolls Water Works, Inc., a water utility which serves some 5,500 customers in Saratoga County, New York. He also served as a member of the Board of Directors of the National Association of Water Companies.

Prior to establishing his own firm, Mr. Guastella was employed by the New York State Public Service Commission for sixteen years. For two years he was involved in the regulation of electric and gas utilities, with the remaining years devoted to the regulation of water utilities. In 1970, he was promoted to Chief of Rates and Finance in the Commission's Water Division. In 1972, he was made Assistant Director of the Water Division. In 1974, he was appointed by Alfred E. Kahn, then Chairman of the Commission, to be Director of the Water Division, a position he held until he resigned from the Commission in August, 1978.

In addition to his employment and client experience, Mr. Guastella served as Vice-Chairman of the Staff-Committee on Water of the National Association of Regulatory

Utility Commissioners (NARUC). This activity involved the preparation of the "Model Record-Keeping Manual for Small Water Companies," which was published by the NARUC. This manual provides detailed instruction on the kinds of operation and accounting records that should be kept by small water utilities, and on how to use those records.

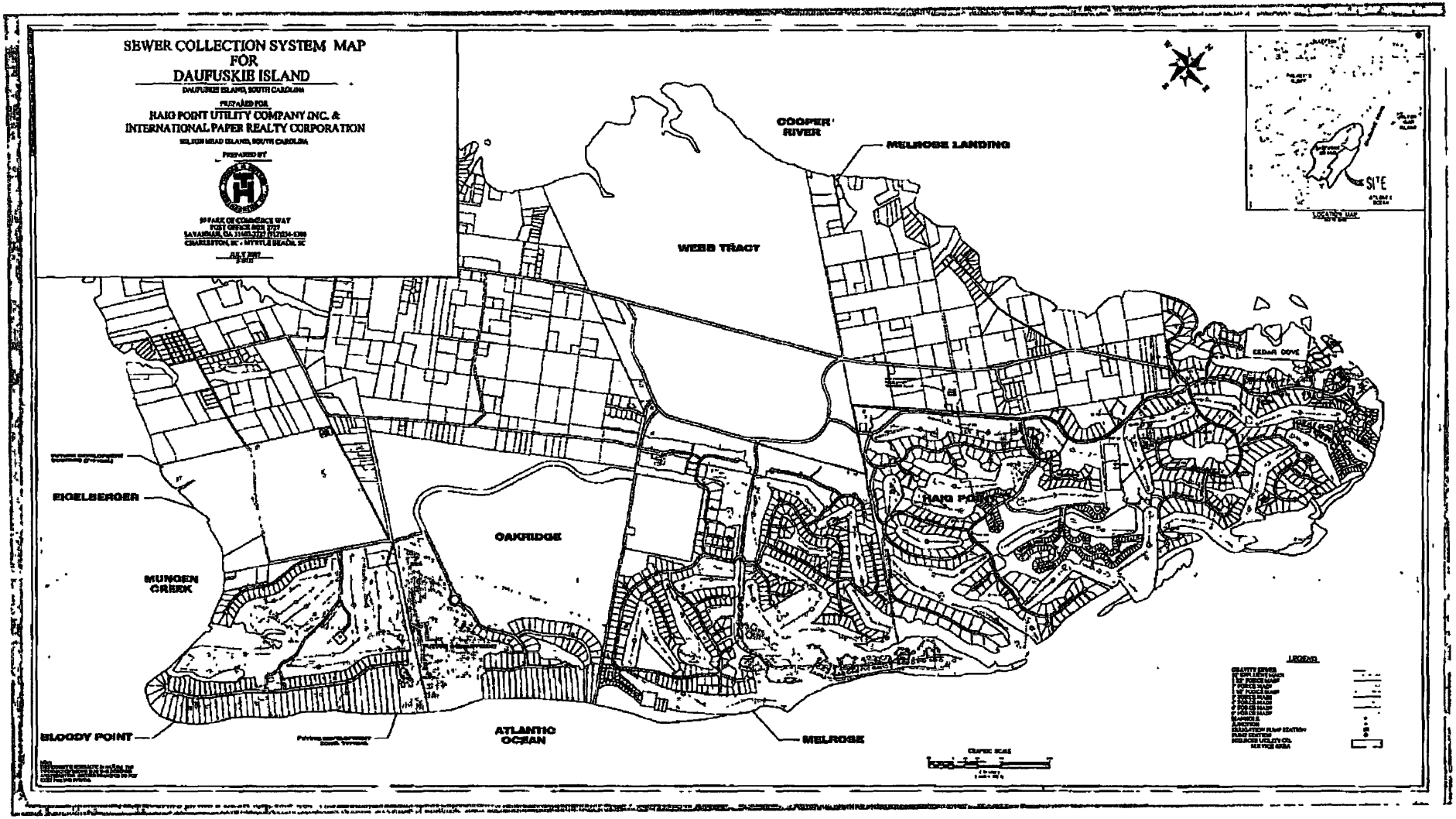
Since 1974 he has prepared study material, assisted in program coordination and served as an instructor at the Eastern Annual Seminar on Water Rate Regulation sponsored by the NARUC in conjunction with the University of South Florida, Florida Atlantic University, the University of Utah and currently Florida State University. This course is recognized as one of the best available for teaching rate-setting principles and methodology. It is attended by regulatory staff, utility personnel and accounting, engineering, legal and consulting firms throughout the country. In 1980 he was instrumental in the establishment of the Western NARUC Rate Seminar and has annually served as an instructor since that time. He has also served as an instructor and panelist in a water and sewer utility rates and regulations seminar conducted by the Independent Water and Sewer Companies of Texas.

Expert Witness

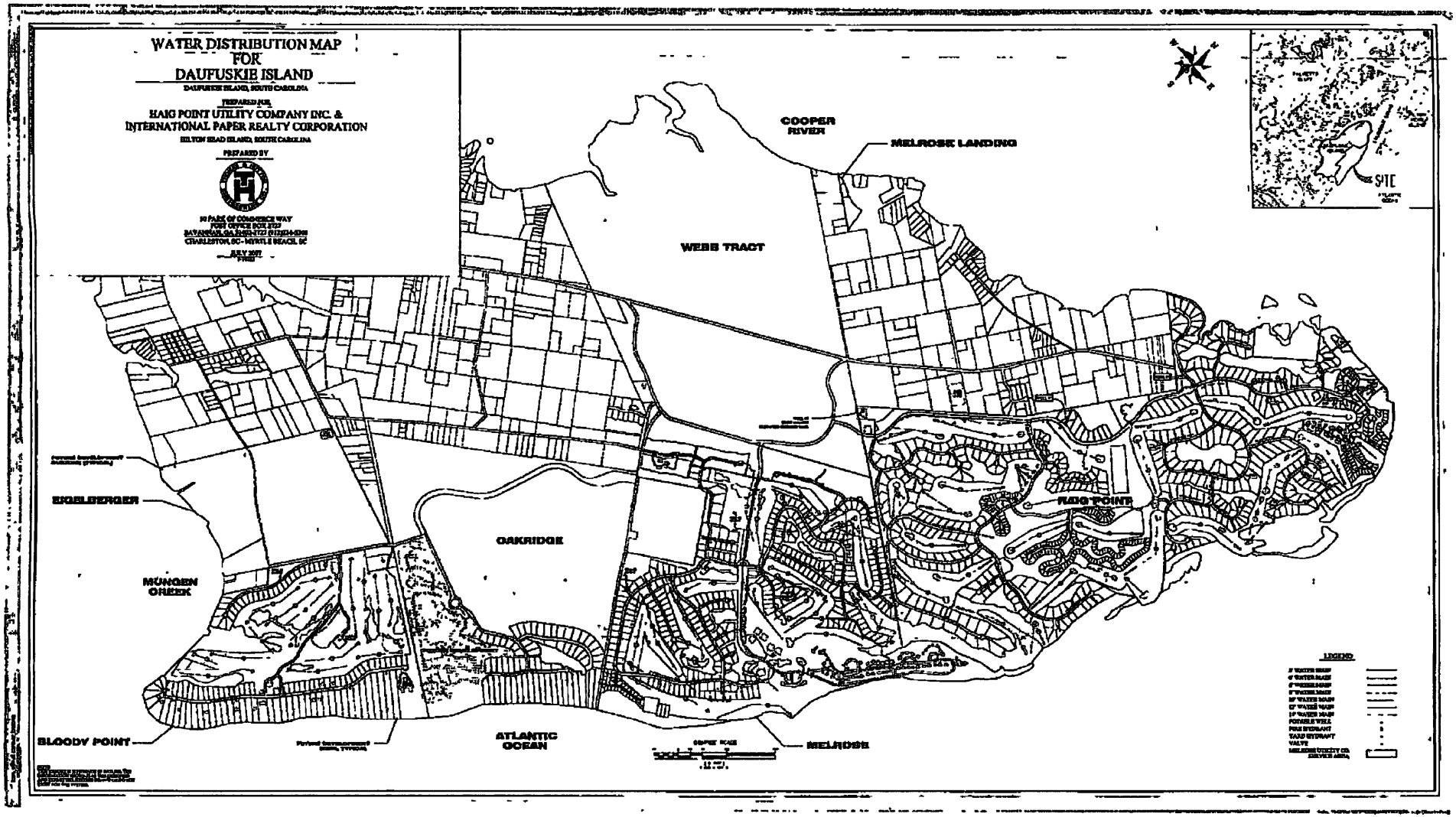
Mr. Guastella has qualified and testified as an expert witness before regulatory agencies and municipal jurisdictions in the states of Connecticut, Delaware, Florida, Illinois, Indiana, Massachusetts, Missouri, Montana, Nevada, New Mexico, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, Texas and Virginia.

Papers and Presentations

Mr. Guastella has presented papers at meetings of the National Assoeiation of Regulatory Utility Commissioners, the American Water Works Association, the National Association of Water Companies, the New England Conference of Public Utilities Commissioners, the Florida, New England and New York Chapters of NAWC, the Mid-America Regulatory Conference, the Southeastern Association of Regulatory Utility Commissioners, the Pennsylvania Environmental Conference, and the Public Utility Law Section of the New Jersey Bar Association.


SEWER COLLECTION SYSTEM MAP
FOR
DAUFUSKIE ISLAND
DAUFUSKIE ISLAND, SOUTH CAROLINA
PREPARED FOR
RAID POINT UTILITY COMPANY INC. &
INTERNATIONAL PAPER REALTY CORPORATION
HILTON HEAD ISLAND, SOUTH CAROLINA
PREPARED BY
50 PARK OF COMMERCE WAY
POST OFFICE BOX 3727
SAVANNAH, GA 31402-3727 (912)234-1300
CHARLESTON, SC - MYRTLE BEACH, SC
JULY 2007
COOPER RIVER
MELROSE LANDING
WEBB TRACT
CEDAR COVE
RAID POINT
OAKRIDGE
EIGELBERGER
MUNGEN CREEK
BLOODY POINT
ATLANTIC OCEAN
MELROSE
SITE
LOCATION MAP
LEGEND
GRAPHIC SCALE

ROA 1274


WATER DISTRIBUTION MAP
FOR
DAUFUSKIE ISLAND
DAUFUSKIE ISLAND, SOUTH CAROLINA
PREPARED FOR
HAIG POINT UTILITY COMPANY INC. &
INTERNATIONAL PAPER REALTY CORPORATION
HILTON HEAD ISLAND, SOUTH CAROLINA
PREPARED BY
COOPER RIVER
MELROSE LANDING
WEBB TRACT
SITE
EGGLEBERGER
OAKRIDGE
HAIG POINT
MUNGEN CREEK
BLOODY POINT
ATLANTIC OCEAN
MELROSE
LEGEND

ROA 1275

Certified True Copy (Electronic)

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**

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PROCEEDINGS

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

charges, filed with the Commission by Daufuskie Island Utility Company.

First of all, I'd like to ask that, if you have them with you, I'd like you to mute or cut off your cell phones, if you please.

At this time, we would like to introduce some dignitaries here and also take appearances of the attorneys who represent some of the parties.

First, as I understand it, we have Mr. Mike Guastella, who is here from Daufuskie Island Utility Company.

We also have, from the Office of Regulatory Staff, in Columbia, Mr. Andrew Bateman. And, Mr. Bateman, would you please introduce yourself and your staff members? And then I understand Mr. Bateman has some brief remarks, too, for the group. So, Mr. Bateman, if you would.

MR. BATEMAN: Okay. Thank you, Mr. Butler.

Good evening. My name is Andrew Bateman. As Mr. Butler mentioned, I'm an attorney with the Office of Regulatory Staff. Thank you for coming out tonight.

The Public Service Commission is hosting this hearing tonight, and the agency I work for, the Office of Regulatory Staff – which may sometimes be

referred to as ORS – is completely separate from the Public Service Commission, sometimes referred to as the PSC.

ORS is charged with representing the public interest. We present our testimony for consideration before the Commission, presided over by these Commissioners –

CHAIRMAN HALL: Mr. Bateman, I don't think everyone can hear you, so if you could speak directly into that microphone.

MR. BATEMAN: Yes, ma'am. Would you like me to –

VOICES: That's better. Yeah.

MR. BATEMAN: That's better? Okay. I apologize, I'm a bit nervous.

This hearing is for you to share your thoughts about Daufuskie Island Utility Company's – which you may hear referred to as DIUC – proposed adjustment for rates for its water and sewer services. The Commission scheduled this night hearing tonight because they know this is a significant matter and they want to hear from you. What you have to say is important.

Please note that, if you speak tonight, it becomes part of the official record in this case.

Certified True Copy (Electronic)

Your testimony will be sworn in, and recorded by the court reporter, Ms. Mary[sic] Jo Wheat. The Commission will keep in mind what to say, when they deliberate on this case and make a decision. The hearing is scheduled to occur on October 28th, 2015, in Columbia.

I may ask you some questions today after you testify. The Commissioners may also ask you some questions. Please don't get offended if we do ask you questions; it's just because we are trying to learn more about what you're saying. Additionally, please don't get offended if we do not ask you questions.

As for the Commissioners and Commission staff, they are required to follow the same rules as a judge. As a result, while they can ask you questions, if you ask them questions, they are prohibited from answering those questions. It doesn't mean that they don't know the answers; they most likely do, and would love to answer your questions. But the rules of the judge prohibit them from answering those questions.

If you do have questions, I have fellow employees with me from the ORS. I have Dawn Hipp from Consumer Services, standing up there in the

back.

MS. HIPP: [Indicating.]

MR. BATEMAN: I have Chad Campbell, also from Consumer Services, standing up.

MR. CAMPBELL: [Indicating.]

MR. BATEMAN: And I have Willie Morgan, right here in front of me, from the Water/Wastewater Department.

MR. MORGAN: [Indicating.]

MR. BATEMAN: If you have any questions, please feel free to grab one of them during the proceeding and take them out, and they'll be happy to answer any questions you have. Unfortunately, while the proceeding is going, I cannot answer any questions; I have to be up here where I'll be listening. However, subsequent to the proceeding, if you have any questions, I'd be happy to help you, as well.

ORS also has a 1-800 number, if you would like to call our Consumer Services Department. Our number - I can call it out, right now, and again if you'd like it later, we can give it to you then, as well. The number is 1-800-922-1531. Also, if you would like to go online, you can get that off of our website. Our staff is there from 8:30 to 5:00,

and you can leave a message if you don't have the opportunity to talk with someone, and they'll give you a call back as soon as they can.

Lastly, please remember that we're all here to listen to you tonight. You will be treated with courtesy and respect. In turn, please be considerate and respectful to the Commission as you direct your remarks to them. Thank you for being here, and thank you for your attention during my opening remarks.

Madam Chairman, I'll turn it back to you, and ask that tonight's sign-in sheets be marked for identification and entered into the record as a hearing exhibit.

CHAIRMAN HALL: Okay. Tonight's sign-in sheets will be Hearing Exhibit No. 1.

[See pg 30]

MR. BUTLER: Thank you, very much, Mr. Bateman. We appreciate that.

I'd also like to recognize one other attorney that is with us tonight: Mr. Jack Pringle is here. Mr. Pringle does represent the three property owners' associations: The Haig Point Association, the Melrose Association, and the Bloody Point Association.

So, Mr. Pringle, if you would just stand up and let them know who you are, I'd appreciate it.

MR. PRINGLE: [Indicating.]

[Applause]

MR. BUTLER: Thank you, very much. We appreciate that.

In just a moment, I'm going to call the names of those who've signed up to speak to come forward, and we would ask that you come to this podium that is stationed in the middle of the room. There's a microphone there. You will be sworn in, and please give your name and address; then you can go ahead and proceed with your testimony. Again, please speak into the microphone so everyone can hear you in the room.

Now, we will have – we have placed a time limit of three minutes on all presentations. And as you can see, we do have a timer which will aid you in timing your testimony, and there'll be a sound indicator at the end of the three minutes. This is just to aid you in your testimony.

I would say, if you have not signed up to testify tonight and you decide, somewhere in the middle of the hearing that you'd like to be heard after all, please proceed to the side door over

here and sign in with a Commission staff member located there; the staff member will notify us of your wish to testify. And the Commission won't hear from you unless you've signed up to speak.

I do want to, again, though, remind – as Mr. Bateman said, I want to remind you that this public hearing is your time to testify with regard to your opinions on the proposal of Daufuskie Island Utility Company's proposed rate increase, again, but due to the judicial nature of the proceeding, the General Assembly has ruled that the Commissioners cannot take questions and they are also prevented from making comments. Again, ORS and the company will be available after the hearing for any questions you may have.

If you are interested further, there will be another hearing on this, where we have the accountants and the engineers come and testify on the same matter, in Columbia, again, on October 28, 2015, at 10:30, in the offices of the Commission in Columbia. Please note that, if you provide testimony tonight, you can't provide testimony a second time if you do attend the merits hearing in this case.

So, now that I have filled you in on all the

details of the case, I will go ahead and call the names of the witnesses who have signed up to speak at this time. First, we have Ms. Norma Jenkins. Ms. Jenkins, if you will come forward, please?

[Witness affirmed]

THEREUPON came,

N O R M A J E N K I N S ,

who, having been first duly affirmed, testified as follows:

WITNESS: My name is Norma Jenkins, I live in Haig Point.

I have a request as a property owner and I have a comment as a realtor. My request is to the company that provides the water and sewer to us. As a part of doing due diligence and looking at this in perspective, the aggressive rates that they are suggesting, I would like to have a list of at least three other companies in the United States who have similar type of business, and have been successful in being able to extend the water rates at such a high level of increase. If you could give me those names, I would be very happy. Thank you.

Second of all, as a realtor, I have a real concern, because there are people who have multiple properties across Daufuskie. Some of these people

are – have a property at Haig Point, perhaps a home, and perhaps another property either here or at Melrose, or maybe at Bloody Point. And the other night we were looking at this, and it seems a little bit unusual that you would pay more money in water and sewer than in taxes. I mean, that doesn't have the right balance. And so, yeah, we have many property owners at Haig Point who have small properties. They would be maybe .013 to .018, and pay relatively small taxes, in the $200-$300 a year. And they're going to pay less in taxes than they are going to be charged for water, of which they use not a drop. And so I think it's a very unusual and rather negative situation for the island, and perhaps a bit too aggressive. Thank you.

MR. BUTLER: Ma'am, if you would just wait? I'm sorry, we may have a couple of questions.

CHAIRMAN HALL: Does anyone have any questions?

MR. BATEMAN: Madam Chair, I may have missed Ms. Jenkins' address.

WITNESS: 1 Berwick Court.

MR. BATEMAN: Berwick Court?

WITNESS: It's B-e-r-w-i-c-k.

MR. BATEMAN: Thank you.

CHAIRMAN HALL: Thank you, Ms. Jenkins.

[WHEREUPON, the witness was excused.]

MR. BUTLER: I'd like to call Mr. Len Pojetnic? And I apologize if I messed up the name.

MR. POJETNIC: No, you got it right.

VOICE: Perfect.

MR. BUTLER: Oh, well, thank you.

[Witness affirmed]

THEREUPON came,

L E N P O J E T N I C,

who, having been first duly affirmed, testified as follows:

WITNESS: My name is Len Pojetnic. I live at 14 Masters Drive, in Melrose. My wife, Eileen, and I moved here three years ago. Like everyone in this room, we love Daufuskie Island, but there are some things we just cannot stand, and this rate increase is one of them.

I will follow up on Norma's comments with specifics. Our base water rate is being increased 2.4 times. Our consumption charge is being increased 1.6 times. For sewer, our base rate is being increased two times. Volumetric charge, almost 2 times. Availability fees will be increased 3.4 percent for water, 2.5 percent for

sewer.

We own our home in Melrose, we own two adjacent lots in Melrose, we own one lot in Haig Point. We're not wealthy people, but we've invested heavily in this island because we believe in its future. When all is said and done, our tax bill on those four properties will be $3618.57. Our water and sewer bill will be $4910.28. I can't imagine any community in the country - and I've lived in several - where that condition exists. It is totally upside-down It will drive people from this island. It will inhibit development on this island. And I beg the Commission to give every consideration to the arguments that we will make in Columbia. Thank you, very much.

CHAIRMAN HALL: Thank you, Mr. Pojetnic.

Does anyone have any questions for Mr. Pojetnic before we excuse him?

[No response]

Thank you, so much, sir.

[WHEREUPON, the witness was excused.]

MR. BUTLER: I'd like to call Mr. Andy Mason, please?

[Witness affirmed]

<

THEREUPON came,

A N D Y M A S O N ,

who, having been first duly affirmed, testified as follows:

WITNESS: my name is Andy Mason. I live at 10 Rosebud Lane, in Melrose.

First, I'd like to thank the PSC for providing this opportunity to speak about the rate increase tonight.

I'd like to provide some context for y'all. In the past decade, our Federal Reserve has not increased interest rates over concerns increased rates would slow our economic recovery. The average annual inflation rate, based on Bureau of Labor Statistics over that same period, was 2.28 percent. More important, since 2012, which was the year of the last rate increase from the utility, the average rate of inflation was 1.73 percent.

