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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 V of VII
(R. pp. 1966 to 2465)

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BLOODY POINT PROPERTY
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4. Prepare financial and operating reports to regulatory agencies, including annual reports to the PSC and monthly operating reports to DHEC. Prepare annual budgets and financial reports to stockholders, as well as periodic (quarterly) financial and operating reports.
5. Provide information and assistance to outside tax accountants, consultants, engineers and attorneys as required in the normal course of business.
6. Obtain short and long term financing, as available and necessary, for operations and capital improvements and prepare the necessary documentation for lenders.
7. Employ and supervise all employees, vendors, contractors and outside professionals as appropriate to operate, maintain and expand the Company's system, to direct and supervise all plant expansion, capital improvements and replacements, and to carry out all other services required of GA under this Agreement.
8. Implement existing contracts with developers and customers, and negotiate and implement new contracts and applications for service.
9. Revise and maintain general tariff provisions as to rates and terms of service, in compliance with changes approved by the PSC.
10. Be responsible for and carry out all other business incidental to the ordinary course of business management and operation of the Company.

The above scope of services does not include, among other things, the preparation and filing of general rate increases, any economic and environmental regulatory investigations and proceedings for special or unusual issues, appraisals, valuations or other matters that are not routine in the day-to-day management or that would typically require the services of outside consultants. The Company will employ GA for such work under separate agreement and with the prior approval of the president of the Company. The Parent/Stockholder(s) shall also enter into a separate agreement with GA with respect to any contracts between the Parent/Stockholder(s) and third parties that seek extension of service outside of the Company's existing committed service area for the determination by GA of fees to be paid by the third parties that would allow for the recovery of the carrying costs that have been and will be absorbed by the Company's Parent/Stockholder(s) for the creation and growth of the utility.

ARTICLE III. COMPENSATION FOR MANAGEMENT SERVICES

The Clients shall be jointly and severally liable to pay GA the following forms of compensation ("Compensation") in the amounts specified below:

1. **Management Fee**. The Clients shall pay GA a Management Fee in the amount of $13,596.85 per month, payable in advance on the 1st day of each month, plus all of GA's out-of-pocket traveling expenses (including without limitation, transportation, room and board) and mileage reimbursement at the then current rate. The Management Fee shall increase annually beginning on January 1 of each year this Agreement is in effect by (a) 3.5% plus (b) for customer growth based on a formula that takes 25% of the existing Management Fee per existing equivalent residential connection (ERC) and applies that amount to the ERC's added in the immediately preceding year. For example, on January 1, 2016, the Management Fee would become $14,344.68 per month ($10,971 x 1.035 + $271.94 (.25 x $10,971/250

existing ERC x 20 ERC's added in 2011)). The number of ERC's used in this example is hypothetical only for the purposes of the example.

2. **Finance Fee.** The Clients recognize that GA's labor in connection with any long term funding is not covered by GA's standard Management Fee and the Clients, accordingly, agree to compensate GA for GA's efforts and labor in connection with or in any way related to long term funding at the greater of (i) 2% of the principal amount of any loan(s) which GA handles or processes; or (ii) GA's usual hourly rates for the actual time spent handling any facet of long term funding including without limitation communications with prospective lenders and the Clients; reviewing or negotiating loan terms or documents; communications with third parties regarding loan terms or documents; coordination of the execution of any loan documents and the closing of any loan transaction(s); and any other work related to long term funding. The Finance Fee shall be paid at the closing of any such loan.

3. **Capital Fee.** The Clients shall pay GA a Capital Fee for the procurement, contract preparation, administration and inspection of all capital improvements and additions, which Capital Fee shall be (a) 10% of the construction cost for projects to extend service outside the existing committed service area, and (b) 10% for the first $50,000 of construction costs and 8% for amounts in excess of $50,000 of construction costs for all other projects. GA shall bill the Capital Fee from time to time as construction costs are incurred and paid, and the Clients shall pay the Capital Fee no less than monthly as construction costs are being incurred.

4. **Incentive Fee.** The Clients shall pay GA an Incentive Fee, which shall be billed annually on or before March 15th of each year for the preceding year, and shall be paid within fifteen days after the bill has been sent to the Clients. The Incentive Fee shall be (a) 20% of the Total Net Utility Operating Income of the utility; and (b) in the event of the sale of the Company, in an amount equal to a percentage of the amount that the sale price or condemnation award exceeds the current adjusted purchase price in the amount of $2,065,387.00 ("Adjusted Purchase Price"), to be paid at the closing of a sale or the payment of a condemnation award. The Adjusted Purchase Price reflects the current purchase price and related costs incurred by the Parent to acquire the utility. The Incentive Fee upon the sale of the Company shall be (a) 8% of the first $3,000,000 that the sale price or condemnation award exceeds the Adjusted Purchase Price, plus (b) 12% of the next $5,000,000 that the future sale price or condemnation award exceeds the Adjusted Purchase Price, and (c) 15% of all amounts in excess of $8,000,000 over the Adjusted Purchase Price.

For the purposes of the above paragraph, Total Net Utility Operating Income is calculated as shown on Schedule 300 of the Company's annual report to the PSC, Form PSC/ORS (Rev. 12/2005), and reflected on line 26 of that form, which is attached hereto as Appendix A; and the "sale of the Company" means any transaction or series of transactions the purposes of which results directly or indirectly in (a) the sale or condemnation of (i) all or substantially all of the assets of the Company, (ii) any business or division of the Company, (iii) the capital securities or equivalents of the Company, in excess of 50%, or (iv) ownership rights in the Company sufficient to directly or

indirectly have the power to direct or cause the direction of the management and policies of the Company; (b) otherwise causing the Company to become a subsidiary of a company; or (c) a merger or consolidation or any other combination of the Company with another company, or any other governmental, quasi-governmental or other entity.

The Compensation includes all of GA's profit and overhead, and GA shall not bill any charges for office rent, equipment, furniture, computers and supplies owned and used by GA. The Company, however, shall continue to pay, at its sole cost and expense, its own employees, other contractors, repairs, maintenance, supplies, power, chemicals, taxes, regulatory assessment fees and all other operating expenses. The Company shall also maintain insurance that is sufficient to cover GA with respect to general and professional liability in such amount and under such terms that are acceptable to GA. GA has calculated and designed its Compensation for the above services at a cost that is generally in the range of allowable fees for rate setting purposes. The Parties intend that the Management Fee will be covered by general rates for services without subsidization by the Stockholders. However, the Clients understand and agree that GA's Management Fee is not contingent on the fees being allowed in general rates for services because the rates are subject to, among other things, Stockholder policy, unanticipated PSC decisions, regulatory lag or unusual events that would impact costs and timely cost recovery; and the Clients, in any case, shall still owe and pay GA's Management Fee. The Compensation to be paid does not include the physical operation of the systems that is performed by the Company's own employees and contractors, for which the Company shall continue to be separately and solely responsible.

ARTICLE IV. TERM

This Agreement shall be effective as of June 18, 2015 and shall continue for the remainder of the current calendar year and for three full calendar years beyond the current calendar year, until December 31, 2018 ("Initial Term"). After the Initial Term, this Agreement shall be automatically renewed on December 31 of every subsequent three-year period for successive three-year terms as long as at least one of John F. Guastella, Michael J. Guastella, and Gary C. White remain employed with or directly or indirectly has an ownership interest in GA. If at least one of John F. Guastella, Michael J. Guastella, and Gary C. White does not remain employed with or directly or indirectly has an ownership interest in GA, this Agreement shall be renewed on December 31 of every subsequent three-year period for successive three-year terms unless the Clients deliver a written notice of nonrenewal to GA no later than ninety (90) days before the end of the then existing term.

ARTICLE V. TERMINATION

The Clients may terminate this Agreement for cause if GA, after being notified in writing by the Clients of any failure by GA to perform its duties under this Agreement, fails to correct any failure of performance within thirty (30) days of receiving the Clients' notice, or if such cure shall take longer than 30 days, fails to implement such cure within the 30 day period and to diligently pursue such cure until completed. GA may terminate this Agreement for cause if the Clients, after being notified in writing by GA of any failure by the Clients to perform their duties under this Agreement, fail to correct any failure of performance within thirty (30) days of receiving GA's

notice, or if such cure shall take longer than 30 days, fail to implement such cure within the 30 day period and to diligently pursue such cure until completed. Either GA or the Clients may terminate this Agreement without notice if the other party, through any of its officers, directors, employees or shareholders, undertakes any illegal actions such that any of the Parties' officers, directors, employees or shareholders are convicted of a felony or misdemeanor involving a crime of moral turpitude. GA may terminate this Agreement without cause by giving the Company sixty (60) days advance written notice of GA's election to terminate the Agreement. In the event of termination of the Agreement by the Clients for cause or because of any illegal actions by GA's officers, directors, employees or shareholders or by GA without cause, the Clients shall pay GA any unpaid Compensation on a prorated basis up to and including the date of termination. In the event of termination of the Agreement by GA for cause or because of the illegal actions by the Stockholders or any of the Client's officers, directors, employees or shareholders, the Clients shall pay GA any unpaid Compensation up to the end of the then existing term. Additionally, the Clients recognize that GA's management of the Company will posture the Company for a sale at the Company's highest market value and the Clients, accordingly, shall pay GA the Incentive Fee specified in Article III, Paragraph 4(b), if any event entitling GA to the Incentive Fee occurs within fifteen (15) years of the termination or other expiration of the Agreement.

ARTICLE VI. MISCELLANEOUS

A. Assignment. The Clients shall not assign this Agreement without GA's express written consent. GA may not assign this Agreement without the Company's express written consent, except that GA shall be permitted to assign this Agreement to another entity in which at least one of John F. Guastella, Michael J. Guastella, or Gary C. White is employed by or directly or indirectly has an ownership in the assignee.

B. Choice of Law. This Agreement shall be governed by, and construed under, the laws of Florida without regard to the principles of conflict of law. Venue for any legal action under this Agreement shall be in the courts of the State of Florida in Palm Beach County, Florida.

C. Construction of Agreement. The Parties acknowledge that they have read this Agreement and have had the opportunity to be advised by legal counsel of their choice. This Agreement shall not be construed against any party because the party or its attorneys prepared the document. Typewritten or handwritten provisions inserted in this Agreement that are initialed by the Parties shall control over all printed provisions of this Agreement in conflict therewith.

D. Counterparts/Facsimile. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same Agreement. A signature received by facsimile shall be deemed an original.

E. Entire Agreement. This Agreement constitutes the entire agreement between the Parties and cannot be waived or amended except by a written instrument executed by all Parties. None of the Parties have relied upon any information, representation, warranty or statement, whether oral or written, express or implied, made by anyone that is not expressly stated in this Agreement. Neither

this Agreement nor any notice thereof shall be recorded in any public records.

F. Further Documents: The Parties agree to execute all documentation reasonably requested to give full force and effect to this Agreement.

G. Headings. The headings and titles of the Agreement provisions are for the convenience of the Parties only, and are not determinative of the contents of any paragraph. All paragraphs are to be interpreted by reviewing the entire contents of the paragraph.

H. No Waiver. No waiver of any provision of this Agreement shall be effective against any party unless it is in writing and signed by the party waiving such provision. A written waiver shall only be effective as to the specific instance for which it is obtained and shall not be deemed a continuing or future waiver.

I. Notices. All notices, requests, demands, instructions, consents and other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to have been duly given if and when (a) personally served, (b) sent by first class certified or registered mail, postage prepaid, return receipt requested, (c) transmitted by prepaid telegram, telex, or facsimile or by electronic mail, or (d) sent by a nationally recognized express courier service, postage or delivery charges prepaid to the parties at the addresses set forth above, or at such other address as either of them shall hereafter specify in writing or by facsimile transmission.

J. Persons Bound. This Agreement shall bind and inure to the benefit of the Parties, their heirs, successors and assigns. Whenever the context permits, singular shall include plural and one gender shall include all.

IN WITNESS WHEREOF, the Parties hereto have signed this agreement on the date specified below.

Guastella Associates, LLC, a Florida limited liability company

By: _____
John F. Guastella, Managing Member

Confirmed and agreed to on behalf of Daufuskie Island Utility Holding Company, LLC, a South Carolina limited liability company, David Hutt, its Member, Ronald Shimanowitz, its Member and Terry R. Lee, its Managing Member

By: _____
Terry R. Lee, its Managing Member

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

By: _____
Terry R. Lee, its President

HEARING EXHIBIT NO. 10

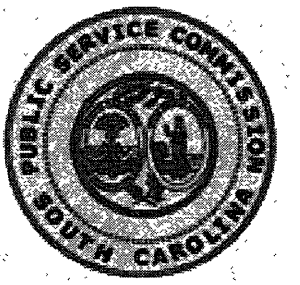
{Merits Hearing of October 28, 2015}

In the matter of 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

I hereby certify this document to be a true copy of the original.

Jocelyn Boyd
Chief Clerk

Date 10/20/17



.EFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS

IN RE:	)	**INTERVENORS HAIG POINT CLUB AND COMMUNITY ASSOCIATION, MELROSE PROPERTY OWNER'S ASSOCIATION AND BLOODY POINT PROPERTY OWNER'S ASSOCIATION'S RESPONSES TO SECOND OF INTERROGATORIES AND SECOND SET OF REQUESTS FOR PRODUCTION OF DAUFUSKIE ISLAND UTILITY COMPANY, INC.**
Application of Daufuskie Island Utility Company, Inc. for Approval of an Adjustment for Water and Sewer Rates, Terms and Conditions	)	

TO: G. Trenholm Walker, Esquire, and Thomas P. Gressette, Esquire, Attorneys for Daufuskie Island Utility Company, Inc.:

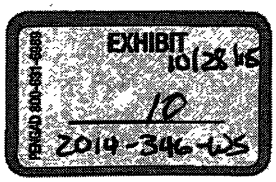
Haig Point Club and Community Association, Inc. ("HPCCA"), Melrose Property Owner's Association, Inc. ("MPOA"), and Bloody Point Property Owner's Association ("BPPOA") hereby responds to Daufuskie Island Utility Company, Inc. ("DIUC" or the "Applicant") Second Set of Interrogatories and Requests for Production as follows:

RESPONSES TO SECOND SET OF INTERROGATORIES AND REQUESTS FOR PRODUCTION TO INTERVENORS

Regarding the Prefiled Testimony of Harry Jue:

1. Has Mr. Jue ever prepared a depreciation study using the actuarial, simulated plant balances method? If so, please list the last three such studies and provide the results in terms of the average service lives, net salvage values, and depreciation rates for each study.

RESPONSE: **No.**



2. Has Mr. Jue ever presented a study as to the determination of average service lives, salvage values, or depreciation rates on behalf of a water or sewer utility in a formal rate proceeding? If so, please identify the rage proceedings and provide the last three such studies.

RESPONSE: **No.**

3. Has Mr. Jue every been qualified as an expert in depreciation in any rate proceeding or any other formal proceeding? If so, please identify each matter and provide any report prepared by Mr. Jue in each matter.

RESPONSE: **No.**

Regarding the Prefiled Testimony of Paul Vogel:

4. Please identify and provide all calculations, analyses, work papers and source documents that Mr. Vogel relied upon in support of his testimony.

RESPONSE: **Mr. Vogel relied upon the documents that are part of the record in this Docket, those in previous rate case Dockets, and his own personal knowledge.**

Regarding the Prefiled Testimony of Charles Loy:

5. Has Mr. Loy ever been employed by a utility regulatory agency? If so, which one(s)?

RESPONSE: **No.**

6. The list of previous testimony and engagements identified water utilities in Texas, including the preparation of a rate application for Monarch Utilities I, LP ("Monarch") on behalf of SWWC, Inc. ("SWWC").

a. Please briefly describe the utility type and size of Monarch and SWWC.

b. Please indicate whether at the time of his work for Mr. Loy considered Monarch and SWWC to be well-run and well-managed companies.

RESPONSE:

a. Monarch is a water and sewer utility with about 33,000 water customers and 12,000 sewer customers.

b. Yes.

7. The list of previous testimony and engagements identifies water utilities in Texas, including the preparation of a rate application for Canyon Lake Water Service Company.

a. Please briefly describe the utility type and size of Canyon Lake Water Service Company.

b. Please indicate whether at the time of his work for Canyon Lake Water Service Company Mr. Loy considered Canyon Lake Water Service Company to be well-run and well-managed companies.

RESPONSE:

a. Canyon Lake is a water company with approximately 12,000 customers.

b. Yes.

8. Has Mr. Loy ever provided consulting services for a real estate developer in creating a newly formed water/or sewer utility? If so, please identify the last five such assignments and describe the work Mr. Loy undertook.

RESPONSE: No.

9. Has Mr. Loy ever prepared initial water and/or sewer rates for a newly formed developer-related utility?

RESPONSE: No.

10. Has Mr. Loy ever prepared a depreciation study using the actuarial, simulated plant balances method? If so, please list the last three such studies and provide the results in terms of the average service lives, net salvage values, and depreciation rates for each study.

RESPONSE: **No.**

11. In preparing his testimony and exhibits, did Mr. Loy perform any analyses other than the information produced with his prefiled testimony?

a. If so, please produce those analyses and all related source documents.

RESPONSE: **No.**

Regarding the Prefiled Testimony of Lynn M. Lanier:

12. Has Mr. Lanier ever prepared initial water and/or sewer rates for a newly formed developed related utility? If so, please identify which one(s).

RESPONSE: **As indicated in his resume, Mr. Lanier has never been employed by a utility regulatory agency.**

13. Has Mr. Lanier ever provided consulting services for a real estate developer in creating a newly formed water and/or sewer utility? If so, please list the last five such assignments and describe the work Ms. Lanier performed on their behalf.

RESPONSE: **Mr. Lanier has never provided consulting services for a real estate developer in creating a newly formed water and/or sewer utility.**

14. Has Mr. Lanier ever prepared initial water and/or sewer rates for a newly formed developer-related utility?

RESPONSE: **Mr. Lanier has never prepared initial water and/or sewer rates for a newly formed developer-related utility.**

15. Has Mr. Lanier ever prepared a depreciation study using the actuarial, simulated plant balances method? If so, please list the last three such studies and provide the results in terms of the average service lives, net salvage values, and depreciation rates for each study.

RESPONSE: **Mr. Lanier did not offer any testimony in regard to depreciation, but only incorporated the depreciation related testimony of Mr. Loy in his testimony in regard to revenue requirements.**

16. Has Mr. Lanier prepared any analyses or studies in support of his testimony that are not included with the prefiled testimony and exhibits? If so, please provide each such study and/or analysis, along with related source information relied upon.

RESPONSE: **All of Mr. Lanier's analyses developed as part of this case are included in his testimony.**

17. With respect to page 25 of Mr. Lanier's prefiled testimony:

a. Please provide a detailed explanation of each and every act of "irresponsibility" that Mr. Lanier accuses the Company (aka DIUC) of demonstrating, along with all facts that led Mr. Lanier to conclude said act constitutes "irresponsibility."

Response: The acts of irresponsibility are set out in detail in the record in this Docket, including in Mr. Guastella's May, 2015 report to the Commission (DHEC violations, the tax sale of the water tower, the surprise related to the huge increase in property taxes); the substantial increases in operating expenses, particularly since the 2012 rate case, incurred by the Company as presented in Mr. Lanier's testimony; having to use long-term debt to pay operating expenses, etc.

b. Please also include a detailed explanation of the specific uses of debt funds that Mr. Lanier claims were irresponsible.

RESPONSE: In the Company's response to Intervenors' Second Interrogatories, dated 9/21/15, the response stated that the proceeds of the $500,000 line of credit, which the Company now seeks to roll-into and convert to long-term debt, were used, in part, to pay down accounts receivable to Guastella Associates ($380,205) and for operating expenses ($24,278). Long-term debt should be used to fund long-term investments, not provide short-term working capital and once the funds are expended, there is nothing for collateral on the loan. In the same reponse, in regard to the use of proceeds of the $2,750,000 long term loan, some of the funds were used for legal fees ($175,583.05), equal to 6.4% of the principal, legal fees for the closing ($18,460), equal to 0.7% of the principal, title and recording fees ($9,449), equal to 0.3% of the principal, and payment of past due property taxes ($7,783), equal to 0.3% of the principal. All of these costs represent together 7.7% of the principal. While the payment of legal fees, closing costs, and recording fees are legitimate costs associated with financing, the amounts are large in relation to the loan. And while it may be acceptable, it is questionable to consume so much of the loan with closing related costs, and such costs are often funded separately from operating funds of entities, rather than with the principal proceeds of the loan. And the use of proceeds to pay off past due property taxes is certainly not an appropriate use of long term debt.

18. Before preparing his testimony, did Mr. Lanier review all of DIUC's, ORS's and Intevenors' discovery requests as well as all of DIUC's responses? If not, please identify the specific requests and responses that Mr. Lanier did review.

RESPONSE: Mr. Lanier did review all of DIUC's responses to ORS's and Intervenors' discovery requests and all of DIUC's responses, to the extent that DIUC provided a response.

ADAMS AND REESE, LLP

s/John J.Pringle, Jr.
John J. Pringle, Jr.
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jack.pringle@arlaw.com
Attorneys for Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc. and Bloody Point Property Owner's Association

Columbia, South Carolina
October 23, 2015

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS

RE:	)	
	)	
Application of Daufuskie Island Utility Company, Inc. for Approval for Water and Sewer Rates, Terms and Conditions	)	**CERTIFICATE OF SERVICE**

This is to certify that I have caused to be served this day the **Responses to First Requests for Production of Daufuskie Island Utility Company, Inc.** by Haig Point Club and Community Association, Inc. ("HPCCA"), Melrose Property Owner's Association, Inc. ("MPOA"), and Bloody Point Property Owner's Association ("BPPOA") via electronic mail service as follows:

G. Trenholm Walker, Esquire
gtw@p-tw.com

Thomas P. Gressette, Esquire
tpg@p-tw.com

Nancy Jane Dennis
njd@p-tw.com

s/John J. Pringle, Jr.

October 23, 2015
Columbia, 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

RESPONSE TO APPLICANT'S FIRST SET OF INTERROGATORIES AND REQUESTS FOR PRODUCTION TO OFFICE OF REGULATORY STAFF

TO: Thomas P. Gressette, Jr., Esquire and G. Trenholm Walker, Esquire

Counsel ("Counsel") for the Office of Regulatory Staff ("ORS") assert attorney/client privileges and immunities as to all communications between ORS and its legal counsel, and thus objects to producing or discussing such communications.

Counsel assert work product privileges and immunities as to their own work product.

ORS asserts work product privileges and immunities as to all communications and documentation prepared in anticipation of litigation and objects to producing such work product.

Documentations and information revealed and produced in discovery shall not waive such privileges and immunities.

Subject to the above objections, ORS responds to the Daufuskie Island Utility Company ("DIUC") Interrogatories and Requests for Production as follows:

Regarding the Prefiled Testimony of Ivana C. Gearheart:

1. In preparing her testimony and exhibits, did Ms. Gearheart perform any analyses other than the information previously provided to DIUC and/or Guastella Associates ("GA") in connection with ORS's exit audit and follow-up work papers?

   Response: No

   a. If so, please produce those analyses and all related source documents.

      Response: N/A.

2. With respect to Ms. Gearheart's proposed adjustment to utility plant in service for the cost of the elevated storage tank, well, and facilities on the "Sabry" parcel of land:
   a. What did Ms. Gearheart rely on?
   b. Please explain in detail the basis for the adjustment.

      Response to (a) and (b): Ms. Gearheart relied on the tax sale document shown in Exhibit WJM-7 of Mr. Morgan's Direct Testimony. For the adjustment, ORS rolled forward plant from the last rate case. At that time, these assets were disallowed by ORS for the same reason they are being disallowed now – lack of ownership.

3. With respect to Ms. Gearheart's proposed adjustments to utility plant in service for the fees of GA related to capital improvements:
   a. Is it ORS's position that the consulting services related to capital improvements were not performed?
   b. Is it ORS's position that the consulting services related to capital improvements were not in accordance with provisions GA's management agreement with DIUC?
   c. Is it ORS's position that no work is necessary to initiate, implement, supervise, and account for capital improvements?
   d. Is it ORS's position that no costs should be incurred for such work?
   e. Is it ORS's position that the facilities to which those consulting services related are not used and useful in providing service to DIUC's customers?

      Response: No to all above.

4. With respect to Ms. Gearheart's proposed adjustments to utility plant in service for the facilities for which invoices could not be found:
   a. Is it ORS's position that the facilities are not used and useful in providing service to DIUC's customers?

      Response: No.

   b. Does ORS agree that costs were incurred for those items of utility plant?

      Response: ORS objects to this question as being vague and ambiguous. With respect to this specific rate case, ORS cannot opine whether costs were incurred since invoices were not provided to support the utility plant claimed by DIUC.

   c. Does ORS agree that costs were booked for those items of utility plant?

      Response: ORS objects to this question as being vague and ambiguous. With respect to this specific rate case, it appears DIUC booked costs.

d. Is it ORS's position that the costs as booked are unreasonable as to the level of cost, and were it not for a lack of specific invoices, ORS would still have made an adjustment for their total cost?

Response: ORS objects to this question as being vague, ambiguous and compound. With respect to this specific rate case, DIUC provided no invoices, and ORS cannot speculate as to what it would have done

e. If some costs for which DIUC lacks invoices would have been acceptable if corresponding invoices were presented, please indicate which ones.

Response: Itemized invoices were not provided, so ORS cannot provide an opinion or speculate on what would have been acceptable.

5. With respect to Ms. Gearheart's proposed adjustments to utility plant in service for legal and consulting costs related to the condemnation of the "Sabry" parcel of land:
   a. Is it ORS's position that the legal and consulting services were not provided on behalf of DIUC?

      Response: No.

   b. Please explain in detail the basis for this proposed adjustment.

      Response: Based on information and belief, condemnation- related expenses would not exist had DIUC paid Beaufort County taxes.

6. With respect to Ms. Gearheart's proposed adjustment to property taxes related to the amended eight-year installment plan under the agreement between Beaufort County and DIUC:
   a. Does ORS agree that the agreement between Beaufort County and DIUC addresses taxes due for 2012, 2013, 2014 and 2015?

      Response: Yes.

   b. Does ORS agree that the agreement was negotiated on behalf of DIUC by Pratt-Thomas & Walker and GA?

      Response: ORS does not know.

   c. Does ORS agree that those negotiations were successful in eliminating back taxes for DIUC for 2010 and 2011?

      Response: Based on information and belief, the negotiations appear successful.

   d. Does ORS agree that negotiations with the Department of Revenue, with the participation of Beaufort County, resulted in a reduction of DIUC's property taxes for 2012, 2013, 2014 and 2015?

Response: Based on information and belief, property taxes appear to be reduced, but ORS does not know if that is the result of negotiations.

e. Does ORS agree that the amount Ms. Gearheart proposes to include in rates for the installment payments over the eight-year period is less than half of the actual cost DIUC must pay monthly pursuant to its agreement with Beaufort County?

Response: No.

7. With respect to Ms. Gearheart's proposed allowance in rates for ongoing annual property taxes:

a. Did Ms. Gearheart identify the method that the Department of Revenue uses for determining the assessed value of DIUC's taxable utility property? If so, please identify that method and produce any documents Ms. Gearheart reviewed regarding that method.

Response: No.

b. Did Ms. Gearheart consider applying the method that the Department of Revenue uses for determining the assessed value of DIUC's taxable utility property?

Response: No.

c. Does ORS agree that DIUC's schedules in its rate increase application reflect the method that the Department of Revenue uses for determining the assessed value of DIUC's taxable utility property?

Response: ORS does not know.

d. Does ORS agree that the funds for paying property taxes due January 2017 must be collected during 2016, otherwise DIUC will not have the funds to pay the total amount due in January 2017?

Response: ORS objects to this question as being compound. No.

e. Was Ms. Gearheart aware when preparing her testimony that Beaufort County requires full payment of 2016 taxes in January 2017 or it will impose interest and penalties?

Response: Based on information and belief, ORS understands taxes are due in January.

f. Was Ms. Gearheart aware when preparing her testimony that Beaufort County requires full payment of 2016 taxes in January 2017 and that Beaufort County does not accept partial payments?

Response: ORS objects to this question as being compound and requiring speculation. Based on information and belief, ORS understands full payments are desirable; however, Beaufort County is currently accepting installment payments from DIUC. ORS does not know whether Beaufort County will require full payment of 2016 taxes in January 2017.

8. With respect to Ms. Gearheart's proposed adjustment to the GA management fee:
   a. Is it ORS's position that GA does not perform the services as set forth in its management agreement with DIUC?

      Response: No.

   b. Is it ORS's position that the management services performed by GA are not necessary for the operation and management of DIUC?

      Response: No.

   c. Is it ORS's position that GA is not qualified to perform the management services?

      Response: No.

   d. Does ORS agree that DIUC's customers have benefitted by the management services provided by GA?

      Response: ORS objects to this question as being vague and ambiguous. ORS cannot say whether the customers have benefited.

   e. Please explain, in detail, the basis for the proposed adjustment to GA's management fees.

      Response: See page 6, lines 1-5 of Ms. Gearheart's direct testimony.

Regarding the Prefiled Testimony of Willie J. Morgan:

9. With respect to Mr. Morgan's proposed adjustments for the costs of the storage tank, well, and related facilities located on the "Sabry" parcel of land and the Bloody Point Well #1:
   a. Does Mr. Morgan rely only Exhibits WJM-7 and WJM-8 for that position, or is there other information that is alleged to support those adjustments? If there is other information that is alleged to support those adjustments, please identify that information and explain how it supports the proposed adjustments.

      Response: ORS objects to the form of the question and request as being compound and ambiguous. ORS also contacted Beaufort County and reviewed the County's website.

b. Does ORS agree that those facilities are used and useful in providing service to DIUC's customers?

Response: Yes.

c. Does ORS agree that those facilities have continued to be used and useful from their installation until now, regardless of the ownership of the parcels of land on which they are located?

Response: Yes.

d. Does ORS agree that the costs of those facilities were incurred by the respective utility companies when they were installed?

Response: No. ORS does not know who installed the facilities or who incurred cost at the facilities' installation.

e. Does ORS agree that the value of those facilities are being taxed by Beaufort County as taxable property owned by DIUC?

Response: No.

f. Does ORS agree DIUC should continue to use and maintain these facilities for the benefit of DIUC's customers?

Response: Yes.

Regarding the Prefiled Testimony of Dr. Douglas H. Carlisle:

10. With respect to Dr. Carlisle's assertion that the outcome of DIUC's negotiations with banks for refinancing is not known:

a. Please explain how the use of a 46% debt ratio is more of a known and measurable change in future debt than Mr. Guastella's debt ratio, which he explained is estimated on the basis of DIUC's financing needs and discussions with SunTrust Bank.

Response: DIUC utilizes future debt and equity. The capital ratios utilized by Dr. Carlisle do not represent future debt and equity.

b. Does ORS agree that DIUC's proposed equity ratio of 58.8% is within the range shown in Exhibit DHC-1 (48.4% to 60.9%)?

Response: Yes.

c. Does ORS agree that DIUC's proposed equity ratio of 58.8% is equal to or less than three of the nine utilities shown in Exhibit DHC-1?

Response: Yes.

d. Please explain why Dr. Carlisle imputed an equity ratio to DIUC based on the average equity ratio of the nine utilities within the proxy group when DIUC's equity percentage was already within the proxy group's range?

Response: It is based upon a typical water company with traded stock.

e. Does ORS agree that the settlement in DIUC's last rate case used a proposed financing, not closed or completed financing?

Response: ORS objects to this question as being ambiguous. ORS does not understand the question.

f. Does ORS agree that at the time of the last rate case and before the last financing, DIUC's capital structure consisted entirely of equity?

Response: Yes, and based on information and belief, ORS understands this is why DIUC utilized a hypothetical capital structure at that time.

g. Does ORS agree that in DIUC's last rate application, Mr. Guastella proposed converting a significant portion of equity into debt?

Response: Yes, based on information and belief.

11. With respect to Dr. Carlisle's recommendation to use the nominal interest rate of DIUC's current long term debt instead of an effective rate of interest:

a. Does ORS agree that Dr. Carlisle's statement that the Company included $372,879.71 in financing fees from Guastella Associates, LLC in the calculation of its debt rate is not correct? (Please refer to DIUC's response to ORS Request WWW#3.)

Response: ORS objects to this question as being ambiguous and compound. Based on information and belief, ORS accepts that the cost of the financing was $372,879.71, of which $159,357.50 was paid to Guastella Associates and the rest of which appears to be unitemized per responses to ORS information requests. ORS understands that Guastella Associates managed the loan and therefore payments were administered by Guastella Associates.

b. Does ORS agree that the nine large water utilities in Dr. Carlisle's proxy group do not incur transaction costs when undertaking a financing?

Response: No.

c. If ORS asserts the proxy group of utilities does incur transaction costs, has ORS or Dr. Carlisle made an effort to determine:

i. What those costs are in absolute dollar amounts?

ii. Whether those costs have any impact in determining their effective interest rates?

iii. If so, please provide that information.

Response: ORS objects to this question as being compound. No to responses (i) and (ii) above. A response to (iii) is unnecessary since the response to (i) and (ii) is "No."

d. Has ORS or the PSC, to ORS's knowledge, ever allowed effective rates for debt (instead of only nominal rates) in a South Carolina utility rate cases? If yes, please provide for each of the latest three such allowances information showing the difference between the nominal rates and the effective rates, as well as the absolute dollar amount of the transaction costs.

Response: ORS objects to the form of the question and on the grounds that this request is ambiguous, overly broad, and unduly burdensome.

e. Prior to preparing his testimony, was Dr. Carlisle aware that DIUC's requests for financing were denied by three banks before obtaining a loan from SunTrust Bank?

Response: Yes, based on information and belief.

f. Is it ORS's position that DIUC did not incur any costs for the following when seeking and ultimately obtaining financing from SunTrust: bank loan fee(s), flood monitoring fee(s), tax monitoring fee(s), environmental fee(s), title agency fee(s), recording fee(s), document fee(s), tax lien and debtor search fee(s), survey(s)s of all properties, lender counsel fee(s), DIUC's attorneys' fee(s) and GA consulting fee(s)?

Response: No.

g. Is it ORS's position that the DIUC's attorneys and GA did not perform the work for which they billed DIUC related to the SunTrust loan?

Response: No.

h. Is it ORS's position that DIUC could have obtained a conventional bank loan without incurring the fees described in 2f, above?

Response: ORS objects to the form of the question. This is a hypothetical, and requires speculation.

i. One of the reasons Dr. Carlisle proposes for disallowing an effective interest rate is that the fees originate from GA and not from a lending institution. Is it ORS's position that if the fees were for a lending institution, ORS would have allowed them?

Response: ORS objects to the form of the question. This is a hypothetical, and requires speculation.

j. Is it accurate to state that none of the ORS witnesses proposed that DIUC be allowed to recover expenses and/or fees actually incurred in obtaining financing?

Response: ORS objects to this question as being ambiguous. Yes, as presented in the instant rate case.

k. Is it ORS's position that DIUC should not recover any costs or transaction fees for seeking financing and ultimately obtaining financing with SunTrust?

Response: ORS objects to this question as being ambiguous. Yes, for this rate case.

12. With respect to Dr. Carlisle's use of the CEM, DCF and CAP-M methods to determine the rate of return on equity:
    a. Did Dr. Carlisle adjust for the relative size of DIUC and the nine utilities in the proxy group? If so, please explain how and provide the analysis and any conclusion(s).
    b. Did Dr. Carlisle perform any analysis or consider the relative sensitivity to earnings erosion of DIUC and the proxy group? If so, please explain how and provide the analysis and any conclusion(s).
    c. Did Dr. Carlisle compare DIUC's achieved return on equity for the last 3, 4, or 5 years with that of the proxy group? If so, please explain how and provide the analysis and any conclusion(s).
    d. Did Dr. Carlisle determine whether any of the stockholders of the utilities in his proxy group were required to provide personal guarantees in order for the utility to obtain financing? If so, please identify those utilities and the terms of any guarantees.

    Response: No for all of the above.

Regarding the Prefiled Testimony of all ORS witnesses:

13. If the PSC were to accept Dr. Carlisle's recommended rate of return as well as the combined adjustments of other ORS witnesses in this case, has ORS analyzed:

a. Whether DIUC would be able to meet the requirements of the existing SunTrust loan that was approved by the PSC? If so, please produce those analyses and all related source documents.

b. Whether DIUC will be able to attract capital to refinance the short term line of credit and make further capital improvements that are necessary to provide adequate service to DIUC's customers? If so, please produce those analyses and all related source documents.

Response: No for all of the above.

Shannon Bowyer Hudson, Esquire
Andrew M. Bateman, Esquire
OFFICE OF REGULATORY STAFF
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October 23, 2015
Columbia, South Carolina

BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

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	**CERTIFICATE OF SERVICE**

This is to certify that I, Jessica N. Peyton, have this date served one (1) copy of the **RESPONSE TO APPLICANT'S FIRST SET OF INTERROGATORIES AND REQUESTS FOR PRODUCTION TO OFFICE OF REGULATORY STAFF** in the above-referenced matter to the person(s) named below by causing said copy to be electronically mailed as shown below:

Representing Daufuskie Island Utility Company, Inc.

Pratt-Thomas Walker, P.A.
G. Trenholm Walker PA, Esquire gtw@p-tw.com
Thomas P. Gressette, Jr., Esquire tpg@p-tw.com

Guastella Associates, LLC
John F. Guastella jfg@guastella.com

Jessica N. Peyton

October 23, 2015
Columbia, South Carolina

HEARING EXHIBIT NO. 11

{Merits Hearing of October 28, 2015}

In the matter of 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

I hereby certify this document to be a true copy of the original.

Jocelyn Boyd
Chief Clerk

Date 10/20/17

PUBLIC SERVICE COMMISSION SOUTH CAROLINA

EXHIBIT
10/28/15
11
2014-346-WS

PAUL R. VOGEL

PROFESSIONAL SUMMARY

48 years of successful domestic and international management of projects, people, project operations and companies providing engineering master planning and construction services. Regional and country management was performed in the US, Canada, Germany, Poland, South Korea, Ireland, Puerto Rico, Belgium, and Saudi Arabia. Specific direct management experience includes ethanol, pharmaceutical, food processing, corn wet milling, chemical, electronic, and airports. Prior experience includes 9 years n the management of design, construction and operation of food facilities.

SPECIFIC COMPANY AND AREA OF EXPERIENCE:

Global Performance 8/07 to Present
Consulting:

- Post hurricane reconstruction strategic plan for a LNG facility in the Dominican Republic
- Development of a corporate standard engineering and construction process for a mining company.
- Contract management consulting for a major Korean car company building a major US facility.

Fagen Sr Project Manager 3/06 to 5/07
Responsible for the construction of a 110 million gallon, $145 million, VeraSun ethanol facility in Charles City Iowa.
Contract - self perform all crafts plus manage special specialty subcontracts on a cost plus fixed fee basis. Sub contracts consisted of stainless steel tanks and concrete slip formed silos and the associated material handling for grain and DDG storage.
The entire facility constructed to the start of making ethanol in 13 months and 3 months ahead of client schedule with in the approved budget and man hour estimate
Parsons – Sr. Project Manager 2/05 to 11/05
DuBiotech Biotechnology and Research Park Project in Dubai UAE.
Responsible for Master Plan development from vision to publication and tender documents for all site development. The success of this contract led to the un-tendered award of an incubator laboratory and the Iconic Head Quarters Building.
The Biotech Park is a 184 Hector first of a kind in the Mid East to compete with Biotech parks in other areas of the world. This park consists of a 467,000 sqft head quarters, 347,000 laboratory, manufacturing, and support facilities zones. The scope was from vision to tender documents.
Kings Hawaiian Bakery Project Manager - Torrance CA 7/02 to 5/04
Responsible for the total management of $60mm project including engineering, contract management and construction management. Fluor was awarded the task of completing the engineering, contract management and construction management after another contractor failed. This 137,000-sqft roll and bread bakery is a state of the art totally automated facility built to the most stringent standards of a family owned business and Los Angeles inspectors. In addition the project included an 18,000-sqft office designed and contract managed by Fluor.
Jacobs Engineering Corporation 9/99 to 1/00
Senior Advisor for Design and Construction - National Ignition Facility - Livermore, California.
Senior Advisor for the Government Project Manager for Conventional Facilities and Infrastructure during a major restructuring phase of the project. This $ 350mm portion of a $ 1.2 billion project required a major change in direction to meet its objectives. Specific areas addressed included the acquisition strategy, organizational structure, and safety program implementation.
Fluor Daniel International
Vice President and Director of Operations Ireland
Director Fluor Daniel - EEL 2/98 to 7/99
Responsible for the Fluor Daniel Operations in Ireland. The prime activity was to launch Fluor Daniel in the Republic of Ireland, and North Ireland, leading to an equity buy out and a Limited Liability Company by managing the relationship, support and expansion of the local partnership Fluor Daniel - EEL. Operational activities consisted of local management support for the over $600mm in construction projects in Ireland for the pharmaceutical, chemical, and electronics industries
Vice President and Managing Director Fluor Daniel Eastern 6/97 to 2/98
Responsible for infrastructure projects in South Korea. The major effort was to lead the foreign advisory team for the construction management of the Inchon main terminal building consortium. This consortium included Hanjin, Daewoo, and Samsung

Vice President Operations Poland 1/93 to 6/97
Responsible to locate, analyze, select, recommend for investment, negotiate inter-company agreements, upgrade, and manage two Central European low cost engineering and CM centers for Fluor Daniel. These were successfully upgraded and provided with a technology transfer program in ISO 9001, engineering and construction management procedures, accounting and finance, marketing, legal, CAD operations, safety, technical support, information technology, control procedures, and project management procedures. The areas of project operations consist of refinery expansions, chemical facilities, pharmaceutical, and food facilities.

Vice President and General Manager - German Operations Centers 7/91 to 1/93
Overall management of Fluor Daniel Offices in Dusseldorf, Wiesbaden, and Leipzig. Responsible for meeting business resource needs, German Operations coordination, and budgets. Markets include food, pharmaceutical, industrial, maintenance, hydrocarbon, and chemical and plastics.

Vice President and Division Manager - Chicago Operations 1/90 to 7/91
Overall management of Business Unit offices responsible for operations, sales, and profits. Offices served mainly food processing and manufacturing.

Greenville SC Regional Manager/Manager of Projects 10/88 to 1/90
Overall management of projects out of the Greenville office Fluor Daniel office. Major clients were in the food processing and manufacturing.

Sample Projects personally managed with International Involvement

Teepak Casing Plant
Provided total engineering management to build Teepak's first international facility in Lommel, Belgium. This is a chemical facility producing viscose sausage casings, which includes extrusion, drying and packaging equipment. Engineering management consisted of coordinating the process design by Badger Antwerp, and Fluor Daniel design.

Knorr Soup Plant in Asheboro NC
Provided total project management for a first of its kind in the US, which required the integration of the all previously used European systems to an American Plant. This is a fully automated plant with considerable material handling, process, and an automated warehouse system. Services included site selection, engineering, procurement, construction, maintenance, and training.

Dynamit Nobel Electronics Facility in NC
Provided total project management for a facility to produce Silicon Wafers. This was the first facility for the Italian Company in the US, which required the integration of the European requirements in the US plant. This facility had sophisticated building, HVAC, Class 100 clean room requirements.

Canada Starch plant in Canada
As Task Force Project Director, responsibilities included providing the total management of engineering, procurement, and construction of a $64 million corn wet milling facility in Canada.

New Jeddah International Airport
Deputy Manager responsible for a management joint venture with Fluor Daniel, which provided control for half of all engineering work for a $4.5 billion airport in Saudi Arabia. Specific work consisted of coordinating the design of Skidmore Owens and Merrill, the shop drawing review of Hochtief and the project site requirements.

Pharmaceutical facilities in Puerto Rico
Managed the engineering for a Squibb Formulating Package Building, an Alcan Formulating Packaging Building, and a. Formulating/Packaging Building, Warehouse and Administration Building for Upjohn.
Assistant Project Manager for a Merck, Sharp & Dome Fermentation and Pharmaceutical Facility. Responsible for the coordination between Lummus, Catalytic, Fluor Daniel, and all field engineering, cost and schedule control.

Previous Experience
Union Carbide and Nabisco

EDUCATION: **CITIZENSHIP**
Bachelor of Marine Engineering, State University of New York. USA

PROFESSIONAL LICENSES
Professional Engineer-Mechanical licenses in Illinois and South Carolina; now on an inactive basis..

CONTACT DATA: 25 Prestwick Green, Daufuskie Island SC 29915 Phone843 842 8297 Email PVogel4588@aol com

HEARING EXHIBIT NO. 12

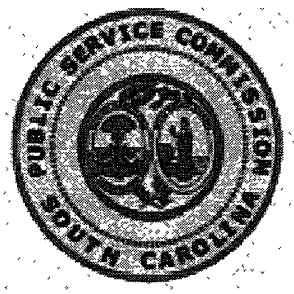
{Merits Hearing of October 28, 2015}

In the matter of 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

I hereby certify this document to be a true copy of the original.

Chief Clerk

Date 10/20/17



Doug Egly, PGA

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Regional General Manager / COO

Exclusive Private Residential Country Clubs and Yacht Clubs

More than 15 years of Regional Management / General Management successes in every facet of club operations. Progressive and diverse experience at exclusive private, residential golf and yacht clubs. Significantly strengthened each club in terms of member growth, service quality and fiscal soundness and staffing. Built, trained and led highly professional, loyal teams of up to 150 that have a thorough understanding of discriminating club members' expectations and how to deliver and exceed on those expectations. In-depth knowledge of Food & Beverage, financials, including forecasting and budgeting for clubs with $3 million to $7 million in annual revenue. Creative in problem solving and conceptualizing special events and member traditions at new clubs. Impeccable attention to detail that exceeds Member and Guest expectations.

General Management Strengths

- P&L Management
- Operations Management
- Financial Management / Forecasting / Budgeting
- Member Growth & Retention
- Food & Beverage (F&B) Operations
- Purchasing & Inventory Management
- Golf Course Operations
- Marina Operations
- Staff Training, Development & Promotion
- Renovations / Capital Improvements

Professional Experience

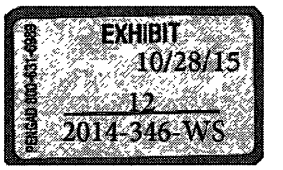
REGIONAL GENERAL MANAGER/COO – BLACK DIAMOND RANCH / ESCALANTE GOLF, FL • 2011 to Present

Private, exclusive and upscale, privately-owned golf and country club located in the rolling hills of Lecanto, FL with 400 members; an exceptional and world-renown golf community boasting 45 holes of Tom Fazio-designed golf courses. Rated "#1 Golf Community in Florida" by both Golfweek and Florida Golf Magazine; the famed Quarry course is one of the highest rated courses in the country and has garnered significant praise by Golf Digest; Top 100 club for 22 consecutive years. Newly redesigned clubhouse, expanded wedding/banquet facilities, fitness center, tennis courts, golf pro shop with extreme attention to all 50,000 sq. ft. of club space; $7.5 million annual revenue; $1.7 million F&B revenue.

Selected to re-establish the Club's reputation as the top club in Florida while increasing member participation in every club amenity. Manage day-to-day operations: budgeting (operating and capital), policy and procedure development, member services, events, F&B operations, purchasing, inventory control, staffing, training, community relations, and facilities. Provide leadership and direction to over 100 employees. Hired and developed 11 Department Heads, including Club Manager, Golf Course Superintendent, Director of Golf, Director of Instruction, Facility Manager, Controller, Executive Chef, Director of Real Estate Sales, Residential Property Manager and Director of Private Events. Manage positive relationships with key corporate customers and community leaders.

Achievements:

- Drove and effectively managed annual revenue to $7.5 million while meeting budget requirements each year.
- F&B revenue grew from $1.2 million to $1.6 million with over 65% of increased revenue derived from ala carte and retail wine sales. Reduced food cost of goods sold from 46% to 35% while increasing overall member dining satisfaction.
- Oversaw concept, re-design and renovation of Club Dining and Banquet facility. Also managed complete renovation and upgrade of the fitness facility and Real Estate Welcome Center.
- Created popular member traditions that include: Fine dining (increased Tuesday and Friday night dining covers from 60 to 120), Featured Wine Dinners, Trivia Night, Turkey Buffet, Family Theme Night, Tripled Family participation in all Holiday and special events.
- Recruited top-performing, career-minded team members. Trained and developed 5 Assistant Managers for promotion to General Manager, 2 Sous Chefs to Executive Chef, 2 Assistant Golf Professionals to Head Golf Professionals.



REGIONAL GENERAL MANAGER/COO – WATERLEFE GOLF & RIVER CLUB and TIDEWATER PRESERVE – Bonita Springs, FL • July 1999 to 2011 (Member owned in 2008)

WCI Communities, Incorporated, Bonita Springs, FL- Recognized as Florida's premier developer of master planned communities with more than 30 outstanding communities with award winning homes from $100s to over $10 million. WCI offers vast array of world- class amenities including boating, golf, tennis, fine dining with equity memberships from the $70s to the $250s. WCI has numerous business partners such as the Ritz Carlton and Hyatt Resorts with golf courses designed by the great names of Greg Norman, Raymond Floyd, Tom Fazio and Pete Dye.

Responsible for complete start-up and development of 3 separate communities- Tidewater Preserve, Venetian Golf and River Club and Waterlefe Golf and River Club; all amenities, including design and construction of 59 slip Marina, full service dining facilities, fitness center, golf club/pro shop and grill room. Developed the club's annual business plan and long-range strategic vision including operating and capital budgets. Directed and managed all aspects of the club including activities and relationships between the club and Board of Directors, members, guests, employees, community, government and industry. Directed overall operations including budgeting (operating and capital) and financials, F&B operations, customer service, facilities management, and special events. Supervised a staff of 100 employees through 7 department heads, including Accountant, Membership Director, Chef, Catering Director, Dining Room Manager, Bar Manager and Marina Manager.

Achievements:

- Successful transition from developer to members.
- Most successful build out of 614 residential homes in WCI Communities history. Grew golf revenues to $3.5 million.
- Established several innovative member traditions that are still in place including annual holiday boat parade; family fishing tournaments and summer kids' camps.
- Plotkin Survey- Scored highest rated member satisfaction of every WCI Clubs surveyed, including the Tiburon Ritz Carlton.

DIRECTOR OF GOLF – RIVER WILDERNESS COUNTRY CLUB - Parrish, FL • 1994 to 1999

Privately owned, exclusive golf and country club, with multiple dining areas, tennis courts, swimming pool and fitness center; approximately 320 members;

Achievements:

- Successfully transitioned from bank owned to new ownership group; key liaison between bank, members and new ownership group.
- Single-handedly increased club membership from 200 to 320 through advertising and sales presentations.
- Spearheaded formation of Men's Golf Association- increased membership.
- Launched Member-Guest event in 1995 increased participation by 50%. Sold out yearly – ongoing.
- Acted as key liaison between Developer and Members/Residents to successfully address member issues.
- Contributed to improvement of service quality and member satisfaction while reducing labor costs through better labor management and scheduling.

WOMEN'S GOLF COACH- UNIVERSITY OF NORTH TEXAS- Denton, TX * 1987 to 1994

Achievements:

- Selected by the NCAA to coach the United States Women's Team in the U.S. - Japan matches held at the Green Academy Country Club in Japan.
- Member of the NCAA Championship Selection Committee.
- Created an endowed academic scholarship for women that participate at the Division 1 level and maintain a 3.5 G.P.A.
- Increased graduation rate to highest level in women's golf team history.

EDUCATION / CERTIFICATION

University of North Texas – Denton, TX
Bachelor of Business Administration
PGA Business School I, Dallas
PGA Business School II, Oklahoma City

PGA Teaching and Coaching Summit, San Francisco
PGA Teaching and Coaching Summit, New Orleans
Member - PGA of America
Executive Director for over 18 NCAA Golf Tournaments

Reference:
James Brand, CCM and Past President of Florida CMAA, 941-720-7496

HEARING EXHIBIT NO. 13

{Merits Hearing of October 28, 2015}

In the matter of 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

I hereby certify this document to be a true copy of the original.

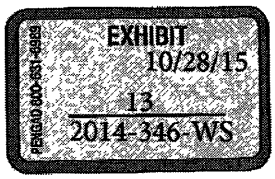
Jocelyn Boyd
Chief Clerk

Date 10/20/17



HUSSEY GAY BELL
Established 1958

HARRY JUE – SENIOR TECHNICAL ADVISOR, WATER/WASTEWATER



EDUCATION
Bachelor of Science, Environmental Health Science / University of Georgia

CERTIFICATION
Georgia Class I Water Treatment Operator

PROFESSIONAL AFFILIATIONS
Water Environmental Federation, American Water Works Association, Georgia Association of Water Professionals, Georgia Rural Water Association, American Public Works Association and Association of Metropolitan Water Agencies

Based in Savannah, Georgia, Mr. Jue brings more than 40 years of expertise to Hussey Gay Bell. Previously, Mr. Jue served as the Water Operations Director and Water and Sewer Bureau Director for the City of Savannah for a combined total of 30 years. His responsibilities included overall budgeting, operation and compliance with all federal and state laws for the planning, designing and construction of all major water and sewer infrastructure projects including pump stations, sewer lines and wastewater treatment plants.

Of unique importance, Mr. Jue:

- Served as Project Coordinator with HGBD-Arabia. His responsibilities included preparing plans and specifications for sewage pump stations, sewer lines and 36 advanced sewage treatment plants in the Baha and Northern Borders region in the Kingdom of Saudi Arabia. He provided efficient coordination with both the Arabia Team and personnel in the U.S., effective communication with the Ministry of Water and Electricity in Riyadh and the Local Ministries in Baha and the Northern Borders.

- Served on numerous State of Georgia legislative study committees, to develop a statewide water plan to develop a coastal strategy to protect the Floridan aquifer from saltwater contamination and to develop a recommendation for the Governor for a statewide water conservation plan.

- Has extensive experience with Georgia EPD, regarding water issues and permitting in Coastal Georgia, including development of the original Sound Science Initiative as well as the State's Plan for Managing Saltwater Intrusion in Coastal Georgia.

- Has prior relevant experience includes more than 30 years with the City of Savannah, having served as the Water Operations Director for 15 years and as the Water and Sewer Bureau Director for 15 years, thereby bringing unmatched familiarity and expertise with the challenges and needs of coastal Georgia's residents.

- **Is the recipient of numerous individual industry awards and accolades for his work, including:**
  1994: President's Award, Georgia Water and Pollution Control Association*

  1995: Select Society of Sanitary Sludge Shovelers, State of Georgia

  2002: Charter Member of the Institute for Georgia Environmental Leadership

  2003: Hugh A. Wyckoff Award, Georgia Water and Pollution Control Association*

  2007: Honorary Lifetime Membership Award, Georgia Association of Water Professional

  ** Denotes renamed Georgia Association of Water Professionals in 2005.*

Experience Highlights:

Water and Sewer Bureau Director
City of Savannah, Georgia
June 1993 – 2008

Directed the operations of the Water and Sewer Bureau for the City of Savannah; planned and scheduled infrastructure improvements to ensure that the water and sewer system met current needs. Reviewed and approved budget submissions of Water and Sewer departments; developed and/or approved internal auditing procedures for inventory and purchasing procedures; ensured that all procurement procedures were in compliance with City policy.

Responsibilities included the management, planning, expansion, organization and operation of the Water and Sewer departments of the City of Savannah which consisted of development and funding of a five-year $52 million capital plan; administration of a $36.7 million operating budget for 42 deep wells, 62.5 MGD surface water treatment plant, four advanced wastewater treatment plants, reclaim water facility, 165 sewage pump stations, over 1400 miles of water and sewer infrastructure and 259 water and sewer employees.

Served on numerous legislative study committees to develop a statewide water plan to develop a coastal strategy to protect the Floridan aquifer from saltwater contamination; and to develop a recommendation for the governor for a statewide water conservation plan.

Served on the Georgia and South Carolina Savannah River Study Committee to determine future allocation of wasteload capacity of the river; to determine the benefits and the negative impacts of inter-basin transfers and to study the environmental impacts of past and future harbor deepening on the river to promote the use by large container ships at the Georgia Ports Authority.

Planned and scheduled projects for system expansion to ensure that the water and sewer system could meet future needs. Developed work programs and operating procedures to ensure that both the water supply and wastewater treatment facilities were in compliance with existing and future federal and state mandates.

Developed water and sewer agreements with developers; made recommendations to City Manager and Council regarding Water and Sewer agreements and surcharges. Coordinated planning, regulations, expansion, financing, and infrastructure improvements with federal, state, county and city governments. Communicated and interacted with various stakeholder groups.

Ensured engineering quality and design of Water and Sewer department projects; ensured construction quality of all projects. Analyzed effectiveness of department programs to increase productivity, efficiency, and cost effectiveness.

Elected and served on the Georgia State Board for the Examination of Water and Wastewater Treatment Operators from 2002 to present.

Water Operations Director
City of Savannah, Georgia
November 1978 – June 1993

Directed the operation of the potable water supply for the City of Savannah; supervised, directed and evaluated assigned staff; handled employee concerns and problems; directed work; counseled and disciplined staff; completed employee performance appraisals; recruited, appointed, and trained staff. Planned, organized, and directed the operations and budgets of a well

ground water system, a surface water system and of water distribution mains. Established policies and procedures for the operation of water supply, water distribution and industrial and domestic systems; inspected operations to ensure compliance with safety rules and regulations and to ensure compliance with all state and federal water supply rules and regulations.

Developed an aggressive water leak repair program which has reduced unaccounted-for water lost in the Savannah system from 25% to 8% and reduce the total annual water leak repairs by 79%.

Developed and implemented the first cross connection control policy in Savannah, Georgia which has served as a model for similar water systems in Georgia. The objective of the policy was to protect the public drinking water supply from contamination from various sources.

Environmental Specialist III
Georgia Department of Natural Resources
June 1974 – November 1978

Provided technical assistance and regulatory compliance in water supply, air quality, wastewater treatment and solid waste disciplines to a 34-county region in southeast Georgia. Investigated and documented hazardous waste spills and initiated cleanup procedures; coordinated and participated in the Georgia Shellfish program. Enforced state and federal laws such as: Safe Water Drinking Act; Water Quality Control Act; Solid Waste Management Act; Georgia Air Quality Control Act; Groundwater Use Act.

HEARING EXHIBIT NO. 14

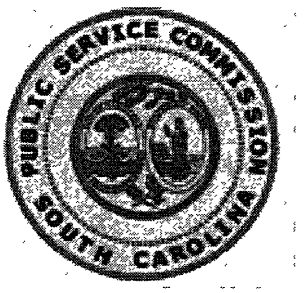
{Merits Hearing of October 28, 2015}

In the matter of Docket No. 2014-346-WS:
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I hereby certify this document to be a true copy of the original

Chief Clerk

Date 10/20/17



LIST OF EXHIBITS TO ACCOMPANY TESTIMONY

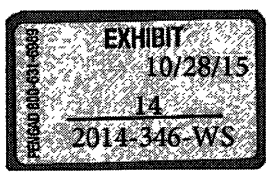
EXHIBIT 1 – Professional resume Regulatory Experience of Lynn M. Lanier

EXHIBIT 2 – Schedule A-4 from DIUC's Filing, with Operating Margin Calculations calculations

EXHIBIT 3 – LML Financial Schedules

EXHIBIT 4 – FPSC Price Index Guideline

EXHIBIT 5 – FPSC Leverage Formula Order and Staff Report



Lynn M. Lanier
Principal

EDUCATION: Bachelor of Science in Industrial Management,
Co-Operative Plan, Georgia Institute of Technology, 1975

EXPERIENCE:

Mr. Lanier is a Principal in the Firm and has over forty years' experience in the electric utility industry with an extensive background in the areas of management, operations, and finance, primarily with electric distribution systems. His experience includes a broad range of retail and wholesale rate, financial analysis, marketing, operational analysis, valuation, and merger/acquisition consulting projects. He also served as General Manager/CEO of an electric cooperative in South Carolina for 5-1/2 years.

Employment Experience:

1988 - Present: GDS Associates, Inc. - Mr. Lanier is responsible for providing services to and directing projects primarily for electric distribution systems in a number of areas including financial analysis and planning; reorganization studies such as mergers and acquisitions, consolidations, and valuation studies; marketing programs; demand-side planning and analysis; productivity studies; retail and wholesale rates; and various costs analyses, including outdoor/street lighting rates, joint pole use attachment rates, etc.

His experience at GDS includes demand-side planning, end-use analysis, marketing program analyses and development, development of demand-side/marketing program incentives, the development of electric service contracts, agreements, and easements, revenue and power cost forecasting and budgeting, competitive rate analyses, evaluation and development of industrial service rates, retail rate and cost-of-service studies, policy and service rule development, development of special rates, wholesale rate design, operational/management evaluations, cost reduction studies, valuation studies, privatization/acquisition projects, and certificated service area dispute resolution, along with a number of related projects. Since 1995, he has been the Firm's Practice Leader in the federal DOD Utility Privatization Program, primarily representing electric and water/wastewater utility companies and affiliates in efforts to acquire utility privatization contracts.

1983 - 1988: Lynches River Electric Cooperative, Inc. - As General Manager, Mr. Lanier was Chief Executive Officer responsible for the operation of the Cooperative. Major achievements include: development of planning, budgeting, and cost tracking systems; implementation of automated accounting systems; rate analyses and development of special industrial rates

and contracts; development of industrial service proposals; and development of automated feasibility analysis for facilities investment. Mr. Lanier also developed numerous forms of contracts, agreements, and easements.

Particularly noteworthy among his accomplishments were his successful efforts in the acquisition of a small private power company, including all feasibility analyses, REA lien accommodation for 100% private financing, negotiation of terms of sale and closing of same, filings and testimony before the South Carolina Public Service Commission, and timely integration into the Cooperative's distribution system.

Mr. Lanier was instrumental in the development of a G&T-wide power marketing program and led its implementation by developing and implementing the first member system comprehensive marketing program, including selective appliance promotion toward target markets, incentive rates, financing and cost sharing program, and general promotional program.

In addition, Mr. Lanier was personally involved and participated extensively in numerous system engineering studies, power requirements studies, loan applications, borrower environmental reports, load management system implementation, and numerous "service territory" related matters.

1978 - 1983: Walton Electric Membership Corporation, Monroe, Georgia - As Manager of Administrative Services, Mr. Lanier was responsible for organizational planning, management development, personnel administration, staff services, retail rates and service rules and regulations. Mr. Lanier's activities included annual business plans and budgets, rate and cost-of-service studies, industrial service proposals, long-range organizational plan, safety management program, development of an extensive management performance report, extensive bylaw revisions, and policy development.

1976 - 1978: Colquitt Electric Membership Corporation, Moultrie, Georgia - As Administrative Assistant, Mr. Lanier's responsibilities included organization planning, budgeting, management systems, policy development, and general administrative responsibilities. His activities included development of a planning and budgeting system, a large power load research project, data processing study, re-writing the policy manual, and numerous other general analyses and activities.

1971 - 1976: Southern Engineering Company of Georgia, Atlanta, Georgia - Mr. Lanier began work with Southern Engineering Company as a rate analyst while a student at Georgia Institute of Technology. Upon graduation in 1975, he

was employed as a rate and financial consultant. His responsibilities included retail rate and cost-of-service analyses, preparation and delivery of expert testimony before various public service commissions, presentation of reports to management and boards of directors of various utilities, preparation of financial forecasts for electric cooperatives, and providing other financial and rate related advice and services to electric utilities, including assistance with service rules, regulations, and contracts.

REGULATORY EXPERIENCE:

Mr. Lanier has presented expert testimony and/or prepared testimony and exhibits in retail and wholesale rate and cost-of-service matters before the following state utility regulatory commissions:

Louisiana Public Service Commission
Vermont Public Service Commission
Public Service Commission of Indiana
Virginia State Corporation Commission
Public Utility Commission of Texas
Michigan Public Service Commission
Mississippi Public Service Commission
South Carolina Public Service Commission

In addition, Mr. Lanier also submitted testimony and appeared before the South Carolina Public Service Commission as a Company witness on two separate occasions concerning a territorial matter and in regard to the acquisition of a small private power company.

Mr. Lanier has also submitted an expert report and testified before the US Tax Court on behalf of the Internal Revenue Service. He has also provided expert reports in State Courts.

SPECIFIC CONSULTING EXPERIENCE – SELECTED EXAMPLES:
[* Projects in which Mr. Lanier had a significant role but not exclusive project responsibility]

- VECO Alaska, Inc.
  - **Utility Privatization Proposal - Alaska Installations** – Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- TDX Power
  - **Natural Gas Privatization with ENSTAR** - Project involved the inventory of all

natural gas distribution plant and classification in accordance with FERC Uniform System of Accounts for Gas Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- First Electric Cooperative Corp.
  - **Privatization Assistance: Little Rock AFB** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- C&L Electric Cooperative Corporation
  - **Pine Bluff Arsenal Utility Privatization Proposal** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Gulf Coast Electric Cooperative, Inc.
  - **NWS CSS Panama City Privatization Proposal** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.
  - **Tyndall AFB Privatization Proposal** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- North Georgia Electric Membership Corporation
  - **Outdoor Lighting Rate Study** – Project involved the review of TVA prescribed lighting rate designs and review of all non-power related Street and Outdoor lighting related operating costs and margin requirements and establishment of schedule of non-power related fixed charges for each type of fixture and configuration offered.

- Rayle Electric Membership Corp.
  - **Rate And Cost Of Service Study** – Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Colquitt Electric Membership Corp.

- **Development Of Outdoor Lighting Rates** – Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for existing and new Street and Outdoor Lighting options offered or proposed to be offered
- **Retail Rate And Cost Of Service Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.
- **Retail Rate And Cost Of Service Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Hart Electric Membership Corp.
  - **Cost of Service Analysis And Retail Rate Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Satilla Rural Electric Membership Corporation
  - **Retail Rate & Cost of Service Study (1992)** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.
  - **Rate and Cost of Service Study (1998)** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Mitchell Electric Membership Corporation
  - **Financial Review And Rate Adjustment** - Project involved comprehensive revenue requirements study and limited redesign of retail rates, including the Street and Outdoor Lighting rates
  - **Privatization: MCLB-Albany, GA** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Ocmulgee Electric Membership Corporation
  - **Retail Rate & Cost Of Service Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Cobb Electric Membership Corporation
  - **Privatization-Dobbins, AFB** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Three Notch Electric Membership Corporation
  - **Retail Rate And Cost of Service** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.
  - **Develop School Rate, Lighting Package** - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for proposed new Street/Parking Lot Lighting options to be offered to consumer
  - **Acquisition Analysis** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Tri-County (GA) Electric Membership Corporation
  - **Develop Lighting Rates *** - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for existing and new Street and Outdoor Lighting options offered or proposed to be offered

- Coastal Electric Cooperative
  - **Outdoor Lighting Schedule *** - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for existing and new Street and Outdoor Lighting options offered or proposed to be offered

- Coweta-Fayette Electric Membership Corporation
  - **Ft. McPherson and Ft. Gillem Privatization Proposal** - Project involved the inventory of all electric distribution plant and classification in accordance with

FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Cooperative Power, Inc.
  - **Privatization of Ft. Benning Distribution System** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Leavenworth-Jefferson Electric Cooperative
  - **Proposal to Own, Operate, and Maintain the Lighting at Fort Leavenworth -** Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Pennyrile Rural Electric Cooperative Corp.
  - **Privatization Assistance – Ft. Campbell** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Blue Grass Energy, Inc.
  - **Privatization Assistance: Blue Grass Army Depot (BGAD)** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Nolin Rural Electric Cooperative Corp.
  - **Fort Knox RFP Review and Proposal** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Chicopee Municipal Lighting Plant
  - **Westover ARB Electric System Privatization** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- 4-County Electric Power Association
  - **Privatization Assistance: Columbus Air Force Base** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Singing River Electric Power Assn.
  - **Privatization Assistance – Pascagoula** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Laclede Electric Cooperative
  - **Privatization Assistance: Ft. Leonard Wood** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Haywood Electric Membership Corporation
  - **Cost Of Service And Rate Design** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Otero County Electric Cooperative, Inc.
  - **Privatization of White Sands Mis. Range** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- The Energy Cooperative
  - **Retail Rate Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Aiken Electric Cooperative, Inc.

- **Retail Rate And Cost Of Service Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Fairfield Electric Cooperative, Inc.
  - **Rate And Cost Of Service Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.
  - **Retail; Rate & Cost Of Service Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Berkeley Electric Cooperative, Inc.
  - **Retail Rate, Cost of Service, And Marketing Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.
  - **Retail Rate and Cost of Service Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.
  - **Commercial Lighting Program** - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for existing and new Street and Outdoor Lighting options offered or proposed to be offered to Commercial consumers.
  - **Financial Review and Rate Revision** - Project involved comprehensive revenue requirements study and limited redesign of retail rates, including the Street and Outdoor Lighting rates

- Horry Electric Cooperative, Inc.
  - **Retail Rate & Cost of Service Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting

options offered to consumers.

- Mid-Carolina Electric Cooperative, Inc.
  - **Lighting Rate Analysis** - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for existing and new Street and Outdoor Lighting options offered or proposed to be offered
  - **Retail; Rate And Cost Of Service Study** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Blue Ridge Electric Cooperative, Inc.
  - **Athletic Field Lighting Facilities** * - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for proposed new Athletic Field Lighting options to be offered to consumer

- Palmetto Electric Cooperative, Inc.
  - **Cost Of Service And Rate Study 1988** * - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for existing and new Street and Outdoor Lighting options offered or proposed to be offered
  - **Cost Of Service And Rate Study** * - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for existing and new Street and Outdoor Lighting options offered or proposed to be offered
  - **End Use Cost And Rate Analysis** * - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for existing and new Street and Outdoor Lighting options offered or proposed to be offered

- York Electric Cooperative, Inc.
  - **Retail Rate Study** - Project involved comprehensive revenue requirements study and limited redesign of retail rates, including the Street and Outdoor Lighting rates
  - **Retail Rate Study** - Project involved comprehensive revenue requirements study and limited redesign of retail rates, including the Street and Outdoor Lighting rates
  - **Update 1999 Rate Study** - Project involved comprehensive revenue requirements study and limited redesign of retail rates, including the Street and Outdoor Lighting rates

- Tri-County (TN) Electric Membership Corp.
  - **Cost of Service and Retail Rate Study – 1997** - Project involved comprehensive revenue requirements and allocated cost study for all retail rate classes, including the Street and Outdoor Lighting Class, and development/design of retail rates for all consumer classes, including appropriate charges for Street and Outdoor Lighting options offered to consumers.