The utility and its predecessors have sought three rate increases in that same decade: A 73 percent increase was granted in 2005, a 37 percent increase in 2012, and the aggregate proposed rate today is about 120 percent. Bottom line, while the costs of doing business have been relatively tame over the decade, the utility company seeks repeated extensive rate increases.

In 2012, Beaufort County completed a mandatory reassessment; countywide, assessed property values decreased 29 percent. The Daufuskie Island market values declined 43 percent. That's the largest decrease in the County. Daufuskie Island property values declined 33 percent. Again, the largest in Beaufort County. Resale value of a representative home in Melrose declined 63 percent. Locally, since 2010, the average sale price per square foot for an existing home on this island has gone from $2.42 a square foot to $1.56 a square foot, a decline of 64 percent. In other words, the recession has hit this County extremely hard, but no place harder than Daufuskie.

When the current management and ownership of the utility purchased and consolidated the assets of Haig Point Utility and Melrose Utility, the ownership was fully aware of the size of the customer base and, through its own due diligence, should've been aware of its potential and its limits. In Melrose, where I live, the average home site, the proposed rate increase would make utility rates 2¼ times the effective County tax rate. For people that own homes, the proposed rate increase would make utility rates 79 percent of the

effective County tax rate.

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. Without specific, measurable, time-based, and supervised goals and objectives, I believe it is in the best interest of the customers of this utility company - or DIUC - to either live within its means, just as we do as customers, or to look to a sale or merger with a more efficient organization. Thank you.

[Applause]

CHAIRMAN HALL: Thank you, Mr. Mason. Would you like to submit your notes to be in the record?

WITNESS: I can. There are some additional things I didn't say, but I would be glad to hand these over.

CHAIRMAN HALL: Okay. Thank you. Mr. Richardson, if you could get them. Thank you.

WITNESS: [Indicating.]

MR. RICHARDSON: [Indicating.]

[WHEREUPON, Hearing Exhibit No. 2 was marked and received in evidence.]

CHAIRMAN HALL: And do any of the parties have

any questions for Mr. Mason?

[No response]

Okay. Thank you, so much, Mr. Mason.

[WHEREUPON, the witness was excused.]

MR. BUTLER: Madam Chair, I'd like to call Reagan Hull, please.

[Witness affirmed]

THEREUPON came,

R E A G A N H U L L ,

who, having been first duly affirmed, testified as follows:

WITNESS: My name is Reagan Hall. I live at 4 Lighthouse Court, in Haig Point.

I received the postcard about the rate increase from our utility company, and it got me talking to my sister, who lives in Sea Pines, over on Hilton Head. You probably know where that is. And we got to talking about our water and sewer bills, so we took out our bills and we started comparing notes. And my sister, if you knew her, she's pretty much a tightwad, so they only use 9000 gallons a year, which seems pretty low - but you've got to know her.

[Laughter]

So I looked at our rates and the South Island Public Utility - South Island - anyway, the utility

that does the water at Sea Pines. And I looked at our rates, and at 9000 gallons here at Haig Point, and I compared what they were doing. And I'm currently paying on a quarterly basis about $209 for 9000 gallons; she's paying about $90. So the current rate structure on Sea Pines versus here, we're paying 223 percent more: over double what they're paying at the current rate.

Now I realize that there are economies of scale. I'm not in the water business, and I don't know, but my guess is there's certain infrastructure and the more water you can sell - it's probably inefficient here at Haig Point. But 2½ or 2¼ times the current rate does seem unconscionable.

So then I plugged in the new rate structure that they are proposing, and we would now be paying 458 percent, 4½ times more than they are paying at Sea Pines on Hilton Head. Now I'm using 17,000, and I'm kind of embarrassed about that, but we do more watering. And if you do the same comparison, the bottom line is that we pay about double Sea Pines in the current rate, and would pay about four times on the proposed rate. And I wondered why the difference, and it's interesting: The Sea Pines

structure, rate structure, is different here, and we have a very high usage charge and a lower - more-or-less lower - rate on the use of gallons. And I like the Sea Pines model because that really - they charge a different rate on the first 10,000, a different rate on the next 10,000, and they go up to four dollars and something a thousand gallons, everything over 20. I like that because that really penalizes you if you use a lot of water, and I think that's what we're all about. So I would hope you'd think about the rate structure, and I would hope the company would think about the rate structure, in terms of discouraging the use and making a bigger charge on the usage than on the fixed monthly rate.

The only final thing - I have a couple of seconds. I looked at the Jasper Water rate - Beaufort-Jasper. It's pretty much the same. But if you look at their rate structure, pretty much the same as Hilton Head, compared to us. And if you look at their rate structure, again, they are very heavy on the usage, very low on the fixed charge. And I would recommend that the company does that, because we need to conserve water, and that helps you do that. Thank you.

CHAIRMAN HALL: Thank you, Mr. Hull.

[Applause]

Do any of the parties have any questions for Mr. Hull?

[No response]

Commissioners, questions?

[No response]

Thank you, so much, Mr. Hull.

[WHEREUPON, the witness was excused.]

MR. BUTLER: I'd like to call Steve Hill, please.

[Witness affirmed]

THEREUPON came,

S T E V E H I L L ,

who, having been first duly affirmed, testified as follows:

WITNESS: My name is Steve Hill. I live at 1186 Haig Point Road. I've owned a home here for approximately 14 years, and lived here full-time for three years.

And, yes, when I received my postcard in the mail, I read it closely, and the rates certainly are aggressive, if not excessive. But I was particularly disappointed to see that the reason given for the rate increase had to do with the return on investment. What I expected to see, for

such a large rate increase, is more discussion about investment in the future. Here in this area, we are suffering the effects of saltwater intrusion on the aquifer. It's already affected the water in Hilton Head, Bull Island, and in the next few years it will probably affect here on Daufuskie. So there is planning and procedures that need to be reviewed, studied, and possibly put in place, to ensure that we do have access to clean water in the future. And I don't see any direction that the company is intending to take to address this situation.

We also certainly have a very active conservancy here on the island, and I was disappointed to see that their proposed rates do not provide for any progressive rates, encouraging people to conserve water. This is something that we all need to attend to, and I don't see - I think the rates don't fully afford incentives for saving water.

I was also concerned - this is the company that - I believe they got into some altercation over their water tower. They were not properly answering their mail and they didn't pay the taxes on the land that the water tower was on, and they

lost the land that the water tower sits on. There was some legal SNAFU and I'm not sure what the ultimate resolution was, but it really causes me concern that this aggressive rate increase but they can't attend to the day-to-day business of answering their mail. So I cannot — I do not have a solid confidence that they are - that we can trust them in the way that they are proceeding. Thank you.

CHAIRMAN HALL: Thank you, Mr. Hill.

Parties, any questions for Mr. Hill?

[No response]

Commissioner Fleming.

COMMISSIONER FLEMING: Thank you, Madam Chair.

EXAMINATION

BY COMMISSIONER FLEMING:

Q You talked about progressive rates, and the company's not proposing that. Have there been meetings with the company executives to talk about the type of rates the group would be interested in?

[Laughter]

VOICE: Where are they?

WITNESS: Not that I'm aware of, no.

BY COMMISSIONER FLEMING:

Q Would the groups - would the residents be interested in

meetings like that?

A Yes. As indicated, we do have a very strong, active, very, you know, environmentally conscious community here. That's one of the reasons why we settled in this wonderful location. And that would be something that I believe we would be interested in engaging on.

COMMISSIONER FLEMING: Okay. Well, I gathered that, that you do have an interest in the environment, and it would seem that it could be productive. Thank you.

CHAIRMAN HALL: Thank you, Mr. Hill.

[Applause]

[WHEREUPON, the witness was excused.]

MR. BUTLER: Madam Chair, I'd like to call Mr. Jim Woodward.

[Witness affirmed]

THEREUPON came,

J A M E S W O O D W A R D ,

who, having been first duly affirmed, testified as follows:

WITNESS: My name is James Woodward, and I reside at 5 Ocean Watch, here at Haig Point. We've been Haig Point members and property owners since 2005. We've been here for about 10 years now, or a little over 10 years. And like everybody else here, we really enjoy it.

I'm not going to repeat what a couple of the other speakers have said, only to reinforce a few things. Mr. Mason talked a little bit about the difficulty of doing business on Daufuskie Island. We are - I'm president of the board of Haig Point. Haig Point is in the development business. If you don't know, we have 720 sites here at Haig Point; 460 of those sites are unimproved home sites. So the tremendous increase in the availability fee impacts us dramatically. When you talk about 200-300 percent, it helps to put it in dollar form also. With 460 lots, with the proposed increase right here, it's nearly a $300,000-a-year increase for those 460 lots. Haig Point, itself, owns directly over 200 of those sites. So for us, it's about a $150,000-a-year - $150-$160,000-a-year increase. That's not insubstantial, and it's a cost that has to be borne by our members.

Our members and our Haig Point residents already bear substantial costs for the pleasure, granted, of living on a private island. Building costs here, service costs, everything like that, you're just gonna' tack on 20 percent. I just got a quote recently from another company that said, "Here's a quote that I normally do this job for,

but on Daufuskie Island we triple it." So, there it is.

So this is very difficult. And Mr. Mason talked about how we have difficulty selling real estate on Daufuskie, because it is a unique place. You have to enjoy life on an island, which most of us do. So the idea of being environmentally conscious, of a rate structure which, you know, incents people to reduce their usage, is something that I think we've talked about or you've heard today is something we'd be very interested in.

We continue to need to be competitive with outside markets. As a former financial executive, I can tell you of a couple of public companies - these were competitive businesses, mind you; they weren't utilities. You know, the kind of rate increase we're talking about here would have been not only unconscionable, it would've been suicidal in a competitive environment. One of the things they taught me - one of my predecessors, mentors - early in my career, which, granted, was many years ago now, was: If you do nothing else, be consistent from year to year. And this is highly inconsistent when you're looking at 200 and 300 percent increases on our rates.

It is - I'll use the term "unconscionable" once again, for that kind of rate increase. It appears to me, as Mr. Hill said, that we're paying for not the future, not superior service - and I have worked with companies that were the price-o-meters - and people don't mind and we don't mind paying for superior service.

Superior rates for superior service, superior future investments: those types of things don't bother us that much. And, in fact, we pay superior rates to live here at Haig Point. I've already mentioned it. But that's not what we're getting. We're getting proposed increases to pay for what appears to be flawed management and flawed due diligence on the acquisition of this particular utility, and we would appreciate the Commission's help in either rectifying that or helping us modify the ownership of this utility to be more progressive, going forward. That's it.

CHAIRMAN HALL: Thank you Mr. Woodward.

Does anyone have any questions for Mr. Woodward?

[No response]

All right. Commissioners?

[No response]

Thank you, sir.

WITNESS: Thank you, very much.

[Applause]

[WHEREUPON, the witness was excused.]

MR. BUTLER: Thank you, sir. And we'd like to call Mr. Adam Hersch

[Witness affirmed]

THEREUPON came,

A D A M H E R S C H ,

who, having been first duly affirmed, testified as follows:

WITNESS: My name is Adam Hersch. I live at 10 Sea Island Lane. And I just want to touch upon three things that were said earlier. I just want to reinforce them.

It is very clear, from what you've heard, that simply on an absolute basis, the rates here are far too high. What you've also heard is that, on a relative basis, the rates here are already too high and are suggested to go much higher.

And the third thing I want to mention that you've heard is, based on Mr. Mason's testimony, given the rate increase in 2005 and then the rate increase in 2012, and the suggested increase this year, our rates will have quadrupled that. You have a 100 percent increase over that first seven-

year period and a suggested over-100-percent increase in this suggestion. That's a doubling and a redoubling of our rates. It's a quadrupling of rates, in about a 10-year period. By any standard, by any standard, it's outrageous and it's egregious, and it simply shows that this utility company is not qualified to run our utilities for something that we have to have. This is why utilities are regulated. And I implore you to use your authority to help us, because we don't have any choices. We don't have competitive choice. You have the authority to help us through a very, very difficult situation that, as you hear, is going to have a very detrimental effect on our current residents and our potential and future residents here on Daufuskie. Thank you all for listening.

CHAIRMAN HALL: Thank you, Mr. Hersch.

Parties, any questions for Mr. Hersch?

[No response]

Commissioners?

[No response]

Thank you, sir.

WITNESS: Thank you.

[Applause]

[WHEREUPON, the witness was excused.]

MR. BUTLER: Well, Madam Chair, that does complete the list of witnesses for tonight.

CHAIRMAN HALL: Okay. Again, thank you so much to everyone for welcoming us to Haig Point. We appreciate it.

Let us know when the merits hearing is, again, Mr. Butler, please.

MR. BUTLER: Yes, ma'am. The hearing is, I believe, on - yes - Wednesday, October 28, 2015, at 10:30, in the offices of the Commission, in Columbia.

CHAIRMAN HALL: Thank you. So you're welcome to come to Columbia to be at the full hearing. And, again, thank you for having us tonight. Good evening, everyone.

[Applause]

[WHEREUPON, at 6:33 p.m., the hearing in the above-entitled matter was adjourned.]

[WHEREUPON, Hearing Exhibit No. 1 was marked and received in evidence.]

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

I hereby certify this document to be a true copy of the original.

Chief Clerk

Date 10-2017

Certified True Copy (Electronic)

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

COLUMBIA, SOUTH CAROLINA

HEARING #15-11494 OCTOBER 28, 2015 10:32 A.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 2 OF 2

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: Joseph Melchers, General Counsel; James Spearman, Ph.D., Executive Assistant to Commissioners; William O. Richardson, Doug Pratt, Tom Ellison, and Lynn Ballentine, Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM/M-GNSC, Court Reporter; and Deborah Easterling and Hope Adams, Hearing Room Assistants

APPEARANCES:

G. TRENHOLM WALKER, ESQUIRE, and ***THOMAS P. GRESSETTE, JR., ESQUIRE,*** representing DAUFUSKIE ISLAND UTILITY COMPANY, INC., **APPLICANT**

MARGARET M. FOX, ESQUIRE, representing BEACH FIELD PROPERTIES, **INTERVENOR**

APPEARANCES *[Cont'g]*:

JOHN J. PRINGLE, ESQUIRE, representing HAIG POINT CLUB & COMMUNITY ASSOCIATION, MELROSE PROPERTY OWNERS ASSOCIATION, and BLOODY POINT PROPERTY OWNERS' ASSOCIATION, INTERVENORS

SHANNON BOWYER HUDSON, ESQUIRE, and ***ANDREW M. BATEMAN, ESQUIRE,*** representing THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

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CHAIRMAN HALL: Thank you. Be seated. Good morning, everyone. We will call this hearing to order and ask Mr. Butler to please read the docket.

MR. BUTLER: Thank you, Madam Chair and members of the Commission. This is Docket No. 2014-346-WS; it's the Application of Daufuskie Island Utility Company, Incorporated, for approval of an adjustment for water and sewer rates, terms, and conditions.

Please take notice that a hearing on this matter has been scheduled to begin on Wednesday, October 28, 2015, at 10:30 a.m., before the Commission in the Commission's hearing room at 101 Executive Center Drive, Saluda Building, Columbia, South Carolina 29210, for the purpose of receiving testimony and evidence from all interested parties.

Madam Chair and members of the Commission, the Docket is in order.

CHAIRMAN HALL: Thank you, Mr. Butler.

Let me ask that the attorneys make their appearances. Who appears for Daufuskie Island Utility Company?

MR. GRESSETTE: Good morning. I'm Tom Gressette, on behalf of Daufuskie Island Utility.

MR. WALKER: And Trenholm Walker, as well. Thank you.

CHAIRMAN HALL: Okay. Good morning.

MR. WALKER: Tom and I are working together.

CHAIRMAN HALL: Okay. And for Haig Point Club & Community Association, Melrose Property Owners Association, and Bloody Point Property Owners' Association?

MR. PRINGLE: Good morning, Madam and Commissioners. My name is Jack Pringle, representing Haig Point, Melrose, and Bloody Point - the POA Intervenors, as we like to call them.

CHAIRMAN HALL: Okay. Thank you. Welcome. And for Beach Field Properties?

MS. FOX: Good morning, Madam Chair, Commissioners. I'm Peg Fox, here representing Beach Field Properties.

CHAIRMAN HALL: Okay. And for ORS.

MS. HUDSON: Good morning, Madam Chairman, members of the Commission. I'm Shannon Bowyer Hudson. With me is Andrew Bateman. We're here on behalf of the South Carolina Office of Regulatory Staff.

CHAIRMAN HALL: Okay. All right. Thank you. And before - we'll take up preliminary matters

in a minute, but we need just to tell you, tell everyone, the schedule for this morning. We'll break for lunch at about 12:15 for about an hour or so. We will break every hour and a half, or so, to give our court reporter a break, and let everybody have their own personal break. And - this is the clincher - we're going to go as late as we can today, to finish today. We have a night hearing in Rock Hill tomorrow, so we want to try to finish today, so that we don't interfere with that tomorrow. So, late as we can, to finish today. Six o'clock, 6:30 - so we'll see.

Now, any preliminary matters we need to take up?

MR. PRINGLE: Madam Chair, Jack Pringle, with one preliminary matter. Yesterday afternoon, a -

CHAIRMAN HALL: Mr. Pringle you're getting the evil eye.

MR. PRINGLE: Do we have any Lavalieres? [Indicating.] It's all right, I'll do this quick.

How's this?

CHAIRMAN HALL: That's perfect. Thank you.

MR. PRINGLE: Okay. Yesterday afternoon, the POA Intervenors and the ORS filed a settlement agreement with the Commission. That settlement

agreement includes a settlement document somewhat similar to the ones that the Commission has seen in the past, as well as several exhibits that describe the settlement entered into by the POA Intervenors and the ORS, in terms of a rate of return, or return on equity, and as well as the additional revenues to which at least my clients and the ORS have determined to be a reasonable settlement.

And just to be clear, this is between my clients and the ORS. It does not include the Applicant and it does not include Ms. Fox's client.

That's been filed with the Commission, so at this time I'd like to - we certainly have folks here, and I want to make this clear, too, that the settlement is, by and large, a result of ORS' testimony and adjustments, with one exception, as described in the cover letter: a change or an amendment in the way that the ORS views bad-debt expense, and changing that to make it consistent with what the company sought in its Application. Otherwise, the adjustments - and this is described, to some extent, in the exhibits - and the numbers that are used, as well as the final number, are all the result of ORS' testimony in this case. And the exhibits reference that and discuss, you know, how

those numbers were arrived at.

So with that having been said - and, certainly, to the extent that there are questions about it and the exhibits, those witnesses will be appearing in the case-in-chief in the same way that they would in any other contested case. And so, with that being the case, I'm going to ask that the settlement agreement and its exhibits be moved into the record and made part of the record and the hearing.

CHAIRMAN HALL: All right.

MR. GRESSETTE: Good morning - [Indicating.] Do we need to turn this on?

CHAIRMAN HALL: You're on.

MR. GRESSETTE: Okay. Good morning, Madam Chairman and Commissioners. When we received notice of this document being filed yesterday, we were a bit surprised. While it is appropriate for the document, presumably, to be filed in the Docket because it's been reached between two parties in the case, we do not believe it's appropriate for the Commission to consider it, to take notice of it, or to incorporate it into the record.

The reason for that is that it is not a settlement. We, on behalf of Daufuskie Island

Utility Corporation, have filed a rate application. ORS provided its input. There were a set of Intervenors. And now the Intervenors and ORS have reached an agreement as to what they purport to be a reasonable resolution of my client's Application. So, it's not a settlement, because, if it were a settlement, we wouldn't all be here. But taking a step back from that, if there are issues remaining between the Applicant for the Commission to hear, it's not a settlement. If the Commission takes into account and incorporates into the record the settlement agreement, our concern is this: that not only will it be unfair to our client because, essentially, it purports to assert that a number less than even what ORS originally proposed through its adjustments is the appropriate resolution of this matter, it attempts to bootstrap the two parties' positions together and support them in front of the Commission.

In other words, if this were a document we were taking into evidence, we would first look at the Regulations; I would tell you that it's irrelevant and immaterial. You would then look at the South Carolina Rules of Evidence; I would tell you that it's not relevant and, because it's not

relevant, it shouldn't be admissible. Even if it is relevant, it's prejudicial. The reason it's prejudicial is twofold: First, it's hearsay, because it seeks to present to this court matters outside of the court as fact, for the Commission to consider. And, additionally, in violation of Rule 408, it seems to present to the court my client's behavior with regard to settlement. In other words, because the Applicant hasn't settled, it should be somehow punished or looked at askance because two of the three parties have agreed. And for those reasons - a very lengthy list of reasons, which I appreciate your indulgence, first thing - we don't believe that it, in fact, is a settlement agreement, as purported, or that it should be part of the record or noted by the Commission.

CHAIRMAN HALL: Go ahead, Mr. Pringle.

MR. PRINGLE: Mr. Gressette makes some good arguments, but ultimately there are a number of things that doesn't get him to excluding this settlement agreement. The first is, is that we certainly never represented it as a full settlement. You know, we said this is, very clearly, a partial settlement that is the result of the things between these two parties. And as I

mentioned when I presented it initially, the numbers that are contained in it are part of testimony and evidence that will be given in this particular proceeding. As such, they are reliable from that standpoint, and, certainly, subject to discussion in the case.

It is certainly relevant, because all of the information that is contained in it has to do with - and, in fact, the Commission's charge in this case is to determine what is a reasonable rate or set of rates or a rate of return or, you know, what is the proper result in this case, taking into consideration all the factors in 58-5-240 and elsewhere. So it clearly pertains to this case.

With respect to the prejudice that may result to DIUC, I would maintain that that's not unfair prejudice at all, because this Commission still has the ability to give and decide whatever weight or other consideration that it wants to make to the settlement agreement and what's in it, and it doesn't stop the Commission or preclude the Commission or tie the Commission's hands in any way, in performing its ratemaking function and hearing this contested case and considering all the evidence and getting to a result. None of that -

the settlement agreement doesn't do any of that, in terms of what - it does not change what the Commission is doing, so it can't be unfairly prejudicial to DIUC.

Furthermore, with respect to Rule 408, nothing about this settlement between the ORS and the Appli- - not the Applicant - the Intervenors characterizes or has anything to do, or describes any discussions that may have been had with the Applicant in the process of where we got to. Rule 408 prevents a party from coming in, in an adversarial case or a contested case, and asking a witness, like, "Hey, when we were talking, you were going to agree to settle this case, weren't you?" "Well, we almost reached something. We almost reached an agreement." And you can't use that as evidence in a case to try to show that your case is better or worse than it otherwise would be. That's what stays out. This is between the ORS and the Intervenors, and so it does not run afoul of Rule 408, at all.

So, ultimately, what I'd say is that it's certainly not hearsay because it's got its numbers and information that have been filed and are being used in this case. It's not Rule 408 for the

reasons that I just described. And there's no unfair prejudice for the reasons I described, and particularly more because you're not a jury, and you have the ability to weigh the documents and information that are before you; and having that settlement is not going to unfairly prejudice DIUC, because of your ability to assess and consider all the evidence, in the same way you do in every case.

CHAIRMAN HALL: Thank you, Mr. Pringle.

Ms. Hudson?

MS. HUDSON: Yes, thank you, Madam Chairman. I'd like to make two points here. First, based on the Applicant's argument, I'm not sure that it would ever be appropriate to present a settlement agreement to you, if you accept the Applicant's argument. Second, when ORS approaches a rate case, as it does with anything, it looks to its statutory mandate, and that is to represent the public interest. There's a three-prong - three prongs to that definition: to protect all classes of customers, the using-and-consuming public, make sure the utility can maintain its infrastructure, also to encourage economic development. We think the settlement ticks all those boxes, so, of course, we would want to present that to you.

We're proud of the settlement.

CHAIRMAN HALL: Okay, thank you.

Mr. Gressette, your objection is overruled. I think that the document's value is more probative than prejudicial. I think that the Commission is sophisticated enough to weigh the value of the document, as Mr. Pringle indicated. And I don't agree that the settlement indicates any behavior on the Applicant's part, as to settlement behavior. So your objection is overruled. We will - okay, so we'll make it Hearing Exhibit No. 1 - no, I'm sorry, No. 3. The night hearings, we had some exhibits from those, Nos. 1 and 2, so the settlement agreement will be Hearing Exhibit No. 3.

MR. PRINGLE: And would Madam Court Reporter like a copy?

CHAIRMAN HALL: Madam Court Reporter is sophisticated and already has one.

MR. PRINGLE: No prejudice there.

CHAIRMAN HALL: None at all.

[WHEREUPON, Hearing Exhibit No. 3 was marked and received in evidence.]

So if any parties would like to make an opening statement, now is the time if that is desirable.

MR. WALKER: [Indicating.]

CHAIRMAN HALL: Okay.

MR. WALKER: Good morning. Thank you, Madam Chairman. My name, again, is Trenholm Walker. We've got a lot of ground to cover today, so I'm not going to spend a horribly long time going over the whole case. What I do want to do is set the context for the request that's being made by Daufuskie Island Utility.

The rate request before you is a considerable rate request. The reason it's considerable is there's considerable need for additional revenues for this utility.

When we were last before you three years ago, you may remember that the utility was basically on life support. And thanks to, I say the Commission, even though we resolved it through a settlement approved by the Commission, we were able to move forward and to do a tremendous amount of deferred maintenance in the system. We were also able to obtain a much-needed loan that allowed those repairs to be funded. Part of that settlement agreement and part of the Commission's order was that monies be set aside for capital improvements of $700,000, and we more than spent those on

capital improvements. But, despite that, the utility has continued to suffer from cash deficits.

A loan that we thought was going to be easy to acquire was almost impossible to acquire. At the time we were before you, we thought CoBank would lend the money; they didn't do it. Then Wells Fargo said it would lend the money and we went down the road with Wells Fargo, and they didn't lend the money. And, finally, we were able to make the loan with SunTrust that basically saved the utility.

And the key issues that you will have before you today are those normally attendant to the case, but I'd just like to give you the short list in our mind of what we are going to feature for you and what, really, the issues are. First, on expenses, there is a sharp disagreement about expenses that should be allowed, and a huge expense for this utility is property taxes. I think you are aware, from your review of the materials, that we learned that there were deferred or unreported property taxes of in excess of $365,000. What happened was, these taxes were not on the books when Mr. Guastella took over. The notices went to the wrong address. And he, after the last rate case - not before - received a notice from Beaufort County

that they were going to assess for 2010, 2011, 2012 - actually, it was assessed by DOR and collected by Beaufort County. But we ended up with a tax liability that was enormous, something like $565,000, which, through negotiations, we managed to work with Beaufort County to eliminate two years of those tax revenues and have an installment agreement that requires payments over the next eight years. And we are seeking to recover for those. Both ORS and the Intervenors say you shouldn't be able to recover those taxes. But they're an ongoing obligation; there's nothing we can do about it.

We also have what we believe to be the current tax bills that are due. And utility infrastructure is taxed or assessed at 10 percent or 10.5 percent, so the taxes are very high. That's a huge expense. Our expense for taxes in the years moving ahead, as appropriately adjusted, is well in excess of $250,000. And according to the adjustments of ORS and the Intervenors, they would like to leave us about $70,000 to $80,000 shy of that. So that's a big issue.

Another big issue will be plant-in-service. We have two pieces of property that are not

currently - the land is not owned by the utility. One is the elevated storage tank. This was discussed at the last hearing. It was sold at a tax sale, again, because the bills were going to the wrong address. We've attempted to get it back. We have a condemnation action. We have succeeded, basically, in proceeding with the condemnation action. The only defense to it would be that the utility did not have the right to condemn, and the Circuit Court has said, "You do have the right to condemn," so, legally, we have possession of the land. But more important than that is that the tax deed did not convey the utility facilities. They were never on the books and assessed by Beaufort County. The utility still owns the elevated tank, the wells that are on that parcel. We will show you that those have been taxed by DOR and that those are appropriately included in rate base. There is an adjustment in our DOR return proportionately to get our plant-in-service to $5 million, which was the amount we agreed on last time, but it was not done to eliminate the elevated storage tank, as suggested by ORS; it was a proportional reduction. So that's going to be a huge issue for you.

You also will have the question of Mr. Guastella's management contract. ORS and the Intervenors are claiming that he charges too much. You will hear all the services that are being performed by Mr. Guastella. He's tremendously accomplished in the field of water and sewer, ratemaking, and has been on the faculty of several national ratemaking conferences. He also brings a tremendous amount of experience. His company does everything that is office work for this utility. He doesn't - his office does the billing, they do the - they have an engineer on staff. They do construction oversight. Everything that you can think of, they do, and they do it through a management agreement in lieu of hiring people - the utility's hiring individuals who they would have to pay for, who would do those jobs, who wouldn't have a fraction of the experience.

You'll also hear about depreciation. That's at issue, because the plant-in-service is at issue, and if there's less plant-in-service, there's less depreciation. So that's another issue.

So those are the main ones that come to mind right now. Mr. Guastella is going to testify and he will feature those in his summary, but I wanted

you to know where we're coming from.

Essentially, we are asking for a 100 percent increase, and it's a 100 percent increase because we need a 100 percent increase to pay the bills and to have some return to the owners. There has never been a dividend paid. In fact, as you will hear from Mr. Guastella, 2015 could have a deficit well in excess of $250,000, projected maybe at $450,000. So this utility needs to be funded. And I realize that that's a big ask, but at the same time, I do think that it serves the ratepayers, it serves the State, and it accomplishes the mission of the Commission to make sure that it's a viable entity and we're not living hand to mouth. And there are these criticisms that we don't pay on time – I mean, there are all these criticisms about we don't pay vendors on time. We don't have enough money to pay vendors on time. But you will hear that as you assess the testimony, and we'd ask you to keep an open mind and look at where we end up at the end of the day, because Mr. Guastella will explain to you the rate is still reasonable. We're dealing with a very small utility, 600-plus water customers. We are not a big utility. Money makes a big - slight charges can make a big difference in the return to

this utility, and not having enough money to make the tax bill or pay the interest - that's going to be another big expense is what is the interest rate that you should approve on the debt that we have. If we don't have enough money to pay the tax debt, if we don't have enough money to pay the loan which is now due, we're in trouble. So please keep this in mind, and thank you.

CHAIRMAN HALL: Okay. Thank you, Mr. Walker.

Any other parties wish to make an opening statement?

MR. PRINGLE: I'm not going to make an opening.

CHAIRMAN HALL: Okay. Ms. Hudson?

MS. HUDSON: Good morning, again. Thank you. We want to take the opportunity to point out what ORS sees as the three big issues in this case. To us, those three issues are: property taxes, the elevated storage water tank - you'll hear me call that the water tower - and the management fees.

Let's begin with the property taxes. You will hear that the utility is saying that it does not have enough money for its property taxes. I want this Commission to know that ORS is supporting $170,000 annually for taxes, for perpetuity, or

until the utility comes back before you to request another rate adjustment.

Second, the water tower: The utility will tell you it owns the water tower. It's not so clear. The Office of Regulatory Staff cannot determine whether the utility owns the water tower, or if the man who bought the property in the delinquent tax sale owns the water tower. Because the utility has not proven with certainty, and to ORS's satisfaction, that it owns the water tower, the Office of Regulatory Staff cannot, in good conscience, recommend that the ratepayers pay the company a return on a water tower that it may not own. It's that simple.

The management fees: We believe the utility is paying a premium for the management services. We think management services have a value. We think the ratepayers should pay it. But ORS doesn't think the ratepayers should pay the premium.

Lastly, I want to apologize that we weren't able to get the settlement agreement to you within your guidelines. We ran short on time. We were working diligently on it. And it makes me feel better to say out loud that we're cognizant of your guidelines. We were able to reach the settlement

agreement with all three property owner associations by making one change to our adjustments. That one change was to recalculate our bad-debt expense and adopt the bad-debt expense methodology proposed by the company in its Application. Using that one change, along with our original adjustments, produces a revenue increase of $462,798. That number is in the settlement agreement. It produces a return on equity of 9.28 percent and an operating margin of 16.18 percent.

We believe that return on equity of 9.28 percent and the operating margin of 16.18 percent provides the company the opportunity to earn a fair return. We think it's very fair, and we hope you agree. Thank you.

CHAIRMAN HALL: Mr. Pringle?

MR. PRINGLE: I was just going to rise on the point that - and I'm glad Ms. Hudson mentioned this, about the Commission settlement guidelines. Let me just make it clear that any fault for not filing it on time rests with me and not with Ms. Hudson. She continually badgered me about it, and I said, "No. Rules, schmules, no way. I mean, I'll file it when I want to."

[Laughter]

And so anything that comes along with that just should fall on me.

CHAIRMAN HALL: All right. Now, before I invite the parties to present their case, do we have any members of the public that would like to testify?

MR. DELANEY: [Indicating.]

CHAIRMAN HALL: Did you - come forward, sir. Did you sign up with Mr. Richardson with our office?

MR. DELANEY: I don't think I did.

CHAIRMAN HALL: Okay, that's fine. Come forward.

MR. DELANEY: All right.

CHAIRMAN HALL: Just have a seat right here at this table [indicating]. Give us your -

MR. DELANEY: Right here [indicating]?

CHAIRMAN HALL: - name. Yes, sir, right there.

MR. DELANEY: I'm from Georgia, so you have to excuse me.

CHAIRMAN HALL: Okay. Are you a customer of the utility?

MR. DELANEY: No, I'm actually a property owner.

CHAIRMAN HALL: Okay. All right. If you can give us your name, and raise your right hand so you can be sworn.

MR. DELANEY: Okay. Reed Delaney.

[Witness affirmed]

THEREUPON came,

R E E D D E L A N E Y ,

who, having been first duly affirmed, testified as follows:

CHAIRMAN HALL: Go ahead, Mr. Delaney.

WITNESS: I just - I don't know if this is the appropriate time, but one of the attorneys was just talking about that the utility doesn't own two properties, and he mentioned one property. And I'm assuming he was referring to our property for the second one, which he did not address.

We purchased 200 acres, which was part of the Bloody Point tract, when they went through bankruptcy, and a waste treatment plant of theirs is sitting on our property. And they do not own the land; we own it. We've been trying to approach them and talk to them for, I think, three years. I had my attorney involved in it. Our attorney spoke with their attorney, went back and forth and never came to a resolution. We were simply saying, "Look, we're happy to deal with you. We just don't

want the liability of having this operation on our land, so if you just lease it from us for a nominal fee, I'm happy to do that. I just don't want the liability." They eventually cut off talking to us. They haven't returned my calls in a year and a half or more.

We called up the - I think it was maybe DHEC, perhaps, and we spoke - I think maybe it was someone at the PSC. And the conversation went in a circle as they'd say, "Well, they have the permit to operate it." And I said, "Well, but they're operating it on my land." And they said, "Well, that's not our issue; that's a property-rights issue." And I said, "Okay, I understand. So then I'll just kick them off my land." And they said, "No, you can't do that. They have a permit to operate a public utility." And I said, "Well, what am I supposed to do?" And it just went in a big circle. So I felt like the best approach was just to fairly approach them and say, you know, "Look, why don't you guys just sign a nominal-sum lease so that you can operate properly and legally on my property, and I can have some protection from a liability standpoint," and they've never responded.

So I am not in favor of them in any way. I

don't see how they can apply for a permit or get a rate increase for a utility on a property that they don't own; and, hence, they don't own the physical structures that are on the property, meaning the ponds, the buildings, everything else. They don't own any of it.

CHAIRMAN HALL: Okay, Mr. Delaney. I'm not even sure where to start.

WITNESS: I don't either.

CHAIRMAN HALL: Okay. Just tell me -

WITNESS: I have a copy of the fee here, if you'd like it.

CHAIRMAN HALL: When was it you purchased the property?

WITNESS: I think it was about three and a half, four years ago.

CHAIRMAN HALL: Okay. And you said you've tried to contact the company -

WITNESS: I've got -

CHAIRMAN HALL: - to no avail?

WITNESS: I've got e-mails. We contacted Mr. Guastella's office, as well. I've got e-mails, I've got my attorney's records. You know, we ended up - I talked to the owner, or one of the owner's representatives personally, initially, and he was

very responsive; and then, all of a sudden, boom, he just quit talking to me, and this was three years ago, probably. So then I got upset, and I got my attorney involved. He got them ginned up again, and they started conversation and we thought we were going to get to a resolution, and then, boom, just they quit talking. So I suspect it's been maybe a year and a half, two years, or something, since we really had any conversations, whatsoever. I don't understand it, at all.

CHAIRMAN HALL: Okay. As is our practice, let me invite the parties, too, if they have any questions for Mr. Delaney.

WITNESS: Sure.

MR. GRESSETTE: Madam Chairman, Commissioners.

CROSS EXAMINATION

BY MR. GRESSETTE:

Q Mr. Delaney, my name is Tom Gressette, and I work at Pratt Thomas Walker.

CHAIRMAN HALL: Mr. Gressette, can you go to a microphone?

MR. GRESSETTE: Sure, I'll be glad to [indicating]. Sorry, I didn't want to make him have to turn around.

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BY MR. GRESSETTE:

Q Mr. Delaney, my name is Tom Gressette; I work at Pratt Thomas Walker, and I'm here on behalf of Daufuskie Island Utility Company. Are you familiar with the documents that have been submitted in this case - particularly, those attached to Mr. Guastella's rebuttal testimony? And I'm, specifically, referring to a document submitted as Exhibit 3 called "Indenture Grant of Easement and Bill of Sale for Personal Property"?

A I'm not.

Q Okay. And I'll just represent to you that Mr. Guastella has provided testimony, along with that document, that indicates that there's a bill of sale referencing the water and sewer infrastructure to which you speak, but, if I understand your testimony correctly, you have not reviewed that document?

A I have not. We have documents from Guastella's company saying and agreeing that we own the property and not Guastella. We have those documents.

Q Do you have those with you today?

A I do not have them with me. I can certainly supply them to the PSC or to you, if you would like.

Q Okay. And the only other question I had was, do you, as the owner of this parcel, have an intent or plan to use it for helicopter landing while under agreement with

DIUC to be responsible for the liability of that property?

A I do not. That was one thing that I talked to them about in the past. The - you're talking about the specific property this utility is on.

Q [Nodding head.]

A Yes. No. I talked to them in the past; that would be great, but we've got 200 acres. I've got plenty of acreage to land somewhere else.

Q Okay.

A What I want is a lack of liability for them operating a waste treatment facility - which I'm aware of, because I'm in the chemical business - on my property.

Q And in your discussions or your counsel's discussions with regard to how to resolve this issue, has also another firm, beyond our firm, been involved most recently - that of Nexsen Pruitt?

A Very possibly. That rings a bell. If it was, it was, what, a year and a half ago or whenever it was, the last conversation.

Q I'll represent to you that we worked in conjunction with another firm, and so I have not had personal dealings with the negotiations as of late, so -

A That's unfortunate.

Q - wanted to make sure you knew that I wasn't

intentionally dropping the ball.
A Okay.
Q The only other question I have is with regard to the document from which you claim title. Does it identify the water infrastructure on the property in any way?
A The one that I have here does not. I'm trying to think - because this is an older one that I just printed out this morning. I'm trying to think if the latest one we have does. I'll have to get back to you on that. I think that it might; it might show a border. I don't think it shows the actual infrastructure. I don't think it does.
Q Thank you. That's all I have. I appreciate you bearing with me.
A Sure.

CHAIRMAN HALL: Okay. Thank you. Any other parties have any questions for Mr. Delaney?

[No response]

Okay. Mr. Delaney - oh, I'm sorry. Ms. Hudson.

CROSS EXAMINATION

BY MS. HUDSON:
Q The document that, Mr. Delaney, you have, is that printed from the Beaufort County website?
A No, it was a survey done back, I think, when Melrose

owned the whole property.
Q Okay. It's just -
A Because I have a more -
Q - a survey?
A - recent one. I just didn't - I was late leaving, so I just grabbed it.

MS. HUDSON: Madam Chair, would it help to have that into the record? If that - we would ask that it be moved into the record as a hearing exhibit.

CHAIRMAN HALL: Okay. Mr. Delaney, would you like to submit that?

WITNESS: Sure.

CHAIRMAN HALL: Let me ask you, Mr. Delaney, when you - if you - does it appear on the assessor's map, do you know?

WITNESS: No.

CHAIRMAN HALL: It does not?

WITNESS: I don't - I'm pretty sure it does not.

CHAIRMAN HALL: Okay.

WITNESS: But I'm not sure. I mean, we just looked - I think the last survey was done prior to us buying it, by Thomas & Hutton. I think that was done, I think, 2009, 2010, something like that.

CHAIRMAN HALL: Okay. All right, thank you. Mr. Delaney's survey will be Hearing Exhibit No. 4.

[WHEREUPON, Hearing Exhibit No. 4 was marked and received in evidence.]

Okay. Thank you, so much, Mr. Delaney.

WITNESS: Absolutely.

CHAIRMAN HALL: We appreciate you coming here. Oh, I'm sorry, I'm sorry. Commissioners also have the opportunity to ask you any questions, Mr. Delaney. So, Commissioner Elam.

EXAMINATION

BY COMMISSIONER ELAM:

Q Good morning.

A Good morning.

Q I'm trying to understand the sequence. Both the wastewater treatment pond and/or the water tower, they were on the properties before you bought them?

A I don't know anything about the water tower. I believe that's somewhere - that's a whole separate issue with a different piece of property. But this one, yes, it was on the property before we bought it. It's been physically there for, I don't know - when was it built?

MR. WALKER: I think it was '94, is the date of the easement, so it would've been built then. The easement bill of sale is '94.

WITNESS: Yeah.

BY COMMISSIONER ELAM:

Q And you knew it was there?

A I did. I did.

Q Thank you.

A We didn't know it – to be honest with you, we didn't know that it was actually included. We assumed it wouldn't be. And when the final plat came out, and I think it was about a week before closing, we looked at it and said, "Gosh, that's part of the property." And so then I figured, "Well, we'll just turn around and talk to them and get some sort of a lease structure going, so I can be protected liabilitywise." Never was able to achieve it. It's amazing. I don't understand it.

Q Thank you.

A Uh-huh.

CHAIRMAN HALL: Commissioner Fleming.

EXAMINATION

BY COMMISSIONER FLEMING:

Q Do you pay property taxes?

A Yes, ma'am.

Q On the plant, as well?

A No. I – no, just on the property.

Q So the plant is listed in Daufuskie Island Utility's

name?
A I'm assuming. I don't know. I know that I pay property taxes based on the acreage.
Q Okay.
A And that is included - that acreage is included in our property taxes.
Q And when you bought this, was it because property taxes had not been paid, or it was just -
A No, ma'am.
Q - for sale?
A No, ma'am. I don't - again, I think he was referring to that water tower. This was a straight purchase from a group that had bought the entire Melrose assets, and so we purchased a portion of it. When they went bankrupt, the trustee, I think, sold - he couldn't sell the whole Melrose/Daufuskie/Bloody Point as a single entity, so he split it up, and Melrose was sold to a group; Daufuskie - or, Bloody Point was sold to a group; and then ours was called the Eigelberger tract, and we purchased that. And by the way, for the record, it's under Hatcher Holdings, LLC.
Q So, to resolve your issue, all you're asking for is a nominal lease to prevent your being liable for the structure?
A That was what I was originally asking for. I'm kind of

upset -

Q [word inaudible to reporter] is getting in the way, huh?

A Yes, ma'am. I'm not - I don't know if I'm willing to say that, at that point. I need to think about it. I'm pretty upset that the people that I'm assuming are sitting in this room have avoided us for years for no apparent reason. I don't - we offered them a very reasonable idea to settle, and they won't respond to me, and that makes me upset.

Q So you want a lease, then? What is -

A Right now, I'm not -

Q - it that you're asking -

A - sure I'm -

Q - for, is what I'm trying -

A I'm bringing this to your attention from the public. That's why I'm sitting here. I'm not necessarily asking for anything. I think that's between Daufuskie Island Utility and me, when I think about it again. At the time, I will tell you that our last offers - from the beginning - and I think - I can't remember what we first asked for, but the numbers got smaller as we got more frustrated. I want to say at first we asked for like $10,000 a year, or something like that, but it may have been higher at that time. I don't recall. But I know, at the end of the day, we got down to, "Look, just pay

us a little something - you know, $1000 or something," and never got a response, and that just makes me upset. So I'm not sure what I'm willing to take at this point.