- Southwest Tennessee Electric Membership Corp.
  - **NSA Mid-South Utilities Privatization** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Sequachee Valley Electric Cooperative, Inc.
  - **Arnold AFB Utility Privatization** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Upshur-Rural Electric Cooperative, Inc.
  - **Outdoor Lighting Rate Schedule Revision *** - Project involved comprehensive review of power and non-power related costs and margin requirements and rate design for existing and new Street and Outdoor Lighting options offered or proposed to be offered

- Fort Belknap Electric Cooperative, Inc.
  - **Privatization of Sheppard AFB Electric System** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Tri-County (TX) Electric Cooperative, Inc.
  - **Privatization Assistance - NAS JRB Ft. Worth** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Rio Grande Electric Cooperative, Inc.
  - **Privatization of Laughlin RFB Eclectic System** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on

the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- EG&G / KPMG
  - **Transfer of Kelly AFB Elec. & Gas Systems to CPS** - Project involved the inventory of all electric and natural gas distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric and Gas Systems, respectively, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Southside Electric Cooperative
  - **Privatization Assistance - Fort Pickett** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Prince George Electric Cooperative
  - **Privatization Assistance: Ft. Lee** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.
  - **Privatization Assistance** - Defense Supply Center, Richmond, VA - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Community Electric Cooperative
  - **Privatization Assistance: FT. Eustis, FT. Monroe, & FT. Story** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.
  - **Privatization Assistance - Norfolk Naval Bases** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Alaska Power and Telephone
  - **Ft. Buchanan Utility Privatization** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- **Fort Lewis Electric Distribution Privatization** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

- Bluestem Electric Cooperative
- D.S.& O. Rural Electric Coop. Association
- Flint Hills Rural Electric Coop. Assoc., Inc.
  - **Privatization Assistance: Ft. Riley Electric System** - Project involved the inventory of all electric distribution plant and classification in accordance with FERC Uniform System of Accounts for Electric Systems, and establishing valuation on the basis of Replacement Cost Depreciated and Original Cost Depreciated.

LYNN M. LANIER

TESTIMONY EXPERIENCE

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

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

LYNN M. LANIER

ARTICLES

1. *Privatization of Utility Distribution Systems on Military Bases*: Transactions Newsletter of GDS Associates, Inc.; Vol. No. 498; Dec, 1998.

2. *Evaluating Opportunities*: *Uncle Sam Privatizes Utility Systems; and Military Privatization: Nuts, Bolts Issues*; Electric Light and Power Magazine, March, 1999.

APPEARANCES IN FEDERAL COURT

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

LMI - Exhibit 2
GA Schedule A-4

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

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

Daufuskie Island Utility Company
Water and Wastewater Systems
Comparative Balance Sheets

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

Daufuskie Island Utility Company
Water and Wastewater Systems
Comparative Balance Sheets

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

Daufuskie Island Utility Company
Water and Wastewater Systems
Comparative Balance Sheets

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

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

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

AMENDED Lanier Exhibit 3

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

	Blake Proposed (DOR A-3)	Adjustment	2014 Year-End	Ratio	Cost Rate	Weighted Cost	Return	Adjustment	Adjusted 2014 Year-End	Ratio	Cost Rate	Weighted Cost	Return
Long-Term Debt	$ 3,750,000	$ (1,134,050)	$ 2,615,950					$ -	$ 2,615,950				
Short-Term Debt	$ -		$ -					$ -	$ -				
Subtotal Debt	**$ 3,750,000**		**$ 2,615,950**	**32.80%**	**6.20%**	**2.03%**	**$ 162,189**		**$ 2,615,950**	**57.55%**	**6.20%**	**3.57%**	**$ 162,188.90**
Equity	$ 5,358,574		$ 5,358,574	67.20%	8.75%	5.88%	$ 468,875	$ (3,429,387)	$ 1,929,187	42.45%	8.75%	3.71%	$ 168,803.86
Total Capital	**$ 9,108,574**		**$ 7,974,524**	**100.00%**		**7.91%**	**$ 631,064**		**$ 4,545,137**	**100.00%**		**7.28%**	**$ 330,992.76**

AMENDED Lanier Exhibit 3

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

Rev (10-27-15)

	2014 Year-End	Adj Ref	Adjustment	Pro Forma Present Rates	Adjustment	Pro Forma Present Rates	Revised Revenue Adjustment	Pro Forma Proposed Rates
Operating Revenue								
Residential	$ 307,239		$ 20,165	$ 327,404	$ (20,165)	$ 307,239		
Commercial	$ 151,057		$ (2,549)	$ 148,508	$ 2,549	$ 151,057		
Irrigation	$ 98,309		$ 6,559	$ 104,868	$ (6,559)	$ 98,309		
Availability Billing	$ 489,665		$ (15,338)	$ 474,327	$ 15,338	$ 489,665		
Misc. Other Revenue	$ 30,193		$ 121	$ 30,314	$ (121)	$ 30,193		
Interdepartmental Sales	$ -		$ -	$ -	$ -	$ -		
Billing Adjustments	$ -		$ -	$ -	$ -	$ -		
Total Revenue	**$ 1,076,463**		**$ 8,958**	**$ 1,085,421**	**$ (8,958)**	**$ 1,076,463**	**$ 429,442**	**$ 1,888,905** 39.9%
Operating Expenses								
Wages	$ 156,602	(2)	$ 8,149.00	$ 164,751.00	$ -	$ 164,751		$ 164,751
Benefits	$ 8,980	(3)	$ 1,706.00	$ 10,686.00	$ -	$ 10,686		$ 10,686
Director's Fees	$ 16,500		$ -	$ 16,500.00	$ -	$ 16,500		$ 16,500
Sludge Disposal	$ -		$ -	$ -	$ -	$ -		$ -
Power	$ 116,437	(4)	$ 51,281.00	$ 166,718.00	$ (34,841)	$ 131,877		$ 131,877
Chemicals	$ 9,019	(5)	$ 490.00	$ 9,509.00	$ (490)	$ 9,019		$ 9,019
Supplies & Maintenance	$ 27,136	(6)	$ 1,406.00	$ 28,542.00	$ (1,406)	$ 27,136		$ 27,136
Outside Services - Mgmt	$ 157,650	(7)	$ 13,714.00	$ 171,364.00	$ -	$ 171,364		$ 171,364
Outside Services - Engineering	$ 10,137	(8)	$ (2,124.00)	$ 8,013.00	$ -	$ 8,013		$ 8,013
Outside Services - Accounting	$ 2,761		$ -	$ 2,761.00	$ -	$ 2,761		$ 2,761
Outside Services - Legal	$ 23,178		$ -	$ 23,178.00	$ -	$ 23,178		$ 23,178
Outside Services - Testing	$ 92,288		$ -	$ 92,288.00	$ -	$ 92,288		$ 92,288
Outside Services - Other	$ 38,621	(9)	$ -	$ 38,621.00	$ -	$ 38,621		$ 38,621
Other Operating Expenses	$ 2		$ 1.00	$ 3.00	$ -	$ 3		$ 3
Transportation	$ 2,450	(10)	$ 306.00	$ 2,756.00	$ -	$ 2,756		$ 2,756
Bad Dept	$ 105,667	(11)	$ (90,905.00)	$ 14,762.00	$ -	$ 14,762	$ 8,792	$ 23,554
Insurance	$ 30,205	(12)	$ 18,117.00	$ 48,322.00	$ -	$ 48,322		$ 48,322
Regulatory Commission Expense	$ 15,745	(13)	$ (109.00)	$ 15,636.00	$ -	$ 15,636		$ 15,636
Other A&G Expense	$ 36,436		$ -	$ 36,436.00	$ -	$ 36,436		$ 36,436
Total O&M Expense	**$ 848,814**		**$ 2,032**	**$ 850,846**	**$ (36,737)**	**$ 814,109**	**$ 8,792**	**$ 822,901**
Depreciation	$ 73,072	(14)	$ 22,194.00	$ 95,266.00	$ 135,121	$ 230,387	$ -	$ 230,387
Amortization	$ 92,421	(15)	$ 113,656.00	$ 206,077.00	$ (148,109)	$ 57,969		$ 57,969
Revenue Taxes	$ 6,048	(16)	$ 807.00	$ 6,855.00	$ (807)	$ 6,048	$ 11,756	$ 17,804
Property Taxes	$ 4,209	(17)	$ 188,063.00	$ 192,302.00	$ (115,995)	$ 76,307		$ 76,307
Payroll Taxes	$ 13,183	(18)	$ 548.00	$ 13,731.00	$ -	$ 13,731		$ 13,731
State and Federal Income Taxes	$ -		$ -	$ -	$ -	$ -	$ 48,214	$ 48,214
Subtotal Other Expenses	**$ 188,933**		**$ 325,298**	**$ 514,231**	**$ (129,790)**	**$ 384,441**		**$ 444,412**
Total Operating Expenes	**$ 1,037,747**		**$ 327,330**	**$ 1,365,077**	**$ (166,527)**	**$ 1,198,550**	**$ 8,792**	**$ 1,267,313**
Net Operating Income	**$ 38,716**		**$ (318,372)**	**$ (279,656)**		**$ (122,087)**	**$ 380,679**	**$ 238,592**
Rate Base	$ 7,028,782		$ -	$ 7,028,782	$ (3,752,877)	$ 3,276,311		$ 3,276,311
Rate of Return	0.55%					-3.73%		7.28%
Interest Expense	$ 162,189			$ 162,189		$ 162,189		$ 162,189
Operating Income after taxes	$ (123,473)			$ (441,845)		$ (284,276)		$ 76,403
Operating Income Margin	-11.5%			-40.7%		-26.4%		5.1%
Bad Debt rate						1.36%		1.36%
Revenue Tax Rate						0.5618%		0.95574%
State Income Tax Rate								5%
Federal Income Tax								34%
Desired Rate of Return								**7.28%**
Calculated Return								$ 238,592
Less: Interest Expense								$ 162,189
Equity Return Desired - After Tax								$ 76,404
Equity Return Grossed up for State and Federal Tax, bad debt expense, and revenue tax								**$ 134,818**
Other Revenue Requirements								
Interest Expense								$ 162,189
Payroll Taxes								$ 13,731
Property Taxes								$ 76,307
Revenue Taxes								$ 6,048
Amortization								$ 57,969
Depreciation								$ 230,387
Operating Expenses								$ 814,109
Operating Expenses								$ 1,360,739
						0.00856574	0.00691	$ 1,361,297
Gross Revenue Requirement (Equity Return plus Operating Expenses)								**$ 1,896,885**

1	Total	1.0000
2	Less: Uncollectible	(0.0136)
3	Less: Rev Tax	(0.0068)
4	Less:	0.0000
5	Line 1 - Line 2 - Line 3 - Line 4	0.9778
6	State Income Tax - Line 5 X 5.00%	0.0489
7	Line 5 - Line 6	0.9289
8	Federal Income Tax - Line 7 X 34%	0.3158
9	Net - Line 7 - Line 8	0.6131
10	Gross-Up Factor - 1/Line 9	1.6311

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

I-1 Power Cost

Test Year Power Cost - Combined Systems $ 115,437

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

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

I-2 Operating Expenses [Reserved]

I-3 Depreciation Expense

a. Water Depreciable Plant

1 Pro Forma Plant Adjustments

		Dep. Rate	Util Factor	Dep Expense
Meters	$ 15,187	6.670%	47.18%	$ (478)

Water Net $ (478)

2 Full depreciation from elimination of UF Factors

Non-UF Adjusted Depreciation	$ 86,860	
Less: DIUC Test Year Depreciation Expense	$ (41,938)	
Depreciation Adjustment		$ 44,922

3 Amortization of Deferred Depreciation Expense

Deferred Deprecation Expense	$141,194
Amortization Period	7
Amortized Deferred Depreciation Expense	$20,171

4 Total Depreciation Adjustment $64,615

b. Sewer Depreciable Plant

1 Pro Forma Plant Adjustments

		Dep. Rate	Util Factor	Dep Expense
WW Treat & Disp Plant	($113,609)	2.484%	35.47%	$1,001
General Plant-Structures	$225,342	2.725%	100.00%	($6,141)

Sewer Net ($5,140)

2 Full depreciation from elimination of UF Factors

	Sewer	
Non-UF Adjusted Depreciation	$103,981	
Less: DIUC Test Year Depreciation Expense	($53,328)	
Depreciation Adjustment		$50,653

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

L-4 Amortization Expense

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

L-5 Property Taxes

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

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

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

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

$ (1,175,701)

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

AMENDED Lanier Exhibit 3

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

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

AMENDED Lanier Exhibit 3

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

Rev (10-27-15)

	2014 Year-End	Adj Ref	Adjustment	Pro Forma Present Rates	LML Proposed Adj Ref	Adjustment	Pro Forma Present Rates	Revised Revenue Adjustment	Pro Forma Proposed Rates	
Operating Revenue										
Residential	$ 139,071		$ 7,519	$ 146,590	Fut Tst Yr	$ (7,519)	$ 139,071			
Commercial	$ 72,479		$ 452	$ 72,931	Fut Tst Yr	$ (452)	$ 72,479			
Irrigation	$ 98,309		$ 6,559	$ 104,868	Fut Tst Yr	$ (6,559)	$ 98,309			
Availability Billing	$ 213,004		$ (10,848)	$ 202,156	Fut Tst Yr	$ 10,848	$ 213,004			
Misc. Other Revenue	$ 20,444		$ 88	$ 20,532	Fut Tst Yr	$ (88)	$ 20,444			
Interdepartmental Sales	$ -		$ -	$ -		$ -	$ -			
Billing Adjustments	$ -			$ -		$ -	$ -			
Total Revenue	**$ 543,307**		**$ 3,770**	**$ 547,077**		**$ (3,770)**	**$ 543,307**	**$ 289,548**	**$ 832,855**	**52.9%**
Operating Expenses										
Wages	$ 78,301	(2)	$ 4,075	$ 82,376			$ 82,376		$ 82,376	
Benefits	$ 4,490	(3)	$ 853	$ 5,343			$ 5,343		$ 5,343	
Director's Fees	$ 8,250		$ -	$ 8,250			$ 8,250		$ 8,250	
Sludge Disposal	$ -		$ -	$ -			$ -		$ -	
Power	$ 57,581	(4)	$ 25,514	$ 83,095	L-1	$ (17,420)	$ 65,675		$ 65,675	
Chemicals	$ 4,510	(5)	$ 230	$ 4,740	Fut Tst Yr	$ (230)	$ 4,510		$ 4,510	
Supplies & Maintenance	$ 13,849	(6)	$ 695	$ 14,544	Fut Tst Yr	$ (695)	$ 13,849		$ 13,849	
Outside Services - Mgmt	$ 78,825	(7)	$ 6,857	$ 85,682			$ 85,682		$ 85,682	
Outside Services - Engineering	$ 425	(8)	$ 2,145	$ 2,570			$ 2,570		$ 2,570	
Outside Services - Accounting	$ 1,381		$ -	$ 1,381			$ 1,381		$ 1,381	
Outside Services - Legal	$ 11,589		$ -	$ 11,589			$ 11,589		$ 11,589	
Outside Services - Testing	$ 81,578		$ -	$ 81,578			$ 81,578		$ 81,578	
Outside Services - Other	$ 31,026	(9)	$ -	$ 31,026			$ 31,026		$ 31,026	
Other Operating Expenses	$ (3)		$ 1	$ (2)			$ (2)		$ (2)	
Transportation	$ 1,225	(10)	$ 153	$ 1,378			$ 1,378		$ 1,378	
Bad Dept	$ 52,834	(11)	$ (48,158)	$ 6,676			$ 6,676	$ 4,618.3	$ 11,294	
Insurance	$ 18,197	(12)	$ 5,964	$ 24,161			$ 24,161		$ 24,161	
Regulatory Commission Expense	$ 10,861	(13)	$ 2,645	$ 13,506			$ 13,506		$ 13,508	
Other A&G Expense	$ 14,683		$ -	$ 14,683			$ 14,683		$ 14,683	
Total O&M Expense	**$ 469,602**		**$ 2,974**	**$ 472,576**		**$ (18,346)**	**$ 454,231**		**$ 458,849**	
							-			
Depreciation	$ 36,821	(14)	$ 5,017	$ 41,838	L-3	$ 64,615	$ 106,553	$ -	$ 106,553	
Amortization	$ 46,210	(15)	$ 55,828	$ 103,038	L-4	$ (61,526)	$ 41,512		$ 41,512	
Revenue Taxes	$ 3,052	(16)	$ 403	$ 3,455	Fut Tst Yr	$ (403)	$ 3,052	$ 6,363	$ 9,415	
Property Taxes	$ 2,105	(17)	$ 89,863	$ 91,968	L-5	$ (57,998)	$ 33,971		$ 33,971	
Payroll Taxes	$ 6,591	(18)	$ 274	$ 6,865			$ 6,865		$ 6,865	
State and Federal Income Taxes	$ -	(19)	$ -	$ -			$ -	$ 36,599	$ 36,599	
Subtotal Other Expenses	**$ 94,879**		**$ 152,386**	**$ 247,264**		**$ (55,312)**	**$ 191,952**	**$ 42,962**	**$ 234,915**	
Total Operating Expenses	**$ 564,481**		**$ 155,359**	**$ 719,840**		**$ (73,657)**	**$ 646,183**	**$ 42,962**	**$ 693,764**	
Net Operating Income	$ (21,174)		$ (151,589)	$ (172,763)		$ 69,887	$ (102,876)	$ 311,854.41	$ 139,091	
Rate Base	$ 3,238,820		$ -	$ 3,238,820		$ (1,328,846)	$ 1,909,974	$ -	$ 1,909,974	
Rate of Return	-0.65%			-5.33%			-5.39%		7.28%	
Interest Expense									$ 81,094	
Operating Income after taxes									$ 57,997	
Operating Income Margin									7.0%	
Bad Debt rate									1.39%	
Revenue Tax									0.85%	
State Income Tax									5%	
Federal Income Tax									34%	
Desired Rate of Return									**7.28%**	
Calculated Return									$ 139,091	
Less. Interest Expense									$ 81,094	
Equity Return									$ 57,997	
Equity Return Grossed up for Federal Tax									$ 94,698	
Other Revenue Reqirements										
Interest Expense									$ 81,094	
Payroll Taxes									$ 6,865	
Property Taxes									$ 33,971	
Revenue Taxes									$ 3,052	
Amortization									$ 41,512	
Depreciation									$ 106,553	
Operating Expenses									$ 454,231	
Operating Expenses									$ 727,278	$ 733,561
Gross Revenue Requirement (Equity Return plus Operating Expenses)							0.00999574	0.00531	$ 736,250	$ 731,896
									$ 832,855	$ 19,882

1 Total	1.0000
2 Less: Uncollectible	(0.0135)
3 Less: Rev Tax	(0.0086)
4 Less:	0.0000
5 Line 1 - Line 2 - Line 3 - Line 4	0.9778
6 State Income Tax - Line 5 X 5.00%	0.0489
7 Line 5 - Line 6	0.9289
8 Federal Income Tax - Line 7 X 34%	0.3158
9 Net - Line 7 - Line 8	0.6131

10 Gross-Up Factor - 1/Line 9	[illegible]

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

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

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

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

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

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

AMENDED Lanier Exhibit 3

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

Rev (10-27-15)

	2014 Year-End	Adj Ref	Adjustment	Pro Forma Present Rates	LML Proposed Adj Ref	Adjustment	Pro Forma Present Rates	Revised Revenue Adjustment	Pro Forma Proposed Rates	
Operating Revenue										
Residential	$ 168,168		$ 12,646.00	$ 180,814	Fut Tst Yr	$ (12,646)	$ 168,168			
Commercial	$ 78,577		$ (3,001.00)	$ 75,576	Fut Tst Yr	$ 3,001	$ 78,577			
Irrigation	$ -		$ -	$ -		$ -	$ -			
Availability Billing	$ 276,861		$ (4,490.00)	$ 272,171	Fut Tst Yr	$ 4,490	$ 276,661			
Misc. Other Revenue	$ 9,749		$ 33.00	$ 9,782	Fut Tst Yr	$ (33)	$ 9,749			
Interdepartmental Sales	$ -		$ -	$ -		$ -	$ -			
Billing Adjustments	$ -		$ -	$ -		$ -	$ -			
Total Revenue	**$ 533,155**		**$ 5,188**	**$ 538,343**		**$ (5,188)**	**$ 533,155**	**$ 139,845**	**$ 673,000**	**26.0%**
Operating Expenses										
Wages	$ 78,301	(2)	$ 4,074	$ 82,375			$ 82,375		$ 82,375	
Benefits	$ 4,490	(3)	$ 853	$ 5,343			$ 5,343		$ 5,343	
Director's Fees	$ 8,250		$ -	$ 8,250			$ 8,250		$ 8,250	
Sludge Disposal	$ -		$ -	$ -			$ -		$ -	
Power	$ 57,856	(4)	$ 25,767	$ 83,623	L-1	$ (17,420)	$ 66,203		$ 66,203	
Chemicals	$ 4,510	(5)	$ 260	$ 4,770	Fut Tst Yr	$ (260)	$ 4,510		$ 4,510	
Supplies & Maintenance	$ 13,288	(6)	$ 711	$ 13,999	Fut Tst Yr	$ (711)	$ 13,288		$ 13,288	
Outside Services - Mgmt	$ 78,825	(7)	$ 6,857	$ 85,682			$ 85,682		$ 85,682	
Outside Services - Engineering	$ 9,712	(8)	$ (4,269)	$ 5,443			$ 5,443		$ 5,443	
Outside Services - Accounting	$ 1,381		$ -	$ 1,381			$ 1,381		$ 1,381	
Outside Services - Legal	$ 11,589		$ -	$ 11,589			$ 11,589		$ 11,589	
Outside Services - Testing	$ 10,711		$ -	$ 10,711			$ 10,711		$ 10,711	
Outside Services - Other	$ 7,596	(9)	$ -	$ 7,596			$ 7,596		$ 7,596	
Other Operating Expenses	$ (2)		$ -	$ (2)			$ (2)		$ (2)	
Transportation	$ 1,225	(10)	$ 153	$ 1,378			$ 1,378		$ 1,378	
Bad Dept	$ 52,834	(11)	$ (44,747)	$ 8,087			$ 8,087	$ 4,091.5	$ 12,179	
Insurance	$ 12,008	(12)	$ 12,153	$ 24,161			$ 24,161		$ 24,161	
Regulatory Commission Expense	$ 4,884	(13)	$ (2,754)	$ 2,130			$ 2,130		$ 2,130	
Other A&G Expense	$ 21,753		$ -	$ 21,753			$ 21,753		$ 21,753	
Total O&M Expense	**$ 379,211**		**$ (842)**	**$ 378,269**		**$ (18,381)**	**$ 359,878**	**$ 4,092**	**$ 363,969**	
Depreciation	$ 36,151	(14)	$ 17,177	$ 53,328	L-3	$ 70,506	$ 123,834	$ -	$ 123,834	
Amortization	$ 46,210	(15)	$ 56,828	$ 103,038	L-4	$ (86,583)	$ 16,455		$ 16,455	
Revenue Taxes	$ 2,996	(16)	$ 404	$ 3,400	Fut Tst Yr	$ (404)	$ 2,996	$ 5,473	$ 8,469	
Property Taxes	$ 2,105	(17)	$ 98,230	$ 100,335	L-5	$ (57,998)	$ 42,338		$ 42,338	
Payroll Taxes	$ 6,591	(18)	$ 274	$ 6,865			$ 6,865		$ 6,865	
State and Federal Income Taxes	$ 1		$ -	$ 1			$ 1	$ 11,597	$ 11,598	
Subtotal Other Expenses	**$ 94,054**		**$ 172,913**	**$ 266,967**		**$ (74,478)**	**$ 192,489**		**$ 209,858**	
Total Operating Expenses	**$ 473,265**		**$ 171,971**	**$ 645,236**		**$ (92,870)**	**$ 552,368**	**$ 4,092**	**$ 573,828**	
Net Operating Income	$ 59,890		$ (166,783)	$ (106,893)		$ 87,682	$ (19,211)	$ 206,364.82	$ 99,472	$ 99,472
Rate Base	$ 3,789,961		$ -	$ 3,789,961		$ (2,424,031)	$ 1,365,930		$ 1,365,930	
Rate of Return	1.58%			-2.82%					7.28%	
Interest Expense									$ 81,094	
Operating Income after taxes									$ 18,377	
Operating Income Margin									2.7%	
Bad Debt rate									1.38%	
Revenue Tax									0.86%	
State Income Tax									5%	
Federal Income Tax									34%	
Desired Rate of Return									7.28%	
Calculated Return									$ 99,472	
Less: Interest Expense									$ 81,094	
Equity Return									$ 18,377	
Equity Return Grossed up for Federal Tax									$ 28,974	
Other Revenue Requirements										
Interest Expense									$ 81,094	
Payroll Taxes									$ 6,865	
Property Taxes									$ 42,338	
Revenue Taxes									$ 2,996	
Amortization									$ 16,455	
Depreciation									$ 123,834	
Operating Expenses									$ 359,878	
Operating Expenses									$ 633,460	638932.78
							0.0955574	0.00691	$ 940,025	637482.36
Gross Revenue Requirement (Equity Return plus Operating Expenses)									$ 673,000	

1	Total	1.0000
2	Less: Uncollectible	(0.0138)
3	Less: Rev Tax	(0.0086)
4	Less:	0.0000
5	Line 1 - Line 2 - Line 3 - Line 4	0.9778
6	State Income Tax - Line 5 X 5.00%	0.0489
7	Line 5 - Line 6	0.9289
8	Federal Income Tax - Line 7 X 34%	0.3158
9	Net - Line 7 - Line 8	0.6131
10	Gross-Up Factor - 1/Line 9	1.6311

Daufuskie Island Utility Company
Water and Wastewater Systems

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

Daufuskie Island Utility Company
Water and Wastewater Systems
Property Tax Adjustment

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

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

STATE OF FLORIDA



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

Public Service Commission

March 2, 2015

All Florida Public Service Commission
Regulated Water & Wastewater Utilities

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

Dear Utility Owner:

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

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

a) Pass-through items pursuant to Section 367.081(4)(b), F.S.;

b) Any amortization of rate case expense; and

c) Disallowances or adjustments made in an applicant's most recent rate proceeding.

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

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

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

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

Sincerely,

Andrew L. Maurey
Director

Enclosures

FILED JAN 27, 2015
DOCUMENT NO. 00560-15
FPSC - COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.	DOCKET NO. 150005-WS ORDER NO. PSC-15-0072-PAA-WS ISSUED: January 27, 2015

The following Commissioners participated in the disposition of this matter:

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

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

BY THE COMMISSION:

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

BACKGROUND

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

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

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

2015 PRICE INDEX

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

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

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

1) Inflation should be a major factor in determining the index;

2) Nationally published indices should be vital to this determination;

3) Major categories of expenses are labor, chemicals, sludge-hauling, materials and supplies, maintenance, transportation, and treatment expense;

4) An area wage survey, Dodge Building Cost Index, Consumer Price Index, and the GDP should be considered;

5) A broad measure index should be used; and

6) The index procedure should be easy to administer.

---

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

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

Based upon these concerns, we have previously explored the following alternatives:

1) Survey of Regulated Water and Wastewater Utilities;

2) Consumer Price Index;

3) Florida Price Level Index;

4) Producer's Price Index - previously the Wholesale Price Index; and

5) GDP (replacing the GNP).

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

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

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

Table 1

Historical Analysis of the Annual Price Index for Water and Wastewater Utilities

YEAR	COMMISSION APPROVED INDEX	YEAR	COMMISSION APPROVED INDEX
2003	1.31%	2009	2.55%
2004	1.60%	2010	0.56%
2005	2.17%	2011	1.18%
2006	2.74%	2012	2.41%
2007	3.09%	2013	1.63%
2008	2.39%	2014	1.41%

The table below shows the historical participation in the Index and/or Pass-Through programs:

Table 2

Percentage of Jurisdictional Water and Wastewater Utilities Filing for Indexes and/or Pass-Throughs

YEAR	PERCENTAGE	YEAR	PERCENTAGE
2003	27%	2009	53%
2004	22%	2010	29%
2005	33%	2011	43%
2006	32%	2012	30%
2007	47%	2013	41%
2008	42%	2014	39%

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

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

NOTICE OF INDEXING REQUIREMENTS

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

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

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

CLOSURE OF DOCKET

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

Based on the foregoing, it is

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

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

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

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

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

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

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

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

Carlotta S Stauffer

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

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

JEV

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

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

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

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

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

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

EXPLANATORY NOTES APPEAR ON THE FOLLOWING PAGE

PSC/ECR 15 (04/99)

PAGE 1 NOTES

* This amount must match 2014 annual report.

** This may include government-mandated disposal fees.

*** Daily, weekly, or monthly testing required by the Department of Environmental Protection (DEP) not currently included in the utility's rates. Or additional tests required by the DEP during the 12-month period prior to filing by the utility and/or changes to the frequency of existing test(s) required by the DEP during the 12-month period prior to filing by the utility.

**** This may include an increase in purchased power, purchased water, purchased wastewater treatment, required DEP testing, and ad valorem taxes, providing that those increases have been incurred within the 12-month period prior to the submission of the pass-through application. Pass-through NPDES fees and increases in regulatory assessment fees are eligible as pass-through costs but not subject to the twelve month rule. DEP water and wastewater testing pass-throughs require invoices. See Rule 25-30.425, F.A.C. for more information.

***** If rates changed after January 1, 2014, the book revenues must be adjusted to show the changes and an explanation of the calculation should be attached to this form. See Annualized Revenue Worksheet for instructions and a sample format.

ANNUALIZED REVENUE WORKSHEET

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

( ) If no, the utility should use actual revenues. This form may be disregarded.

( ) If yes, the utility must annualize its revenues. Read the remainder of this form.

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

CALCULATION OF ANNUALIZED REVENUES*
Consumption Data for 2014

	Number of Bill/Gal. Sold	X	Current Rates	Annualized Revenues
Residential Service:				
Bills: 5/8"x3/4" meters	.....		.....	.....
1" meters	.....		.....	.....
1 ½" meters	.....		.....	.....
2" meters	.....		.....	.....
Gallons Sold	.....		.....	.....
General Service:				
Bills: 5/8"x3/4" meters	.....		.....	.....
1" meters	.....		.....	.....
1 ½" meters	.....		.....	.....
2" meters	.....		.....	.....
3" meters	.....		.....	.....
4" meters	.....		.....	.....
6" meters	.....		.....	.....
Gallons Sold	.....		.....	.....

Total Annualized Revenues for 2014 $

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

Appendix A

PRICE INDEX ADJUSTMENTS IN RATES

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

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

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

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

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

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

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

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

(1) The Commission shall, on or before March 31 of each year, establish a price increase or decrease index as required by section 367.081(4)(a), F.S. The Division of the Commission Clerk and Administrative Services shall mail each regulated water and wastewater utility a copy of the proposed agency action order establishing the index for the year and a copy of the application. Form PSC/ECR 15 (04/99), entitled "Index Application", is incorporated into this rule by reference and may be obtained from the Commission's Division of Economic Regulation. Applications for the newly established price index will be accepted from April 1 of the year the index is established through March 31 of the following year.

(a) The index shall be applied to all operation and maintenance expenses, except for amortization of rate case expense, costs subject to pass-through adjustments pursuant to section 367.081(4)(b), F.S., and adjustments or disallowances made in a utility's most recent rate proceeding.

(b) In establishing the price index, the Commission will consider cost statistics compiled by government agencies or bodies, cost data supplied by utility companies or other interested parties, and applicable wage and price guidelines.

(2) Any utility seeking to increase or decrease its rates based upon the application of the index established pursuant to subsection (1) and as authorized by section 367.081(4)(a), F.S., shall file an original and five copies of a notice of intention and the materials listed in (a) through (i) below with the Commission's Division of Economic Regulation at least 60 days prior to the effective date of the increase or decrease. The adjustment in rates shall take effect on the date specified in the notice of intention unless the Commission finds that the notice of intention or accompanying materials do not comply with the law, or the rules or orders of the Commission. The notice shall be accompanied by:

(a) Revised tariff sheets;

(b) A computation schedule showing the increase or decrease in annual revenue that will result when the index is applied;

(c) The affirmation required by section 367.081(4)(c), F.S.;

(d) A copy of the notice to customers required by subsection (6);

(e) The rate of return on equity that the utility is affirming it will not exceed pursuant to section 367.081(4)(c), F.S.;

(f) An annualized revenue figure for the test year used in the index calculation reflecting the rate change, along with an explanation of the calculation, if there has been any change in the utility's rates during or subsequent to the test year;

(g) The utility's Department of Environmental Protection Public Water System identification number and Wastewater Treatment Plant Operating Permit number.

(h) A statement that the utility does not have any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Department(s) or that the utility does have active written complaints, corrective orders, consent orders, or outstanding citations with the DEP or the County Health Department(s).

(i) A copy of any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Department(s).

(3) If the Commission, upon its own motion, implements an increase or decrease in the rates of a utility based upon the application of the index established pursuant to subsection (1) and as authorized by section 367.081(4)(a), F.S., the Commission will require a utility to file the information required in subsection (2).

(4) Upon a finding of good cause, the Commission may require that a rate increase pursuant to section 367.081(4)(a), F.S., be implemented under a bond or corporate undertaking in the same manner as interim rates. For purposes of this subsection, "good cause" shall include:
(a) Inadequate service by the utility;
(b) Inadequate record-keeping by the utility such that the Commission is unable to determine whether the utility is entitled to implement the rate increase or decrease under this rule.
(5) Prior to the time a customer begins consumption at the rates established by application of the index, the utility shall notify each customer of the increase or decrease authorized and explain the reasons therefore.
(6) No utility shall file a notice of intention pursuant to this rule unless the utility has on file with the Commission an annual report as required by Rule 25-30.110(3), F.A.C., for the test year specified in the order establishing the index for the year.
(7) No utility shall implement a rate increase pursuant to this rule within one year of the official date that it filed a rate proceeding, unless the rate proceeding has been completed or terminated.
Specific Authority: 350.127(2), 367.081(4)(a), 367.121(1)(c), 367.121(1)(f), F.S. Law Implemented: 367.081(4), 367.121(1)(c), 367.121(1)(g), F.S. History: New 04/05/81, Amended 09/16/82, Formerly 25-10.185, Amended 11/10/86, 06/05/91, 04/18/99, 12/12/03.

AFFIRMATION

I, _____, hereby affirm that the figures and calculations upon which the change in rates is based are accurate and that the change will not cause _____ to exceed the range of its last
(Utility Name)
authorized rate of return on equity, which is _____.

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

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

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

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

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

My Commission expires:
(SEAL)

_____
Notary Public
State of Florida

STATEMENT OF QUALITY OF SERVICE

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

_____.
(Utility Name)

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

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

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

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

NOTICE TO CUSTOMERS

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

On _____, _____ ... _____.

(date) (name of company)

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

PASS-THROUGH RATE ADJUSTMENTS IN RATES

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

Section 367.081(4)(b), Florida Statutes

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

25-30.425 Pass Through Rate Adjustment.

The verified notice to the Commission of an adjustment of rates under the provisions of Section 367.081(4)(b), F.S., shall be made in the following manner:
(1) Prior to an adjustment in rates because of an increase or decrease in purchased utility service, the utility shall file:
(a) A certified copy of the order, ordinance or other evidence whereby the rates for utility service are increased or decreased by the governmental agency or by a water or wastewater utility regulated by the Commission, along with evidence of the utility service rates of that governmental agency or water or wastewater utility in effect on January 1 of each of the three preceding years.
(b) A statement setting out by month the charges for utility services purchased from the governmental agency or regulated utility for the most recent 12-month period.
(c) 1. A statement setting out by month the gallons of water or wastewater treatment purchased from the governmental agency or regulated utility for the most recent 12-month period. If wastewater treatment service is not based on a metered flow, the number of units by which the service is measured shall be stated.
2. A statement setting out by month gallons of water and units of wastewater service sold by the utility for the most recent 12-month period.
(d) A statement setting out by month the gallons of water or wastewater treatment purchased from any other government entity or utility company.
(e) A statement setting out by month the gallons of water pumped or wastewater treated by the utility filing the verified notice.
(f) If the total water available for sale is in excess of 110% of the water sold, a statement explaining the unaccounted for water.
(2) Prior to an adjustment in rates because of an increase or decrease in the charge for electric power the utility shall file with the Commission:
(a) A certified copy of the order, ordinance or other evidence which establishes that the rates for electric power have been increased or decreased by the supplier, along with evidence of the electric power rates of the supplier in effect on January 1 of each of the three preceding years.
(b) A schedule showing, by month, the charges for electric power and consumption for the most recent 12 month period, the charges that would have resulted had the new electric rates been applied, and the difference between the charges under the old rates and the charges under the new rates.
(c) A statement outlining the measures taken by the utility to conserve electricity.
(3) Prior to an adjustment in rates because of an increase or decrease in ad valorem taxes the utility shall file with the Commission:
(a) A copy of the ad valorem tax bills which increased or decreased and copies of the previous three years' bills; if copies have been submitted previously, a schedule showing the tax total only is acceptable; and
(b) A calculation of the amount of the ad valorem taxes related to that portion of the water or wastewater plant not used and useful in providing utility service.
(4) Prior to an adjustment in rates because of an increase or decrease in the costs of water quality or wastewater quality testing required by the Department of Environmental Protection (DEP), or because of an increase or decrease in the fees charged by DEP in connection with the National Pollutant Discharge Elimination System Program, the utility shall file with the Commission:
(a) A copy of the invoice for testing;
(b) Calculation of the amortized amount.
(5) In addition to subsections (1), (2), (3), and (4) above, the utility shall also file:
(a) A schedule of proposed rates which will pass the increased or decreased costs on to the customers in a fair and nondiscriminatory manner and on the basis of current customers, and a calculation showing how the rates were determined;

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

WAIVER

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

Signature: _____

Title: _____

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

AFFIRMATION

I, _____, hereby affirm that the figures and calculations upon which the change in rates is based are accurate and that the change will not cause _____ to exceed the range of its last
(Utility Name)
authorized rate of return on equity, which is _____.

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

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

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

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

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

My Commission expires:
(SEAL)

_____
Notary Public
State of Florida

NOTICE TO CUSTOMERS

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

On _____, _____.
(date) (name of company)

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

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

Exhibit 5

FILED JUL 02, 2015
DOCUMENT NO. 04079-15
FPSC - COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.	DOCKET NO. 150006-WS ORDER NO. PSC-15-0259-PAA-WS ISSUED: July 2, 2015

The following Commissioners participated in the disposition of this matter:

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

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

BY THE COMMISSION.

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

Background

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

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

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

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

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

In 2011, we approved the leverage formula currently in effect (2011 leverage formula) by Order No. PSC-11-0287-PAA-WS.[4] In 2012, 2013, and 2014, we continued to use the 2011 leverage formula for establishing the authorized ROE for WAW utilities by Order Nos. PSC-12-0339-PAA-WS,[5] PSC-13-0241-PAA-WS,[6] and PSC-14-0272-PAA-WS.[7] In 2012, 2103, and 2014, we found that the range of returns on equity derived from the leverage formulas were not optimal for determining the appropriate authorized ROE for WAW utilities due to Federal Reserve monetary policies that resulted in historically low interest rates. Consequently, we decided that the range of returns on equity of 8.74 percent to 11 16 percent from the 2011 leverage formula was more reasonable.

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

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

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

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

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

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

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

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

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

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

Decision

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

Return on Common Equity = 7.13% + (1.610 ÷ Equity Ratio)

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

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

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

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

In 2014, by Order No. PSC-14-0272-PAA-WS, we continued to use the leverage formula initially approved in 2011. We kept the 2011 leverage formula in place because Federal Reserve monetary policies lowered interest rates to historically low levels, thereby increasing the slope of the leverage formula graph relative to previous years. The Federal Reserve's monetary policies and resulting capital market conditions that existed in 2012 through 2014 are expected to continue in 2015.[9]

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

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

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

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

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

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

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

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

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

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

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

Chart 1

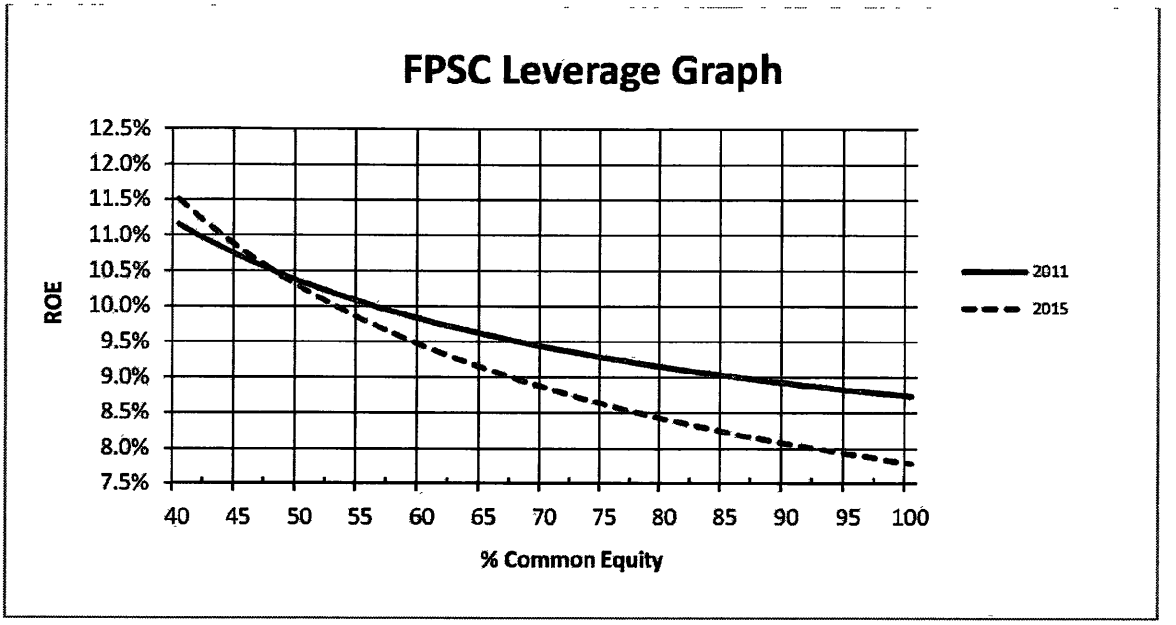
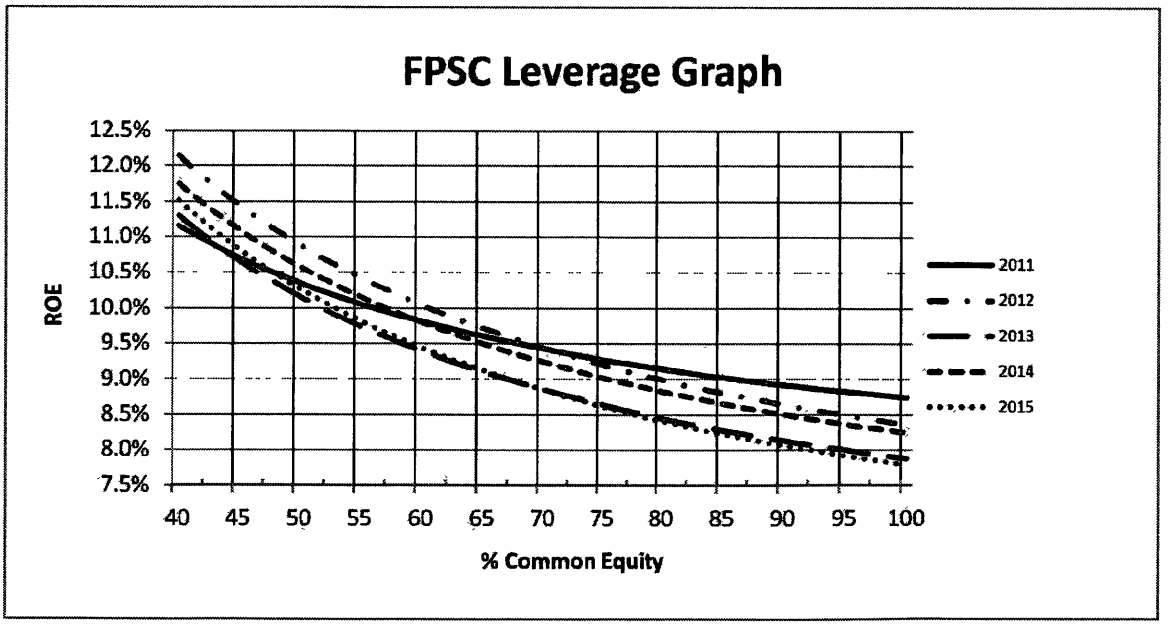


Chart 2 illustrates the change in the slope of the leverage formula for the five years 2011 through 2015.

Chart 2



The existing leverage formula range of 8.74 percent to 11 16 percent initially approved in 2011 is still reasonable for WAW utilities. Therefore, the current leverage formula approved in Docket No. 110006-WS shall continue to be used for determining the return on equity for WAW utilities in 2015. Retaining the use of the current leverage formula until the leverage formula is addressed again in 2016 is a reasonable alternative to updating the formula using current 2015 financial information.

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

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

Based on the foregoing, it is

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

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

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

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

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

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

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

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

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

KRM

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

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

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

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

Attachment 1

SUMMARY OF LEVERAGE FORMULA FACTORS

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

Authorized Leverage Formula

Return on Common Equity = 7.13% + (1.610 + Equity Ratio)

Range of Returns on Equity (100% to 40%) = 8.74% to 11.16%

Exhibit 5

WARNING:
Changes in appearance and in display of formulas, tables, and text may have occurred during translation of this document into an electronic medium. This HTML document may not be an accurate version of the official document and should not be relied on.
For an official paper copy, contact the Florida Public Service Commission at contact@psc.state.fl.us or call (850) 413-6770. There may be a charge for the copy.

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

Case Background

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

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

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

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

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

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

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

Discussion of Issues

***Issue 1**:*

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

***Recommendation**:*

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

Return on Common Equity = 7.13% + (1.610 ÷ Equity Ratio)

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

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

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

***Staff Analysis**:*

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

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

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

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

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

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

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

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

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

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

Chart 1-1

Exhibit 5

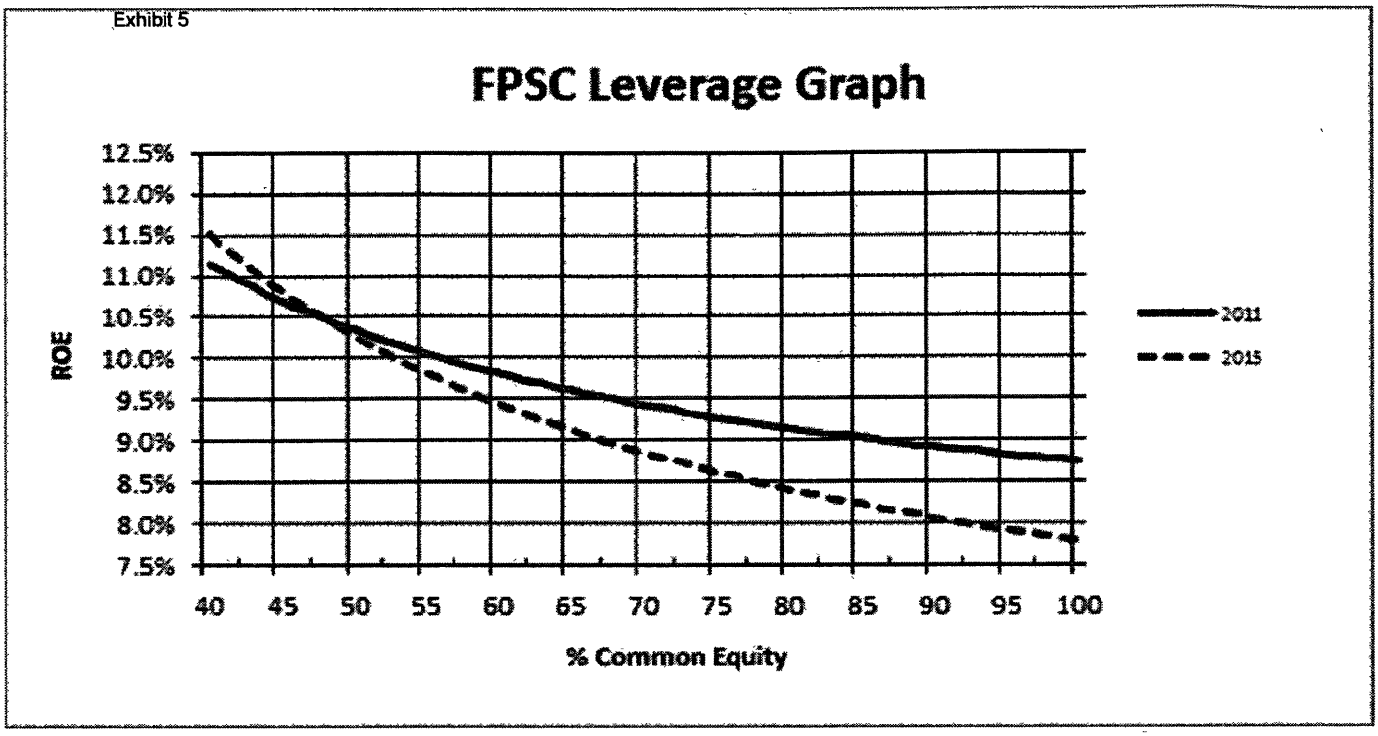
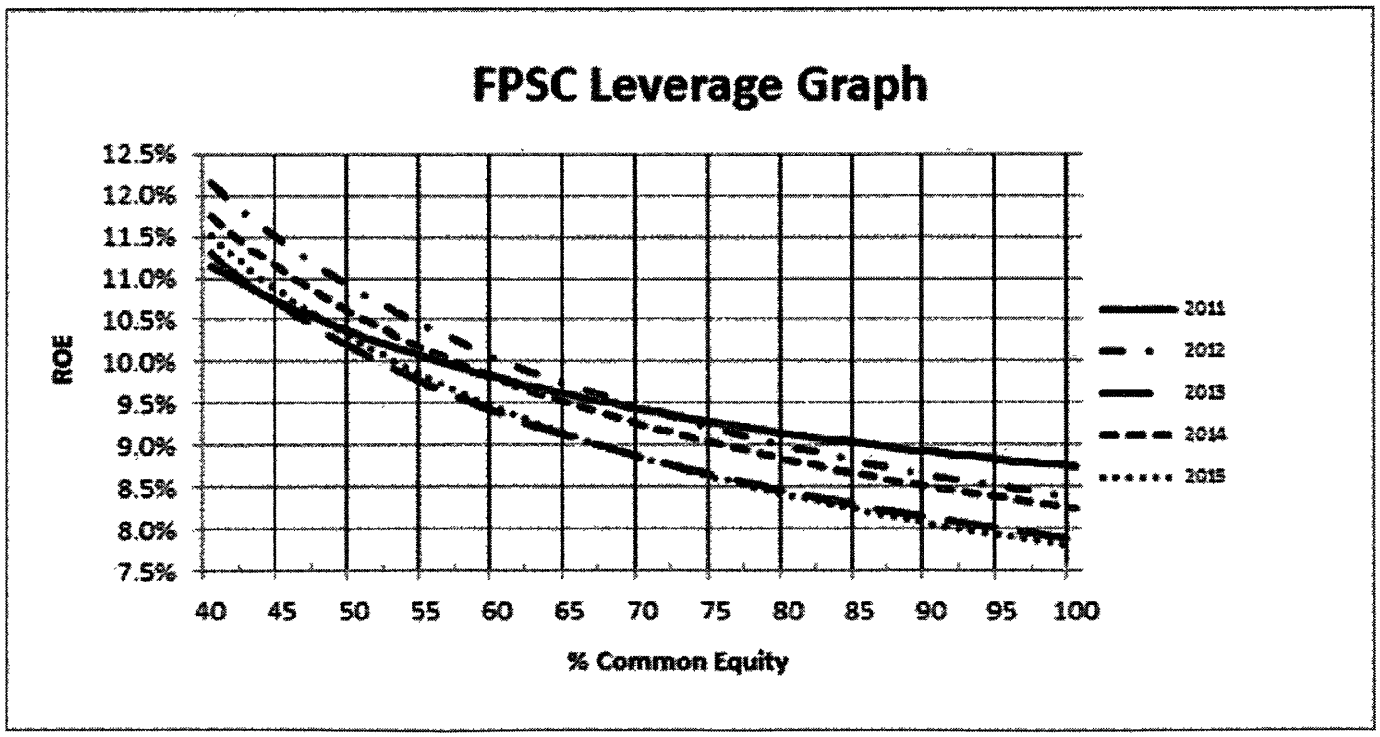


Chart 1-2 illustrates the change in the slope of the leverage formula for the five years 2011 through 2015.

Chart 1-2



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

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

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

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

Return on Common Equity – 5 31% + (2.480 ÷ Equity Ratio)

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

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

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

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

1) *Business risk is similar for all WAW utilities;*

2) *The cost of equity is an exponential function of the equity ratio but a linear function of the debt to equity ratio over the relevant range;*

3) *The marginal weighted average cost of investor capital is constant over the equity ratio range of 40 percent to 100 percent; and*

4) *The debt cost rate at an assumed Moody's Baa3 bond rating, plus a 50 basis point private placement premium and a 50 basis point small utility risk premium, represents the average marginal cost of debt to a Florida WAW utility over an equity ratio range of 40 percent to 100 percent.*

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

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

- *A Discounted Cash Flow (DCF) model applied to an index of natural gas utilities that have publicly traded stock and are followed by the Value Line Investment Survey (Value Line). This DCF model is an annual model and uses prospective growth rates.*

- *The index consists of eight natural gas companies that derive at least 50 percent of their total revenue from gas distribution service. These companies have a median Standard and Poor's bond rating of A-.*

- *A Capital Asset Pricing Model (CAPM) using a market return for companies followed by Value Line, the average yield on the Treasury's long-term bonds projected by the Blue Chip Financial Forecasts, and the average beta for the index of natural gas utilities. The market return for the 2015 leverage formula was calculated using a quarterly DCF model with stock prices as of May 15, 2015.*

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

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

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

- *A private placement premium of 50 basis points is added to reflect the difference in yields on publicly traded debt and privately placed debt, which is illiquid. Investors require a premium for the lack of liquidity of privately placed debt.*

- *A small utility risk premium of 50 basis points is added because the average Florida WAW utility is too small to qualify for privately placed debt.*

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

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

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

***Issue 2**:*

Should this docket be closed?

***Recommendation**:*

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

***Staff Analysis**:*

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

Attachment 1
Page 1 of 6

SUMMARY OF LEVERAGE FORMULA RESULTS

Updated Results (2015)	Currently in Effect (2011)

(A) DCF ROE for Natural Gas Utility Index	8.40%	8.25%
(B) CAPM ROE for Natural Gas Utility Index	10.12%	9.40%
AVERAGE	9.29%	8.83%
Bond Yield Differential	0.44%	0.57%
Private Placement Premium	0.50%	0.50%
Small-Utility Risk Premium	0.50%	0.50%
Adjustment to Reflect ROE at 40% Equity Ratio	0.81%	0.76%
Cost of Equity for Average Florida WAW Utility with a capital structure containing a 40% Equity Ratio	11.51%	11.16%

2011 Leverage Formula (Currently in Effect)

Return on Common Equity = 7.13% + (1.610 ÷ Equity Ratio)

Range of Returns on Equity (100% to 40%) = 8.74% to 11.16%

2015 Leverage Formula (Using Current Data)

Return on Common Equity = 5.31% + (2.480 ÷ Equity Ratio)

Range of Returns on Equity (100% to 40%) = 7.79% to 11.51%

MARGINAL COST OF INVESTOR CAPITAL
(2015 Leverage Formula Result)

Average Marginal Cost Rate of the Natural Gas Utility Index

Capital Component	*Ratio*	*Marginal Cost Rate*	*Weighted Marginal Cost Rate*
Common Equity	*45.95%*	*10.70%*	*4.92%*
Total Debt	*54.05%*	*5.31% **	*2.87%*
	100 0%		*7.79%*

Average Marginal Cost Rate at a 40% Equity Ratio

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

Capital Component	*Ratio*	*Marginal Cost Rate*	*Weighted Marginal Cost Rate*
Common Equity	*40.00%*	*11.51%*	*4.60%*
Total Debt	*60 00%*	*5.31%**	*3 18%*
	100 00%		*7.79%*

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

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

Exhibit 5

Sources: Moody's Credit Perspectives and Value Line Selection and Opinion

ANNUAL DISCOUNTED CASH FLOW MODEL

NATURAL GAS UTILITY INDEX

COMPANY	DIV0	DIV1	DIV2	DIV3	DIV4	EPS4	ROE4	GR1-4	GR4+	STOCK PRICE APRIL 1, 2015 - APRIL 30, 2015 HI-PR	LO-PR	AVG-PR
AGL RESOURCES INC.	2.04	2.10	2.20	2.30	2.40	4.65	11.50	1.0455	1.0556	51.88	49.14	50.510
ATMOS ENERGY CORPORATION	1.56	1.64	1.72	1.81	1.90	3.80	10.50	1.0503	1 0525	56.67	53 67	55.170
LACLEDE GROUP, INC.	1.84	1.92	2.01	2 10	2.20	4.20	8 50	1.0464	1 0405	52.95	50 82	51.885
NORTHWEST NATURAL GAS CO.	1.87	1.91	1.97	2.03	2 10	3.30	9 00	1.0321	1 0327	49 77	46 54	48.155
PIEDMONT NATURAL GAS CO., INC	1.31	1.35	1.39	1.43	1.47	2.10	10 50	1.0288	1 0315	38.43	36.17	37.300
SOUTH JERSEY INDUSTRIES, INC.	2.05	2.20	2.34	2.49	2.65	5.00	14 50	1.0640	1 0682	55.32	52 40	53.860
SOUTHWEST GAS CORPORATION	1 62	1.74	1.85	1.97	2.10	4.25	12 00	1.0647	1 0607	59.75	54 46	57 105
WGL HOLDINGS, INC.	1 85	1.87	1 87	1.87	1.87	3.20	11.00	1.0000	1.0457	57.94	54 79	56.365
AVERAGE	1 7675	1 8413	1.9188	2 0004	2 0863	3 8125	10 9375	1.0415	1 0484			51.294
					2 1873		Stock price including a four percent flotation cost:					**49.242**

Annual DCF Result: **8.40%**

Cash Flows	1.6476	1.5835	1.5226	1.4645	1.4109	41 6130
Present Value of Cash Flows	49 2420					

NOTE: The cash flows for this multi-stage DCF Model are derived using the average forecasted dividends and the near term and long term growth rates. The discount rate equates the cash flows with the average stock price less flotation cost.
$49.242 = Average stock price from April 1, 2015, through April 30, 2015, with a 4 percent flotation cost.
8.40% = Cost of equity required to match the current stock price with the expected cash flows.
Sources:
1. *Stock Prices - Yahoo Finance.*
2. *Dividends (DIV), Dividends Per Share (DPS), Earnings Per Share (EPS), ROE - Value Line Ratings and Reports issued March 7, 2015.*

CAPITAL ASSET PRICING MODEL

CAPM Analysis Formula

K = RF + Beta(MR - RF)

K = Investor's required rate of return

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

Beta = Measure of industry-specific risk (Average for natural gas utilities followed by Value Line)

MR = Market return (Value Line Investment Analyzer Web Browser, as of May 15, 2015)

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

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

BOND YIELD DIFFERENTIALS

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

UTILITY INDEX STATISTICS AND FACTS

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

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

Exhibit 5

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

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

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

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

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

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

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

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

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

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

HEARING EXHIBIT NO. 15

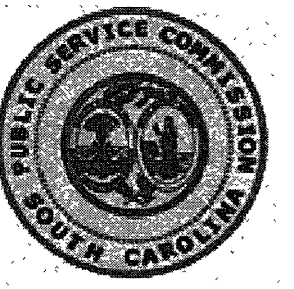
{Merits Hearing of October 28, 2015}

In the matter of 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

I hereby certify this document to be a true copy of the original.

Jocelyn Boyd
Chief Clerk

Date 10/20/17



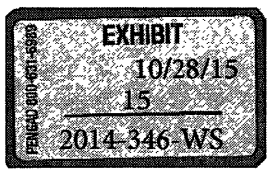
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FORM 10-K405
(Annual Report (Regulation S-K, item 405))

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

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



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

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

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

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

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

INTERNATIONAL PAPER COMPANY

(Exact name of Company as specified in its charter)

NEW YORK (State or other jurisdiction of incorporation or organization)	(I.R.S. Employee Identification No.)

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

10577
(Zip Code)

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

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

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

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

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

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

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

MARCH 17, 2000

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

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

1999 ANNUAL REPORT TO SHAREHOLDERS	PARTS I, II, AND IV
(INSIDE FRONT COVER AND PAGES 6 THROUGH 61)	
PROXY STATEMENT DATED MARCH 24, 2000	PART III

PART I

ITEM 1. BUSINESS

GENERAL

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

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

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

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

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

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

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

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

FINANCIAL INFORMATION CONCERNING INDUSTRY SEGMENTS

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

FINANCIAL INFORMATION ABOUT INTERNATIONAL AND DOMESTIC OPERATIONS

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

COMPETITION AND COSTS

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

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

MARKETING AND DISTRIBUTION

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

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

DESCRIPTION OF PRINCIPAL PRODUCTS

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

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

PRODUCTION BY PRODUCT
(UNAUDITED)

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

(A) This excludes market pulp purchases.

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

(C) Panels include plywood and oriented strand board.

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

RESEARCH AND DEVELOPMENT

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

ENVIRONMENTAL PROTECTION

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

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

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

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

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

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

EMPLOYEES

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

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

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

RAW MATERIALS

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

FORWARD-LOOKING STATEMENTS

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

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

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

ITEM 2. PROPERTIES

FORESTLANDS

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

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

MILLS AND PLANTS

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

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

CAPITAL INVESTMENTS AND DISPOSITIONS

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

ITEM 3. LEGAL PROCEEDINGS

MASONITE LITIGATION

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

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

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

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

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

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

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

LINERBOARD LITIGATION

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

COPEC

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

OTHER LITIGATION

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

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

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

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

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

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

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

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

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

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

SPECIAL ITEM. EXECUTIVE OFFICERS OF THE COMPANY

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

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

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

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

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

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

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

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

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

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

PART II

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

(A) DOCUMENTS FILED AS PART OF THIS REPORT:

1. CONSOLIDATED FINANCIAL STATEMENTS

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

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

2. FINANCIAL STATEMENT SCHEDULE

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

ADDITIONAL FINANCIAL DATA
1999, 1998 AND 1997

Report of Independent Public Accountants on Financial Statement Schedule..... 13

Consolidated Schedule:
II--Valuation and Qualifying Accounts..... 14

3. EXHIBITS

(2) Agreement and Plan of Merger, dated November 24, 1998, between the Company and Union Camp Corporation (incorporated herein by reference to Exhibit 2.1 to the Company's Report on Form 8-K, dated November 25, 1998).

(3.1) Form of Restated Certificate of Incorporation of International Paper (incorporated by reference to International Paper's Report on Form 8-K dated November 20, 1990).

(3.2) Certificate of Amendment to the Certificate of Incorporation of International Paper Company (incorporated herein by reference to Exhibit (3)(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).

(3.3) By-laws of the Company as amended March 9, 1999 (incorporated by reference to Exhibit (3)(ii) to the Company's Report on Form 8-K, dated March 9, 1999).

(4) Specimen Common Stock Certificate (incorporated by reference to Exhibit 2-A to the Company's registration statement on Form S-7, No. 2-56588, dated June 10, 1976).

(10.1) Long Term Incentive Compensation Plan (incorporated by reference to Exhibit 99 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).

(10.2) Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 99 to the Company's Quarterly Report on Form 10-Q dated August 16, 1999 for the quarter ended June 30, 1999).

(10.3) Transitional Performance Unit Plan (incorporated by reference to Exhibit 99 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).

(10.4) Chief Executive Officer Performance Incentive Plan (incorporated by reference to Exhibit 99 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).

(10.5) Union Camp Corporation 1989 Stock Option and Stock Award Plan (incorporated by reference to Exhibit 99.1 to Registration No. 333-75235, dated May 3, 1999).

(10.6) International Paper Company Stock Option Plan (incorporated by reference to Registration No. 333-85051, dated August 12, 1999).

3. EXHIBITS

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

(B) REPORTS ON FORM 8-K

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To International Paper Company:

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

Arthur Andersen LLP

New York, N.Y.
February 8, 2000

SCHEDULE II

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

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

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

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

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

SIGNATURES

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

INTERNATIONAL PAPER COMPANY

By: /s/ JAMES W. GUEDRY

James W. Guedry
VICE PRESIDENT AND SECRETARY

March 27, 2000

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

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

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

*By: /s/ JAMES W. GUEDRY

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

APPENDIX I

1999 LISTING OF FACILITIES

PRINTING AND

COMMUNICATIONS PAPERS

BUSINESS PAPERS, COATED PAPERS, FINE PAPERS AND PULP

DOMESTIC:

Mobile, Alabama

Selma, Alabama

(Riverdale Mill)

Camden, Arkansas

Pine Bluff, Arkansas

Mira Loma, California

(C & D Center)

Augusta, Georgia

Bastrop, Louisiana

(Louisiana Mill)

Springhill, Louisiana

(C & D Center)

Jay, Maine

(Androscoggin Mill)

Millers Falls, Massachusetts

West Springfield,

Massachusetts

Westfield, Massachusetts

(C & D center)

Sturgis, Michigan

(C & D Center)

Moss Point, Mississippi

Corinth, New York

(Hudson River Mill)

Ticonderoga, New York

Riegelwood, North Carolina

Wilmington, North Carolina

(Reclaim Center)

Hamilton, Ohio

Saybrook, Ohio

(C & D Center)

Erie, Pennsylvania

Hazelton, Pennsylvania

(C & D Center)

Lock Haven, Pennsylvania

Eastover, South Carolina

Georgetown, South Carolina

Sumter, South Carolina

(C & D Center)

Texarkana, Texas

Franklin, Virginia

INTERNATIONAL:

Docelles, France

(Lana Mill)

Grenoble, France

(Pont De Claix Mill)

Maresquel, France

Saillat, France

Saint Die, France

(Anould Mill)

Strasbourg, France

(La Robertsau Mill)

Bergisch Gladbach, Germany

(Gorhrsmuhle Mill)

Duren, Germany

(Reflex Mill)

Klucze, Poland

Kwidzyn, Poland

Svetogorsk, Russia

Inverurie, Scotland

CONSUMER AND INDUSTRIAL PACKAGING

INDUSTRIAL PAPERS

DOMESTIC:

Lancaster, Ohio

Knoxville, Tennessee

De Pere, Wisconsin

Kaukauna, Wisconsin

Menasha, Wisconsin

INTERNATIONAL:

Limburg, Netherlands

INDUSTRIAL PACKAGING

CONTAINERBOARD

DOMESTIC:

Prattville, Alabama

Camden, Arkansas

Savannah, Georgia

Terre Haute, Indiana

Mansfield, Louisiana

Pineville, Louisiana

Vicksburg, Mississippi

Oswego, New York

Gardiner, Oregon

Georgetown, South Carolina

INTERNATIONAL:

Arles, France

CORRUGATED CONTAINER

DOMESTIC:

Decatur, Alabama

Mobile, Alabama

Montgomery, Alabama

Conway, Arkansas

Fordyce, Arkansas

Jonesboro, Arkansas

Russellville, Arkansas

Carson, California

Hanford, California

Modesto, California

Stockton, California

Vernon, California

Putnam, Connecticut

Auburndale, Flordia

Forest Park, Georgia

Savannah, Georgia

Statesboro, Georgia

Chicago, Illinois

Des Plaines, Illinois

North Lake, Illinois

Fort Wayne, Indiana

Terre Haute, Indiana

Lexington, Kentucky

LaFayette, Louisiana

Shreveport, Louisiana

Springhill, Louisiana

Auburn, Maine

Detroit, Michigan

Kalamazoo, Michigan

Minneapolis, Minnesota

Houston, Mississippi

Jackson, Mississippi

Tupelo, Mississippi

Kansas City, Missouri

West Deptford, New Jersey

Geneva, New York

Charlotte, North Carolina

King's Mountain,

North Carolina

Statesville, North Carolina

Cincinnati, Ohio

Cleveland,Ohio

Wooster, Ohio

Eighty Four, Pennsylvania

Mount Carmel, Pennsylvania

Lancaster, Pennsylvania

Georgetown, South Carolina

Spartanburg, South Carolina

Columbia, Tennessee

Nashville, Tennessee

Morristown, Tennessee

Dallas, Texas

Edinburg, Texas

El Paso, Texas

Ft. Worth, Texas

San Antonio, Texas

Richmond, Virginia

Cedarburg, Wisconsin

Fond du Lac, Wisconsin

EMERGING MARKETS

Ranagua, Chile

Bayamon, Puerto Rico

INTERNATIONAL:

Las Palmas, Canary Islands

(2 locations)

Tenerife, Canary Islands

Arles, France

Chalon-sur-Saone, France

Chantilly, France

Creil, France

LePuy, France

Mortagne, France

Guadeloupe,

French West Indies

Asbourne, Ireland

Bellusco, Italy

Catania, Italy

Pedemonte, Italy

Pomezia, Italy

San Felice, Italy

Alcala, Spain

Almeria, Spain

Barcelona, Spain

Bilbao, Spain

Valencia, Spain

Valladolid, Spain

Thrapston, United Kingdom

Winsford, United Kingdom

KRAFT PAPER

Mobile, Alabama

Camden, Arkansas

Savannah, Georgia

Moss Point, Mississippi

CONSUMER PACKAGING

BLEACHED BOARD

Pine Bluff, Arkansas

Augusta, Georgia

Moss Point, Mississippi

Georgetown, South Carolina

Riegelwood, North Carolina

Texarkana, Texas

BEVERAGE PACKAGING

Turlock, California

Plant City, Florida

Cedar Rapids, Iowa

Kansas City, Kansas

Framingham, Massachusetts

Kalamazoo, Michigan

Raleigh, North Carolina

Philadelphia, Pennsylvania

Prosperity, South Carolina

INTERNATIONAL:

Edmonton, Alberta, Canada

London, Ontario, Canada

Longueuil, Quebec, Canada

St. Priest, France

Perugia, Italy

St. Catherine, Jamaica

Taipei, Taiwan

RETAIL PACKAGING

Mobile, Alabama

La Grange, Georgia

Thomaston, Georgia

Clinton, Iowa

Clifton, New Jersey

Englewood, New Jersey

Moonachie, New Jersey

Hendersonville, North Carolina

Wilmington, North Carolina

Cincinnati, Ohio

Richmond, Virginia

FOODSERVICE

Visalia, Calfornia

Shelbyville, Illinois

Hopkinsville, Kentucky

Kenton, Ohio

Jackson, Tennessee

FLEXIBLE PACKAGING

DOMESTIC:

Monticello, Arkansas

Hanford, California

Griffin, Georgia

Tifton, Georgia

Seymour, Indiana

Sibley, Iowa

St. Louis, Missouri

Hazleton, Pennsylvania

Spartanburg, South Carolina

Tomah, Wisconsin

INTERNATIONAL:

Bolsaflex

Buenos Aires, Argentina

DISTRIBUTION

WHOLESALE AND RETAIL

DISTRIBUTION

(305 distribution branches)

XPEDX

DOMESTIC:

Stores Group

Chicago, Illinois

174 locations nationwide

Southeast Region

Greensboro, North Carolina

27 branches in the

Middle Atlantic States

and Southeast

West Region

Denver, Colorado

22 branches in the

West and Midwest

Specialty Business Group

Erlanger, Kentucky

3 branches nationwide

Central Region

Erlanger, Kentucky

12 branches in Midwest

Northeast Region

East Grandy, Connecticut

21 branches in New England

and Middle Atlantic States

Midwest Region

Olathe, Kansas

25 branches in the West,

Midwest and South

INTERNATIONAL:

Aussedat Rey France

Distribution S.A.,
Pantin, France

3 locations

Chihuahua, Mexico

6 locations

Recom Papers

Nijmegen, Netherlands

Scaldia Papier BV,

Nijmegen, Netherlands

Aalbers Paper Products

Veenendaal, Netherlands

Impap

Warsaw, Poland

9 locations

CHEMICALS AND PETROLEUM

CHEMICALS

DOMESTIC:

Panama City, Flordia

Pensacola, Flordia

Port St. Joe, Flordia

Oakdale, Louisiana

Savannah, Georgia

Valdosta, Georgia

Picayune, Mississippi

Dover, Ohio

INTERNATIONAL:

Oulu, Finland

Valkeakoski, Finland

Niort, France

Sandarne, Sweden

Greaker, Norway

Chester-Le-Street,
United Kingdom

Bedlington, United Kingdom

BUSH BOAKE ALLEN INC.