Q Okay. And I understand this is between you and the company. I just was trying to understand what you were - from what you said earlier, what you were hoping to gain out of this.

A Yeah. You know, I don't know if I'm hoping - I want fairness and I would like, you know, a reasonable solution to it. The reason I'm here is that I personally don't understand how a company can ask for a rate increase or be paid anything at all to operate a utility on someone else's land. So I thought it was valuable information that the Commission should be made aware of.

Q It's complicated, isn't it?

A It is complicated, but, in essence, it's not. They don't have the right to operate this. Now, I don't know about the rest of the issues, but right now, they don't - I mean, they have the right to operate it, from a Commission standpoint; but from a real estate standpoint, they don't.

Q But you said, on the State level, they do have the right.

A They do. They do. But from a real property, you know,

federal law standpoint, they don't. So that's where it becomes complicated.

Q Thank you.

A Yes.

CHAIRMAN HALL: All right. Commissioners, any other questions?

[No response]

Okay. Thank you, Mr. Delaney.

WITNESS: Absolutely. Good luck.

CHAIRMAN HALL: Good luck to you.

[WHEREUPON, the witness was excused.]

CHAIRMAN HALL: All right. Mr. Gressette, whenever you're ready, sir.

MR. GRESSETTE: Thank you, Madam Commissioner. Pursuant to agreement of the parties, and I believe the Commission's kind indulgence, we would ask that the Hon. Maria Walls be called to testify at this time.

[Witness affirmed]

THEREUPON came,

THE HON. MARIA WALLS,

called as a witness on behalf of the Applicant, Daufuskie Island Utility Company, who, having been first duly affirmed, was examined and testified as follows:

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DIRECT EXAMINATION

BY MR. GRESSETTE:

Q Good morning, Ms. Walls. Would you, for purposes of the record, state your name, please?

A My name is Maria Walls.

Q And where are you employed, Ms. Walls?

A I am the elected Beaufort County Treasurer.

Q And did you submit prefiled testimony in this matter?

A I did.

Q Did you have an opportunity to thoroughly review that prefiled testimony before it was submitted?

A Of course.

Q And are you appearing here today as a result of a subpoena for attendance?

A That is correct.

Q And with regard to your prefiled testimony, does that include five pages of testimony, dated October 8th, and including one exhibit marked Exhibit A?

A Yes, that's correct.

Q And if I were to ask you each of the questions contained in that prefiled testimony, would your answers be exactly the same as they appear in the testimony?

A Probably not verbatim, but, yes, generally, exactly.

MR. GRESSETTE: And at this time, Madam Commissioner, I would move that the prefiled

testimony of Ms. Walls be read into the record as if given orally from the stand, and that the exhibits attached thereto be incorporated into the record as an exhibit.

CHAIRMAN HALL: All right. Ms. Walls' testimony will be entered as if given orally.

[See pgs 81-86]

Her exhibit will be Hearing Exhibit No. 5.

[WHEREUPON, Exhibit No. 5 was marked and received in evidence.]

MR. GRESSETTE: Thank you.

BY MR. GRESSETTE:

Q And, Ms. Walls, we would just like to have you briefly summarize a few points of the testimony, so I'd like to just start generally with: What are your duties as the Beaufort County Treasurer?

A My primary function as Treasurer of Beaufort County is to act in a fiduciary capacity on behalf of our Council of Government, as well as the school district. We are the banker for the County. So we collect the taxes that are due, as well as any other funds that are coming to Beaufort County, whether from the public or the State, and then we are to maintain those funds until it is deemed appropriate that they will be expended. So our role is to collect the taxes, collect the dollars that

are due, and maintain them.
Q Does your office assess taxes?
A No, we do not.
Q And are you familiar with the taxes collected by Beaufort County from Daufuskie Island Utility Company?
A Yes, I am.
Q And do those taxes include something that's called a utility property tax?
A At this time, yes. But at the time that the tax sale had occurred in regards to the elevated tank site, no, that was not the case. The utility was being taxed as if it was any other piece of real property and was not identified as a utility at that time, which is what resulted and why there was - that tax sale resulted from those taxes not being paid.
Q Okay. And so, when Beaufort County sold, and I believe you're referring to what we call the elevated tank site, to Mr. Sabry -
A Uh-huh.
Q - that is because the records of Beaufort County did not identify that parcel as a utility parcel?
A Correct.
Q And with regard to utility property taxes assessed to Daufuskie Island Utility, what entity assesses those taxes?

A The Department of Revenue establishes a valuation dollar amount and provides that valuation to the County Auditor's office, who assigns that value to the utility, calculates the taxes, and then communicates that dollar amount to our office, and we are tasked with pursuing the collection of those dollars.

Q In your testimony, you refer to a December 2011 transaction whereby the Beaufort County Treasurer's office conveyed a parcel of property, and you refer to it as the elevated tank site, to a Mr. Mamdouh Sabry Abdelrahman -

A Correct.

Q - who we'll refer to for our purposes as Mr. Sabry. What was conveyed to Mr. Sabry?

A What was conveyed was based on the property we believed we were taxing at that time, which was a parcel of land. The tax deed, which would have been generated by the Treasurer's Office and filed with the Registrar of Deeds, was as it was listed by the Assessor's Office, who was valuing that property at that time. It did not include the elevated tank itself. The only structure indicated on that site was a utility shed, the contents of which would've been unknown at that time.

Q Does the elevated tank remain the property of Daufuskie Island Utility?

A I don't believe that I can give an answer to that, because I think that's a legal opinion beyond my role, but I will tell you, just from my experience, that a tax deed is not a full warranty deed. There's protocol and procedures that need to be followed for that, in which case I believe that the utility, if that were pursued by Mr. Sabry, would have the opportunity to protest and it would need to be done in a court of law. So I can tell you that the tax deed did not convey that elevated tank or the infrastructure, besides that utility shed.

Q The elevated tank and infrastructure located on this parcel of property, is that infrastructure included within the items that Department of Revenue assesses the utility property tax against Daufuskie?

A The Department of Revenue, when they provide a value to the Beaufort County Auditor - any auditor, is my understanding. I will say, I am not the auditor; I'm the treasurer. But it is my understanding that they do not provide a listing of what is included in this valuation or how they have made that valuation determination. But it is my understanding that when DOR provides a valuation on the utility or any other property they are valuing, it is in its entirety, not for portions of it.

Q And with regard to the taxes Daufuskie Island Utility

Company owes for utility property taxes to Beaufort County, was there - am I correct - a time when those taxes were not paid by the predecessor to Daufuskie Island Utility?

A That is correct. Furthermore, it was more complicated by the fact that DOR did not identify Daufuskie Island Utility as a utility at all. It was quite some time into, I believe, the current owner's ownership that Daufuskie Island Utility became on the radar of DOR, and the Auditor's Office received valuation information for three tax years at one time, resulting in quite a substantial amount of taxes, as you can imagine. The tax ratio for utility is 10½ percent, so it is a substantial amount. Some of you are legal residents of your home; you know you pay 4. So imagine how much that is.

So what I believe you're referring to is, the utility received multiple tax bills at the same time. Had things progressed in the way that it would for any other entity, they would've received a tax bill each year and had the opportunity to pay if they were able to.

Q And did Beaufort County enter into an agreement with Daufuskie Island Utility, with regard to the multiple tax years noticed simultaneously?

A Yes, we did.
Q And can you briefly describe the terms of that agreement?
A So the terms of that agreement included the back taxes that were due, as well as a projected amount for Tax Year 2015. I'm new to learning about the utility process, so I will tell you that, based on my determination and that of my predecessor at the time - the Treasurer was Douglas Henderson; I was his deputy at that time, which is why I'm familiar with this case - the utility would not have been able to pay $524,000 at one time. It is the authority of the Treasurer's Office to identify taxes that are not collectible, and we have the authority to remove those taxes. The years - I believe you have a copy of the agreement in evidence, but there were years that were written off, so to speak, or removed. Future years are not included, other than 2015. We wanted the utility to have the opportunity to make payments free of penalty, which is why we included Tax Year 2015, which will be billed next month.
Q And does the agreement with Daufuskie Island Utility allow a payment over a period of time, to cover the years of 2012, '13, '14, and '15?
A Yes, that's correct.
Q And how much is that payment each month?

A Is at about $5000? $5400? Something like that.
Q Yes. And is the utility current on its payments, pursuant to that agreement?
A Yes.
Q And you testified earlier that two of the years were deemed to be uncollectible, and is that based on the County's understanding that the income necessary to cover those tax payments was not included in an approved rate by this Commission and, therefore, the funds could not be collected by the utility?
A That is correct. And in addition to that, the process that needed to be in place failed to occur for those tax years that were due, and with the advice of our legal counsel it was determined that it would be within our rights to write off those taxes that were for those two particular years.
Q Thank you, very much.
A You are welcome.

[PURSUANT TO PREVIOUS INSTRUCTION, THE PREFILED REBUTTAL TESTIMONY OF THE HON. MARIE WALLS FOLLOWS AT PGS 81-86]

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DAUFUSKIE ISLAND UTILITY COMPANY, INC.

DOCKET NO. 2014-346-W/S

Testimony of The Honorable Maria Walls

Before the South Carolina

Public Service Commission

Testimony Prepared: October 8, 2015

Hearing Date: October, 28, 2015

Q. Please state your name and business address.

A. Maria Walls, 100 Ribaut Road, Suite 165, Beaufort, SC 29902.

Q. Briefly describe your education and any certifications?

A. I am a Certified Public Accountant (CPA). I graduated Cum Laude with a Masters of Accounting, with a specialization in International Business, from Rider University.

Q. What is your current employment?

I was elected Beaufort County Treasurer in November 2014 after serving four years as the Deputy Treasurer under Douglas E. Henderson. In July 2015, I was sworn in as Beaufort County Treasurer.

Q. What are your duties as Beaufort County Treasurer?

A The Treasurer serves as the County's chief banker and investment officer and has the statutory responsibility of collecting all real, personal, and motor vehicle property tax revenues on behalf of the County, school district, municipalities and

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other taxing authorities within the boundaries of Beaufort County, and manages the disbursement of collections.

Q. Are you familiar with the taxes collected from Daufuskie Island Utility, Inc. ("DIUC") by Beaufort County?

A. Yes. I have met separately with John Guastella and Mike Guastella who work for DIUC's manager, Guastella Associates. DIUC's attorney, Tom Gressette, attended my meeting with John Guastella. I have also had several phone calls with John Guastella regarding tax issues for DIUC.

Q. Are you familiar with a parcel of real property on Daufuskie Island in Beaufort County that is referred to as the Elevated Tank Site?

A. Yes. The Elevated Tank Site is a parcel of real property on which is located an elevated water tank and other water system facilities of DIUC. On December 1, 2011, the Office of the Beaufort County Treasurer conveyed the Elevated Tank Site to Mamdouh Sabry Abdelrahman via tax deed. The Tax Deed is recorded at the Office of the Register of Deeds for Beaufort County, State of South Carolina, Book Number 03102, Pages 0169-0170, File Number 2011061014.

Q. Why was the Elevated Tank Site sold?

A. The Elevated Tank Site was sold because ad valorem property taxes were not paid by the previous owner, Haig Point Utility, Inc.

Q. **Did Beaufort County convey to Mr. Abdelrahman the elevated tank and other DIUC utility facilities located on the Elevated Tank Site?**

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A. No. The Tax Deed did not include the elevated water tank, the well, the water pump, system pipes, or other DIUC property located on the Elevated Tanks Site. All of those items remain part of the DIUC water system infrastructure.

Q. Is DIUC required to pay taxes on its water system infrastructure?

A. Yes. DIUC must pay an annual Utility Tax, which includes taxation for the DIUC water system infrastructure.

Q. Is Mr. Abdelrahman taxed for the elevated water tank, the well, the water pump, and system pipes located on the Elevated Tank Site?

A. No.

Q. Does Beaufort County have an arrangement in place with DIUC that addresses payment of DIUC's Utility Tax?

A. Yes. Because DIUC's rates as approved July 10, 2012, did not provide DIUC with sufficient revenue to pay the due and upcoming annual Utility Tax assessments for the years 2012, 2013, 2014, 2015, the Beaufort County Treasurer's Office entered into an agreement whereby the total amount due for those tax years could be paid in monthly payments of $5,487.95. Basically, the Agreement amortizes the taxes for these years over an eight-year period so as to allow DIUC to make a predictable payment. No interest is charged. A copy of the Agreement with Addendum is attached hereto as Exhibit A.

Q. Is DIUC making its required payments according to the Agreement?

A. Yes. DIUC has timely made its required payments pursuant to the Agreement.

Q. Were any arrangements made with DIUC for the Utility Tax due for 2016 or for the following years?

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A. No.

Q. Can you briefly explain how those taxes will be noticed and when they will be due?

A. Yes. Annual tax notices are mailed the beginning of each November. Taxes are due by January 15th of the subsequent year. For example, taxes billed November 1, 2015 are due January 15, 2016. .

Q. When is DIUC's next Utility Tax payment due?

A. In addition to the monthly payments for the years covered by the Agreement, DIUC's next regular Utility Tax payment will be due January 15, 2017.

Q. Do you have any concerns about DIUC's ability to pay its upcoming taxes?

A. Yes. In working with DIUC I have come to understand that DIUC's rates are set by the Public Service Commission. If the rates are not sufficient to allow DIUC to collect enough money prior to January 15th of a given year to pay the tax bill due on that date, then DIUC will not be able to pay its taxes. Of particular concern to me is the payment that will be due January 15, 2017, and whether DIUC will be allowed to charge rates sufficient to collect the funds necessary to make that payment in 2017.

Q. What will happen if DIUC does not pay the taxes due on January 15, 2017?

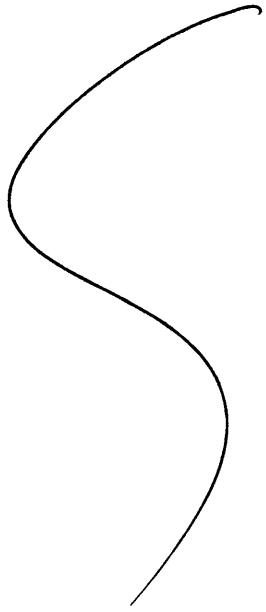
A. If DIUC misses a payment on January 15th of 2017 (or any subsequent year), a 3% penalty on the total taxes due would be assessed. If the taxes are not paid by February 1st, an additional 7% penalty is assessed. If the taxes are still not paid by March 15th, an additional 5% penalty is assessed. So, in total DIUC would incur a 15% delinquency penalty by not paying the taxes on time. Since Beaufort

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County cannot offer DIUC an installment payment option for these upcoming taxes, I am concerned that if DIUC is not able to collect sufficient revenues in 2016 for the taxes due in January 2017 then DIUC will begin a cycle of incurring 15% penalty every year. Plus, if DIUC's taxes are not timely paid then DIUC will suffer the other ramifications of nonpayment of taxes.

Q. Does this conclude your testimony at this time?

A. Yes.



CHAIRMAN HALL: All right. Mr. Pringle.

MR. PRINGLE: Thank you, Madam Chair.

CROSS EXAMINATION

BY MR. PRINGLE:

Q Good morning, Ms. Walls.

A Good morning.

Q Is this your first time testifying before the Public Service Commission?

A Before any commission, anywhere, so how about that?

[Laughter]

Q It's all very, very exciting.

A Great practice.

Q Yeah. You haven't been up to the Administrative Law Court?

A No.

Q I had a matter up there with Beaufort County a couple of years ago, but I don't guess you were there, and I'm glad you don't know what it is.

[Laughter]

A No, me too.

Q Let's talk a little bit, first, about the tax sale. You mentioned it in your testimony. Are you aware of Mr. Guastella's contention in this case that the notices involved with the delinquency on that particular piece of property were sent to the wrong address?

A I am aware of that, yes.
Q Okay. And what is your Office's response to the allegation, in this case or other cases, that notices were sent to the wrong property?
A First of all, as of May 1st, the Treasurer's Office -

CHAIRMAN HALL: Ms. Walls, if you could still speak -

WITNESS: Oh [indicating].

CHAIRMAN HALL: - into the microphone, so everybody can hear you, please.

WITNESS: The Treasurer's Office assumed the responsibility of updating addresses at the taxpayers' request on May 1st of this year. Previously, it was the Assessor's Office's responsibility to maintain addresses, especially changes that were made at the request of the taxpayer. We are required by law to send the tax notice to the address of record. I don't agree with it, personally, but whether we know it's correct or not, that is the address we are required to send the notice, and that's where it was sent.

BY MR. PRINGLE:
Q And that was done?
A Yes.
Q And Beaufort County followed all processes and

requirements under Municipal and State law in taking that deed to tax sale?

A Although I was not an employee of the Treasurer's Office at that time, it is my understanding that that is correct, yes.

Q Okay. Tell me a little bit about - I'm interested in learning a little bit more about utility tax assessments and how that works. And you mentioned, I think, the 10½ percent assessment. Is it your understanding that that is - I think you made reference to it - that that is, generally speaking, the commercial tax rate?

A Yes.

Q And separate from and different from, for example, the primary residence assessment, which is, I think, somewhere between 3 and 4 percent?

A It's 4 percent, yes.

Q Four percent. And then there may be something else that's -

A There are many different assessment rates, yes.

Q Okay. But this is the one we're talking about?

A That is correct.

Q So, based upon your understanding, that number is 10½ percent of what?

A Of a value.

Q Okay. And what is your understanding of how that value

is obtained or derived?
A I can't speak to that. You would have to either ask the Department of Revenue or the Beaufort County Auditor.
Q Okay. So, well, tell me what happens - what you know about what happens before it gets to you, or how it gets to you.
A As I previously stated, the Department of Revenue assigns a value -
Q Okay.
A - to the assets that they're attempting to value.
Q Okay.
A And they send a list of those properties or accounts to the Beaufort County Auditor's Office -
Q Okay.
A - who then applies that value to the asset in our software system. They then apply the ratio, any exemptions - which, in this case, don't apply.
Q Okay.
A Apply the millage, and you get your tax dollars.
Q Okay. So, then, how was that being done - well, when did Beaufort County discover that, for lack of a better term, taxes were owed that had not been paid?
A I can't answer that. You would have to ask the Auditor's Office. And the Auditor at that time is no longer the Beaufort County Auditor.

Q Okay.
A However, I can't say that there was a discovery. It's my understanding of how that office operated at the time that when they'd get something from DOR, they would put it in. I don't think they even - they would question it. There's taxes. Calculate them. And now it's the Treasurer's problem.
Q Okay. When did you learn that there was a different rubric or different framework for taxes for this property?
A I believe it would have been the summer of last year. You're going to have to forgive me on my recollection.
Q Okay. So, in the summer of - you learned in the summer of 2014 that something had happened, through which or as a result of which the value of this real property needed to be taxed at a different rate and a higher rate?
A It's not being taxed at a different rate; it was never being taxed at all. You're dealing with two different things.
Q Okay.
A A real property - we think of things from a real-property perspective and a personal-property perspective.
Q Sure.
A A utility is going to fall under the personal-property

perspective and the authority of the Beaufort County Auditor, so you have an authoritative change there. Real property, it is the Assessor's Office's authority to assign a value for the purposes of *ad valorem* taxation. The Auditor, in this case, because now it has become personal property, now has that authority. The Assessor no longer has that authority.

So, in my realm, from my perspective, for the purposes of collection, first of all, the authority of valuation has completely changed. And then, two, the method that I would pursue collection has completely changed. Specifically, that elevated tank site, if that had occurred - if that tax sale had occurred under my predecessor or my watch, Daufuskie Island Utility's property would never have gone to tax sale, because we do not auction, at our annual tax sale, personal property - especially a utility.

Q Okay. Do you have any knowledge of whether there were any real-property taxes being assessed in connection with the property that bears these tax map numbers for DIUC?

A Yes.

Q Okay.

A There would have been - on all real property, there is an assessment, and these would be no different.

Q Okay. So there were real-property assessments that took place for some period of time, and then a discovery that these personal-property taxes should have been applied?
A Yes. Think of it like a change in category.
Q Right. Right. And so what did - and what did your office do, if anything, with that information?
A At that juncture, one, because we received notification all at once of multiple years, first of all, at that juncture it would have been - even if we had wanted to auction it at the annual tax sale, we would have missed the opportunity for those statutory requirements to sell the property at tax sale. And, two, I am not a resident of Daufuskie Island, but I am a resident of Beaufort County, and I want people to continue to have service, and I did not think it was appropriate that the utility be punished, so to speak, in the form of a significant amount of unexpected taxes because of a failure of valuation or communication, wherever that occurred - DOR, somewhere else, I can't speak to that. But the fact of the matter is, there was a significant amount of dollars dues, and I have a responsibility to collect. However, when I looked at the dollars that were due, the timeframe that was provided, I just did not think it was realistic to be paid.
Q Okay. As part of your discussions - and I believe the

settlement agreement may have been an exhibit to your testimony.

A Uh-huh.

Q As part of those settlements discussions, did the company - to your knowledge, did the company file any revised annual reports that adjusted the value of their utility?

A Yes, with the Department of Revenue.

Q Okay.

A It was my understanding that the Department of Revenue had assigned a valuation that was in excess of the value of the rate base - and forgive my terminology, but there was a disagreement between the valuation, and DOR was significantly higher. And we incorporated into our agreement, which I believe to be a fair agreement, their opportunity to adjust the dollars due each month, if the appeal had been granted, and DOR decided to grant that appeal.

Q Okay. And consistent with the testimony you've given about especially what you did in recognizing that taxpayers - if you want taxpayers to continue to be on the rolls, and you don't want to put them in - and you tell me if I'm categorizing this wrong - you don't want to put them in unfair circumstances, and you determined that this was uncollectible. As part of that process,

you have the authority to consider things like revised annual reports, revised amounts that may affect that value?

A I do not.

Q You don't.

A I have no role in valuation.