DOMESTIC:

Jacksonville, Florida

Chicago, Illinois

Norwood, New Jersey

Carrollton, Texas

INTERNATIONAL:

Buenos Aires, Argentina

Melbourne, Australia

Sydney, Australia

Montreal, Canada

Madras, India

Atlacomulco, Mexico

Auckland, New Zealand

Manila, Philippines

Jurong, Singapore

Johannesburg, South Africa

Knislinge, Sweden

Istanbul, Turkey

London, United Kingdom

Long Melford, United Kingdom

Widnes, United Kingdom

Witham, United Kingdom

CHEMICAL CELLULOSE PULP

Natchez, Mississippi

PETROLEUM

Alvin, Texas

Midland, Texas

FORESTLANDS

FOREST RESOURCES

Approximately 7.1 million

acres in the South

and Northeast

REALTY PROJECTS

Haig Point Plantation

Daufuskie Island,
South Carolina

BUILDING MATERIALS

WOOD PRODUCTS

Chapman, Alabama

Maplesville, Alabama

Opelika, Alabama

Thorsby, Alabama

Tuscaloosa, Alabama

Gurdon, Arkansas

Leola, Arkansas

Whelen Springs, Arkansas

Augusta, Georgia

Cordele, Georgia

Meldrim, Georgia

Folkston, Georgia

Washington, Georgia

Springhill, Louisiana

Morton, Mississippi

Wiggins, Mississippi

Joplin, Missouri

Madison, New Hampshire

Armour, North Carolina

Seaboard, North Carolina

Johnston, South Carolina

Newberry, South Carolina

Sampit, South Carolina

Henderson, Texas

Jefferson, Texas

Nacogdoches, Texas

New Boston, Texas

Slaughter

Dallas, Texas

2 branches in the

Southwest and

Northwest

Franklin, Virginia

DECORATIVE PRODUCTS

Particleboard

Franklin, Virginia

Stuart, Virginia

Waverly, Virginia

SPECIALTY PANELS

DOMESTIC:

Chino, California

Glasgow, Kentucky

Odénton, Maryland

Statesville, North Carolina

Tarboro, North Carolina

Hampton, South Carolina

Memphis, Tennessee

Oshkosh, Wisconsin

INTERNATIONAL:

Bergerac, France

(Couze mill)

Ussel, France

Barcelona, Spain

(Durion mill)

MASONITE

DOMESTIC:

Ukiah, Calfornia

Lisbon Falls, Maine

Laurel, Mississippi

Pilot Rock, Oregon

Towanda, Pennsylvania

Danville, Virginia

INTERNATIONAL:

Carrick-on-Shannon, Ireland

Masonite Africa Limited

Estcourt Plant

Kunpo-shi, Korea

CARTER HOLT HARVEY

FORESTLANDS

Approximately 785,000

acres in New Zealand

WOOD PRODUCTS

Sawmills and Processing Plants

Box Hill, Victoria, Australia

Mt. Burr, South Australia

Mt. Gambier, South Australia

Myrtleford, New South

Wales, Australia

Kopu, New Zealand

Nelson, New Zealand

Putaruru, New Zealand

Rotorua, New Zealand

Taupo, New Zealand

Tokoroa, New Zealand

Timber Merchants

Box Hill, Victoria, Australia

Hamilton Central,

Queensland, Australia

Sydney, New South Wales,

Australia

Plywood Mills

Myrtleford, New South

Wales, Australia

Nangwarry, South Australia

Tokoroa, New Zealand

Panel Production Plants

Auckland, New Zealand

Christchurch, New Zealand

Rangiora, New Zealand

Thames, New Zealand

Building Supplies Retail Outlets

Retail Outlets, 37 branches

in New Zealand

PULP AND PAPER

Kraft Paper, Pulp, Coated and

Uncoated Papers and Bristols

Kinleith, New Zealand

Mataura, New Zealand

Cartonboard

Whakatane, New Zealand

Containerboard

Kinleith, New Zealand

Penrose, New Zealand

Fiber Recycling Operations

Auckland, New Zealand

TISSUE

Pulp and Tissue

Box Hill, Victoria, Australia

Kawerau, New Zealand

Conversion Sites

Box Hill, Victoria, Australia

Keon Park, Victoria, Australia

Clayton, Victoria, Australia

Suva, Fiji

Auckland, New Zealand

(2 plants)

Te Rapa, New Zealand

PACKAGING

Case Manufacturing

Northern (Auckland,

New Zealand)

Central (Levin,
New Zealand)

Southern (Christchurch,

New Zealand)

Solid Fibre (Hamilton,

New Zealand)

Suva, Fiji

Carton Manufacturing

Crestmead, Queensland,

Australia

Dandenong, Victoria,

Australia

Reservoir, Victoria,

Australia

Smithfield, New South

Wales, Australia

Woodville, Australia

Auckland, New Zealand

Christchurch, New Zealand

Corrugated Manufacturing

Sydney, Australia

Melbourne, Australia

Paper Bag Manufacturing

Auckland, New Zealand

Paper Cups

Brisbane, Australia

Plastic Packaging

Sydney, Australia

Santiago, Chile

Albany, New Zealand

Hamilton, New Zealand

Hastings, New Zealand

Wellington, New Zealand

DISTRIBUTION

Paper Merchant

Warehousing and

Distribution Centers,

Australia, 3 locations

New Zealand, 14 locations

Exhibit 10.8

INTERNATIONAL PAPER COMPANY
NON-QUALIFIED STOCK OPTION AGREEMENT

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

1. Grants of Options

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

2. Compliance with Laws and Regulations

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

3. Termination of an Option

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

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

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

4. Exercise of Options

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Disability of Optionee

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

6. Retirement of Optionee

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

7. Death of Optionee

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

8. Information for Company Tax Returns

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

9. Other Terms and Conditions of Options

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

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

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

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

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

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

International Paper Company:

Dated:_____ By_____
(Senior Vice President - Human Resources)

SSN:_____ Optionee:_____
(Print Name)

By:_____

(Optionee's Signature)

INTERNATIONAL PAPER COMPANY
NOTICE OF GRANT OF STOCK OPTION

XXXXXXXXX
XXX-XX-XXXX

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

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

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

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

(Original 2000 Stock Option Grant)

INTERNATIONAL PAPER COMPANY
NOTICE OF REPLACEMENT GRANT OF STOCK OPTION

David A. Bailey
541-50-4499

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

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

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

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

(Replacement for XXXX Stock Option Grant)

Exhibit 10.9

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

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

1. SHARE

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

2. COMPLIANCE WITH LAW AND REGULATIONS

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

3. AWARD OF RESTRICTED SHARES

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

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

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

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

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

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

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

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

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

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

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

5. DESIGNATION OF BENEFICIARY

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

6. NON-TRANSFERABILITY OF AWARDS AND SHARES

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

7. CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

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

8. OTHER TERMS AND CONDITIONS

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

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

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

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

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

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

INTERNATIONAL PAPER COMPANY

By: _____
Title: Senior Vice President-Human Resources

Signature of Executive: _____

Address: _____

Social Security Number: _____

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

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

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

1. GRANT OF OPTION

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

2. COMPLIANCE WITH LAWS AND REGULATIONS

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

3. TERMINATION OF OPTION

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

4. EXERCISE OF OPTION

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

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

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

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

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

(e) In the event this option is exercised prior to VESTING DATE, then the Company shall have the right (but not an obligation) to repurchase from Executive, at the purchase price which is set forth in Section 1 of this Agreement, the shares which are registered in the name of the Executive upon such exercise of this option. Such shares shall be uncertificated and contain a notation setting forth this restriction, and no certificate shall be issued by the Company until the restriction expires or terminates and, then, only at the request of the Executive. This restriction shall lapse upon a "change of control of the Company" (as defined below), or upon Executive's retirement after age AGE, permanent disability (as defined in Section 5 below), or death. For purposes of this Agreement, the term "change of control of the Company" shall mean a change of control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14a of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that, without limitation, such a change of control shall be deemed to have occurred if
(i) any "person" as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act (other than employee benefit plans sponsored by the Company) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company, cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by the Company's share owners of each new director was approved by a vote of at least two-thirds of the directors still in office who were directors at the beginning of the period, except that a change of control

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

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

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

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

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

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

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

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

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

5. DISABILITY OF EXECUTIVE

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

6. DEATH OF EXECUTIVE

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

7. INFORMATION FOR COMPANY TAX RETURNS

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

8. CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

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

9. OTHER TERMS AND CONDITIONS OF OPTION

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

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

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

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

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

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

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

INTERNATIONAL PAPER COMPANY

By: _____
Title: Senior Vice President-Human Resources

Signature of Executive: _____

Address: _____

Social Security Number: _____

Exhibit 10.10(a)

Date

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

Dear:

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

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

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

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

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

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

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

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

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

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

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

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

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

4. COMPENSATION UPON TERMINATION OR DURING DISABILITY.

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

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

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

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

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

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

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

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

(iv) An amount equal to the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

5. SUCCESSOR; BINDING AGREEMENT.

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

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

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

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

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

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

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

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

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

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

Sincerely,

INTERNATIONAL PAPER COMPANY

By _____
Senior Vice President
Human Resources

AGREED:

_____

Social Security Number: _____

Exhibit 10.10(b)

Date

(Name)
International Paper Company
Two Manhattanville Road
Purchase, New York 10577

Dear:

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

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

1. TERM

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

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

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

2. CHANGE IN CONTROL

For purposes of this Agreement, a "Change in Control of the Company" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that, without limitation, such a change in control shall be deemed to have occurred if
(a) any "person" (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act, other than employee benefit plans sponsored by the Company) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, or (b) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company (the "Board") cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by the Company's shareholders of each new director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of the period.

3. TERMINATION OF EMPLOYMENT FOLLOWING CHANGE IN CONTROL

If a "Change in Control of the Company" occurs, you shall be entitled to the benefits provided in Section 5 of this Agreement upon the subsequent termination of your employment during the term of this Agreement unless such termination is
(a) because of your death or normal retirement at or after age 65, (b) by the Company for "Cause" as defined below or for Disability as defined below, or (c) by you other than for "Good Reason" as defined below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. DEATH, DISABILITY OR ELIGIBILITY FOR NORMAL RETIREMENT

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

5. COMPENSATION UPON TERMINATION

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

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

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

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

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

(ii) A termination payment equal to:

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

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

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

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

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

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

6. SUCCESSORS; BINDING AGREEMENT

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

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

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

7. NOTICE

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

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

8. MISCELLANEOUS

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

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

9. VALIDITY

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

10. ARBITRATION; LEGAL EXPENSES

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

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

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

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

Sincerely,

INTERNATIONAL PAPER COMPANY

By:

Agreed:

Social Security Number:

Exhibit 10.10(c)

Date

(Name)

International Paper Company
Two Manhattanville Road
Purchase, New York 10577

Dear:

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

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

1. TERM

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

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

2. CHANGE IN CONTROL

For purposes of this Agreement, a "Change in Control of the Company" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that, without limitation, such a change in control shall be deemed to have occurred if
(a) any "person" (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act, other than employee benefit plans sponsored by the Company), is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, or (b) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company (the "Board") cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by the Company's shareholders of each new director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of the period.

3. TERMINATION OF EMPLOYMENT FOLLOWING CHANGE IN CONTROL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. DEATH, DISABILITY OR ELIGIBILITY FOR NORMAL RETIREMENT

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

5. COMPENSATION UPON TERMINATION

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

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

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

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

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

(ii) A termination payment equal to:

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

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

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

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

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

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

6. SUCCESSORS; BINDING AGREEMENT

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

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

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

7. NOTICE

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

8. MISCELLANEOUS

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

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

9. VALIDITY

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

10. ARBITRATION; LEGAL EXPENSES

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

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

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

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

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

Sincerely,

INTERNATIONAL PAPER COMPANY

By:

Agreed:

Social Security Number: _____

EXHIBIT 11

INTERNATIONAL PAPER COMPANY

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

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

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

EXHIBIT 12

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

(UNAUDITED)

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

Exhibit 13

International Paper:
From Innovation to Results

OUR 1999 ANNUAL REPORT

[GRAPHIC OMITTED]

INTERNATIONAL [LOGO] PAPER

FINANCIAL HIGHLIGHTS

Dollar amounts and shares in millions, except per share amounts	1999	1998
FINANCIAL SUMMARY		
Net Sales	$24,573	$23,979
Operating Profit	1,810(1)	1,375(1)
Earnings Before Income Taxes, Minority Interest and Extraordinary Item	448(2)	429(3)
Net Earnings	183(2)	247(3)
Total Assets	30,268	31,466
Common Shareholders' Equity	10,304	10,738
Return on Investment	2.6%	2.5%
PER SHARE OF COMMON STOCK		
Earnings Before Extraordinary Item	$0.48(2)	$0.60(3)
Earnings - Assuming Dilution	0.44(2)	0.60(3)
Cash Dividends	1.01(4)	1.05(4)
Common Shareholders' Equity	24.95	26.13
SHAREHOLDER PROFILE		
Shareholders of Record at December 31	32,881	31,050
Shares Outstanding at December 31	414.6	413.2
Average Shares Outstanding	413.0	411.0

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

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

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

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

TO OUR SHAREHOLDERS

[PHOTO OMITTED]

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

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

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

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

TO OUR SHAREHOLDERS

1999 Financial Performance

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

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

Profitability Improvement

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

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

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

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

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

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

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

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

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

Looking Ahead

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

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

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

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

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

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

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

[PHOTO OMITTED]

/s/ John Dillon

JOHN DILLON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
MARCH 1, 2000

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CORPORATE OVERVIEW

RESULTS OF OPERATIONS

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

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

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

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

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

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

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

DESCRIPTION OF INDUSTRY SEGMENTS

PRINTING AND COMMUNICATIONS PAPERS

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

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

Pulp: We have annual production capacity of 1 million

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

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

INDUSTRIAL AND CONSUMER PACKAGING

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

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

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

DISTRIBUTION

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

CHEMICALS AND PETROLEUM

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

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

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

FOREST PRODUCTS

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

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

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

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

CARTER HOLT HARVEY

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

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

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

INDUSTRY SEGMENT RESULTS

PRINTING AND COMMUNICATIONS PAPERS

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

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

Printing and Communications Papers

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

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

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

profit remained below 1997 levels.

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

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

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

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

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

INDUSTRIAL AND CONSUMER PACKAGING

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

Industrial and Consumer Packaging

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

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

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

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

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

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

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

DISTRIBUTION

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

Distribution

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

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

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

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

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

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

CHEMICALS AND PETROLEUM

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

Chemicals and Petroleum

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

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

ink resins, were lower. In addition, prices

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

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

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

FOREST PRODUCTS

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

Forest Products

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

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

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

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

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

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

CARTER HOLT HARVEY

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

1. Carter Holt Harvey's reporting period is a fiscal year ending March 31. Our segment results are for the calendar year.

2. Our segment earnings include only our share of Carter Holt Harvey's operating earnings. Segment sales, however, represent 100% of Carter Holt Harvey's sales.

3. Carter Holt Harvey reports in New Zealand dollars but our segment results are reported in U.S. dollars. The weighted average currency exchange rate used to translate New Zealand dollars to U.S. dollars was .52 in 1999, .54 in 1998, and .66 in 1997.

4. Carter Holt Harvey reports under New Zealand accounting standards but our segment results comply with U.S. generally accepted accounting principles (U.S. GAAP). The major differences relate to cost of timber harvested (COTH), land sales, COPEC and start-up costs. These differences reduced segment earnings by about $50 million in 1999, $40 million in 1998 and $30 million in 1997.

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

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

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

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

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

LIQUIDITY & CAPITAL RESOURCES

CASH PROVIDED BY OPERATIONS

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

INVESTMENT ACTIVITIES

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

Capital Spending by Industry Segment

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCING ACTIVITIES

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

During 1998, we reduced debt, primarily short-term, by $1.9 billion and issued $1.5 billion of preferred securities of subsidiaries. In March 1998, Timberlands Capital Corp. II, a wholly-owned consolidated subsidiary, issued $170 million of 7.005% preferred securities as part of the financing to repurchase the outstanding units of IP Timberlands, Ltd. In June 1998, IP Finance (Barbados) Limited, a wholly-owned consolidated non-U.S. subsidiary, issued $550 million of preferred securities with a dividend payment that is based on LIBOR. In September 1998, International Paper Capital Trust III, a wholly-owned consolidated subsidiary, issued $805 million of 7 7/8% mandatorily redeemable preferred securities.

During 1997, we issued environmental and industrial development bonds for various capital projects, repaid $164 million of 10% debentures, and reduced commercial paper and short-term borrowings.

Long-term debt and notes payable on our consolidated balance sheet were $8.4 billion in 1999 compared with $9.1 billion in 1998 and $11.0 billion in 1997. However, after adjusting for foreign exchange, acquisitions and restructuring activities, total debt was reduced by approximately $540 million and $1.9 billion in 1999 and 1998, respectively, on a cash flow basis. During 1998, one of the corporate debt rating agencies, Standard & Poor, downgraded our long-term debt rating from A- to BBB+.

Unless otherwise noted, the proceeds of all of the financings described above were used to reduce short-term debt or for general corporate purposes.

Dividend payments were $418 million, $431 million and $427 million in 1999, 1998 and 1997, respectively. On a per share basis, dividend payments were $1.01 in 1999, and $1.05 in 1998 and 1997. The International Paper dividend has remained at $1.00 per share during the three year period. However, dividend payments on a per share basis have been restated to include dividends paid by Union Camp.

CAPITAL RESOURCES OUTLOOK FOR 2000

Our financial condition continues to be strong. We expect to receive just over $1.2 billion after tax in the first quarter of 2000 from the sales of our equity investments in COPEC and Scitex. The cash proceeds from the sale of COPEC are being received by our consolidated subsidiary, Carter Holt Harvey. We anticipate that cash flow from operations, supplemented as necessary by short- or long-term borrowings, will be adequate to fund our capital expenditures, to service existing debt, and to meet working capital and dividend requirements during 2000.

OTHER FINANCIAL STATEMENT ITEMS

Net interest expense decreased to $541 million in 1999 compared with $614 million in 1998 and $607 million in 1997. The decrease was primarily due to a net decrease in total debt outstanding, after adjusting for the effects of currency translation, from December 1998 to December 1999. Proceeds received from the sale of assets in 1998 and 1999 as well as proceeds from the issuance of preferred securities were used to reduce debt and for other general corporate purposes.

Minority interest expense increased to $163 million in 1999 compared with $87 million in 1998 and $140 million in 1997. Minority interest expense increased in 1999 because the preferred securities of subsidiaries issued during 1998 were outstanding for the full year in 1999 and Carter Holt Harvey's earnings improved. The decrease in minority interest expense from the year ended December 31, 1997 to the year ended December 31, 1998, was primarily due to a decrease in earnings at Carter Holt Harvey in 1998 as compared to 1997 partially offset by an increase in interest expense related to the issuance of preferred securities in 1998.

Net periodic pension results for the U.S. defined benefit plans were income of $49 million, $77 million and $63 million in 1999, 1998 and 1997, respectively. The variation between pension income in 1999 and 1998 was primarily due to the expiration of International Paper's transition asset amortization which reduced 1999 pension income by $26 million as compared to 1998.

As of June 1, 1999 International Paper enhanced pension benefits for its major union groups. As a result, the pension plan was revalued. The revaluation assumed a discount rate of 7.25% and a rate of compensation increase of 4.5%. These actions had the net effect of reducing the pension benefit obligation by $179 million.

Our equity investments consisted primarily of Scitex and Carter Holt Harvey's 30% ownership in COPEC, which it held through a joint venture. Both Scitex and COPEC are publicly traded companies. Carter Holt Harvey sold its equity interest in COPEC on January 3, 2000 for just over $1.2 billion and International Paper sold its equity interest in Scitex on January 6, 2000 for $79 million. At such time the carrying value of these investments was $865 million and $35 million, respectively. These transactions will result in income after tax and minority interest of about $135 million or $.33 per share, which will be recorded in the first quarter of 2000 as an extraordinary item pursuant to pooling-of-interests accounting rules.

SPECIAL ITEMS INCLUDING RESTRUCTURING AND BUSINESS IMPROVEMENT ACTIONS

Special items reduced 1999 net earnings by $352 million, 1998 net earnings by $98 million and 1997 net earnings by $461 million. The following tables and discussion present the impact of special items for 1999, 1998 and 1997:

	1999	
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special and extraordinary items	$ 1,005	$ 551
Union Camp merger-related termination benefits	(148)	(97)
One-time merger expenses	(107)	(78)
Restructuring and other charges	(298)	(180)
Environmental remediation charge	(10)	(6)
Provision for legal reserves	(30)	(18)
Reversal of reserves no longer required	36	27
After special items	$ 448	$ 199

During 1999 special items amounting to a net charge before taxes and minority interest expense of $557 million ($352 million after taxes and minority interest expense) were recorded. The special items included a $148 million pre-tax charge ($97 million after taxes) for Union Camp merger-related termination benefits, a $107 million pre-tax charge ($78 million after taxes) for one-time merger expenses, a $298 million pre-tax charge ($180 million after taxes and minority interest expense) for asset shutdowns of excess internal capacity and cost reduction actions, a $10 million pre-tax charge ($6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a $30 million pre-tax charge ($18 million after taxes) to increase existing legal reserves and a $36 million pre-tax credit ($27 million after taxes) for the reversal of reserves that were no longer required.

The one-time merger expenses of $107 million consisted of $49 million of merger costs and $58 million of post-merger expenses. The merger costs were primarily investment banker, consulting, legal and accounting fees. Post-merger integration expenses include costs related to employee retention, such as stay bonuses, and other one-time cash costs related to the integration of Union Camp.

The Union Camp merger-related termination benefit charge relates to employees terminating after the effective date of the merger under an integration benefits program. Under this program, 1,218 employees of the combined company were identified for termination. An additional 777 employees left the company after the merger was announced, but were not eligible for benefits under the integration benefits program. Benefits payable under this program for certain senior executives and managers are or have been paid from the general assets of International Paper. Benefits for remaining employees have been or will be primarily paid from plan assets of our qualified pension plan. Through December 31, 1999, 787 employees had been terminated. Related cash payments approximated $65 million (including payments related to our nonqualified pension plans). The remaining charge primarily represents an increase in the projected benefit obligation of our qualified pension plan.

The following table is a roll forward of the Union Camp merger-related termination benefit charge:

In millions	Termination Benefits
Special charge (1,218 employees)	$ 148
Incurred costs (787 employees)	(116)
Balance, December 31, 1999	$ 32

Note: Benefit costs are treated as incurred on the termination date of the employee.

The $298 million charge for the asset shutdowns of excess internal capacity consisted of a $113 million charge in the 1999 second quarter and a $185 million charge in the 1999 fourth quarter.

The second quarter 1999 $113 million charge for the asset shutdowns of excess internal capacity and cost reduction actions included $57 million of asset write-downs and $56 million of severance and other charges. The following table and discussion presents additional detail related to the $113 million charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing and Communications Papers	(a)	$ 6	$ 27	$ 33
European Papers	(b)	3	7	10
Consumer Packaging	(c)	19	12	31
Industrial Packaging	(d)	12		12
Chemicals and Petroleum	(e)	10	3	13
Industrial Papers	(f)	7	7	14
		$ 57	$ 56	$ 113

(a) We recorded a charge of $24 million for severance related to the second phase of the Printing and Communications Papers business plan to improve the cost position of its mills. The charge, pursuant to our ongoing severance program, covers a reduction of approximately 289 employees at several mills in the U.S. At December 31, 1999, 146 employees had been terminated.

Also, management approved a decision to permanently shut down the Hudson River mill No. 4 paper machine located in Corinth, New York and the No. 2 paper machine at the Franklin, Virginia mill. The Franklin machine was shut down in September of 1999 and the Hudson River machine has also been shut down. The Hudson River machine had previously been temporarily shut down because of lack of orders. The machines were written down by $6 million to their estimated fair value of zero. Severance costs of $3 million cover the termination of 147 employees. At December 31, 1999, 76 employees had been terminated.

(b) The charge for European Papers, which covers the shutdown of two mills, consists of $3 million in asset write-downs, $6 million in severance costs and $1 million of other exit costs. The Lana mill in Docelles, France was shut down due to excess capacity. The Lana mill produced approximately 5,000 metric tons of high-end uncoated specialty paper per year. This production was shifted to the La Robertsau mill in Strasbourg, France. The Lana mill fixed assets were written down $3 million to their estimated fair value of zero. Costs related to the site closure are expected to be $1 million and severance related to the termination of 42 employees will be approximately $4 million. The Lana mill had revenues of $12 million and an operating loss of $2 million for the year ended December 31, 1999. At December 31, 1999, 14 employees had been terminated.

The Corimex coating plant in Clermont-Ferrand, France was shut down in April 1999. The market for thermal fax paper, which was produced at the plant, has been shrinking since the mid-1990's. The assets at this plant were considered to be impaired in 1997 and were written down accordingly at that time. A $2 million severance charge was recorded during the second quarter of 1999 to cover the costs of terminating 81 employees. Corimex had revenues of $6 million and an operating loss of $3 million for the year ended December 31, 1999. At December 31, 1999, all 81 employees had been terminated.

(c) The Consumer Packaging business has implemented a plan to improve the overall performance of the Moss Point, Mississippi mill. Included in this plan is the shutdown of the No. 3 paper machine which produces labels. This production is being transferred to the Hudson River mill. The machine has been written down $6 million to its estimated fair value of zero. Severance costs including, but not limited to, employees associated with the No. 3 machine total $10 million and cover the elimination of 360 positions. At December 31, 1999, 272 employees had been terminated.

Consumer Packaging also shut down the beverage packaging facility in Itu, Brazil in an effort to reduce excess capacity in Latin America. The assets were written down $13 million to their estimated fair value of zero and a severance charge of $1 million covers the elimination of 29 positions. Other exit costs total $1 million. At December 31, 1999, 24 employees had been terminated.

(d) As a result of the merger with Union Camp, we negotiated the resolution of contractual commitments in an industrial packaging investment in Turkey. As a result of these negotiations and evaluation of this entity, it was determined that the investment was impaired. A $12 million charge was recorded to reflect this impairment and the related costs of resolving the contractual commitments.

(e) As a result of an overall reduction in market demand for dissolving pulp, the decision was made to downsize the Natchez, Mississippi mill. Charges associated with capacity reduction total $10 million and include the shutdown of several pieces of equipment. A severance charge of $3 million includes the elimination of 89 positions. At December 31, 1999, 88 employees had been terminated.

(f) The Industrial Papers business has implemented a plan to reduce excess capacity at several of its locations. The Toronto, Canada plant has been closed. Equipment at the Kaukauna, Wisconsin and Knoxville, Tennessee facilities has been taken out of service, with additional equipment at the Menasha, Wisconsin plant scheduled to be shut down in 2000. The total amount related to the write-down of these assets is $7 million. Severance costs related to these shutdowns are $5 million and are based on a personnel reduction of 81 employees. Other exit costs total $2 million. At December 31, 1999, a reduction of 59 employees had been made through severance and attrition.

The $185 million fourth-quarter 1999 charge for shutdowns of excess internal capacity and cost reduction actions includes $92 million of asset write-downs and $93 million of severance and other charges. The following table presents additional detail related to the $185 million charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing and Communications Papers	(a)	$ 7	$ 5	$ 12
Consumer Packaging	(b)	14	22	36
Industrial Packaging	(c)	7	14	21
Chemicals and Petroleum	(d)	30	20	50
Building Materials	(e)	10	6	16
Distribution	(f)	6	17	23
Carter Holt Harvey	(g)	18	9	27
		$ 92	$ 93	$ 185

(a) The Printing and Communications Papers charge of $12 million encompasses a production curtailment at the Erie, Pennsylvania mill due to lower demand, the write-off of deferred software costs as the result of a decision to discontinue the installation of a Union Camp order entry system and an impairment of our investment in the Otis Hydroelectric plant. In November 1999 we announced that the Erie, Pennsylvania mill would change from a seven day, four crew schedule to a three crew schedule in order to balance operating capacity with sales demand. This production curtailment resulted in a severance charge of $2 million for the termination of 99 employees. The charge for the deferred software write-off was $3 million. International Paper also wrote down its investment in the Otis Hydroelectric partnership by $7 million to the approximate market value of the investment based upon our current offer to acquire the other partner's interest.

(b) The Consumer Packaging business charge of $36 million is related to the shutdown of facilities, capacity optimization and a deferred software write-off. The Philadelphia, Pennsylvania plant and the Edmonton, Alberta plant are scheduled to be shut down. Charges associated with these shutdowns include $7 million of asset write-downs, $1 million of severance costs covering the termination of 194 employees and other exit costs of $5 million. Charges related to eliminating excess capacity include $7 million of asset write-downs and a severance charge of $11 million for the termination of 512 employees. The capacity reductions are related to the aseptic and flexible packaging businesses. The business also decided to discontinue the implementation of a Union Camp order management system. The write-off of deferred software costs related to this system is $5 million.

(c) The Industrial Packaging business will shut down the following plants and shift production to other facilities: the Terre Haute, Indiana box plant; the Northlake, Illinois box plant; the Columbia, Tennessee sheet plant; and the Montgomery, Alabama sheet plant. The design center in Spartanburg, South Carolina will also be closed. The functions performed in Spartanburg will continue in Memphis, Tennessee. Charges associated with the consolidation and improvement of the Industrial Packaging business total $21 million and include $7 million of asset write-downs, a $12 million severance charge covering the termination of 426 employees and other exit costs of $2 million.

(d) The Chemicals and Petroleum charge of $50 million is related to the partial shutdown of the Chester-Le-Street plant located in Northeast England and additional costs related to the 1998 shutdown of the Springhill, Louisiana plant. The Chester-Le-Street plant is currently a fully integrated site comprised of a crude tall oil fractionation plant, a rosin resin upgrading plant and a dimer plant. The crude tall oil and rosin resin upgrading facilities at the site will be closed and production shifted to other Arizona Chemical facilities. Asset write-downs for this plant total $30 million. A severance charge of $3 million covers the termination of 83 employees. Other costs of $12 million include demolition and contract cancellations.

We also recorded an additional charge of $5 million related to the 1998 closure of the Springhill plant, covering other exit costs including demolition and cleanup.

(e) The Building Materials charge of $16 million includes $3 million for a program to improve the profitability of the decorative surfaces business and $13 million for the shutdown of the Pilot Rock, Oregon mill. The Decorative Products business has developed an improvement plan that will result in the consolidation of certain manufacturing activities and streamlining of administrative functions. As a result, a reserve of $3 million was established to cover asset write-offs totaling $2 million and severance charges of $1 million related to the reduction of 65 employees. International Paper announced in October of 1999 that it would shut down the Pilot Rock, Oregon mill due to excess capacity within the Masonite manufacturing system. The softboard production will be moved to our Ukiah, California and Lisbon Falls, Maine facilities. The charge includes $8 million of asset write-downs, a $2 million severance charge covering the termination of 155 employees and other exit costs of $3 million.

(f) xpedx, our distribution business, implemented a plan to consolidate duplicate facilities and eliminate excess capacity. The $23 million charge associated with this plan includes $6 million of asset write-downs, a severance charge of $5 million for the termination of 211 employees and other costs of $12 million. Other costs consist primarily of lease cancellations.

(g) This charge is related to the shutdown of the No. 5 paper machine at Carter Holt Harvey's Kinleith mill. The machine had been idled due to a reconfiguration project at the mill. Plans for alternative uses for the machine were reexamined and it was determined that based on current competitive conditions it would not provide adequate returns on the capital required and that it would be scrapped. Accordingly, the machine was written down from its $20 million book value to its estimated salvage value of $2 million. Also, severance costs total $9 million and cover the costs of terminating 300 employees.

The $30 million pre-tax charge to increase existing legal reserves includes $25 million which we added to our reserve for hardboard siding claims. A further discussion of this charge can be found in Note 11. Commitments and Contingent Liabilities. The remaining $5 million is related to other potential exposures.

The $36 million pre-tax credit for reserves no longer required consists of $30 million related to a retained exposure at the Lancey mill in France and $6 million of excess severance reserves previously established by Union Camp. The Lancey mill was sold to an employee group in October 1997. In April 1999, International Paper's remaining exposure to potential obligations under this sale was resolved, and the reserve was returned to income in the second quarter.

The following table is a roll forward of the severance and other costs included in the 1999 restructuring plans (in millions):

	Severance and Other
Opening Balance (second quarter 1999)	$ 56
Additions (fourth quarter 1999)	93
1999 Activity	
Cash charges	(34)
Balance, December 31, 1999	$ 115

The severance reserves recorded in the 1999 second and fourth quarters related to 3,163 employees. As of December 31, 1999, 760 employees had been terminated.

	1998	
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special items	$ 598	$ 345
Oil and gas impairment charges	(111)	(68)
Restructuring and other charges	(161)	(92)
Gain on sale of business	20	12
Reversals of reserves no longer required	83	50
After special items	$ 429	$ 247

During 1998, we recorded $111 million of oil and gas impairment charges ($68 million after taxes). Of this amount, $56 million ($35 million after taxes)

was recorded in the fourth quarter and $55 million ($33 million after taxes) was recorded in the third quarter. International Paper has oil and gas exploration and production operations in West Texas, the Gulf Coast and the Gulf of Mexico. The Securities and Exchange Commission's regulations for companies that use

the full-cost method of accounting for oil and gas activities require companies to perform a ceiling test on a quarterly basis. As a result of low oil and gas prices, the value of our properties was written down through these noncash charges.

Also in 1998, we recorded a $145 million pre-tax restructuring charge ($82 million after taxes and minority interest expense) consisting of $64 million of asset write-downs and $81 million of severance costs and we recorded pre-tax charges of $16 million ($10 million after taxes) related to our share of write-offs taken by Scitex, a 13% investee company, related to in-process research and development of an acquisition and its exit from the digital video business. The Scitex items are reflected as equity losses from the investment in Scitex in the consolidated statement of earnings. In addition, we recorded a $20 million pre-tax gain ($12 million after taxes) on the sale of our Veratec nonwovens division, and an $83 million pre-tax gain ($50 million after taxes) from the reversal of previously established reserves that were no longer required. These reserves were established in 1996 and 1997 and were primarily associated with the Veratec and Imaging businesses. The sales of these businesses were completed in 1998 and those reserves not required were returned to earnings.

The following table and discussion presents additional detail related to the $145 million restructuring charge:

In millions		Asset Write-downs	Severance	Total
Distribution	(a)	$ 20	$ 10	$ 30
Printing and Communications Papers	(b)	13	14	27
Carter Holt Harvey	(c)	15	3	18
Industrial Packaging	(d)	8	7	15
Union Camp	(e)	8	32	40
Other	(f)		15	15
Total		$ 64	$ 81	$ 145

(a) After the acquisition of Zellerbach, management of xpedx decided to terminate certain software projects that were in process and to use Zellerbach's systems in certain of its regions. Accordingly, we wrote off related deferred software costs on these projects, resulting in a $20 million charge. As part of the Zellerbach integration plan, management determined that a significant part of the personnel reduction related to the termination of employees at duplicate facilities and locations. The $10 million severance charge represents the costs for terminating 274 xpedx employees. At December 31, 1999, all of the 274 employees had been terminated.

(b) Our Printing and Communications Papers business shut down equipment at the Mobile, Alabama mill and announced the termination of 750 employees at the Mobile, Alabama, Lock Haven, Pennsylvania, and Ticonderoga, New York mills. At the Mobile mill, International Paper permanently shut down a paper machine and related equipment with a net book value of $13 million. These assets were written down to their estimated fair market value of zero. The severance charge associated with the employee reductions at the 3 mills was $14 million. At December 31, 1999, all employees under this program had been terminated.

(c) This charge primarily consists of a $15 million asset write-down associated with the closure of two Carter Holt Harvey facilities, Myrtleford and Taupo. Myrtleford, a tissue pulp mill located in Australia, was closed due to excess capacity in its tissue pulp system. Carter Holt Harvey will be able to produce the volume at lower costs at its Kawerau tissue pulp mill located in New Zealand. Carter Holt Harvey also decided to close the Taupo, New Zealand sawmill due to excess capacity in its sawmill system as the result of recent productivity improvements. The $3 million severance charge represents the cost for terminating 236 employees. At December 31, 1999, all of the 236 employees had been terminated. Our consolidated financial statements included revenues of $21 million and $36 million and operating income of $1 million and $3 million from these facilities in 1998 and 1997, respectively.

(d) Management decided to close the Gardiner, Oregon mill because of excess capacity in International Paper's containerboard system. As a result, the net plant, property and equipment assets of this mill were reduced from $13 million to the estimated salvage value of $5 million. In connection with the third-quarter decision to close this mill, 298 employees at the mill were terminated and a $7 million severance charge was recorded. This mill had revenues of $78 million and $105 million and operating losses of $16 million and $1 million in 1998 and 1997, respectively.

(e) During 1998 Union Camp recorded a pre-tax special

charge of $40 million. Included in the charge was $32 million related to the termination of 540 positions and $8 million of asset write-downs. Approximately 190 positions were related to a reorganization and restructuring of Union Camp's research and development activities. Another 190 positions were related to a consolidation of the packaging group's administrative support functions and the remaining 160 positions were to be eliminated through a series of other organizational changes. At December 31, 1999, all of the 540 employees had been terminated.

The asset write-downs were principally attributable to the impairment of goodwill specific to two packaging businesses, the Chase packaging facility and Union Camp's 1996 purchase of a 50% interest in a packaging plant in Turkey. Upon reviewing the historical and projected operating results for these businesses, management concluded that expected future cash flows did not fully support the carrying value of these assets.

(f) The $15 million severance charge was recorded as a result of an announcement by International Paper of a plan to consolidate its land and timber and logging and fiber supply divisions into a new division called Forest Resources and the consolidation of the Consumer Packaging group. Of the $15 million charge, $10 million related to a headcount reduction of 200 employees in the Forest Resources group and the remaining $5 million was based on a personnel reduction of 210 employees in the Consumer Packaging group. At December 31, 1999, all of the 410 employees had been terminated.

The following table is a roll forward of the severance costs included in the 1998 restructuring plan (in millions):

	Severance
Opening Balance (third quarter 1998)	$ 81
1998 Activity	
Cash charges	(19)
1999 Activity	
Cash charges	(56)
Reserve reversal	(6)
Balance, December 31, 1999	$ 0

The severance reserve recorded in the 1998 third quarter related to 2,508 employees. As of December 31, 1999, all employees had been terminated.

	1997	
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special items	$ 783	$ 381
Provision for legal reserve	(150)	(93)
Restructuring and other charges	(660)	(465)
Gain on sale of business	170	97
After special items	$ 143	$ (80)

In June 1997, a $535 million pre-tax business improvement charge ($385 million after taxes) was recorded under a plan to improve our financial performance through closing or divesting of operations that no longer met financial or strategic objectives. It included approximately $230 million for asset write-downs, $210 million for the estimated losses on sales of businesses and $95 million for severance and other expenses. At this point, the anticipated pre-tax earnings improvement of $100 million from the 1997 restructuring actions has been largely realized. The earnings improvement consists of $25 million of lower depreciation expense and $75 million of lower cash costs.

The $230 million write-down of assets that International Paper recorded in the second quarter of 1997 consisted primarily of write-downs associated with assets to be sold or shut down as follows (in millions):

Shutdown of European Papers facilities	(a)	$ 105
Shutdown of U.S. Papers and Fine Papers facilities	(b)	101
Write-off of Haig Point real estate development	(c)	13
Other shutdowns		11
		$ 230

(a) In the second quarter of 1997, management committed to sell the Lancey, France mill to an employee group. We wrote down the net carrying amount of the mill at June 30, 1997 by $65 million and established a reserve of $30 million to cover a retained exposure. This remaining exposure was resolved in 1999. The sale closed in October 1997. Lancey had revenues of $52 million and an operating loss of $7 million in 1997. The Corimex, France mill produced coated thermal fax paper, which is a market that weakened in the mid-1990's. During the second quarter of 1997, management concluded that it would continue to operate this mill but that the assets were impaired. Based on an analysis of expected future cash flows completed in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," we reduced the carrying value of the Corimex mill from $12 million to $2 million, resulting in a $10 million charge. The Corimex mill was shut down in April 1999. Charges related to the shutdown are included in the 1999 special charge. Corimex had operating losses of $4 million in 1998 and $2 million in 1997.

(b) The $101 million reserve related to the restructuring of the Fine Papers manufacturing operations in the Northeast ($51 million) and the shutdown of the deinking facility at the Lock Haven, Pennsylvania mill ($50 million). The restructuring of the Fine Papers operations included the shutdown of the Woronoco, Massachusetts paper mill and 3 small paper machines at the Erie, Pennsylvania mill. In the 1997 second quarter, we decided to close the deinking facility. Given that each of these actions represented the permanent shutdown of equipment or facilities, International Paper wrote down the net carrying amount of the assets to zero. The Woronoco, Massachusetts mill had revenues of $46 million and operating earnings of $5 million in 1997.

(c) We are the developer of a residential golf community named Haig Point at Daufuskie Island, South Carolina. As the developer, International Paper was responsible for operating this community until a specified number of lots were sold, at which time we would turn the community over to the homeowners. The net book value of our investment in Haig Point was $13 million at June 30, 1997. Given continuing operating losses, $5 million in 1997 and an updated marketing study, we concluded that the investment was permanently impaired and wrote it down to zero. Operating losses of $1 million and $500,000 were recorded in 1999 and 1998, respectively.

The $210 million for the estimated losses on sales of businesses related to the following (in millions):

Imaging	(a)	$ 150
Veratec	(b)	25
Decorative Products	(c)	20
Label	(d)	15
		$ 210

(a) We decided to sell our Imaging businesses in the second quarter of 1997. Based on discussions with our investment banker and meetings with potential buyers, International Paper believed that the most likely outcome was to realize approximately $325 million. A reserve of $150 million was established, which represented the estimated loss on the sale. We expected to complete the sale of the Imaging businesses within one year. The Imaging businesses had revenues of $690 million and operating earnings of $9 million in 1997.

(b) The Veratec division had developed a business that was based on an interspun technology for treating fabrics. The net carrying value of this business was $25 million at June 30, 1997. In June 1997, we decided to shut down this business and recorded a reserve of $25 million. Prior to the shutdown, this business had revenues of $2 million and an operating loss of $7 million in 1997.

(c) In the second quarter of 1997, management decided to sell the medium-density fiberboard, low-pressure laminates and particleboard businesses. We estimated the expected sales prices for each of these businesses and recorded a reserve of $20 million to reduce the net carrying amounts to these levels. We expected to complete the sales of these businesses within one year. These businesses had revenues of $196 million and operating losses of $1 million in 1997.

(d) In the second quarter of 1997, management committed to a plan to sell the label business. The estimated total loss on the label business sale included in the second-quarter 1997 restructuring charge was $15 million. The label business

was sold in May of 1998. The label business had revenues of $24 million and an operating loss of $2 million in 1997.

The $95 million of severance and other expenses consists of the following (in millions):

Severance	(a)	$ 42
Write-off of deferred software costs	(b)	18
Lease buyouts at warehouses	(c)	9
Write-off of deinking process license	(d)	4
Other exit costs	(e)	22
		$ 95

(a) The $42 million severance charge relates to programs initiated and approved in the 1997 second quarter in the Printing and Communications Papers, Industrial and Consumer Packaging segments and corporate staff groups to reduce headcount by 3,015 employees under our existing ongoing severance plans. We recorded the charge in the second quarter as (1) management had committed to the plan of termination, (2) the benefit arrangement had been communicated to the employees, (3) the number of employees, their functions and locations had been identified, and (4) all terminations were to be completed in approximately one year. As of December 31, 1999, all employees had been terminated under these programs.

(b) The $18 million charge for the write-off of deferred software costs relates to two items as follows: (1) during the 1997 second quarter, a human resources software project, for which $11 million of deferred software costs had been recorded, was cancelled and (2) as a result of the decision to sell certain businesses in the second quarter of 1997, we decided to terminate enterprise software projects in these businesses, for which we had recorded $7 million of deferred software costs.

(c) The $9 million charge represents the cost to buy out obligations under existing warehouse leases. A decision to close these warehouses was made in the second quarter of 1997.

(d) The $4 million charge represents the write-off of the net carrying value of the deinking process license that had been acquired from a third party. International Paper permanently shut down this operation in the 1997 second quarter. Accordingly, we wrote the license down to zero.

(e) The charge of $22 million relates to other exit costs.

In December 1997, an additional pre-tax charge of $125 million ($80 million after taxes) was recorded for anticipated losses associated with the sale of the remaining Imaging businesses. Such amount was determined after consideration of the sales of certain of the Imaging businesses that had been completed and the estimated proceeds from the businesses remaining to be sold. The remaining Imaging businesses were sold in 1998.

Also included in the 1997 special items was a $150 million provision to increase our legal reserves as a result of a settlement by Masonite Corporation, a wholly-owned subsidiary, of a class-action lawsuit relating to its hardboard siding product. A more detailed discussion of this legal settlement is included in Note 11. to the financial statements.

The following table is a roll forward of the severance and other costs included in the 1997 restructuring plan (in millions):

	Severance and Other
Opening Balance (second quarter 1997)	$ 95
1997 Activity	
Asset write-downs	(18)
Cash charges	(15)
Balance, December 31, 1997	62
1998 Activity	
Asset write-downs	(4)
Reserve reversals	(9)
Cash charges	(40)
Balance, December 31, 1998	9
1999 Activity	
Cash charges	(9)
Balance, December 31, 1999	$ 0

ONGOING PROFIT IMPROVEMENT REVIEW

International Paper continually evaluates its operations for improvement. When any such plans are finalized, we may incur costs or charges in future periods related to improvement plans when and if such plans are implemented.

INCOME TAXES

Before special items, the 1999 effective income tax rate was 28% of pre-tax earnings, increasing from 26% in 1998 and decreasing from 34% in 1997. The effective income tax rates are below the U.S. statutory tax rate primarily because of the geographic mix of overall taxable earnings and the impact of state tax and other credits, both of which were more pronounced in 1999 and 1998 than in 1997. After special items, the effective income tax rate was 19%, 22% and 58% for 1999, 1998 and 1997, respectively. We estimate that the 2000 effective income tax rate will be approximately 31% based on expected earnings and business conditions, which are subject to change.

The following tables present the impact of the special items on the effective income tax rate for the three years. Taxes on special charges were provided at statutory rates except for those charges that represent tax deductions that management does not believe will be realized.

	1999		
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Income Tax Provision (Benefit)	Effective Tax Rate
Before special and extraordinary items	$1,005	$ 281	28%
Union Camp merger-related termination benefits	(148)	(51)	34%
One-time merger expenses	(107)	(29)	27%
Restructuring and other charges	(298)	(108)	36%
Environmental remediation charge	(10)	(4)	40%
Provision for legal reserves	(30)	(12)	40%
Reversal of reserves no longer required	36	9	25%
After special items	$ 448	$ 86	19%

	1998		
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Income Tax Provision (Benefit)	Effective Tax Rate
Before special items	$ 598	$ 158	26%
Oil and gas impairment charges	(111)	(43)	39%
Restructuring and other charges	(161)	(61)	38%
Gain on sale of business	20	8	40%
Reversals of reserves no longer required	83	33	40%
After special items	$ 429	$ 95	22%

	1997		
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Income Tax Provision (Benefit)	Effective Tax Rate
Before special items	$ 783	$ 268	34%
Provision for legal reserve	(150)	(57)	38%
Restructuring and other charges	(660)	(195)	30%
Gain on sale of business	170	67	39%
After special items	$ 143	$ 83	58%

RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured by its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting

criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

The Statement is effective for fiscal years beginning after June 15, 2000. A company may also implement the Statement as of the beginning of any fiscal quarter after issuance. The Statement cannot be applied retroactively. The Statement must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997 (and, at the company's election, before January 1, 1998).

We have not quantified the impact of adopting the Statement on our consolidated financial statements nor have we determined the timing of or method of the adoption. However, adoption of the provisions of the Statement could increase volatility in earnings and other comprehensive income.

LEGAL AND ENVIRONMENTAL ISSUES

International Paper operates in an industry subject to extensive federal and state environmental regulation. Controlling pollutants discharged into the air, water and groundwater to avoid adverse impacts on the environment, making continual improvements in environmental performance, and maintaining 100% compliance with applicable laws and regulations are continuing requirements of International Paper. A total of $90 million was spent in 1999 for capital projects to control environmental releases into the air and water and to assure environmentally sound management and disposal of waste. We expect to spend approximately $257 million in 2000 for similar capital projects, including the costs to comply with the Environmental Protection Agency's (EPA) Cluster Rule regulations. Amounts to be spent for environmental control projects in future years will depend on new laws and regulations and changes in legal requirements and environmental concerns. Taking these uncertainties into account, our preliminary estimate for 2001 and 2002 is approximately $157 million in total.

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

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

Masonite Litigation

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

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

The third suit alleged that Woodruf roofing manufactured by Masonite is defective and causes damage to the

structure underneath the roofing (the "Woodruf Lawsuit"). The class consists of all U.S. property owners on which Masonite Woodruf roofing has been incorporated and installed from January 1, 1980 to January 6, 1999.

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

Our reserves for these matters total $76 million at December 31, 1999. This amount includes $25 million which we added to our reserve for hardboard siding claims in the fourth quarter of 1999, to cover an expected shortfall in that reserve resulting primarily from a higher number of hardboard siding claims in the fourth quarter of 1999 than we had anticipated. It is reasonably possible that the higher number of hardboard siding claims might be indicative of the need for one or more future additions to this reserve. However, whether or not any future additions to this reserve become necessary, International Paper believes that these settlements will not have a material adverse effect on our consolidated financial position or results of operations. The reserve balance is net of $51 million of expected insurance recoveries (apart from the insurance recoveries to date). Through December 31, 1999, settlement payments of $183 million, including the $51 million of nonrefundable advances of attorney's fees discussed above, have been made. Also, we have received $27 million from our insurance carriers through December 31, 1999. International Paper and Masonite have the right to terminate each of the settlements after seven years from the dates of final approval.

Linerboard Litigation

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

COPEC

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

Other Litigation

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

The Franklin mill NOVs were issued in connection with the EPA's well publicized PSD air permit enforcement initiative against the paper industry. In 1999, our paper mills in Kaukauna, Wisconsin and Augusta, Georgia received

requests for information from the EPA regarding compliance with the PSD regulations. The EPA's initiative may result in similar actions at other facilities.

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

In August 1998, the former Union Camp Corporation informed the Virginia Department of Environmental Quality ("DEQ") of certain New Source Performance Standards ("NSPS") permitting discrepancies related to a power boiler at the paper mill in Franklin, Virginia. On August 11, 1999, the DEQ proposed a consent order with a civil penalty exceeding $100,000. Terms of the consent order, including the penalty, are being negotiated with the DEQ.

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

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

IMPACT OF EURO

The introduction of the euro for noncash transactions took place on January 1, 1999, with 11 countries participating in the first wave: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. There has been an irrevocable locking of exchange rates between each of the participating countries' national currencies and the new euro currency, which became a currency in its own right. The euro has begun trading on world currency exchanges and may be used in business transactions. On January 2, 2002, new euro-denominated bills and coins will be issued and legacy currencies will be completely withdrawn from circulation that year. In general, the euro is expected to increase price transparency for our products in Europe. The major impact to International Paper will be to its businesses within the euro zone, which make up approximately 10% of sales. Each of our European businesses has a plan in place to deal with the introduction of the euro.

Over the three year transition period, our computer systems will be updated to ensure euro compliance. Also, we are reviewing our marketing and operational policies and procedures to ensure our ability to continue to successfully conduct all aspects of our business in this new market. In general, our product lines are likely to become somewhat more international, with some leveling of prices that is not expected to significantly impact our operations. We anticipate that the total costs in connection with the euro conversion will not be material. Further, we do not anticipate that the conversion from the legacy currencies to the euro will have a material adverse effect on our consolidated financial position or results of operations.

YEAR 2000 READINESS

The Year 2000 problem concerns the inability of systems to properly recognize and process date-sensitive information beyond January 1, 2000.

We have not experienced any significant issues associated with the Year 2000 and to our knowledge and belief are not aware of any incidents which may have affected the safety of our employees or the environment, customer service or production. Our locations worldwide are operating normally and according to schedule. Although some problems were noted, they were quickly corrected and were insignificant.

We completed the necessary testing, remediation and final action plans at our facilities, including the facilities acquired in our merger with Union Camp, in an effort to ensure that we entered the Year 2000 without a material disruption to our customers. The program covered information systems infrastructure, financial and administrative systems, process control and manufacturing operating systems. It also included readiness assessment of significant vendors and customers, as well as a contingency and continuing compliance plan. The Year 2000 Program Office, a centralized department which coordinated Year 2000 efforts throughout International Paper, is in the process of disbanding.

We adopted a 9-step process toward Year 2000 readiness: (1) planning and awareness; (2) inventory; (3) triage (assess risks and prioritize efforts); (4) detailed assessment (identification of where failures may occur, solutions and workarounds, and plans to repair or replace); (5) resolution (repair, replace or retire systems that cannot properly process Year 2000

dates; create bridges to other systems and perform unit testing); (6) test planning; (7) test execution (some manufacturing systems require scheduling of equipment downtime); (8) deployment of compliant systems; and (9) fallout (remove bridges and patches; recertify). These steps were completed.

We rely on third-party suppliers for raw materials, water, utilities, transportation and other key services. We are also dependent upon our customers for sales and cash flow. An ongoing program was instituted to evaluate the status of our suppliers' and customers' efforts and to determine alternatives and contingency plan requirements. This program included both written correspondence and on-site visits to assess their readiness. We received assurances from our key suppliers and customers that they would be able to handle the transition to the Year 2000. We believe that no individual supplier or customer is material to our total business.

The incremental Year 2000-related costs were $85 million which was well within our estimated range of $90 million plus or minus 10%. This cost excludes software and systems that are being replaced or upgraded in the normal course of business. The majority of these costs related to production facility systems. We utilized internal personnel, contract programmers and vendors to complete the project.

EFFECT OF INFLATION

General inflation has had minimal impact on our operating results in the last three years. Sales prices and volumes are more strongly influenced by supply and demand factors in specific markets and by exchange rate fluctuations than by inflationary factors.

MARKET RISK

We use financial instruments, including fixed and variable rate debt, to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including swap and forward contracts, are used to hedge exposures to interest rate and foreign currency risks. We do not use financial instruments for trading purposes.

Our exposure to market risk for changes in interest rates relates primarily to investments in marketable securities, and short- and long-term debt obligations. We invest in high-credit-quality securities with major international financial institutions while limiting exposure to any one issuer. Our debt obligations outstanding as of December 31, 1999, expressed in U.S. dollar equivalents, are summarized as to their principal cash flows and related weighted average interest rates by year of maturity in the following table. Our investments in marketable securities at December 31, 1999 were not significant.

Short- and Long-Term Debt (in millions)

Outstanding as of December 31, 1999	2000	2001	2002	2003	2004
U.S. commercial paper and bank notes - 6.6% average interest rate	$ 307				
New Zealand dollar commercial paper and bank notes - 5.6% average interest rate	436				
Australian dollar commercial paper and bank notes - 5.7% average interest rate	271				
Chinese renminbi bank notes - 6.5% average interest rate	19				
Euro bank notes - 3.3% average interest rate	133				
New Zealand dollar notes payable - 6.2% average interest rate	510				
Fixed rate debt - 7.9% average interest rate	373	$ 289	$ 389	$ 239	$ 688
5 7/8% Swiss franc debentures		68			
Medium-term notes - 8.3% average interest rate	24	145	80	30	9
Environmental and industrial development bonds - 6.1% average interest rate	34	24	75	6	34
German mark fixed rate borrowings - 4.7% average interest rate	24	41	40	20	7
Euro fixed rate borrowings - 5 3/8% average interest rate					
Other	114	46	56	5	6
Total Debt	$2,245	$ 613	$ 640	$ 300	$ 744

Outstanding as of December 31, 1999	Thereafter	Total	Fair Value
U.S. commercial paper and bank notes - 6.6% average interest rate		$ 307	$ 307
New Zealand dollar commercial paper and bank notes - 5.6% average interest rate		436	436
Australian dollar commercial paper and bank notes - 5.7% average interest rate		271	271
Chinese renminbi bank notes - 6.5% average interest rate		19	19
Euro bank notes - 3.3% average interest rate		133	133
New Zealand dollar notes payable - 6.2% average interest rate		510	510
Fixed rate debt - 7.9% average interest rate	$ 2,316	4,294	4,336
5 7/8% Swiss franc debentures		68	70
Medium-term notes - 8.3% average interest rate	43	331	336
Environmental and industrial development bonds - 6.1% average interest rate	1,179	1,352	1,350
German mark fixed rate borrowings - 4.7% average interest rate		132	132
Euro fixed rate borrowings - 5 3/8% average interest rate	249	249	244
Other	111	338	340
Total Debt	$ 3,898	$ 8,440	$ 8,484

For debt obligations, the table presents principal cash flows and related weighted average interest rates by year of maturity. Variable interest rates disclosed represent the weighted average rates at the end of the period. For financial statement classification, $1.5 billion of short-term debt has been classified as long-term pursuant to line of credit agreements.

We use cross-currency and interest rate swap agreements to manage the composition of our fixed and floating rate debt portfolio. Amounts to be paid or received as interest under these agreements are recognized over the life of the swap agreements as adjustments to interest expense. The impact on earnings and our net liability under these agreements was not significant. Our cross-currency and interest rate swap agreements outstanding at December 31, 1999, expressed in U.S. dollar equivalents, by year of maturity, are presented in the following table.

Interest Rate and Currency Swaps (in millions)

Outstanding as of December 31, 1999	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value
U.S. dollar variable to fixed rate swaps Average pay rate 7.3% Average receive rate 6.1%			$45	$200	$300	$500	$1,045	$16
Australian dollar variable to fixed rate swaps Average pay rate 6.0% Average receive rate 5.4%	$48	$48	16	48	16		176	2
New Zealand dollar variable to fixed rate swaps Average pay rate 6.8% Average receive rate 5.4%	23	26	52	26	13		140	2
U.S. dollar fixed to variable rate swaps			45	200	550	500	1,295	(25)

Average pay rate 7.4%				
Average receive rate 6.6%				
U.S. dollar to Australian dollar cross-currency swap		150	150	(4)
Swiss franc to New Zealand dollar cross-currency swaps	75		75	(8)

We also transact business in many currencies and are subject to currency exchange rate risk. We address this risk through a risk management program that involves financing a portion of our investments in overseas operations with borrowings denominated in the same currency as the investment or by entering into currency exchange contracts in tandem with U.S. dollar borrowings. These contracts are effective in providing hedges against fluctuations in currency exchange rates. Additionally, we utilize currency exchange contracts to hedge certain transactions that are denominated in foreign currencies, primarily export sales and equipment purchased from nonresident vendors. These contracts serve to protect us from currency fluctuations between the transaction and settlement dates.

The following table presents information about our foreign currency forward contracts outstanding as of December 31, 1999, expressed in U.S. dollar equivalents. The majority of the contracts have maturities of less than 12 months. This information should be read in conjunction with Note 14. to the consolidated financial statements which can be found on pages 52 and 53.

Foreign Currency Forward Contracts
(U.S. dollars in millions)

Outstanding as of December 31, 1999	Contract Amount	Weighted Average Exchange Rate	Net Unrealized Gain (Loss)
Receive Australian dollars / Pay New Zealand dollars	$ 20	0.79	$(1)
Receive German marks / Pay British pounds	40	3.00	(3)
Receive European euros / Pay U.S. dollars	1,063	0.95	52
Receive European euros / Pay British pounds	65	1.58	(1)
Receive British pounds / Pay U.S. dollars	107	0.62	
Receive British pounds / Pay European euros	21	0.63	
Receive New Zealand dollars / Pay Australian dollars	117	1.23	(5)
Receive New Zealand dollars / Pay U.S. dollars	499	1.94	10
Receive Swedish kronas / Pay U.S. dollars	34	8.09	2
Receive U.S. dollars / Pay European euros	56	1.07	
Receive U.S. dollars / Pay British pounds	20	1.61	
Receive U.S. dollars / Pay New Zealand dollars	26	0.56	3

We have an additional $71 million in a number of smaller contracts to purchase or sell other currencies with a related net unrealized immaterial gain.

VALUE AT RISK

Value at risk is used to describe an approach for measuring market risk exposure that utilizes statistical models that are based on historical price and volatility patterns to estimate the probability of the value of a financial instrument falling above or below a specified amount at a specified confidence level and over a given time period. Our analysis uses variance-covariance statistical modeling techniques and includes substantially all interest rate-sensitive debt and swaps, and currency exchange contracts. The model estimates the potential loss in fair market value or earnings we could incur from adverse changes in interest rates or currency exchange rates. We believe that any loss incurred would be substantially offset by the effects of interest rate or currency exchange movements on the respective underlying hedged transactions. The results of our analysis at a 95% confidence level were not significant to our consolidated common shareholders' equity, earnings or daily change in market capitalization.

FORWARD-LOOKING STATEMENTS

Certain statements in this 1999 Annual Report to Shareholders that are not historical in nature may constitute forward-looking statements. These statements are often identified by the words, "believe," "expect," "plan," "project," "intend," and words of similar import. Such statements reflect the current views of International Paper with respect to future events and are subject to risks and uncertainties. Actual results may differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ include, among other things, changes in overall demand, changes in domestic or foreign competition, changes in the cost or availability of raw materials, the cost of compliance with environmental laws and regulations, and whether anticipated savings from merger and other restructuring activities can be achieved. In view of such uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. International Paper does not assume any obligation to update these forward-looking statements.

FINANCIAL INFORMATION BY INDUSTRY SEGMENT AND GEOGRAPHIC AREA

INDUSTRY SEGMENT AND GEOGRAPHIC AREA INFORMATION

For information about our industry segments, see the "Description of Industry Segments" included in management's discussion and analysis of financial condition and results of operations. The segment and geographic area information has been restated to include Union Camp for all years presented.

For management purposes, we report the operating performance of each business based on earnings before interest and income taxes ("EBIT") excluding special and extraordinary items and gains or losses on sales of businesses. Our Carter Holt Harvey segment includes our share, about half, of Carter Holt Harvey's operating earnings adjusted for U.S. generally accepted accounting principles. The remaining half is included in the minority interest adjustment. Intersegment sales and transfers are recorded at current market prices. Corporate sales include the Imaging and Veratec businesses that were sold in 1998 and 1997. Corporate operating profit also includes these businesses as well as corporate expenses. Corporate assets include these businesses for the applicable years in addition to other assets not allocated to our segments. Sales for these businesses were $220 million in 1998 and $938 million in 1997. These businesses recorded an operating loss of $2 million in 1998 and operating profits of $27 million in 1997.

External Sales by Major Product is determined by aggregating sales from each segment based on similar products or services. External sales are defined as those that are made to parties outside International Paper's consolidated group whereas sales by segment in the Net Sales table are determined by the management approach and include intersegment sales.

Capital Spending by Industry Segment is reported on page 13 of management's discussion and analysis of financial condition and results of operations.

FINANCIAL INFORMATION BY INDUSTRY SEGMENT

NET SALES

In millions	1999	1998	1997
Printing and Communications Papers	$ 5,930	$ 5,915	$ 6,415
Industrial and Consumer Packaging	7,050	7,010	6,785
Distribution	6,850	6,280	5,250
Chemicals and Petroleum	1,455	1,465	1,585
Forest Products	3,205	2,930	3,025
Carter Holt Harvey	1,605	1,505	1,955
Corporate and Intersegment Sales (1)	(1,522)	(1,126)	(459)
Net Sales	$ 24,573	$ 23,979	$ 24,556

ASSETS In millions	1999	1998	1997
Printing and Communications Papers	$ 7,929	$ 8,213	$ 8,458
Industrial and Consumer Packaging	7,316	7,389	6,823
Distribution	1,893	1,903	1,370
Chemicals and Petroleum	1,531	1,614	2,033
Forest Products	3,819	3,644	3,845
Carter Holt Harvey (2)	4,183	4,475	4,953
Corporate (1)	3,597	4,228	4,489
Assets	$ 30,268	$ 31,466	$ 31,971

OPERATING PROFIT In millions	1999	1998	1997
Printing and Communications Papers	$ 255	$ 180	$ 245
Industrial and Consumer Packaging	560	335	260
Distribution	105	85	90
Chemicals and Petroleum	125	135	180
Forest Products	725	620	615
Carter Holt Harvey (3)	40	20	90
Operating Profit	1,810	1,375	1,480
Interest expense, net	(541)	(614)	(607)
Minority interest adjustment (3)	74	57	165
Corporate items, net (1)	(338)	(220)	(255)
Merger integration costs	(255)		
Environmental remediation charge	(10)		

Provision for legal reserves	(30)		(150)
Restructuring and other charges	(298)	(145)	(660)
Oil and gas impairment charges		(111)	
Scitex restructuring and other charges		(16)	
Reversals of reserves no longer required	36	83	
Gains on sales of businesses		20	170
Earnings Before Income Taxes, Minority Interest and Extraordinary Item	$ 448	$ 429	$ 143

FINANCIAL INFORMATION BY INDUSTRY SEGMENT AND GEOGRAPHIC AREA

RESTRUCTURING AND OTHER CHARGES

In millions	1999	1998	1997
Printing and Communications Papers	$ 55	$ 32	$ 186
Industrial and Consumer Packaging	114	46	48
Distribution	23	31	16
Chemicals and Petroleum	63	4	29
Forest Products	16	14	66
Carter Holt Harvey	27	18	
Corporate			315
Restructuring and Other Charges	$ 298	$ 145	$ 660

DEPRECIATION, DEPLETION AND AMORTIZATION

In millions	1999	1998	1997
Printing and Communications Papers	$ 556	$ 535	$ 577
Industrial and Consumer Packaging	466	447	459
Distribution	32	25	22
Chemicals and Petroleum	99	106	109
Forest Products	196	218	217
Carter Holt Harvey	201	193	202
Corporate	115	136	152
Depreciation, Depletion and Amortization	1,665	1,660	1,738
Less: Depletion (4)	145	166	168
Depreciation and Amortization	$ 1,520	$ 1,494	$ 1,570

EXTERNAL SALES BY MAJOR PRODUCT

In millions	1999	1998	1997
Printing Papers	$ 5,069	$ 5,475	$ 6,015
Packaging	7,361	7,360	7,115
Distribution	6,926	6,235	5,165
Chemicals and Petroleum	1,458	1,230	1,320
Forest Products	3,759	3,430	3,850
Corporate Sales (1)		249	1,091
Net Sales	$ 24,573	$ 23,979	$ 24,556

(1) Includes results or assets, as applicable, from operations that were disposed of in 1998 and 1997.
(2) Includes an equity investment (in millions) of $876 in 1999, $956 in 1998 and $974 in 1997.

(3) Includes equity earnings (in millions) of $54 in 1999, $20 in 1998 and $65 in 1997. Half of these equity earnings amounts are in the Carter Holt Harvey segment and half are in the minority interest adjustment.
(4) Depletion consists of Cost of Timber Harvested and is included in the Forest Products and Carter Holt Harvey segments.

FINANCIAL INFORMATION BY GEOGRAPHIC AREA

NET SALES (1)

In millions	1999	1998	1997
United States (2)	$19,152	$18,682	$18,317
Europe	3,257	3,251	3,680
Pacific Rim (3)	1,865	1,731	2,217
Other	299	315	342
Net Sales	$24,573	$23,979	$24,556

EUROPEAN SALES BY INDUSTRY SEGMENT

In millions	1999	1998	1997
Printing and Communications Papers	$ 1,514	$ 1,423	$ 1,675
Industrial and Consumer Packaging	750	772	765
Distribution	347	323	232

Chemicals and Petroleum	446	465	494
Forest Products	200	208	119
Other Businesses		60	395
European Sales	$ 3,257	$ 3,251	$ 3,680

LONG-LIVED ASSETS (4) In millions	1999	1998	1997
United States	$12,325	$13,149	$13,308
Europe	1,888	2,101	2,057
Pacific Rim (3)	2,625	2,793	3,048
Other	77	74	131
Corporate	387	296	436
Long-Lived Assets	$17,302	$18,413	$18,980

(1) Revenues are attributed to countries based on location of seller.
(2) Export sales to unaffiliated customers (in billions) were $1.5 in 1999 and 1998 and $1.8 in 1997.
(3) Operations in New Zealand and Australia account for most of the Pacific Rim amounts.
(4) Long-Lived Assets includes Forestlands and Plants, Properties and Equipment, Net.

REPORT OF MANAGEMENT ON FINANCIAL STATEMENTS

The management of International Paper Company is responsible for the fair presentation of the information contained in the financial statements in this annual report. The statements are prepared in accordance with U.S. generally accepted accounting principles and reflect management's best judgment as to our financial position, results of operations and cash flows.

International Paper maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are properly recorded and summarized so that reliable financial records and reports can be prepared and assets safeguarded.

An important part of the internal controls system is our ethics program:
including our long-standing policy on Ethical Business Conduct, which requires employees to maintain the highest ethical and legal standards in their conduct of International Paper business; a toll-free telephone compliance line whereby any employee may report suspected violations of law or International Paper's policy; and an office of ethics and business practices. The internal controls system further includes careful selection and training of supervisory and management personnel, appropriate delegation of authority and division of responsibility, dissemination of accounting and business policies throughout International Paper, and an extensive program of internal audits with management follow-up.

The independent public accountants provide an objective, independent review of management's discharge of its responsibility for the fairness of our financial statements. They review our internal accounting controls and conduct tests of procedures and accounting records to enable them to form the opinion set forth in their report.