Q Okay.

A That is the Beaufort County Auditor.

Q Sure.

A It's my determination, if delinquent tax is due, whether they are uncollectible.

Q Yeah.

A But I will tell you that, one, my policy as a Treasurer will not be to - this is the only negotiation and contract I am ever aware of, in the Beaufort County Treasurer's Office.

Q Okay.

A This is not a practice that we will continue. However, in the interest of getting the taxes paid, on behalf of Beaufort County government as well as the agencies we represent, we believed it was in the best interest of Beaufort County at that time to enter into an agreement with Daufuskie Island.

Q Okay. And to be clear, the settlement agreement that you entered into reflected revised amounts that were

filed on amended annual reports to the Department of Revenue, or that ended up at the Department of Revenue, correct?

A I believe the amendment to our agreement reflected that, yes.

MR. PRINGLE: Okay. All right. That's all I have. Thanks very much.

CHAIRMAN HALL: Okay. Thank you, Mr. Pringle. Ms. Fox?

MS. FOX: No, thank you.

CHAIRMAN HALL: Okay. Ms. Hudson.

CROSS EXAMINATION

BY MS. HUDSON:

Q Good morning, Ms. Walls.

A Good morning.

Q How long have you lived in Beaufort County?

A Almost eight years.

Q Do you live on Daufuskie Island?

A No. As I said, I do not.

Q How did you become familiar with the utility here today?

A Sometime last summer, like I said. I don't remember who - I believe it was Mr. John Guastella, somehow - I do not know how I ended up speaking to him, but I got a very concerned phone call stating that there had been multiple attempts to contact the Beaufort County Auditor

to ask what these taxes were, because they had never - they were never on the books, they had never been received, the tax notices. "What is this?" And I will tell you, not surprisingly, the Beaufort County Auditor did not respond. She didn't respond to a lot of things. And I'm not a person who doesn't respond. So when he called me, that is how I became aware of it. I let him know I would call him back, and that - and it just kind of went from there, how I identified what had occurred.

Q Okay. You testified earlier that Daufuskie could not pay the level of taxes at once?

A Uh-huh.

Q How do you know that?

A By reviewing the documents that they had provided to DOR and, I believe, to this Commission - some rate-base commission.

Q Is everything in your testimony still correct?

A Yes.

Q All right. You have a really good website.

A Thank you.

Q One of the items on the website is the opportunity to apply to pay taxes in installments, and I think it's property taxes.

A Yes.

Q Will you tell us how that works?

A So, again, everything we do is governed by State law. This is no different. You can - a citizen can apply to participate in an installment program. It's a pay-in-advance program. So the only way is dictated by statute that you are requi- - you are able or permitted to participate is, first, that you own the property; two, you cannot use a mortgage escrow to pay; three, you need to have - you cannot have any delinquent property taxes; and you need to be current. So if there are six payments that need to be made, if you miss one, you are no longer eligible and you need to reapply for the next year.

Q I read that it applies to both commercial and residential property. Is that right?

A Yes, that's correct. However, it would not apply to Daufuskie Island Utility.

Q Why is that?

A Because that is personal property. This is not real property. The classification would be on - if you're familiar with our website, you've looked at the taxes we've collected in our account. So the fact that the statute implies that it can be utilized by an individual or commercial property, this is neither; this is a utility. What they are inferring is - my understanding, based on discussion with our legal counsel, is that they

are implying that the ownership of that real property may be an individual or a business.
Q I'm confused. You're saying that the utility - Daufuskie Island Utility - cannot apply to pay property taxes -
A Correct.
Q - in installments?
A We have - no utility, corporate, merchant, furniture and fixtures. They're all different types of properties being taxed.
Q What about for land the utility owns?
A The land? The taxation on the land that is owned by the utility, it's my understanding - again, I'm not a member of DOR and I'm not the Beaufort County Auditor - the land that's owned by Daufuskie Island Utility, the valuation or taxes are included in what they are paying, ultimately. It's included in DOR's valuation. So they would not be eligible for the installment program, first, but even if they were, they would need to have paid in full the taxes that were due before applying.
Q You say in your testimony that the tax deed does not include the elevated water tank. How are you certain about that?
A I've read it.
Q All right. Do you have a copy of ORS Morgan Exhibit -7?

A No, I do not.

MS. HUDSON: Madam Chair, may I approach the witness?

CHAIRMAN HALL: Please.

MS. HUDSON: [Indicating.]

WITNESS: [Indicating.]

MS. HUDSON: Madam Chair, I'd like the record to reflect that what I handed to the witness is ORS Witness Morgan's Exhibit -7 that was prefiled in this case.

BY MS. HUDSON:

Q Ms. Walls, is this document what you're calling the tax deed?

A It appears so, yes. I think it is. I think it is blanked out here by the Registrar of Deeds' Office's printing, but it should say "Tax Title."

Q Okay. That was going to be my next question, what that hidden word is.

A I think that's what it should say.

Q Will you turn to the second page with me?

A Uh-huh.

Q And I'm sorry that the writing is small. I wish I could make it bigger. But will you read the first three lines out loud, so the court reporter can hear you, and stop after you get to the word "acres"?

A "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,'" in quotations, "having and containing 0.337 acres, more or less, as depicted on that certain plat entitled '9.691 Acre Tract known as Equestrian Center, being...'" - oh, that's where you wanted me to stop.

Q You can stop. Thank you. You read the portion. I'm going to ask you to read two other paragraphs: the one that has the word "TOGETHER" in bold, and the paragraph beneath it that has in bold "TO HAVE AND TO HOLD."

A Uh-huh?

Q Would you read those out loud, as well?

A "TOGETHER with all and singular, the Rights, Members, Hereditaments and Appurtenances to the said Premises belonging, or in any wise incident or appertaining,

"TO HAVING 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."

Q Is the water tower an appurtenance?

A I don't believe I can answer that.

Q Whose job is it to determine that?
A I don't know if I can answer that. I know it is not our department's responsibility. What we would - if I may, what we would traditionally do is we would identify, after a soft title search - so this is not in as much detail as can possibly be done, but in a soft title search we would identify the descriptors of the property or its contents as identified in the deeds held by the Registrar of Deeds' Office, as well as the land description identified by the Beaufort County Assessor's Office.
Q But your testimony is, you don't know who makes the determination of what is an appurtenance or not?
A That is correct.

MS. HUDSON: Madam Chair, may I approach the witness again?

CHAIRMAN HALL: Yes, ma'am.

MS. HUDSON: [Indicating.]

WITNESS: [Indicating.]

MS. HUDSON: Madam Chair, I'd like the record to reflect that what I've distributed to the witness is pages two to four, the remaining parts of ORS Morgan Exhibit -7.

BY MS. HUDSON:
Q Ms. Walls, would you agree that that property ID number

on the document I just distributed to you matches the tax title?
A Yes, I would.
Q And will you say the owner's name out loud?
A Mr. Abdelrahman, Mamdouh Sabry.
Q Would you agree with me that there is a building listed here?
A A residential shed or small utility, yes.
Q You see that on the second page, right?
A Yes.
Q And under the word "Type," what do those letters stand for?
A I would imagine "utility shed," but you would have to ask the Assessor's Office.
Q Would you agree that it's confusing that Mr. Sabry seems to be taxed for a utility shed, on one hand, but not for a water tower, on the other hand?
A I can't answer that.

MS. HUDSON: Thank you, Madam Chairman. I have no further questions.

CHAIRMAN HALL: All right. Commissioners. Commissioner Whitfield.

VICE CHAIRMAN WHITFIELD: Thank you, Madam Chairman.

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EXAMINATION

BY VICE CHAIRMAN WHITFIELD:

Q Thank you, Ms. Walls, for taking the time to be here. Your testimony and information has been crucial, and I think most of the questions have been asked of you, but I do have one or two more. I realize that you are not the elected Auditor, that you're the elected Treasurer. And I realize you're not the Tax Assessor, and I realize you're not the Department of Revenue. And I realize you have PT-100 Business Personal Property Return, and you have utility taxes. Those are assessed by the Assessor, I guess, and the Auditor, in conjunction with South Carolina Department of Revenue. I get that all that is outside your scope. It would've been helpful to maybe have had the Auditor and the Assessor up here, and others who could've provided information. But that being said, the questions that Ms. Hudson just asked you there at the end about a shed, I realize that we're dealing with a building, and sometimes you have to pay - you deal with the contents of that building, or other personal property, as you refer to, or commercial property, and I realize that that is in a different category. But I realize the shed lends a little bit of confusion, as Ms. Hudson just said, because it does appear to be a building or dwelling, different from the

contents or any utilities or any other items that might be on that property.

A Uh-huh?

Q That being said, in your testimony you state that your - and I realize you've got the agreement, going forward. I realize your payment plan of $5487 a month, and I get all that, going forward. But in your testimony, somewhere - I think on page three - you say is Mr. Abdelrahman - and I apologize about not saying his name right - being taxed for the site? I realize you're taxed in - the company is being taxed the utility tax on the tank and the appurtenances, if you will, on the property. But is Mr. Abdelrahman being taxed, going forward, on the piece of land, on the real property? Mr. Pringle almost asked you that, but he didn't quite ask you that, and that's what I want to know: Going forward, how is Mr. Abdelrahman being taxed on this parcel of land, going forward?

A I do not know if he will be. And I can provide an answer definitively when I return to Beaufort County, and I will explain to you why. If this parcel is not in the name of Daufuskie Island Utility - as you can see, based on the date of this printout, it was not - what occurs is DOR sends a letter to the Assessor's Office that states, "You do not have the authority to value

this parcel," and therefore the Assessor will not value, and the Auditor's Office will need to generate a bill for the utility. Being that this is a very unique circumstance - and I'm not aware that anyone has encountered in our County before - I can't exactly tell you whether Mr. Abdelrahman will be taxed on the dirt and utility shed that is presented in this exhibit, but I can tell you that it would be my assumption that the Department of Revenue is taxing the infrastructure owned by Daufuskie Island Utility on that parcel.

Q So what you're telling me at this time is the Department of Revenue is taxing that, but you're not sure if the Assessor has assigned a value to the parcel of land - the dirt, if you will, and the shed. In other words, he's not being taxed, is what you're telling me.

A He - and, again, I can let you know definitively, but I'm going to speculate now, based on the date of this document. If, last summer, the Beaufort County Auditor's Office received notification that they needed to assign a value for Daufuskie Island Utility - and for us, a brand-new utility, even though it's not brand-new - the Assessor's Office would've received, at the same time, a document stating, "You do not have the authority to value this property." However, this Tax Year 2014 being listed here and having a valuation -

Q Right.
A - would indicate to me that the Assessor's Office did not receive this notice. I cannot speak as to whether they truly have the authority to continue assigning a valuation to Mr. Abdelrahman's property or calculating a tax to him on that dirt. I cannot speak to that, because I believe it is a legal opinion. But, based on the process that I'm aware of, unless that document is - we have hundreds of thousands of properties in Beaufort County, and it is a very automated process. So, simply not receiving that letter from DOR by the Assessor's Office, this parcel would be treated, in theory, like any other. However, I do - our Assessor has recently retired, but I know he was intimately aware of this parcel and the dealings and conversations that were taking place with Daufuskie Island Utility.

So being that we have not finalized or posted our tax roll for 2015, I'll be happy to verify for the Commission and counsel whether Mr. Abdelrahman is expected to receive a tax notice on this property that is listed here.

Q So he - so what he's received up through last year, he is current on and doesn't owe Beaufort County any -
A He is not delinquent, correct.
Q But you haven't produced him a new bill and you don't

know if you're going to, is that what you're telling me? Or you don't know what's going to come out -

A Correct. And I do - again - only make the assumption that the Assessor's Office, because this parcel is not listed in the name of Daufuskie Island Utility, did not receive notification from DOR that they no longer have the authority to assign a value.

Q Well, it'll be interesting to see how your next bill comes out.

A Yes.

VICE CHAIRMAN WHITFIELD: That's all have, Madam Chairman.

CHAIRMAN HALL: All right. Commissioners, any other questions?

[No response]

Okay. Mr. Gressette.

MR. GRESSETTE: No questions, thank you.

CHAIRMAN HALL: Okay. All right. Thank you, so much, Ms. Walls.

VICE CHAIRMAN WHITFIELD: Madam Chairman, can I ask for a late-filed exhibit on that new tax bill when it comes out?

CHAIRMAN HALL: Okay. Ms. Wells, if you'll - yeah - get with Mr. Gressette, and they'll submit it on your behalf, I'm sure. That Late-Filed

Exhibit No. 6 will be the new tax bill for Mr. Abdelrahman. Okay?

WITNESS: I'll be happy to do that.

CHAIRMAN HALL: Oh, I'm sorry. Mr. Pringle.

MR. PRINGLE: I don't want to, you know, be a fly in the ointment, here. I guess my question is somewhat about the timing of when that would be and whether or not it could take place, in order to actually have any pertinence in this Docket, but, again, that's -

CHAIRMAN HALL: Okay. Well, let me dialogue with Ms. Walls.

Ms. Walls, so you're not positive whether you even will generate a bill for Mr. Abdelrahman.

WITNESS: No, I'm not.

CHAIRMAN HALL: If you were to, when would that be?

WITNESS: It would be, we hope, by the second week of November. But it would be up to the Beaufort County Auditor; once he certifies that the tax roll is complete, we can send out our tax notices.

CHAIRMAN HALL: So let's do this, Ms. Walls: When you know, if you could just send us a status letter if you decide not to generate a bill, or the

bill, if you do generate a bill, as soon as possible, so - are you in agreement with that, Mr. Pringle?

MR. PRINGLE: And I wasn't, you know, objecting to the document or what it said itself.

CHAIRMAN HALL: Okay.

MR. PRINGLE: I just wondered that, given that there will be a timeframe in which proposed orders and the Commission decision -

CHAIRMAN HALL: Okay. Yeah. Proposed orders won't be due until November 25th.

MR. PRINGLE: Right.

CHAIRMAN HALL: So if you're talking the first week in November, it -

WITNESS: Or it's helpful to you, I could contact the Beaufort County Assessor, who would let you know what notifications they have received. So what I can do is ask him for a document that states whether he has applied a value, so that, if he has, it will flow through the taxation process.

CHAIRMAN HALL: Okay.

WITNESS: And that, I can get to you by the end of this week.

CHAIRMAN HALL: Okay. That'd be awesome. Thank you, so much, Ms. Walls.

WITNESS: You're very welcome.

CHAIRMAN HALL: Thank you. Have a safe trip back.

WITNESS: Thank you.

[WHEREUPON, the witness was excused.]

CHAIRMAN HALL: We'll take a five-minute break - or let's just go ahead and go to lunch. We'll start back at 1:10.

[WHEREUPON, a lunch recess was taken from 12:00 to 1:15 p.m.]

AFTERNOON PROCEEDINGS

CHAIRMAN HALL: Good afternoon, everybody. I hope you enjoyed your lunch.

Mr. Gressette, we are ready whenever you are.

MR. GRESSETTE: Thank you. The court reporter asked for us to conduct the questioning from here [indicating] to make it easier.

CHAIRMAN HALL: Thank you.

[Witnesses affirmed]

MR. GRESSETTE: Madam Chairperson, the Applicant had a panel of three witnesses. One of those witnesses, Eric Johanson, the chief operator for the utility arrived today but needed to return to the island to address some emergency issues. The parties, as I understand it, have agreed to stipulate to his testimony. So, based upon that, and with the Commission's indulgence, I would ask that his direct prefiled testimony, dated September 18, 2015, consisting of four pages, be read into the record as if given orally from the stand, and all exhibits, if any, be entered into evidence.

CHAIRMAN HALL: All right. Mr. Johansen's direct testimony will be read into the record as if given orally. And he has no exhibits.

MR. GRESSETTE: Thank you.

[PURSUANT TO STIPULATION AND IN LIEU OF PERSONAL APPEARANCE AND TESTIMONY, THE PREFILED DIRECT TESTIMONY {VERIFIED} OF ERIC JOHANSON FOLLOWS AT PGS 114-118]

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DAUFUSKIE ISLAND UTILITY COMPANY, INC.

DOCKET NO. 2014-346-WS

Testimony of Eric Johanson

Before the South Carolina Public Service Commission

Testimony Prepared: September 18, 2015

Hearing Date: October 28, 2015

Q. Please state your name and business address.

A. Eric Johanson, P.O. Box 23527 Hilton Head Island, SC 29925

Q. By whom are you employed and in what capacity?

A. Daufuskie Island Utility Company ("DIUC"); Chief Operator.

Q. How long have you been employed by DIUC?

A. 16 Years.

Q. Please state your professional work experience (water and wastewater training courses, licenses, previous employment, etc.).

A. I presently hold state certifications for biological wastewater treatment, water treatment and water distribution and have attended numerous educational and training courses to keep my certifications current. My work experience includes:

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W.A.S.T.E. INC. - contracted to perform daily operations and maintenance of privately owned wastewater package plant.

Broad Creek Public Service District - Licensed Wastewater Operator at activated sludge, extended aeration treatment plant.

Beaufort/Jasper Water & Sewer Authority - Licensed Water Operator at water treatment plant.

Daufuskie Island Utility Company - Chief Operator responsible for the operations and maintenance of two wastewater treatment plants (aerated lagoon systems) and their associated collection systems, the operations and maintenance of seven potable water wells and their associated distribution systems.

Q. Please describe DIUC's water and wastewater systems and operations.

A. DIUC owns and operates two wastewater treatment plants, their associated collection systems, seven potable water wells and their distribution systems which include an elevated water storage tank. The wastewater plant located in Haig Point serves both the Haig Point and Melrose communities. The plant is an aerated lagoon system and has a design capacity of 640 thousand gallons per day. The maintenance routines performed by the operator include troubleshooting and repair of any malfunctioning equipment, conducting the daily collection and testing of effluent water samples to determine the performance of the plant and the general maintenance of the facility.

The wastewater collection system consists of 57 lift stations equipped with either submersible solids or grinder pumps which vary in size from 2.4 to 20

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horsepower. The lift stations are inspected on a bi-weekly basis and the maintenance routine includes troubleshooting and repair of any motor control problems, repairing or replacing malfunctioning pumps, and general maintenance such as cleaning wet well and control floats. The station would also require landscaping in the growing season.

The wastewater plant located in Bloody Point serves the Bloody Point and Beach Field communities. It is an aerated lagoon system with a design capacity of 80 thousand gallons per day. Its collection system consists of 4 lift stations which vary in size from 2.4 to 10 horsepower. The maintenance routines performed on this plant and its lift stations would be the same as mentioned above.

The two water distribution systems serve the Haig Point, Melrose and Bloody Point communities. The system serving Haig Point consists of two wells with pumping capacity of 400 gallons per minute (GPM) and one well with a capacity of 600 GPM. The system's pressure is maintained by a 125 thousand gallon elevated storage tank. The water system serving Melrose and Bloody Point consists of four wells, two with a 300 GPM capacity and two wells with a 1000 GPM capacity. The system pressure is maintained with four hydropneumatic tanks (two-5000 gal and two-10000 gal). Daily routines include inspection of the well site and the recording of data required by state regulations. The chlorine residual is also tested to ensure proper disinfection of the systems. All general maintenance issues are addressed as needed.

Q. Have significant improvements been made since the last rate case?

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A. Yes, the capital improvements as described in the Report on Capital Improvements were significant in terms of reliability of service. We have also worked closely with Mike Guastella to improve record keeping, operating procedures and communications.

Q. How many operating employees are now working under your direction?

A. Including myself, there are four full-time employees and one part-time employee.

Q. Does that conclude your testimony at this time?

A. Yes.

DAUFUSKIE ISLAND UTILITY COMPANY, INC.

DOCKET NO. 2014-346-W/S

Testimony of Eric Johanson

Before the South Carolina

Public Service Commission

Testimony Prepared: September 18, 2015

Hearing Date: October, 28, 2015

STATE OF SOUTH CAROLINA)
) AFFIRMATION OF TESTIMONY
COUNTY OF BEAUFORT)

PERSONALLY appeared before me, Eric Johanson, who, being duly sworn, deposes and says that he has read and does hereby affirm the foregoing Testimony and that said Testimony is true and correct of his own knowledge.

Eric Johanson

SWORN to before me this 29 day of October 2015

Georgia Rossberry Georgia Rossberry

Notary Public for South Carolina

My Commission Expires: Sept 26th, 2018

THEREUPON came,

J O H N F . G U A S T E L L A ,

G A R Y C . W H I T E ,

called as witnesses on behalf of the Applicant, Daufuskie Island Utility Company, who, having been first duly affirmed, were examined and testified as follows:

MR. GRESSETTE: At this time, with the Commission's indulgence, we would like to talk to Mr. Gary C. White.

DIRECT EXAMINATION

BY MR. GRESSETTE:

Q For purposes of the record, would you please state your name?

A [WHITE] Yes, it's Gary C. White.

Q And where are you employed, Mr. White?

A [WHITE] I'm the vice president of Guastella Associates.

Q And do you have personal knowledge of the operations of Daufuskie Island Utility?

A [WHITE] Yes, I do.

Q And do you have personal knowledge of the pending Application for rate increase that has initiated this hearing?

A [WHITE] I do.

Q And did you submit prefiled testimony in this matter?

A [WHITE] Yes, I did.

Q And did you have an opportunity to thoroughly review that prefiled testimony before it was submitted?
A [WHITE] I have.
Q And did that prefiled testimony include 11 pages, dated September 17, 2015?
A [WHITE] Yes.
Q If I were to ask you each of the questions included in that prefiled testimony, would your answers be the same as they appear there?
A [WHITE] Yes.

MR. GRESSETTE: At this time, I would move the prefiled direct testimony of Gary C. White be read into the record as if given orally from the stand and that it be entered into evidence.

CHAIRMAN HALL: All right. Mr. White's testimony will be read into the record as if given orally.

[See pgs 124-134]

MR. GRESSETTE: Thank you.

BY MR. GRESSETTE:

Q Mr. White, it would be helpful for the Commission if you could summarize your testimony, but maybe we should start with a summary of the tasks that you perform for Daufuskie Island, with regard to this proceeding.
A [WHITE] Yes. Basically, I perform all of the

calculations and put together all of the spreadsheets and schedules that are presented as exhibits, supporting the Application.