The Board of Directors monitors management's administration of International Paper's financial and accounting policies and practices, and the preparation of these financial statements. The Audit Committee, which consists of four nonemployee directors, meets regularly with representatives of management, the independent public accountants and the Internal Auditor to review their activities. The Audit Committee recommends that the shareholders approve the appointment of the independent public accountants to conduct the audit.

The independent public accountants and the Internal Auditor both have free access to the Audit Committee and meet regularly with the Audit Committee, with and without management representatives in attendance.

/s/ John V. Faraci
JOHN V. FARACI

SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of International Paper Company:

We have audited the accompanying consolidated balance sheets of International Paper Company (a New York corporation) and subsidiaries as of December 31, 1999 and 1998, and the related statements of earnings, common shareholders' equity and cash flows for each of the three years ended December 31, 1999. These financial statements are the responsibility of International Paper's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Union Camp Corporation (a company acquired during 1999 in a transaction accounted for as a pooling-of-interests) prior to 1999. The Union Camp financial statements reflect total assets and total revenues of 16% and 19% in each of 1998 and 1997, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for that entity, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of International Paper Company and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years ended December 31, 1999 in conformity with generally accepted accounting principles in the United States.

/s/ Arthur Andersen

NEW YORK, N.Y.

FEBRUARY 8, 2000

ROA 2207

CONSOLIDATED STATEMENT OF EARNINGS In millions, except per share amounts, for the years ended December 31	1999	1998	1997
NET SALES	$24,573	$23,979	$24,556
COSTS AND EXPENSES			
Cost of products sold	18,105	17,924	18,087
Selling and administrative expenses	2,083	2,032	2,090
Depreciation and amortization	1,520	1,494	1,570
Distribution expenses	1,098	1,087	1,165
Taxes other than payroll and income taxes	226	231	255
Equity (earnings) losses from investment in Scitex	(5)	15	(1)
Merger integration costs	255		
Restructuring and other charges	298	145	660
Environmental remediation charge	10		
Oil and gas impairment charges		111	
Provision for legal reserves	30		150
TOTAL COSTS AND EXPENSES	23,620	23,039	23,976
Reversals of reserves no longer required	36	83	
Gains on sales of businesses		20	170
EARNINGS BEFORE INTEREST, INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM	989	1,043	750
Interest expense, net	541	614	607
EARNINGS BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM	448	429	143
Income tax provision	86	95	83
Minority interest expense, net of taxes	163	87	140
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEM	199	247	(80)
Loss on extinguishment of debt, net of taxes	16		
NET EARNINGS (LOSS)	$ 183	$ 247	$ (80)
EARNINGS (LOSS) PER COMMON SHARE - BEFORE EXTRAORDINARY ITEM	$ 0.48	$ 0.60	$ (0.20)
EARNINGS (LOSS) PER COMMON SHARE - EXTRAORDINARY ITEM	(0.04)		
EARNINGS (LOSS) PER COMMON SHARE	$ 0.44	$ 0.60	$ (0.20)
EARNINGS (LOSS) PER COMMON SHARE - ASSUMING DILUTION	$ 0.44	$ 0.60	$ (0.20)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET In millions at December 31	1999	1998
ASSETS		
Current Assets		
Cash and temporary investments	$ 453	$ 533
Accounts and notes receivable, less allowances of $106 in 1999 and $115 in 1998	3,227	3,018
Inventories	3,203	3,211
Other current assets	358	399
Total Current Assets	7,241	7,161
Plants, Properties and Equipment, Net	14,381	15,320
Forestlands	2,921	3,093
Investments	1,044	1,147
Goodwill	2,596	2,699
Deferred Charges and Other Assets	2,085	2,046
TOTAL ASSETS	$ 30,268	$ 31,466
LIABILITIES AND COMMON SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable and current maturities of long-term debt	$ 920	$ 1,418
Accounts payable	1,870	1,808
Accrued payroll and benefits	423	370
Other accrued liabilities	1,169	890
Total Current Liabilities	4,382	4,486
Long-Term Debt	7,520	7,697
Deferred Income Taxes	3,344	3,673
Other Liabilities	1,332	1,347
Minority Interest	1,581	1,720
International Paper - Obligated Mandatorily Redeemable Preferred Securities of Subsidiaries Holding International Paper Debentures - Note 8	1,805	1,805
Commitments and Contingent Liabilities - Note 11		
Common Shareholders' Equity		
Common stock, $1 par value, 1999 - 414.6 shares, 1998 - 413.2 shares	415	413
Paid-in capital	4,078	3,896
Retained earnings	6,613	6,848
Accumulated other comprehensive income (loss)	(739)	(395)
	10,367	10,762
Less: Common stock held in treasury, at cost, 1999 - 1.2 shares, 1998 - 0.6 shares	63	24
Total Common Shareholders' Equity	10,304	10,738
TOTAL LIABILITIES AND COMMON SHAREHOLDERS' EQUITY	$ 30,268	$ 31,466

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS In millions for the years ended December 31	1999	1998	1997
OPERATING ACTIVITIES			
Net earnings (loss)	$ 183	$ 247	$ (80)
Depreciation and amortization	1,520	1,494	1,570
Deferred income tax provision (benefit)	(208)	132	(79)
Payments related to restructuring and legal reserves	(191)	(82)	(103)
Payments related to the Union Camp merger	(172)		
Merger integration costs	255		
Restructuring and other charges	298	145	660
Environmental remediation charge	10		
Provision for legal reserves	30		150
Oil and gas impairment charges		111	
Reversals of reserves no longer required	(36)	(83)	
Gains on sales of businesses		(20)	(170)
Loss on extinguishment of debt	26		
Other, net	45	80	126
Changes in current assets and current liabilities			
Accounts and notes receivable	(361)	152	(142)
Inventories	(121)	51	(149)
Accounts payable and accrued liabilities	449	(113)	(168)
Other	1	(16)	8
CASH PROVIDED BY OPERATIONS	1,728	2,098	1,623
INVESTMENT ACTIVITIES			
Invested in capital projects	(1,139)	(1,322)	(1,448)
Mergers and acquisitions, net of cash acquired	(54)	(498)	(94)
Proceeds from divestitures	119	523	322
Other	(11)	(51)	37
CASH USED FOR INVESTMENT ACTIVITIES	(1,085)	(1,348)	(1,183)
FINANCING ACTIVITIES			
Issuance of common stock	246	115	164
Issuance of preferred securities by subsidiary		1,525	
Issuance of debt	1,023	348	719
Reduction of debt	(1,563)	(2,213)	(860)
Change in bank overdrafts	102	68	29
Dividends paid	(418)	(431)	(427)
Other	(96)	(63)	(31)
CASH USED FOR FINANCING ACTIVITIES	(706)	(651)	(406)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(17)	1	2
CHANGE IN CASH AND TEMPORARY INVESTMENTS	(80)	100	36
CASH AND TEMPORARY INVESTMENTS			
Beginning of the year	533	433	397
End of the year	$ 453	$ 533	$ 433

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY
In millions, except share amounts in thousands

	Common Stock Issued		Paid-In	Retained
	Shares	Amount	Capital	Earnings
BALANCE, JANUARY 1, 1997	406,041	$ 406	$ 3,607	$ 7,539
Issuance of stock for merger	184		11	
Issuance of stock for various plans	2,637	3	77	
Repurchase of stock	(688)	(1)	(36)	
Cash dividends - Common stock ($1.05 per share)				(427)
Comprehensive income (loss)				
Net loss				(80)
Change in cumulative foreign currency translation adjustment (less tax expense of $200)				
Realized foreign currency translation adjustment related to divestitures (less tax benefit of $6)				
Total comprehensive income (loss)				
BALANCE, DECEMBER 31, 1997	408,174	408	3,659	7,032
Issuance of stock for merger	4,683	5	227	
Issuance of stock for various plans	605	1	23	
Repurchase of stock	(277)	(1)	(13)	
Cash dividends - Common stock ($1.05 per share)				(431)
Comprehensive income (loss)				
Net earnings				247
Minimum pension liability adjustment (less tax benefit of $5)				
Change in cumulative foreign currency translation adjustment (less tax benefit of $2)				
Realized foreign currency translation adjustment related to divestitures (less tax benefit of $4)				
Total comprehensive income				
BALANCE, DECEMBER 31, 1998	413,185	413	3,896	6,848
Issuance of stock for various plans	1,399	2	182	
Repurchase of stock				
Cash dividends - Common stock ($1.01 per share)				(418)
Comprehensive income (loss)				
Net earnings				183
Minimum pension liability adjustment (less tax expense of $1)				
Change in cumulative foreign currency translation adjustment (less tax expense of $31)				
Total comprehensive income (loss)				
BALANCE, DECEMBER 31, 1999	414,584	$ 415	$ 4,078	$ 6,613

	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total Common Shareholders' Equity
BALANCE, JANUARY 1, 1997	$ (181)	554	$ 22	$ 11,349
Issuance of stock for merger				11
Issuance of stock for various plans		(2,345)	(106)	186
Repurchase of stock		2,517	121	(158)
Cash dividends - Common stock ($1.05 per share)				(427)
Comprehensive income (loss)				
Net loss				(80)
Change in cumulative foreign currency translation adjustment (less tax expense of $200)	(257)			(257)

Realized foreign currency translation adjustment related to divestitures (less tax benefit of $6)	23			23
Total comprehensive income (loss)				(314)
BALANCE, DECEMBER 31, 1997	(415)	726	37	10,647
Issuance of stock for merger				232
Issuance of stock for various plans		(2,694)	(128)	152
Repurchase of stock		2,520	115	(129)
Cash dividends - Common stock ($1.05 per share)				(431)
Comprehensive income (loss)				
Net earnings				247
Minimum pension liability adjustment (less tax benefit of $5)	(8)			(8)
Change in cumulative foreign currency translation adjustment (less tax benefit of $2)	21			21
Realized foreign currency translation adjustment related to divestitures (less tax benefit of $4)	7			7
Total comprehensive income				267
BALANCE, DECEMBER 31, 1998	(395)	552	24	10,738
Issuance of stock for various plans		(1,866)	(87)	271
Repurchase of stock		2,530	126	(126)
Cash dividends - Common stock ($1.01 per share)				(418)
Comprehensive income (loss)				
Net earnings				183
Minimum pension liability adjustment (less tax expense of $1)	2			2
Change in cumulative foreign currency translation adjustment (less tax expense of $31)	(346)			(346)
Total comprehensive income (loss)				(161)
BALANCE, DECEMBER 31, 1999	$ (739)	1,216	$ 63	$ 10,304

The cumulative foreign currency translation adjustment (in millions) was $(733), $(387) and $(415) at December 31, 1999, 1998 and 1997, respectively, and is included as a component of accumulated other comprehensive income (loss).

The accompanying notes are an integral part of these financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OUR BUSINESS

International Paper is a global forest products, paper and packaging company that is complemented by an extensive distribution system, with primary markets and manufacturing operations in the U.S., Europe and the Pacific Rim. Substantially all of our businesses have experienced and are likely to continue to experience cycles relating to available industry capacity and general economic conditions. For a further discussion of our business see pages 6 through 29 of management's discussion and analysis of financial condition and results of operations.

FINANCIAL STATEMENTS

The preparation of these financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. For a further discussion of significant estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations, and disclosure of contingent assets and liabilities, see the legal and environmental issues section beginning on page 24. Actual results could differ from management's estimates.

On April 30, 1999, International Paper completed the merger with Union Camp Corporation (Union Camp) in a transaction accounted for as a pooling-of-interests. The accompanying financial statements have been restated to include the financial position and results of operations for both Union Camp and International Paper for all periods presented.

REVENUE RECOGNITION

Revenues are recognized when goods are shipped.

CONSOLIDATION

The consolidated financial statements include the accounts of International Paper Company and its subsidiaries. Minority interest represents minority shareholders' proportionate share of the equity in several of our consolidated subsidiaries, primarily Carter Holt Harvey Limited, Zanders Feinpapiere AG, Bush Boake Allen, Inc., Georgetown Equipment Leasing Associates, L.P. and Trout Creek Equipment Leasing, L.P. All significant intercompany balances and transactions are eliminated. Investments in affiliated companies owned 20% to 50%, and our 13% investment in Scitex Corporation Ltd., where we had the ability to exercise significant influence, because we were party to a shareowners' agreement with two other entities which together with International Paper owned just over 39% of Scitex, were accounted for by the equity method. International Paper's share of affiliates' earnings is included in the consolidated statement of earnings.

TEMPORARY INVESTMENTS

Temporary investments with an original maturity of three months or less are treated as cash equivalents and are stated at cost, which approximates market.

INVENTORIES

Inventory values include all costs directly associated with manufacturing products: materials, labor and manufacturing overhead. These values are presented at cost or market, if it is lower. In the U.S., costs of raw materials and finished pulp and paper products are generally determined using the last-in, first-out method. Other inventories are primarily stated using the first-in, first-out or average cost method.

PLANTS, PROPERTIES AND EQUIPMENT

Plants, properties and equipment are stated at cost, less accumulated depreciation. For financial reporting purposes, we use the units-of-production method of depreciation for our major pulp and paper mills and certain wood products facilities and the straight-line method for other plants and equipment. Annual straight-line depreciation rates are buildings, 2 1/2% to 8 1/2%, and machinery and equipment, 5% to 33%. For tax purposes, depreciation is computed using accelerated methods.

Interest costs related to the development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. We capitalized net interest costs of $29 million in 1999, $53 million in 1998 and $72 million in 1997. Interest payments made during 1999, 1998 and 1997 were $594 million, $766 million and $836 million, respectively. Total interest expense was $611 million in 1999, $706 million in 1998 and $710 million in 1997.

FORESTLANDS

International Paper controlled, through domestic subsidiaries, approximately 7.1 million acres of forestlands in the U.S. and, through its ownership of Carter Holt Harvey, approximately 785,000 acres of forestlands in New Zealand at December 31, 1999. Forestlands are stated at cost, less accumulated depletion representing the cost of timber harvested. The cost of timber harvested is included in cost of products sold in the consolidated statement of earnings. Forestlands include owned property as well as certain timber harvesting rights with terms of one or more years. Costs attributable to timber are

charged against income as trees are cut. The depletion rate charged is determined annually based on the relationship of remaining costs to estimated recoverable volume.

AMORTIZATION OF INTANGIBLE ASSETS

Goodwill, the cost in excess of assigned value of businesses acquired, is amortized for periods of up to 40 years. Accumulated amortization was $487 million and $441 million at December 31, 1999 and 1998, respectively. Goodwill amortization expense is included in depreciation and amortization in the consolidated statement of earnings.

STOCK-BASED COMPENSATION

Stock options and other stock-based compensation awards are accounted for using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations.

ENVIRONMENTAL REMEDIATION COSTS

Costs associated with environmental remediation obligations are accrued when such costs are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are discounted to their present value when the expected cash flows are reliably determinable.

TRANSLATION OF FINANCIAL STATEMENTS

Balance sheets of international operations are translated into U.S. dollars at year-end exchange rates, while statements of earnings are translated at average rates. Adjustments resulting from financial statement translations are included as cumulative translation adjustments in accumulated other comprehensive income
(loss). Gains and losses resulting from foreign currency transactions are included in earnings.

RECLASSIFICATIONS

Certain reclassifications have been made to prior-year amounts to conform with the current-year presentation.

NOTE 2 EARNINGS PER COMMON SHARE

Earnings per common share were computed by dividing net earnings by the weighted average number of common shares outstanding. Earnings per common share - assuming dilution were computed assuming that all potentially dilutive securities were converted into common shares at the beginning of each year. A reconciliation of the amounts included in the computation of earnings per common share and earnings per common share - assuming dilution is as follows:

In millions	1999	1998	1997
Net earnings (loss)	$ 183	$ 247	$ (80)
Effect of dilutive securities			
Preferred securities of subsidiary trust			
Net earnings (loss) - assuming dilution	$ 183	$ 247	$ (80)
Average common shares outstanding	413.0	411.0	406.7
Effect of dilutive securities			
Long-term incentive plan deferred compensation			
Stock options	3.1	3.2	
Preferred securities of subsidiary trust			
Average common shares outstanding - assuming dilution	416.1	414.2	406.7
Earnings (loss) per common share	$ 0.44	$ 0.60	$ (0.20)
Earnings (loss) per common share -			

assuming dilution	$ 0.44	$ 0.60	$ (0.20)

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

NOTE 3 INDUSTRY SEGMENT INFORMATION

Financial information by industry segment and geographic area for 1999, 1998 and 1997 is presented on pages 30 and 31. The segment and geographic area information has been restated to include Union Camp for all years presented.

NOTE 4 RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured by its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results of the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The Statement is effective for fiscal years beginning after June 15, 2000. A company may also implement the

Statement as of the beginning of any fiscal quarter after issuance. The Statement cannot be applied retroactively. The Statement must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997 (and at the company's election, before January 1, 1998).

We have not quantified the impact of adopting the Statement on our consolidated financial statements nor have we determined the timing of or method of the adoption. However, we believe that adoption of the provisions of the Statement could increase volatility in earnings and other comprehensive income.

NOTE 5 MERGERS AND ACQUISITIONS

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

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

The accompanying financial statements have been restated to combine the historical financial position and results of operations for both International Paper and Union Camp for all periods presented. The results of operations for the separate companies for the periods prior to the merger and the combined amounts included in our consolidated financial statements are as follows:

In millions	Three Months Ended March 31, 1999	Twelve Months Ended December 31, 1998	Twelve Months Ended December 31, 1997
Net sales:			
International Paper	$ 4,962	$ 19,541	$ 20,096
Union Camp	1,137	4,503	4,477
Intercompany eliminations	(67)	(65)	(17)
	$ 6,032	$ 23,979	$ 24,556
Net earnings (loss):			
International Paper	$ 44	$ 236	$ (151)
Union Camp	(10)	19	81
Other	(2)	(8)	(10)
	$ 32	$ 247	$ (80)

Note: Other includes the elimination of intercompany transactions and adjustments to conform the accounting practices of the two companies.

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

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

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

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

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

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

In February 1998, we entered into a joint venture with Olmuksa in Turkey for the manufacture of containerboard and corrugated boxes for markets in Turkey and surrounding countries. Also in February 1998, Carter Holt Harvey and

International Paper jointly acquired Australia-based Continental Cup.

Acquisitions in 1997 included: Taussig's Graphic Supply, Inc., a distribution company; Phoenix Display and Packaging Corporation, a merchandising and point-of-purchase display company; Merbok Formtec, a pioneer in the development of door facing products; Antietem Paper Company, a distribution company; and a 75% interest in Puntapel S.A., an Argentinean multi-wall plant. The cost of these acquisitions, net of cash acquired, was $94 million in the aggregate.

All of the acquisitions in 1999, 1998 and 1997, with the exception of the Union Camp acquisition which was accounted for as a pooling-of-interests, were accounted for using the purchase method. The operating results of those mergers and acquisitions accounted for under the purchase method have been included in the consolidated statement of earnings from the dates of acquisition.

NOTE 6 SPECIAL ITEMS INCLUDING RESTRUCTURING AND BUSINESS IMPROVEMENT ACTIONS

Special items reduced 1999 net earnings by $352 million, 1998 net earnings by $98 million and 1997 net earnings by $461 million. The following tables and discussion present the impact of special items for 1999, 1998 and 1997:

	1999	
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special and extraordinary items	$ 1,005	$ 551
Union Camp merger-related termination benefits	(148)	(97)
One-time merger expenses	(107)	(78)
Restructuring and other charges	(298)	(180)
Environmental remediation charge	(10)	(6)
Provision for legal reserves	(30)	(18)
Reversal of reserves no longer required	36	27
After special items	$ 448	$ 199

During 1999 special items amounting to a net charge before taxes and minority interest expense of $557 million ($352 million after taxes and minority interest expense) were recorded. The special items included a $148 million pre-tax charge ($97 million after taxes) for Union Camp merger-related termination benefits, a $107 million pre-tax charge ($78 million after taxes) for one-time merger expenses, a $298 million pre-tax charge ($180 million after taxes and minority interest expense) for asset shutdowns of excess internal capacity and cost reduction actions, a $10 million pre-tax charge ($6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a $30 million pre-tax charge ($18 million after taxes) to increase existing legal reserves and a $36 million pre-tax credit ($27 million after taxes) for the reversal of reserves that were no longer required.

The one-time merger expenses of $107 million consisted of $49 million of merger costs and $58 million of post-merger expenses. The merger costs were primarily investment banker, consulting, legal and accounting fees. Post-merger integration expenses include costs related to employee retention, such as stay bonuses, and other one-time cash costs related to the integration of Union Camp.

The Union Camp merger-related termination benefit charge relates to employees terminating after the effective date of the merger under an integratation benefits program . Under this program, 1,218 employees of the combined company were identified for termination. Benefits payable under this program for certain senior executives and managers are or have been paid from the general assets of International Paper. Benefits for remaining employees have been or will be primarily paid from plan assets of our qualified pension plan. Through December 31, 1999, 787 employees had been terminated. Related cash payments approximated $65 million (including payments related to our nonqualified pension plans). The remaining charge primarily represents an increase in the projected benefit obligation of our qualified pension plan.

The following table is a roll forward of the Union Camp merger-related termination benefit charge:

In millions	Termination Benefits
Special charge (1,218 employees)	$ 148
Incurred costs (787 employees)	(116)
Balance, December 31, 1999	$ 32

Note: Benefit costs are treated as incurred on the termination date of the employee.

The $298 million charge for the asset shutdowns of excess internal capacity consisted of a $113 million charge in the 1999 second quarter and a $185 million charge in the 1999 fourth quarter.

The second quarter 1999 $113 million charge for the asset shutdowns of excess internal capacity and cost reduction actions

included $57 million of asset write-downs and $56 million of severance and other charges. The following table and discussion presents additional detail related to the $113 million charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing and Communications Papers	(a)	$ 6	$ 27	$ 33
European Papers	(b)	3	7	10
Consumer Packaging	(c)	19	12	31
Industrial Packaging	(d)	12		12
Chemicals and Petroleum	(e)	10	3	13
Industrial Papers	(f)	7	7	14
		$ 57	$ 56	$113

(a) We recorded a charge of $24 million for severance related to the second phase of the Printing and Communications Papers business plan to improve the cost position of its mills. The charge, pursuant to our ongoing severance program, covers a reduction of approximately 289 employees at several mills in the U.S. At December 31, 1999, 146 employees had been terminated.

Also, management approved a decision to permanently shut down the Hudson River mill No. 4 paper machine located in Corinth, New York and the No. 2 paper machine at the Franklin, Virginia mill. The Franklin machine was shut down in September of 1999 and the Hudson River machine has also been shut down. The Hudson River machine had previously been temporarily shut down because of lack of orders. The machines were written down by $6 million to their estimated fair value of zero. Severance costs of $3 million cover the termination of 147 employees. At December 31, 1999, 76 employees had been terminated.

(b) The charge for European Papers, which covers the shutdown of two mills, consists of $3 million in asset write-downs, $6 million in severance costs and $1 million of other exit costs. The Lana mill in Docelles, France was shut down due to excess capacity. The Lana mill produced approximately 5,000 metric tons of high-end uncoated specialty paper per year. This production was shifted to the La Robertsau mill in Strasbourg, France. The Lana mill fixed assets were written down $3 million to their estimated fair value of zero. Costs related to the site closure are expected to be $1 million and severance related to the termination of 42 employees will be approximately $4 million. The Lana mill had revenues of $12 million and an operating loss of $2 million for the year ended December 31, 1999. At December 31, 1999, 14 employees had been terminated.

The Corimex coating plant in Clermont-Ferrand, France was shut down in April 1999. The market for thermal fax paper, which was produced at the plant, has been shrinking since the mid-1990's. The assets at this plant were considered to be impaired in 1997 and were written down accordingly at that time. A $2 million severance charge was recorded during the second quarter of 1999 to cover the costs of terminating 81 employees. Corimex had revenues of $6 million and an operating loss of $3 million for the year ended December 31, 1999. At December 31, 1999, all 81 employees had been terminated.

(c) The Consumer Packaging business has implemented a plan to improve the overall performance of the Moss Point, Mississippi mill. Included in this plan is the shutdown of the No. 3 paper machine which produces labels. This production is being transferred to the Hudson River mill. The machine has been written down $6 million to its estimated fair value of zero. Severance costs including, but not limited to, employees associated with the No. 3 machine total $10 million and cover the elimination of 360 positions. At December 31, 1999, 272 employees had been terminated.

Consumer Packaging also shut down the beverage packaging facility in Itu, Brazil in an effort to reduce excess capacity in Latin America. The assets were written down $13 million to their estimated fair value of zero and a severance charge of $1 million covers the elimination of 29 positions. Other exit costs total $1 million. At December 31, 1999, 24 employees had been terminated.

(d) As a result of the merger with Union Camp, we negotiated the resolution of contractual commitments in an industrial packaging investment in Turkey. As a result of these negotiations and evaluation of this entity, it was determined that the investment was impaired. A $12 million charge was recorded to reflect this impairment and the related costs of resolving the contractual commitments.

(e) As a result of an overall reduction in market demand for dissolving pulp, the decision was made to downsize the Natchez, Mississippi mill. Charges associated with capacity reduction total $10 million and include the shutdown of several pieces of equipment. A severance charge of $3 million includes the elimination of 89 positions. At December 31, 1999, 88 employees had been terminated.

(f) The Industrial Papers business has implemented a plan to reduce excess capacity at several of its locations. The Toronto, Canada plant has been closed. Equipment at the Kaukauna, Wisconsin and Knoxville, Tennessee facilities has been taken out of service, with additional equipment at the Menasha, Wisconsin plant scheduled to be shut down in 2000. The total amount related to the write-down of these assets is $7 million. Severance costs related to these shutdowns are $5 million and are based on a personnel reduction of 81 employees. Other exit costs total $2 million. At December 31, 1999, a reduction of 59 employees had been made through severance and attrition.

The $185 million fourth-quarter 1999 charge for shutdowns of excess internal capacity and cost reduction actions includes $92 million of asset write-downs and $93 million of severance and other charges. The following table presents additional detail related to the $185 million charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing and Communications Papers	(a)	$ 7	$ 5	$ 12
Consumer Packaging	(b)	14	22	36
Industrial Packaging	(c)	7	14	21
Chemicals and Petroleum	(d)	30	20	50
Building Materials	(e)	10	6	16
Distribution	(f)	6	17	23
Carter Holt Harvey	(g)	18	9	27
		$ 92	$ 93	$185

(a) The Printing and Communications Papers charge of $12 million encompasses a production curtailment at the Erie, Pennsylvania mill due to lower demand, the write-off of deferred software costs as the result of a decision to discontinue the installation of a Union Camp order entry system and an impairment of our investment in the Otis Hydroelectric plant. In November 1999 we announced that the Erie, Pennsylvania mill would change from a seven day, four crew schedule to a three crew schedule in order to balance operating capacity with sales demand. This production curtailment resulted in a severance charge of $2 million for the termination of 99 employees. The charge for the deferred software write-off was $3 million. International Paper also wrote down its investment in the Otis Hydroelectric partnership by $7 million to the approximate market value of the investment based upon our current offer to acquire the other partner's interest.

(b) The Consumer Packaging business charge of $36 million is related to the shutdown of facilities, capacity optimization and a deferred software write-off. The Philadelphia, Pennsylvania plant and the Edmonton, Alberta plant are scheduled to be shut down. Charges associated with these shutdowns include $7 million of asset write-downs, $1 million of severance costs covering the termination of 194 employees and other exit costs of $5 million. Charges related to eliminating excess capacity include $7 million of asset write-downs and a severance charge of $11 million for the termination of 512 employees. The capacity reductions are related to the aseptic and flexible packaging businesses. The business also decided to discontinue the implementation of a Union Camp order management system. The write-off of deferred software costs related to this system is $5 million.

(c) The Industrial Packaging business will shut down the following plants and shift production to other facilities: the Terre Haute, Indiana box plant; the Northlake, Illinois box plant; the Columbia, Tennessee sheet plant; and the Montgomery, Alabama sheet plant. The design center in Spartanburg, South Carolina will also be closed. The functions performed in Spartanburg will continue in Memphis, Tennessee. Charges associated with the consolidation and improvement of the Industrial Packaging business total $21 million and include $7 million of asset write-downs, a $12 million severance charge covering the termination of 426 employees and other exit costs of $2 million.

(d) The Chemicals and Petroleum charge of $50 million is related to the partial shutdown of the Chester-Le-Street plant located in Northeast England and additional costs related to the 1998 shutdown of the Springhill, Louisiana plant. The Chester-Le-Street plant is currently

a fully integrated site comprised of a crude tall oil fractionation plant, a rosin resin upgrading plant and a dimer plant. The crude tall oil and rosin resin upgrading facilities at the site will be closed and production shifted to other Arizona Chemical facilities. Asset write-downs for this plant total $30 million. A severance charge of $3 million covers the termination of 83 employees. Other costs of $12 million include demolition and contract cancellations. We also recorded an additional charge of $5 million related to the 1998 closure of the Springhill plant, covering other exit costs including demolition and cleanup.

(e) The Building Materials charge of $16 million includes $3 million for a program to improve the profitability of the decorative surfaces business and $13 million for the shutdown of the Pilot Rock, Oregon mill. The Decorative Products business has developed an improvement plan that will result in the consolidation of certain manufacturing activities and streamlining of administrative functions. As a result, a reserve of $3 million was established to cover asset write-offs totaling $2 million and severance charges of $1 million related to the reduction of 65 employees. International Paper announced in October of 1999 that it would shut down the Pilot Rock, Oregon mill due to excess capacity within the Masonite manufacturing system. The softboard production will be moved to our Ukiah, California and Lisbon Falls, Maine facilities. The charge includes $8 million of asset write-downs, a $2 million severance charge covering the termination of 155 employees and other exit costs of $3 million.

(f) xpedx, our distribution business, implemented a plan to consolidate duplicate facilities and eliminate excess capacity. The $23 million charge associated with this plan includes $6 million of asset write-downs, a severance charge of $5 million for the termination of 211 employees and other costs of $12 million. Other costs consist primarily of lease cancellations.

(g) This charge is related to the shutdown of the No. 5 paper machine at Carter Holt Harvey's Kinleith mill. The machine had been idled due to a reconfiguration project at the mill. Plans for alternative uses for the machine were reexamined and it was determined that based on current competitive conditions it would not provide adequate returns on the capital required and that it would be scrapped. Accordingly, the machine was written down from its $20 million book value to its estimated salvage value of $2 million. Also, severance costs total $9 million and cover the costs of terminating 300 employees.

The $30 million pre-tax charge to increase existing legal reserves includes $25 million which we added to our reserve for hardboard siding claims. A further discussion of this charge can be found in Note 11. Commitments and Contingent Liabilities. The remaining $5 million is related to other potential exposures.

The $36 million pre-tax credit for reserves no longer required consists of $30 million related to a retained exposure at the Lancey mill in France and $6 million of excess severance reserves previously established by Union Camp. The Lancey mill was sold to an employee group in October 1997. In April 1999, International Paper's remaining exposure to potential obligations under this sale was resolved, and the reserve was returned to income in the second quarter.

The following table is a roll forward of the severance and other costs included in the 1999 restructuring plans (in millions):

	Severance and Other
Opening Balance (second quarter 1999)	$ 56
Additions (fourth quarter 1999)	93
1999 Activity	
Cash charges	(34)
Balance, December 31, 1999	$ 115

The severance reserves recorded in the 1999 second and fourth quarters related to 3,163 employees. As of December 31, 1999, 760 employees had been terminated.

	1998	
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special items	$ 598	$ 345
Oil and gas impairment charges	(111)	(68)
Restructuring and other charges	(161)	(92)
Gain on sale of business	20	12
Reversals of reserves no longer required	83	50
After special items	$ 429	$ 247

During 1998, we recorded $111 million of oil and gas impairment charges ($68 million after taxes). Of this amount, $56 million ($35 million after taxes) was recorded in the fourth quarter and $55 million ($33 million after taxes) was recorded in the third quarter. International Paper has oil and gas exploration and production operations in West Texas, the Gulf Coast and the Gulf of Mexico. The Securities and Exchange Commission's regulations for companies that use the full-cost method of accounting for oil and gas activities require companies to perform a ceiling test on a quarterly basis. As a result of low oil and gas prices, the value of our properties was written down through these noncash charges.

Also in 1998, we recorded a $145 million pre-tax restructuring charge ($82 million after taxes and minority interest expense) consisting of $64 million of asset write-downs and $81 million of severance costs and we recorded pre-tax charges of $16 million ($10 million after taxes) related to our share of write-offs taken by Scitex, a 13% investee company, related to in-process research and development of an acquisition and its exit from the digital video business. The Scitex items are reflected as equity losses from the investment in Scitex in the consolidated statement of earnings. In addition, we recorded a $20 million pre-tax gain ($12 million after taxes) on the sale of our Veratec nonwovens division, and an $83 million pre-tax gain ($50 million after taxes) from the reversal of previously established reserves that were no longer required. These reserves were established in 1996 and 1997 and were primarily associated with the Veratec and Imaging businesses. The sales of these businesses were completed in 1998 and those reserves not required were returned to earnings.

The following table and discussion presents additional detail related to the $145 million restructuring charge:

In millions		Asset Write-downs	Severance	Total
Distribution	(a)	$ 20	$ 10	$ 30
Printing and Communications Papers	(b)	13	14	27
Carter Holt Harvey	(c)	15	3	18
Industrial Packaging	(d)	8	7	15
Union Camp	(e)	8	32	40
Other	(f)		15	15
Total		$ 64	$ 81	$145

(a) After the acquisition of Zellerbach, management of xpedx decided to terminate certain software projects that were in process and to use Zellerbach's systems in certain of its regions. Accordingly, we wrote off related deferred software costs on these projects, resulting in a $20 million charge. As part of the Zellerbach integration plan, management determined that a significant part of the personnel reduction related to the termination of employees at duplicate facilities and locations. The $10 million severance charge represents the costs for terminating 274 xpedx employees. At December 31, 1999, all of the 274 employees had been terminated.

(b) Our Printing and Communications Papers business shut down equipment at the Mobile, Alabama mill and announced the termination of 750 employees at the Mobile, Alabama, Lock Haven, Pennsylvania, and Ticonderoga, New York mills. At the Mobile mill, International Paper permanently shut down a paper machine and related equipment with a net book value of $13 million. These assets were written down to their estimated fair market value of zero. The severance charge associated with the employee reductions at the 3 mills was $14 million. At December 31, 1999, all employees under this program had been terminated.

(c) This charge primarily consists of a $15 million asset write-down associated with the closure of two Carter Holt Harvey facilities, Myrtleford and Taupo. Myrtleford, a tissue pulp mill located in Australia, was closed due to excess capacity in its tissue pulp system. Carter Holt Harvey will be able to produce the volume at lower costs at its Kawerau tissue pulp mill located in New Zealand. Carter Holt Harvey also decided to close the Taupo, New Zealand sawmill due to excess capacity in its sawmill system as the result of recent productivity improvements. The $3 million severance charge represents the cost for terminating 236 employees. At December 31, 1999, all of the 236 employees had been terminated. Our consolidated financial statements included revenues of $21 million and $36 million and operating income of $1 million and $3 million from these facilities in 1998 and 1997, respectively.

(d) Management decided to close the Gardiner, Oregon mill because of excess capacity in International Paper's containerboard system. As a result, the net plant, property and equipment assets of this mill were reduced from $13 million to the estimated salvage value of $5 million. In

connection with the third-quarter decision to close this mill, 298 employees at the mill were terminated and a $7 million severance charge was recorded. This mill had revenues of $78 million and $105 million and operating losses of $16 million and $1 million in 1998 and 1997, respectively.

(e) During 1998 Union Camp recorded a pre-tax special charge of $40 million. Included in the charge was $32 million related to the termination of 540 positions and $8 million of asset write-downs. Approximately 190 positions were related to a reorganization and restructuring of Union Camp's research and development activities. Another 190 positions were related to a consolidation of the packaging group's administrative support functions and the remaining 160 positions were to be eliminated through a series of other organizational changes. At December 31, 1999, all of the 540 employees had been terminated.

The asset write-downs were principally attributable to the impairment of goodwill specific to two packaging businesses, the Chase packaging facility and Union Camp's 1996 purchase of a 50% interest in a packaging plant in Turkey. Upon reviewing the historical and projected operating results for these businesses, management concluded that expected future cash flows did not fully support the carrying value of these assets.

(f) The $15 million severance charge was recorded as a result of an announcement by International Paper of a plan to consolidate its land and timber and logging and fiber supply divisions into a new division called Forest Resources and the consolidation of the Consumer Packaging group. Of the $15 million charge, $10 million related to a headcount reduction of 200 employees in the Forest Resources group and the remaining $5 million was based on a personnel reduction of 210 employees in the Consumer Packaging group. At December 31, 1999, all of the 410 employees had been terminated.

The following table is a roll forward of the severance costs included in the 1998 restructuring plan (in millions):

	Severance
Opening Balance (third quarter 1998)	$ 81
1998 Activity	
Cash charges	(19)
1999 Activity	
Cash charges	(56)
Reserve reversal	(6)
Balance, December 31, 1999	$ 0

The severance reserve recorded in the 1998 third quarter related to 2,508 employees. As of December 31, 1999, all employees had been terminated.

	1997	
In millions	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special items	$ 783	$ 381
Provision for legal reserve	(150)	(93)
Restructuring and other charges	(660)	(465)
Gain on sale of business	170	97
After special items	$ 143	$ (80)

In June 1997, a $535 million pre-tax business improvement charge ($385 million after taxes) was recorded under a plan to improve our financial performance through closing or divesting of operations that no longer met financial or strategic objectives. It included approximately $230 million for asset write-downs, $210 million for the estimated losses on sales of businesses and $95 million for severance and other expenses. At this point, the anticipated pre-tax earnings improvement of $100 million from the 1997 restructuring actions has been largely realized. The earnings improvement consists of $25 million of lower depreciation expense and $75 million of lower cash costs.

The $230 million write-down of assets that International Paper recorded in the second quarter of 1997 consisted primarily of write-downs associated with assets to be sold or shut down as follows (in millions):

Shutdown of European Papers facilities	(a)	$105
Shutdown of U.S. Papers and Fine Papers facilities	(b)	101
Write-off of Haig Point real estate development	(c)	13

Other shutdowns	11
	$230

(a) In the second quarter of 1997, management committed to sell the Lancey, France mill to an employee group. We wrote down the net carrying amount of the mill at June 30, 1997 by $65 million and established a reserve of $30 million to cover a retained exposure. This remaining exposure was resolved in 1999. The sale closed in October 1997. Lancey had revenues of $52 million and an operating loss of $7 million in 1997. The Corimex, France mill produced coated thermal fax paper, which is a market that weakened in the mid-1990's. During the second quarter of 1997, management concluded that it would continue to operate this mill but that the assets were impaired. Based on an analysis of expected future cash flows completed in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," we reduced the carrying value of the Corimex mill from $12 million to $2 million, resulting in a $10 million charge. The Corimex mill was shut down in April 1999. Charges related to the shutdown are included in the 1999 special charge. Corimex had operating losses of $4 million in 1998 and $2 million in 1997.

(b) The $101 million reserve related to the restructuring of the Fine Papers manufacturing operations in the Northeast ($51 million) and the shutdown of the deinking facility at the Lock Haven, Pennsylvania mill ($50 million). The restructuring of the Fine Papers operations included the shutdown of the Woronoco, Massachusetts paper mill and 3 small paper machines at the Erie, Pennsylvania mill. In the 1997 second quarter, we decided to close the deinking facility. Given that each of these actions represented the permanent shutdown of equipment or facilities, International Paper wrote down the net carrying amount of the assets to zero. The Woronoco, Massachusetts mill had revenues of $46 million and operating earnings of $5 million in 1997.

(c) We are the developer of a residential golf community named Haig Point at Daufuskie Island, South Carolina. As the developer, International Paper was responsible for operating this community until a specified number of lots were sold, at which time we would turn the community over to the homeowners. The net book value of our investment in Haig Point was $13 million at June 30, 1997. Given continuing operating losses, $5 million in 1997 and an updated marketing study, we concluded that the investment was permanently impaired and wrote it down to zero. Operating losses of $1 million and $500,000 were recorded in 1999 and 1998, respectively.

The $210 million for the estimated losses on sales of businesses related to the following (in millions):

Imaging	(a)	$150
Veratec	(b)	25
Decorative Products	(c)	20
Label	(d)	15
		$210

(a) We decided to sell our Imaging businesses in the second quarter of 1997. Based on discussions with our investment banker and meetings with potential buyers, International Paper believed that the most likely outcome was to realize approximately $325 million. A reserve of $150 million was established, which represented the estimated loss on the sale. We expected to complete the sale of the Imaging businesses within one year. The Imaging businesses had revenues of $690 million and operating earnings of $9 million in 1997.

(b) The Veratec division had developed a business that was based on an interspun technology for treating fabrics. The net carrying value of this business was $25 million at June 30, 1997. In June 1997, we decided to shut down this business and recorded a reserve of $25 million. Prior to the shutdown, this business had revenues of $2 million and an operating loss of $7 million in 1997.

(c) In the second quarter of 1997, management decided to sell the medium-density fiberboard, low-pressure laminates and particleboard businesses. We estimated the expected sales prices for each of these businesses and recorded a reserve of $20 million to reduce the net carrying amounts to these levels. We expected to complete the sales of these businesses within one year. These businesses had revenues of $196 million and operating losses of $1 million in 1997.

(d) In the second quarter of 1997, management committed to a plan to sell the label business. The estimated total loss on the label business sale included in the second-quarter 1997 restructuring charge was $15 million. The label

business was sold in May of 1998. The label business had revenues of $24 million and an operating loss of $2 million in 1997.

The $95 million of severance and other expenses consists of the following (in millions):

Severance	(a)	$42
Write-off of deferred software costs	(b)	18
Lease buyouts at warehouses	(c)	9
Write-off of deinking process license	(d)	4
Other exit costs	(e)	22
		$95

(a) The $42 million severance charge relates to programs initiated and approved in the 1997 second quarter in the Printing and Communications Papers, Industrial and Consumer Packaging segments and corporate staff groups to reduce headcount by 3,015 employees under our existing ongoing severance plans. We recorded the charge in the second quarter as (1) management had committed to the plan of termination, (2) the benefit arrangement had been communicated to the employees, (3) the number of employees, their functions and locations had been identified, and (4) all terminations were to be completed in approximately one year. As of December 31, 1999, all employees had been terminated under these programs.

(b) The $18 million charge for the write-off of deferred software costs relates to two items as follows: (1) during the 1997 second quarter, a human resources software project, for which $11 million of deferred software costs had been recorded, was cancelled and (2) as a result of the decision to sell certain businesses in the second quarter of 1997, we decided to terminate enterprise software projects in these businesses, for which we had recorded $7 million of deferred software costs.

(c) The $9 million charge represents the cost to buy out obligations under existing warehouse leases. A decision to close these warehouses was made in the second quarter of 1997.

(d) The $4 million charge represents the write-off of the net carrying value of the deinking process license that had been acquired from a third party. International Paper permanently shut down this operation in the 1997 second quarter. Accordingly, we wrote the license down to zero.

(e) The charge of $22 million relates to other exit costs.

In December 1997, an additional pre-tax charge of $125 million ($80 million after taxes) was recorded for anticipated losses associated with the sale of the remaining Imaging businesses. Such amount was determined after consideration of the sales of certain of the Imaging businesses that had been completed and the estimated proceeds from the businesses remaining to be sold. The remaining Imaging businesses were sold in 1998.

Also included in the 1997 special items was a $150 million provision to increase our legal reserves as a result of a settlement by Masonite Corporation, a wholly-owned subsidiary, of a class-action lawsuit relating to its hardboard siding product. A more detailed discussion of this legal settlement is included in Note 11. to the financial statements.

The following table is a roll forward of the severance and other costs included in the 1997 restructuring plan (in millions):

	Severance and Other
Opening Balance (second quarter 1997)	$ 95
1997 Activity	
Asset write-downs	(18)
Cash charges	(15)
Balance, December 31, 1997	62
1998 Activity	
Asset write-downs	(4)
Reserve reversals	(9)
Cash charges	(40)
Balance, December 31, 1998	9
1999 Activity	
Cash charges	(9)
Balance, December 31, 1999	$ 0

NOTE 7 GAINS ON SALES OF WEST COAST PARTNERSHIP INTERESTS

On March 29, 1996, IP Timberlands, Ltd. (IPT) completed the sale of a 98% general partnership interest in a subsidiary partnership that owned approximately 300,000 acres of forestlands located in Oregon and Washington. Included in the net assets of the partnership interest sold were forestlands, roads and $750 million of long-term debt. As a result

of this transaction, International Paper recognized in its 1996 first-quarter consolidated results a $592 million pre-tax gain ($336 million after taxes and minority interest expense). IPT and International Paper retained nonoperating interests in the partnership. In December 1997, these retained interests were redeemed and a related debt guaranty was released resulting in a pre-tax gain of $170 million ($97 million after taxes and minority interest expense). These gains were presented in the consolidated statement of earnings as gains on sales of businesses.

NOTE 8 PREFERRED SECURITIES OF SUBSIDIARIES

In March 1998, Timberlands Capital Corp. II, Inc., a wholly-owned consolidated subsidiary of International Paper, issued $170 million of 7.005% preferred securities as part of the financing to repurchase the outstanding units of IP Timberlands, Ltd. These securities are not mandatorily redeemable and are classified in the consolidated balance sheet as a minority interest liability.

In June 1998, IP Finance (Barbados) Limited, a non-U.S. wholly-owned consolidated subsidiary of International Paper, issued $550 million of preferred securities with a dividend payment based on LIBOR. These preferred securities are mandatorily redeemable on June 30, 2008.

In September 1998, International Paper Capital Trust III issued $805 million of International Paper - obligated mandatorily redeemable preferred securities. International Paper Capital Trust III is a wholly-owned consolidated subsidiary of International Paper and its sole assets are International Paper 7 7/8% debentures. The obligations of International Paper Capital Trust III related to its preferred securities are fully and unconditionally guaranteed by International Paper. These preferred securities are mandatorily redeemable on December 1, 2038.

In the third quarter of 1995, International Paper Capital Trust (the Trust) issued $450 million of International Paper - obligated mandatorily redeemable preferred securities. The Trust is a wholly-owned consolidated subsidiary of International Paper and its sole assets are International Paper 5 1/4% convertible subordinated debentures. The obligations of the Trust related to its preferred securities are fully and unconditionally guaranteed by International Paper. These preferred securities are convertible into International Paper common stock.

Distributions paid under all of the preferred securities noted above were $134 million, $54 million and $24 million in 1999, 1998 and 1997, respectively.

NOTE 9 SALE OF LIMITED PARTNERSHIP INTERESTS

During 1993, International Paper contributed assets with a fair market value of approximately $900 million to two newly formed limited partnerships, Georgetown Equipment Leasing Associates, L.P. and Trout Creek Equipment Leasing, L.P. These partnerships are separate and distinct legal entities from International Paper and have separate assets, liabilities, business functions and operations. However, for accounting purposes, we continue to consolidate these assets, and the minority shareholders' interests are reflected as minority interest in the accompanying financial statements. The purpose of the partnerships is to invest in and manage a portfolio of assets including pulp and paper equipment used at the Georgetown, South Carolina and Ticonderoga, New York mills. This equipment is leased to International Paper under long-term leases. Partnership assets also include floating rate notes and cash. During 1993, outside investors purchased a portion of our limited partner interests for $132 million and also contributed an additional $33 million to one of these partnerships.

At December 31, 1999, we held aggregate general and limited partner interests totaling 58% in Georgetown Equipment Leasing Associates, L.P. and 50% in Trout Creek Equipment Leasing, L.P.

NOTE 10 INCOME TAXES

We use the asset and liability method of accounting for income taxes whereby deferred income taxes are recorded for the future tax consequences attributable to differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are revalued to reflect new tax rates in the periods rate changes are enacted.

The components of earnings before income taxes and minority interest by taxing jurisdiction were:

In millions	1999	1998	1997
Earnings			
U.S.	$ 237	$ 297	$ 43
Non-U.S.	211	132	100
Earnings before income taxes, minority interest and extraordinary item	$ 448	$ 429	$ 143

The provision for income taxes by taxing jurisdiction was:

In millions	1999	1998	1997
Current tax provision (benefit)			
U.S. federal	$ 259	$ (64)	$ 104
U.S. state and local	27	(6)	11
Non-U.S.	8	33	47
	294	(37)	162
Deferred tax provision (benefit)			
U.S. federal	(108)	117	(41)
U.S. state and local	(103)	(12)	(41)
Non-U.S.	3	27	3
	(208)	132	(79)
Income tax provision	$ 86	$ 95	$ 83

We made income tax payments, net of refunds, of $68 million, $144 million and $209 million in 1999, 1998 and 1997, respectively.

A reconciliation of income tax expense using the statutory U.S. income tax rate compared with actual income tax expense follows:

In millions	1999	1998	1997
Earnings before income taxes, minority interest and extraordinary item	$ 448	$ 429	$ 143
Statutory U.S. income tax rate	35%	35%	35%
Tax expense using statutory U.S. income tax rate	157	150	50
State and local income taxes	(20)	(11)	(20)
Non-U.S. tax rate differences	(52)	20	32
Permanent benefits on sales of non-U.S. businesses	(2)	(33)	
Permanent benefits on sales of non-strategic timberland assets		(29)	
Nondeductible business expenses	30	9	53
Foreign sales corporation benefit	(9)	(9)	(22)
Minority interest	(56)	(31)	(23)
Goodwill	21	21	20
Net U.S. tax on non-U.S. dividends	15	10	11
Tax credits	(12)	(1)	(7)
Other, net	14	(1)	(11)
Income tax provision	$ 86	$ 95	$ 83

Effective income tax rate	19%	22%	58%

The net deferred income tax liability as of December 31, 1999 and 1998 includes the following components:

In millions	1999	1998
Current deferred tax asset	$ 196	$ 211
Noncurrent deferred tax asset	240	284
Noncurrent deferred tax liability	(3,344)	(3,673)
Total	$(2,908)	$(3,178)

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 1999 and 1998 were as follows:

In millions	1999	1998
Plants, properties and equipment	$(2,995)	$(3,036)
Prepaid pension costs	(339)	(347)
Forestlands	(534)	(638)
Postretirement benefit accruals	225	210
Alternative minimum and other tax credits	390	376
Net operating loss carryforwards	235	135
Other	110	122
Total	$(2,908)	$(3,178)

Net operating loss carryforwards, most of which are applicable to non-U.S. subsidiaries, expire as follows: years

2001 through 2006 - $139 million, year 2019 - $37 million and indefinite carryforward - $564 million.

Deferred taxes are not provided for temporary differences of approximately $570 million, $475 million and $555 million as of December 31, 1999, 1998 and 1997, respectively, representing earnings of non-U.S. subsidiaries that are intended to be permanently reinvested. If these earnings were remitted, we believe that U.S. foreign tax credits would eliminate any significant impact on future income tax provisions.

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES

Certain property, machinery and equipment are leased under cancelable and noncancelable agreements. At December 31, 1999, total future minimum rental commitments under noncancelable leases were $606 million, due as follows: 2000 - $150 million, 2001 - $121 million, 2002 - $91 million, 2003 - $77 million, 2004
- $62 million and thereafter - $105 million. Rent expense was $229 million, $237 million and $242 million for 1999, 1998 and 1997, respectively.

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

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

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

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

Our reserves for these matters total $76 million at December 31, 1999. The amount includes $25 million which we added to our reserve for hardboard siding claims in the fourth quarter of 1999, to cover an expected shortfall in that reserve resulting primarily from a higher number of hardboard siding claims in the fourth quarter of 1999 than we had anticipated. It is reasonably possible that the higher number of hardboard siding claims might be indicative of the need for one or more future additions to this reserve. However, whether or not any future additions to this reserve become necessary, International Paper believes that these settlements will not have a material adverse effect on our consolidated financial position or results of operations. The reserve balance is net of $51 million of expected insurance recoveries (apart from the insurance recoveries to date). Through December 31, 1999, settlement payments of $183 million, including the $51 million of nonrefundable advances of attorney's fees discussed above, have been made. Also, we have received $27 million from our insurance carriers through December 31, 1999. International Paper and Masonite have the right to terminate each of the settlements after seven years from the dates of final approval.

We are also involved in various other inquiries, administrative proceedings and litigation relating to contracts, sales of property, environmental protection, tax, antitrust and other matters, some of which allege substantial monetary damages. While any proceeding or litigation has the element of uncertainty, we believe that the outcome of any lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on our consolidated financial position or results of operations.

NOTE 12 SUPPLEMENTARY BALANCE SHEET INFORMATION

Inventories by major category were:

In millions at December 31	1999	1998
Raw materials	$ 484	$ 555
Finished pulp, paper and packaging products	1,869	1,800
Finished lumber and panel products	178	183
Operating supplies	486	510
Other	186	163
Inventories	$ 3,203	$ 3,211

The last-in, first-out inventory method is used to value most of our domestic inventories. Approximately 73% of total raw materials and finished products inventories were valued using this method. If the first-in, first-out method had been used, it would have increased total inventory balances by approximately $250 million, $321 million and $348 million at December 31, 1999, 1998 and 1997, respectively.

Plants, properties and equipment by major classification were:

In millions at December 31	1999	1998
Pulp, paper and packaging facilities		
Mills	$21,288	$21,367
Packaging plants	3,233	3,082
Wood products facilities	2,117	2,134
Other plants, properties and equipment	2,889	2,987
Gross cost	29,527	29,570
Less: Accumulated depreciation	15,146	14,250
Plants, properties and equipment, net	$14,381	$15,320

NOTE 13 DEBT AND LINES OF CREDIT

A summary of long-term debt follows:

In millions at December 31	1999	1998
8 7/8% to 10.5% notes - due 2000 - 2012	$ 563	$ 596
8 7/8% to 9.7% notes - due 2000 - 2004	600	600
8 5/8% to 10% sinking fund debentures - due 2000 - 2021	34	243
8.5% to 9.5% debentures - due 2002 - 2022	246	325
8 3/8% to 9 1/2% debentures - due 2015 - 2024	300	300
6 7/8% to 7 7/8% notes - due 2000 - 2007	1,373	1,423
6 7/8% to 8 1/8% notes - due 2023 - 2029	741	546
6.5% notes - due 2007	148	148
6 1/8% notes - due 2003	200	200
5 7/8% Swiss franc debentures - due 2001	68	82
5 3/8% note due - 2006	249	
5 1/8% debentures - due 2012	88	86
Floating rate notes - due 1999 (1)		450
Medium-term notes - due 2000 - 2009 (2)	331	625
Environmental and industrial development bonds - due 2000 - 2028 (3,4)	1,352	1,363
Commercial paper and bank notes (5)	1,325	1,196
Other (6)	416	459
Total (7)	8,034	8,642
Less: Current maturities	514	945
Long-term debt	$7,520	$7,697

(1) The weighted average interest rate on these notes was 6.2% in 1998 and was based on LIBOR.

(2) The weighted average interest rate on these notes was 8.3% in 1999 and 7.5% in 1998.

(3) The weighted average interest rate on these bonds was 6.1% in 1999 and 5.8% in 1998.

(4) Includes $149 million of bonds at December 31, 1999 and $274 million at December 31, 1998, which may be tendered at various dates and/or under certain circumstances.

(5) Includes $708 million in 1999 of non-U.S. dollar denominated borrowings with a weighted average interest rate of 5.6% in 1999.

(6) Includes $14 million in 1999 and $36 million in 1998 of French franc borrowings with a weighted average interest rate of 2.8% in 1999 and 2.7% in 1998, and $132 million in 1999 and $159 million in 1998 of German mark borrowings with a weighted average interest rate of 4.7% in 1999 and 4.6% in 1998.

(7) The fair market value was approximately $8.1 billion and $9.0 billion at December 31, 1999 and 1998, respectively.

Total maturities of long-term debt over the next five years are 2000 - $514 million, 2001 - $619 million, 2002 - $1.4 billion, 2003 - $300 million and 2004 - $1.5 billion.

At December 31, 1999 and 1998, International Paper, including a non-U.S. subsidiary, classified $1.5 billion and $1.4 billion, respectively, of tenderable bonds, commercial paper and bank notes as long-term debt. International Paper and this subsidiary have the intent and ability to renew or convert these obligations through 2000 and into future periods.

At December 31, 1999, unused bank lines of credit amounted to $1.9 billion. The lines generally provide for interest at market rates plus a margin based on our current

bond rating. The principal line, which is cancelable only if our bond rating drops below investment grade, provides for $750 million of credit through March 2004, and has a facility fee of .10% that is payable quarterly. A 364-day facility provides for $500 million of credit through March 29, 2000 and has a facility fee of .07% that is payable quarterly. Carter Holt Harvey also has two principal lines of credit that support its commercial paper programs. A $600 million line of credit matures in April 2002 and has a .15% facility fee that is payable quarterly and a 250 million New Zealand dollar line of credit matures in February 2002 and has a .13% facility fee that is payable quarterly.

At December 31, 1999, notes payable included $693 million of non-U.S. dollar denominated debt with maturities of less than twelve months and a weighted average interest rate of 10.3%.

At December 31, 1999, outstanding debt included approximately $1.7 billion of borrowings with interest rates that fluctuate based on market conditions and our credit rating.

In 1999, International Paper recorded an extraordinary loss of $16 million after taxes for the extinguishment of high interest debt which was assumed under the merger agreement with Union Camp. We extinguished approximately $275 million of long-term debt with interest rates ranging from 8.5% to 10%.

Through a public tender offer in the 1997 third quarter, International Paper's then wholly-owned subsidiary, Federal Paper Board, repurchased $164 million of its 10% debentures due April 15, 2011. The earnings impact of the debt retirement was not significant.

NOTE 14 FINANCIAL INSTRUMENTS

Financial instruments are used primarily to hedge exposure to currency and interest rate risk. To qualify as hedges, financial instruments must reduce the currency or interest rate risk associated with the related underlying items and be designated as hedges by management. Gains or losses from the revaluation of financial instruments that do not qualify for hedge accounting treatment are recognized in earnings.

Our policy is to finance a portion of our investments in non-U.S. operations with borrowings denominated in the same currency as the investment or by entering into foreign exchange contracts in tandem with U.S. dollar borrowings. These contracts are effective in providing a hedge against fluctuations in currency exchange rates. Gains or losses from the revaluation of these contracts, which are fully offset by gains or losses from the revaluation of the net assets being hedged, are determined monthly based on published currency exchange rates and are recorded as translation adjustments in common shareholders' equity. Upon liquidation of the net assets being hedged or early termination of the foreign exchange contracts, the gains or losses from the revaluation of foreign exchange contracts would be included in earnings. Amounts payable to or due from the counterparties to the foreign exchange contracts are included in accrued liabilities or accounts receivable as applicable.

Financial instruments outstanding at December 31, 1999 used to hedge net investments in non-U.S. operations consisted of non-U.S. dollar denominated debt totaling $1.7 billion. Also outstanding were foreign currency forward contracts totaling $1.5 billion, substantially all having maturities of less than twelve months, as noted in the following table expressed in U.S. dollar equivalents. The average amount of outstanding contracts during 1999 and 1998 was $1.0 billion and $1.4 billion, respectively.

Foreign Currency Forward Contracts (dollars in millions)	Contract Amount	Weighted Average Exchange Rate	Net Unrealized Gain (Loss)
Receive Australian dollars / Pay New Zealand dollars	$ 20	0.79	$(1)
Receive European euros / Pay U.S. dollars	1,012	0.95	52
Receive British pounds / Pay U.S. dollars	99	0.62	
Receive New Zealand dollars / Pay U.S. dollars	332	1.93	3
Receive Swedish kronas / Pay U.S. dollars	34	8.09	2
Receive U.S. dollars / Pay New Zealand dollars	25	0.56	3

Foreign exchange contracts are also used to hedge certain transactions that are denominated in non-U.S. currencies, primarily export sales and equipment purchased from nonresident vendors. These contracts serve to protect International Paper from currency fluctuations between the transaction and settlement dates. Gains and losses from the revaluation of these contracts, based on published currency exchange rates, along with offsetting gains and losses resulting from the revaluation of the underlying transactions, are recognized in earnings or deferred and recognized in the basis of the underlying transaction when completed. Any gains or losses arising from the cancellation of the underlying transactions or early termination of the foreign currency exchange contracts would be included in earnings.

Financial instruments outstanding at December 31, 1999 used to hedge transactions denominated in non-U.S. curren-

cies consisted of foreign currency forward contracts totaling $617 million, a majority having maturities of less than twelve months, as noted in the following table expressed in U.S. dollar equivalents. The average amount of outstanding contracts during 1999 and 1998 was $454 million and $610 million, respectively.

Foreign Currency Forward Contracts (U.S. dollars in millions)	Contract Amount	Weighted Average Exchange Rate	Net Unrealized Gain (Loss)
Receive German marks / Pay British pounds	$ 40	3.00	$(3)
Receive European euros / Pay U.S. dollars	51	0.99	
Receive European euros / Pay British pounds	65	1.58	(1)
Receive British pounds / Pay European euros	21	0.63	
Receive New Zealand dollars / Pay Australian dollars	116	1.23	(5)
Receive New Zealand dollars / Pay U.S. dollars	167	1.96	7
Receive U.S. dollars / Pay European euros	56	1.07	
Receive U.S. dollars / Pay British pounds	20	1.61	

Note: We have an additional $81 million in a number of smaller contracts to purchase or sell other currencies with a related net immaterial unrealized loss.

Cross-currency and interest rate swap agreements are used to manage the composition of our fixed and floating rate debt portfolio. Amounts to be paid or received as interest under these agreements are recognized over the life of the swap agreements as adjustments to interest expense. Gains or losses from the revaluation of cross-currency swap agreements that qualify as hedges of investments are recorded as translation adjustments in common shareholders' equity. Gains or losses from the revaluation of cross-currency swap agreements that do not qualify as hedges of investments are included in earnings. The related amounts payable to or due from the counterparties to the agreements are included in accrued liabilities or accounts receivable as applicable. If swap agreements are terminated early, the resulting gain or loss would be deferred and amortized over the remaining life of the related debt. The following table presents notional amounts and principal cash flows for currency and interest rate swap agreements by year of maturity expressed in U.S. dollar equivalents. The impact on our earnings and net liability under these agreements was not significant.

Interest Rate and Currency Swaps (in millions)

Outstanding as of December 31, 1999	2000	2001	2002	2003	2004	There-after	Total	Fair Value
U.S. dollar variable to fixed rate swaps Average pay rate 7.3% Average receive rate 6.1%			$ 45	$200	$300	$500	$1,045	$ 16
Australian dollar variable to fixed rate swaps Average pay rate 6.0% Average receive rate 5.4%	$ 48	$ 48	16	48	16		176	2
New Zealand dollar variable to fixed rate swaps Average pay rate 6.8% Average receive rate 5.4%	23	26	52	26	13		140	2
U.S. dollar fixed to variable rate swaps Average pay rate 7.4% Average receive rate 6.6%			45	200	550	500	1,295	(25)
U.S. dollar to Australian dollar cross-currency swap			150				150	(4)
Swiss franc to New Zealand dollar cross-currency swaps		75					75	(8)

We do not hold or issue financial instruments for trading purposes. The counterparties to interest rate swap agreements and foreign exchange contracts consist of a number of major international financial institutions. International Paper continually monitors its positions with and the credit quality of these financial institutions and does not expect nonperformance by the counterparties.

NOTE 15 CAPITAL STOCK

The authorized capital stock at December 31, 1999 and 1998 consisted of 990,850,000 and 400,000,000 shares of common stock, $1 par value, respectively; 400,000 shares of cumulative $4 nonredeemable preferred stock, without par value (stated value $100 per share); and 8,750,000 shares of serial preferred stock, $1 par value. The serial preferred stock is issuable in one or more series by the Board of Directors without

further shareholder action.

NOTE 16 RETIREMENT PLANS

International Paper maintains pension plans that provide retirement benefits to substantially all employees. Employees generally are eligible to participate in the plans upon completion of one year of service and attainment of age 21.

The plans provide defined benefits based on years of credited service and either final average earnings (salaried employees), hourly job rates or specified benefit rates (hourly and union employees).

U.S. Defined Benefit Plans

International Paper makes contributions that are sufficient to fully fund its actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA).

Net periodic pension income for qualified and nonqualified defined benefit plans comprised the following:

In millions	1999	1998	1997
Service cost	$(101)	$ (97)	$ (90)
Interest cost	(303)	(297)	(280)
Expected return on plan assets	469	455	418
Amortization of net transition asset (1)		26	26
Actuarial gains and losses	(6)	(3)	(1)
Amortization of prior service cost	(16)	(12)	(10)
Curtailment gain	6	5	
Net periodic pension income	$ 49	$ 77	$ 63

(1) Amortization of International Paper's net transition asset, which increased annual periodic pension income, was completed in 1999.

The following table presents the changes in benefit obligation and plan ssets for 1999 and 1998 and the plans' funded status and amounts recognized in the consolidated balance sheet as of December 31, 1999 and 1998.

In millions	1999	1998
Change in benefit obligation:		
Benefit obligation, January 1	$ 4,492	$ 3,928
Service cost	101	92
Interest cost	303	285
Participants' contributions		1
Actuarial (gain) loss	(439)	393
Benefits paid	(322)	(258)
Acquisitions		53
Divestitures		(23)
Curtailment gain	(10)	
Special termination benefits	92	11
Plan amendments	106	10
Benefit obligation, December 31 (1)	$ 4,323	$ 4,492
Change in plan assets:		
Fair value of plan assets, January 1	$ 4,942	$ 4,684
Actual return on plan assets	950	436
Company and participants' contributions	42	20
Benefits paid	(322)	(258)
Acquisitions		85
Divestitures		(25)
Fair value of plan assets, December 31	$ 5,612	$ 4,942
Funded status (2)	$ 1,289	$ 450
Unrecognized actuarial (gain) loss	(615)	322
Unamortized prior service cost	183	87
Unrecognized net transition obligation	2	3
Prepaid benefit cost	$ 859	$ 862
Amounts recognized in the consolidated balance sheet consist of:		

Prepaid benefit cost	$ 928	$ 959
Accrued benefit liability	(85)	(129)
Intangible asset	6	19
Minimum pension liability adjustment included in accumulated other comprehensive income	10	13
Net amount recognized	$ 859	$ 862

(1) Includes nonqualified unfunded plans with projected benefit obligations of $110 million and $125 million at December 31, 1999 and 1998, respectively.

(2) The Union Camp and Alling and Cory domestic qualified pension plans were merged with the International Paper domestic qualified pension plan effective September 30, 1999. The funded status information for 1999 reflects this merger. Prior to the plan merger, the Union Camp domestic qualified hourly plan had an accumulated benefit obligation in excess of the fair value of plan assets. As of December 31, 1998, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the Union Camp hourly plan were $290 million, $290 million and $269 million, respectively.

Included in the 1999 special charge was $92 million for special termination benefits attributable to the elimination of approximately 1,171 positions in connection with an employee integration benefits program provided to employees whose jobs were eliminated as a result of the merger of International Paper and Union Camp.

Included in the 1998 special charge was $11 million for special termination benefits attributable to the elimination of approximately 540 positions in connection with a Union Camp employee severance program.

Plan assets are held in master trust accounts and include investments in International Paper common stock in the amounts of $401 million and $432 million at December 31, 1999 and 1998, respectively.

Weighted average assumptions as of December 31, 1999, 1998 and 1997 were as follows:

	1999	1998 (1,2)	1997 (2)
Discount rate	7.75%	6.60%	7.20%
Expected long-term return on plan assets	10.00%	9.90%	9.90%
Rate of compensation increase	5.00%	4.20%	4.60%

(1) As of June 1, 1999 International Paper enhanced pension benefits for its major union groups. As a result, the pension plan was revalued. The revaluation assumed a discount rate of 7.25% and a rate of compensation increase of 4.5%. These actions had the net effect of reducing the pension benefit obligation by $179 million.

(2) The 1998 and 1997 rates are a blended average of the Union Camp and International Paper plan assumptions. The International Paper discount rate, expected long-term return on plan assets and rate of compensation increase for 1998 was 6.5%, 10.0% and 4.0%, respectively. For 1997 the respective rates were 7.25%, 10.0% and 4.5%.

Non-U.S. Defined Benefit Plans

Generally, our non-U.S. pension plans are funded using the projected benefit as a target, except in certain countries where funding of benefit plans is not required. Net periodic pension expense for our non-U.S. plans was not significant for 1999, 1998 and 1997.

The plans' projected benefit obligation in excess of plan assets at fair value at December 31, 1999 and 1998 was $43 million and $66 million, respectively. Plan assets are composed principally of common stocks and other fixed income securities.

Other Plans

We sponsor several defined contribution plans to provide substantially all U.S. salaried and certain hourly employees of International Paper an opportunity to accumulate personal funds for their retirement. Contributions may be made on a before-tax basis to substantially all of these plans.

As determined by the provisions of each plan, International Paper matches the employees' basic voluntary contributions. Such matching contributions to the plans were approximately $67 million, $58 million and $56 million for the plan years ending in 1999, 1998 and 1997, respectively. The net assets of these plans approximated $3.4 billion as of the 1999 plan year-end.

NOTE 17 POSTRETIREMENT BENEFITS

International Paper provides certain retiree health care and life insurance benefits covering a majority of U.S. salaried and certain hourly employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. An amendment in 1992 to one of the plans limits the maximum annual company contribution for health care benefits for retirees after January 1, 1992, based on age at retirement and years of service after age 50. Amortization of this plan amendment, which reduced annual net postretirement benefit cost, was completed in 1999. International Paper does not prefund these benefits and has the right to modify or terminate certain of these plans in the future.

The components of postretirement benefit expense in 1999, 1998 and 1997 were as follows:

In millions	1999	1998	1997
Service cost	$ 11	$ 11	$ 11
Interest cost	30	33	33

Actuarial gains and losses	2	1	1
Amortization of prior service cost	(12)	(21)	(21)
Net postretirement benefit cost	$ 31	$ 24	$ 24

The following table presents the plans' funded status as of December 31, 1999 and 1998 and changes in benefit obligation and plan assets for 1999 and 1998.

In millions	1999	1998
Change in benefit obligation:		
Benefit obligation, January 1	$ 503	$ 489
Service cost	11	11
Interest cost	30	33
Participants' contributions	16	15
Actuarial loss (gain)	(66)	(6)
Benefits paid	(44)	(45)
Plan amendments	(15)	
Acquisitions		3
Curtailment loss (gain)	4	
Special termination benefits	7	3
Benefit obligation, December 31	$ 446	$ 503
Change in plan assets:		
Fair value of plan assets, January 1	$ --	$ --
Company contributions	28	30
Participants' contributions	16	15
Benefits paid	(44)	(45)
Fair value of plan assets, December 31	$ --	$ --
Funded status	$(446)	$(503)
Unamortized prior service cost	(47)	(39)
Unrecognized actuarial loss	4	58
Prepaid (accrued) benefit cost	$(489)	$(484)

Future benefit costs were estimated assuming medical costs would increase at a 7.25% annual rate, decreasing to a 5% annual growth rate ratably over the next four years and then remaining at a 5% annual growth rate thereafter. A 1% increase in this annual trend rate would have increased the accumulated postretirement benefit obligation at December 31, 1999 by $21 million. A 1% decrease in the annual trend rate would have decreased the accumulated postretirement benefit obligation at December 31, 1999 by $18 million. The effect on net postretirement benefit cost from a 1% increase or decrease would not be material. The weighted average discount rate used to estimate the accumulated postretirement benefit obligation at December 31, 1999 was 7.75% compared with 6.60% at December 31, 1998.