Q And to the best of your knowledge, are all the calculations you provided in those spreadsheets accurate?

A [WHITE] Yes.

Q In the course of your work with Daufuskie Island Utility Company, have you become familiar with the utility's financial condition?

A [WHITE] I have.

Q And, generally, how would you describe that condition?

A [WHITE] I would say that it is improving, but it's not, certainly, where it needs to be.

Q And in the course of preparing the spreadsheets and exhibits you referenced earlier, did you have an opportunity to come to any conclusions about the total revenue increase sought by the Applicant?

A [WHITE] I think - certainly, I think it's a fair and reasonable request. I know it's a large request, but it's something that's needed by the utility.

Q And what is the total revenue increase sought by the Application?

A [WHITE] The total increase in revenue was $1,182,300.

Q There's been some discussion about a revenue increase of

$462,798. Is that amount sufficient to allow Daufuskie Island Utility to maintain its infrastructure?

A [WHITE] No.

Q And is the increase you described, the $1,182,301, necessary for Daufuskie Island Utility Company to maintain its operation?

A [WHITE] Yes.

Q Before I ask Mr. Guastella to summarize his testimony for us, is there anything else you'd like to add?

A [WHITE] No.

Q Keep it moving?

A [WHITE] Keep it moving.

[PURSUANT TO PREVIOUS INSTRUCTION, THE PREFILED DIRECT TESTIMONY OF JOHN C. WHITE FOLLOWS AT PGS 123-133]

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DAUFUSKIE ISLAND UTILITY COMPANY, INC.

DOCKET NO. 2014-346-WS

Pre-Filed Testimony of Gary C. White

Before the South Carolina Public Service Commission

Testimony Prepared: September17, 2015

Hearing Date: October 28, 2015

Q. Please state your name and business address.

A. Gary C. White, 17369 S.E. 111th Court, Summerfield, Florida.

Q. What is your occupation?

A. I am Vice President and the Director of Accounting with Guastella Associates, LLC a firm that provides utility consulting services primarily for municipal and investor-owned water and wastewater utilities.

Q. Please state your educational background and professional experience.

A. I received a Bachelor of Science in Business Administration from Valparaiso University in 1972. I graduated with an Accounting major and Finance minor. I have also completed a course in utility rate regulation sponsored by the National Association of Regulatory Utility Commissioners ("NARUC"), the Florida Public Service Commission and the University of Utah.

I was employed in the unregulated, private industry sector between 1972 and 1984 with responsibilities in various areas of business management, accounting

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and finance. Since 1984, my experience has been concentrated in the areas of management, valuation and rate setting for water and sewer utilities. During this period, I was responsible for the rate regulation department of General Development Utilities, Inc. which was the largest investor-owned water and sewer utility in Florida. I was subsequently employed as General Manager of Country Knolls Water Works, an investor-owned utility in upstate New York. I managed all of the utility's regulatory, accounting and operations activities on a day-to-day basis. I began my employment with Guastella Associates in 1992.

My experience in utility matters includes the preparation of cost of service and revenue requirement analyses for both private and municipal utilities. I have prepared cost allocation, connection charge, and rate design studies, revenue requirement forecasts; population growth and system capacity projections; market value analyses; and various operations and management evaluations. I have provided rate, regulatory and system valuation services for clients in Alaska, Arizona, California, Connecticut, Florida, Georgia, Illinois, Indiana, Maine, Maryland, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Rhode Island, and South Carolina. I have served as an instructor at several seminars for developer-related water and sewer utilities sponsored by Florida State University and the University of Florida and at a utility rate seminar conducted by the New England Chapter of the National Association of Water Companies.

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Q. How long have you practiced in the area of utility management and rate regulation?

A. I have been involved in the utility industry for over thirty years.

Q. In what jurisdictions have you presented expert testimony?

A. I have testified as an expert witness in regulatory hearings in Connecticut, Florida, Maryland, New Jersey, New York, Pennsylvania and South Carolina.

Q. Are you a member of any professional associations?

A. I am a member of the American Water Works Association.

Q. Please describe the nature of your assignment in connection with this proceeding.

A. Guastella Associates was retained as consultants to Daufuskie Island Utility Company, Inc. ("Company"). My assignment in conjunction with preparing a rate study was to examine the financial information and operating data of the utility, and to coordinate my work with that of John F. Guastella to prepare an analysis of the Company's revenue requirement for both its water and wastewater operations.

Throughout the process of preparing the rate study, which supports the Company's application for the rate increase, I have worked closely with the Company's management, accounting, financial, billing, and operations personnel

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so that the application accurately depicts the Company's financial position and contains the information necessary to establish its cost of providing service.

Q. What test periods do you use?

A. Our analyses are based on the historical test year ended December 31, 2014 financial information and a pro forma rate year adjusted for known and measurable changes through the period ending December 31, 2015.

Q. Would you briefly describe the results of your rate study?

A. Yes. The study produced a total revenue requirement of $1,137,531 for the water system and $1,130,190 for the wastewater system filing which covers the pro forma cost of providing service based on the projected December 31, 2015 operations. The revenue requirement reflects a $590,454 increase over existing water rates or a 107.9% increase in water revenues, and a $591,847 or 109.9% increase in sewer revenues. The $2,267,721 of total revenue would cover pro forma operating expenses of $1,649,127 and provide net operating income of $618,595 or an 8.73% rate of return on the Company's $7,085,475 rate base investment.

Q. Have you prepared schedules that summarize your rate analysis?

A. Yes, I will briefly describe all of the schedules submitted in support of the rate increase. Mr. Guastella's testimony addresses some of the schedules and certain issues within this rate application.

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Q. Please explain Schedule A-1

A. Schedule A-1 shows the Company's water and wastewater comparative balance sheets as of December 31, for years 2009 through 2014. This schedule reflects the assets, liabilities and equity balances as recorded to show the Company's financial position.

Q. Please describe the contents of Schedule A-2.

A. This schedule contains the individual water and wastewater system's comparative annual income statements for the calendar years 2009 through 2014. The amounts shown on Schedule A-2 reflect the actual level of income generated by the water and wastewater operations of the Company.

Q. Please explain Schedule A-3.

A. Schedule A-3 shows the Company's capital structure and rate of return. The schedule shows a pro forma capital structure based on a $3.75 million proposed debt issuance and the actual balance of equity capital shown on the Company's year-end balance sheet. A cost rate for debt of 6.2% and a cost rate for equity of 10.5% results in an overall weighted cost of 8.73%.

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Q. Would you please describe Schedule A-4?

A. Schedule A-4 presents the overall operating statement for the combined water and wastewater systems. It simply reflects the combined results of Schedule W-C, the water operating statement, and Schedule S-C, the sewer operating statement.

Q. Please describe Schedule B?

A. I will provide a generic description of the remaining schedules as each lettered schedule represents similar information applicable to both the water and the sewer rate filings. In other words, Schedules W-B and S-B sets forth the computation of the water and sewer rate base, respectively. These schedules show the rate base components for the test year ended December 31, 2014, adjustments and pro forma year-end December 31, 2015 rate year balances that are used to develop the Company's revenue requirement.

Q. Would you please describe Schedule B.1, B.2, B.3 and B.4?

A. Schedule B.1 summarizes and describes the pro forma adjustments made to the rate base calculation shown on Schedule B.

Schedule B.2 shows the detail of Plant in Service by primary plant account. It begins with the original cost of plant in service as of test-year ended 2014 and brings the accounts forward through pro forma December 31, 2015 balances.

Schedule B.3 contains Accumulated Depreciation by primary plant account, along with the adjustments necessary to formulate the pro forma rate-year ending 2015 balances. The development of annual depreciation accruals for the pro forma

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period are supported and detailed on Schedules W-C.3 (water) and S-C.3 (sewer). Schedule B-4 shows the balances for Contributions-in-Aid-of-Construction (CIAC) and the accumulated amortization of CIAC as of December 31, 2014 and rolled-forward to reflect the Tap Fee (CIAC) related to projected customer growth through the December 31, 2015 rate year.

The balances from Schedule B.2, B.3, and B.4 are brought forward to the rate base, Schedule B.1.

Q. Please describe the working capital allowance and average unamortized balance on Schedule B.1.

A. The working capital allowance is based on a modified lead/lag study applicable to the Company's quarterly billing, in arrears. The level of allowance reflects an average of 75 days ($1/5^{th}$ of a year) of lag time representing the mid-point of the 90 day period (or 45 days) over which service is provided prior to billing and an average of 30 days to receive payment from the customers after the end of the period. This lag represents a capital requirement placed on the Company and is a positive rate base adjustment.

The average unamortized balance represents the Company's average balance of unrecovered rate case expense. Because the expense is an "up-front" or prepaid cost, the amortization creates a delay in the recovery of the full amount, therefore, the unrecovered portion of the expense becomes a capital requirement of the utility, and a positive rate base adjustment in order to recognize the associated carrying cost.

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Q. Would you please describe Schedule W-C and S-C?

A. Yes, these schedules contain the pro forma operating statements or income statements for water and sewer, respectively. Schedule C shows the Company's operating results for the historical twelve months ended December 31, 2014, and also shows the pro forma adjustments and operating results for the pro forma rate period ending December 31, 2015 under present and proposed rates. These schedules summarize the Company's cost of operations, resultant net operating income and rate of return on the Company's rate base investment.

The numbered adjustments on Schedules W-C and S-C reference the explanations of those adjustments provided on Schedules W-C.1 and S-C.1.

Q. Would you briefly describe the adjustments on Schedule C.1?

A. Yes. Adjustments 1(a) through 1(j) for water and adjustments 1 (a) through 1(h) for sewer reflect the pro forma changes made to operating revenue, by customer class, under present rate and proposed rates. The revenue adjustments are supported by the billing analyses contained on Schedules E, E.1 and E.2.

Adjustments (2) through (13) reflect the pro forma changes made to operation and maintenance expenses. An explanation is provided for each adjustment.

Adjustment (14) reflects the annual depreciation accrual, determined by applying depreciation rates to the pro forma levels of plant in service.

Adjustment (15) reflects the four-year amortization of the unrecovered current rate case costs, and the eight-year amortization of property taxes in accordance with an agreement with Beaufort County.

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Adjustment (16) reflects the revenue tax applicable to pro forma revenues under present rates.

Adjustment (17) reflects the annual level of property taxes calculated in accordance with the Department of Revenue's methodology for determining assessment values.

Adjustment (18) reflects the payroll tax expense associated with pro forma wages.

Adjustment (19) calculates the state and federal income tax on pro forma taxable income under present rates.

Adjustment (20) shows the impacts of the increased revenue, under proposed rates, on the bad debt expense component.

Adjustment (21) increases revenue taxes to reflect pro forma revenue levels under the proposed rates.

Adjustment (22) calculates the state and federal income tax on pro forma taxable income under the proposed rates.

Q. Please describe Schedule C.2.

A. This schedule reflects the individual operating expense items by account as recorded per books for the twelve months of year-end 2013, 2014 and forecasted for pro forma 2015.

Q. Please describe Schedule C.3.

A. Schedule C.3 reflects the annual depreciation expense by individual plant accounts. This schedule shows the pro forma rate year depreciation expense. It

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should be noted that the depreciation methodology used on this schedule complies with the methodology approved in the Company's last rate Order.

Q. Please describe Schedule D.

A. This schedule shows the Capital Structure, including debt and equity cost rates and rates of return for each of the utility systems. The capital ratios developed for the pro forma capital structure on Schedule A-3 are applied and synchronized to the water rate base and sewer rate base as reflected on Schedules W-D and S-D, respectively.

Q. Please explain the billing analyses presented on Schedules E, E.1 and E.2.

A. Schedule E sets forth the billing analysis for the historical twelve-month period ended December 31, 2014.

Schedule E.1 sets forth the pro forma billing analysis under present rates and includes the projection of rate year customer growth.

Schedule E.2 applies the proposed rates to the same billing data as appears on Schedule E.1, thus producing revenue equal to the pro forma revenue requirement.

The billing analyses provide the detailed billing data for the revenues presented on Schedule W-C and Schedule S-C.

Q. **Briefly explain each of the Schedules F.1 and F.2.**

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A. Schedule F.1 reflects the water and sewer revenue requirement calculations. It shows the revenue requirement components for the pro forma rate year analysis. Schedule F.2 contains the water and sewer rate design schedules. The proposed rates are designed to reflect a prorate increase by customer class and single tariff pricing. The rates developed on this schedule, when applied to the billing units, will generate the proposed revenue requirement as demonstrated on Schedule E.2.

Q. Does this conclude your testimony?

A. Yes.

BY MR. GRESSETTE:
Q Mr. Guastella, you ready?
A [GUASTELLA] I'm ready.
Q All right. Can you state your name for the record, please?
A [GUASTELLA] John F. Guastella.
Q And, Mr. Guastella, where are you currently employed?
A [GUASTELLA] President of Guastella Associates.
Q Do you have personal knowledge of the operations of Daufuskie Island -
A [GUASTELLA] I do.
Q - Utility Company? And do you have personal knowledge of the pending Application for rate increase that initiated the present matter?
A [GUASTELLA] Yes.
Q And did you submit prefiled testimony in this matter?
A [GUASTELLA] Yes.
Q And did you have an opportunity to thoroughly review that testimony prior to its submission?
A [GUASTELLA] Yes.
Q So, for purposes of the record, as I understand it, you have provided direct testimony consisting of 10 pages, with Exhibits A and B; is that correct?
A [GUASTELLA] Yes.
Q And you have also submitted rebuttal testimony

consisting of 24 pages, with Exhibits 1 through 5; is that correct?

A [GUASTELLA] Yes.

Q And if I were to ask you each of the questions contained in both of those prefiled testimonies, would your answers today be the same as they appear in the testimony?

A [GUASTELLA] Yes. I have one typo to point out.

Q Would you point that out for the Commission, please?

A [GUASTELLA] In the rebuttal testimony on page 12, line 11, the first word is "overstated"; it should be "understated."

Q Any other changes?

A [GUASTELLA] No.

MR. GRESSETTE: Subject to that short qualification, at this time, I would move the prefiled direct and prefiled rebuttal testimony of Mr. Guastella be read into the record as if given orally from the stand, and that all exhibits thereto to be entered into evidence.

CHAIRMAN HALL: All right. Mr. Guastella's direct and rebuttal testimony will be entered into the record as if given orally.

[See pgs 188-197 - Direct]

[See pgs 199-222 - Rebuttal]

His exhibits will be Hearing Exhibit Nos. 7 and 8.

[WHEREUPON, Exhibit Nos. 7 and 8 were marked and received in evidence.]

MR. GRESSETTE: Thank you.

BY MR. GRESSETTE:

Q Mr. Guastella, before we proceed to summarizing some of the contested issues that we'll be discussing today, I thought it might be helpful for you to explain to the Commission which, if any, adjustments suggested by ORS the utility has accepted for purposes of this case.

A [GUASTELLA] Yes. On page two of my rebuttal testimony, I list 20 separate adjustments or positions by ORS that we are accepting for rate-setting purposes.

Q One of the adjustments proposed by ORS, and included within that list, I believe, is number 14. Is that bad debt?

A [GUASTELLA] Yes.

Q Can you explain why the utility was willing to accept that adjustment?

A [GUASTELLA] Yes. Our bad-debt expense per books, which went to 2014, was over $100,000. When we prepared our filing, we took a conservative approach and allowed only $30-$40,000, I believe. When I saw ORS's testimony, they used a percentage applied to revenues, and they

came up with $100,000, which was consistent with our 2014 level. I then looked at our latest 12 months of revenues, compared to a previous similar period of 12 months of revenue, and I found that our bad debts' expense were still up over the $100,000. So I accept their adjustments. It favors the company, but it's the reality of what we've been facing. Our bad debts were at a level of $100,000, before we filed the case and subsequent to filing the case, and ORS's adjustment was reasonable and I accepted it.

Q Along with your testimony, you filed a document called "Report on Capital Improvements." Can you generally summarize those capital improvements discussed in that document, and why you thought it was important for the Commission to see that?

A [GUASTELLA] Yes. In the last rate case, the company was required to set aside $750,000 in a capital reserve from the borrowing that was anticipated at the time of the last case. When we borrowed the money from SunTrust Bank, we did, in fact, set up a reserve. Actually, we set up a reserve for $750,000 instead of the 700 that was required. And we actually spent more than the $750,000. So whatever we needed to provide service to our customers - and there were some significant improvements that were needed - we were able to spend

that money, and we were required to submit a report to the Commission about the use of the funds in the $700,000.

And I might just interject that, during the time of this whole process in getting the loan, we had a major failure of the lagoon liner at our wastewater treatment plant, the cost of which was $500,000. So we were fortunate enough to have an owner who has a construction company that put in temporary repairs until we could get permanent financing and permanent repairs. Were it not for that, we would not have been able to repair, on a temporary basis even, that lagoon liner. And then, once we got the loan, then we were able to start making payments.

We still owe that owner some money for some of the capital improvements that are made, because, despite the rate increase, we've had cash flow shortages. But the report itself gave me an opportunity, I thought, to - for a small company - in the last case, I promised this Commission that I was going to do all that I can to keep rates as low as possible and provide safe and adequate service to these customers. That report gave me an opportunity to lay out what has been happening with Daufuskie Island Utility.

And if you have had an opportunity to read the

report, or take the opportunity to read the report, you see I go into the history of the development of the utility, and some of the very unusual problems that small water companies face. I regulated 400 of them; I consulted for 600. I don't think I've ever seen a small utility face the kinds of problems that this utility faced, and I thought I wanted to bring that information to the Commission, so you could understand really what's going on with how a small company has to meet incredible challenges. And this utility has challenges that I never expected.

For example, property taxes - a property tax bill that almost exceeded our annual level of revenues, in total, once we got them. We had challenges with the lagoon liner failures, where we had to spend $½ million worth of plant - which is a significant part of our total overall rate base.

I go through some of the other challenges where we had the County send tax bills to the wrong address. When we took over the management of this company, we sent a letter notifying Beaufort County of what our address was and where to send the bills. They sent us bills for a number of parcels of land, so we were expecting that we were getting bills from the County sent to the address that we told them to send it to. I

don't know how this one bill was not sent to the address they were sending all the other bills to, but we were unaware of this. We did not get the notices that this property was up for sale. And the notice that was posted was posted on the wrong piece of property. It was not posted on the site of the tank, which our operators visit every day. So it came as a surprise to me that we were - that this land was sold. At the time, we took legal action to reverse the tax sale, but what happened was, even though we got a rate increase, we had to go to financing, and we did not get financing for about 15 months after the rate increase. I thought we would have financing in place within months. CoBank backed out of the loan because they were afraid the whole island would be wiped out by a hurricane and there would be nobody left. Wells Fargo backed out of the loan, and did not give a reason. SunTrust was willing to talk to me because the owner had a construction business and he had a bank account with SunTrust, so I met with SunTrust people, and I had to provide various schedules, projections, and convince them that this utility would be able to get a rate increase that would support the loan. Indeed, I appreciate the Commission giving us enough of a rate increase in the settlement from the last case, and SunTrust then was willing to go

along and support the loan. However, we had to generate more documents proving that we had easements - ownership and, if not ownership, easements, of every single piece of property. We had to redo every survey we had. I had to provide many financial statements and evidence that we would be able to have a cash flow to pay the loan. It took us 15 months before we actually closed on the loan, after the rate increase.

During that 15 months, as I said, we had a lagoon liner failure and we were really hanging on by a string. And I pointed out that when we first took over the utility, Melrose stopped paying its share of the wastewater treatment plant, so we lost 25 percent of our revenues. So I began managing a company with 25 percent of its revenues short, so we didn't have the cash, really, to go through with that. The way we compensated for that was I told the dividends[sic] there'd be no stockholders[sic], and indeed there were no dividends. Until this day, there are no dividends, because every penny of cash flow we get is to provide service to the customers. Guastella Associates is owed a large amount of money because, rather than take money out of the utility to pay Guastella Associates, we're using the cash flow to provide safe and adequate service to the utility.

To give you a little sense of the impact of the last rate increase, you gave us an opportunity to earn a return, I believe, of around 7 to 8 percent, or about $176,000 a year, in net income. Over the course of the four years, we have lost about $485,000. This is the reality of a small company. When certain expenses increase beyond our control, it has an enormous impact on our ability to earn a return. We were conservative in the return on equity that we requested, because that's the reality of what rate regulation is. I really don't expect the regulatory agency to give us a level of return on equity that would really assure that we have a reasonable opportunity to attract capital. But we did all that we can.

I thought I would lay out an explanation of the Sabry situation, the condemnation situation. When we found out that we had to go through this proceeding to reverse the tax sale, our attorneys pointed out that this may take a very long time, which means it would have delayed the borrowing for a very long time. The easiest way out was to do a condemnation of the land. We did not have to condemn the land, but the bank had a requirement - SunTrust had a requirement that we go to condemnation. And because we would go to condemnation, the bank was then satisfied that, even though we did not

own the land, we had the storage tank and facilities in place and we had the facilities that we could earn a return on, because all of those facilities, I might add, have a cost that was paid for by the utility, they are used and useful in providing service, and I was able to convince the bank that rate-setting is a process of having the utility cover its operating expenses and the capital costs of the business. I even cited to the bank the Federal Power Commission versus Hope Natural Gas Company 320 US Supreme Court decision, where it says that utilities must be given enough revenue to cover operating expenses and the capital costs of the business. And the way the capital costs of the business are determined for rate-setting purposes is you take the costs of the person first devoting it to public use - in this case, it's the utility - and because that cost is incurred, the utility is entitled to earn a return on that cost if the utility facilities are used and useful in providing service.

So the bank understood that, believed it - because I believe it, and because I think it's the fact, and the Supreme Court believes it - and then they were able to go forward, knowing the Sabry situation, knowing the condemnation situation, and provide us money to borrow the money. And you will note from the records that we

first asked - during the rate case we looked to CoBank. We filed for a petition to approve a financing with Wells Fargo. And you wound up approving a financing with SunTrust. You could imagine three years' worth of work getting this utility to attract capital, without which we would not have been able to serve the customers.