Included in the 1999 special charge was $7 million for special termination benefits attributable to the elimination of approximately 313 positions in connection with an integration benefits program provided to employees whose jobs were eliminated as a result of the merger of International Paper and Union Camp.

Included in the 1998 special charge was $3 million for special termination benefits attributable to the elimination of approximately 540 positions in connection with a Union Camp employee severance program.

NOTE 18 INCENTIVE PLANS

International Paper currently has a Long-Term Incentive Compensation Plan that includes a Stock Option Plan, a Restricted Performance Share Plan and an Executive Continuity Award Plan, administered by a committee of nonemployee members of the Board of Directors who are not eligible for awards. The Plan allows stock appreciation rights to be awarded, although none were outstanding at December 31, 1999 or 1998. We also have other performance-based restricted share/unit plans available to senior executives and directors.

We apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our plans and the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). Accordingly, no compensation cost has been recognized for the stock option plan. Had compensation cost for our stock-based compensation plans been determined consistent with the provisions of SFAS No. 123, our net earnings, earnings per common share and earnings per common share - assuming dilution would have been reduced to the pro forma amounts indicated below:

In millions, except per share amounts	1999	1998	1997
Net Earnings (Loss)			

As reported	$ 183	$ 247	$ (80)
Pro forma	152	223	(108)
Earnings (Loss) Per Common Share			
As reported	$ 0.44	$ 0.60	$ (0.20)
Pro forma	0.37	0.54	(0.27)
Earnings (Loss) Per Common Share - Assuming Dilution			
As reported	$ 0.44	$ 0.60	$ (0.20)
Pro forma	0.37	0.54	(0.27)

The effect on 1999, 1998 and 1997 pro forma net earnings, earnings per common share and earnings per common share - assuming dilution of expensing the estimated fair value of stock options is not necessarily representative of the effect on reported earnings for future years due to the vest-

ing period of stock options and the potential for issuance of additional stock options in future years.

Stock Option Plan

Under the current plan officers and certain other employees may be granted options to purchase International Paper common stock. The option price is the market price of the stock at the date of grant. Options are immediately exercisable under the plan; however, the underlying shares cannot be sold and carry profit forfeiture provisions during the initial two years following grant. Upon exercise of an option, a replacement option may be granted with the exercise price equal to the current market price and with a term extending to the expiration date of the original option.

For purposes of the pro forma disclosure above the fair value of each option grant has been estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1999, 1998 and 1997, respectively:

	1999	1998	1997
Initial Options (1)			
Risk-Free Interest Rate	4.78%	5.05%	6.14%
Price Volatility	33.00%	29.28%	26.46%
Dividend Yield	2.08%	2.38%	2.77%
Expected Term in Years	4.39	5.31	5.13
Replacement Options (2)			
Risk-Free Interest Rate	5.47%	5.51%	6.31%
Price Volatility	33.00%	31.09%	29.50%
Dividend Yield	2.05%	2.17%	2.31%
Expected Term in Years	2.09	2.12	2.22

(1) The average fair values of initial option grants during 1999, 1998 and 1997 were $13.14, $10.83 and $10.69, respectively.

(2) The average fair values of replacement option grants during 1999, 1998 and 1997 were $10.14, $9.40 and $9.04, respectively.

A summary of the status of the Stock Option Plan as of December 31, 1999, 1998 and 1997 and changes during the years ended on those dates is presented below:

	Options (1,2)	Weighted Average Exercise Price
Outstanding at January 1, 1997	17,066,505	$34.26
Granted	6,885,324	44.55
Exercised	(5,005,818)	34.17
Forfeited	(605,679)	35.99
Expired	(220,248)	42.56
Outstanding at December 31, 1997	18,124,084	38.03
Granted	4,820,970	42.96
Exercised	(3,314,612)	35.85
Forfeited	(789,621)	42.82
Expired	(154,915)	49.97
Outstanding at December 31, 1998	18,685,906	39.39
Granted	4,521,627	49.76
Exercised	(6,531,818)	36.56
Forfeited	(522,214)	42.91
Expired	(354,566)	51.41
Outstanding at December 31, 1999	15,798,935	43.14

(1) The table does not include Executive Continuity Award tandem options described below. No fair value is assigned to these options under SFAS No.
123. The tandem restricted shares accompanying these options are expensed over their vesting period.

(2) The table does include options outstanding under two acquired company plans under which options may no longer be granted.

The following table summarizes information about stock options outstanding at December 31, 1999:

	Outstanding and Exercisable		
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price
$22.68 - $38.50	3,415,956	5.5	$32.29
$38.62 - $41.94	4,187,083	6.9	$40.29
$41.98 - $46.00	3,578,837	7.5	$44.54
$46.06 - $52.25	2,112,332	4.7	$49.74
$52.37 - $59.94	2,504,727	3.2	$55.15

Performance - Based Restricted Shares

Under the Restricted Performance Share Plan, contingent awards of International Paper's common stock are granted by the Committee. Awards are earned on the basis of International Paper's financial performance over a period of consecutive calendar years as determined by the Committee. A majority of the awards under the Restricted Performance Share Plan in effect at the beginning of 1999 have been can-

celled. Prior to the amended plan which is expected to commence in 2001, a one-time Transitional Performance Unit Plan was implemented effective July 1, 1999, which provides a cash award upon successful achievement of pre-established performance criteria.

The following summarizes the activity of all performance-based plans for the three years ending December 31, 1999:

	Shares
Outstanding at January 1, 1997	1,037,061
Granted	284,547
Issued	(120,187)
Forfeited	(40,352)
Outstanding at December 31, 1997	1,161,069
Granted	330,656
Issued	(156,935)
Forfeited	(50,100)
Outstanding at December 31, 1998	1,284,690
Granted	95,035
Issued	(227,553)
Forfeited (1)	(1,067,153)
Outstanding at December 31, 1999	85,019

(1) Includes 974,734 shares forfeited under the Restricted Performance Share Plan.

Executive Continuity Award Plan

The Executive Continuity Award Plan provides for the granting of tandem awards of restricted stock and/or nonqualified stock options to key executives. Grants are restricted and awards conditioned on attainment of specified age and years of service requirements. Exercise of a tandem stock option results in the cancellation of the related restricted shares.

The following summarizes the activity of the Executive Continuity Award Plan for the three years ending December 31, 1999:

	Shares
Outstanding at January 1, 1997	483,650
Granted	106,108
Issued	(9,500)
Outstanding at December 31, 1997	580,258
Granted	24,000
Issued	(5,500)
Forfeited	(5,000)
Outstanding at December 31, 1998	593,758
Granted	71,900
Issued	(65,412)
Forfeited (1)	(89,390)
Outstanding at December 31, 1999	510,856

(1) Includes restricted shares cancelled when tandem stock options were exercised. In 1999, 440,000 tandem stock options were exercised.

At December 31, 1999 and 1998, a total of 30.1 million and 4.6 million shares, respectively, were available for grant under the Long-Term Incentive Compensation Plan. In 1999, shareholders approved an additional 25.5 million shares to be made available for grant, with 3 million of these shares reserved specifically for the granting of restricted stock. A total of 4.2 million shares remain available for the granting of restricted stock as of December 31, 1999.

The compensation cost that has been charged to earnings for the performance-based plans was $3 million, $15 million and $14 million for 1999, 1998 and 1997, respectively. Our 1999 earnings included income of $20 million recognized upon cancellation of a majority of the awards under the Restricted Performance Share Plan.

NOTE 19 SUBSEQUENT EVENTS

The sale for just over $1.2 billion of Carter Holt Harvey's equity interest in COPEC closed on January 3, 2000. Also, the sale for $79 million of our equity interest in Scitex was completed on January 6, 2000. These transactions resulted in an after-tax profit of about $135 million or $.33 per share which will be recorded as an extraordinary item, pursuant to the pooling-of-interests rules, in the first quarter of 2000.

On February 17, 2000, International Paper announced that we had reached an agreement to acquire Shorewood Packaging Corporation, a leader in the premium retail packaging market, for $600 million in cash and the assumption of $275 million of debt.

On February 21, 2000, Carter Holt Harvey announced the purchase of CSR Limited's medium density fiberboard and particleboard businesses and its Oberon sawmill for approximately $207 million in cash.

SIX-YEAR FINANCIAL SUMMARY

Dollar amounts in millions, except per share amounts and stock prices	1999	1998	1997
Results of Operations			
Net sales	$ 24,573	$ 23,979	$ 24,556
Costs and expenses, excluding interest	23,620	23,039	23,976
Earnings before income taxes, minority interest, extraordinary item and cumulative effect of accounting changes	448(1)	429(2)	143(3)
Minority interest expense, net of taxes	163(1)	87(2)	140(3)
Extraordinary item	16		
Cumulative effect of accounting changes			
Net earnings (loss)	183(1)	247(2)	(80)(3)
Earnings (loss) applicable to common shares	183(1)	247(2)	(80)(3)
Financial Position			
Working capital	$ 2,859	$ 2,675	$ 1,476
Plants, properties and equipment, net	14,381	15,320	15,707
Forestlands	2,921	3,093	3,273
Total assets	30,268	31,466	31,971
Long-term debt	7,520	7,697	8,521
Common shareholders' equity	10,304	10,738	10,647
Per Share of Common Stock - Assuming No Dilution (7)			
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	$ 0.48	$ 0.60	$ (0.20)
Extraordinary item	(0.04)		
Cumulative effect of accounting changes			
Earnings (loss)	0.44	0.60	(0.20)
Cash dividends	1.01	1.05	1.05
Common shareholders' equity	24.95	26.13	26.18
Common Stock Prices (7)			
High	59 1/2	55 1/4	61
Low	39 1/2	35 1/2	38 5/8
Year-end	56 7/16	44 13/16	43 1/8
Financial Ratios			
Current ratio	1.7	1.6	1.3
Total debt to capital ratio	38.1	39.0	46.1
Return on equity	1.7(1,6)	2.3(2,6)	(0.7)(3,6)
Return on investment	2.6(1,6)	2.5(2,6)	1.5(3,6)
Capital Expenditures	$ 1,139	$ 1,322	$ 1,448
Number of Employees	98,700	98,300	100,900

SIX-YEAR FINANCIAL SUMMARY

Dollar amounts in millions, except per share amounts and stock prices	1996	1995	1994
Results of Operations			
Net sales	$ 24,182	$ 24,140	$ 18,469
Costs and expenses, excluding interest	23,193	20,791	17,150
Earnings before income taxes, minority interest, extraordinary item and cumulative effect of accounting changes	939(4)	2,742	896(5)
Minority interest expense, net of taxes	180(4)	166	54
Extraordinary item			
Cumulative effect of accounting changes			(79)
Net earnings (loss)	379(4)	1,595	461(5)
Earnings (loss) applicable to common shares	379(4)	1,595	461(5)
Financial Position			
Working capital	$ 454	$ 1,471	$ 856
Plants, properties and equipment, net	16,570	14,347	12,546
Forestlands	3,637	3,030	1,009
Total assets	33,357	28,838	22,624
Long-term debt	7,943	7,144	5,716
Common shareholders' equity	11,349	9,837	8,280
Per Share of Common Stock - Assuming No Dilution (7)			
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	$ 0.95	$ 4.41	$ 1.52
Extraordinary item			
Cumulative effect of accounting changes			(0.22)
Earnings (loss)	0.95	4.41	1.30
Cash dividends	1.05	0.98	0.90
Common shareholders' equity	28.57	27.20	23.34
Common Stock Prices (7)			
High	44 5/8	45 3/4	40 1/4
Low	35 5/8	34 1/8	30 3/8

Year-end	40 1/2	37 7/8	37 3/4
Financial Ratios			
Current ratio	1.1	1.3	1.2
Total debt to capital ratio	45.6	43.7	48.6
Return on equity	3.4(4)	17.6	5.7(5)
Return on investment	3.3(4)	9.0	4.1(5)
Capital Expenditures	$ 1,780	$ 1,785	$ 1,439
Number of Employees	106,300	99,800	88,900

FINANCIAL GLOSSARY

Current ratio -

current assets divided by current liabilities.

Total debt to capital ratio -

long-term debt plus notes payable and current maturities of long-term debt divided by long-term debt, notes payable and current maturities of long-term debt, minority interest, preferred securities and total common shareholders' equity.

Return on equity -

net earnings divided by average common shareholders' equity (computed monthly).

Return on investment -

net earnings plus after-tax interest expense and minority interest expense divided by an average of total assets minus accounts payable and accrued liabilities.

FOOTNOTES TO SIX-YEAR FINANCIAL SUMMARY

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

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

(3) Includes a pre-tax business improvement charge of $535 million ($385 million after taxes), a $150 million pre-tax provision for legal reserve ($93 million after taxes), a pre-tax charge of $125 million ($80 million after taxes) for anticipated losses associated with the sale of the Imaging businesses, and a pre-tax gain of $170 million ($97 million after taxes and minority interest expense) from the redemption of certain retained west coast partnership interests and the release of a related debt guaranty.

(4) Includes a pre-tax restructuring and asset impairment charge of $554 million ($386 million after taxes), a $592 million pre-tax gain on the sale of a west coast partnership interest ($336 million after taxes and minority interest expense), a $155 million pre-tax charge ($99 million after taxes) for the write-down of the investment in Scitex and a $10 million pre-tax charge ($6 million after taxes) for our share of a restructuring charge announced by Scitex in November 1996.

(5) Includes $17 million ($10 million after taxes) of additional earnings related to the change in accounting for start-up costs.

(6) Return on equity was 5.2% and return on investment was 4.0% in 1999 before special items. Return on equity was 3.2% and return on investment was 2.8% in 1998 before special items. Return on equity was 3.4% and return on investment was 3.0% in 1997 before special items.

(7) Per share data and common stock prices have been adjusted to reflect a two-for-one stock split in September 1995. All per share amounts are computed before the effects of dilutive securities.

INTERIM FINANCIAL RESULTS (UNAUDITED)

In millions, except per share amounts and stock prices

	Quarter				
	First	Second	Third	Fourth	Year
1999					
Net Sales	$ 6,032	$ 5,996	$ 6,251	$ 6,294	$24,573
Gross Margin (1)	1,456	1,576	1,658	1,778	6,468
Earnings (Loss) Before Income Taxes, Minority Interest and Extraordinary Item	94	(36)(2)	242(3)	148(4)	448(2,3,4)
Net Earnings (Loss)	32	(71)(2)	142(3)	80(4)	183(2,3,4)
Per Share of Common Stock					
Earnings (Loss)	$ 0.08	$ (0.17)	$ 0.34	$ 0.19	$ 0.44
Earnings (Loss) - Assuming Dilution	0.08	(0.17)	0.34	0.19	0.44
Dividends	0.26	0.25	0.25	0.25	1.01
Common Stock Prices					
High	47 1/4	59 1/2	56 1/16	57 11/16	59 1/2
Low	39 1/2	42 11/16	46 15/16	43 9/16	39 1/2
1998					
Net Sales	$ 6,006	$ 5,833	$ 6,032	$ 6,108	$23,979
Gross Margin (1)	1,558	1,509	1,464	1,524	6,055
Earnings (Loss) Before Income Taxes and Minority Interest	185	171(5)	(17)(6)	90(7)	429(5,6,7)
Net Earnings (Loss)	100	103(5)	(2)(6)	46(7)	247(5,6,7)
Per Share of Common Stock					
Earnings (Loss)	$ 0.25	$ 0.25	$ (0.01)	$ 0.11	$ 0.60
Earnings (Loss) - Assuming Dilution	0.25	0.25	(0.01)	0.11	0.60
Dividends	0.26	0.26	0.26	0.27	1.05
Common Stock Prices					
High	52 5/8	55 1/4	49 3/8	49 3/16	55 1/4
Low	40 7/8	42 1/2	35 1/2	40 3/16	35 1/2

(1) Gross margin represents net sales less cost of products sold.

(2) Includes a $98 million pre-tax charge ($67 million after taxes) for Union Camp merger-related termination benefits, a $59 million pre-tax charge ($49 million after taxes) for one-time merger expenses, a $113 million pre-tax charge ($69 million after taxes) for asset shutdowns of excess internal capacity and cost reduction actions and a $36 million pre-tax credit ($27 million after taxes) for the reversal of reserves that were no longer required.

(3) Includes a $50 million pre-tax charge ($30 million after taxes) for Union Camp merger-related termination benefits, an $18 million pre-tax charge ($11 million after taxes) for one-time merger expenses and a $10 million pre-tax charge ($6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities.

(4) Includes a $185 million pre-tax charge ($111 million after taxes and minority interest expense) for asset shutdowns of excess internal capacity and cost reduction actions, a $30 million pre-tax charge ($18 million after taxes) for one-time merger expenses and a $30 million pre-tax charge ($18 million after taxes) to increase existing legal reserves.

(5) Includes a $6 million pre-tax charge ($4 million after taxes) recorded to write off in-process research and development costs related to an acquisition by Scitex, a 13% owned investee company.

(6) Includes special items totaling a pre-tax loss of $145 million ($82 million after taxes and minority interest expense). These special items include a $10 million pre-tax charge ($6 million after taxes) related to our share of a restructuring charge taken by Scitex. The Scitex charge is reflected as an equity loss from the investment in Scitex in the consolidated statement of earnings.

(7) Includes a $56 million pre-tax oil and gas impairment charge ($35 million after taxes) and a $38 million pre-tax credit ($23 million after taxes) from the reversal of reserves that were no longer required.

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

International Paper
Two Manhattanville Road
Purchase, NY 10577
914-397-1500

ANNUAL MEETING

The next annual meeting of shareholders will be held at 8:30 a.m., Tuesday, May 9, 2000 at the Manhattanville College, Purchase, New York.

TRANSFER AGENT

For services regarding your account such as change of address, lost certificates or dividend checks, change in registered ownership, or the dividend reinvestment program, write or call:

ChaseMellon Shareholder Services L.L.C.
85 Challenger Road
Overpeck Centre
Ridgefield Park, NJ 07660
800-678-8715

STOCK EXCHANGE LISTINGS

Common shares (symbol: IP) are traded on the following exchanges: New York, Basel, Geneva, Lausanne, Zurich and Amsterdam. International Paper options are traded on the Chicago Board of Options Exchange.

DIRECT PURCHASE PLAN

Under our plan you may invest all or a portion of your dividends, and you may purchase up to $20,000 of additional shares each year. International Paper pays most of the brokerage commissions and fees. You may also deposit your certificates with the transfer agent for safekeeping. For a copy of the plan prospectus, call or write to the Corporate Secretary at corporate headquarters.

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen LLP
1345 Avenue of the Americas
New York, NY 10105

REPORTS AND PUBLICATIONS

Additional copies of this annual report, the most recent environment, health and safety annual report, SEC filings and other publications are available by calling 914-397-1522 or writing to the investor relations department at corporate headquarters. Additional information is also available on our website
- http://www.internationalpaper.com

INVESTOR RELATIONS

Investors desiring further information about International Paper should contact the investor relations department at corporate headquarters, 914-397-1625.

CREDITS

Papers used in this report-Cover: Zanders Mega Dull 80 lb. cover; pages 1-4, Zanders Mega Dull 80 lb. text; pages 5-64, Beckett Expression, Radiance, 70 lb. text.

Designed by Pentagram New York and Dick Pepper & Mike Coulson. Printed by The Hennegan Company. Major photography by Jack Kenner. Photo of Mr. Dillon by Keith Renard.

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On our cover: Kristen Henderson enjoys a beautiful day on her new bicycle. The bicycle packaging was specially designed and manufactured by employees at our Fond du Lac, Wis., Edinburg, Texas, and Putnam, Conn., container facilities. Henderson, who also appears in International Paper television commercials, is the daughter of employee Maureen Henderson, senior financial analyst, in Tuxedo, N.Y.

Kristen and Maureen are featured on the cover of our
Conversation About the Future brochure.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

PETER I. BIJUR(1)(4)(7)*
Chairman and
Chief Executive Officer
Texaco, Inc.

JOHN T. DILLON(2)*(3)
Chairman and
Chief Executive Officer
International Paper

ROBERT J. EATON(4)*(5)
Chairman of the
Board of Management
DaimlerChrysler AG

SAMIR G. GIBARA(1)(5)
Chairman and
Chief Executive Officer
The Goodyear Tire &
Rubber Company

JAMES A. HENDERSON(1)(4)
Former Chairman and
Chief Executive Officer
Cummins Engine Company

JOHN R. KENNEDY(5)(7)
Former President and
Chief Executive Officer
Federal Paper Board Company, Inc.

ROBERT D. KENNEDY(3)(4)
Former Chairman and
Chief Executive Officer
Union Carbide Corporation

W. CRAIG MCCLELLAND(3)(6)
Former Chairman and
Chief Executive Officer
Union Camp Corporation

DONALD F. MCHENRY(1)(2)(4)(5)*
Distinguished
Professor of Diplomacy
Georgetown University

PATRICK F. NOONAN(6)*(7)
Chairman and
Chief Executive Officer
The Conservation Fund

JANE C. PFEIFFER(1)*(3)(6)
Management Consultant

JEREMIAH J. SHEEHAN(6)(7)
Chairman and
Chief Executive Officer
Reynolds Metals Company

CHARLES R. SHOEMATE(2)(3)*(4)(5)

Chairman, President and
Chief Executive Officer
Bestfoods

C. WESLEY SMITH(6)(7)
Executive Vice President
International Paper

1 Audit Committee
2 Executive Committee
3 Finance Committee
4 Management Development and Compensation Committee
5 Governance Committee
6 Public and Legal Affairs Committee
7 Environment, Health and Technology Committee
* Committee Chairperson

SENIOR MANAGEMENT

JOHN T. DILLON
Chairman and
Chief Executive Officer

DAVID W. OSKIN
Executive Vice President

C. WESLEY SMITH
Executive Vice President

JAMES P. MELICAN
Executive Vice President
Legal and External Affairs

MARIANNE M. PARRS
Executive Vice President
Administration

ROBERT M. AMEN
President
International Paper
Europe

JEROME N. CARTER
Senior Vice President
Human Resources

THOMAS E. COSTELLO
Senior Vice President
Distribution

JOHN V. FARACI
Senior Vice President
Finance &
Chief Financial Officer

CHARLES H. GREINER
Senior Vice President
Printing & Communications Papers

NEWLAND LESKO
Senior Vice President
Industrial Packaging

WILLIAM B. LYTTON
Senior Vice President
& General Counsel

RICHARD B. PHILLIPS
Senior Vice President
Technology

WILLIAM H. SLOWIKOWSKI
Senior Vice President
Consumer Packaging

MANCO SNAPP
Senior Vice President
Building Materials

DENNIS THOMAS
Senior Vice President
Public Affairs and Communications

DAVID A. BAILEY
Managing Director
European Papers, East

JOHN N. BALBONI
Vice President
E-commerce

MICHAEL J. BALDUINO
Vice President
Foodservice

H. WAYNE BRAFFORD
Vice President
Converting & Specialty Papers

E. WILLIAM BOEHMLER
Vice President and Treasurer

DENNIS J. COLLEY
Vice President
Retail Packaging

WILLIAM P. CRAWFORD
Vice President
Logistics

HANS PETER DAROCZI
Vice President
International Container

C. CATO EALY
Vice President
Business Development
and Planning

JOHN V. FLYNN
Vice President
Human Resources

THOMAS E. GESTRICH
Vice President
Beverage Packaging

JAMES W. GUEDRY
Vice President and
Corporate Secretary

PAUL HERBERT
Managing Director
European Papers, West

WILLIAM P. HOEL
Vice President
Executive Assistant to the Chairman

NEWELL E. HOLT
Vice President
Bleached Board

ROBERT M. HUNKELER
Vice President
Investments

THOMAS C. JORLING
Vice President
Environmental Affairs

JEFFREY F. KASS
Vice President
Printing & Communications Papers

TIMOTHY P. KENEALLY
Vice President
Industrial Packaging

PETER F. LEE
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Research & Development

ANDREW R. LESSIN
Vice President and Controller

ARTHUR W. MCGOWEN

Vice President
Wood Products

GERALD C. MARTERER
Vice President
Specialty Industrial Papers

JEAN-PHILLIPPE MONTEL
Vice President
European Papers

KARL W. MOORE
Director
Finance, IP Europe

GEORGE A. O'BRIEN
Vice President
Forest Resources

MAXIMO PACHECO
President
International Paper Latin America

LH PUCKETT
Vice President
Commercial Printing & Office Papers

CAROL L. ROBERTS
Vice President
People Development

DAVID L. ROBINSON
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R. MICHAEL ROSS
Vice President
Industrial Packaging

J. CHRIS SCALET
Vice President and
Chief Information Officer

BENNIE R. SMITH
Vice President
Industrial Packaging

PETER M. SPRINGFORD
President
International Paper Company (Asia)
Limited

LARRY J. STOWELL
Vice President
Arizona Chemical

TOBIN J. TREICHEL
Vice President
Tax

CAROL S. TUTUNDGY
Vice President
Investor Relations

LYN M. WITHEY
Vice President
Public Affairs

RICHARD A. O'LEARY
Auditor

INTERNATIONAL [LOGO] PAPER

Two Manhattanville Road
Purchase, NY 10577-2196
914-397-1500
www.internationalpaper.com

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EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

United States		Pertcentage of voting securities owned by its immediate parent
Bush Boake Allen, Inc.	Delaware	68.10%
Masonite Corporation	Delaware	100%
Sustainable Forests, LLC	Delaware	100%
Other than United States		
Carter Holt Harvey	New Zealand	50.3%
International Paper S.A.	France	99.92%

The names of other subsidiaries have been omitted once these subsidiaries considered in the aggregate as a single entity do not constitute a significant

subsidiary.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

To International Paper Company:

As independent public accountants, we hereby consent to the incorporation of our reports dated February 8, 2000, included and incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 33-11117, 33-32527, 33-41374, 33-50438, 33-51447, 33-52945, 33-61335, 33-62283, 333-008431, 333-01667, 333-02137, 333-24869, 333-47583, 333-62661, 333-75235, 333-85051, and 333-85133.

Arthur Andersen LLP

New York, NY

March 24, 2000

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements (Registration Nos. 33-11117, 33-32527, 33-41374, 33-50438, 33-51447, 33-52945, 33-61335, 33-62283, 333-008431, 333-01667, 333-02137, 333-24869, 333-47583, 333-62661, 333-75235, 333-85051 and 333-85133) of International Paper Company of our report dated February 5, 1999 relating to the financial statements and financial statement schedule of Union Camp Corporation, which report appears in this Form 10-K.

PricewaterhouseCoopers LLP
New York, New York

March 24, 2000

EXHIBIT 24

POWER OF ATTORNEY

Know all Men By these Presents, that the undersigned hereby constitutes and appoints JAMES W. GUEDRY, WILLIAM B. LYTTON AND JAMES P. MELICAN and each of them (with full power to each of them to act alone) their true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for them on their behalf and in their name, place and stead, in any and all capacities, to sign, execute and affix their seal thereto and file the Annual Report of International Paper Company on Form 10-K (or any other appropriate form), under the Securities Exchange Act of 1934, as amended, together with any and all amendments to such Annual Report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in order to effectuate the same, for all intents and purposes, and that the undersigned hereby ratify and confirm all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Executed on the 14th day of March, 2000, at Purchase, New York.

NAME	*TITLE*
/s/ JOHN T. DILLON	
John T. Dillon	*Director and Chairman of the Board (Chief Executive Officer)*
/s/ C. WESLEY SMITH	
C. Wesley Smith	*Executive Vice President and Director*
/s/ PETER I. BIJUR	
Peter I. Bijur	*Director*
/s/ ROBERT J. EATON	
Robert J. Eaton	*Director*
/s/ SAMIR G. GIBARA	
Samir G. Gibara	*Director*

NAME	TITLE
/s/ JAMES A. HENDERSON James A. Henderson	Director
/S/ JOHN R. KENNEDY John R. Kennedy	Director
/s/ ROBERT D. KENNEDY Robert D. Kennedy	Director
/s/ W. CRAIG MCCLELLAND W. Craig McClelland	Director
/s/ DONALD F. MCHENRY Donald F. McHenry	Director
/s/ PATRICK F. NOONAN Patrick F. Noonan	Director
/s/ JANE C. PFEIFFER Jane C. Pfeiffer	Director
/s/ JEREMIAH J. SHEEHAN Jeremiah J. Sheehan	Director
/s/ CHARLES R. SHOEMATE Charles R. Shoemate	Director

ARTICLE 5

MULTIPLIER: 1,000,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD END	DEC 31 1999
CASH	453
SECURITIES	0
RECEIVABLES	3,333
ALLOWANCES	106
INVENTORY	3,203
CURRENT ASSETS	7,241
PP&E	29,527
DEPRECIATION	15,146
TOTAL ASSETS	30,268
CURRENT LIABILITIES	4,382
BONDS	7,520
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	415
OTHER SE	9,889
TOTAL LIABILITY AND EQUITY	30,268
SALES	24,573
TOTAL REVENUES	24,573
CGS	18,105
TOTAL COSTS	23,620
OTHER EXPENSES	0
LOSS PROVISION	34
INTEREST EXPENSE	541
INCOME PRETAX	989
INCOME TAX	86
INCOME CONTINUING	199
DISCONTINUED	0
EXTRAORDINARY	(16)
CHANGES	0
NET INCOME	183
EPS BASIC	0.44
EPS DILUTED	0.44

EXHIBIT 99.1

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of Union Camp Corporation

In our opinion, the consolidated balance sheet as of December 31, 1998 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 1998 of Union Camp Corporation and its subsidiaries (not presented separately herein) present fairly, in all material respects, the financial position, results of operations and cash flows of Union Camp Corporation and its subsidiaries at December 31, 1998 and for each of the two years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule "Valuation and Qualifying Accounts" (not presented separately herein) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Union Camp Corporation for any period subsequent to December 31, 1998.

As described in Note 1 to the consolidated financial statements, the Company changed its method of accounting for costs of computer software developed or obtained for internal use effective January 1, 1998.

PricewaterhouseCoopers LLP

New York, New York

February 5, 1999

EXHIBIT 99.2

International Paper:

A CONVERSATION ABOUT THE FUTURE

[LOGO] INTERNATIONAL PAPER

[PHOTOGRAPH - COVER]

This is a photo of a woman and a little girl taking a bicycle out of a large corrugated box.

INTERNATIONAL PAPER AT A GLANCE

[CHART - INSIDE COVER]

This is a chart of sales by segment:

Printing & Communications Papers	23%
Forest Products	12%
Chemicals and Petroleum	6%
Carter Holt Harvey	6%
Packaging	27%
Distribution	26%

SALES BY SEGMENT

[CHART - INSIDE COVER]

This is a chart of operating profit by segment:

Forest Products	40%
Carter Holt Harvey	2%
Distribution	6%
Chemical and Petroleum	7%
Printing & Communications Papers	14%
Packaging	31%

OPERATING PROFIT BY SEGMENT

Each part of International Paper is dedicated to exceeding customer expectations by providing the highest product quality, incomparable service and innovative new product development. International Paper's global paper, packaging and forest products businesses are complemented by an extensive distribution system and the production of related chemical and petroleum products. We operate more than 425 facilities in nearly 50 countries on behalf of customers in more than 130 different nations. International Paper is also the majority shareholder in Carter Holt Harvey, a leading forest products company based in New Zealand.

[CHART - INSIDE COVER]
This is a chart of geographic sales:

United States	78%
Europe	13%
Pacific Rim	8%
Other	1%

INTERNATIONAL PAPER
FROM INNOVATION TO RESULTS

[PHOTOGRAPH]

This is a photo of John Dillon, chairman and CEO, International Paper.

International Paper is taking the actions necessary to continue to be the very best in the global paper and forest products industry -- measured against any standard and against any competitor. Our goal is to improve shareowner value at a rate faster than our competition. We will do this by changing the way we think about our business -- we are managing for performance, building stronger businesses on a global basis and creating a worldwide competitive advantage. I am very optimistic about the future. Success, in my mind, is being the best. We have raised the bar on expectations and accountability. The results of these efforts will be evident throughout 2000. I am absolutely convinced we will make this company the best in the world -- against any measure.

We are advancing our efforts From innovation in the way we think and act, to results that our shareowners, communities, customers and all of our employees will love.

/s/ John Dillon

JOHN DILLON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
MARCH 2000

How is being a large, global company a competitive advantage? Our customers are growing across borders, and we are well-positioned to provide them the service and products they need to be successful. International Paper is in a strategic position only a few other companies can achieve. We believe there is huge growth potential in world markets that we intend to tap. Industry projections indicate that within 10 years there will be a half-dozen or so major, global companies in this business, and we will be one of these. Our

[PHOTOGRAPH]

This is a photo of a little girl riding a bicycle.

Kristen Henderson enjoys a beautiful day on her new bicycle. The bicycle packaging was specially designed and manufactured by employees at our Fond du Lac, Wis., Edinburg, Texas, and Putnam, Conn., container facilities. Henderson, who also appears in International Paper television commercials, is the daughter of employee Maureen Henderson, senior financial analyst, in Tuxedo, N.Y. Kristen and Maureen are featured on the cover of this book.

FROM MODERN HOME DECORS SUCH AS KITCHEN CABINETRY AND COUNTERTOPS TO DESIGN SERVICE, INTERNATIONAL PAPER IS TAPPING INTO THE MANUFACTURED HOUSING MARKET. WE HAVE DEVELOPED A PARTNERSHIP WITH OAKWOOD HOMES, A LEADING SUPPLIER OF MANUFACTURED HOMES IN NORTH AMERICA. WE PROVIDE MANUFACTURED HOUSES WITH THE LOOK AND FEEL OF A SITE-BUILT HOME.

IP HAS BEGUN HOLDING FAMILY FORUMS AT FACILITIES WORLDWIDE IN ORDER TO RECOGNIZE THE SOURCE OF OUR SUCCESS - PEOPLE. THE EVENTS ALLOW EMPLOYEES AND THEIR FAMILIES TO MEET WITH IP BUSINESS LEADERS. ALSO, THEY PROVIDE A FORUM TO DISCUSS THE COMPANY'S PLAN FOR SUCCESS AND HOW EMPLOYEES PLAY A VITAL ROLE.

INTERNATIONAL PAPER'S AWARD-WINNING RETAIL MERCHANDISING AND DISPLAY BUSINESS DOES IT ALL...AND UNDER ONE ROOF. OUR EXPERIENCED TEAM WORKS WITH MAJOR RETAILERS AND CONSUMER PRODUCTS FIRMS TO DESIGN, MANUFACTURE, INSTALL AND MAINTAIN THEIR TEMPORARY, SEMI-PERMANENT AND PERMANENT DISPLAYS.

global leadership position is clearly a distinct advantage for us. We have a presence in 50 countries worldwide and serve customers in more than 130 nations. We have the experience, scale and resources to tackle the larger or more aggressive international opportunities without placing the entire company at risk. We believe the paper and forest products industry will continue to grow. It will offer more opportunities for growth and profit in the future than in the past.

What's on the drawing board for improving International Paper's operations? International Paper is a company on the move, changing and improving in ways we never have before. Our No. 1 objective is to improve our profitability at a faster rate than our competition. We have powerful plans in place to reach this goal. Our company is committed to reaching this objective.

We are transforming ourselves, following specific plans to strengthen our business. We are changing the way we think about customers, the way we measure success and how we involve our people.

In addition to profit-improvement programs, we have put key performance measurements in place. You can visit our plants, and our employees can tell you for whom they are producing the product and what is important to those customers.

We are asking managers of facilities that have excellent safety and environmental performances to work with those that don't. We have managers and employees from facilities needing improvement visiting the "super performers" to learn from them. This is an excellent way to share best practices across the network.

[PHOTOGRAPH]

This is a photo of two men examining a stack of lumber.

Augusta, Ga., Lumber Mill employees Hardy Maloch and Wayne Thompson check some prime lumber destined for our customers' shelves.

OUR PRIME LUMBER

A full bin of good-looking lumber used to be hard to come by for people working on do-it-yourself projects such as building decks and making flowerbeds. Thanks to International Paper, the do-it-yourself builders no longer have to spend hours searching store shelves for desirable lumber, because our Wood Products team provides its customers with a higher grade of southern pine lumber that is as handsome as it is useful.

IP went further than producing lumber for these customers by helping to manage the inventories at their stores and distribution centers. The commitment of employees reinforces IP's total dedication to the customer. This high-quality product, coupled with exceptional customer service, is responsible for IP being named "Supplier of the Year" and "Partner of the Year" in 1999 by two of the leading companies in the building materials industry.

[PHOTOGRAPH]

This is a photo of a woman in Chile holding a box of grapes.

In Chile, Fabiola Leiva loads grapes in the DEFOR interlocking boxes.

DEFOR

International Paper innovators have done it again. A new packaging system gets produce from the grower to the consumer looking as fresh as if it has just been picked.

Thanks to the new DEFORTM System's interlocking boxes, produce now can be stacked for shipping without bruising and spoiling. And once these colorful, open-top boxes arrive at grocery stores, they can go directly from the truck to the display. The new design reduces unpacking and handling, cutting retailer labor costs and decreasing product damage and waste.

IP teamwork aggressively launched DEFOR into the marketplace. Carter Holt Harvey

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What is International Paper doing differently that adds value to your customers? We believe that if we help our customers become more successful, we will, in turn, be more successful. We must direct our energies and assets toward this goal. Our customers ask us to become partners so that we can provide creativity, innovation, quality products and world-class service. We measure this not so much by the tons of product we manufacture, rather on how we can make existing products better and how we can develop innovative solutions to help our customers succeed in their marketplaces.

We are refining ways we measure markets and we survey customers to determine how we can better meet their needs in the future. We continuously train our sales force in account management to offer superior customer service. We also let our employees know how their individual contributions reach our customers.

In the past, we've been credited with making some of the finest products on the market. Our new kind of responsiveness doesn't mean asking the customer, "How much will you buy?" It means finding out what particular challenges our customers face and working with them to find solutions. It means finding ways to add value to their businesses. We are perfecting the art of inter-divisional selling where we look at how best to use our resources in simplifying our dealings with our customers.

We believe it should be easy to do business with us.

Why the new tagline, From innovation to results?

You will see from many of the stories we've included in this book that International Paper is turning innovations into results. Over the last two years, we've seen a dramatic increase in the number of new products.

What are your views on industry consolidation?

International Paper has grown primarily through acquisition because it is the sensible way to enter new markets with existing customers and infrastructure rather than building new facilities - all of which translates into greater economies of scale, and thus, earnings power.

The defining action of 1999 was our merger with Union Camp. It positioned us to be an even stronger company. The merger was not about size, but about getting better and the benefits we expected from it are coming in right on target. We generated $130 million in savings in 1999 and expect to reach $425 million in annualized

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pioneered the system, the Containerboard Mill in Mansfield, La., produced the Brite-Top(R) grade, and the Carson, Calif., Container plant partnered with xpedx to distribute the DEFORsystem.

DEFOR's popularity has grown from a request by Albertson's, the second largest grocery chain in the U.S. Albertson's asked for packaging that improved produce quality and sales appeal, while eliminating shrinkage, labor costs and safety issues associated with handling produce at the store.

A success story? Albertson's is now asking its suppliers to use the DEFORsystem or something comparable. Other grocers and retailers are also now interested in the DEFORsystem.

[PHOTOGRAPH]

This is a photo of a woman in the grocery store picking grapes.

Artie Watson, Community Relations communications assistant, chooses grapes from Chile for her family at a local grocery.

PRINTING & COMMUNICATIONS PAPERS INTRODUCED LIBERTY(TM) 2000, A NEW LIGHTWEIGHT COATED PAPER BRAND TARGETED PRIMARILY FOR CATALOG USERS. CUSTOMERS SUCH AS LILLIAN VERNON, L.L. BEAN(R) AND LANDS' END USE LIBERTY 2000.

WE ENTERED INTO AN AGREEMENT TO BECOME THE MAJOR SUPPLIER OF THE CHOLESTEROL-REDUCING ADDITIVE FOUND IN BENECOL(TM). MEDICAL STUDIES SHOWED THAT PEOPLE WITH BORDERLINE-TO-HIGH CHOLESTEROL WHO REGULARLY CONSUMED MARGARINES AND OTHER FOODS WITH THE BENECOL ADDITIVE LOWERED THEIR TOTAL CHOLESTEROL LEVEL. UNDER THIS AGREEMENT, THE ACTIVE INGREDIENT, WHICH IS FOUND IN TREES, IS TO BE SUPPLIED BY ARIZONA CHEMICAL.

INTERNATIONAL PAPER-KOREA IS THE NO.1 BEVERAGE CARTON MANUFACTURER IN KOREA. WE DIFFERENTIATED OURSELVES FROM THE COMPETITION BY PROVIDING QUALITY SERVICE AND TECHNICAL SUPPORT TO GAIN A 60 PERCENT SHARE OF LOTTE HAM & MILK COMPANY, A SUBSIDIARY OF LOTTE BUSINESS GROUP IN KOREA.

OUR NEW TRU-TASTE(TM) PACKAGING SYSTEM FOR MILK AND JUICE REDUCES PACKAGING DEFECTS THROUGHOUT THE CUSTOMER SUPPLY CHAIN, SEALS IN VITAMIN C, AND HAS A LONGER SHELF LIFE.

THE PINE BLUFF, ARK., MILL IS THE FIRST U.S. PAPER MILL TO RECEIVE ISO 14001 CERTIFICATION. THIS ACHIEVEMENT WILL ENABLE THE MILL TO HELP COMMUNICATE ITS ENVIRONMENTAL COMMITMENT TO CUSTOMERS, STAKEHOLDERS, EMPLOYEES AND COMMUNITIES.

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savings by the end of 2000. These savings are a big part of our $1.8 billion profit improvement we anticipate by the end of 2002.

Conditions in our industry are very solid. Supply is well balanced with demand, and there is very little new capacity expected within the next few years.

How are you changing to make this a more people-focused company? We know that our people make the difference. We want to become the company of choice for our employees as a great place to work. We believe that if our employees understand where we're going and are committed to help get us there, we'll be successful. We are dedicated to hiring, motivating, developing, promoting and retaining outstanding people. We believe the most effective ideas -- such as improving productivity, making our facilities safer, enriching the environment, and building stronger partnerships with customers and communities -- come from the talents and skills of our employees. People development at International Paper is more than just teaching new skills, it calls for building on each person's strengths.

In 1999, we asked all our employees what we can do to get better. A team from International Paper and the Gallup Organization developed the research-based global employee survey. The survey will become one of our standard measurements. The success of International Paper will be determined by how well our employees delight customers with superior products, services and solutions.

What are you doing to help the forestland environment? We recognize that in order to create our products sustainably, we must be responsible

stewards of the environment. To that end, we are proud to say that we don't harvest or use old-growth wood or wood from temperate or tropical rainforests in any of our products. We strive, every day, to improve our forest practices. In fact, we were the first forest products company in the United States to third-party certify one of our forest management operations to ISO 14001, an internationally recognized standard for environmental management systems. We've integrated our industry's commitment to the Sustainable Forestry Initiative (SFIsm) program with this world-class international standard and have a commitment to verify all of our forestry operations by the end of 2000.

We're also engaging environmental groups in helping us protect wildlife. We recently collaborated with the Environmental Defense Fund and the U.S. Fish and Wildlife Service to develop the first-of-its-kind Habitat Conservation Plan for the endangered red-cockaded woodpecker. This landmark project was awarded the Gold Medal for International Corporate Environmental Achievement by the World Environment Center. It includes an innovative mitigation bank feature which provides an economic incentive to other private landowners to enhance this endangered species' habitat.

Are you looking to go into electronic commerce?

We are exploring the benefits e-commerce can bring to International Paper. From the opportunity to generate more revenue, to the ability to reduce costs, we are intent on rapidly integrating electronic commerce into our strategy to improve profits. We

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[PHOTOGRAPH]

This is a photo of a man unloading product in a warehouse.

James Gleaton, xpedx distribution center truck driver, unloads product for customers.

ONE-STOP SHOPPING

International Paper has stepped to the head of the line with the new all-in-one packaging and distribution system.

We combined the unique capabilities, strengths and market focus of our packaging plants with the 300 xpedx stores and distribution centers across the U.S. and created a selling process that's one-of-a-kind. The result is one sales representative, one invoice and a total systems approach to customer focus.

Our target customers value the "one-stop shopping" opportunities of our interdivisional partnering process. We offer customers a total packaging value proposition, including a wide array of packaging products as well as distribution services. Also, we offer a solution that will not only be difficult for our competitors to duplicate, but can also eliminate significant costs from the supply chain.

[PHOTOGRAPH]

This is a photo of a group of people walking through the forest.

CUSTOMER FORESTRY TOURS

Customers are getting a firsthand view of how International Paper manages forests through guided tours of our forestlands. The tours help customers see how we sustain the forest as a natural resource and protect the forest ecosystems.

Our customers experience the world of forestry as they journey through our forestlands in areas like Georgetown, S.C., and our 16,000-acre Southlands Experiment Forest in Bainbridge, Ga.

Prior to the tour, our foresters explain our Sustainable Forestry Initiative (SFI)(SM) practices and compare these to other forest management programs. Customers then tour replanted and site-prepared land as well as streamside management zones. IP foresters explain our water quality initiatives and protection of endangered species.

Our SFI practices enable us to responsibly manage and nurture our resources to meet society's needs today while providing forests for future generations. We reached an environmental landmark in 1999 by becoming one of the first U.S. forest products company to achieve independent third-party verification on 4.7 million acres of our forestlands.

[PHOTOGRAPH]

This is a photo of a girl leaning on a wooden post with her carton of orange juice.

Aimee Deneve, daughter of employee Cheryl Deneve, Plant City, Fla., Beverage Packaging sales service rep, has a new carton of orange juice. The beverage carton for kids is the latest innovation from Beverage Packaging and is manufactured by employees at our Raleigh, N.C., facility.

Our Forest Resources Mid-South, South Central and Northeast regions have been verified to the American Forest & Paper Association's SFI and ISO 14001 standards. We are in the process of having all 7.1 million acres of our U.S. forestlands verified to both sets of guidelines by the end of the year 2000.

IP customer forestry tours are just another way we respond to the needs of our customers worldwide.

EMPLOYEES FROM THE ANDROSCOGGIN MILL IN JAY, MAINE, IP'S NORTHEAST FORESTERS, CONDUCTED A TRAINING SESSION IN THE STATE FOR THE FORESTERS FROM OUR SVETOGORSK MILL IN WESTERN RUSSIA. NATIONALLY KNOWN FOR THEIR SUSTAINABLE FORESTRY AND BEST MANAGEMENT PRACTICES, THE IP TEAM MEMBERS FROM MAINE TAUGHT THE RUSSIAN CREW HOW TO HELP IMPROVE THE ENVIRONMENT DURING LOGGING OPERATIONS IN RUSSIA.

REINVENTING THE HAMMERMILL(R) BRAND TO MAKE YOUR WORK LOOK BETTER!

The HammerMill(R) brand has been reinvented in order to meet the needs of consumers who, research shows, are often frustrated and confused by the way paper is identified on the retail shelf.

Through the relaunch initiative, papers are clearly marked and sold according to their end use. Whether on office superstore shelves, in catalogs or through the Internet, HammerMill makes the buying choice easier for consumers with end-use labels for

[PHOTOGRAPH]

This is a photo of a man surrounded by HammerMill product.

Donald Starver, HammerMill senior brand manager, looks at the new product lines.

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have several pilot internet programs aimed at reducing our inventories and improving the supply chain. The real impact of the internet is likely to be the emergence of business-to-business web sites which will act as exchanges for various types of paper and building material products.

Increasingly, wholesalers and retailers throughout the world are managing their inventory supply levels and consumers are placing catalog mail orders through the internet. This activity, in turn, is driving much of the upsurge in e-commerce.

Customers industry-wide are increasingly accustomed to gaining information on inventories, billing and supplies online on a real-time basis as they seek to replenish stocks at any given time to and from facilities worldwide.

How far does International Paper go to provide safe work environments? As we enter 2000 and our second century of operation, we place a renewed emphasis on safety in all areas of the company. We have had an exemplary record in many locations.

We had 16 sites awarded OSHA's Voluntary Protection Program (VPP) STAR status in 1999. We have 67 sites currently in VPP, more than any other company. The prestigious STAR status recognizes sites that have sustained exemplary standards in health and safety performance that go well beyond the requirements of the laws of the United States in providing an accident-free work environment.

International Paper received the Business Roundtable's 1999 Construction Industry Safety Excellence Award. This annual award recognizes the diligent efforts of companies which have created world-class construction site safety programs and achieved exemplary results in their commitment to an injury-free workplace. The Business Roundtable is a group of leading corporations with a combined work force of more than 10 million employees in the United States.

We have included some of the most frequently asked questions we receive at International Paper. If you have additional questions, please visit our web site, www.internationalpaper.com or write us at International Paper, Two Manhattanville Road, Purchase, NY 10577-2196. For investor information, call our Investor Relations office at 914-397-1500. For general information, call Employee Communications at 901-763-6000.

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papers such as Proposals and Presentations, Reports & Analyses, Signs and Notices and Letterhead and Resumes.

The new HammerMill product line features high quality papers designed to meet communication and sales needs of small office and home office consumers.

HammerMill makes your work look better and your buying choice easier.

WE'RE CHANGING THE FACE OF INTERPERSONAL COMMUNICATIONS. WE DESIGNED PAPERS SUCH AS INVENT IT!(R), CRAYOLA(R) COMPUTER PAPERS AND SPECIALLY YOURS(TM) TO BRIDGE THE HOME COMPUTER AND ARTS AND CRAFTS MARKETS WITH PRINTER PAPERS. THIS ALLOWS CUSTOMERS TO ENHANCE THEIR PERSONAL CREATIONS AND PRINT THEIR OWN GREETING CARDS, IRON-ON TRANSFERS, PARTY INVITATIONS AND PHOTO ALBUM KITS.

IP'S PACKAGING GROUPS WORKED TOGETHER AS A TEAM TO PRODUCE A NEW CEREAL CARTON. THE CONTAINER LOOKS LIKE A HALF-GALLON MILK CARTON WITH A RESEALABLE OPENING TO OPTIMIZE FRESHNESS, WHILE TAKING UP LESS SHELF SPACE.

FINANCIAL HIGHLIGHTS

Dollar amounts and shares in millions except per share amounts	FOR THE YEAR ENDING DECEMBER 31, 1999
FINANCIAL SUMMARY	
Net Sales	$ 24,573
Operating Profit	1,810
Earnings Before Income Taxes, Minority Interest and Extraordinary Item	448
Net Earnings	183
Earnings per Average Common Share - Assuming Dilution	0.44(1)
Cash Dividends per Common Share	1.00(2)
Common Shareholders' Equity per Average Common Share	24.95
SHAREHOLDER PROFILE	
Shareholders of Record at December 31	32,881
Shares Outstanding at December 31	414.6
Average Shares Outstanding	413.0

Note: The summary financial information on pages 12 and 13 is meant to be read in conjunction with the consolidated financial statements and related notes included in our 1999 Annual Report.

(1) During 1999 we incurred merger costs and restructuring and other special charges which reduced net earnings by $368 million and earnings per common share by $.89. Before these charges, net earnings would have been $551 million or $1.33 per common share.

(2) The International Paper dividend paid was $1.00 per common share in 1999. However, the dividend per average common share for 1999 was $1.01 and has been restated to include dividends paid by Union Camp Corporation which merged with International Paper during 1999 in a transaction accounted for as a pooling-of-interests.

CONDENSED CONSOLIDATED BALANCE SHEET

In millions	DECEMBER 31, 1999
ASSETS	
Current Assets	$ 7,241
Plant, Properties and Equipment, Net	14,381
Forestlands	2,921
Other Assets	5,725
Total Assets	$30,268
LIABILITIES AND COMMON SHAREHOLDERS' EQUITY	
Current Liabilities	$ 4,382
Long-Term Debt	7,520
Deferred Income Taxes	3,344
Other Liabilities	4,718
Common Shareholders' Equity	10,304
Total Liabilities and Common Shareholders' Equity	$30,268

Note: Certain statements in this document that are not historical in nature may constitute forward-looking statements. These statements are often identified by the words, "believe," "expect," "plan," "project," "intend," and words of similar import. Such statements reflect the current views of International Paper with respect to future events and are subject to risks and uncertainties. Actual results may differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ include, among other things, changes in overall demand, changes in domestic or foreign competition, changes in the cost or availability of raw materials, our ability to bring new products online, the cost of compliance with environmental laws and regulations, and whether anticipated savings from merger and other restructuring activities can be achieved. In view of such uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. International Paper does not assume any obligation to update these forward-looking statements.

INTERNATIONAL PAPER AT A GLANCE

[PHOTOGRAPH]

This is a photo of three men examining huge stacks of paper.

PRINTING AND COMMUNICATIONS PAPERS

Our North American business is a major manufacturer of office papers, commercial printing papers, coated papers, converting papers, bristols, fine papers and pulp.

Office papers are widely used in photocopiers, office printers and digital imaging printers. Commercial printing papers are primarily used for both offset and rotogravure printing. Some of our well-known brands include HammerMill, Great White, Williamsburg and Accent Opaque.

International Paper is also a prominent supplier of coated papers for magazines, catalogs, direct mail, and other media. Converting and speciality papers makes paper for envelopes, forms, tablets, file folders and other special applications. Our pulp grades include paper pulp for paper and paperboard, fluff pulp for hygiene products, and high-purity pulp for acetate and fabrics. Our Fine Papers division manufactures premium-quality text, cover, coated and business papers under the Via by HammerMill brands, Zanders USA (manufactured in Germany), Beckett and Strathmore.

Our European business is a leading supplier of office, coated and specialty papers produced at facilities in France, Germany, Poland, the U.K. and Russia. Brands such as ReyMat, ReyLux, Duo and Polspeed supply the papers Europe's consumers and businesses require. Zanders produces premium coated papers such as Ikono for high-end brochures and annual reports. Our facilities in Kwidzyn, Poland, and Svetogorsk, Russia, produce business papers, newsprint and coated board for markets throughout Europe.

[PHOTOGRAPH]
This is a photo of IP packaging products.

PACKAGING

Industrial Packaging produces containerboard, including visual appeal and high-performance grades such as BriteTopTM and PineLiner(R). Approximately 60 percent of our production is converted at our 67 container plants in North America. that produce corrugated boxes, shipping containers, and other corrugated packaging products and services for agricultural, consumer and industrial markets. A total of 22 container plants in the U.K., Italy, Spain, France, Ireland and the Canary Islands also manufacture corrugated packaging. Other locations include Puerto Rico, Chile, Argentina, Turkey and China.

International Paper's Industrial Papers business produces lightweight papers, paper composite structures and silicone coated release liners for a variety of industrial, food packaging, pressure sensitive and hygiene markets. The business employs about 2,000 people at six sites in Wisconsin, Tennessee, Ohio and The Netherlands.

Consumer Packaging operates a world-class bleached board system, over one-third of which creates materials for our own converting operations. Our high-quality Everest(R) and Starcote(R) brands are used globally as packaging board for juice, milk, food, cosmetics, pharmaceuticals, computer software and tobacco products. Beverage Packaging has 30 sites worldwide offering complete packaging systems, from paper to machines, using fresh and aseptic technologies. Retail Packaging produces packaging to protect and merchandise products such as frozen food, beverages, entertainment and household products at 12 U.S. plants. Foodservice, with six locations, offers cups, lids, bags, plates, cartons, trays and containers from six plants in the U.S. and operates joint ventures with Carter Holt Harvey. Flexible Packaging, with 11 plants in the U.S. and two in Argentina, supports such end uses as pet food, charcoal, lawn and garden products, and rice.

[PHOTOGRAPH]
This is a photo of a pine seedling.

FOREST PRODUCTS

Forest Resources manages in excess of 7.1 million acres of forestlands, principally in the southern U.S. More than 50 percent of the fiber harvested is used by International Paper in the manufacture of paper and wood products. Our forests are managed using advanced high-yield silviculture and land management techniques to enhance their financial returns while providing watershed protection, wildlife habitat preservation and recreational opportunities. In addition, we continually buy and sell forestlands in line with our strategic objectives. We believe our leadership role in the American Forest & Paper Association's Sustainable Forestry Initiative (SFI) exemplifies our commitment to manage our forestlands in an environmentally responsible manner.

We also have a Building Materials Group with 46 manufacturing locations worldwide. Wood Products produces lumber, plywood, oriented strand board, treated poles and laminated veneer lumber that are distributed throughout North America and Europe. Masonite's Molded Products is the leading maker of molded door facings marketed primarily under the CraftMaster(R) brand. Masonite's Building and Industrial Products markets a broad range of products, including siding, exterior trim, decorative panels and a variety of products used in furniture, store fixtures and commercial roofing. Decorative Products manufactures high- and low-pressure laminates, particleboard and graphic arts supplies primarily for residential and commercial construction, furniture and specialty markets.

[PHOTOGRAPH]

This is a photo of an xpedx delivery truck.

INTERNATIONAL PAPER AT A GLANCE

DISTRIBUTION

Our distribution business, xpedx, distributes printing paper, packaging supplies and equipment, facility supplies and graphic imaging prepress equipment and supplies. xpedx delivers customer solutions through more than 100 wholesale distribution centers with 10 million square feet of warehouse space and more than 190 stores serving retail customers and small printers. The xpedx focus is retail, commercial printing, on-demand printing, manufacturing, the automotive industry, and publishing industries. About 23 percent of xpedx revenue is generated by products manufactured by International Paper. Papeteries de France, Scaldia and Impap distribute similar products throughout Europe.

[PHOTOGRAPH]

This is a photo of a yellow measurement container.

CHEMICALS AND PETROLEUM

Our chemical business uses the raw materials and by-products of our papermaking processes to provide global products to our customers. With 15 plants worldwide, Arizona Chemical is a leader in tall oil, fatty acids, rosin esters, dimer acid, polyamide resins and other pine chemicals used to make chewing-gum base, adhesives, road markings, inks, lubricants, household cleaners, soaps and more. International Paper is the majority owner of Bush Boake Allen, an international flavor, fragrance and aroma chemicals business.

Chemical Cellulose produces high-purity pulp for acetate, fabrics, as well as a wide range of other consumer products that are produced at the company's Natchez, Miss., Mill.

Our Petroleum and Minerals business manages mineral resources on company land and develops oil and gas reserve, principally through joint venture partners in West Texas, the Gulf Coast and the Gulf of Mexico.

[PHOTOGRAPH]

This is a photo of a man building a home with a large piece of wood.

CARTER HOLT HARVEY

International Paper holds more than 50 percent interest in Carter Holt Harvey, one of the largest forest products companies in the Southern Hemisphere. With operations in New Zealand, Australia and Chile, Carter Holt Harvey serves markets in the Pacific Rim, Asia and Latin America. The company harvests over 6 million tons of logs from 785,000 acres of forestlands in New Zealand on a sustainable yield basis. Carter Holt Harvey is Australia and New Zealand's leading provider of solid wood products, enjoys a strong regional position in packaging, and is New Zealand's largest manufacturer of pulp and paper products. With popular brands such as Sorbent, Purex and Handee, the company is the largest tissue products manufacturer in Australia and New Zealand. Paper distribution subsidiaries B.J. Ball Papers and Raleigh Papers serve customers throughout New Zealand and Australia. Carters is New Zealand's third largest building materials merchandiser, with 35 store locations.

Carter Holt Harvey held an indirect interest in Compania de Petroleoas de Chile (COPEC), Chile's largest industrial conglomerate. Effective January 3, 2000, Carter Holt Harvey sold its interest in COPEC for just over US $1.2 billion.

SENIOR MANAGEMENT

JOHN T. DILLON
Chairman and
Chief Executive Officer

DAVID W. OSKIN
Executive Vice President

C. WESLEY SMITH
Executive Vice President

JAMES P. MELICAN
Executive Vice President
Legal and External Affairs

MARIANNE M. PARRS
Executive Vice President
Administration

ROBERT M. AMEN
President
International Paper Europe

JEROME N. CARTER
Senior Vice President
Human Resources

THOMAS E. COSTELLO
Senior Vice President
Distribution

JOHN V. FARACI
Senior Vice President
Finance & Chief Financial Officer

CHARLES H. GREINER
Senior Vice President
Printing & Communications Papers

NEWLAND LESKO
Senior Vice President
Industrial Packaging

WILLIAM B. LYTTON
Senior Vice President & General Counsel

RICHARD B. PHILLIPS
Senior Vice President
Technology

WILLIAM H. SLOWIKOWSKI
Senior Vice President
Consumer Packaging

MANCO SNAPP
Senior Vice President
Building Materials

DENNIS THOMAS
Senior Vice President
Public Affairs and Communications

DAVID A. BAILEY
Managing Director
European Papers, East

JOHN N. BALBONI
Vice President
E-commerce

MICHAEL J. BALDUINO
Vice President
Foodservice

H. WAYNE BRAFFORD
Vice President
Converting & Specialty Papers

E. WILLIAM BOEHMLER
Vice President and Treasurer

DENNIS J. COLLEY
Vice President
Retail Packaging

WILLIAM P. CRAWFORD
Vice President
Logistics

HANS-PETER DAROCZI
Vice President
International Container

C. CATO EALY
Vice President
Business Development and Planning

JOHN V. FLYNN
Vice President
Human Resources

THOMAS E. GESTRICH
Vice President
Beverage Packaging

JAMES W. GUEDRY
Vice President and
Corporate Secretary

PAUL HERBERT
Managing Director
European Papers, West

WILLIAM P. HOEL
Vice President
Executive Assistant to the Chairman

NEWELL E. HOLT
Vice President
Bleached Board

ROBERT M. HUNKELER
Vice President
Investments

THOMAS C. JORLING
Vice President
Environmental Affairs

JEFFREY F. KASS
Vice President
Printing & Communications Papers

TIMOTHY P. KENEALLY
Vice President
Industrial Packaging

PETER F. LEE
Vice President
Research & Development

ANDREW R. LESSIN
Vice President and
Controller

ARTHUR W. MCGOWEN
Vice President
Wood Products

GERALD C. MARTERER
Vice President
Specialty Industrial Papers

JEAN-PHILLIPPE MONTEL
Vice President
European Papers

KARL W. MOORE
Director, Finance
European Papers

GEORGE A. O'BRIEN
Vice President
Forest Resources

MAXIMO PACHECO
President
International Paper Latin America

LH PUCKETT
Vice President
Commercial Printing & Office Papers

CAROL L. ROBERTS
Vice President
People Development

DAVID L. ROBINSON
Vice President
Industrial Packaging

R. MICHAEL ROSS
Vice President
Industrial Packaging

J. CHRIS SCALET
Vice President and
Chief Information Officer

BENNIE R. SMITH
Vice President
Industrial Packaging

PETER M. SPRINGFORD
President
International Paper Company
(Asia) Limited

LARRY J. STOWELL
Vice President
Arizona Chemical

TOBIN J. TREICHEL
Vice President
Tax

CAROL S. TUTUNDGY
Vice President
Investor Relations

LYN M. WITHEY
Vice President
Public Affairs

RICHARD A. O'LEARY
Auditor

HEARING EXHIBIT NO. 16

{Merits Hearing of October 28, 2015}

In the matter of 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

I hereby certify this document to be a true copy of the original

Jocelyn Boyd

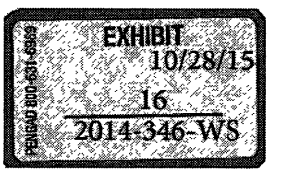
Chief Clerk

Date 10/20/17



APPENDIX A

LIST OF TESTIMONY, EXPERT PROCEEDINGS, AND ENGAGEMENTS BY CHARLES E. LOY, CPA



LIST OF TESTIMONY, EXPERT PROCEEDINGS, AND ENGAGEMENTS BY CHARLES E. LOY, CPA

WATER UTILITY RATES AND REGULATION EXPERIENCE

Arizona Corporation Commission

Docket No. WS-01303A-006-0403
Presented testimony, prepared the Cost of Service study and rate design on behalf of Arizona-American Sun City and Sun City West Wastewater rate request.

Docket No. WS-01303A-06-0403
Presented testimony, prepared the Cost of Service study and rate design on behalf of Arizona-American Anthem/Aqua Fria Water and Wastewater rate request.

Docket No. WS-01303A-06-0014
Presented testimony, prepared the Cost of Service study, rate design, and assisted with the preparation of the revenue requirements on behalf of Arizona-American Mohave Water and Wastewater rate request.

Docket No. W-01656A-98-0577, SW-02334A-98-0577
Presented testimony for approval of a Central Arizona Project Water utilization plan, the implementation of a Groundwater Savings Fee and the recovery of deferred project costs.

Docket WS-02334A-98-0569
Presented a filing for the approval of an agreement relating to a wastewater plant de-nitrification project with the Sun City Recreation Centers and Del Webb Corporation.

Docket U-3454-97-599
Prepared and presented a filing for the approval of a CCN to provide water and wastewater services to Del Webb's Anthem project and the approval of two related agreements.

Docket No. E-1032-95-417 ET AL.
Presented testimony and prepared the rate filing on behalf of Citizens Utilities Maricopa County water properties 1995 rate request.

Arkansas Public Service Commission

Dockct No. 06-160-U
Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water Arkansas's 2006 rate request.

Docket No. 03-161-U
Presented testimony, prepared the Cost of Service study, rate design, and assisted with the preparation of the revenue requirements on behalf of United Water Arkansas's 2003 rate request.

Connecticut Department of Public Utility Control
Docket No. 07-05-44
Prepared the rate filing and supporting testimony on behalf of United Water Connecticut's 2007 water rate request.

Public Service Commission of Delaware
PSC Docket No. 09-60
Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water Delaware's 2009 rate request.

PSC Docket No. 06-174
Presented testimony, prepared the Cost of Service study, rate design, revenue normalization and cash working capital requirements on behalf of United Water Delaware's 2006 rate request.

Idaho Public Utilities Commission
Case No. UWI-W-09-01
Presented testimony, prepared revenue and expense pro forma adjustments, and proposed rate design on behalf of United Water Idaho, Inc. 2010 rate request.

***Indiana Utility Regulatory* Commission**
Cause No. 41842
Prepared the filing and presented testimony for the Petition of Utility Center Inc. for the recovery of Distribution System Improvement Charges -2001

Cause No. 41559
Prepared the filing and presented testimony for a Certificate of Territorial Authority to render Sewage service.-2000

Cause No. 41968
Directed the preparation of Utility Center Inc.' request for authority to increase its rates and charges for water and sewer service. -2000

Illinois Commerce Commission
Docket No. 94-0481
Presented testimony and prepared the filing on behalf of Citizens Utilities Company of Illinois 1994 rate request.

Docket No. 95-0633
Presented testimony on behalf of Citizens Utilities Company of Illinois in Tudor Park Apartments vs. Citizens Utilities of Illinois.- 1995

Docket No. 97-0372
Presented testimony on behalf of Citizens Utilities of Illinois in the Application for Consent to and Approval of a Contract with Affiliated Interests. 1997

State Board of New Jersey Public Utilities
BPU Docket No. WRO702125
Prepared and presented testimony on the determination of the cash working capital requirements on behalf of United Water New Jerseys 2007 rate request.

New Mexico Public Regulation Commission
Case No. 11-00196-UT
Presented testimony and assisted with the preparation of the water rate filing on behalf of New Mexico American Water Company Clovis District

Case No. 09-00156-UT
Presented testimony and prepared the water rate filing on behalf of New Mexico American Water Company Edgewood District

Case No. 07-00435-UT
Presented testimony and prepared the water and wastewater rate filing on behalf of New Mexico Utilities Inc.

Case No. 08-00134-UT
Presented testimony and prepared the water rate filing on behalf of New Mexico –American Water Co.

New York Public Service Commission
Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water New Rochelle's 2010 rate request.

Public Utilities Commission of Ohio
Docket No. 98-178-WS-AIR
Presented testimony and prepared the filing on behalf of Citizens Utilities Company of Ohio 1998 rate request.

Docket No. 94-1237
Presented testimony and prepared the filing on behalf of Citizens Utilities Company of Ohio 1994 rate request.

Pennsylvania Public Utility Commission
Docket No. R-2009-2122887
Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water Pennsylvania's 2009 rate request.

Docket No. R-00051186
Assisted with analysis/filing preparation of United Water Pennsylvania, Inc. 2005 Rate Case.

Docket No. R-00953300
Presented testimony on behalf of Citizens Utilities Company of Pennsylvania 1995 rate request.

Texas Commission of Environmental Quality

SOAH Docket 582-14-3415
Application for a 2013 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application and filed testimony on behalf of Canyon Lake WSC.

SOAH Docket No. 582-14-3384
Application for a 2013 Water and Sewer Rate/Tariff Change of SWWC Inc.
Prepared application on behalf of SWWC, Inc.

SOAH 582-14-3381
Application for a 2013 Water and Sewer Rate/Tariff Change of Monarch Utilities LP
Prepared application on behalf of SWWC, Inc.

SOAH Docket No. 582-12-0224
STM Application of Monarch Utilities I, L.P. to Transfer Water and Sewer Facilities and Certificates of Convenience and Necessity – provided assistance

Application 37531-R
Application for a Water Rate/Tariff Change of Quadvest L.P. Prepared application on behalf of Quadvest L.P. Prepared application on behalf of Quadvest L.P.

Applications 37507-R and 37508-R
Application for a Water and Sewer Rate/Tariff Change of Ranch Utilities, Inc. Prepared application on behalf of Ranch Utilities, Inc.

Application 37317-R
Application for a Water Rate/Tariff Change of Wiedenfeld Water Works, Inc. Prepared application on behalf of Wiedenfeld Water Works, Inc.

Applications 37234-R and 37235-R
Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc. North and Southwest Regions
Prepared application on behalf of Aqua Texas, Inc.

SOAH Docket No, 582-12-0224
Application for a Water and Sewer Rate/Tariff Change of Monarch Utilities LP
Prepared application on behalf of SWWC, Inc.

SOAH Docket No. 582-11-1468
Application for a 2010 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application and filed testimony on behalf of Canyon Lake WSC.

SOAH Docket No. 582-11-1458
Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc. Southeast Region
Prepared application on behalf of Aqua Texas, Inc.

Texas Commission of Environmental Quality-cont.

Docket No. 0580-UCR
Application for a 2009 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application on behalf of Canyon Lake WSC.

Docket No. 35850-R
Application for a 2007 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application on behalf of Canyon Lake WSC.

Docket No. 33763-R
Application for a 2007 Water and Sewer Rate/Tariff Change of Midway, Inc. For the City of Oak Point Service area. Filing initially made with the City of Oak Point.

Docket Nos. 35748-R & 35747-R
Application for a Water and Sewer Rate/Tariff Change of Monarch Utilities LP
Prepared the application on behalf of Monarch.