That's why I submitted - and I'm sorry for taking a long time. That's why I submitted that report. I wanted this Commission to know exactly what this utility is going through. And I might add, at this point, percentage increases don't determine whether or not the rates are reasonable. What determines whether or not rates are reasonable is what is the cost of providing service. I taught 7000 students the rate-setting basics. The cost of providing service is the operating expenses and a return on the investment for the utility property used and useful for providing service. And that's exactly what our rate filing reflects.

Q Mr. Guastella, did you send anyone else copies of the Report on Capital Improvements?

A [GUASTELLA] I did. I sent copies of that report to DHEC, who we'd be working very closely with. I sent copies of the report to SunTrust. I sent copies of the report to the attorneys for the property owners'

associations who were Intervenors in the last case - the same property owners' associations that are Intervenors in this case. I offered to meet with the property owners to present a rate-setting presentation, in general, and also explain the need for the rate increase. I didn't hear back from them. During the course of this proceeding and investigation, we again offered to the attorneys that I would make a presentation to the homeowners' associations, and they did not want us to do that.

Q With regard to the rebuttal testimony you provided, there are about five or six headings or sections of that testimony that I thought we might highlight for the Commission. The first is under "Rate Base," and we've referred to it as the utility plant-in-service. Can you summarize the issues for the Commission related to the utility plant-in-service?

A [GUASTELLA] Yes. There are a number of issues. The biggest one, you've already heard about; that is, the cost of the storage tank, well, and facilities on what is known as the Sabry parcel of land.

I should give you a little background, which I didn't in my report, but when this development was first started back in 1985 by International Paper, there was, in the covenants and restrictions that all the

homeowners became a party to, that the utility had the right to build and construct utility facilities on any piece of property within the 1000-plus acres that were being developed. They could build any utility facility, whether it's a tank, well, mains, storage facilities, on a piece of property, whether it was common area or whether the property was owned by an individual, as long as there was no existing structure or plans for structure on some individual's property. So this utility has had and it has this perpetual easement to construct facilities anyplace on the island for Haig Point Development. There's also a similar - there's also a similar easement with respect to Melrose Utility, with respect to their development.

With that as background, we are using the -

CHAIRMAN HALL: I'm sorry Mr. Guastella. Mr. Pringle?

MR. PRINGLE: Madam Chair, I think Mr. Guastella has had a lot of leeway, but I think his testimony about what may or may not have been in original documents goes beyond the scope of his direct and rebuttal. Those things - it may very well be that those things are in documents, and I might stand corrected, but I do believe that he went beyond where his direct and rebuttal went to.

CHAIRMAN HALL: I would agree with you.

Mr. Gressette, if they are in documents, point them to us, please?

MR. GRESSETTE: Yes.

CHAIRMAN HALL: If not, then Mr. Guastella would have to stay within the four corners of the documents we have.

MR. GRESSETTE: I believe the declarations are Exhibit 2 to the rebuttal testimony -

WITNESS GUASTELLA: That's correct.

MR. GRESSETTE: - attached to the assignment of rights, which relates thereto. So what's attached as Exhibit 2 to the rebuttal testimony is a series of documents that relates to this point. So there was - for purposes of proffer - about five pages in, a document called "Declaration of Rights and Restrictions," and then the document preceding it within the same Exhibit 2 is an "Assignment of Rights," whereby the rights under that declaration were assigned.

CHAIRMAN HALL: Okay. Give us a second to get to that.

MR. GRESSETTE: Sure.

CHAIRMAN HALL: I'm sorry. So Exhibit 2, four or five pages in. The page number?

COMMISSIONER ELAM: What's the page number on the bottom?

CHAIRMAN HALL: Yeah, the page number -

MR. GRESSETTE: The page number is JFG_125.

CHAIRMAN HALL: -125?

MR. GRESSETTE: Yes, ma'am.

CHAIRMAN HALL: Mine have -146, -145, -144. Did you find it?

COMMISSIONER ELAM: No.

CHAIRMAN HALL: Okay. We're still looking. Our page numbers are JFG_000144, sequential.

MR. GRESSETTE: Mine are different. So here we go. -144. Prior to those pages should be -143, -142 -

CHAIRMAN HALL: Yes?

MR. GRESSETTE: - all the way back to -119, which begins the exhibit.

CHAIRMAN HALL: No. Our begins at -141.

MR. GRESSETTE: Well, that might be the problem.

CHAIRMAN HALL: Therein lies the problem.

MR. GRESSETTE: Yes. Exhibit 2 should have borne Bates Numbers -119 - beginning at -119.

CHAIRMAN HALL: Yeah, ours starts with -141. Okay, let us check with Ms. Wheat and see what she

has.

[WHEREUPON, there was discussion off the record, followed by a short recess.]

CHAIRMAN HALL: Mr. Gressette, this is taking longer maybe than I anticipated. Is there - can you go to a different line of questioning, and we'll come back when we have that full document?

MR. GRESSETTE: Absolutely.

CHAIRMAN HALL: Okay. All right. So, let's do that. Let's get back on the record, and when we get the document, you can go back - Mr. Guastella, you can go back to that area. All right.

MR. GRESSETTE: Thank you.

BY MR. GRESSETTE:

Q Mr. Guastella, we were talking about the five or six points raised in your rebuttal testimony, utility plant-in-service, and without going right back to where we were, if you could again pick up with the original costs of the storage tank, well, and other facilities at issue in that adjustment.

A [GUASTELLA] Yes. As I explained, the utility paid for the costs; it's a cost on the utility's books. The facilities are used and useful for providing service, and there is no possible way that anyone could prevent the utility from continuing to operate and control those

facilities that provide service to the customers. And we own the facilities.

I say the cost is ours and they're used and useful in providing service because, even if there were a question about land ownership, aside from the easement that we'll get into later, the costs in setting rates is what does it cost the utility to provide service to the customers. The question of ownership of land, if we can continue to use those facilities and have a right to use them, operate them, and replace them, that's the cost of providing service to the utilities. However, we have established that we own the utility facilities. We've got bill-of-sales for the utilities, we've got the testimony of Ms. Walls, so those facilities are used and useful and should be included in rate base.

Q Mr. Guastella, has there been some discussion in this case about what is referred to, I believe, in the ORS testimony as undocumented costs?

A [GUASTELLA] Yes.

Q Can you explain the utility's position with regard to those?

A [GUASTELLA] Yes. I would start off by saying the only reason I could find in ORS's testimony and exhibits for eliminating certain levels of costs - and in the exhibits, they don't identify what those levels of costs

are, by the way; we were able to figure that out from work papers that were provided to us by ORS - is that they are undocumented expenses. They also refer to undocumented expenses that ORS looked at from the last case.

Those are expenses that are documented. We gave ORS information that shows, by primary plant account, line items of costs of plant, about 200 lines of line items of specific plant, the cost of the 200 line items of plant, the year the plant was placed into service, and the date that the plant was in service. So we provided documentation from our books and records as to the cost of plant and identification of the plant.

The issue is that there were invoices that we could not produce to ORS in their examination. A large part of those invoices have to do with Melrose Utility Company. Melrose went bankrupt. It abandoned its systems. It had no records. It stopped operating. We stepped in and began operating Melrose - that's in my Report on Capital Improvements - without additional compensation, simply because I was not going to let, even though they were not our customers, I wasn't going to let customers on the island go without water and sewer service because of Melrose abandoning the system, and I had an ability with our operators and with my

management to continue to provide service to those customers by helping out the trustee. The owners also put money into making repairs that were needed for the Melrose system. But they didn't have books and records. I point out here and I might note that I believe it's Mr. Lanier - or Mr. Loy, I think, that points out that, when you don't have records for costs, the NARUC System of Accounts says estimate the costs. Do a study to estimate the costs so that you can give the utility enough money to cover the cost of providing service and the cost of the assets. The assets are there. We know what was paid for the assets. They're used and useful. They are visible. They don't have zero costs. A lack of invoices is not a lack of documentation, and it's certainly not a lack of providing the utility with a return on the cost of providing service with respect to these invoices.

So as far as my position is concerned, it's my opinion that a lack of invoices for some of the costs of plant - certainly, not the large part of the cost of plant - is not a basis for eliminating what's a real cost for plant that was used and useful, remains used and useful, and is serving the customers, and has been recognized, by the way, when we provided support to the banks in order to get financing.

Q Mr. Guastella, does the ORS, in this case, propose adjustments with regard to the use of certain capitalized legal and consulting fees with regard to rate base?

A [GUASTELLA] Yes. I'm going to address our management agreement with Daufuskie Island Utility and its owners in a little more detail later, but part of the management agreement we have - we have a management agreement with Daufuskie and its owners, and I might point out that when CK Materials and Haig Point, Inc., the developer - formerly International Paper - petitioned the Commission to have CK Materials acquire the stock of the utility, Haig Point Utility Company, part of that agreement indicated that I would - Guastella Associates - would be doing the management of that utility. The homeowners' association - I think it was the Haig Point Club & Community, Inc. - intervened in that case and their attorney prepared a settlement agreement. Within that settlement agreement, the Intervenor notes that Guastella should be managing the utility. And I think during the course of those negotiations, which I was a part of that settlement, they wanted to make sure that this utility was going to be run by competent management. So it's part of the settlement that was part of what the Commission approved

in approving the stock sale from Haig Point Utility stock to CK Materials.

As part of that management agreement, aside from our monthly management fee, there's a cost for Guastella Associates to undertake the administration and supervision of improvements. Improvements don't happen by themselves. Contractors don't show up at our doors to install facilities when we've never spoken to them. We have to undertake work aside from day-to-day management when it comes to additional facilities, that's apart from what the day-to-day operations require, to identify what improvements need to be made, prioritize those improvements, see what kind of finance would be available and a part of our priority, contact contractors, obtain the lowest costs, then hire the contractors and work with the contractors, supervise the construction and make sure all of the construction is done to the satisfaction of our inspections. That all requires a cost. Guastella Associates charges 10 percent for the first $50,000 worth of cost and 8 percent for the remainder of the cost of the improvements. The typical cost for such administrative supervision is 15 to 20 percent, so our charges for that - "ours" being Guastella Associates - as part of the arm's length management agreement, is less than half of

what is typical for these construction-cost components.

Q Mr. Guastella, you made mention of the last rate case. In the last rate case, as a preliminary question to you, was there a discussion about the utility undertaking future efforts to deal with title issues as to certain property?

A [GUASTELLA] Yes. As part of the last rate case, I believe it was Dr. Carlisle, he indicated a requirement that the utility must secure either ownership or title to or easements with respect to all of the land. That was all part of the costs that Guastella Associates had to undertake to make sure all of that work was being done, so that was part of the financing cost which is another provision in the Guastella Associates management. There's a provision in the agreement where we would manage - we would obtain for the utility financing. No small effort. I remind you again CoBank turned us down, Wells Fargo's turned us down. Before they turned us down, I had to generate volumes of information to show them that we could afford the financing with a rate increase. Then we had to go through a series of new surveys, closing documents that comprise that folder [indicating] right there, legal fees, closing fees, all the typical costs you go through to undertake a financing. So there was a significant

amount of work involved in generating and accomplishing a financing for the utility.

Q In conjunction with the suggestion that the utility clarify issues with regard to the title of certain real property, did the utility undertake a condemnation action with regard to the Sabry parcel?

A [GUASTELLA] We did. And that was a requirement of - really a requirement of, originally, Wells Fargo, and then SunTrust. When SunTrust considered giving us a loan, SunTrust also wanted to include a requirement that we acquire the Sabry parcel of land. So even though we did not own the land, SunTrust recognized that, if we went through a condemnation, then we would be - we would satisfy their requirement.

As I indicated before, however, we've got a perpetual easement where we could use those facilities - we've had those facilities now for five years Sabry's owned the land. There's no way he can stop us from using those facilities. In his documents opposing DIUC's right to condemn the property, he even told the court to have us remove our facilities and then he withdrew that request. But he recognized those as our facilities at least in that filing document.

Q How does the utility propose that the legal fees incurred in conjunction with that recommended

condemnation action be addressed?
A [GUASTELLA] We included those as part of the cost of land. In the last case, I believe there was no amount included in ORS's filing. The case was settled, so the Commission didn't really make a decision on this in the last case, except they agreed to a settlement that was reached among the parties. But there was no amount of land. In the last case, we had estimated market values of about - I forget what it was - $200,000 worth of land, or more. In this case, in connection with the condemnation proceeding, we hired a land appraiser, and the land appraiser came out with a market value of land of 25 cents a square foot. We then applied that 25 cents a square foot to the acreage of the parcels of land that we owned, and we included that amount as part of our cost of land, based on an independent appraisal. We also included the legal fees necessary to condemn the property, the Sabry property, as part of our cost of land. So those costs of land are included. I believe ORS's position does not include anything for the cost of land.
Q With regard to ORS's position excluding any value for the land, was there a reason provided by ORS to the utility?
A [GUASTELLA] No. All of ORS's adjustments to the cost of

facilities, if you look at its schedule - I think it's Adjustment 10, maybe 10(b), the entire reason they give for eliminating $1.6 million, or a little more than that, but $1.6 million of cost of plant is "undocumented expenses." They don't present in their testimony - for you - what the breakdown of the million-six is, except what's water and what's sewer. They don't say what is the cost of the storage facilities. They don't say what's the cost of the invoices. They don't say what's the cost of the land they're excluding. They don't say that they're excluding Guastella's capital fee. We know that information from work papers from the last case and from the current case.

Q With regard to another category of adjustments that we could refer to, I suppose, as accumulated depreciation, your testimony makes reference to something called the fallout of the utility plant adjustments. Can you explain that to the Commission?

A [GUASTELLA] Yes. I don't address ORS's accumulated depreciation or depreciation expense number, for that matter, because whatever you allow as the cost of plant, you apply depreciation rates to it. We use a utilization factor, and so does ORS - or at least they don't disagree with our utilization factor. So you apply a depreciation rate to the cost of plant. If

you're eliminating the cost of plant, you're reducing the depreciation. So depreciation expense and accumulated depreciation is why I call that a fallout number. Whatever decisions is made with regard to the cost of plant, that's going to affect both accumulated depreciation and depreciation expense.

Q Did Mr. Loy, on behalf of ORS, prefile some testimony that, for lack of a better word, took issue with the system utilization factor?

A [GUASTELLA] Yes.

Q Can you explain why -

MS. HUDSON: Madam Chair, did counsel just say that Mr. Loy filed testimony on behalf of ORS?

MR. GRESSETTE: Sorry, on behalf of the Intervenors.

MS. HUDSON: Okay.

CHAIRMAN HALL: All right.

MR. GRESSETTE: I apologize.

BY MR. GRESSETTE:

Q With regard to an assertion by Mr. Loy, on behalf of the POAs, that the system utilization factor for calculating accumulated depreciation and depreciation expense is not appropriate, do you have a response to that assertion?

A [GUASTELLA] Yes. This utility started out as a brand-new utility, being built by real estate developer. I've

regulated 400 of them, and I've found these small utilities wound up with problems of not being able to finance after the developer left. When I became a consultant, I found out that most of my clients who I did not help start their utilities had the same problems. They depreciate the plant for tax purposes, and when the developer leaves, they're left with a book value that doesn't enable the utility to attract capital. The solution to that problem is to take a look at a utility's initial rates and develop what I call the complete system analysis for developer-related utilities that are getting started.

The complete system analysis makes sure that the utility customers do not subsidize the cost of the utility operation and that today's customers only pay their fair share of the costs of providing service and don't start paying for depreciation based on a fully utilized plant that's not going to be fully utilized.

So I developed a complete system analysis where we adjust the depreciation for the number of customers or the demands on the system for the customers that exist. The benefit to that is, one, the rates are lower, and that's what happened in this case. We're using a utilization factor so that the depreciation expense we are requesting in this case is lower than it would

otherwise be, which tends to reduce the rate increase. But it also preserves for the utility the ability down the road, when the system is complete or almost complete, that it will not be one of the sick utilities that you hear about throughout the country for small water companies. When the developer leaves, they're not capable of attracting capital or providing a level of service, and those are the problem small companies that you hear about all the time. The complete system analysis and the utilization factor for depreciation is one of the solutions to that problem.

Q And is it the utility's position and your testimony that the method you've just described accounts for the financial contributions of the developer constructing the utility?

A [GUASTELLA] Well, that was another issue. When these new utilities are first formed, they're paper corporations. So you form a utility and you're a real estate developer, that utility has no revenues yet. It's a paper corporation. So who has to build the plant? The developer has to construct the plant. This doesn't happen once in a while, this happens every single time for every single newly developed utility. And when the utility starts and gets its first customers, then its first 10 customers, first 100, first

200, and it goes for a number of years where they have a period of customer growth. During that period of time, the utility can't attract capital. The developer is subsidizing the costs of the operations. And through my complete system analysis, I make sure that the developer is subsidizing the costs of the operations, because I don't want to have the utility ratepayers bear the risk of the success of the real estate developer in any way.

Over that period of time, once the utility is able to generate enough revenues to be able to attract capital and finance, then the accounting entry is made where the utility facilities are turned over from the developer into the utility's books, and on the liabilities side there's some type of open account which recognizes that the developer paid for all the facilities. Usually it's an account commonly known as "advances in aid of construction," but it could be any account that the developer and utility, who don't know utility ratemaking or what the Uniform System of Accounts includes, so that there is not a contribution by the developer but a recognition that the developer financed all of the facilities, turned them over to the utility so that there will now be a utility that owns the facilities, and the costs of facilities are recognized on the books and records, so there was no

contribution.

CHAIRMAN HALL: Mr. Guastella, let me just tell you, we now have all the exhibits, so you can go back to that whenever you're ready.

BY MR. GRESSETTE:

Q Mr. Guastella, I am not quite sure what we were summarizing when we had that document. If you want to circle back to it, we can.

A [GUASTELLA] I'm going to make this surprisingly short, even for me. I'm sorry for being long sometimes. And you don't have to look at it now. But if you go to, at your leisure, Section 18 of the covenants, and I believe that would be DIUC_JFG_000137, there's a Section 18. There's another section - this deals with individual personal property; there's another section that deals with common property. What this section essentially says is that the utility reserves the right to construct its facilities - and this relates not just to water and sewer, but also electric and cable and everything else. And it makes sense. I mean, you're building a real estate development; you're going to have utility facilities. You may not know immediately where those facilities are going to be, so you establish a covenant where the customers buying land have to understand that, in order for them to get water and sewer service, a

utility's going to have to be formed to install the utility facilities. And this section basically is telling the purchasers of property on Haig Point Plantation that, at any point in time, in order to provide water and sewer service, the utility may have to construct utility facilities on any piece of property, and as long as the customer hasn't already built a house or filed a plan for a house, they would build the utility facilities and have the right to do it on that piece of property - regardless of who owns the property, by the way.

So this ownership of property really becomes, rather, an excuse for eliminating a cost, not a real basis for excluding a cost that the utility incurred and is being used and useful to provide service to the customers. This is the way a utility is created; it can't work any other way. And they can go back on the property and maintain and operate and replace the facilities, and they don't need anyone's permission.

Mr. Delaney - I am not going to enter into a lease agreement with Mr. Delaney for the Bloody Point treatment plant, for which there is a similar perpetual easement, because I'm not going to spend money for a lease that I don't have to, and pass it on to the customers. So it's interesting that Mr. Delaney somehow

bought acreage that he didn't know he was buying, but I'm not going to enter into a lease with him. At least not, from my perspective, that I'm going to then add a cost to providing service for our customers. We have a right to use those facilities, we have a perpetual easement for those facilities, and I'm going to keep the rates to the customers as low as I can. Despite what this rate increase may look like, this rate - DIUC needs this rate increase. The customers need this rate increase, if I'm going to provide them with safe and adequate service.

CHAIRMAN HALL: Okay. Mr. Pringle.

MR. PRINGLE: Well, he just kept going through my objection. So I guess that train has left the station. I don't know what the Commission's pleasure is, in terms of witnesses who haven't filed specific testimony to respond to public witnesses. They were certainly subject to cross. I don't know - it's done. But I guess I would just point that out for what it's worth.

CHAIRMAN HALL: Okay. We'll reserve that.

BY MR. GRESSETTE:

Q Mr. Guastella, there was a lot of conversation this morning and there has been a lot of paperwork exchanged in this process, with regard to property taxes. Before

you summarize the history, can you succinctly state what DIUC's tax obligation is, with regard to utility property tax, and how the ORS adjustments impact that?

A [GUASTELLA] In accordance with the agreement that I was able to work out with Beaufort County's Treasurer - and you heard her testimony today, Ms. Walls - the utility, for the back taxes for 2012, '13 and - 2012, '13, '14, and '15, are going to be paid over an eight-year period to the tune of $65,000 a year. So our rate filing includes, for those periods, $65,000 a year. ORS includes $30,000 a year, less than half. What ORS did was it excluded the taxes for 2012 and 2013. They excluded them.

A [WHITE] '14 and '15.

A [GUASTELLA] Oh, I'm sorry. They excluded the years '14 and '15. Thank you, Gary. In addition to paying the taxes for those years, prospectively, over an eight-year period -

CHAIRMAN HALL: I'm sorry, Mr. Guastella.

MR. PRINGLE: Again, I'll just only mention this for a second, but I don't think, even with the panel setup, that it's appropriate for one witness to -

CHAIRMAN HALL: To confer with another?

MR. PRINGLE: - to confer during their

testimony.

CHAIRMAN HALL: Yes, so, Mr. White, if you want to contribute, you have to contribute on the record, but you can't confer with each other, just because it's a panel setting. You wouldn't be able to do that if Mr. Guastella was on the witness stand by himself. So, if you want to contribute, you need to contribute on the record.

WITNESS WHITE: Understood. I'm sorry.