Docket No. 2006-0072-UCR
Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc
Prepared application and presented testimony on behalf of Aqua Texas, Inc.

Docket No. 2007-0478-UCR
Application for a Water and Sewer Rate/Tariff Change of Texas American Water Inc.
Prepared the application on behalf of Texas American Water.

Docket No. 2005-0114-UCR
Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc
Presented Testimony on behalf of Aqua Texas, Inc.

Docket No. 2004-2029-UCR
Application for a Water and Sewer Rate/Tariff Change of Walker Water Works, Inc.
Prepared the application on behalf of Texas American Water.

Application Nos. 34658-R & 34659-R
Application for a Water and Sewer Rate/Tariff Change of Southwest Utilities, Inc.
Prepared the application on behalf of Texas American Water.

Docket Nos. 2000-1074-UCR, 2000-1075-UCR, 2000-1366 UCR through 2000-1369 UCR
Assisted in the preparation and presentation of the Aqua Source 2000 rate increase

Application No. 7371-R (Texas Water Commission)
Assisted in the analysis of Southern Utilities 1988 rate request on the behalf of Southern Utilities customers

Other Water Related Engagements and Expert Proceedings

Town of Providence Village
Developed Expert Witness Report for Denton County Court Cause No. 2011-60876-393
Analysis of Agreements between Mustang SUD and Providence Village WCID

Mitchell County Utility
Assist with divestiture of water utility assets

City of Longview
Ongoing assistance with development of annual formulary wholesale water and wastewater treatment rates.

Aqua Texas, Inc.
Ongoing calculation and updates of Regional Uniform CIAC Fees

Dripping Springs WSC, Hays County WCID 1&2
Review and analysis of West Travis County Public Utility Agency wholesale rate cost of service and rate increase 2012.

SWWC Inc.

- Decertification analysis and valuation of the CCN for Crosswinds development area.
- Decertification analysis and valuation of the CCN for TXI development area.
- Decertification analysis and valuation of the CCN for Tower Terrace/Kilgore Tract development area.
- Decertification analysis and valuation of the CCN for Villages at Warner Ranch development area.

Crystal Clear WSC
Decertification analysis and valuation of the CCN for Texas GLO development area around New Braunfels Texas

Woodbine Development Corp.
Analysis and assistance with LCRA Windmill Ranch wholesale wastewater services contract renegotiations.

Rebecca Creek MUD
Before and after rate comparison, analysis and forecast regarding the merger proposed by Canyon Lake Water Supply Company.

Global Water Resources
Expert witness before American Arbitration Association regarding the financial standing and regulatory status of Global Water.

Other Water Related Engagements and Expert Proceedings-cont.

City of Alexandria, Louisiana
Financial review, allocated cost of service and rate study for the water and wastewater systems.

Corix Utilities
Assistance with bid preparation and analysis regarding the LCRA retail water and wastewater divestiture.

Golden State Water Company
Assistance with bid concerning divestiture of SWWC Inc.

United Water Management and Services
Developed report regarding Texas IOU regulation for internal assessment of the Texas water regulatory status.

Greater Austin Water Forum
Assisted industrial class water users with analysis and participation in the City of Austin 2008 Cost of Service Study.

New Mexico Utilities
Review/analysis and critique report on Albuquerque Bernalillo County Water Utility Authority's Cost of Service Wholesale Wastewater Rate Model

GAS UTILITY RATES AND REGULATION EXPERIENCE

Railroad Commission of Texas
GUD Docket 10190
Prepared filing and testimony of behalf of Hughes Natural Gas 2012 rate increase for the environs of the City of Magnolia.

GUD Docket 10083
Prepared filing and testimony of behalf of Hughes Natural Gas 2011 rate increase for the incorporated area of the City of Magnolia and environs.

GUD Docket 9731
Prepared filing and testimony of behalf of Hughes Natural Gas 2007 rate increase for the environs of the City of Magnolia.

GUD Docket 9488-9512
Prepared filing and testimony of behalf of West Texas Gas 2004 rate increase for the environs of cities served.

Railroad Commission of Texas-cont.

GUD Docket 8033
Filed testimony on behalf of Southern Union Gas Company's 1991 appeal for a rate increase in South Jefferson County.

GUD Docket 7878
Filed testimony and prepared the rate filing on behalf of Southern Union Gas Company's 1991 request for a rate increase in the Austin environs.

GUD Docket 6968
Assisted in the analysis of Southern Union Gas Company's 1987 appeal for a rate increase on the behalf of the City of Austin

Oklahoma Corporation Commission
Docket No. 001345
Presented testimony and prepared the rate filing on behalf of Southern Union Gas Company's 1992 rate request.

Pennsylvania Public Utility Commission
Docket No. 2013-2386293
Assisted the University of Pennsylvania with the analysis of Veolia Energy Philadelphia Inc.'s 2013 steam rate case.

Docket No. 2009-2111011
Assisted the University of Pennsylvania with the analysis of Trigen-Philadelphia Energy Corp's 2009 steam rate case

Federal Energy Regulatory Commission
Docket No. RP09-791-000
Assist municipal customers of MoGas analyze issues in FERC 2009 gas transportation rate case.

City of Austin

- Presented testimony and prepared filing as well as conducted settlement negotiations associated with Southern Union's 1993 rate request.
- Presented testimony and prepared filing on behalf of Southern Union Gas Company's 1991 rate request.
- Assisted in the analysis of Southern Union Gas Company's 1987 rate request on behalf of the City of Austin

City of El Paso Public Service Board

- Presented testimony and prepared filing as well as participated in the settlement negotiations of Southern Union's 1993 rate request.
- Presented testimony and prepared filing on behalf of Southern Union Gas Company 1991 rate request.

City of El Paso Public Service Board-cont.

- Presented testimony and prepared the filing on behalf of Southern Union Gas Company 1990 request.

City of Port Arthur

- Presented testimony and prepared filing on behalf of Southern Union Gas Company's 1991 rate request.
- Participated in Southern Union Gas Company's 1990 rate request.

City of Monahans

- Presented testimony and prepared filing on behalf of Southern Unions Gas Company's 1992 rate request.
- Assisted in the analysis of Southern Union Gas Company's 1989 rate request on the behalf of the City of Monahans.

City of Borger

- Prepared testimony and prepared the filing on behalf of Southern Union Gas Company's 1992 rate request.
- Participated in Southern Union Gas Company's 1989 rate request on the behalf of the City of Borger.

City of Galveston

- Presented testimony and prepared the filing on behalf of Southern Union Gas Company's 1992 rate request.

Other Gas Related Engagements

Mitchell County Utility
Assist with divestiture of gas utility assets

Hughes Natural Gas
Ongoing assistance with GRIP filings

Markwest Energy Partners
Ongoing transportation rates and regulatory consulting

Consolidated Asset Management Services (CAMS)
Ongoing assistance regarding RRC Transmission pipeline issues

City of Alexandria, Louisiana
Financial review, allocated cost of service and rate study for the gas system.

City of George West, Texas
Gas utility rate study

Alamo Transmission
Assisted with initial tariff development and related cost of service

Dynamic Energy Concepts Incorporated
Assisted with the review of gas contracts, tariffs, analyzed usage data and assessed procurement practices for a number of US Veteran Hospitals across the country.

ELECTRIC UTILITY RATES AND REGULATION EXPERIENCE

Public Utility Commission of Texas
Docket No. 43731
Prepared a cash working capital study and testimony on behalf of Cross Texas Transmission LLC 2015 Rate Application to establish rates.

Docket No. 41474
Prepared a cash working capital study and testimony on behalf of Sharyland Utilities L.P.'s 2013 Rate Application to establish retail distribution rates.

Docket No. 31250
Presented testimony and rate filing on behalf of Rio Grande Electrical Cooperatives 2005 Change in rates for wholesale transmission service.

Docket No. 8702
Assisted in the analysis of Gulf States Utilities 1987 rate request.

Public Utility Commission of Texas-cont.

Docket 8646
Assisted in the analysis of Central Power & Light's 1988 rate request.

Docket 7661
Assisted in the analysis of the City of Fredericksburg's proposed amendment to Certificate of Convenience.

Docket 7510
Assisted in the analysis of West Texas Utilities Company's 1987 rate request.

Federal Energy Regulatory Commission
Docket No. ER88-202-0000
Assisted in the analysis of the Maine Yankee Atomic Power Plant Decommissioning.

Docket No. ER88-224-0000
Assisted in the analysis of the Carolina Power & Light Company Atomic Power Plant Decommissioning.

City of Bryan

- Developed and programmed data management system for the city electric department.

City of Fredericksburg

- Organized and performed an electric rate survey of Central Texas.
- Assisted in a load and rate design study.

City of Austin

- Assisted in the analysis of the City Electric Utility Department's 1989 rate request.

Other Electric Related Engagements

Dynamic Energy Concepts Incorporated
Assisted with the review of electric contracts, tariffs, analyzed usage data and assessed procurement practices for a number of US Veteran Hospitals across the country

Northeast Texas Electrical Cooperative

- Ongoing review/analysis of Southwest Power Administration's annual Integrated Power Repayment Studies and resulting rates.
- Ongoing review/analysis of Southwest Electric Power Company's annual formulary wholesale rate adjustments.

Other Electric Related Engagements-cont.

Tex-La Electric Cooperative

- Ongoing review/analysis of Southwest Power Administration's annual Integrated Power Repayment Studies and resulting rates.

- Ongoing review/analysis of Southwest Electric Power Company's annual formulary wholesale rate adjustments

Sam Rayburn G&T Electrical Cooperative

- Ongoing review/analysis of Southwest Power Administration's annual Integrated Power Repayment Studies and resulting rates.

- Ongoing review/analysis of Southwest Power Administration's annual Robert D. Willis Power Repayment Studies and resulting rates.

East Texas Electrical Cooperative

- Ongoing review/analysis of Southwest Electric Power Company's annual formulary wholesale rate adjustments

- Ongoing review/analysis of Southwest Power Administration's annual Robert D. Willis Power Repayment Studies and resulting rates.

H.E. Butt Grocery Company
Electricity procurement assistance and analysis of supply alternatives

Martin Marietta Materials
Electricity procurement assistance and analysis of supply alternatives

C.H. Guenther & Son, Inc.
Electricity procurement assistance and analysis of supply alternatives

Van Tuyl, Inc.
Electricity procurement assistance and analysis of supply alternatives

HEARING EXHIBIT NO. 17

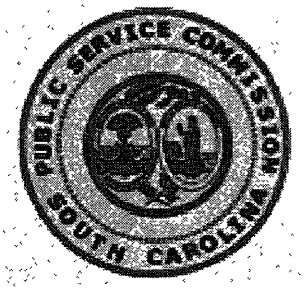
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Jocelyn Boyd
Chief Clerk

Date 10/20/17



Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
DCF Proxy Group Characteristics
Docket #2014-346-WS

Company	Dividend Yield[1]	Market Cap'n[2]	β	Bond Rating	Last Rating Date	Common Equity %
American States Water	2.30%	$1,500	0.70	A+	2/22/2015	60.90%
American Water Works	2.70%	$9,200	0.70	A	5/7/2015	47.40%
Aqua America	2.80%	$4,500	0.75	A+[3]	9/3/2015	51.50%
Artesian Resources	4.10%	$126	0.60	n/a	n/a	54.00%
California Water	2.90%	$1,100	0.75	A+	5/6/2013	59.90%
Connecticut Water Service	3.10%	$400	0.70	A	1/17/2014	54.10%
Middlesex Water	3.50%	$375	0.75	A-	8/20/2015	58.80%
SJW Corp.	2.60%	$625	0.80	A[3]	5/18/2010	48.40%
York Water Co.	2.90%	$275	0.75	A-	3/16/2014	52.20%
	2.99%		0.72			54.00%

Sources:

All columns except Credit Rating: Exhibit DHC-2

Bond Rating column from S&P online

Footnotes:

[1]Average Water Company Dividend Yield before reduction in capital gains = (3.5%+3.6%)/2; see Exhibit DHC-2, p. 10 of 10

[2]"Cap'n" = "Capitalization"; numbers are in $1,000,000's

[3] Ratings of Aqua Pennsylvania & San Jose Water Companies, respectively

AMER. STATES WATER NYSE-AWR

RECENT PRICE 38.79 | P/E RATIO 24.2 (Trailing: 24.1 Median: 20.0) | RELATIVE P/E RATIO 1.27 | DIV'D YLD 2.3% | VALUE LINE

TIMELINESS 2 Raised 6/5/15
SAFETY 2 Raised 7/20/12
TECHNICAL 2 Raised 7/3/15
BETA .70 (1.00 = Market)

2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+55%)	9%
Low	35	(-10%)	NMF

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	1	0	1	0	1	0
to Sell	0	1	0	3	0	1	0	1	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	81	99	86
to Sell	88	87	83
Hld(000)	23032	23380	23637

Target Price Range 2018 2019 2020

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH. INDEX
1 yr.	15.2	3.2
3 yr.	105.0	64.2
5 yr.	152.3	113.8

© VALUE LINE PUB. LLC 18-20

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
6.45	6.08	6.53	6.89	6.99	6.81	7.03	7.99	8.75	9.21	9.74	10.71	11.12	12.12	12.18	12.17	12.35	12.35	Revenues per sh
1.12	1.10	1.28	1.27	1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	2.67	2.70	2.80	"Cash Flow" per sh
.60	.64	.67	.67	.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	1.57	1.60	1.65	Earnings per sh A
.43	.43	.43	.44	.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	.83	.89	.93	Div'd Decl'd per sh B■
2.15	1.51	1.59	1.34	1.88	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	1.89	2.05	2.10	Cap'l Spending per sh
5.91	6.37	6.61	7.02	6.98	7.51	7.88	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	13.24	13.80	14.25	Book Value per sh
26.67	30.24	30.24	30.26	30.42	33.30	33.60	34.10	34.46	34.60	37.06	37.28	37.70	38.55	38.72	38.29	38.00	37.50	Common Shs Outstg C
17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.2	24.0	22.6	21.2	15.7	15.4	14.3	17.2	20.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio
.97	1.03	.86	1.00	1.62	1.23	1.17	1.50	1.27	1.38	1.41	1.00	.97	.91	.97	1.08			Relative P/E Ratio
4.2%	4.2%	3.9%	3.8%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.8%	3.0%	3.2%	3.1%	2.7%	2.6%			Avg Ann'l Div'd Yield
236.2	268.8	301.4	318.7	361.0	388.9	419.3	488.9	472.1	465.8	470	500	Revenues ($mill)					575	
22.5	23.1	28.0	28.8	29.5	61.4	42.0	54.1	62.7	61.1	61.0	62.5	Net Profit ($mill)					80.0	
47.0%	40.5%	42.6%	37.8%	38.9%	43.2%	41.7%	39.8%	36.3%	38.4%	38.9%	38.0%	Income Tax Rate					38.0%	
--	12.2%	8.5%	8.9%	3.2%	5.8%	2.0%	2.5%	2.5%	.5%	.5%	1.0%	AFUDC % to Net Profit					2.0%	
50.4%	48.6%	46.9%	48.2%	45.9%	44.3%	45.4%	42.2%	39.6%	39.1%	41.6%	43.0%	Long-Term Debt Ratio					42.0%	
49.6%	51.4%	53.1%	51.8%	54.1%	55.7%	54.6%	57.8%	60.2%	60.9%	58.6%	57.0%	Common Equity Ratio					58.0%	
532.5	551.8	568.4	577.0	665.0	677.4	749.1	787.0	818.4	832.6	890	935	Total Capital ($mill)					1070	
713.2	750.8	776.4	805.3	858.4	856.0	898.5	917.8	981.5	1003.5	1060	1120	Net Plant ($mill)					1240	
5.4%	6.0%	6.7%	6.4%	5.9%	7.6%	7.1%	8.3%	8.9%	8.6%	9.0%	8.9%	Return on Total Cap'l					8.5%	
8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	12.0%	11.5%	11.5%	Return on Shr. Equity					13.0%	
8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	12.0%	11.5%	11.5%	Return on Com Equity					13.0%	
2.8%	2.7%	3.9%	3.1%	3.2%	5.8%	5.3%	6.5%	6.8%	5.7%	6.0%	5.0%	Retained to Com Eq					6.0%	
67%	67%	56%	64%	61%	47%	49%	45%	47%	53%	52%	58%	All Div'ds to Net Prof					52%	

CAPITAL STRUCTURE as of 3/31/15
Total Debt $326.0 mill. Due in 5 Yrs $41.6 mill.
LT Debt $325.7 mill. LT Interest $21.5 mill. (40% of Cap'l)

Leases, Uncapitalized: Annual rentals $0.4 mill.
Pension Assets-12/14 $140.6 mill. Oblig. $185.2 mill.

Pfd Stock None.

Common Stock 37,779,984 shs. as of 5/1/15

MARKET CAP: $1.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	38.2	70.9	74.7
Other	153.4	135.5	114.7
Current Assets	191.6	206.5	189.4
Accts Payable	48.6	41.0	37.0
Debt Due	6.3	3	3
Other	44.8	57.1	59.4
Current Liab.	100.9	99.3	99.7
Fix. Chg. Cov.	531%	533%	545%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	6.0%	5.5%	4.0%
"Cash Flow"	6.5%	9.0%	6.0%
Earnings	11.0%	14.0%	6.5%
Dividends	5.5%	6.5%	8.0%
Book Value	6.0%	6.5%	4.0%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	107.6	114.3	133.5	111.5	466.9
2013	110.6	120.7	130.9	109.9	472.1
2014	102.9	115.6	138.3	109.9	465.6
2015	100.9	117.1	140	112	470
2016	105	125	150	120	500

Calendar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.27	.40	.49	.25	1.41
2013	.35	.43	.53	.30	1.61
2014	.28	.39	.54	.36	1.57
2015	.32	.44	.54	.30	1.60
2016	.31	.46	.57	.31	1.65

Calendar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.13	.14	.14	.14	.55
2012	.14	.14	.1775	.1775	.64
2013	.1775	.1775	.2025	.2025	.76
2014	.2025	.2025	.213	.213	.83
2015	.213	.213			

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden States Water Company, it supplies water to 258,191 customers in 75 communities and 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to 23,718 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (8/11). Has 707 employees. Blackrock, Inc., owns 9.8% of out. shares; Vanguard, 8.5%; off. & dir. 1.5%. (4/15 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls. Inc: CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

American States Water's main subsidiary should not be impacted by the ongoing drought in California. As is the case with two other water utilities in this group, the company's main business is located in the Golden State. Governor Jerry Brown implemented mandatory restrictions on water usage aimed at reducing demand about 25%. A decline in consumption used to have a negative impact on a utility's bottom line. This has not been the case for the last few years, as the California Public Utility Commission (CPUC) changed the way companies operating under its jurisdiction calculated net income. Based on the new structure, utilities' income is more of a fixed rate charge (similar to a service fee) rather than one determined by the quantity of water sold. **Earnings growth probably will not be too impressive over the next two years.** One reason is that American States is close to the allowed return on equity that is set by the CPUC. All told, we expect the company's share earnings to only rise 2% in 2015, followed by a 3% gain in 2016.

American States' balance sheet is strong for a water utility. Of the nine members in this industry, only one of the company's peers can match its A Financial Strength rating. Indeed, American States was the only regulated company to end last year with an equity-to-total capital ratio over the 60% level. Like the rest of the industry, the company has a large projected capital budget through late in the decade. And even though certain of its financial metrics will decline through that time, American States should remain in sound financial condition.

Short-term and technical investors may find these shares of interest. Early last month, our proprietary system raised the ranking of American States' stock one notch to 2 (Above Average) for year-ahead relative price performance. On July 3rd, the Technical rank was also raised to 2.

On the other hand, long-term investors may want to wait on the sidelines for now. Total return prospects for American Water shares through 2018-2020 are subpar, as they are already trading within our projected Target Price Range.

James A. Flood *July 17, 2015*

(A) Primary earnings. Excludes nonrecurring gain/(loss): '04, 7¢; '05, 13¢; '08, 34¢; '09, (14¢); '10, (23¢) '11, 10¢. Next earnings report due mid-August. Quarterly earnings may not add due to rounding. (B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available. (C) In millions, adjusted for splits.

Company's Financial Strength	A
Stock's Price Stability	85
Price Growth Persistence	75
Earnings Predictability	85

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AMERICAN WATER NYSE-AWK

RECENT PRICE 51.08 | P/E RATIO 19.6 (Trailing: 20.9 Median: NMF) | RELATIVE P/E RATIO 1.03 | DIV'D YLD 2.7% | VALUE LINE

TIMELINESS 2 Lowered 7/10/15
SAFETY 3 New 7/25/08
TECHNICAL 2 Raised 7/3/15
BETA .70 (1.00 = Market)

2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	80	(+55%)	14%
Low	50	(NIL)	3%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	4	0	0	3	0	0	2	5	0
to Sell	0	0	0	3	0	0	2	5	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	208	223	213
to Sell	189	201	222
Hld(000)	146606	143122	147163

LEGENDS
0.68 x Dividends p sh divided by Interest Rate
Relative Price Strength
Options: Yes
Shaded area indicates recession

High: 23.7 23.0 25.8 32.8 39.4 45.1 56.2 57.5
Low: 16.5 16.2 19.4 25.2 31.3 37.0 41.1 48.4

Target Price Range 2018 2019 2020

% TOT. RETURN 6/15

	THIS STOCK	VL ARITHMETIC INDEX
1 yr	0.8	3.2
3 yr.	53.4	84.2
5 yr.	172.3	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008[B]	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
--	--	--	--	--	--	--	13.08	13.84	14.61	13.98	15.49	16.18	16.25	16.28	16.78	17.25	18.50	Revenues per sh	21.40
--	--	--	--	--	--	--	.65	4.47	2.87	2.89	3.56	3.73	4.27	4.36	4.75	4.65	5.10	"Cash Flow" per sh	6.95
--	--	--	--	--	--	--	d.97	d2.14	1.10	1.25	1.53	1.72	2.11	2.06	2.39	2.60	2.80	Earnings per sh A	3.25
--	--	--	--	--	--	--	--	--	.40	.82	.86	.90	1.21	.84	1.21	1.33	1.42	Div'd Decl'd per sh B=	1.70
--	--	--	--	--	--	--	4.31	4.74	8.31	4.50	4.38	5.27	5.28	5.50	5.33	5.58	6.35	Cap'l Spending per sh	8.25
--	--	--	--	--	--	--	23.66	28.39	25.64	22.91	23.58	24.11	25.11	26.52	27.39	27.60	29.00	Book Value per sh D	34.55
--	--	--	--	--	--	--	160.00	160.00	160.00	174.83	176.00	175.66	176.99	176.25	178.48	178.50	178.50	Common Shs Outstg C	185.00
--	--	--	--	--	--	--	--	--	--	18.9	15.6	14.9	16.8	16.7	19.9	20.0	Bold figures are	Avg Ann'l P/E Ratio	20.0
--	--	--	--	--	--	--	--	--	--	1.14	1.04	.93	1.05	1.06	1.12	1.05	Value Line	Relative P/E Ratio	1.25
--	--	--	--	--	--	--	--	--	--	1.9%	4.2%	3.8%	3.1%	3.4%	2.0%	2.5%	estimates	Avg Ann'l Div'd Yield	2.4%
--	--	--	--	--	--	--	2093.1	2214.2	2336.9	2440.7	2710.7	2666.2	2878.9	2891.9	3011.3	3100	3325	Revenues ($mill)	3950
--	--	--	--	--	--	--	d155.8	d342.3	187.2	209.9	267.8	304.9	374.3	369.3	429.8	465	505	Net Profit ($mill)	600
--	--	--	--	--	--	--	--	--	--	37.4%	37.9%	40.4%	39.5%	40.7%	39.1%	39.4%	39.5%	38.5%	Income Tax Rate	37.5%
--	--	--	--	--	--	--	--	--	--	--	--	--	--	6.2%	5.1%	1.4%	5.0%	6.0%	AFUDC % to Net Profit	6.0%
--	--	--	--	--	--	--	56.1%	50.9%	53.1%	56.6%	56.8%	55.7%	53.9%	52.4%	52.4%	53.5%	52.0%	55.0%	Long-Term Debt Ratio	55.0%
--	--	--	--	--	--	--	43.9%	49.1%	46.9%	43.1%	43.2%	44.2%	46.1%	47.6%	47.4%	46.5%	47.0%	45.0%	Common Equity Ratio	45.0%
--	--	--	--	--	--	--	6862.8	8245.7	8750.2	9289.0	9561.3	9580.3	9635.5	9940.7	10394	10955	11500	Total Capital ($mill)	13300
--	--	--	--	--	--	--	8720.6	9318.6	9991.9	10524	11059	11021	11739	12391	12900	13550	14250	Net Plant ($mill)	15900
--	--	--	--	--	--	--	--	NMF	3.7%	3.8%	4.4%	4.8%	5.4%	5.1%	5.5%	5.0%	5.5%	Return on Total Cap'l	6.0%
--	--	--	--	--	--	--	--	NMF	4.6%	5.2%	6.5%	7.2%	8.6%	7.8%	8.7%	8.5%	8.5%	Return on Shr. Equity	8.0%
--	--	--	--	--	--	--	--	NMF	4.6%	5.2%	6.5%	7.2%	8.4%	7.8%	8.7%	8.5%	8.5%	Return on Com Equity	8.0%
--	--	--	--	--	--	--	--	NMF	NMF	3.0%	1.8%	2.8%	3.5%	3.6%	4.7%	4.3%	4.0%	4.5%	Retained to Com Eq	4.5%
--	--	--	--	--	--	--	--	--	--	34%	85%	56%	52%	57%	40%	50%	53%	51%	All Div'ds to Net Prof	51%

CAPITAL STRUCTURE as of 3/31/15
Total Debt $6034.5 mil. Due in 5 Yrs $1294.5 mil.
LT Debt $5428.9 mil. LT Interest $278.0 mil.
(52% of Cap'l)

Leases, Uncapitalized: Annual rentals $14.0 mil.
Pension Assets 12/14 $1428.2 mil.
Oblig. $1746.5 mil.
Pfd Stock $14.3 mil. Pfd Div'd $.5 mil.

Common Stock 179,962,233 shs.
as of 4/30/2015

MARKET CAP: $9.2 billion (Large Cap)

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	27.0	23.1	24.3
Other	523.3	638.3	704.7
Current Assets	550.3	661.4	729.0
Accts Payable	284.1	285.9	293.4
Debt Due	544.5	511.1	605.6
Other	328.9	444.1	418.5
Current Liab.	1235.5	1241.0	1227.5
Fix. Chg. Cov.	307%	300%	302%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	--	3.0%	4.5%
"Cash Flow"	--	20.5%	6.0%
Earnings	--	NMF	7.5%
Dividends	--	21.6%	8.0%
Book Value	--	.9%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	616.5	745.6	831.8	681.0	2878.9
2013	636.1	724.3	829.2	712.3	2901.9
2014	679.0	754.8	848.1	731.4	3011.3
2015	698.1	795	880	766.9	3100
2016	735	840	920	830	3325

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.28	.68	.57	.30	2.11
2013	.32	.57	.84	.33	2.05
2014	.39	.62	.86	.52	2.39
2015	.44	.70	1.80	.46	2.60
2016	.50	.75	1.85	.50	2.80

Cal-endar	QUARTERLY DIVIDENDS PAID B= Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.22	.23	.23	.23	.91
2012	.23	.23	.25	.50	1.21
2013	--	.28	.28	.28	.84
2014	.28	.31	.31	.31	1.21
2015	.31	.34			

BUSINESS: American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to over 15 million people in over 47 states and Canada. (Regulated presence in 16 states.) Nonregulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up 86.8% of 2014 revenues. New Jersey is its largest market accounting for 22.7% of regulated revenues. Has roughly 6,400 employees. BlackRock, Inc., owns 10.0% of outstanding shares; Vanguard, 6.3%; officers & directors, less than 1.0%. (2015 Proxy). Pres. & CEO: Susan Story. Chairman: George Mackenzie. Addr.: 1025 Laurel Oak Road, Voorhees, NJ 08043. Tel.: 856-346-8200. Internet: www.amwater.com.

Income-oriented investors may find American Water Works of interest. In the second quarter, the water utility raised its dividend almost 10%, a rate much higher than other companies in the industry. Moreover, we expect this trend to continue through late decade. Too, yields on equities in this group are currently trading in a very narrow range, meaning a premium water utility is cheap on a relative basis.

Short-term accounts should be interested, as well. Our proprietary system believes American Water's stock will outperform the broader market averages in the year ahead.

Controlling costs and making small acquisitions may be the twin pillars of the utility's long-term strategy. Size matters in the water utility industry. The EPA reports that there are over 50,000 water systems that serve 300 million Americans. (The figure swells to over 150,000 when the districts providing water to less than 3,300 are included.) Many of these smaller municipally-owned authorities are being faced with the task of installing expensive new pipelines and facilities. Not only is American Water the largest presence in the U.S. market, it accounts for about half of the group's combined market capitalization. With the expertise, purchasing power, and access to funds, the company can buy many of these systems, eliminate the cost redundancies, and improve margins dramatically.

Earnings prospect are bright. Due, in part, to American Water's operating philosophy discussed in the above paragraph, we expect its share earnings to post increases of 9% in 2015 and 8% in 2016.

The budget for capital expenditures should remain high. The company plans on spending roughly $1 billion annually over the next three- to five-year period, replacing outdated pipelines and improving its infrastructure.

American Water's finances are only average. Internally generated funds will not be sufficient to accommodate both the generous dividend-paying policy and the large capital outlays required through late decade. As a result, the company will likely have to tap the capital markets to make up the difference.

James A. Flood *July 17, 2015*

(A) Diluted earnings. Excludes nonrecurring losses: '08, $4.62; '09, $2.63; '11, $0.07. Discontinued operations: '05, ($0.04); '11, $0.03; '12, ($0.10); '13,($0.01). GAAP used as of 2014. Next earnings report due early Aug. Quarterly earnings may not sum due to rounding. (B) Dividends paid in March, June, September, and December. ■ Div. reinvestment available. Two payments made in 4th quarter of 2012. (C) In millions. (D) Includes intangibles. In 2014: $1.21 billion, $6.73/share. (E) Pro forma numbers for '06 & '07.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	85
Earnings Predictability	25

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AQUA AMERICA NYSE-WTR

RECENT PRICE 25.64 | P/E RATIO 20.5 (Trailing: 20.7 Median: 23.0) | RELATIVE P/E RATIO 1.08 | DIV'D YLD 2.8% | VALUE LINE

TIMELINESS 3 Lowered 9/26/13
SAFETY 2 Raised 4/20/12
TECHNICAL 3 Raised 6/12/15
BETA .75 (1.00 = Market)

2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+135%)	14%
Low	35	(+35%)	7%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	2	1	1	0	0	0
to Sell	2	1	2	5	2	2	1	1	1

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	139	137	153
to Sell	126	140	133
Hld's(000)	80311	81383	81133

High: 14.8 23.4 23.8 21.3 17.6 17.2 18.4 19.0 21.5 28.1 29.2 28.1
Low: 11.3 14.0 16.1 19.1 9.8 12.3 13.2 15.4 16.6 20.8 22.4 24.4

LEGENDS
LEG = Dividends p sh divided by Interest Rate
Relative Price Strength
5-for-4 split 12/03
3-for-2 split 12/09
5-for-4 split 9/13
Options: Yes
Shaded area indicates recession

5-for-4

Target Price Range 2018 2019 2020: 64 48 40 32 24 20 16 12 8 6

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH. INDEX
1 yr.	-4.2	3.2
3 yr.	32.3	64.2
5 yr.	97.7	113.9

Percent shares traded: 15 10 5

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
1.93	1.97	2.16	2.28	2.38	2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	4.37	4.55	4.70	Revenues per sh		5.70
.58	.51	.69	.76	.77	.87	.97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.62	1.69	2.35	2.50	"Cash Flow" per sh		3.05
.33	.37	.41	.43	.46	.51	.57	.56	.57	.58	.62	.72	.83	.87	1.16	1.20	1.25	1.30	Earnings per sh A		1.65
.22	.23	.24	.26	.28	.28	.32	.35	.38	.41	.44	.47	.50	.54	.58	.63	.71	.77	Div'd Decl'd per sh B=		.98
.72	.93	.97	.96	1.06	1.23	1.47	1.64	1.43	1.39	1.68	1.88	1.99	1.38	1.73	1.84	1.98	2.00	Cap'l Spending per sh		2.00
2.74	3.08	3.32	3.49	4.27	4.71	5.04	5.57	5.85	6.26	6.50	6.81	7.21	7.90	8.63	9.27	9.85	10.05	Book Value per sh		11.40
133.50	139.76	142.47	141.48	154.31	159.97	161.21	165.41	166.75	169.21	170.61	172.46	173.60	175.43	177.93	178.59	176.80	175.00	Common Shs Outstg C		170.00
21.2	18.2	23.8	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	20.8	Bold figures are Value Line estimates			Avg Ann'l P/E Ratio	21.5
1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.67	1.70	1.50	1.54	1.34	1.34	1.39	1.19	1.10				Relative P/E Ratio	1.35
3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.6%	3.1%	3.1%	2.8%	2.8%	2.4%	2.5%				Avg Ann'l Div'd Yield	2.1%

CAPITAL STRUCTURE as of 3/31/15
Total Debt $1675.1 mil. Due in 5 Yrs $437.9 mil.
LT Debt $1595.0 mil. LT Interest $70.0 mil. (49% of Cap'l)

Pension Assets-12/14 232.4 mil. Oblig. 1281.2 mil.

Pfd Stock None
Common Stock 177,069,729 shares as of 4/23/15

MARKET CAP: $4.5 billion (Mid Cap)

	2011	2012	2013	2014	2015	2016	
	498.6	533.5	602.5	627.0	670.5	726.1	Revenues ($mill)
	91.2	92.0	95.0	97.9	104.4	124.0	Net Profit ($mill)
	38.4%	38.6%	38.9%	38.7%	39.4%	39.2%	Income Tax Rate
	--	--	--	--	--	--	AFUDC % to Net Profit
	52.0%	51.8%	55.4%	54.1%	55.6%	56.6%	Long-Term Debt Ratio
	48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	Common Equity Ratio
	1690.4	1804.4	2191.4	2366.6	2495.5	2706.2	Total Capital ($mill)
	2280.0	2506.0	2792.8	2897.4	3227.3	3469.3	Net Plant ($mill)
	6.9%	6.4%	5.9%	5.7%	5.9%	5.9%	Return on Total Cap'l
	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	Return on Shr. Equity
	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	Return on Com Equity
	4.9%	3.7%	3.2%	2.6%	2.7%	3.7%	Retained to Com Eq
	56%	63%	67%	70%	72%	65%	All Div'ds to Net Prof

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	5.1	4.1	9.3
Receivables	95.4	97.0	95.4
Inventory (Avg Cst)	11.4	12.8	12.6
Other	59.8	38.6	46.9
Current Assets	171.7	152.5	164.2
Accts Payable	65.8	60.0	34.7
Debt Due	123.0	70.0	80.1
Other	78.1	85.3	90.3
Current Liab.	266.9	225.3	205.1

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	5.5%	3.0%	4.5%
"Cash Flow"	6.0%	6.0%	6.5%
Earnings	6.5%	13.0%	6.0%
Dividends	7.5%	7.0%	9.0%
Book Value	7.5%	6.5%	6.5%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	164.6	191.7	214.6	167.5	757.8
2013	180.0	195.7	204.3	186.6	766.6
2014	182.7	195.3	210.5	191.4	779.9
2015	190.3	200	215	189.7	805
2016	190	205	220	210	825

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.19	.24	.29	.19	.87
2013	.26	.30	.36	.24	1.16
2014	.24	.31	.38	.27	1.20
2015	.27	.32	.39	.27	1.25
2016	.28	.33	.41	.29	1.30

Calendar	QUARTERLY DIVIDENDS PAID B= Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.124	.124	.124	.132	.50
2012	.132	.132	.132	.14	.54
2013	.14	.14	.152	.152	.58
2014	.152	.152	.165	.165	.63
2015	.165	.165			

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Has 1,617 employees. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '14: residential, 68%; commercial, 17%; industrial & other, 15%. Officers and directors own .8% of the common stock; Vanguard Group, 6.8%; State Street Capital Corp., 6.3%; Blackrock, Inc., 6.1% (4/14 Proxy). Chairman: Nicholas DeBenedictis. CEO: Christopher Franklin. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Tel.: 610-525-1400. Internet: www.aquaamerica.com.

We expect Aqua America to raise the dividend at least 7% in the third quarter. The water utility should maintain its tradition of hiking the annual payout by more than the industry average. **We think earnings gains will be modest through 2018.** Aqua had a better-than-expected first quarter, but we are sticking with our 2015 earnings estimate of a $0.05 gain to $1.25, followed next year by a similar nickel increase to $1.30. Our share-earnings forecasts could prove conservative as they don't include gains from assets sales, which have added between $0.06 and $0.10 a share to bottom line over the past three years.

Nonregulated operations have long-term potential. Despite a lot of fanfare, these businesses will most likely account for only 4%-5% of revenues in 2015. Still, margins and growth prospects are higher than in the utility sector.

Aqua is on pace to make about 28 acquisitions this year. There are over 50,000 municipal and private waters companies in the U.S. Most are small and do not have the capital required to meet new environmental standards and to update and modernize their infrastructure. As the second largest water utility in the country, Aqua can cut redundancies and reduce costs of the purchased water systems while improving the service. This strategy is responsible for the company's strong earnings record as it has made 300 acquisitions to date.

A new CEO has been selected. There had been some concern regarding Nicholas DeBenedictis stepping down after 23 years at the helm, in which the company's market capitalization rose from $100 million to $4.3 billion. Chris Franklin, a 20-year veteran of Aqua, was chosen as the replacement and Wall Street seemed satisfied with the selection.

These neutrally ranked shares should appeal to patient, income-oriented investors seeking to diversify into the water utility industry. The stock's total return potential out to 2018-2020 is close to the average of all equities in the *Value Line* universe. This stock appears worthwhile on a risk-adjusted basis as it has a very low Beta, solid finances, and well-defined earnings.

James A. Flood *July 17, 2015*

(A) Diluted egs. Excl. nonrec. gains (losses): '99, (9¢); '00, 2¢; '01, 2¢; '02, 4¢; '03, 3¢; '12, 18¢. Excl. gain from disc. operations: '12, 7¢; '13, 9¢; '14, 11¢. May not sum due to rounding.
Next earnings report due mid-Aug.
(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).
(C) In millions, adjusted for stock splits.

Company's Financial Strength	A
Stock's Price Stability	85
Price Growth Persistence	60
Earnings Predictability	100

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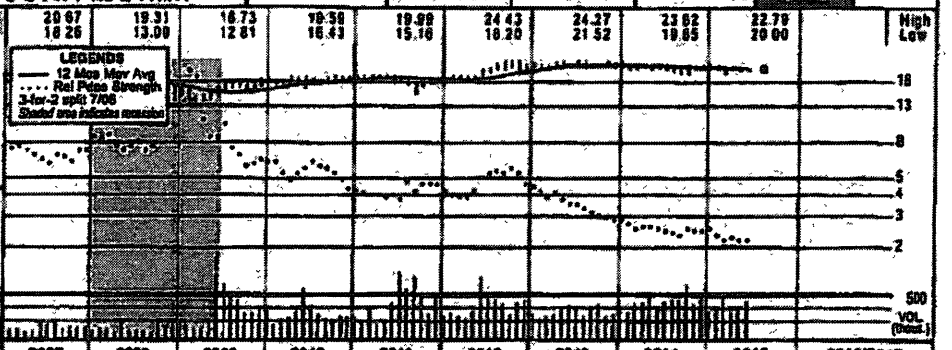
ARTESIAN RES. CORP. NDQ-ARTNA

RECENT PRICE 21.50 | TRAILING P/E RATIO 19.4 | RELATIVE P/E RATIO 0.99 | DIV'D YLD 4.1% | VALUE LINE

RANKS

PERFORMANCE 4 (Below Average)
Technical 5 (Lowest)
SAFETY 3 (Average)
BETA .60 (1.00 = Market)

Financial Strength B
Price Stability 95
Price Growth Persistence 40
Earnings Predictability 80



© VALUE LINE PUBLISHING LLC	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016/2017
SALES PER SH	7.20	7.59	8.11	8.46	7.56	8.10	7.82	8.13	--	
"CASH FLOW" PER SH	1.57	1.65	1.84	1.92	1.54	2.04	1.87	2.04	--	
EARNINGS PER SH	.90	.99	.97	1.00	.83	1.13	.94	1.07	1.19[A,B]	1.30[C]/NA
DIV'DS DECL'D PER SH	.66	.71	.72	.75	.76	.79	.82	.85	--	
CAP'L SPENDING PER SH	3.66	6.09	2.32	2.57	1.83	2.36	2.40	2.66	--	
BOOK VALUE PER SH	11.66	11.96	12.15	12.44	13.12	13.67	13.80	14.09	--	
COMMON SHS OUTST'G (MILL.)	7.30	7.40	7.51	7.65	8.61	8.71	8.83	8.91	--	
AVG ANN'L P/E RATIO	21.5	20.1	16.4	16.2	22.5	18.3	23.9	20.5	18.1	16.5/NA
RELATIVE P/E RATIO	1.14	1.21	1.09	1.16	1.41	1.17	1.34	1.08	--	
AVG ANN'L DIV'D YIELD	3.4%	4.1%	4.5%	4.1%	4.1%	3.8%	3.7%	3.9%	--	
SALES ($MILL.)	52.5	56.2	60.9	64.9	65.1	70.6	69.1	72.5	--	
OPERATING MARGIN	45.6%	45.1%	46.9%	46.5%	45.5%	48.7%	47.0%	46.8%	--	
DEPRECIATION ($MILL.)	5.2	5.6	6.6	7.0	7.4	7.9	8.3	8.7	--	
NET PROFIT ($MILL.)	6.3	6.4	7.3	7.6	6.7	9.6	8.3	9.6	--	
INCOME TAX RATE	39.8%	40.6%	40.1%	40.0%	40.8%	40.2%	40.2%	40.1%	--	
NET PROFIT MARGIN	11.9%	11.4%	11.9%	11.7%	10.4%	14.0%	12.0%	13.1%	--	
WORKING CAP'L ($MILL.)	2.6	d20.9	d23.3	d27.9	d11.4	d11.4	d12.3	d13.5	--	
LONG-TERM DEBT ($MILL.)	91.8	107.6	108.0	105.1	108.5	108.3	105.5	105.0	--	
SHR. EQUITY ($MILL.)	85.1	87.6	91.2	95.1	113.0	118.2	121.6	125.6	--	
RETURN ON TOTAL CAP'L	5.3%	4.7%	5.2%	5.6%	4.8%	5.9%	5.1%	5.5%	--	
RETURN ON SHR. EQUITY	7.4%	7.3%	8.0%	8.0%	6.0%	8.3%	6.8%	7.6%	--	
RETAINED TO COM EQ	2.1%	1.4%	2.1%	2.0%	.9%	2.5%	.9%	1.6%	--	
ALL DIV'DS TO NET PROF	71%	81%	74%	75%	92%	70%	87%	79%	--	

Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.

[A] No. of analysts changing earn. est. in last 3 days: 0 up, 0 down, consensus 5-year earnings growth not available. [B] Based upon 2 analysts' estimates. [C] Based upon one analyst's estimate

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	1.0%	4.0%
"Cash Flow"	3.5%	9.0%
Earnings	3.0%	14.0%
Dividends	3.5%	3.0%
Book Value	3.0%	2.0%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/13	15.3	17.8	18.1	16.9	68.1
12/31/14	16.9	17.9	19.6	18.1	72.5
12/31/15	18.0				
12/31/16					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/12	.28	.32	.33	.20	1.13
12/31/13	.20	.28	.29	.17	.94
12/31/14	.24	.22	.37	.24	1.07
12/31/15	.28				
12/31/16					

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2012	.193	.198	.198	.203	.79
2013	.203	.206	.206	.209	.82
2014	.209	.212	.212	.215	.85
2015	.215	.218			

INSTITUTIONAL DECISIONS

	3Q'14	4Q'14	1Q'15
to Buy	27	30	36
to Sell	33	28	21
Hld's(000)	2988	3004	3048

ASSETS ($mill.)	2013	2014	3/31/15
Cash Assets	.4	.2	.4
Receivables	8.1	8.4	7.6
Inventory	1.5	1.9	1.9
Other	3.3	6.1	4.6
Current Assets	13.3	16.6	14.5
Property, Plant & Equip, at cost	472.9	496.2	--
Accum Depreciation	69.8	88.4	--
Net Property	393.1	397.8	399.1
Other	7.4	7.8	7.9
Total Assets	403.8	422.2	421.5
LIABILITIES ($mill.)			
Accts Payable	4.1	3.8	3.4
Debt Due	12.2	19.9	15.8
Other	9.3	6.5	9.0
Current Liab	25.6	30.2	28.2

LONG-TERM DEBT AND EQUITY as of 3/31/15

Total Debt $120.4 mill. Due in 5 Yrs. NA
LT Debt $104.5 mill.
Including Cap. Leases NA (46% of Cap'l)
Leases, Uncapitalized Annual rentals NA

Pension Liability $.3 mill. in '14 vs. $.3 mill. in '13

Pfd Stock None Pfd Div'd Paid None

Common Stock 8,929,173 shares (54% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Artesian Resources Corporation, through its subsidiaries, provides water, wastewater, and other services on the Delmarva Peninsula. It distributes and sells water to residential, commercial, industrial, municipal, and utility customers in the states of Delaware, Maryland, and Pennsylvania. The company also offers water for public and private fire protection to customers in its service territories. In addition, it provides contract water and wastewater services, water and sewer service line protection plans, and wastewater management services, as well as design, construction, and engineering services. As of May 5, 2015, the company supplied water through 1,201 miles of water mains to approximately 300,000 people on the Delmarva Peninsula. Has 237 employees. Chairman, C.E.O. & President: Dian C. Taylor. Address: 664 Churchmans Rd., Newark, DE 19702. Tel.: (302) 453-6900. Internet: http://www.artesianwater.com.

J.V.

July 17, 2015

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 6/30/2015

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-0.39%	-4.74%	-2.37%	9.69%	38.83%

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CALIFORNIA WATER NYSE-CWT

RECENT PRICE 23.70 | P/E RATIO 19.0 (Trailing: 17.8 Median: 20.0) | RELATIVE P/E RATIO 1.00 | DIV'D YLD 2.9% | VALUE LINE

TIMELINESS 3 Raised 6/20/14
SAFETY 3 Lowered 10/21/07
TECHNICAL 2 Raised 7/3/15
BETA .75 (1.00 = Market)

2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+50%)	13%
Low	25	(+5%)	4%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	0	0	0	0	5	0
to Sell	0	0	0	3	2	0	0	2	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	83	81	79
to Sell	53	59	67
Hld'gs(000)	29953	29854	29979

High: 19.0 21.1 22.9 22.7 23.3 24.1 19.8 19.4 19.3 23.4 26.4 26.0 22.6
Low: 13.0 15.6 16.4 17.1 13.8 16.7 16.9 16.7 16.8 16.4 20.3 22.6

LEGENDS
1.25 x Dividends p sh divided by Interest Rate
Relative Price Strength
2-for-1 split 6/11
Options: Yes
Shaded area indicates recession

Target Price Range 2018 2019 2020
64
48
40
32
24
20
16
12
8
6

% TOT. RETURN 6/15

	THIS STOCK	VALUE LINE
1 yr.	-3.0	3.2
3 yr.	35.5	64.2
5 yr	49.8	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2018	© VALUE LINE PUB. LLC	18-20
7.98	8.66	8.13	8.67	8.16	8.59	8.72	9.10	9.88	9.90	10.92	11.05	12.00	13.34	12.23	12.50	12.80	13.25	Revenues per sh	16.80
1.37	1.26	1.10	1.32	1.26	1.42	1.52	1.36	1.58	1.89	1.83	1.93	2.07	2.32	2.21	2.47	2.60	2.65	"Cash Flow" per sh	3.20
.77	.66	.47	.63	.61	.73	.74	.67	.75	.95	.99	.91	.89	1.02	1.02	1.19	1.25	1.25	Earnings per sh A	1.65
.54	.55	.55	.58	.56	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	.65	.67	.69	Div'd Decl'd per sh B ■	.97
1.72	1.23	2.04	2.97	2.10	1.87	2.01	2.14	1.84	2.41	2.66	2.97	2.83	3.04	2.58	2.76	2.90	2.80	Cap'l Spending per sh	2.10
6.71	6.45	6.48	6.56	7.22	7.83	7.90	8.07	8.25	8.72	10.13	10.45	10.76	11.28	12.54	13.11	13.75	14.25	Book Value per sh C	16.00
25.87	30.29	30.36	30.36	33.66	38.73	38.78	41.31	41.33	41.45	41.53	41.67	41.82	41.99	47.74	47.91	48.00	48.00	Common Shs Outst'g D	50.00
17.8	19.8	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	20.3	21.3	17.8	20.1	18.7	Bold figures are Value Line estimates		Avg Annl P/E Ratio	20.0
1.01	1.27	1.39	1.08	1.26	1.09	1.33	1.58	1.39	1.19	1.34	1.29	1.34	1.14	1.13	1.04			Relative P/E Ratio	1.25
4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.8%	3.0%	3.1%	3.1%	3.2%	3.4%	3.5%	3.1%	2.8%			Avg Annl Div'd Yield	3.2%
						320.7	334.7	387.1	410.3	469.4	480.4	501.8	560.0	594.1	597.5	615	635	Revenues ($mill) E	840
						27.2	25.6	31.2	39.8	40.6	37.7	36.1	42.6	47.3	58.7	57.5	57.5	Net Profit ($mill)	77.5
						42.4%	37.6%	39.9%	37.7%	40.3%	39.5%	40.9%	37.5%	30.3%	33.0%	28.5%	28.5%	Income Tax Rate	36.0%
						3.3%	10.6%	8.3%	8.6%	7.5%	4.2%	7.6%	9.0%	4.3%	2.7%	2.0%	4.5%	AFUDC % to Net Profit	5.0%
						48.3%	43.5%	42.9%	41.6%	47.1%	52.4%	51.7%	47.6%	41.6%	40.1%	43.6%	43.5%	Long-Term Debt Ratio	41.5%
						51.1%	55.9%	56.6%	58.4%	52.9%	47.6%	48.3%	52.2%	58.4%	59.9%	57.0%	56.5%	Common Equity Ratio	58.5%
						568.1	670.1	674.9	690.4	794.9	814.7	901.5	909.2	1024.9	1045.9	1180	1215	Total Capital ($mill)	1370
						882.7	941.5	1010.2	1112.4	1168.1	1294.3	1381.1	1457.1	1515.8	1580.4	1660	1720	Net Plant ($mill)	1980
						6.3%	5.2%	5.9%	7.1%	6.5%	5.5%	5.5%	6.3%	6.0%	6.3%	6.5%	6.0%	Return on Total Cap'l	7.5%
						9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	9.1%	9.0%	8.5%	Return on Shr. Equity	9.5%
						9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	9.1%	9.0%	8.5%	Return on Com Equity	9.5%
						2.1%	1.0%	1.8%	3.8%	3.6%	3.0%	2.3%	3.4%	3.4%	4.1%	4.0%	3.5%	Retained to Com Eq	3.5%
						78%	86%	77%	61%	60%	66%	71%	62%	56%	55%	56%	59%	All Div'ds to Net Prof	63%

CAPITAL STRUCTURE as of 3/31/15
Total Debt $534.7 mill. Due in 5 Yrs $165.6 mill.
LT Debt $419.0 mill. LT Interest $20.0 mill. (40% of Cap'l)

Pension Assets-12/14 $306.3 mill.
Oblig. $390.6 mill.

Pfd Stock None

Common Stock 47,880,233 shs.
as of 4/27/15

MARKET CAP: $1.1 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	27.5	19.6	33.3
Other	112.0	134.5	126.0
Current Assets	139.5	154.1	159.3
Accts Payable	55.1	59.4	57.7
Debt Due	54.7	85.7	115.7
Other	56.8	72.6	80.5
Current Liab.	166.6	217.7	253.9

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15 to '18/'20
Revenues	4.0%	5.0%	5.0%
"Cash Flow"	6.0%	5.5%	5.5%
Earnings	5.0%	4.0%	7.5%
Dividends	1.5%	2.0%	7.0%
Book Value	5.5%	5.0%	5.5%

Calendar	QUARTERLY REVENUES ($ mill) E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	116.9	143.6	178.1	121.5	560.0
2013	111.4	154.6	184.4	133.7	584.1
2014	110.5	158.4	191.2	137.4	597.5
2015	122.0	160	199	140	615
2016	120	170	200	145	635

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.03	.31	.56	.12	1.02
2013	.01	.28	.61	.12	1.02
2014	d.11	.36	.70	.24	1.19
2015	.03	.35	.72	.15	1.25
2016	.03	.35	.72	.15	1.25

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.154	.154	.154	.154	.62
2012	.1575	.1575	.1575	.1575	.63
2013	.16	.16	.16	.16	.64
2014	.1625	.1625	.1625	.1625	.65
2015	.1675	.1675			

BUSINESS: California Water Service Group provides regulated and nonregulated water service to 477,900 customers in 85 communities in the state of California. Accounts for over 94% of total customers. Also operates in Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (2008). Revenue breakdown, '14: residential, 68%; business, 19%; industrial, 5%; public authorities, 3%; other 5%. '14 reported depreciation rate: 4.0%. Has 1,105 employees. President, Chairman, and CEO: Peter C. Nelson, Inc.: DE. Address: 1720 North First St., San Jose, CA 95112-4598. Tel.: 408-367-8200. Internet: www.calwatergroup.com.

The state's historic drought should result in a sharp decline in demand by California Water's customers. In response to the lack of rainfall, Governor Brown mandated a 25% reduction in urban, potable water use. The new regulations are established to achieve water use decreases of between 8% and 36%, compared to the amount consumed in 2013. Surcharges will be assigned to those who fail to meet the new regulations.

The conservation measures should not have a major impact on the company. In order to cut water usage, California established mechanisms that changed how water utilities make a profit. According to the new methodology, revenues and earnings were switched from a "quantity based" to a "fixed-rate charge" system. Basically, a water company will not be penalized if demand falls. Revenues are now constructed to be more like a service fee.

We expect earnings to increase by a decent amount this year and be flat in 2016. As a result of a petition for higher rates filed in 2012, California Water was allowed to institute higher rates in the second half of 2014. This should enable share earnings to rise 5%, to $1.25, in 2015, and remain unchanged in 2016.

A new rate case was recently filed. California water utilities are required to file rate cases every three years. California Water is seeking hikes of $95 million in 2017, $23 million in 2018, and $23 million in 2019. Like most of its peers, the utility is spending to upgrade and modernize its pipeline infrastructure. A final decision by regulators (the CPUC) is expected in 2017.

California regulators have generally been constructive in dealing with water utilities. One of the most important factors affecting a utility is how a state treats companies under its jurisdiction. The CPUC realizes that maintenance work on water infrastructure has been neglected in the past and more money must be spent to improve services.

These shares' total return potential through late decade is slightly below average. Still, conservative investors willing to accept less of a payoff in exchange for low volatility might find this stock suitable.

James A. Flood *July 17, 2015*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (44¢); '01, 2¢; '02, 4¢; '11, 4¢. Next earnings report due mid-Aug. (B) Dividends historically paid in late Feb., May, Aug., and Nov. ■
Div'd reinvestment plan available.
(C) Incl. intangible assets. In '14: $7.3 mill., $0.15/sh.
(D) In millions, adjusted for splits.
(E) Excludes non-reg rev.

Company's Financial Strength	B++
Stock's Price Stability	85
Price Growth Persistence	40
Earnings Predictability	85

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CONNECTICUT WATER NDQ-CTWS

RECENT PRICE 34.88 | P/E RATIO 17.4 (Trailing: 18.1 Median: 21.0) | RELATIVE P/E RATIO 0.92 | DIV'D YLD 3.1% | VALUE LINE

TIMELINESS 3 Lowered 11/21/14
SAFETY 3 New 9/18/13
TECHNICAL 3 Raised 5/29/15
BETA .70 (1.00 = Market)

2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+45%)	12%
Low	35	(+0%)	3%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	50	39	37
to Sell	34	46	40
Hld's(000)	4269	4266	4269

High: 29.8 28.2 27.7 25.6 29.0 28.4 27.8 29.1 32.6 38.4 37.5 38.6
Low: 23.6 21.9 20.3 22.4 19.3 17.3 20.0 23.3 26.2 27.9 31.0 33.2

Target Price Range 2018 2019 2020

LEGENDS
1.30 Dividends p sh divided by Interest Rate
Relative Price Strength
Options: No
Shaded area indicates recession

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH. INDEX
1 yr.	3.8	3.2
3 yr.	29.2	64.2
5 yr.	81.4	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
5.87	5.70	5.93	5.77	5.91	6.04	5.81	5.69	7.05	7.24	6.93	7.55	7.93	9.47	8.29	8.45	8.65	9.00	Revenues per sh	12.50
1.65	1.73	1.78	1.78	1.89	1.91	1.82	1.52	1.90	1.95	1.93	2.04	2.11	2.64	2.63	2.97	3.29	3.35	"Cash Flow" per sh	3.60
1.03	1.09	1.13	1.12	1.15	1.16	.88	.81	1.05	1.11	1.19	1.13	1.13	1.53	1.66	1.92	2.09	2.10	Earnings per sh A	2.35
.78	.79	.80	.81	.83	.84	.85	.86	.87	.88	.90	.92	.94	.96	.98	1.01	1.05	1.09	Div'd Decl'd per sh B■	1.30
1.42	1.43	1.86	1.98	1.49	1.58	1.96	1.96	2.24	2.44	3.28	3.06	2.61	2.79	3.02	4.11	4.60	4.75	Cap'l Spending per sh	2.85
8.61	8.92	9.25	10.09	10.46	10.94	11.52	11.60	11.95	12.23	12.87	13.05	13.80	20.95	17.92	18.83	20.10	21.15	Book Value per sh D	24.15
7.28	7.38	7.85	7.94	7.97	8.04	8.17	8.27	8.38	8.48	8.57	8.68	8.76	8.85	11.04	11.12	11.20	11.35	Common Shs Outst'g E	12.00
19.2	18.2	21.5	24.3	23.5	22.8	28.6	28.0	23.0	22.2	18.4	20.7	23.0	19.4	18.4	17.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	18.0
1.04	1.18	1.10	1.23	1.34	1.21	1.52	1.57	1.22	1.34	1.23	1.32	1.44	1.23	1.03	.92			Relative P/E Ratio	1.20
4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%	3.6%	3.6%	4.1%	3.9%	3.6%	3.2%	3.2%	3.0%			Avg Ann'l Div'd Yield	2.8%

CAPITAL STRUCTURE as of 3/31/15
Total Debt $185.6 mill. Due in 5 Yrs $19.3 mill.
LT Debt $177.7 mill. LT Interest $7.0 mill.
(46% of Cap'l)

Leases, Uncapitalized: Annual rentals $.1 mill.
Pension Assets-12/14 $61.5 mill. Oblig. $79.8 mill.

Pfd Stock $0.8 mill. Pfd Div'd: NMF

Common Stock 11,152,145 shs.
as of 4/30/15
MARKET CAP: $400 million (Small Cap)

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	18.4	2.5	2.3
Accounts Receivable	12.3	12.0	11.4
Other	16.2	21.7	22.5
Current Assets	46.9	36.2	36.2
Accts Payable	10.8	10.0	7.2
Debt Due	4.1	4.4	7.5
Other	7.8	9.2	10.0
Current Liab.	22.7	23.6	25.1

47.5	48.9	59.0	61.3	59.4	60.4	69.4	63.8	91.5	94.0	97.0	102	Revenues ($mill)	150
7.2	8.7	8.8	9.4	10.2	8.8	9.9	13.6	18.3	21.3	23.0	24.0	Net Profit ($mill)	27.0
--	23.5%	32.4%	27.2%	19.5%	35.2%	41.3%	32.0%	28.0%	14.4%	18.8%	19.5%	Income Tax Rate	30.0%
--	--	--	1.7%	--	--	--	1.7%	2.0%	2.4%	2.5%	2.5%	AFUDC % to Net Profit	2.0%
44.9%	44.4%	47.8%	46.9%	50.8%	48.5%	63.2%	48.0%	46.9%	45.7%	48.3%	47.5%	Long-Term Debt Ratio	47.5%
54.6%	55.1%	51.8%	52.7%	49.1%	50.2%	36.5%	50.8%	52.9%	54.1%	51.6%	52.5%	Common Equity Ratio	52.5%
172.3	174.1	193.2	198.5	221.3	225.6	254.2	364.6	373.8	388.8	420	455	Total Capital ($mill)	550
247.7	268.1	284.3	302.3	325.2	344.2	362.4	447.9	471.9	506.9	535	560	Net Plant ($mill)	675
5.0%	4.9%	5.5%	5.9%	5.9%	6.4%	4.9%	4.8%	5.9%	6.4%	6.5%	6.5%	Return on Total Cap'l	6.5%
7.5%	6.9%	8.7%	9.0%	9.3%	8.6%	8.3%	7.3%	9.2%	10.1%	10.0%	10.0%	Return on Shr. Equity	9.5%
7.6%	7.6%	8.7%	8.1%	9.4%	8.7%	8.3%	7.3%	9.2%	10.2%	10.0%	10.0%	Return on Com Equity	9.5%
.3%	NMF	1.6%	1.9%	2.3%	1.9%	1.4%	2.8%	3.8%	4.8%	4.5%	4.5%	Retained to Com Eq	4.0%
95%	105%	82%	79%	76%	81%	83%	62%	59%	53%	57%	52%	All Div'ds to Net Prof	58%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	4.0%	4.5%	6.0%
"Cash Flow"	4.0%	7.5%	4.5%
Earnings	4.0%	9.0%	4.5%
Dividends	2.0%	2.0%	5.0%
Book Value	6.5%	9.5%	4.0%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	18.5	21.3	24.5	19.5	83.8
2013	19.7	22.6	27.6	21.6	91.5
2014	20.3	25.4	27.6	20.7	94.0
2015	20.0	26.5	28.0	21.5	97.0
2016	22.5	27.5	30.0	22.0	102.0

Calendar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.22	.47	.67	.17	1.53
2013	.24	.39	.86	.17	1.66
2014	.27	.67	.76	.22	1.92
2015	.28	.67	.80	.25	2.00
2016	.30	.62	.85	.27	2.10

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.233	.233	.238	.238	.942
2012	.238	.238	.2425	.2425	.962
2013	.2425	.2425	.2475	.2475	.98
2014	.2475	.2475	.2575	.2575	1.01
2015	.2575	.2575			

BUSINESS: Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from earnings of its wholly-owned subsidiary companies (regulated water utilities). In 2014, 93% of net income was derived from these activities. Provides water services to 400,000 people in 77 municipalities throughout Connecticut and Maine. Acquired The Maine Water Company, January, 2012; Biddeford and Saco Water, December, 2012. Incorporated: Connecticut. Has 265 employees. Chairman/President/Chief Executive Officer: Eric W. Thornburg. Officers and directors own 2.3% of the common stock; BlackRock, Inc. 7.0%; (4/15 proxy). Address: 93 West Main Street, Clinton, CT 06413. Telephone: (860) 669-8638. Internet: www.ctwater.com.

Connecticut Water Service should record decent bottom-line results over the next two years. Following a very successful 2014, we think the company will be able to post increases in share net of 4% in 2015, and 5% in 2016. Higher rates being permitted in Maine, an IRS tax rebate, and cost savings, will all contribute to the gains.

Dividend growth prospects have improved. The utility has only been able to increase its annual payout an average of 2% annually over both the last five- and 10 year-periods. In 2014, the trend was broken, as the dividend was hiked 3%. Moreover, when the board meets in September, the quarterly dividend could be boosted another $0.01 a share, to around $0.2675. This would be a 4% increase, which would put the utility closer, but still below, the industry norm.

The company has been successful in expanding the business. Unless located in a service area experiencing strong economic growth, it can be hard for a utility to grow its customer base. Over the past several years, Connecticut Water has made two decent size acquisitions, and has been able to improve margins by wringing duplicate costs from the consolidated operations. Moreover, the utility will be expanding the pipeline infrastructure to supply the University of Connecticut and the greater Mansfield area. A key permit was approved in late May and construction should take around 18 months to complete.

Connecticut Water might not be big, but it is solid. With a market capitalization of only $400 million, the utility is on the small side. Still, the balance sheet is healthy, and should remain so for the foreseeable future. This is very positive in light of the larger amounts that have to be spent to replace an aging distribution system. (The industry is in the midst of a major refurbishing program.)

Shares of Connecticut Water are expected to perform in line with the broader market averages in the year ahead. The dividend yield is 100 basis points above that of the typical stock in the *Value Line* universe. Potential total return through 2018-2020 is lower than the average equity, however.

James A. Flood *July 17, 2015*

(A) Diluted earnings. Next earnings report due mid-August. Quarterly earnings do not add in 2012 due to rounding.
(B) Dividends historically paid in mid-March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for split.
(D) Includes intangibles. In 2014: $31.7 mil. $on/$2.85 a share.

Company's Financial Strength	B+
Stock's Price Stability	80
Price Growth Persistence	50
Earnings Predictability	85

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MIDDLESEX WATER NDQ-MSEX

RECENT PRICE 22.46 | P/E RATIO 19.5 (Trailing 19.5 Median: 21.0) | RELATIVE P/E RATIO 1.03 | DIV'D YLD 3.5% | VALUE LINE

TIMELINESS 3 Lowered 4/11/14
SAFETY 2 New 10/21/11
TECHNICAL 2 Raised 7/17/15
BETA .78 (1.00 = Market)

2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+35%)	11%
Low	25	(+10%)	4%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	1	0	1	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	0	0	0	1	0	0	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	32	39	49
to Sell	40	37	38
Hld'shares	6339	6372	6413

High: 21.8 23.5 20.5 20.2 19.8 17.9 19.3 19.4 19.6 22.5 22.7 23.8
Low: 19.7 17.1 16.5 16.9 12.0 11.8 14.7 16.5 17.5 18.6 19.1 21.2

LEGENDS
1.30 x Dividends p sh
divided by Interest Rate
Relative Price Strength
3-for-2 split 1997
3-for-2 split 11/03
Options: No
Shaded area indicates recession

Target Price Range 2018 2019 2020

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr	10.3	3.2
3 yr	32.6	64.2
5 yr	72.3	113.9

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
5.35	5.39	5.97	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.88	7.19	7.26	7.40	7.70	Revenues per sh		8.10
1.19	.89	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.48	1.56	1.72	1.84	1.98	2.00	"Cash Flow" per sh		2.25
.76	.51	.66	.73	.61	.73	.71	.82	.97	.89	.72	.96	.84	.90	1.03	1.13	1.18	1.20	Earnings per sh A		1.35
.60	.61	.62	.63	.65	.66	.67	.69	.69	.70	.71	.72	.73	.74	.75	.76	.77	.78	Div'd Decl'd per sh B=		.85
2.33	1.32	1.26	1.59	1.97	2.54	2.18	2.31	1.86	2.12	1.49	1.93	1.50	1.36	1.26	1.48	1.80	2.00	Cap'l Spending per sh		2.00
6.95	6.99	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	12.24	12.75	13.35	Book Value per sh		14.30
10.00	10.11	10.17	10.36	10.48	11.38	11.50	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.88	16.12	16.25	16.25	Common Shs Outst'g C		17.00
17.8	20.7	24.6	23.5	30.0	26.4	27.4	32.7	21.0	19.5	21.0	17.8	21.7	20.5	19.7	18.5	Bold figures are Value Line estimates			Avg Ann'l P/E Ratio	20.5
1.00	1.07	1.28	1.28	1.71	1.39	1.48	1.23	1.15	1.19	1.40	1.13	1.38	1.32	1.11	.98				Relative P/E Ratio	1.30
4.4%	4.2%	3.6%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	3.7%				Avg Ann'l Div'd Yield	3.1%

CAPITAL STRUCTURE as of 3/31/15
Total Debt $158.9 mill. Due in 5 Yrs $49.8 mill.
LT Debt $137.8 mill. LT Interest $4.8 mill.

(41% of Cap'l)

Pension Assets-12/14 $51.6 mill.
Oblig. $75.0 mill.
Pfd Stock $2.4 mill. Pfd Div'd: $.2 mill.

Common Stock 16,141,954 shs.
as of 4/30/15

MARKET CAP: $375 million (Small Cap)

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	4.6	2.7	5.0
Other	21.0	20.2	20.6
Current Assets	25.6	22.9	25.6
Accts Payable	6.3	6.4	7.0
Debt Due	33.8	24.9	15.5
Other	12.6	12.6	21.1
Current Liab	52.7	43.9	43.6

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	1.5%	1.5%	6.5%
"Cash Flow"	3.5%	3.0%	6.5%
Earnings	4.0%	4.5%	6.0%
Dividends	1.5%	1.5%	2.0%
Book Value	4.5%	3.0%	2.5%

Calendar	QUARTERLY REVENUES ($mill) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	23.5	27.4	32.4	27.1	110.4
2013	27.0	29.1	31.3	27.4	114.8
2014	27.1	29.2	32.7	28.1	117.1
2015	28.8	30.0	33.0	28.2	120
2016	29.0	31.0	35.0	30.0	125

Calendar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.11	.24	.38	.17	.90
2013	.20	.28	.36	.19	1.03
2014	.20	.29	.42	.22	1.13
2015	.22	.30	.43	.20	1.15
2016	.22	.32	.45	.21	1.20

Calendar	QUARTERLY DIVIDENDS PAID B= Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.183	.183	.183	.185	.73
2012	.185	.185	.185	.1875	.74
2013	.1875	.1875	.1875	.19	.75
2014	.19	.19	.19	.1925	.76
2015	.1925	.1925			

	2010	2011	2012	2013	2014	2015	2016		18-20
	74.6	81.2	88.1	91.0	91.2	102.7	102.1	110.4	114.8	117.1	120	125	Revenues ($mill)	135
	8.5	10.0	11.8	12.2	10.0	14.3	13.4	14.4	16.8	16.4	16.6	16.8	Net Profit ($mill)	23.0
	27.6%	33.4%	32.6%	33.2%	34.1%	32.1%	32.7%	33.9%	34.1%	35.0%	34.5%	34.0%	Income Tax Rate	34.0%
	--	--	--	--	--	6.8%	6.1%	3.4%	1.9%	1.7%	1.6%	1.5%	AFUDC % to Net Profit	2.5%
	55.3%	49.5%	49.6%	45.6%	46.6%	43.1%	42.3%	41.6%	40.4%	40.5%	40.6%	42.0%	Long-Term Debt Ratio	43.5%
	41.3%	47.5%	49.6%	51.8%	52.1%	55.8%	56.6%	57.4%	58.7%	58.8%	58.6%	57.5%	Common Equity Ratio	56.5%
	231.7	264.0	265.8	259.4	267.9	310.5	312.5	318.5	321.4	335.8	350	375	Total Capital ($mill)	430
	288.0	317.3	333.9	366.3	376.5	405.9	422.2	415.2	446.5	465.4	485	505	Net Plant ($mill)	550
	5.0%	5.1%	5.6%	5.6%	5.0%	5.7%	5.2%	5.4%	5.9%	6.3%	6.5%	6.0%	Return on Total Cap'l	6.5%
	8.2%	7.5%	8.6%	8.6%	7.0%	8.1%	7.5%	7.8%	8.7%	9.2%	9.0%	9.0%	Return on Shr. Equity	9.5%
	8.6%	7.8%	8.7%	8.9%	7.0%	8.2%	7.5%	7.5%	8.7%	9.3%	9.0%	9.0%	Return on Com Equity	9.5%
	.5%	1.3%	1.8%	2.0%	.1%	2.1%	1.0%	1.4%	2.4%	3.1%	3.0%	3.0%	Retained to Com Eq	3.5%
	94%	84%	79%	78%	98%	75%	87%	83%	73%	67%	67%	65%	All Div'ds to Net Prof	63%

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2014, the Middlesex System accounted for 60% of operating revenues. At 12/31/14, the company had 282 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers & directors own 3.5% of the common stock; BlackRock Institutional Trust Co., 6.6% (4/15 proxy). Add.: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

Middlesex Water has the highest dividend yield in the water utility group. The average yield for the nine member industry is about 2.6%, versus the company's 3.5%.

Generous yields are not necessarily a positive. The reason investors demand a premium from Middlesex is due to its subpar dividend growth prospects. Indeed, over the past 10 years, payout hikes have increased only 1.5% annually. On the positive side, the company's earnings have been rising at a faster pace, which is reflected in an improved payout ratio.

We believe there are better options available for accounts seeking to own shares in a water utility. Historically, utility stocks with lower yields and better distributions prospects, outperform equities that have above-average yields and below-average dividend growth prospects.

We are sticking with our previous earnings estimates. Mostly as a result of rate relief, Middlesex's first-quarter share earnings came in at a solid $0.22, versus our $0.21 forecast. All told, we expect the bottom line to increase a modest $0.02 a share this year, to $1.15 a share. For 2016, we are anticipating a rise in share earnings of $0.05, to $1.20.

The utility has petitioned state regulators for a rate hike. Earlier this year, a request was filed in New Jersey to raise customers' bills by $9.5 million, or 13.5%. As is the case with most water companies, Middlesex needs to allocate more funds to repair and upgrade its pipeline infrastructure. Thanks to a relatively reasonable existing price structure, the size of the proposed rate increase is not as burdensome as it may sound. If the regulators allow the request to be implemented, the average bill of a residential customer would only go up by about $25 a quarter. Predicting when a decision will be finalized is difficult, but it could take well more than a year. A very positive ruling by mid-2016, however, would most likely cause us to up our full-year earnings estimate.

Finances are in good shape. Based on its $375 million market capitalization, Middlesex is a small entity. Still, using most financial metrics, the company's balance sheet compares favorably to most in this group.

James A. Flood *July 17, 2015*

(A) Diluted earnings. May not sum due to rounding. Next earnings report due mid-August.
(B) Dividends historically paid in mid-Feb., May, Aug., and November. = Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	40
Earnings Predictability	80

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SJW CORP. NYSE-SJW

RECENT PRICE 30.82 | P/E RATIO 21.3 (Trailing: 11.3 / Median: 24.0) | RELATIVE P/E RATIO 1.12 | DIV'D YLD 2.6% | VALUE LINE

TIMELINESS 3 Raised 5/8/15
SAFETY 3 New 4/22/11
TECHNICAL 3 Lowered 7/10/15
BETA .60 (1.00 = Market)

2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+45%)	19%
Low	30	(-3%)	2%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	1	1	0	0	2	0	1	3	0
Options	0	0	0	1	0	0	0	0	0
to Sell	0	1	0	1	0	0	1	0	0

Institutional Decisions

	2Q2014	4Q2014	1Q2015
to Buy	38	49	61
to Sell	45	47	47
Hld's(000)	10784	10987	10898

	1989	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	©VALUE LINE PUB. LLC	18-20
Revenues per sh	6.49	6.74	7.45	7.97	8.20	9.14	9.66	10.35	11.25	12.12	11.68	11.62	12.85	14.01	13.73	15.76	14.40	14.30	Revenues per sh	17.60
"Cash Flow" per sh	1.43	1.23	1.49	1.58	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	4.42	2.50	3.60	"Cash Flow" per sh	3.90
Earnings per sh A	.87	.56	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.91	.94	1.11	1.18	1.12	2.54	1.45	1.45	Earnings per sh A	1.75
Div'd Decl'd per sh B=	.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.71	.73	.75	.78	.81	Div'd Decl'd per sh B=	1.05
Cap'l Spending per sh	1.77	1.89	2.63	2.08	3.41	2.31	2.89	3.87	8.62	3.78	3.17	3.06	3.75	5.67	4.68	5.02	5.00	4.35	Cap'l Spending per sh	4.00
Book Value per sh	7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.69	13.66	13.75	14.20	14.71	15.92	17.75	18.30	19.05	Book Value per sh	21.30
Common Shs Outst'g C	18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.90	18.95	18.99	19.67	20.17	20.22	20.50	21.00	Common Shs Outst'g C	22.00
Avg Ann'l P/E Ratio	15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	20.4	24.3	11.2	Data Source are Value Line estimates		Avg Ann'l P/E Ratio	22.0
Relative P/E Ratio	.88	2.15	.95	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.33	1.30	1.37	.59			Relative P/E Ratio	1.40
Avg Ann'l Div'd Yield	3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	3.0%	2.7%	2.6%			Avg Ann'l Div'd Yield	2.8%
Revenues ($mill)							180.1	189.2	205.6	220.3	216.1	215.6	239.0	261.5	276.9	319.7	295	300	Revenues ($mill)	405
Net Profit ($mill)							20.7	22.2	19.3	20.2	15.2	15.8	20.9	22.3	23.5	51.8	29.5	30.0	Net Profit ($mill)	40.0
Income Tax Rate							41.6%	40.8%	39.4%	39.5%	40.4%	38.8%	41.1%	41.1%	38.7%	32.5%	37.0%	36.0%	Income Tax Rate	38.0%
AFUDC % to Net Profit							1.6%	2.1%	2.7%	2.3%	2.0%	--	--	--	2.0%	1.9%	1.0%	1.0%	AFUDC % to Net Profit	1.5%
Long-Term Debt Ratio							42.6%	41.8%	47.7%	46.0%	45.4%	53.7%	55.6%	55.0%	51.1%	51.5%	51.5%	50.0%	Long-Term Debt Ratio	53.5%
Common Equity Ratio							57.4%	58.2%	52.3%	54.0%	50.6%	46.3%	43.4%	45.0%	48.9%	48.4%	48.0%	50.0%	Common Equity Ratio	46.5%
Total Capital ($mill)							341.2	391.8	453.2	470.9	498.6	550.7	607.9	610.2	656.2	744.5	775	805	Total Capital ($mill)	1025
Net Plant ($mill)							484.8	541.7	645.5	684.2	718.5	785.5	766.2	831.6	898.7	963.0	1000	1065	Net Plant ($mill)	1300
Return on Total Cap'l							7.6%	7.0%	5.7%	5.8%	4.4%	4.3%	4.9%	5.0%	5.0%	8.3%	5.0%	5.0%	Return on Total Cap'l	5.5%
Return on Shr. Equity							10.6%	9.7%	8.2%	8.0%	6.8%	6.2%	7.9%	8.1%	7.3%	14.4%	7.5%	8.0%	Return on Shr. Equity	8.0%
Return on Com Equity							10.6%	9.7%	8.2%	8.0%	6.8%	6.2%	7.9%	8.1%	7.3%	14.4%	7.5%	8.0%	Return on Com Equity	8.0%
Retained to Com Eq							5.6%	5.2%	3.5%	3.3%	1.2%	1.2%	3.1%	3.3%	2.6%	10.2%	3.0%	3.5%	Retained to Com Eq	3.5%
All Div'ds to Net Prof							47%	46%	57%	59%	80%	80%	61%	59%	62%	29%	54%	56%	All Div'ds to Net Prof	56%

CAPITAL STRUCTURE as of 3/31/15
Total Debt $396.5 mill. Due in 5 Yrs $21.2 mill.
LT Debt $384.2 mill. LT Interest $18.1 mill.
(52% of Cap'l)

Leases, Uncapitalized: Annual rentals $5.5 mill.

Pension Assets-12/14 $91.4 mill.
Oblig. $128.7 mill.

Pfd Stock None

Common Stock 20,341,469 shs.
as of 4/22/15
MARKET CAP: $625 million (Small Cap)

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	2.3	2.4	5.4
Other	37.4	65.7	57.7
Current Assets	39.7	68.1	63.1
Accts Payable	12.6	7.0	11.5
Debt Due	23.0	13.6	12.3
Other	23.6	23.9	24.6
Current Liab.	59.2	44.7	48.7
Fix. Chg. Cov.	268%	270%	286%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	5.5%	4.5%	4.0%
"Cash Flow"	7.0%	8.0%	4.5%
Earnings	6.5%	10.5%	6.5%
Dividends	4.0%	3.0%	5.5%
Book Value	6.0%	3.5%	5.0%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	51.1	65.8	82.4	62.4	261.5
2013	58.1	74.2	85.2	87.4	276.9
2014	64.6	70.4	125.4	69.3	319.7
2015	62.1	73.9	89.0	70.9	295
2016	60.0	75.0	90.0	75.0	300

Calendar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.08	.28	.53	.31	1.18
2013	.07	.37	.44	.24	1.12
2014	.04	.34	1.88	.28	2.54
2015	.23	.37	.53	.32	1.45
2016	.09	.41	.57	.38	1.45

Calendar	QUARTERLY DIVIDENDS PAID B= Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.173	.173	.173	.173	.69
2012	.1775	.1775	.1775	.1775	.71
2013	.1825	.1825	.1825	.1825	.73
2014	.1875	.1875	.1875	.1875	.75
2015	.1950	.195			

Target Price Range 2018 | 2019 | 2020

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	15.7	3.2
3 yr.	38.7	64.2
5 yr.	50.5	113.9

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 229,000 connections that serve a population of approximately one million people in the San Jose area and 12,000 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. The company offers nonregulated water-related services. Also owns and operates commercial real estate investments. Has about 395 employees. Officers & directors (including Nancy O. Moss) own 27.9% of outstanding shares. Chrm : Charles J. Toeniskoetter. Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int: www.sjwater.com.

A new pricing structure will most surely have an impact on the amount of water consumed by SJW's customers. Faced with the ongoing drought, California's governor established rules aimed at reducing water usage approximately 25%. The mandatory program, which went into effect on June 1st, also contains other restrictions and fines.

Water utilities operating in the state should not be affected, however. The California Public Utility Commission had already instituted policies that changed the methodology of how water companies generate profits. Now, SJW can promote conservation and not see its net income decline.

SJW's bottom line should do well this year. First-quarter results were considerably above expectations as the company benefited from an unusual one-time gain and an earlier decision to extend rate relief into 2015. For the full year, we think SJW's share net will reach $1.45. If last year's profits weren't impacted by a one-time gain, the comparison would appear better.

Capital spending will remain at relatively high levels out to late decade. All of the regulated utilities we cover are in the midst of extensive programs intended to replace antiquated pipes and related structures. The industry had been deferring these expenditures until the past few years because companies weren't sure that any investments made would be recouped. Once states, such as California, began working closer with water companies, more capital began to be spent on improving systems.

Earnings momentum should stall in 2016. This will be partially due to there not being any unforeseen one-time gains in our estimate, as has been the case in 2014 and 2015. Another factor adding some uncertainty is how much surface water will be available. Should supplies remain tight, more-expensive options, including drilling and buying on the open market, would be required.

Shares of SJW do not have much appeal at this juncture. Over the pull to 2018-2020, the stock's total return potential is lower than the typical stock in our universe.

James A. Flood *July 17, 2015*

(A) Diluted earnings. Excludes nonrecurring losses: '03, $1.97; '04, $3.78; '05, $1.09; '06, $15.36; '08, $1.22; '10, $0.48. Next earnings report due mid-August. Quarterly earnings may not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	30
Earnings Predictability	65

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YORK WATER NDQ-YORW

RECENT PRICE 21.47 | P/E RATIO 22.6 (Trailing: 21.1 / Median: 25.0) | RELATIVE P/E RATIO 1.19 | DIV'D YLD 2.9% | VALUE LINE

TIMELINESS 3 Raised 12/7/15
SAFETY 3 Lowered 7/17/15
TECHNICAL 2 Raised 6/26/15
BETA .75 (1.00 = Market)

2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+40%)	12%
Low	20	(-5%)	2%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	2	1	4	0	0	4	0	2	4
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	30	32	33
to Sell	30	24	29
Hld's(000)	3658	3787	3841

	High:	14.0	17.9	21.0	18.5	16.6	18.0	18.0	18.1	18.5	22.0	24.3	26.0	Target Price Range 2018	2019	2020
	Low:	11.0	11.7	15.3	15.5	6.3	9.7	12.8	15.8	16.8	17.9	18.8	20.7			

LEGENDS
1.10 x Dividends p sh divided by Interest Rate
Relative Price Strength
3-for-1 split 5/02
3-for-2 split 8/05
Options: Yes
Shaded area indicates recession

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	2.9	3.2
3 yr.	25.9	64.2
5 yr.	69.7	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
--	--	2.05	2.05	2.17	2.18	2.58	2.56	2.79	2.89	2.95	3.07	3.18	3.21	3.27	3.38	3.65	4.00	Revenues per sh	4.75
--	--	.59	.57	.65	.65	.79	.77	.88	.88	.95	1.07	1.03	1.12	1.19	1.38	1.50	1.55	"Cash Flow" per sh	1.75
--	--	.43	.40	.47	.49	.56	.58	.57	.57	.64	.71	.71	.72	.75	.89	.95	1.00	Earnings per sh A	1.15
--	--	.34	.35	.37	.39	.42	.45	.46	.49	.51	.52	.53	.54	.55	.57	.60	.63	Div'd Decl'd per sh B	.79
--	--	.75	.86	1.07	2.50	1.69	1.83	1.89	2.17	1.18	.83	.74	.98	.76	1.10	2.10	1.30	Cap'l Spending per sh	1.15
--	--	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	6.62	7.19	7.45	7.73	7.98	8.15	8.15	8.65	Book Value per sh	9.60
--	--	9.48	9.85	9.63	10.23	10.40	11.20	11.27	11.37	12.56	12.65	12.79	12.92	12.98	12.93	12.90	12.50	Common Shs Outstg C	12.00
--	--	17.8	26.9	24.5	28.7	26.3	31.2	30.3	24.8	21.9	20.7	23.9	24.4	28.3	23.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	22.5
--	--	.91	1.47	1.40	1.36	1.40	1.68	1.81	1.48	1.48	1.32	1.50	1.55	1.49	1.22			Relative P/E Ratio	1.40
--	--	4.4%	3.3%	3.2%	3.1%	2.9%	2.5%	2.0%	3.5%	3.6%	3.5%	3.1%	3.1%	2.8%	2.8%			Avg Ann'l Div'd Yield	3.0%

CAPITAL STRUCTURE as of 3/31/15
Total Debt $84.8 mil. Due in 5 Yrs $30.5 mil.
LT Debt $84.8 mil. LT Interest $5.1 mil.
(45% of Cap'l)
Pension Assets 12/14 $30.6 mil.
Oblig. $40.9 mil.
Pfd Stock None
Common Stock 12,858,271 shs.
as of 5/5/15
MARKET CAP: $275 million (Small Cap)

	2011	2012	2013	2014	2015	2016	
	26.8	28.7	31.4	32.8	37.0	39.0	Revenues ($mill)
	5.8	6.1	6.4	6.4	7.5	8.9	Net Profit ($mill)
	36.7%	34.4%	36.5%	36.1%	37.9%	38.5%	Income Tax Rate
	--	7.2%	3.6%	10.1%	--	1.2%	AFUDC % to Net Profit
	44.1%	48.3%	45.5%	54.5%	45.7%	48.3%	Long-Term Debt Ratio
	55.9%	51.7%	53.5%	45.5%	54.3%	51.7%	Common Equity Ratio
	90.3	126.5	125.7	153.4	166.1	176.4	Total Capital ($mill)
	156.3	174.4	191.6	211.4	222.0	226.4	Net Plant ($mill)
	8.4%	6.2%	8.7%	5.7%	8.2%	6.5%	Return on Total Cap'l
	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	Return on Shr. Equity
	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	Return on Com Equity
	3.0%	2.2%	1.7%	1.4%	1.9%	2.7%	Retained to Com Eq
	74%	77%	82%	85%	78%	72%	All Div'ds to Net Prof

	2013	2014	3/31/15
CURRENT POSITION ($MILL.)			
Cash Assets	7.6	1.5	.5
Accounts Receivable	3.8	4.0	4.0
Other	3.8	5.7	5.2
Current Assets	15.2	11.2	9.7
Accts Payable	1.8	1.8	1.5
Debt Due	--	--	--
Other	6.0	4.3	4.6
Current Liab	7.8	6.1	6.1
Fix. Chg. Cov.	417%	424%	437%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	4.5%	3.0%	5.5%
"Cash Flow"	7.0%	6.5%	6.5%
Earnings	6.5%	6.0%	6.5%
Dividends	4.0%	2.5%	5.0%
Book Value	6.5%	4.5%	3.0%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	9.6	10.4	11.0	10.4	41.4
2013	10.1	10.7	10.9	10.7	42.4
2014	10.6	11.0	12.0	11.5	45.0
2015	11.2	12.0	12.5	12.3	48.0
2016	11.5	12.5	13.0	13.0	50.0

Calendar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.15	.17	.22	.18	.72
2013	.17	.18	.19	.21	.75
2014	.18	.22	.23	.26	.89
2015	.20	.23	.25	.25	.93
2016	.20	.25	.28	.28	1.00

Calendar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.131	.131	.131	.131	.524
2012	.134	.134	.134	.134	.535
2013	.138	.138	.138	.138	.552
2014	.1431	.1431	.1431	.1431	.572
2015	.1495	.1495			

BUSINESS: The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2014, the company's average daily availability was 35.2 million gal'ons and its service territory had an estimated population of 190,000. Has more than 65,100 customers. Residential customers accounted for 63% of 2014 revenues; commercial and industrial (29%); other (8%). It also provides sewer billing services. Incorporated: PA. York had 108 full-time employees at 12/31/14. President/CEO: Jeffrey R. Hines. Officers/directors own 1.1% of the common stock (4/15 proxy). Address: 130 East Market Street York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: www.yorkwater.com.

York Water has been turning in solid results recently. For the fourth consecutive quarter, the utility posted strong year-over-year earnings comparisons. In the March period, share earnings rose 25%, mostly due to a lower tax rate and higher tariffs implemented in March.

Wall Street seemingly has not been impressed, however. Since our April report, the price of the stock has decreased 14%. We think some investors may have viewed the equity as overpriced. Another possibility is that a major institutional shareholder sold its entire position all at once, which can substantially move the price of a stock with a market capitalization of only $275 million.

Future bottom-line comparisons are expected to be decent. York should continue to benefit from a reduced tax rate, the higher fees that regulators allowed the company to charge its customers, and an ongoing program aimed at reducing costs that is proving to be successful. However, with a small customer base in a region not expected to experience much economic growth, demand for water should be fairly subdued. All in all, we think earnings per share should rise $0.06 a share (6.7%) in 2015, and $0.05 a share (5.3%) next year.

The capital budget has expanded. York's spending to upgrade and modernize its infrastructure rose 40% in 2014. Over the next three-to five-year period, we think similar annual outlays will be required for this process. The company will not differ too much from other water utilities, as the industry is in the midst of increasing funds spent on improving current pipelines and equipment.

York's finances appear healthy enough to handle this burden. While we expect some of the utility's financial metrics to decline through the end of the decade, they still should remain better than the industry norm. For example, even if its equity-to-total capital ratio declines as it takes on more debt, the ratio should remain a solid 52% by late decade.

York shares are expected to be market performers in the year ahead. And while long-term total return prospects have improved due to the dip in the stock price, we believe there are more-attractive candidates available in the group.

James A. Flood *July 17, 2015*

(A) Diluted earnings. Next earnings report due mid-August.
(B) Dividends historically paid in mid-January April, July, and October.
(C) In millions, adjusted for splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	55
Earnings Predictability	85

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INDUSTRY TIMELINESS: 90 (of 97)

The Water Utility Industry came under significant pressure in 2003. The majority of the companies covered in the next few pages experienced earnings declines last year, as unfavorable weather conditions resulted in weak demand for water throughout the United States.

Infrastructure costs are expected to continue to rise. As a result, further consolidation appears to be inevitable. Water utility stocks are ranked to lag the market over the next 12 months. However, conservative investors may find the risk-adjusted, total-return potential of these issues attractive.

Dampened Results

Most of the Water companies in our *Survey* were hampered by unfavorable weather conditions in 2003. *American States Water Co.* and *California Water Service Group* both most likely suffered year-over-year earnings declines because of the cool, wet-weather conditions. *Aqua America*, formerly Philadelphia Suburban Corp., however, was probably able to eke out a modest gain last year, despite the sluggish demand. (Investors should note that full-year results for each of the companies covered in this industry were not available as of the date of this issue's publication.) Although weather conditions are nearly impossible to predict, we expect more normal weather to help the Water Utility Industry rebound in 2004.

Increasingly Strict Regulations

In order to stay in compliance with the plethora of state and local regulations put in place to ensure the health levels of drinking water, the Water Utility Industry continues to face stricter purification standards. Amended in 1986, the Safe Drinking Water Act (SDWA) of 1974 authorizes the Environmental Protection Agency (EPA) to work with state and local governments to periodically test for impurities in drinking water and to regulate the levels of contaminants that are acceptable per a specified amount of water. These standards take into account the health effects of chemicals, measurement capabilities, and technical feasibility. One of the most significant contaminants that the industry screens for is arsenic, a naturally occurring substance. These laws and regulations are likely to continue to grow more stringent as the threat of bioterrorism against our water pipelines has already prompted officials to tighten regulation requirements.

Rising Infrastructure Costs

Water companies are also feeling the pressure to maintain and even to upgrade aging facilities. Indeed, many water/wastewater systems that are presently in use were built over 100 years ago and are outdated. The costs associated with replacing these systems continue to grow and, according to the EPA, are expected to venture into the hundreds of billions of dollars over the next 20 years. Given the astronomical expenses, it appears that long-term relief from the federal government is needed. Nevertheless, for now, state and local funding woes will probably leave the water companies to cover most of the expenses.

Rapid Consolidation

The rising costs associated with water purification and facility upgrades are straining many of the smaller companies in the water industry that do not have sufficient cash flow and liquidity to foot the bill for the costly improvements. Therefore, the industry has seen massive consolidation in recent years, as the smaller operations have been forced to sell to larger suitors with significantly greater capital resources. The larger utilities are benefiting from economies of scale, as well as enhanced geographic diversity. In turn, the companies are becoming less susceptible to state or region-specific problems and/or state requirements. *Aqua America*, which has been acquisition-friendly over the past few years, is on the cusp of buying Heater Utilities, which would likely increase its customer base fivefold in North Carolina.

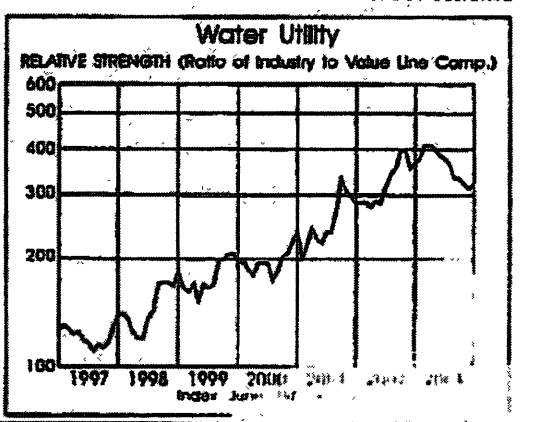
Investment Advice

Growth-minded investors ought to look elsewhere. The water company stocks in this review are not timely and offer little capital-gains appeal out to 2006-2008. However, attractive dividend yields may appeal to income-minded individuals. As always is the case, though, potential investors are advised to carefully review individual reports before making any new commitments to these issues.

Andre J. Costanza

Composite Statistics: Water Utility Industry

1999	2000	2001	2002	2003	2004		08-08
697.2	764.3	731.5	754.4	845	945	Revenues ($mill)	1235
72.4	90.9	85.4	103.8	105	130	Net Profit ($mill)	180
40.9%	41.2%	40.2%	38.8%	41.5%	41.5%	Income Tax Rate	41.5%
--	--	--	--	NM	5%	AFUDC % to Net Profit	3%
51.1%	50.3%	52.4%	53.9%	53.0%	51.5%	Long-Term Debt Ratio	51.0%
48.9%	49.7%	47.6%	46.1%	46.5%	48.5%	Common Equity Ratio	49.0%
1444.7	1651.0	1948.7	1972.5	2265	2545	Total Capital ($mill)	3650
2108.3	2342.5	2532.3	2751.1	3100	3370	Net Plant ($mill)	4900
7.4%	7.0%	6.8%	7.0%	6.5%	7.0%	Return on Total Cap'l	7.0%
11.5%	10.7%	10.0%	11.2%	8.5%	10.5%	Return on Shr. Equity	12.0%
11.5%	10.8%	10.7%	11.2%	8.5%	10.5%	Return on Com Equity	12.0%
3.8%	3.5%	3.3%	3.8%	3.0%	4.0%	Retained to Com Eq	5.5%
68%	67%	69%	66%	76%	65%	All Div'ds to Net Prof	54%
19.3	18.6	22.6	21.5	24.0		Avg Ann'l P/E Ratio	22.5
1.11	1.23	1.16	1.17	1.42		Relative P/E Ratio	.90
3.5%	3.5%	3.1%	2.7%	2.2		Avg Ann'l Div'd Yield	3.0%



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Office of Regulatory Staff

Daufuskie Island Utility Company, Inc.

Earnings per Share

Docket #2014-346-WS

$ per share

COMPANIES \ YEARS	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water	$0.39	$0.53	$0.66	$0.67	$0.81	$0.78	$0.81	$1.11	$1.12	$1.41	$1.61	$1.57
American Water Works						$1.10	$1.25	$1.53	$1.72	$2.11	$2.06	$2.39
Aqua America	$0.46	$0.51	$0.57	$0.56	$0.57	$0.58	$0.62	$0.72	$0.83	$0.87	$1.16	$1.20
Artesian Resources	$0.64	$0.72	$0.81	$0.97	$0.90	$0.86	$0.97	$1.00	$0.83	$1.13	$0.94	$1.07
California Water	$0.61	$0.73	$0.74	$0.67	$0.75	$0.95	$0.98	$0.91	$0.86	$1.02	$1.02	$1.19
Connecticut Water Service	$1.15	$1.16	$0.88	$0.81	$1.05	$1.11	$1.19	$1.13	$1.13	$1.53	$1.66	$1.92
Middlesex Water	$0.61	$0.73	$0.71	$0.82	$0.87	$0.89	$0.72	$0.96	$0.84	$0.90	$1.03	$1.13
SJW Corp.	$0.91	$0.87	$1.12	$1.19	$1.04	$1.08	$0.81	$0.84	$1.11	$1.18	$1.12	$2.54
York Water Co.	$0.47	$0.49	$0.56	$0.58	$0.57	$0.57	$0.64	$0.71	$0.71	$0.72	$0.75	$0.89

Source: ***Value Line, Exhibit DHC-2***

Year-over-Year Change Ratios

COMPANIES \ YEARS	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water		1.36	1.25	1.02	1.21	0.96	1.04	1.37	1.01	1.26	1.14	0.98
American Water Works							1.14	1.22	1.12	1.23	0.98	1.16
Aqua America		1.11	1.12	0.98	1.02	1.02	1.07	1.16	1.15	1.05	1.33	1.03
Artesian Resources		1.13	1.13	1.20	0.93	0.96	1.13	1.03	0.83	1.36	0.83	1.14
California Water		1.20	1.01	0.91	1.12	1.27	1.03	0.93	0.95	1.19	1.00	1.17
Connecticut Water Service		1.01	0.76	0.92	1.30	1.06	1.07	0.95	1.00	1.35	1.08	1.16
Middlesex Water		1.20	0.97	1.15	1.06	1.02	0.81	1.33	0.88	1.07	1.14	1.10
SJW Corp.		0.96	1.29	1.06	0.87	1.04	0.75	1.04	1.32	1.06	0.95	2.27
York Water Co.		1.04	1.14	1.04	0.98	1.00	1.12	1.11	1.00	1.01	1.04	1.19

Office of Regulatory Staff

Daufuskie Island Utility Company, Inc.

Earnings per Share -- Historical Summary

Docket #2014-346-WS

COMPANIES	10-yr. Averages		5-yr. Averages		3-Yr. Averages	
	Compound	Simple	Compound	Simple	Compound	Simple
American States Water	11.47%	12.26%	14.15%	15.11%	11.92%	12.53%
American Water Works			13.84%	14.23%	11.59%	12.11%
Aqua America	8.93%	9.35%	14.12%	14.60%	13.08%	13.87%
Artesian Resources	4.04%	5.26%	1.98%	3.85%	8.83%	11.05%
California Water	5.01%	5.63%	3.96%	4.53%	11.43%	11.76%
Connecticut Water Service	5.17%	6.50%	10.04%	10.90%	19.33%	19.85%
Middlesex Water	4.47%	5.42%	9.43%	10.43%	10.39%	10.43%
SJW Corp.	11.31%	16.51%	25.68%	32.77%	31.78%	42.67%
York Water Co.	6.15%	6.36%	6.82%	7.04%	7.82%	8.08%
Means	7.07%	8.41%	11.11%	12.61%	14.02%	15.82%
Medians	5.66%	6.43%	10.04%	10.90%	11.59%	12.11%
Average of Mean & Median		6.89%		11.17%		13.38%

Average of Period Averages
10.48%

ROA 2318

Office of Regulatory Staff

Daufuskie Island Utility Company, Inc.

Earnings per Share -- Estimates & Overall Summary

Docket #2014-346-WS

COMPANIES' YEARS	COMPANIES	Value Line* $'s	Value Line* %'s	Zacks	Yahoo	Reuters
American States Water	American States Water	2.15	7.24%	5.00%	5.00%	5.00%
American Water Works	American Water Works	3.25	7.07%	7.40%	7.50%	7.50%
Aqua America	Aqua America	1.65	7.33%	5.30%	5.00%	5.00%
Artesian Resources	Artesian Resources	1.30	8.10%	9.70%	4.00%	4.24%
California Water	California Water	1.55	6.05%	5.00%	5.00%	5.00%
Connecticut Water Service	Connecticut Water Service	2.25	3.59%	5.00%	5.00%	5.00%
Middlesex Water	Middlesex Water	1.35	4.03%	5.00%	2.70%	5.00%
SJW Corp.	SJW Corp.	1.75	-7.95%	4.40%	14.00%	6.58%
York Water Co.	York Water Co.	1.15	5.86%	7.50%	4.90%	7.53%
			4.59%	6.03%	5.90%	5.65%
			6.05%	5.00%	5.00%	5.00%
			5.32%	5.52%	5.45%	5.33%

COMPANIES' YEARS
American States Water
American Water Works
Aqua America
Artesian Resources
California Water
Connecticut Water Service
Middlesex Water
SJW Corp.
York Water Co.

**Value Line, see Exhibit DHC-9; % =Compound Annual Growth Rate*

' "Yahoo"=Yahoo!Finance web site ² "Zacks"=Zacks web site

/ Estimated growth for this year over next

Average of estimates above: 5.40%

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
BVPS -- Historical Data
Docket #2014-346-WS

$ per share

COMPANIES / YEARS	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water	$6.98	$7.51	$7.86	$8.32	$8.77	$8.97	$9.70	$10.13	$10.84	$11.80	$12.72	$13.24
American Water Works						$25.64	$22.91	$23.59	$24.11	$25.11	$26.52	$27.39
Aqua America	$4.27	$4.71	$5.04	$5.57	$5.85	$6.26	$6.50	$6.81	$7.21	$7.90	$8.63	$9.27
Artesian Resources	$9.01	$9.26	$9.60	$10.15	$11.66	$11.86	$12.15	$12.44	$13.12	$13.57	$13.80	$14.09
California Water	$7.22	$7.83	$7.90	$9.07	$9.25	$9.72	$10.13	$10.45	$10.76	$11.28	$12.54	$13.11
Connecticut Water Service	$10.46	$10.94	$11.52	$11.60	$11.95	$12.23	$12.67	$13.05	$13.50	$20.95	$17.92	$18.83
Middlesex Water	$7.60	$8.02	$8.26	$9.52	$10.05	$10.03	$10.33	$11.13	$11.27	$11.48	$11.82	$12.24
SJW Corp.	$9.11	$10.11	$10.72	$12.48	$12.90	$13.99	$13.66	$13.75	$14.20	$14.71	$15.92	$17.75
York Water Co.	$4.06	$4.65	$4.85	$5.84	$5.97	$6.14	$6.92	$7.19	$7.45	$7.73	$7.98	$8.15

Source: Value Line, Exhibit DHC-2

Ratios of Change over Previous Year

COMPANIES / YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water	1.08	1.05	1.06	1.05	1.02	1.08	1.04	1.07	1.09	1.08	1.04
American Water Works						0.89	1.03	1.02	1.04	1.06	1.03
Aqua America	1.10	1.07	1.11	1.05	1.07	1.04	1.05	1.06	1.10	1.09	1.07
Artesian Resources	1.03	1.04	1.06	1.15	1.02	1.02	1.02	1.05	1.03	1.02	1.02
California Water	1.08	1.01	1.15	1.02	1.05	1.04	1.03	1.03	1.05	1.11	1.05
Connecticut Water Service	1.05	1.05	1.01	1.03	1.02	1.04	1.03	1.03	1.55	0.86	1.05
Middlesex Water	1.06	1.03	1.15	1.06	1.00	1.03	1.08	1.01	1.02	1.03	1.04
SJW Corp.	1.11	1.06	1.16	1.03	1.08	0.98	1.01	1.03	1.04	1.08	1.11
York Water Co.	1.15	1.04	1.20	1.02	1.03	1.13	1.04	1.04	1.04	1.03	1.02

Office of Regulatory Staff

Daufuskie Island Utility Company, Inc.

Book Value per Share -- Historical Summary, Estimates & Overall Summary

Docket #2014-346-WS

COMPANIES	10-Yr. Averages		5-Yr. Averages		3-Yr. Averages		
	Compound	Sample	Compound	Sample	Compound	Sample	
American States Water	5.83%	5.85%	6.42%	6.44%	6.89%	6.91%	
American Water Works			3.64%	3.64%	4.34%	4.35%	
Aqua America	7.01%	7.03%	7.36%	7.37%	8.74%	8.74%	
Artesian Resources	4.29%	4.35%	3.02%	3.02%	2.41%	2.41%	
California Water	5.29%	5.37%	5.29%	5.33%	6.81%	6.85%	
Connecticut Water Service	5.58%	6.72%	8.25%	10.45%	11.73%	15.27%	
Middlesex Water	4.32%	4.40%	3.45%	3.48%	2.79%	2.79%	
SJW Corp.	5.76%	5.60%	2.66%	2.72%	2.50%	2.51%	
York Water Co.	7.08%	7.59%	5.30%	5.37%	3.76%	3.76%	
							Average of
Means	5.64%	5.86%	5.04%	5.31%	5.55%	5.95%	Period
Medians	5.67%	5.73%	5.29%	5.33%	4.34%	4.35%	Averages
Averages of Means & Medians		5.73%		5.25%		5.05%	5.34%

Office of Regulatory Staff

Daufuskie Island Utility Company, Inc.

BVPS – Estimates & Summary

Docket #2014-346-WS

	Value Line*	
COMPANIES	BVPS	DRIP
American States Water	$15.45	3.49%
American Water Works	$34.55	5.30%
Aqua America	$11.40	4.70%
Artesian Resources		
California Water	$16.00	4.53%
Connecticut Water Service	$24.15	5.69%
Middlesex Water	$14.30	3.52%
SJW Corp.	$21.30	4.13%
York Water Co.	$9.60	3.71%
		4.38%
		4.38%
		4.38%

*Source: Exhibit DHC-2

Office of Regulatory Staff

Daufuskie Island Utility Company, Inc.

Sales/Revenues -- Historical Data

Docket #2014-346-WS

	$-000,000's										
COMPANIES \ YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water	$228.00	$236.20	$268.60	$301.40	$318.70	$361.00	$398.90	$419.30	$466.90	$472.10	$465.80
American Water Works					$2,336.90	$2,440.70	$2,710.70	$2,666.20	$2,876.90	$2,901.90	$3,011.30
Aqua America	$442.00	$496.80	$533.50	$602.50	$627.00	$670.50	$726.10	$712.00	$757.80	$768.60	$779.90
Artesian Resources	$39.60	$45.30	$47.30	$52.50	$56.20	$60.90	$64.90	$65.10	$70.60	$69.10	$72.50
California Water	$315.60	$320.70	$334.70	$367.10	$410.30	$449.40	$460.40	$501.80	$560.00	$584.10	$597.50
Connecticut Water Service	$48.50	$47.50	$46.90	$59.00	$61.30	$59.40	$66.40	$69.40	$83.80	$91.50	$94.00
Middlesex Water	$71.00	$74.60	$81.10	$86.10	$91.00	$91.20	$102.70	$102.10	$110.40	$114.80	$117.10
SJW Corp.	$166.90	$180.10	$189.20	$206.60	$220.30	$216.10	$215.60	$239.00	$261.60	$276.90	$319.70
York Water Co.	$22.50	$26.80	$28.70	$31.40	$32.80	$37.00	$39.00	$40.60	$41.40	$42.40	$45.90

Source: Value Line, Exhibit DHC-2

	Ratios of Change over Previous Year										
COMPANIES \ YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water	1.07	1.04	1.14	1.12	1.06	1.13	1.10	1.05	1.11	1.01	0.99
American Water Works						1.04	1.11	0.98	1.08	1.01	1.04
Aqua America	1.20	1.12	1.07	1.13	1.04	1.07	1.08	0.98	1.06	1.01	1.01
Artesian Resources	1.09	1.14	1.04	1.11	1.07	1.08	1.07	1.00	1.08	0.98	
California Water	1.14	1.02	1.04	1.10	1.12	1.10	1.02	1.09	1.12	1.04	1.02
Connecticut Water Service	1.03	0.98	0.99	1.26	1.04	0.97	1.12	1.05	1.21	1.09	1.03
Middlesex Water	1.11	1.05	1.09	1.06	1.06	1.00	1.13	0.99	1.08	1.04	1.02
SJW Corp.	1.11	1.08	1.05	1.09	1.07	0.98	1.00	1.11	1.09	1.06	1.15
York Water Co.	1.08	1.19	1.07	1.09	1.04	1.13	1.05	1.04	1.02	1.02	1.08

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
Sales/Revenues -- Historical Summary
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COMPANIES	10-yr Averages		5-yr. Averages		3-Yr. Averages		
	Compound	Simple	Compound	Simple	Compound	Simple	
American States Water	7.41%	7.53%	5.23%	5.35%	3.57%	3.71%	
American Water Works			4.29%	4.39%	4.14%	4.18%	
Aqua America	5.84%	5.94%	3.07%	3.14%	3.08%	3.11%	
Artesian Resources	6.38%	6.49%	3.21%	3.30%	3.03%	3.16%	
California Water	6.59%	6.66%	5.86%	5.93%	5.99%	6.07%	
Connecticut Water Service	6.84%	7.22%	9.61%	9.79%	10.64%	10.89%	
Middlesex Water	5.13%	5.20%	5.13%	5.23%	4.68%	4.71%	
SJW Corp.	6.72%	6.83%	8.15%	8.28%	10.18%	10.25%	
York Water Co.	7.39%	7.50%	4.41%	4.43%	4.17%	4.21%	
Means	6.54%	6.67%	5.44%	5.54%	5.50%	5.59%	Period
Medians	6.65%	6.74%	5.13%	5.23%	4.17%	4.21%	Averages
Averages of Mean & Median		6.65%		5.33%		4.87%	5.62%

Office of Regulatory Staff

Daufuskie Island Utility Company, Inc.

Sales/Revenues -- Estimates & Overall Summary

Docket #2014-346-WS

	Value Line*			
COMPANIES	$'s	%'s	Yahoo	Reuters
American States Water	575	4.79%	3.80%	3.82%
American Water Works	3960	6.28%	4.70%	4.73%
Aqua America	970	4.97%	6.00%	6.05%
Artesian Resources			4.50%	4.45%
California Water	840	7.86%	4.60%	4.62%
Connecticut Water Service	150	10.94%	5.40%	5.42%
Middlesex Water	155	6.43%	2.88%	3.34%
SJW Corp.	405	5.40%	5.20%	5.22%
York Water Co.	57	4.93%	3.50%	3.53%
		6.45%	4.51%	4.58%
		5.84%	4.60%	4.62%
		6.14%	4.55%	4.60%
			7/8/15	7/10/15

**numbers in the left column are actual predictions*
** "Yahoo"=Yahoo!Finance web site; 1-year estimates*

Average of averages above: **5.10%**

ROA 2325

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
DPS -- Historical Data
Docket #2014-346-WS

	$ per share										
COMPANIES \ YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water	$0.44	$0.45	$0.46	$0.48	$0.50	$0.51	$0.52	$0.55	$0.64	$0.76	$0.83
American Water Works					$0.80	$0.82	$0.86	$0.91	$0.96	$0.84	$1.21
Aqua America	$0.29	$0.32	$0.35	$0.38	$0.41	$0.44	$0.47	$0.50	$0.54	$0.58	$0.63
Artesian Resources	$0.55	$0.58	$0.61	$0.66	$0.71	$0.72	$0.75	$0.76	$0.79	$0.82	$0.85
California Water	$0.57	$0.57	$0.58	$0.58	$0.59	$0.59	$0.60	$0.62	$0.63	$0.64	$0.65
Connecticut Water Service	$0.84	$0.85	$0.86	$0.87	$0.88	$0.90	$0.92	$0.94	$0.96	$0.98	$1.01
Middlesex Water	$0.66	$0.67	$0.68	$0.69	$0.70	$0.71	$0.72	$0.73	$0.74	$0.75	$0.76
SJW Corp.	$0.51	$0.53	$0.57	$0.61	$0.65	$0.66	$0.68	$0.69	$0.71	$0.73	$0.75
York Water Co.	$0.39	$0.42	$0.45	$0.48	$0.49	$0.51	$0.52	$0.53	$0.54	$0.55	$0.57

Note: American Water Works began paying dividends in mid-2008, after it became publicly traded; these are pro-rated to a full year.

Source: Exhibit DHC-2

	Ratios of Change over Previous Year										
COMPANIES \ YEARS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
American States Water	1.00	1.02	1.02	1.04	1.04	1.02	1.02	1.06	1.16	1.19	1.09
American Water Works						1.03	1.05	1.06	1.05	0.88	1.44
Aqua America		1.10	1.09	1.09	1.08	1.07	1.07	1.06	1.08	1.07	1.09
Artesian Resources	1.04	1.05	1.05	1.08	1.08	1.01	1.04	1.01	1.04	1.04	1.04
California Water	1.02	1.00	1.02	1.00	1.02	1.00	1.02	1.03	1.02	1.02	1.02
Connecticut Water Service	1.01	1.01	1.01	1.01	1.01	1.02	1.02	1.02	1.02	1.02	1.03
Middlesex Water	1.02	1.02	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01
SJW Corp.	1.04	1.04	1.08	1.07	1.07	1.02	1.03	1.01	1.03	1.03	1.03
York Water Co.	1.05	1.08	1.07	1.07	1.02	1.04	1.02	1.02	1.01	1.03	1.04

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DPS -- Historical Data Summary
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COMPANIES	10-yr. Averages		5-yr. Averages		3-Yr. Averages		
	Compound	Simple	Compound	Simple	Compound	Simple	
American States Water	6.55%	6.71%	10.23%	10.41%	14.70%	14.77%	
American Water Works			8.09%	9.55%	9.96%	12.35%	
Aqua America	8.07%	8.07%	7.44%	7.45%	8.01%	8.01%	
Artesian Resources	4.45%	4.47%	3.38%	3.38%	3.80%	3.80%	
California Water	1.32%	1.33%	1.96%	1.96%	1.59%	1.59%	
Connecticut Water Service	1.86%	1.86%	2.33%	2.33%	2.42%	2.42%	
Middlesex Water	1.42%	1.42%	1.37%	1.37%	1.35%	1.35%	
SJW Corp.	3.93%	3.95%	2.59%	2.59%	2.82%	2.82%	
York Water Co.	3.87%	3.89%	2.25%	2.25%	2.45%	2.46%	
Means	3.93%	3.96%	4.40%	4.59%	5.23%	5.51%	Period
Medians	3.90%	3.92%	2.59%	2.59%	2.82%	2.82%	Averages
Averages of Mean & Median		3.93%		3.54%		4.09%	3.86%

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
DPS – Estimates & Summary
Docket #2014-346-WS

COMPANIES	DPS Projection*	Compound %
American States Water	1.12	6.89%
American Water Works	1.70	7.85%
Aqua America	0.98	10.32%
Artesian Resources		
Californain Water	0.97	9.30%
Connecticut Water Service	1.30	5.77%
Middlesex Water	0.85	2.52%
SJW Corp.	1.05	7.76%
York Water Co.	0.79	7.52%
Mean		7.24%
Median		7.64%
Average of Mean & Median		7.44%

Average of Historical & Projected DPS Growth **5.65%**

*Source: Exhibit DHC-2

ROA 2328

Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
DCF Summary
Docket #2014-346-WS

Indicator	Historical	Estimates	Average of Historical and Estimates	Source
EPS	10.48%	5.40%	7.94%	Exhibit DHC-3
BVPS	5.34%	4.38%	4.86%	Exhibit DHC-4
Sales/Rev.	5.62%	5.10%	5.36%	Exhibit DHC-5
DPS	3.86%	7.44%	5.65%	Exhibit DHC-6
			5.95%	Calculated average/mean
			3.55%	Exhibit DHC-1
			0.21%	Calculated, multiplication of above two lines
			9.71%	DCF Recommendation

Note: 3.55% + 0.21 = 3.76%

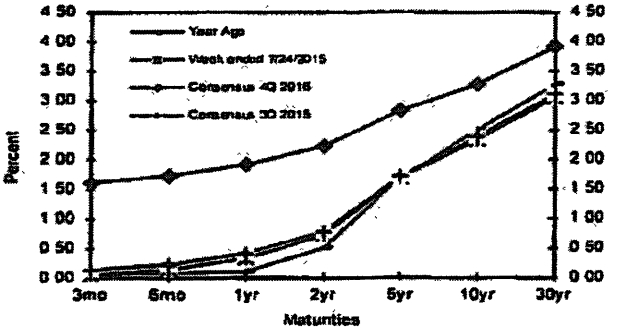
2 ■ BLUE CHIP FINANCIAL FORECASTS ■ AUGUST 1, 2015

Consensus Forecasts Of U.S. Interest Rates And Key Assumptions[1]

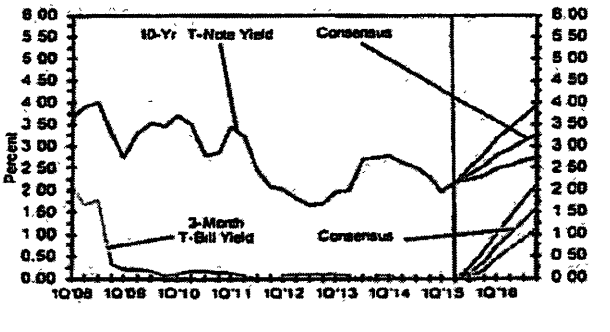
	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week Ending				Average For Month			Latest Q	3Q	4Q	1Q	2Q	3Q	4Q
Interest Rates	July 24	July 17	July 10	July 3	Jun.	May	Apr.	2Q 2015	2015	2015	2016	2016	2016	2016
Federal Funds Rate	0.13	0.13	0.13	0.12	0.13	0.12	0.12	0.12	0.2	0.5	0.7	1.0	1.3	1.6
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.3	3.5	3.8	4.1	4.4	4.7
LIBOR, 3-mo.	0.30	0.30	0.29	0.28	0.28	0.28	0.28	0.28	0.4	0.6	1.0	1.3	1.6	1.9
Commercial Paper, 1-mo.	0.08	0.08	0.09	0.09	0.09	0.02	0.07	0.06	0.2	0.4	0.8	1.1	1.5	1.8
Treasury bill, 3-mo.	0.04	0.02	0.02	0.01	0.02	0.02	0.02	0.02	0.1	0.4	0.7	1.0	1.3	1.6
Treasury bill, 6-mo.	0.13	0.10	0.08	0.11	0.09	0.08	0.09	0.09	0.2	0.5	0.8	1.1	1.4	1.7
Treasury bill, 1 yr.	0.33	0.28	0.26	0.27	0.28	0.24	0.23	0.25	0.4	0.7	1.0	1.3	1.6	1.9
Treasury note, 2 yr.	0.72	0.67	0.60	0.65	0.69	0.61	0.54	0.61	0.8	1.1	1.4	1.7	1.9	2.2
Treasury note, 5 yr.	1.68	1.67	1.57	1.65	1.68	1.54	1.35	1.52	1.7	1.9	2.2	2.4	2.6	2.8
Treasury note, 10 yr.	2.32	2.38	2.31	2.38	2.36	2.20	1.94	2.17	2.4	2.6	2.8	2.9	3.1	3.3
Treasury note, 30 yr.	3.03	3.15	3.08	3.15	3.11	2.96	2.59	2.89	3.1	3.3	3.4	3.6	3.8	3.9
Corporate Aaa bond	4.13	4.22	4.15	4.23	4.19	3.98	3.52	3.90	4.1	4.3	4.5	4.7	4.8	5.0
Corporate Baa bond	5.18	5.27	5.17	5.22	5.13	4.89	4.48	4.83	5.1	5.2	5.4	5.5	5.7	5.8
State & Local bonds	3.75	3.82	3.76	3.85	3.82	3.76	3.51	3.70	3.8	4.0	4.2	4.4	4.5	4.6
Home mortgage rate	4.04	4.09	4.04	4.08	3.98	3.84	3.67	3.83	4.1	4.3	4.5	4.7	4.9	5.1
	History								Consensus Forecasts-Quarterly					
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Key Assumptions	2013	2013	2014	2014	2014	2014	2015	2015	2015	2015	2016	2016	2016	2016
Major Currency Index	76.7	76.0	77.1	76.6	77.8	82.6	89.4	89.9	91.4	92.3	92.6	92.6	92.6	92.4
Real GDP	3.0	3.8	-0.9	4.6	4.3	2.1	0.6	2.3	3.1	3.0	2.6	2.7	2.7	2.7
GDP Price Index	2.0	1.8	1.5	2.2	1.6	0.1	0.1	2.0	1.8	1.7	1.9	2.0	2.0	2.1
Consumer Price Index	2.3	1.4	2.1	2.4	1.2	-0.9	-3.1	3.0	2.0	1.9	2.1	2.3	2.4	2.4

Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Interest rate definitions are same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for Fed's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS).

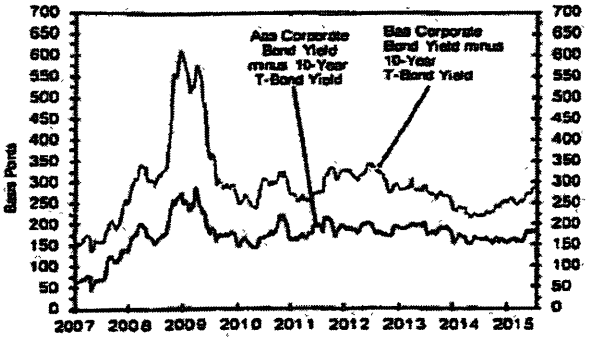
U.S. Treasury Yield Curve
Week ended July 24, 2015 and Year Ago vs 3Q 2015 and 4Q 2015 Consensus Forecasts



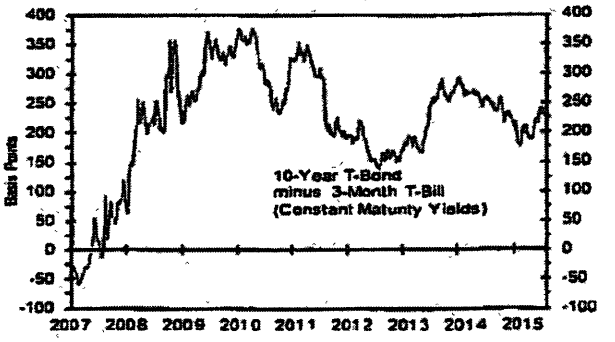
U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield
(Quarterly Average) Forecast



Corporate Bond Spreads
As of week ended July 24, 2015



U.S. Treasury Yield Curve
As of week ended July 24 2015



Office of Regulatory Staff
Daufuskie Island Utility Company, Inc.
CAP-M Calculation
Docket #2014-346-WS

Deciles of Company Size	Compound Annual Growth Rate (%)	Quarter in Blue Chip Forecast	30-Yr. Treasury Bond Rate
Largest:1	9.3		
2	10.7	2Q 2015	2.89
3	11.1	3Q 2015	3.10
4	11.1	4Q 2015	3.30
5	11.6	1Q 2016	3.40
6	11.6	2Q 2016	3.60
7	11.6	3Q 2016	3.80
8	11.8	4Q 2016	3.90
9	11.9		
Smallest: 10	13.4		
Average	11.4		

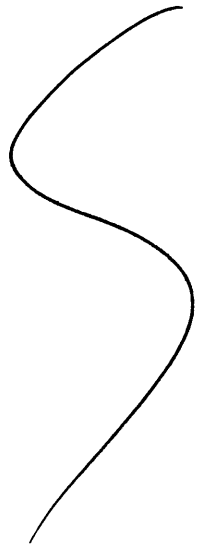
$K = R_f + ((R_m - R_f) * \beta)$
$K = 3.9 + ((11.4 - 3.9) * .72)$
$K = 3.9 + (7.5 * .72)$
$K = 9.30$ @ 3.9% T-BOND

Sources:

Long-Term stock returns from 2014 Ibbotson SBBI Classic Yearbook, p.100

30-Year Treasury Bond projected interest rate: Blue Chip Financial Forecasts, Exhibit DHC-8

β is from Exhibit DHC-1



COMPARABLE EARNINGS METHOD

	Company Name	Ticker	Beta	Book Value 10 Yr Growth Rate	Book Value Proj 3 To 5 Year Growth Rate	Industry	Beta 10-Year
98	Nike Inc	NKE	0.80	12.00	13.50	Shoe	0.84
99	Forrester Research Inc	FORR	0.70	2.50	9.50	Information Services	0.85
100	Axis Capital Holdings Ltd	AXS	0.75	21.50	7.50	Reinsurance	0.86
101	Netflix Inc	NFLX	0.80	22.50	25.50	Internet	0.87
102	Wright Medical Group Inc	WMGI	0.80	7.00	-2.50	Med Supp Invasive	0.89
103	CAE Inc	CAE.TO	0.75	3.00	8.00	Aerospace/Defense	0.89
104	Target Corp	TGT	0.70	10.50	5.50	Retail Store	0.90
105	Arthur J Gallagher and Company	AJG	0.80	9.00	11.50	Financial Svcs. (Div.)	0.90
106	Open Text Corp	OTEX	0.80	18.50	13.00	E-Commerce	0.90
		mean	0.74	9.08	9.53		0.84
		median	0.75	9.25	8.50		0.62
			0.74	9.16	9.01		0.63
		Average of Means and Medians				9.09	
	within range of water companies with traded stock	low β		6.25	6.14		
		medium β		8.67	9.59		
		high β		10.81	10.75		
				8.58	8.83		
		Average of β ranges				8.70	
		Running average				8.89	
				0.69	0.68		
				6.74	7.46		
				1.20	1.19		
		Weighted averages		8.64	9.34		
		Average of weighted averages		8.79	9.06	8.93	
		Overall CEM ROE				**8.81**	

HEARING EXHIBIT NO. 18

{Merits Hearing of October 28, 2015}

In the matter of 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

I hereby certify this document to be a true copy of the original.

Jocelyn Boyd

Chief Clerk

Date 10/20/17



Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Combined Operations

Description	(1) Application Per Books	(2) Accounting & Pro Forma Adjustments		(3) After Accounting & Pro Forma Adjustments	(4) Proposed Increase		(5) After Proposed Increase
	$	$		$	$		$
OPERATING REVENUE							
Residential revenue	307,239	4,913	1a	312,152	363,937	18a	676,089
Commercial Revenue	151,056	(4,780)	1b	146,276	135,500	18b	281,776
Irrigation Revenue	98,309	883	1c	99,192	101,988	18c	201,180
Availability Billing	489,665	(3,905)	2	485,760	482,793	19	968,553
Misc. Other Revenue	30,193	4	3	30,197	19,568	20	49,765
TOTAL OPERATING REVENUE	1,076,462	(2,885)		1,073,577	1,103,786		2,177,363
OPERATION AND MAINTENANCE EXPENSES							
Operation and Maintenance Expenses	848,818	(31,228)	4	817,590	108,349	21	925,939
TOTAL OPERATION AND MAINTENANCE EXPENSES	848,818	(31,228)		817,590	108,349		925,939
Depreciation and Amortization Expense	73,072	(2,002)	5	71,070	0		71,070
Amortization of Rate Case Expenses	92,420	(42,308)	6	50,112	0		50,112
Taxes Other than Income Tax Expense	23,440	139,849	7	163,289	9,455	22	172,744
Income Tax Expense	0	0	8	0	311,934	23	311,934
TOTAL OPERATING EXPENSES	1,037,750	64,311		1,102,061	429,738		1,531,799
NET OPERATING INCOME	38,712	(67,196)		(28,484)	674,048		645,564
Add: Customer Growth	0	63	9	63	2,200	24	2,263
NET INCOME (LOSS) FOR RETURN	38,712	(67,133)		(28,421)	676,248		647,827
ORIGINAL COST RATE BASE:							
Gross Plant in Service	7,964,379	(1,624,696)	10	6,339,683	0		6,339,683
Accumulated Depreciation	(790,024)	(141,198)	11	(931,222)	0		(931,222)
Construction Work In Progress (CWIP)	254,853	(254,853)	12	0	0		0
Contributions in Aid of Construction	(660,295)	0	13	(660,295)	0		(660,295)
Accumulated Amortization of CIAC	69,269	213	14	69,482	0		69,482
Net Plant	6,838,182	(2,020,534)		4,817,648	0		4,817,648
Working Capital	75,842	87,676	15	163,518	0		163,518
Unamortized Balances	0	0	16	0	0		0
TOTAL RATE BASE	6,914,024	(1,932,858)		4,981,166	0		4,981,166
RETURN ON RATE BASE	0.56%			-0.57%			13.01%
OPERATING MARGIN	-12.90%			-13.94%			24.19%
INTEREST EXPENSE	177,526	(56,314)	17	121,212	0		121,212

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Water Operations

Description	(1) Application Per Books $	(2) Accounting & Pro Forma Adjustments $		(3) After Accounting & Pro Forma Adjustments $	(4) Proposed Increase $		(5) After Proposed Increase $
OPERATING REVENUE							
Water Residential	139,071	491	1a	139,562	164,988	18a	304,550
Water Commercial	72,479	432	1b	72,911	57,006	18b	129,917
Water Irrigation	98,309	883	1c	99,192	101,988	18c	201,180
Availability Billing	213,004	(1,926)	2	211,078	208,347	19	419,425
Misc. Other Revenue	20,444	(715)	3	19,729	11,922	20	31,651
TOTAL OPERATING REVENUE	543,307	(835)		542,472	544,251		1,086,723
WATER OPERATION AND MAINTENANCE EXPENSES							
Operation and Maintenance Expense	469,605	(23,034)	4	446,571	53,192	21	499,763
TOTAL OPERATING AND MAINTENANCE EXPENSES	469,605	(23,034)		446,571	53,192		499,763
Depreciation and Amortization Expense	36,921	(6,383)	5	30,538	0		30,538
Amortization of Rate Case Expenses	46,210	(21,154)	6	25,056	0		25,056
Taxes Other than Income Tax Expense	11,748	69,946	7	81,694	4,662	22	86,356
Income Tax Expense	0	0	8	0	149,970	23	149,970
TOTAL OPERATING EXPENSES	564,484	19,375		583,859	207,824		791,683
NET OPERATING INCOME	(21,177)	(20,210)		(41,387)	336,427		295,040
Add: Customer Growth	0	0	9	0	546	24	546
NET INCOME (LOSS) FOR RETURN	(21,177)	(20,210)		(41,387)	336,973		295,586
ORIGINAL COST RATE BASE:							
Gross Plant in Service	3,899,032	(1,353,024)	10	2,546,008	0		2,546,008
Accumulated Depreciation	(382,950)	(80,727)	11	(463,677)	0		(463,677)
Construction Work In Progress (CWIP)	29,511	(29,511)	12	0	0		0
Contributions in Aid of Construction	(458,500)	0	13	(458,500)	0		(458,500)
Accumulated Amortization of CIAC	51,580	39	14	51,619	0		51,619
Net Plant	3,138,673	(1,463,223)		1,675,450	0		1,675,450
Working Capital	0	89,314	15	89,314	0		89,314
Unamortized Balances	0	0	16	0	0		0
TOTAL RATE BASE	3,138,673	(1,373,909)		1,764,764	0		1,764,764
RETURN ON RATE BASE	-0.67%			-2.35%			16.75%
OPERATING MARGIN	-20.24%			-15.55%			23.25%
INTEREST EXPENSE	88,763	(45,819)	17	42,944	0		42,944

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Sewer Operations

Description	(1) Application Per Books	(2) Accounting & Pro Forma Adjustments		(3) After Accounting & Pro Forma Adjustments	(4) Proposed Increase		(5) After Proposed Increase
	$	$		$	$		$
OPERATING REVENUE							
Sewer Residential	168,168	4,422	1a	172,590	198,949	18a	371,539
Sewer Commercial	78,577	(5,212)	1b	73,365	78,494	18b	151,859
Sewer Irrigation	0	0	1c	0	0	18c	0
Availability Billing	276,661	(1,979)	2	274,682	274,446	19	549,128
Misc. Other Revenue	9,749	719	3	10,468	7,646	20	18,114
TOTAL OPERATING REVENUE	533,155	(2,050)		531,105	559,535		1,090,640
SEWER OPERATION AND MAINTENANCE EXPENSES							
Operation and Maintenance Expense	379,213	(8,194)	4	371,019	55,157	21	426,176
TOTAL OPERATING AND MAINTENANCE EXPENSES	379,213	(8,194)		371,019	55,157		426,176
Depreciation and Amortization Expense	36,151	4,381	5	40,532	0		40,532
Amortization of Rate Case Expenses	46,210	(21,154)	6	25,056	0		25,056
Taxes Other than Income Tax Expense	11,692	69,903	7	81,595	4,793	22	86,388
Income Tax Expense	0	0	8	0	161,964	23	161,964
TOTAL OPERATING EXPENSES	473,266	44,936		518,202	221,914		740,116
NET OPERATING INCOME	59,889	(46,986)		12,903	337,621		350,524
Add: Customer Growth	0	63	9	63	1,654	24	1,717
NET INCOME (LOSS) FOR RETURN	59,889	(46,923)		12,966	339,275		352,241
ORIGINAL COST RATE BASE:							
Gross Plant in Service	4,065,347	(271,672)	10	3,793,675	0		3,793,675
Accumulated Depreciation	(407,074)	(60,471)	11	(467,545)	0		(467,545)
Construction Work In Progress (CWIP)	225,342	(225,342)	12	0	0		0
Contributions in Aid of Construction	(201,795)	0	13	(201,795)	0		(201,795)
Accumulated Amortization of CIAC	17,689	174	14	17,863	0		17,863
Net Plant	3,699,509	(557,311)		3,142,198	0		3,142,198
Working Capital	75,842	(1,638)	15	74,204	0		74,204
Unamortized Balances	0	0	16	0	0		0
TOTAL RATE BASE	3,775,351	(558,949)		3,216,402	0		3,216,402
RETURN ON RATE BASE	1.59%			0.40%			10.95%
OPERATING MARGIN	-5.42%			-12.30%			25.12%
INTEREST EXPENSE	88,763	(10,495)	17	78,268	0		78,268

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Description	DIUC Adj.	ORS Adj.		$ Combined Operations	$ Water Operations	$ Sewer Operations
Accounting and Pro forma Adjustments						
(1) Service Revenues						
Residential	(1a)	1a	To adjust residential revenue to reflect the pro forma number of customers at present rates.			
			Per ORS	4,913	491	4,422
			Per DIUC	20,165	7,519	12,646
Commercial	(1c)	1b	To adjust commercial revenue to reflect the pro forma number of customers at present rates.			
			Per ORS	(4,780)	432	(5,212)
			Per DIUC	(2,549)	452	(3,001)
Irrigation	(1e)	1c	To adjust irrigation revenue to reflect the pro forma demand at present rates.			
			Per ORS	883	883	0
			Per DIUC	6,559	6,559	0
(1) Total Service Revenues				1,016	1,806	(790)
(2) Availability Billing Revenue						
Availability Billing	(1g)	2	To adjust availability revenue to reflect the pro forma number of customers at present rates.			
			Per ORS	(3,905)	(1,926)	(1,979)
			Per DIUC	(15,338)	(10,848)	(4,490)
(2) Total Availability Billing Revenue				(3,905)	(1,926)	(1,979)
(3) Miscellaneous Other Revenue						
Miscellaneous Other Revenue	(1g, 1i)	3	To adjust miscellaneous revenues to reflect the pro forma number of customers at present rates.			
			Per ORS	4	(715)	719
			Per DIUC	121	88	33
(3) Total Miscellaneous Other Revenue				4	(715)	719

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Description	DIUC Adj.	ORS Adj.		$ Combined Operations	$ Water Operations	$ Sewer Operations
(4) Operation & Maintenance Expenses						
Wages	(2)	4a	To annualize salary expense.			
			Per ORS	19,988	9,994	9,994
			Per DIUC	8,149	4,075	4,074
Benefits	(3)	4b	To annualize employee benefits.			
			Per ORS	(2,780)	(1,390)	(1,390)
			Per DIUC	1,706	853	853
Officer & Director Fees	(4)	4c	To adjust Directors' Fees to reflect annual Officer's fees of $12,000 and Directors' fees of $4,500. These fees were included in the per book amounts.			
			Per ORS	0	0	0
			Per DIUC	0	0	0
Power	(5)	4d	To adjust for the most recent 12 months of power expenses.			
			Per ORS	14,744	7,372	7,372
			Per DIUC	51,281	25,514	25,767
Chemicals	(6)	4e	ORS does not propose to adjust for increased demand.			
			Per ORS	0	0	0
			Per DIUC	490	230	260
Supplies & Maintenance	(7)	4f	To adjust supplies and maintenance for undocumented expense. ORS does not propose to adjust for an increase in customers in this adjustment.			
			Per ORS	(21)	(21)	0
			Per DIUC	1,406	695	711
Outside Services - Mgmt.	(8)	4g	To adjust outside management services by removing customer growth, a 3.5% yearly increase and reducing management fees.			
			Per ORS	(25,439)	(12,720)	(12,719)
			Per DIUC	13,714	6,857	6,857

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

	Description	DIUC Adj.	ORS Adj.		$ Combined Operations	$ Water Operations	$ Sewer Operations
	Outside Services - Engineering	(9)	4h	ORS does not propose to adjust Outside Services-Engineering to reflect a 4-year average cost.			
				Per ORS	0	0	0
				Per DIUC	(2,124)	2,145	(4,269)
	Transportation	(10)	4i	ORS does not propose to adjust transportation cost for an increase in employees.			
				Per ORS	0	0	0
				Per DIUC	306	153	153
	Bad Debt	(11)	4j	To adjust bad debt expense to reflect test period revenue write-off percentages applied to ORS pro forma revenue under present rates.			
				Per ORS	(284)	(36)	(248)
				Per DIUC	(90,905)	(46,158)	(44,747)
	Insurance	(12)	4k	ORS proposes to adjust insurance to reflect the most recent actual bills.			
				Per ORS	8,706	1,258	7,448
				Per DIUC	18,117	5,964	12,153
	Regulatory Expense (DHEC)	(13)	4l	To reflect the most recent DHEC drinking water bills and land permits.			
				Per ORS	(109)	2,645	(2,754)
				Per DIUC	(109)	2,645	(2,754)
	Nonallowable Expense		4m	To remove nonallowable expenses for ratemaking purposes. Additionally, test year Rate Case expenses were removed and amortized in adjustment 6a.			
				Per ORS	(46,033)	(30,136)	(15,897)
				Per DIUC	0	0	0
(4)	Total Operation & Maintenance Expenses				(31,228)	(23,034)	(8,194)

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

	Description	DIUC Adj.	ORS Adj.		$ Combined Operations	$ Water Operations	$ Sewer Operations
(5)	**Depreciation Expense and Amortization of Contributions In Aid of Construction ("CIAC")**						
	Depreciation Expense	(14)	5a	To adjust annual depreciation for pro forma plant in service. See Audit Exhibit ICG-5.			
				Per ORS	(2,096)	(6,356)	4,260
				Per DIUC	28,367	9,525	18,842
	Amortization of CIAC	(14)	5b	To adjust for amortization of CIAC. See Audit Exhibit ICG-5.			
				Per ORS	94	(27)	121
				Per DIUC	(6,173)	(4,508)	(1,665)
(5)	**Total Depreciation Expense and Amortization of CIAC**				(2,002)	(6,383)	4,381
(6)	**Amortization Expense**						
	Rate Case Amortization Expense	(15)	6a	To adjust for the 5-year amortization of rate case expenses and include unamortized rate case expenses from the previous rate case. Current expenses are capped @75,000.			
				Per ORS	(72,920)	(36,460)	(36,460)
				Per DIUC	47,800	23,900	23,900
	Property Tax Amortization Expense	(15)	6b	To adjust for Property Tax Amortization over 8 years.			
				Per ORS	30,612	15,306	15,306
				Per DIUC	65,856	32,928	32,928
(6)	**Total Amortization Expense**				(42,308)	(21,154)	(21,154)
(7)	**Taxes Other Than Income Tax Expense**						
	Revenue Taxes	(16)	7a	To reflect gross receipts on ORS's pro forma revenue under present rates.			
				Per ORS	3,148	1,595	1,553
				Per DIUC	807	403	404
	Property Taxes	(17)	7b	To adjust property taxes to reflect actual tax bills for property owned by DIUC.			
				Per ORS	136,671	68,336	68,335
				Per DIUC	188,093	89,863	98,230