WITNESS GUASTELLA: In addition to paying for those years of taxes at the rate of $65,000 a year for eight years, we are going to have an ongoing level of property taxes annually. The way the taxes are going to move forward - and before I do that, ORS allowed $140,000 for ongoing taxes, so ORS allows $30,000 instead of $65,000 for the past taxes, and for ongoing taxes, ORS allows $140,000. Their total is $170,000. For ongoing taxes, we are going to have to comply with the method that the Department of Revenue uses to assess the utility's book value of property. The way that assessment works is - and I worked closely with the Department of Revenue to get an adjustment to reduce the way it calculates our property taxes. The way it assesses the property taxes, it takes a look at the

annual reports to the PSC. It takes the cost of the plant, less accumulated depreciation, less contributions. And then it applies a 10.5 percentage to that amount. That develops the assessment.

CHAIRMAN HALL: Ms. Hudson?

MS. HUDSON: Madam Chair, I object. I don't know that -

CHAIRMAN HALL: If you could go to the microphone? Even I can't hear you.

MS. HUDSON: [Indicating.] My apologies. I object to this answer in the sense that Mr. Guastella is not a Department of Revenue expert.

MR. GRESSETTE: If I may respond, Madam Chair? I believe that the witness is testifying as to how his taxes are calculated and how much he has to budget for them. I don't think there's an expertise in that.

MS. HUDSON: The concern was saying how the Department of Revenue does it.

CHAIRMAN HALL: So, yeah, Mr. Guastella can testify to his assessment, but not as to how DOR calculates or computes.

WITNESS GUASTELLA: In order to determine property taxes, I had to directly work with the

Department of Revenue to determine its methodology of assessing property. I'm not going to argue expertise as being a tax - but I'm an expert witness that's able to give you testimony as to how the process works, with respect to costs of providing service, and that's what I did with the Department of Revenue. I know exactly how the Department of Revenue does it. We had to submit something called a PT-139 form to the Department of Revenue, which gives them the information they need, as they explained to me, in order to calculate the assessment for property taxes. So the way we developed our property taxes on a *pro forma* basis, in our rate filing, is to use that exact same type of form that would be used for the Department of Revenue to assess the taxes. Our number, therefore, becomes $191,000 a year, not $140,000 a year, because our assessment is no longer going to be based on the $5 million rate base that was included - that was given in the last rate case. I was able to convince the Department of Revenue - and Ms. Walls, I actually have to give her credit; she suggested that we get the assessment down, and go meet with the Department of Revenue and try to negotiate a reduced level of

property taxes for our customers. And I went to the Department of Revenue and I asked them, "Will you accept the $5 million rate base allowed in the last rate case instead of the book value that was $7 million?" And they said, "Submit a revised annual report." I did exactly that. I submitted a revised annual report to the Commission, but I clearly noted at the bottom that page 201 of that annual report is the rate base from the last case; it wasn't the book costs. That enabled me to save the customers another $100,000 in property taxes. So that was how those property taxes work. The ORS's number is $30,000 instead of 65, and $140,000 instead of $190,000. We are going to be paying property taxes at the $255,000 level. It's going to be our cost. Is not going to be $170,000.

BY MR. GRESSETTE:

Q Mr. Guastella, there has been a proposed adjustment from ORS with regard to the Guastella Associates management fee. Can you summarize the utility's position with regard to that adjustment?

A [GUASTELLA] Yes. Our management fee was an arm's length negotiation because, when the CK Materials people were thinking about acquiring the utility from International Paper, they came to me and asked if I would help them

with that acquisition. They came to me because International Paper recommended that I help them acquire the utility system. In order for me to do - once I helped them with the acquisition, I was asked whether or not I would then manage the utility, because they really didn't know how to do that. So I entered into an arm's length agreement with what was then the Haig Point Utility, which we had to change the name to Daufuskie Island Utility at the request of the homeowners and the owners of Haig Point Utility, and I worked up a management agreement that includes all the duties and functions that Guastella would perform on a day-to-day basis. It included a provision for additional work if I had to enter into a construction program for them. It included additional charges for undertaking financing, because undertaking financing and the cost of undertaking financing is far and above different and more than just the cost of maintaining and managing the system. It also included an incentive fee.

So that agreement contained a number of components. If they did not agree to that, I wouldn't be managing the utility. I mentioned before that the homeowners' association, in order to settle that acquisition by CK Materials, required that Guastella Associates manage the utility. In that management agreement, I developed what

I thought our best estimate would be of the cost of undertaking the day-to-day management, the cost of capital improvements - which I mentioned to you our costs are about half of what's typical. I also indicated the cost of undertaking financing, because I knew that for a small company this was going to require a massive effort. I didn't realize how massive an effort it would be, because I didn't think we would be rejected by three banks and then have to go through reestablishing ownership and easements for every piece of property. So we spent incredible amounts of time simply trying to get the loan that we needed in order to serve the customers.

Looking at our management overall, ORS simply adjusted, saying that our duties didn't change from last case. I'm going to spend a second on that. If someone has a job and they do a good job but their duties don't change over three years and there's cost-of-living increases included, would that employee not get cost-of-living increases because their duties didn't change? With respect to our management fee, we include a 3 percent factor in an annual increase and a factor for customer growth - a portion of the customer growth - which I thought was reasonable in terms of moving forward with the agreement. But if you're going to test

my management fees, test my performance. Take a look at what we've done for this utility. We've gotten property - we've saved the customer - do you know anyone who saved two years' worth of property taxes and was able to get a county to rescind two years' worth of property taxes, saving the customer something on the magnitude of, I think, $235,000? We were able to adjust the assessments with DOR, saving the customers $100,000. We were able to enter into an agreement to pay past taxes over an eight-year period, saving the customers a present value of about $100,000, if they had to pay those taxes on a current basis. Taxes alone, we saved the customers a bunch of money. Our supervision of the construction projects saved the customers another $2-$300,000, maybe $400,000. We were able to - when the lagoon liner failed, we had to excavate all of the sediment underneath that lagoon liner. If we had to haul that off the island, it would be an enormous amount of money. We worked out something with the fire department -

CHAIRMAN HALL: Mr. Pringle.

MR. PRINGLE: I'm hearing testimony about purported customer savings associated with the management agreement and in connection to construction. Again - I've been wrong about this

before – I don't see that in any particular testimony.

WITNESS GUASTELLA: It's in my testimony.

MR. PRINGLE: About customer savings?

WITNESS GUASTELLA: Yes.

CHAIRMAN HALL: Mr. Gressette.

MR. GRESSETTE: I believe it's in the testimony.

MR. PRINGLE: Okay.

CHAIRMAN HALL: Okay. Tell us where. Do you mean, just generally, the property taxes that were saved, or –

MR. GRESSETTE: I believe there's a summary, in the initial testimony, of those numbers.

CHAIRMAN HALL: You mean in the direct testimony?

MR. GRESSETTE: Yes, ma'am.

CHAIRMAN HALL: Mr. Guastella, help your attorney out.

WITNESS GUASTELLA: Yes, if I may? On the capital, legal and consulting fees, I have a section on page seven of my rebuttal testimony. On the capital improvements, I have a section on page eight of my rebuttal testimony. On land values, there's a section on page nine. We have some more

on depreciation, and I've got a section on property taxes that begins on page 15. And I have a whole section on page 16 on Guastella management fees; it's on page 16, 17, and 18. I include our working with the Department of Revenue as a part of what we did.

CHAIRMAN HALL: Okay, we'll allow it.

MR. PRINGLE: My question was that he made a specific statement that their administration of the construction projects saved customers somewhere in the neighborhood of several hundred thousands of dollars, and I didn't see that.

CHAIRMAN HALL: Oh, you mean specifically.

MR. PRINGLE: Yeah.

CHAIRMAN HALL: Okay. Mr. Guastella, Mr. Gressette?

MR. GRESSETTE: I think that's probably accurate. I don't think there's a specific reference to savings for the construction.

WITNESS GUASTELLA: I believe I provided that to ORS in response to discovery. I thought I had included that in here.

CHAIRMAN HALL: Okay. Well, then let's move on from that, if you're not certain of where that is.

WITNESS GUASTELLA: Where was I?

BY MR. GRESSETTE:

Q I believe you were -

A Oh, one of the savings we had was - and this is - it is in the record. It's in my report to the Commission on the capital improvements. It spells out these savings in that report, and that's part of my direct testimony. And if you want, I can find it for you, but I'm telling you it's in there.

CHAIRMAN HALL: I think Mr. Pringle would like you to take a second to find that.

[WHEREUPON, discussion was had off the record]

WITNESS GUASTELLA: It's on page one, capital improvements. "The excavated earth and sludge under the failed lagoon liner will be disposed of by constructing a new helipad at the fire station, in order to save DUIC the cost of removal off-island. The helipad will be constructed in three stages over several months," each with a layer of sludge, which complies with DHEC's approvals. "The use of this fill..." will also help in savings to the fire department in the construction of the helipad.

I don't put the dollar amounts in there, I'm

sorry. But I certainly do mention that this is going to save us costs for keeping the removal or the disposal of the sludge on the island. It's also going to save the island's customer residents the cost of the fire department incurring -

CHAIRMAN HALL: Mr. Pringle.

WITNESS GUASTELLA: - and constructing the helipad.

MR. PRINGLE: Now he's talking about a separate particular issue. My objection was about that particular one, and he's not supported that with what he read, and he just proceeded to start reading something else.

CHAIRMAN HALL: Okay.

MR. PRINGLE: The report is in the record, but it doesn't say what I was talking about, and we can move on. I don't need to belabor this. Sorry.

BY MR. GRESSETTE:

Q Mr. Guastella, although -

CHAIRMAN HALL: I -

BY MR. GRESSETTE:

Q - the third page of the report, to which you were just reading an excerpt, makes reference to the assistance of Terry R. Lee, DIUC's president, I don't think it includes an exact amount, but did the utility have the -

derive a benefit from Mr. Lee's - and I'm quoting from the report - coming to the rescue with his construction company?

A [GUASTELLA] Yes.

Q And was it his construction company that installed a temporary modification of the plant as designed by Thomas & Hutton Engineering, until a permanent replacement of the lagoon liner could be made?

A [GUASTELLA] Yes.

Q Undertaking the work without payment?

A [GUASTELLA] Yes.

Q So, Mr. Lee, who is president of DIUC and one of its owners, had his company, without payment, repair the lagoon liner when the utility did not have money to pay an outside vendor to do that?

A [GUASTELLA] That's correct. I worked closely with Mr. Lee. And dealing with the owners - incidentally, I'm dealing with owners that, under my management, I was telling them they're not going to get paid a penny in dividends until we serve our customers; and indeed, that's been the case. So that's part of the performance that I was talking about.

Our performance extended into other areas. Because of the lack of money, we had to deal with DHEC in making improvements, as well. And we had to prepare a

corrective action plan to submit to DHEC, with respect to a number of items. DHEC was understanding in allowing us to take time to make improvements because they recognized that we need to undertake financing before those could be made. It was exacerbated a little bit because I thought we would be able to start very soon after the last rate increase, but it took 15 months to get any money after the last rate increase, and I had to bear with and DHEC had to bear with us, to do that. We submitted a corrective action plan one Friday, and by that afternoon we got an email from DHEC approving our corrective action plan. There is also a series of meetings of - Michael Guastella met with DHEC on a number of these improvements. I've got emails that I believe I include in - I believe there's a series of emails included in my rebuttal testimony, where a member of DHEC compliments us for taking action on problems that were long-standing, compliments our communication.

I say all this because - test my performance, whether it's property taxes, whether it's costs, whether it's leases, whether it's undertaking financing, whether it's saving money on construction projects, whether it's dealing with DHEC. This small utility is getting the benefit of my 50 or more years' worth of experience, knowing what the problems of developer-related utilities

have been, as a regulator that I regulated, and also as a consultant for 600 of them. So test - one, test my performance. Don't say that our duties didn't change over three years.

Next, test the price. I include in my rebuttal testimony - I took an effort to compare at least seven municipal utilities in South Carolina, and they do not pay property taxes or income taxes, and they finance only with debt and no equity return. So I adjusted our costs as if we were a municipality and didn't pay property taxes and income taxes, so that I could measure our cost of operations with the municipalities of South Carolina. Our costs compare favorably. I think we're less than half of them, in terms of our cost of operations, which is astounding for two reasons. One is, we're on an island where everything is more expensive; there's no road access. Second is we have the fewer number of customers compared to those other utilities, so we have to spread our costs over fewer customers. They spread their costs over many more customers. So us being competitive with those other municipalities is the test of whether or not our management fees are reasonable.

So in terms of performance, the quality of management that these customers are getting that some

large companies don't get, and the costs that these customers pay compared to comparable costs of other utilities is the kind of test that I would ask you to make, because it's the kind of test that ORS did not make and does not mention.

Q Mr. Guastella, there are a couple more topics and then I think we'll be finished, but one I would like you to summarize briefly is the rate-case-expense adjustment and the utility's position with regard to the same.

A [GUASTELLA] And I'll be brief with this one, I promise. In the last rate case, we filed for a rate-case expense of $181,200. By the time we were finished with that case, our costs were about $370,000. In this case, we filed for $191,200, $10,000 more than in the last case. So far we expect our rate-case expenses to be about $380,000. I'm not asking for the $380,000, but certainly we would expect that you would give us half of the rate increase, because when we are going through a rate-setting process with a number of interrogatories and examinations, and a process with seven witnesses, that takes money. It's the same kind of process, it seems to me, that a large utility would go through. So we're asking for less than half of what our actual costs will be. It's demonstrated from our last case, our rate-case expense that we requested were half of what

they turned out to be. It's the cost of doing business for a small company. Rate regulation is not much lower for a small company than a big company, and if that's what the cost of providing service, then I love the Supreme Court of the United States that you must give the utility enough revenues to cover its operating expenses and the capital costs of the business, so that it can maintain financial viability and attract capital.

Q Mr. Guastella, there is some reference in your rebuttal testimony to the cost of capital or rate of return?

A [GUASTELLA] Yes.

Q Can you summarize the utility's position with regard to that?

A [GUASTELLA] Yes. I have never seen a utility's debt rate be based strictly on the nominal interest rate, because there's always a cost that is incurred in order to undertake financing. I think, by now, you recognize there was an enormous cost in order to undertake the financing.

What you do with the cost of undertaking the financing is you amortize it over the life or term of the loan, which is what we did. So we took the cost of undertaking the financing, spread it over 15 years, and then you add that annual amount to what the interest would be, and if the nominal interest rate is 5.29

percent, when you add the cost of undertaking the financing, it came out to be about 6.29 - about 6.2 percent. Six point one nine [6.19] to be exact. We are planning on refinancing the existing loan, because we have to refinance the existing loan.

We've got a $500,000 line of credit that is due November 1st. I was able to have the discussion with SunTrust. They are willing to wait until April 1st before us having to pay off the $500,000 line of credit, so they're accommodating us once again because the rate-setting expertise of Guastella Associates is able to convince a bank that we're going to be able to move forward, and they are postponing the time that we have to pay off the $500,000 line of credit.

CHAIRMAN HALL: Ms. Hudson?

MS. HUDSON: Madam Chair, I just ask - I'm not aware of the April 1 date being in testimony.

WITNESS GUASTELLA: It's not. Sorry, it's not. I'm telling you the reality of what I'm facing.

CHAIRMAN HALL: Okay. Well, yeah, if you can stay limited to the testimony that's been submitted.

WITNESS GUASTELLA: I guess the impact that concerns me the most is: That loose-leaf binder

[indicating] is just the closing documents. We had legal fees that were about $187,000. We had to redo all of our - prove all of our easements, all of our land, we had to do all surveys. We had to respond to - and maybe at some point, we'll give you the table of contents of what's in there. That's just for the legal fees for one of the firms. The other firms that were involved had to do with submitting applications for approval of the financing with this Commission. All through this three-year period, there were costs that Guastella Associates incurred that's included. Despite that, we're looking at a cost of capital of 6.2 percent, which is pretty darn good for a small utility that can't finance on the strength of its own financial condition. Incidentally, in order for us to finance, the owners have to put up their personal guarantees and their personal assets in order to secure financing.

So the interest rate that the staff is allowing is the nominal interest rate of 5.29 percent on the last loan. They allowed nothing, zero, for the cost of undertaking the financing. This is a small company that should not be treated worse than the big companies. So that's my problem

with the debt part.

With respect to the equity part - and I'll try to go through this sooner - the DFC formula uses nine of the largest utilities in the country. The revenues for the utilities average about $800 million, compared to our proposed $2 million. One of the companies has revenues approaching $4 billion. The lowest annual revenue is $57 million. We are being compared to those as if we're typical companies in terms of how we can finance. I think you have a sense of what this utility goes through to attract capital. Those utilities don't get turned down by three banks. Those utilities don't have to have personal guarantees from the owners of the utility. Those utilities don't go through the kind of effort that we had to go through to finance, for the purposes of making improvements, to serve our customers. The reality of what it takes to serve our customers, for a small company, is what you see in our rate filing. It troubles me greatly to have the rate of return on debt be excluding any cost of undertaking financing, and to come up with a return on equity of less than 10, or less than 10½ percent, really is not the reality of this utility.

Now, I have to admit to you. I used a 10.5 percent return on equity. It's way below what it really would mean if we have to attract capital and earn it. The job that the regulators have - and I'm sure you've dealt with this - is you give the utilities a reasonable opportunity, not a guarantee, to earn a reasonable return. Look at what happened from your last rate case. We're supposed to get $176,000 a year, every year, for the last three years. We're short by over $400,000.

And I have to finish by telling you that the proposed settlement between ORS and the property owners of $462,000 will give this utility no return on equity. None. And it will not give us enough money to pay our debt service on our existing loan. We will be in default because of all of these adjustments and failure to include what are real costs of providing service in terms of capital and our real cost of providing service in terms of operating the utility.

[PURSUANT TO PREVIOUS INSTRUCTION, THE PREFILED DIRECT TESTIMONY OF JOHN F. GUASTELLA FOLLOWS AT PGS 187-196]

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DAUFUSKIE ISLAND UTILITY COMPANY, INC.

Testimony of John F. Guastella

DOCKET NO. 2014-346-W/S

Before the South Carolina

Public Service Commission

Testimony Prepared: September 18, 2015

Hearing Date: October, 28, 2015

Q. Please state your name and business address.

A. John F. Guastella, 725 N. Highway A1A, Suite B103, Jupiter, Florida 33477.

Q. What is your occupation?

A. I am president of Guastella Associates, LLC ("GA").

Q. Briefly describe GA?

A. Guastella Associates provides utility rate, valuation and management consulting services.

Q. Have you previously testified before the South Carolina Public Service Commission ("PSC")?

A. Yes.

Q. Have you attached as Exhibit A to this testimony a summary of your qualifications and experience?

A. Yes.

Q. What is your involvement with Daufuskie Island Utility Company, Inc. ("DIUC" or "Company")?

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A. GA has been the manager of DIUC since July 9, 2008, when DIUC was acquired by CK Materials, LLC from Haig Point, Inc. (formerly International Paper Realty Corporation of South Carolina). In addition, GA has prepared the rate analysis in support of the proposed rate increase.

Q. Would you describe the changes in the ownership structure since DIUC's last rate case, Docket No. 2011-229-WS?

A. Yes. The decision in the last rate case recognized the conversion of equity into debt in order to obtain a $3.0 million loan. In addition to many other requirements, the lenders required that DIUC divest itself of any connection to CK Materials. As a result, a new company was formed, Daufuskie Island Holding Company, LLC ("DIHC") that is now the parent and stockholder of DIUC, DIHC has no other business activity.

Q. What is the basis for the proposed increase?

A. The rate increase has been determined on the basis of the actual operating costs for the historical test year ended December 31, 2014, adjusted for known and measurable changes through December 31, 2015. The rate analysis is set forth on an exhibit entitled, "Schedules in Support of a Rate Increase" previously submitted to the Public Service Commission as an attachment to DIUC's pending application for rate increase.

Q. Did you prepare the rate analysis?

A. Yes, I coordinated the preparation of the rate analysis with Gary C. White, Vice President of GA, who prepared the specific schedules, under my direction and supervision. Mr. White is also submitting direct testimony in this case, which

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addresses the contents and calculations in the rate analysis. My testimony explains the circumstances or causes regarding certain significant revenue requirement components.

Q. What are the primary reasons for the proposed overall 108.9% increase in DIUC's revenue requirement?

A. The increase is primarily due to property taxes that went from less than $10,000 to nearly $270,000, including the amortization of previously unbilled taxes; an increase in rate base from the settlement amount in the last rate case of $5.0 to nearly $7.1 million; an increase operation and maintenance expenses of about $237,000; and the "fallout" impact on income taxes.

Q. In its order in DIUC's last rate case, Docket No. 2011-229-WS, the PSC accepted a settlement agreement which, among other things, required that the Company establish a Capital Reserve in the amount of $700,000, and submit a report on the use of those funds to the PSC, the Office of Regulatory Staff ("ORS") and Intervenors. Did you submit that report on behalf of DIUC to those parties?

A. Yes, copies of the report were also submitted to the Department of Health and Environmental Control ("DHEC"), Beaufort County, SunTrust Bank and others with whom DIUC had interacted since the last rate case. The report contains a service list of the many individuals who were sent a copy of the report. The report is provided in this case as an exhibit. It is entitled, "Report on Capital Improvements" ("Report"). A copy of the Report is attached hereto and incorporated herein as Exhibit B.

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Q. Did you provide a copy of the Report to Haig Point Club and Community Association, Inc.; Melrose Property Owner's Association, Inc.; and Bloody Point Property Owner's Association?

A. Yes. The Report also included the following on page 18:

"By providing a copy of this report to the three property owners' associations through their attorney, John Beach, Esq., I am offering to meet informally with the customers to make a PowerPoint slide presentation of the basics of utility rate setting and the regulatory process." The Report also stated that during a meeting with the associations I would "review the improvements that have been made as well as explain the specific cost bases for the rate increase, which will have been filed by the time this meeting could be arranged."

Q. Did anyone from any of those property owners' associations respond to your offers to personally meet?

A. No. No one responded to the offers to meet.

Q. After this rate case was filed did you again offer to meet with the property owners' associations?

A. Yes. On August 24, 2015, DIUC's attorneys emailed counsel for the three property owners' association and again extended the offers included in the Report.

Q. **Did anyone from any of those property owners' associations respond to those offers?**

A. No. No one responded to the offers to meet.

Q. Why are you submitting the Report as an exhibit in this case?