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

	Description	DIUC Adj.	ORS Adj.		$ Combined Operations	$ Water Operations	$ Sewer Operations
	Payroll Taxes	(18)	7c	To adjust payroll taxes to reflect pro forma wages.			
				Per ORS	30	15	15
				Per DIUC	548	274	274
(7)	Total Taxes Other Than Income Tax Expense				139,849	69,946	69,903
(8)	Income Tax Expense						
	Income Taxes - State and Federal	(19)	8	To adjust for State and Federal Income Taxes			
				Per ORS	0	0	0
				Per DIUC	0	0	0
(8)	Total Income tax Expense				0	0	0
(9)	Customer Growth		9	To adjust for customer growth after the accounting and pro forma adjustments. The growth factors of 0.18519% for water and 0.48985% for sewer were computed by the Water and Wastewater Department.			
				Per ORS	63	0	63
				Per DIUC	63	0	63
(9)	Total Customer Growth				63	0	63
	Rate Base (RB)						
(10)	Plant in Service						
	Plant in Service	RB1	10	To remove undocumented expenses from gross plant in service.			
				Per ORS	(1,624,696)	(1,353,024)	(271,672)
				Per DIUC	174,882	50,925	123,957
(10)	Total Plant in Service				(1,624,696)	(1,353,024)	(271,672)
(11)	Accumulated Depreciation						
	Accumulated Depreciation	RB2	11	To adjust accumulated depreciation based on rates and utilization factors recommended by ORS W/WW Department.			
				Per ORS	(141,198)	(80,727)	(60,471)
				Per DIUC	9,784	(46,446)	56,230
(11)	Total Accumulated Depreciation				(141,198)	(80,727)	(60,471)

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

	Description	DIUC Adj.	ORS Adj.		$ Combined Operations	$ Water Operations	$ Sewer Operations
(12)	Construction Work in Progress (CWIP)						
	Construction Work in Progress(CWIP)	RB3	12	To adjust CWIP to move completed projects to plant and remove non-allowable legal fees.			
				Per ORS	(254,853)	(29,511)	(225,342)
				Per DIUC	(254,853)	(29,511)	(225,342)
(12)	Total CWIP				(254,853)	(29,511)	(225,342)
(13)	CIAC						
	Contributions in Aid of Construction (CIAC)	RB4	13	ORS does not propose to adjust CIAC for customer growth.			
				Per ORS	0	0	0
				Per DIUC	(31,000)	(19,250)	(11,750)
(13)	Total CIAC				0	0	0
(14)	Accumulated Amortization of CIAC						
	Accumulated Amortization of CIAC	RB5	14	To include amortization expense in Accumulated CIAC.			
				Per ORS	213	39	174
				Per DIUC	5,408	4,508	900
(14)	Total Accumulated Amortization of CIAC				213	39	174
(15)	Cash Working Capital						
	Cash Working Capital (1/5 O&M)	RB6	15	To adjust cash working capital after ORS accounting and pro forma adjustments. See Audit Exhibit ICG-7.			
				Per ORS	87,676	89,314	(1,638)
				Per DIUC	115,622	95,955	19,667
(15)	Total Cash Working Capital				87,676	89,314	(1,638)

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

Description	DIUC Adj.	ORS Adj.		$ Combined Operations	$ Water Operations	$ Sewer Operations
(16) Unamortized Balances						
Unamortized Balances	RB7	16	ORS does not propose to include the unamortized balance of rate case expense in rate base.			
			Per ORS	0	0	0
			Per DIUC	167,300	83,650	83,650
(16) Total Unamortized Balances				0	0	0
(17) Interest Expense						
Interest Expense		17	To adjust the interest expense on long-term debt for accounting and pro forma adjustments.			
			Per ORS	(56,314)	(45,819)	(10,495)
			Per DIUC	180,680	83,602	97,078
(17) Total Interest Expense				(56,314)	(45,819)	(10,495)
Proposed Increase						
(18) Service Revenues						
Residential	(1b)	18a	To adjust residential revenue to reflect the pro forma number of customers at proposed rates.			
			Per ORS	363,937	164,988	198,949
			Per DIUC	383,382	173,488	209,894
Commercial	(1d)	18b	To adjust commercial revenue to reflect the pro forma number of customers at proposed rates.			
			Per ORS	135,500	57,006	78,494
			Per DIUC	139,081	58,633	80,448
Irrigation	(1f)	18c	To adjust irrigation revenue to reflect the pro forma number of customers at proposed rates.			
			Per ORS	101,988	101,988	0
			Per DIUC	108,369	108,369	0
(18) Total Service Revenues				601,425	323,982	277,443

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

	Description	DIUC Adj.	ORS Adj.		$ Combined Operations	$ Water Operations	$ Sewer Operations
(19)	**Availability Billing Revenue**						
	Availability Billing	(1f, 1h)	19	To adjust availability revenue to reflect the pro forma number of customers at proposed rates.			
				Per ORS	482,793	208,347	274,446
				Per DIUC	518,553	227,804	290,749
(19)	**Total Availability Billing Revenue**				482,793	208,347	274,446
(20)	**Miscellaneous Other Revenue**						
	Miscellaneous Other Revenue	(1h, 1j)	20	To adjust miscellaneous revenues to reflect pro forma number of customers at proposed rates.			
				Per ORS	19,568	11,922	7,646
				Per DIUC	32,914	22,159	10,755
(20)	**Total Miscellaneous Other Revenue**				19,568	11,922	7,646
(21)	**Operating Expenses**						
	Bad Debt	(20)	21	To adjust bad debt expense for pro forma revenues.			
				Per ORS	108,349	53,192	55,157
				Per DIUC	16,090	7,203	8,887
(21)	**Total Operating Expenses**				108,349	53,192	55,157
(22)	**Taxes Other than Income Taxes**						
	Revenue Taxes	(21)	22	To adjust gross receipts to reflect pro forma revenue under proposed rates.			
				Per ORS	9,455	4,662	4,793
				Per DIUC	7,466	3,729	3,737
(22)	**Total Taxes Other than Income Taxes**				9,455	4,662	4,793

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

	Description	DIUC Adj.	ORS Adj.		$ Combined Operations	$ Water Operations	$ Sewer Operations
(23)	Income Taxes						
	State and Federal Income Taxes	(22)	23	To adjust State and Federal income taxes for the proposed increase.			
				Per ORS	311,934	149,970	161,964
				Per DIUC	260,495	120,533	139,962
(23)	Total Taxes Other than Income Taxes				311,934	149,970	161,964
(24)	Customer Growth		24	To adjust for customer growth after the accounting and pro forma adjustments. The growth factors of 0.18519% for water and 0.48985% for sewer were computed by the Water and Wastewater Department.	2,200	546	1,654
					2,200	546	1,654
(24)	Total Customer Growth				2,200	546	1,654

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2014

Depreciation Expense Adjustment

Description	Plant Balance 12/31/14	ORS Adjustment	Water Total	Service life	Dep. Rate	Utilization Factor	2014 Depr. Expense	Less: Per Books	ORS Adjustment
Organizational Costs	$ 73,597	$ (73,597)	$ -						
Land & Land Rights	$ 56,702	$ (56,702)	$ -						
General Plant			$ 17,547	6	16.67%	100.00%	$ 2,925		
General Plant			$ 597	15	6.67%	100.00%	$ 40		
General Plant			$ 5,143	16	6.25%	100.00%	$ 321		
General Plant			$ 22,175	40	2.50%	100.00%	$ 554		
Total General Plant	$ 59,599	$ (14,137)	$ 45,462						
Other Intangible Plant	$ 404	$ -	$ 404	10	10.00%	100.00%	$ 40		
Meters	$ 8,786	$ 1,718	$ 10,504	20	5.00%	45.28%	$ 238		
Pumping	$ 61,307	$ (24,605)	$ 36,702	20	5.00%	45.28%	$ 831		
Reservoirs & Standpipes	$ 907,325	$ (872,625)	$ 34,700	37	2.70%	45.28%	$ 424		
Storage	$ 81,907	$ (75,907)	$ 6,000	37	2.70%	45.28%	$ 73		
Treatment			$ 4,816	30	3.33%	45.28%	$ 73		
Treatment			$ 234,776	32	3.13%	45.28%	$ 3,327		
Total Treatment	$ 321,643	$ (82,051)	$ 239,592						
Water & Sewer Mains	$ 1,509,687	$ (91,176)	$ 1,418,511	45	2.22%	45.28%	$ 14,259		
Wells	$ 794,864	$ (61,956)	$ 732,908	30	3.33%	45.28%	$ 11,051		
Well Site	$ 23,211	$ (1,986)	$ 21,225	18	5.56%	45.28%	$ 534		
Total	$ 3,899,032	$ (1,353,024)	$ 2,546,008				$ 34,690	41,046	(6,356)

Description	Plant Balance 12/31/14	ORS Adjustment	Wastewater Total	Service life	Dep. Rate	Utilization Factor	2014 Depr. Expense	Less: Per Books	ORS Adjustment
Organizational Costs	$ 73,597	$ (73,597)	$ -						
Land & Land Rights	$ 63,710	$ (63,710)	$ -						
General Plant			$ 17,547	6	16.67%	100.00%	$ 2,925		
General Plant			$ 597	15	6.67%	100.00%	$ 40		
General Plant			$ 4,780	16	6.25%	100.00%	$ 299		
General Plant			$ 4,592	18	5.56%	100.00%	$ 255		
General Plant			$ 22,175	40	2.50%	100.00%	$ 554		
Total General Plant	$ 54,868	$ (5,177)	$ 49,691						
Other Intangible Plant	$ 204	$ -	$ 204	10	10.00%	100.00%	$ 20		
Power Generation Equipment	$ 4,632	$ 4,514	$ 9,146	20	5.00%	33.88%	$ 155		
Pumping			$ 85,323	18	5.56%	33.88%	$ 1,607		
Pumping			$ 53,027	25	4.00%	33.88%	$ 719		
Total Pumping	$ 158,189	$ (19,839)	$ 138,350						
T&D Equipment			$ 29,163	15	6.67%	33.88%	$ 659		
T&D Equipment			$ 4,114	18	5.56%	33.88%	$ 77		
T&D Equipment			$ 380,128	32	3.13%	33.88%	$ 4,031		
Total T&D Equipment	$ 417,412	$ (4,007)	$ 413,405						
Treatment			$ 3,600	15	6.67%	33.88%	$ 81		
Treatment			$ 91,380	18	5.56%	33.88%	$ 1,721		
Treatment			$ 121,491	32	3.13%	33.88%	$ 1,288		
Total Treatment	$ 289,565	$ (73,094)	$ 216,471						
Water & Sewer Mains	$ 2,118,279	$ (36,762)	$ 2,081,517	45	2.22%	33.88%	$ 15,656		
Outfall Main	$ 66,704	$ -	$ 66,704	30	3.33%	33.88%	$ 753		
WW Treatment Plant	$ 818,187	$ -	$ 818,187	32	3.13%	33.88%	$ 8,676		
Total	$ 4,065,347	$ (271,672)	$ 3,793,675				$ 39,516	35,256	4,260
Total Water/Wastewater	$ 7,964,979	$ (1,624,696)	$ 6,339,683				$ 74,206	$ 76,302	$ (2,096)

Amortization of CIAC

Description	Per Books	Adjustment	Water	Service life	Dep. Rate	Utilization Factor	2014 Amort. Expense	Less: Per Books	ORS Adjustment
Water - CIAC @12/31/2014	$ (458,500)	$ -	$ (458,500)	50	2.00%	45.28%	(4,152)	(4,125)	(27)
Wastewater - CIAC @ 12/31/2014	$ (201,795)	$ -	$ (201,795)	50	2.00%	33.88%	(1,367)	(1,488)	121
Total Water/Wastewater CIAC	$ (660,295)	$ -	$ (660,295)				$ (5,519)	$ (5,613)	$ 94

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2014

After Accounting & Pro Forma Adjustments

Description	$ Combined Operations	$ Water Operations	$ Sewer Operations
Operating Revenues	1,073,577	542,472	531,105
Operating Expenses	1,102,061	583,859	518,202
Net Operating Income Before Taxes	(28,484)	(41,387)	12,903
Less: Annualized Interest Expense	121,212	42,944	78,268
Taxable Income - State	(149,696)	(84,331)	(65,365)
State Taxable Income	5%	5%	5%
State Income Taxes (Note)	(7,485)	(4,217)	(3,268)
Less: State Income Taxes Per Book	0	0	0
Adjustment to State Income Taxes	0	0	0
Taxable Income - Federal (Note)	(142,211)	(80,114)	(62,097)
Federal Income Tax @ 34%	(48,352)	(27,239)	(21,113)
Less: Federal Income Taxes Per Book	0	0	0
Adjustment to Federal Income Taxes	0	0	0
Total Adjustment to Income Taxes (Note)	0	0	0

After Applicant's Proposed Increase

Description	$ Combined Operations	$ Water Operations	$ Sewer Operations
Operating Revenues	2,177,363	1,086,723	1,090,640
Operating Expenses	1,219,865	641,713	578,152
Net Operating Income Before Taxes	957,498	445,010	512,488
Less: Annualized Interest Expense	121,212	42,944	78,268
Taxable Income - State	836,286	402,066	434,220
State Taxable Income	5%	5%	5%
State Income Taxes	41,814	20,103	21,711
Less: State Income Taxes Per Book	0	0	0
Adjustment to State Income Taxes	41,814	20,103	21,711
Taxable Income - Federal	794,472	381,963	412,509
Federal Income Tax @ 34%	270,120	129,867	140,253
Less: Federal Income Taxes Per Book	0	0	0
Adjustment to Federal Income Taxes	270,120	129,867	140,253
Total Adjustment to Income Taxes	311,934	149,970	161,964

Note: Taxable income is based on the calculation of net operating income before taxes less annualized interest expense. Since this amount is negative after accounting and pro forma adjustments, there are no income taxes as shown on Audit Exhibits ICG-1, 2 and 3, Column 3.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Cash Working Capital Allowance
For the Test Year Ended December 31, 2014

After Accounting & Pro Forma Adjustments

Description	$ Combined Operations	$ Water Operations	$ Sewer Operations
Total Expenses for Computation	817,590	446,571	371,019
Allowable Rate (1/5 O&M)	20.00%	20.00%	20.00%
Computed Cash Working Capital	163,518	89,314	74,204
Cash Working Capital - Application Per Books	75,842	0	75,842
Cash Working Capital Adjustment - ORS Accounting & Pro Forma Adjustment	**87,676**	**89,314**	**(1,638)**

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Return on Equity
For the Test Year Ended December 31, 2014

Combined Operations

Description	Capital Structure	Ratio	Application Per Books (Note 1) Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Accounting and Pro forma Adjustments Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Applicant's Proposed Increase Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	$ 2,750,000	46.0%	$ 3,180,451	5.29%	2.43%	$ 168,246	$ 2,291,336	5.29%	2.43%	$ 121,212	$ 2,291,336	5.29%	2.43%	$ 121,212
Common Equity	5,358,573	54.0%	3,733,573	-3.47%	-1.87%	(129,534)	2,689,830	-5.56%	-3.00%	(149,633)	2,689,830	19.58%	10.58%	526,615
Totals	$ 8,108,573	100.00%	$ 6,914,024		0.56%	$ 38,712	$ 4,981,166		-0.57%	$ (28,421)	$ 4,981,166		13.01%	$ 647,827

Water Operations

Description	Capital Structure	Ratio	Application Per Books (Note 1) Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Accounting and Pro forma Adjustments Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Applicant's Proposed Increase Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	$ 2,750,000	46.0%	$ 1,443,790	5.29%	2.43%	$ 76,376	$ 811,791	5.29%	2.43%	$ 42,944	$ 811,791	5.29%	2.43%	$ 42,944
Common Equity	5,358,573	54.0%	1,694,883	-5.76%	-3.10%	(97,553)	952,973	-8.85%	-4.78%	(84,331)	952,973	26.51%	14.32%	252,642
Totals	$ 8,108,573	100.00%	$ 3,138,673		-0.67%	$ (21,177)	$ 1,764,764		-2.35%	$ (41,387)	$ 1,764,764		16.75%	$ 295,586

Sewer Operations

Description	Capital Structure	Ratio	Application Per Books (Note 1) Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Accounting and Pro forma Adjustments Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	After Applicant's Proposed Increase Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	$ 2,750,000	46.0%	$ 1,736,661	5.29%	2.43%	$ 91,869	$ 1,479,545	5.29%	2.43%	$ 78,268	$ 1,479,545	5.29%	2.43%	$ 78,268
Common Equity	5,358,573	54.0%	2,038,690	-1.57%	-0.84%	(31,980)	1,736,857	-3.76%	-2.03%	(65,302)	1,736,857	15.77%	8.52%	273,973
Totals	$ 8,108,573	100.00%	$ 3,775,351		1.59%	$ 59,889	$ 3,216,402		0.40%	$ 12,966	$ 3,216,402		10.95%	$ 352,241

Note 1: The Interest Expense calculations reflect ORS's capital structure ratios and cost of debt applied to the Company's per book numbers.

HEARING EXHIBIT NO. 19

{Merits Hearing of October 28, 2015}

In the matter of 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

I hereby certify this document to be a true copy of the original

Jocelyn Boyd
Chief Clerk

Date 10/20/17



Exhibit WJM-1

ORS BUSINESS OFFICE COMPLIANCE REVIEW

Utility: Daufuskie Island Utility Company, Inc.
Inspector: Willie Morgan, P.E.
Office: Corporate: 6 Beacon St, Suite 200, Boston, MA
Local Office: 803 Haig Point Rd., Daufuskie Island, SC
Utility Type: Water and Wastewater Utility
Date: June 2015-August 2015
Company Representative: Eric Johanson, John Guastella

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510 and R. 103-710.	X		Customers can contact DIUC representatives via telephone or visit local office
2	Complaint records maintained in accordance with R.103-516 and R. 103-716.	X		All customer complaints are inserted into DIUC database which tracks service orders, complaint types and related resolutions.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530 and R.103-730.	X		
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the Commission and that the customer has the right to register the complaint in accordance with R.103-530 and R. 103-730.	X		
5	Deposits charged within the limits established by R.103-531 and R. 103-731.	X		No customer deposits charged
6	Timely and accurate bills being rendered to customers in accordance with R.103-532 and R.103-732.	X		DIUC bills in arrears on a quarterly basis.
7	Bill forms in accordance with R.103-532 and R.103-732.	X		Bill form is clear with adequate after-hours emergency contact information.

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
8	Adjustments of bills handled in accordance with R.103-533 and 103-733.	X		Invoice adjustments are compliant with R.103-533 and 103-733.
9	Policy for customer denial or discontinuance of service in accordance with R.103-535 and 103-735.	X		
10	Notices sent to customers prior to termination in accordance with R.103-535 and 103-735.	X		
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C and 103-714-C.	X		
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530 and 103-730.	X		
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514 and 103-714.	X		No unscheduled interruption of service has occurred on systems since the previous rate case review.
14	Utility advised the Commission, in accordance with Rule 103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, and emergencies during non-office hours.	X		
15	Company verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the company has at present time.	NA	NA	DIUC provides service to 680 active water and 493 active sewer customers.
17	Company has a current performance bond on file with the Commission. Combined Amount of bond: **$700,000**	X		DIUC currently has an insurance certificate on file with the PSC/ORS. The bond amount is $350,000 for water service and $350,000 for sewer service.

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
18	Company has a current annual report on file with the Office of Regulatory Staff.	X		
19	Company has paid annual Gross Receipts assessment.	X		

ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	8/12/15
Inspector Name:	Willie Morgan, Dawn Hipp
Docket Number:	2014-346-WS
Utility Name:	Daufuskie Island Utility Company, Inc.
Utility Representative:	Eric Johanson, Michael Guastella
Number of Customers:	~467 service units
System Type (collection, force main, lagoon, etc):	Collection and Biological Treatment System with spray field
Location of System:	Haig Point/Melrose Community, Daufuskie Island
Location of Utility Office:	Daufuskie Island
Treatment Type:	Biological Treatment with spray field discharge to Haig Point Golf Club
Permit #:	ND0062286 (Haig Point/Melrose WWTF)
Last SC DHEC Compliance Rating:	Satisfactory – 3/24/15
Frequency checked by WWTF Operator:	Daily
Drinking Water Provider:	Daufuskie Island Utility Company, Inc.

Inspection Results

	System Components Inspected	Compliance		Comments
		Yes	No	
1	Chlorinator	X		Gas (Melrose/Haig Point)
2	Other chemicals in use	NA	NA	None
3	Aerators present	X		11 aerators operating at time of inspection
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		Duckweed present
11	Grease build-up acceptable	X		
12	Plant free of debris	X		
13	Effluent Color acceptable	X		
14	Lift Stations present	X		63 on Haig Point/Melrose system
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		

Additional Comments: The toe for the newly installed lagoon liner has become untied in one corner and is beginning to slip along the dike. Onsite generator not operational and WWTF does not have an alternate standby power. Sign on fence in rear of WWTF needs to display the DIUC contact phone number.

ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	8/12/15
Inspector Name:	Willie Morgan, Dawn Hipp
Docket Number:	2014-346-WS
Utility Name:	Daufuskie Island Utility Company, Inc.
Utility Representative:	Eric Johanson, Michael Guastella
Number of Customers:	~26 service units
System Type (collection, force main, lagoon, etc):	Collection and Biological Treatment System with spray field
Location of System:	Bloody Point, Daufuskie Island
Location of Utility Office:	Daufuskie Island
Treatment Type:	Biological Treatment with spray field discharge to Bloody Point Golf Club
Permit #:	ND0068179 (Melrose WWTF)
Last SC DHEC Compliance Rating:	Satisfactory - 3/24/15
Frequency checked by WWTF Operator:	Daily
Drinking Water Provider:	Daufuskie Island Utility Company, Inc.

Inspection Results

	System Components Inspected	Compliance		Comments
		Yes	No	
1	Chlorinator	X		Gas
2	Other chemicals in use	NA	NA	None
3	Aerators present	X		5 aerators operating at time of inspection.
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		Duckweed present
11	Grease build-up acceptable	X		
12	Plant free of debris	X		
13	Effluent Color acceptable	X		
14	Lift Stations present	X		3 on Bloody Point system
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		

Additional Comments:

ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	8/12/15
Inspector Name:	Willie Morgan, Dawn Hipp
Docket Number:	2014-346-WS
Utility Name:	Daufuskie Island Utility Company, Inc.
Utility Representative:	Eric Johanson, Michael Guastella
Number of Customers:	~184 service units
System Type (distribution, well, etc):	Wells & distribution
Location of System:	Melrose Community, Daufuskie Island
Location of Utility Office:	Daufuskie Island
Treatment Type:	Chlorination
Permit #:	0750043 (Melrose)
Last SC DHEC Compliance Rating:	Satisfactory - 12/29/14
Frequency checked by Licensed Operator:	Daily
Wastewater Provider:	Daufuskie Island Utility Company, Inc.

Inspection Overview

	System Components Inspected	Specific Type	#	Capacity (gallons)	Compliance		Comments
					Yes	No	
1	Well Sites		2		X		
2	Pump Houses		2		X		
3	Storage Tank	Pressurized	2	→→→	X		1 – 5k gal, 1 – 10k gal
3a	Storage Tank	Non-Pressurized	0				
3b	Storage Tank	Overhead	0				
4	Chlorinator				X		Chlorine Gas
5	Other Chemicals in use				NA	NA	None
6	Meters		184		X		
7	Fire Hydrants		~100		X		
8	Electrical Wiring acceptable				X		
9	Piping acceptable				X		
10	System free of leaks				X		
11	Access road adequate				X		
12	Ability for service area to expand				X		

Additional Comments:

ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	8/12/15
Inspector Name:	Willie Morgan, Dawn Hipp
Docket Number:	2014-346-WS
Utility Name:	Daufuskie Island Utility Company, Inc.
Utility Representative:	Eric Johanson, Michael Guastella
Number of Customers:	~455 service units
System Type (distribution, well, etc):	Wells & distribution
Location of System:	Haig Point/Melrose Community, Daufuskie Island
Location of Utility Office:	Daufuskie Island
Treatment Type:	Chlorination
Permit #:	0750036 (Haig Point)
Last SC DHEC Compliance Rating:	Satisfactory - 3/18/15
Frequency checked by Licensed Operator:	Daily
Wastewater Provider:	Daufuskie Island Utility Company, Inc.

Inspection Overview

	System Components Inspected	Specific Type	#	Capacity (gallons)	Compliance		Comments
					Yes	No	
1	Well Sites		3		X		
2	Pump Houses		3		X		
3	Storage Tank	Pressurized	2	→→→	X		2 – 5k gal
3a	Storage Tank	Non-Pressurized	0				
3b	Storage Tank	Overhead	1	125,000	X		
4	Chlorinator				X		Chlorine Gas
5	Other Chemicals in use				NA	NA	None
6	Meters		455		X		
7	Fire Hydrants		~100		X		
8	Electrical Wiring acceptable				X		
9	Piping acceptable				X		
10	System free of leaks				X		
11	Access road adequate				X		
12	Ability for service area to expand				X		

Additional Comments: Elevated storage tank and land associated with site is not currently owned by DIUC. Well #2 was off-line at time of inspection due to replacement of chlorinating equipment.

ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	8/12/15
Inspector Name:	Willie Morgan, Dawn Hipp
Docket Number:	2014-346-WS
Utility Name:	Daufuskie Island Utility Company, Inc.
Utility Representative:	Eric Johanson, Michael Guastella
Number of Customers:	~41 service units
System Type (distribution, well, etc):	Wells & distribution
Location of System:	Melrose (Bloody Point) Community, Daufuskie Island
Location of Utility Office:	Daufuskie Island
Treatment Type:	Chlorination
Permit #:	0750043 (Melrose)
Last SC DHEC Compliance Rating:	Satisfactory - 12/29/14
Frequency checked by Licensed Operator:	Daily
Wastewater Provider:	Daufuskie Island Utility Company, Inc.

Inspection Overview

	System Components Inspected	Specific Type	#	Capacity (gallons)	Compliance		Comments
					Yes	No	
1	Well Sites		2		X		
2	Pump Houses		2		X		
3	Storage Tank	Pressurized	2	→→→	X		2 – 10k gal
3a	Storage Tank	Non-Pressurized	0				
3b	Storage Tank	Overhead	0				
4	Chlorinator				X		Chlorine Gas
5	Other Chemicals in use				NA	NA	None
6	Meters		41		X		
7	Fire Hydrants		~12		X		
8	Electrical Wiring acceptable				X		
9	Piping acceptable				X		
10	System free of leaks				X		
11	Access road adequate				X		
12	Ability for service area to expand				X		

Additional Comments:

Calculated DIUC Test Year Revenue Overview

	Customer Type	Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues[1]
WATER	Haig Point	3/4" Residential			1,061	$62.09	$65,877
	RESIDENTIAL	0 to 22,500 gallons	8,360,179	$2.76			$23,074
	WATER	Over 22,500 gallons	3,192,728	$2.76			$8,812
	Haig Point				727		
	RESIDENTIAL &	0 to 18,000 gallons	8,367,838	$2.76			$23,095
	COMMERCIAL	18,001 to 60,000 gallons	9,829,270	$3.09			$30,372
	IRRIGATION	Over 60,000 gallons	10,049,342	$3.50			$35,173
	Melrose	3/4" Residential			452	$80.72	$36,485
	RESIDENTIAL	0 to 22,500 gallons	4,105,940	$0.00			$0
	WATER	Over 22,500 gallons	2,177,808	$2.44			$5,314
	Melrose				100		
	RESIDENTIAL &	0 to 18,000 gallons	1,368,330	$1.66			$2,271
	COMMERCIAL	18,001 to 60,000 gallons	2,002,230	$1.66			$3,324
	IRRIGATION	Over 60,000 gallons	2,986,298	$1.66			$4,957
	Haig Point	Commercial			106	$86.93	$9,215
	COMMERCIAL	0 to 22,500 gallons	2,413,190	$2.76			$6,660
	WATER	Over 22,500 gallons	2,132,690	$2.76			$5,886
	Melrose	Commercial			329	$136.60	$44,941
	COMMERCIAL	0 to 22,500 gallons	1,752,659	$0.00			$0
	WATER	Over 22,500 gallons	2,544,703	$2.44			$6,209
		Water Service Total	***61,283,205***		***2,775***		***$311,665***
SEWER	Haig Point	Residential			1,061	$110.38	$117,113
	RESIDENTIAL SEWER	0 to 22,500 gallons	8,360,179	$1.32			$11,035
		Over 22,500 gallons	3,192,728	$1.32			$4,214
	Melrose	Residential			448	$80.72	$36,163
	RESIDENTIAL SEWER	0 to 22,500 gallons	3,926,008	$0.00			$0
		Over 22,500 gallons	2,296,390	$1.77			$4,065
	Haig Point	Commercial			102	$178.21	$18,177
	COMMERCIAL	0 to 22,500 gallons	2,362,530	$1.32			$3,119
	SEWER	Over 22,500 gallons	2,132,690	$1.32			$2,815
	Melrose	Commercial			329	$136.60	$44,941
	COMMERCIAL	0 to 22,500 gallons	1,559,487	$0.00			$0
	SEWER	Over 22,500 gallons	2,436,565	$1.77			$4,313
		Sewer Service Total	***26,266,577***		***1,940***		***$245,955***
	Total Residential Water and Sewer Service Revenue						$312,152
	Total Commercial Water and Sewer Service Revenue						$146,276
	Total Irrigation Service Revenue						$99,192
	Total Water and Sewer Service Revenues						**$557,620**
	Availability Billing - Haig Point (Water)				1,917	$31.04	$59,504
	Availability Billing - Melrose (Water)				1,617	$76.36	$123,474
	Availability Billing - Bloody Point (Water)				368	$76.36	$28,100
	Availability Billing - Haig Point (Sewer)				1,917	$55.19	$105,799
	Availability Billing - Melrose (Sewer)				1,617	$85.08	$137,574
	Availability Billing - Bloody Point (Sewer)				368	$85.08	$31,309
	Total Availability Billing						**$485,760**
	Misc. Other Revenue - Other Revenue						$11,000
	Misc. Other Revenue - Other Revenue (Return Check Fee)						$25
	Misc. Other Revenue - Late Fees (Metered Sales)						$6,058
	Misc. Other Revenue - Late Fees (Availability Charges)						$13,114
	Total Misc. Other Revenue						**$30,197**
	Total Operating Revenues						**$1,073,577**

[1] Deposits and Interest on Deposits are not included in any of the above computations. Consumption and Units reflected as reported during test year.

DAUFUSKIE ISLAND UTILTY COMPANY, INC.
2014-346-WS
REVENUE IMPACT ANALYSIS

EXHIBIT WJM-2

Calculated DIUC Proposed Revenue Overview

	Customer Type	Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues at Proposed Rates[1]	Increase Amount	% Increase
WATER	Haig Point RESIDENTIAL WATER	3/4" Residential			1,061	$149.30	$158,407	$92,530	140.46%
		0 to 22,500 gallons	8,360,179	$4.41			$36,868	$13,794	59.78%
		Over 22,500 gallons	3,192,728	$4.41			$14,080	$5,268	59.78%
	Haig Point RESIDENTIAL & COMMERCIAL IRRIGATION				727		$0		
		0 to 18,000 gallons	8,367,838	$4.85			$40,584	$17,489	75.73%
		18,001 to 60,000 gallons	9,829,270	$5.73			$56,322	$25,950	85.44%
		Over 60,000 gallons	10,049,342	$6.61			$66,426	$31,253	88.86%
	Melrose RESIDENTIAL WATER	3/4" Residential			452	$149.30	$67,484	$30,999	84.96%
		0 to 22,500 gallons	4,105,940	$4.41			$18,107	$18,107	N/A
		Over 22,500 gallons	2,177,808	$4.41			$9,604	$4,290	80.73%
	Melrose RESIDENTIAL & COMMERCIAL IRRIGATION				100		$0		
		0 to 18,000 gallons	1,368,330	$4.85			$6,636	$4,365	192.21%
		18,001 to 60,000 gallons	2,002,230	$5.73			$11,473	$8,149	245.16%
		Over 60,000 gallons	2,986,298	$6.61			$19,739	$14,782	298.20%
	Haig Point COMMERCIAL WATER	Commercial			106	$209.01	$22,155	$12,940	140.42%
		0 to 22,500 gallons	2,413,190	$4.41			$10,642	$3,982	59.79%
		Over 22,500 gallons	2,132,690	$4.41			$9,405	$3,519	59.79%
	Melrose COMMERCIAL WATER	Commercial			329	$209.01	$68,764	$23,823	53.01%
		0 to 22,500 gallons	1,752,659	$4.41			$7,729	$7,729	N/A
		Over 22,500 gallons	2,544,703	$4.41			$11,222	$5,013	80.74%
		Water Service Total	***61,283,205***		***2,775***		**$635,647**	**$323,982**	**103.95%**
SEWER	Haig Point RESIDENTIAL SEWER	Residential			1,061	$218.18	$231,489	$114,376	97.66%
		0 to 22,500 gallons	8,360,179	$2.38			$19,897	$8,862	80.31%
		Over 22,500 gallons	3,192,728	$2.38			$7,599	$3,385	80.33%
	Melrose RESIDENTIAL SEWER	Residential			448	$218.18	$97,745	$61,582	170.29%
		0 to 22,500 gallons	3,926,008	$2.38			$9,344	$9,344	N/A
		Over 22,500 gallons	2,296,390	$2.38			$5,465	$1,400	34.44%
	Haig Point COMMERCIAL SEWER	Commercial			102	$305.45	$31,156	$12,979	71.40%
		0 to 22,500 gallons	2,362,530	$2.38			$5,623	$2,504	80.28%
		Over 22,500 gallons	2,132,690	$2.38			$5,076	$2,261	80.32%
	Melrose COMMERCIAL SEWER	Commercial			329	$305.45	$100,493	$55,552	123.61%
		0 to 22,500 gallons	1,559,487	$2.38			$3,712	$3,712	N/A
		Over 22,500 gallons	2,436,565	$2.38			$5,799	$1,486	34.45%
		Sewer Service Total	***26,266,577***		***1,940***		**$523,398**	**$277,443**	**112.80%**
	Total Residential Water and Sewer Service Revenue						$676,089	$363,937	116.59%
	Total Commercial Water and Sewer Service Revenue						$281,776	$135,500	92.63%
	Total Irrigation Service Revenue						$201,180	$101,988	102.82%
	Total Water and Sewer Service Revenues						**$1,159,045**	**$601,425**	**107.86%**
	Availability Billing - Haig Point (Water)				1,917	$107.49	$206,058	$146,554	246.29%
	Availability Billing - Melrose (Water)				1,617	$107.49	$173,811	$50,337	40.77%
	Availability Billing - Bloody Point (Water)				368	$107.49	$39,556	$11,456	40.77%
	Availability Billing - Haig Point (Sewer)				1,917	$140.73	$269,779	$163,980	154.99%
	Availability Billing - Melrose (Sewer)				1,617	$140.73	$227,560	$89,986	65.41%
	Availability Billing - Bloody Point (Sewer)				368	$140.73	$51,789	$20,480	65.41%
	Total Availability Billing				**7,804**		**$968,553**	**$482,793**	**99.39%**
	Misc. Other Revenue - Other Revenue						$11,000	$0	0.00%
	Misc. Other Revenue - Other Revenue (Return Check Fee)						$25	$0	0.00%
	Misc. Other Revenue - Late Fees (Metered Sales)						$12,592	$6,534	107.86%
	Misc. Other Revenue - Late Fees (Availability Charges)						$26,148	$13,034	99.39%
	Total Misc. Other Revenue						**$49,765**	**$19,568**	**64.80%**
	Total Operating Revenues						**$2,177,363**	**$1,103,786**	**102.81%**

[1] Deposits and Interest on Deposits are not included in any of the above computations. Consumption and Units reflected as reported during test year.

Daufuskie Island Utility Company, Inc. **Exhibit WJM-3**
Docket No. 2014-346-WS
Customer Growth Analysis

Date	Water Customers	Sewer Customers	Total Customers
12/31/2013	1,617	1,422	3,039
7/1/2014	1,623	1,436	3,059
Average	1,620	1,429	3,049

Growth Factor for Water

Date	# of Customers	
7/1/2014	1,623	
Average	1,620	
Growth Factor	0.0018519	0.18519%

Growth Factor for Sewer

Date	# of Customers	
7/1/2014	1,436	
Average	1,429	
Growth Factor	0.0048985	0.48985%

Growth Factor for Combined Operations

Date	# of Customers	
7/1/2014	3,059	
Average	3,049	
Growth Factor	0.0032798	0.32798%

Daufuskie Island Utility Company, Inc.
Schedule of Current and Proposed Rates
Docket No. 2014-346-WS

		Haig Pt. Present Rates	Melrose Present Rates	DIUC Proposed Rates
I. Residential Rates				
A. Water:				
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00	$500.00
2) Base Quarterly Charge		$62.09	$80.72	$149.30
3) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.76	$0.00	$4.41
	Over 22,500 gallons	$2.76	$2.44	$4.41
B. Sewer:				
1) Tapping Fees & Service Lateral		$500.00	$500.00	$500.00
2) Base Quarterly Charge		$110.38	$80.72	$218.38
3) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1.32	$0.00	$2.38
	Over 22,500 gallons	$1.32	$1.77	$2.38
C. Irrigation:				
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00	$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1.66	$4.85
	18,001 to 60,000 gallons	$3.09	$1.66	$5.73
	Over 60,000 gallons	$3.50	$1.66	$6.61
II. Commercial Rates				
A. Water:				
1) Tapping Fees per Hotel or Inn Room		$250.00	$250.00	$250.00
2) Tapping Fees up to 1-1/2" Meter		$500.00	$500.00	$500.00
3) Tapping Fees 2" or 3" Meter		$1,500.00	$1,500.00	$1,500.00
4) Tapping Fees for 6" Meter		$3,500.00	$3,500.00	$3,500.00
Note: Larger meters on a case by case basis.				
5) Base Quarterly Charge		$86.93	$136.60	$209.01
6) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.76	$0.00	$4.41
	Over 22,500 gallons	$2.76	$2.44	$4.41
B. Sewer:				
1) Tapping Fees per Hotel or Inn Room		$250.00	$250.00	$250.00
2) Tapping Fees 4" - 8" Sewer Pipe		$500.00	$500.00	$500.00
3) Base Quarterly Charge		$178.21	$136.60	$305.45
4) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1.32	$0.00	$2.38
	Over 22,500 gallons	$1.32	$1.77	$2.38
C. Irrigation:				
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00	$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1.66	$4.85
	18,001 to 60,000 gallons	$3.09	$1.66	$5.73
	Over 60,000 gallons	$3.50	$1.66	$6.61

III. Availability Rates (Quarterly)

A. Water	$31.04	$76.36	$107.49
B. Sewer	$55.19	$85.08	$140.73

III. Special Conditions

A. Tapping Fees:

Haig Point - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.* *This applies to lots purchased prior to date of this order, but not to lots sold after the date of this order. (See Commission Order No. 93-761 in Docket No. 87-333-WS)

Melrose - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.

B. Backflow Prevention: All irrigation systems and pipes running from potable water lines must have approved backflow prevention devices installed.

C. System Development Charge: Should new customers or their agent(s) petition to connect to the systems where there are no existing lines, pumps, hydrants, etc.; and should such petitions be approved, the following requirements shall apply:

1. New customers or their agent(s) shall be responsible for the cost of installation of the new water and sewer systems, including points of connection with existing systems and effluent return systems. The installation shall be according to the requirements and satisfaction to the utility company, and costs shall include observation, testing, and certification services provided by utility company.

2. New customers or their agent(s) who install their systems must pay an amount equal to their share of the net investment in the existing plant and system facilities. This payment, on a cost per gallon of design flow, will be made according to the System Buy -in Pricing Basis (AWWA Manual 26, First Edition), based on the following formula.

a. System Original Cost - Accumulated Depreciation = Net Cost

b. Net Cost - Outstanding Debt = Total Equity*

$$\frac{\text{Total Equity Investment}}{\text{System Water or Sewer}}$$

c. Flow (Total design gallons per day) = $/gallons

*For these calculations, the utility company's annual report to the PSC for the preceding year shall be used. Extra strength wastewaters will be charged accordingly.

DAUFUSKIE ISLAND UTILITY COMPANY, INC. **EXHIBIT WJM-5**

2014-346-WS

PERFORMANCE BOND REQUIREMENT

	Daufuskie Island Utility Company, Inc. - Water		
Bond Value Components	**Application Per Books**	**After Accounting & Pro Forma Adjustments**	**After Proposed Increase**
Operation and Maintenance Expense	$469,605	$446,571	$499,763
Taxes Other than Income Tax Expense	$11,748	$81,694	$86,356
Income Taxes Expense	$0	$0	$149,970
Interest Expense	$88,763	$42,944	$42,944
Bond Value Requirement	**$570,116**	**$571,209**	**$779,033**
	Daufuskie Island Utility Company, Inc. - Wastewater		
Bond Value Components	**Application Per Books**	**After Accounting & Pro Forma Adjustments**	**After Proposed Increase**
Operation and Maintenance Expense	$379,213	$371,019	$426,176
Taxes Other than Income Tax Expense	$11,692	$81,595	$86,388
Income Taxes Expense	$0	$0	$161,964
Interest Expense	$88,763	$78,268	$78,268
Bond Value Requirement	**$479,668**	**$530,882**	**$752,796**
	Daufuskie Island Utility Company, Inc. - Combined		
Bond Value Components	**Application Per Books**	**After Accounting & Pro Forma Adjustments**	**After Proposed Increase**
Operation and Maintenance Expense	$848,818	$817,590	$925,939
Taxes Other than Income Tax Expense	$23,440	$163,289	$172,744
Income Taxes Expense	$0	$0	$311,934
Interest Expense	$177,526	$121,212	$121,212
Bond Value Requirement	**$1,049,784**	**$1,102,091**	**$1,531,829**

Current Performance Bond Structure (1)	**Bond Value**	**Expiration Date**	
The Hanover Insurance Company - Insurance Certificate	$350,000	Auto Renewal	Water
The Hanover Insurance Company - Insurance Certificate	$350,000	Auto Renewal	Sewer
Total Performance Bond	**$700,000**		

(1) Insurance Certificate secures performance bond of $350,000 for water operations and $350,000 for wastewater operations.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-348-WS
Highest Billed Customers

Exhibit WJM-6

Acct No.	First Name	Last Name	Address	Classification	Service Area	WATER	SEWER	IRRIGATION	Average Quarterly Bill at Current Rates	Average Quarterly Bill Proposed Rates
[redacted]			BEACH CLUB	COMMERCIAL	HAIG POINT	842,600	842,600		$1,124.59	$1,944.77
			SANDY LANE CONDOS - IRRIG	COMMERCIAL	BLOODY POINT	698,600	698,600	486,100	$1,115.48	$2,189.00
			PLAT 11 ID	RESIDENTIAL	HAIG POINT			1,177,300	$999.80	$1,676.85
			PLAT 11 ID - 9531	RESIDENTIAL	HAIG POINT			950,600	$801.24	$1,502.23
			HAIG POINT CLUB HOUSE ID	COMMERCIAL	HAIG POINT	525,400	525,400		$801.05	$1,406.33
			HAIG POINT EQUESTRIAN CEN	RESIDENTIAL	HAIG POINT			911,500	$767.02	$1,437.61
			HALANDY LANE	RESIDENTIAL	HAIG POINT	3,020	3,020	808,440	$850.85	$1,636.61
			BLOODY POINT - CLUBHOUSE	COMMERCIAL	BLOODY POINT	461,390	461,390		$684.09	$1,297.67
			POOL	COMMERCIAL	HAIG POINT	341,300	341,300		$513.27	$1,093.82
			PLANTATION HOMES	COMMERCIAL	HAIG POINT	257,280	257,280		$527.57	$951.19
			FUSKIE LANE	RESIDENTIAL	BLOODY POINT	390,050	390,050	91,540	$515.23	$928.03
			SEA ISLAND LANE	RESIDENTIAL	HAIG POINT	325,238	325,238	4,450	$507.28	$924.97
			GOLF MAINTENANCE AREA-WAS	COMMERCIAL	HAIG POINT	225,600	225,600		$495.25	$897.42
			LAKE RIDGE COURT	RESIDENTIAL	HAIG POINT	187,620	187,620	152,850	$475.98	$889.08
			FREEPORT DRIVE	RESIDENTIAL	HAIG POINT	291,910	291,910		$470.22	$863.00
			MARSH LAKE LANE	RESIDENTIAL	HAIG POINT	288,720	288,720		$466.96	$857.58
			RANGE OVERLOOK	RESIDENTIAL	HAIG POINT	284,450	284,450		$462.61	$850.33
			GOLF MAINTENANCE AREA-WAS	COMMERCIAL	HAIG POINT	185,500	185,500		$454.35	$829.35
			REST STATION	COMMERCIAL	HAIG POINT	172,500	172,500		$441.09	$807.28
			FUSKIE - SEA OAK MANOR	COMMERCIAL	BLOODY POINT	245,500	245,500		$436.86	$931.20

RECORDED
2011 Dec -09 10:00 AM
BEAUFORT COUNTY AUDITOR

BEAUFORT COUNTY SC - ROD
BK 03102 PGS 0169-0170
FILE NUM 2011061814
12/01/2011 04:28:08 PM
REC'D BY S SMITH RCPT# 662313
RECORDING FEES 10.00
County Tax 1.10
TAX TT: State Tax 2.60

THE STATE OF SOUTH CAROLINA)
)
COUNTY OF BEAUFORT)

NOT WARRANTY TITLE

TO ALL WHOM THESE PRESENTS MAY CONCERN:

WHEREAS, the provisions of Title 12, Chapter 51, Section 10 through 170 of the South Carolina Code, 1976, as amended, entitled "Alternate procedure for Collection of Property Taxes" duly enacted by the General Assembly of the State of South Carolina, provide an additional method and procedure for the collection of delinquent property taxes, penalties and costs due to counties and other political subdivisions of the State; and

WHEREAS, the provisions of the aforesaid Title 12, Chapter 51, Sections 10 through 170, authorize the levy by distress and sale of so much of the defaulting taxpayer's estate, real, or personal, or both, as may be sufficient to satisfy the taxes, penalties and costs of sale of property following proper advertisement of the property for sale; and

WHEREAS, I, DOUGLAS HENDERSON, TREASURER OF BEAUFORT COUNTY, pursuant to the authority of the aforesaid provisions and amendments thereto, issued a warrant or execution in duplicate against Hidg Point Utility Company Inc., a defaulting taxpayer of said Beaufort County, to levy by distress and sale of so much of the defaulting taxpayer's estate, real or personal, or both as may be sufficient to satisfy the 2009 taxes and costs in the amount of $338.96; and

WHEREAS, by virtue of said warrant or execution, Herschel J. Evans Jr. (authorized officer) did on May 1, 2010, mail a notice of tax delinquency under cover of certified mail, restricted delivery, return receipt to said delinquent taxpayer and this notice was not received; and

WHEREAS, (in the event the certified mail notice was undelivered) the authorized officer directed to collect delinquent taxes, penalties and costs did, on Sept. 23, 2010 take exclusive possession of the property against which such taxes were assessed by posting a notice at one or more conspicuous places on the property hereinafter described, reading "seized by The Beaufort County Treasurer to be sold for delinquent taxes"; and

WHEREAS, The Beaufort County Treasurer did thereafter properly advertise for sale once a week for three successive weeks for sale in September 2010; and

WHEREAS, upon the failure of the delinquent taxpayer, or anyone acting in his behalf, to pay the taxes, penalties and costs, the property described hereinafter was duly sold at public auction on the sales day of the month of October in the year 2010 during the usual hours of sale, to Mamdouh Sabry Abdelrahman, the purchaser and the highest bidder at such sale for the sum of $326.70 and furnished the purchaser a receipt for such purchase money and annexed such receipt to the duplicate warrant for the endorsement thereon of his actions there under; and

WHEREAS, under cover of certified mail, restricted delivery, return receipt, Troy Hodges, Deputy Treasurer did, on August 31, 2011, mail a notice addressed Hidg Point Utility Company Inc. that the property described on the notice had been sold for taxes and advising said owner if not redeemed by paying taxes, penalties and costs in the amount of $729.90, on or before October 3, 2011, a tax title would be issued to the successful purchaser at the tax sale; and was not redeemed; and

WHEREAS, twelve months have elapsed since the date of the sale for delinquent taxes, and the said Hidg Point Utility Company Inc. or other parties interested after due notice have failed to redeem said property so sold.

NOW THEREFOR, I, DOUGLAS HENDERSON, TREASURER OF THE COUNTY OF BEAUFORT, in consideration of the premises, and the sum of $326.70 to me by the said Mamdouh Sabry Abdelrahman have granted, bargained, sold and released, and by these presents do grant, bargain, sell and release unto the said Mamdouh Sabry Abdelrahman.

ADD DMP Record 12/6/2011 08:22:18 AM
BEAUFORT COUNTY TAX MAP REFERENCE

Dist	Map	SMap	Parcel	Block	Week
R600	025	000	0045	0000	00

Exhibit WJM-7

All those certain pieces, parcels or lots of land situate, lying and being in Hog Point, Daufuskie Island, Beaufort County, South Carolina, shown as "Elevated Tent Site" 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 a portion of Hog Point, Daufuskie Island, South Carolina," which plat was prepared by Thomas & Hutton Engineering Co., Boyce L. Young, S.C.P.L.S. #11079, dated May 14, 1999 and recorded in plat book 70 at page 29 in the Office of the Register of Deeds for Beaufort County, South Carolina. For a more accurate description of the distances, courses, metes and bounds of the property, reference to said plats of record is hereby made.
Derivation: Book 1462 Page 1758

This is the same lot of land sold at the delinquent tax title of October 4, 2010, for delinquent 2009 taxes in the name of Hog Point Utility Company Inc..

District: 000 Map: 085 Sub-map: 000 Parcel: 00045 Block: 0000

TOGETHER with all and singular, the Rights, Members, Hereditaments and Appurtenances to the said Premises belonging, or in any wise Incident or Appertaining.
TO HAVE AND TO HOLD, all and singular, the said Premises hereby granted, and with the appurtenances, unto the said Mamdouh Bahry Abdelrahman, his Heirs and Assigns forever. According the form, force and effect of the laws and usages of the State of South Carolina, in such cases made provided.

Whereof my Hand and Seal this 1st day of December in the year of our Lord Two Thousand Eleven

Signed, Sealed and Delivered in the presence of:

Douglas Henderson
Treasurer of Beaufort County

Johnna L. Neil

State of South Carolina

County of Beaufort Probate

Personally appeared before me [signature] who being duly sworn, deposed and said that (s)he saw the within named Douglas Henderson as Treasurer of Beaufort County sign, seal and deliver the within deed, and that (s)he, together with Johnna L. Neil Witness the execution thereof.

[signature]

Sworn to subscribed before me
This 1st day of
December, 2011

Johnna L. Neil (Seal)
Notary Public of South Carolina

My commission expires: _____

JOHNNA L. NEIL
NOTARY
My Comm. Exp.
11-10-2016
PUBLIC
SOUTH CAROLINA

The State of South Carolina Deed

Treasurer of Beaufort County

TO

Mamdouh Bahry Abdelrahman
8300 Hilliard Mill Rd
Cincinnati, OH 45051

Book3102/Page170

Exhibit WJM-7

Beaufort County, South Carolina

generated on 9/23/2015 9:23:19 PM EDT

Property ID (PIN)	Alternate ID (AIN)	Parcel Address	Data refreshed as of	Assess Year	Pay Year
R800 025 000 0045 0000	08975353	,	9/19/2015	2014	2014

Current Parcel Information

Owner	ABDELRAHMAN MAMDOUH SABRY	Property Class Code	Recr&CultImp Resort&GroupCamp
Owner Address	8300 HINTON MILL RD OSTRANDER OH 43061	Acreage	.3400
Legal Description	PAR 3 EQUESTRIAN CENTER PB70 P29		

Historic Information

Tax Year	Land	Building	Market	Taxes	Payment
2014	$20,400	$3,800	$24,200	$272.21	$272.21
2013	$20,400	$3,800	$24,200	$262.93	$262.93
2012	$34,000	$3,660	$37,660	$193.27	$193.27
2011	$34,000	$3,660	$37,660	$190.23	$190.23
2010	$34,000	$3,660	$37,660	$187.74	$187.74
2009	$34,000	$3,660	$37,660	$186.05	$338.96
2008	$3,400	$9,900	$13,300	$182.63	$335.02
2007	$3,400	$9,900	$13,300	$174.16	$174.16

ROA 2370

Exhibit WJM-7

2006	$500	$500	$6.41	$7.05
2005			$6.06	$6.06

Grantor	Sales Disclosure Book & Page	Date	Used	Vacant	Sale Price
HAIG POINT UTILITY COMPANY INC	3102 169	12/1/2011	De		$526
INTERNATIONAL PAPER REALTY CORP OF	1402 2190	4/1/2001	Fu		$10
		12/31/1776	Or		$0
UNKNOWN OWNER 08975353		12/31/1776	Or		$0

Improvements

Building	Type	Use Code Description	Constructed Year	Stories	Rooms	Square Footage	Improvement Size
R01	UTLSHED	Residential Shed - Small Util	2006	0	0		320

Features & Exterior Features

Building	Type	Feature Code	Description	No. / Sq.Ft.	Value

ROA 2371

Exhibit WJM-8

Beaufort County, South Carolina

generated on 9/25/2015 12:38:39 PM EDT

Property ID (PIN)	Alternate ID (AIN)	Parcel Address	Data refreshed as of	Assess Year	Pay Year
R800 027 00A 0087 0000	00490249	26 RIVER RD,	9/19/2015	2014	2014

Current Parcel Information

Owner	BLOODY POINT PROPERTIES LLC	Property Class Code	Recr&CultImp Resort&GroupCamp
Owner Address	9390 OLD SOUTHWICK PASS ALPHARETTA GA 30022	Acreage	5.6300
Legal Description	FUTURE DEVELOPMENT PB 61 P5 ~ACRES CHANGED BY PLATPB35 P223 ***SEE NOTEM****QC DEED 05360177SPLIT 4/90 85.81 AC27A/1-75 PB37 P127.10 AC RD R/WSPLIT 3/91 201.88 AC TO27A/76 77 785.65 AC TO ROAD R/WSPLIT 2/92 6.09 AC 27A/79-840.59 AC RD R/W 27A/85SPLIT 3/98 1.66 AC 27A/89-90SPLIT 6/98 0.59 AC 27A/119SPLIT 6/01 6.20 AC 27A/123~06/11 AC CORRECTION		

Historic Information

Tax Year	Land	Building	Market	Taxes	Payment
2014	$108,200	$136,400	$244,600	$4,140.68	$4,140.68
2013	$108,200	$136,400	$244,600	$4,012.09	$4,012.09
2012	$106,900	$136,400	$243,300	$3,420.85	$4,702.27
2011	$563,000	$312,346	$875,346	$7,323.33	$7,323.33
2010	$1,491,000	$312,346	$1,803,346	$7,229.92	$8,314.41
2009	$1,491,000	$312,346	$1,803,346	$7,165.91	$8,315.80
2008	$223,700	$277,700	$501,400	$7,052.77	$8,235.69
2007	$223,700	$277,700	$501,400	$6,715.58	$7,387.14
2006	$223,700	$277,700	$501,400	$6,153.00	$7,150.95
2005	$223,700	$277,700	$501,400	$5,801.02	$6,796.17

Sales Disclosure

Grantor	Book & Page	Date	Deed	Vacant	Sale Price
MCCARTHY BRIAN J	3082 1981	7/26/2011	Ge		$10
DAUFUSKIE ISL PROPERTIES LLC	3066 3364	6/17/2011	Fu		$1,640,000

Exhibit WJM-8

BLOODY POINT ASSET CORP % DAUFUSKIE	1589 1591	5/30/2002	QC	$10
BLOODY POINT GROUP LTD P/S	697 1314	2/28/1994	10	$10
BLOODY POINT LTD P/S	539 1333	10/1/1989	Fu	$668,000
BLOODY POINT GROUP LTD P/S	539 1342	10/1/1989	QC	$0
BLOODY POINT LTD P/S	506 1937	7/1/1988	QC	$0
BLOODY POINT LTD P/S	506 1907	7/1/1988	QC	$0
SURFSIDE DEVEL CO	506 1902	7/1/1988	Fu	$0
BLOODY POINT LTD P/S	506 1925	7/1/1988	QC	$0
SURFSIDE DEVEL CO	382 401	1/1/1980	Ot	$0
		12/31/1776	Or	$0

Improvements

Building	Type	Use Code Description	Constructed Year	Stories	Rooms	Square Footage	Improvement Size
C03	STORGAR	Storage Garage	1991	0	0	1,250	
C03	GUARDHS	Guard House	1994	0	0		63
C03	LOAFING	Livestock Loafing Shed	1994	0	0		440
C03	COMCNPYA	Commercial Canopy - Average	1991	0	0		5,000

Features & Exterior Features

Building	Type	Feature Code	Description	No. / Sq.Ft.	Value

HEARING EXHIBIT NO. 20

{Merits Hearing of October 28, 2015}

In the matter of 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

I hereby certify this document to be a true copy of the original.

Jocelyn Boyd
Chief Clerk

Date 10/20/17



Daufuskie Island Utility Company, Inc (Company Name) FOR THE YEAR ENDED 2012

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or system shall be stated at a cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	20,593				20,593
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	Total Intangible Plant	20,593				20,593
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	794,865				794,865
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment					
17	Total Source of Supply and Pumping Plant	794,865				794,865
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	159,384				159,384
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	316,323				316,323
23	339.3 Other Plant and Miscellaneous Equipment					
24	Total Water Treatment Equipment	475,707				475,707
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	81,907				81,907
28	311.4 Pumping Equipment	53,272	2,504			55,775
29	330.4 Distribution Reservoirs and Standpipes	869,379				869,379
30	331.4 Transmission and Distribution Mains	1,517,358	1,116			1,518,474
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	Total Transmission and Distribution Plant	2,521,916	3,620			2,525,535
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	22,772				22,772
40	340 5 Office Furniture and Equipment	240	2,850			3,090
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,331				4,331
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant					
49	Total General Plant	45,409	2,850			48,259
50	101 TOTAL UTILITY PLANT-IN-SERVICE	3,858,489	6,470			3,864,959

15

Daufuskie Island Utility Company, Inc. **FOR THE YEAR ENDED 2012 - REVISED**
(Company Name)

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or system shall be stated at a cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	20,593				20,593
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	**Total Intangible Plant**	20,593	0	0	0	20,593
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	553,761			9,919	563,680
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment					
17	**Total Source of Supply and Pumping Plant**	553,761	0	0	9,919	563,680
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	111,038			1,989	113,027
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	220,374			3,947	224,321
23	339.3 Other Plant and Miscellaneous Equipment					
24	**Total Water Treatment Equipment**	331,412	0	0	5,936	337,348
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	57,062			1,022	58,084
28	311.4 Pumping Equipment	37,113	2,504		(64)	39,553
29	330.4 Distribution Reservoirs and Standpipes	605,673			10,849	616,522
30	331.4 Transmission and Distribution Mains	1,057,102	1,116		18,610	1,076,828
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	**Total Transmission and Distribution Plant**	1,756,950	3,620	0	30,417	1,790,987
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	15,865			284	16,149
40	340.5 Office Furniture and Equipment	240	2,850			3,090
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,330				4,330
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant					
49	**Total General Plant**	38,502	2,850	0	284	41,636
50	101 TOTAL UTILITY PLANT-IN-SERVICE	2,701,218	6,470	0	46,556	2,754,244

Footnote:
Column (e) - Adjusted to reflect the rate base allowed in Docket No. 2011-229-WS

Daufuskie Island Utility Company, Inc. **FOR THE YEAR ENDED 2013**
(Company Name)

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or system shall be stated at the cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	20,593	53,005			73,597
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	Total Intangible Plant	20,593	53,005	0	0	73,597
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	794,865				794,865
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment					
17	Total Source of Supply and Pumping Plant	794,865	0	0	0	794,865
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	159,384			(113,534)	45,850
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	316,323	4,301	(2,540)		318,084
23	339.3 Other Plant and Miscellaneous Equipment					
24	Total Water Treatment Equipment	475,707	4,301	(2,540)	(113,534)	363,934
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	81,907				81,907
28	311.4 Pumping Equipment	55,775	11,223	(6,628)		60,370
29	330.4 Distribution Reservoirs and Standpipes	869,379				869,379
30	331.4 Transmission and Distribution Mains	1,518,474				1,518,474
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	Total Transmission and Distribution Plant	2,525,535	11,223	(6,628)	0	2,530,130
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	22,772				22,772
40	340.5 Office Furniture and Equipment	3,090				3,090
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,331				4,331
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant					
49	Total General Plant	48,259	0			48,259
50	101 TOTAL UTILITY PLANT-IN-SERVICE	3,864,959	68,528	(9,168)	(113,534)	3,810,785

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Daufuskie Island Utility Company, Inc. **FOR THE YEAR ENDED 2013 - REVISED**
(Company Name)

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or system shall be stated at a cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	20,593	53,005			73,598
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	Total Intangible Plant	20,593	53,005	0	0	73,598
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	563,680			37,387	601,067
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment					
17	Total Source of Supply and Pumping Plant	563,680	0	0	37,387	601,067
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	113,027			(67,177)	45,850
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	224,321	4,301	(2,540)	14,449	240,531
23	339.3 Other Plant and Miscellaneous Equipment					
24	Total Water Treatment Equipment	337,348	4,301	(2,540)	(52,728)	286,381
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	58,084			3,853	61,937
28	311.4 Pumping Equipment	39,553	11,223	(6,628)	1,503	45,651
29	330.4 Distribution Reservoirs and Standpipes	616,522			40,891	657,413
30	331.4 Transmission and Distribution Mains	1,076,828			71,422	1,148,250
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	Total Transmission and Distribution Plant	1,790,987	11,223	(6,628)	117,669	1,913,251
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	16,149			1,071	17,220
40	340.5 Office Furniture and Equipment	3,090				3,090
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,330				4,330
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant					
49	Total General Plant	41,636	0	0	1,071	42,707
50	101 TOTAL UTILITY PLANT-IN-SERVICE	2,754,244	68,528	(9,168)	103,399	2,917,004

Footnote:
Column (e) - Adjusted to reflect the rate base allowed in Docket No. 2011-229-WS

Daufuskie Island Utility Company, Inc. **FOR THE YEAR ENDED 2014**
(Company Name)

Schedule 201. UTILITY PLANT-IN-SERVICE - Account No. 101

All amounts included in accounts for utility plant acquired as an operating unit or system shall be stated as a cost incurred by the person who first devoted the property to utility service.

Line No.	Account Number and Title (a)	Previous Year-End Balance (b)	Additions (c)	Retirements (d)	Adjustments +/- (e)	Current Year-End Balance (f)
1	.1 INTANGIBLE PLANT					
2	301.1 Organization	73,598				73,598
3	302.1 Franchises					
4	339.1 Other Plant and Miscellaneous Equipment					
5	Total Intangible Plant	73,598	0	0	0	73,598
6	.2 SOURCE OF SUPPLY AND PUMPING PLANT					
7	303.2 Land and Land Rights					
8	304.2 Structures and Improvements					
9	305.2 Collecting and Impounding Reservoirs					
10	306.2 Lake, River and Other Intakes					
11	307.2 Wells and Springs	601,067			(117,816)	483,251
12	308.2 Infiltration Galleries and Tunnels					
13	309.2 Supply Mains					
14	310.2 Power Generation Equipment					
15	311.2 Pumping Equipment					
16	339.2 Other Plant and Miscellaneous Equipment		9,104			9,104
17	Total Source of Supply and Pumping Plant	601,067	9,104	0	(117,816)	492,355
18	.3 WATER TREATMENT EQUIPMENT					
19	303.3 Land and Land Rights	45,850	15,980			61,830
20	304.3 Structures and Improvements					
21	311.3 Pumping Equipment					
22	320.3 Water Treatment Equipment	240,531	1,735		(47,827)	194,439
23	339.3 Other Plant and Miscellaneous Equipment					
24	Total Water Treatment Equipment	286,381	17,715	0	(47,827)	256,269
25	.4 TRANSMISSION AND DISTRIBUTION PLANT					
26	303.4 Land and Land Rights					
27	304.4 Structures and Improvements	61,937			(12,141)	49,796
28	311.4 Pumping Equipment	45,651	15,044		(14,846)	45,849
29	330.4 Distribution Reservoirs and Standpipes	657,413	37,946		(143,736)	551,623
30	331.4 Transmission and Distribution Mains	1,148,250	2,922		(226,215)	924,957
31	333.4 Services					
32	334.4 Meters and Meter Installations					
33	335.4 Hydrants					
34	336.4 Backflow Prevention Devices					
35	339.4 Other Plant and Miscellaneous Equipment					
36	Total Transmission and Distribution Plant	1,913,251	55,912	0	(396,938)	1,572,225
37	.5 GENERAL PLANT					
38	303.5 Land and Land Rights					
39	304.5 Structures and Improvements	17,220			(3,375)	13,845
40	340.5 Office Furniture and Equipment	3,090	10,134			13,224
41	341.5 Transportation Equipment	18,067				18,067
42	342.5 Stores Equipment					
43	343.5 Tools, Shop and Garage Equipment	4,330	1,205			5,535
44	344.5 Laboratory Equipment					
45	345.5 Power Operated Equipment					
46	346.5 Communication Equipment					
47	347.5 Miscellaneous Equipment					
48	348.5 Other Tangible Plant		404			404
49	Total General Plant	42,707	11,743	0	(3,375)	51,075
50	101 TOTAL UTILITY PLANT-IN-SERVICE	2,917,004	94,474	0	(565,956)	2,445,522

Footnote: 15
Column (e) - Adjusted to reflect the rate base allowed in Docket No. 2011-229-WS

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Docket No. 2014-346-WS

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

	Company	PSC Order - Corrected (a)		
	Pro Forma Proposed Rates	Pro Forma Present Rates	Adjustments	Pro Forma Proposed Rates
Operating Revenue:				
Residential	$710,786	$312,153	$435,718	$747,871
Commercial	287,589	146,277	165,155	311,432
Irrigation	213,238	99,193	118,385	217,578
Availability Billing	992,880	485,761	591,074	1,076,835
Misc. Other Revenue	63,229	30,197	39,136	69,333
Interdepartmental Sales	0	0	0	0
Billing Adjustments	0	0	0	0
Total Revenues	2,267,722	1,073,581	1,349,467	2,423,049
Operating Expense:				
Wages	164,752	176,590	0	176,590
Benefits	10,686	6,200	0	6,200
Director's Fees	16,500	16,500	0	16,500
Sludge Disposal	0	0	0	0
Power	166,718	130,181	0	130,181
Chemicals	9,510	9,020	0	9,020
Supplies & Maintenance	28,543	27,116	0	27,116
Outside Services-Mgmt	171,364	171,365	0	171,365
Outside Services-Engineering	8,013	10,137	0	10,137
Outside Services-Accounting	2,762	2,761	0	2,761
Outside Services-Legal	23,178	23,178	0	23,178
Outside Services-Testing	92,289	92,288	0	92,288
Outside Services-Other	38,622	38,621	0	38,621
Other Operating Expenses	0	0	0	0
Transportation	2,756	2,450	0	2,450
Bad Debt	30,852	108,349	134,233	242,582
Insurance	48,322	38,911	0	38,911
Regulatory Commission Expense	15,636	15,636	0	15,636
Other A&G Expenses	36,436	36,436	0	36,436
Accepted ORS Adjustment	0	(46,033)	0	(46,033)
Total O&M Expense	866,939	859,707	134,233	993,939
Depreciation	95,266	95,539	0	95,539
Amortization	206,076	350,853	0	350,853
Revenue Taxes	14,320	9,196	11,557	20,753
Property Taxes	192,301	192,302	0	192,302
Payroll Taxes	13,732	13,212	0	13,212
State and Federal Income Taxes	260,495	0	201,668	201,668
Total Operating Expenses	1,649,129	1,520,809	347,457	1,868,266
Net Operating Income	$618,593	($447,228)		$554,782
Rate Base	$7,085,475	$6,975,242		$6,975,242
Rate of Return	8.73%	-6.41%		7.95%
Revenue Increase	108.9%			125.7%
Interest Expense	$180,680			$215,535
Operating Margin	19.3%			14.0%

Note (a): Restored Water Tank, and other "Non-Documented" plant costs.
Restored correct level of property tax expense and amortization of back tax assessments.
Restore bad debt expense to test year levels and adjusted for revenue increase.
Restore Mgmt Fees to "As Filed" Expense
Set Rate Case Costs at Actual Expense, plus Post PSC Decision Costs

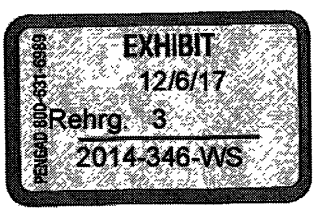


Exhibit GCW-R1 (p. 001)

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Docket No. 2014-346-WS

Daufuskie Island Utility Company, Inc.

Statement of Proposed Rates

			Haig Pt. Present Rates	Melrose Present Rates	DIUC Single Tariff Proposed Rates
I.	**Residential Rates**				
	A. Water:				
	1) Base Quarterly Charge		$62.09	$80 72	$166.37
	2) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.76	$0.00	$4.77
		Over 22,500 gallons	$2.76	$2.44	$4.77
	B. Sewer:				
	1) Base Quarterly Charge		$110.38	$80.72	$242 14
	2) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1.32	$0.00	$2.57
		Over 22,500 gallons	$1.32	$1.95	$2.57
	C. Irrigation:				
	1) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1 66	$5 24
		18,001 to 60,000 gallons	$3.09	$1 66	$6 20
		Over 60,000 gallons	$3.50	$1.66	$7.15
II.	**Commercial Rates**				
	A. Water:				
	1) Base Quarterly Charge		$86.93	$136 60	$232.92
	2) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.76	$0.00	$4.77
		Over 22,500 gallons	$2.76	$1 95	$4.77
	B. Sewer:				
	1) Base Quarterly Charge		$178.21	$136.60	$339.00
	2) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1.32	$0.00	$2.57
		Over 22,500 gallons	$1.32	$1 95	$2.57
	C Irrigation:				
	1) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1.66	$5.24
		18,001 to 60,000 gallons	$3.09	$1 66	$6.20
		Over 60,000 gallons	$3.50	$1.66	$7.15
III.	**Availability Charge**				
	A. Water:				
	1) Base Quarterly Charge		$31.04	$76 36	$119.79
	B. Sewer:				
	1) Base Quarterly Charge		$55.19	$85 08	$156.18

Exhibit GCW-R1 (p. 002)

Daufuskie Island Utility Company, Inc.

Water Operating Statement

	Company's Pro Forma Proposed Rates	PSC Order Pro Forma Present Rates	PSC Order Adjustments		PSC Order Pro Forma Proposed Rates
Operating Revenue:					
Residential	$146,590	$139,563	$197,237	(1b)	$336,800
Commercial	72,931	72,912	70,589	(1d)	143,501
Irrigation	104,868	99,193	118,385	(1f)	217,578
Availability Billing	202,156	211,078	256,342	(1h)	467,421
Misc Other Revenue	20,531	19,729	25,709	(1j)	45,438
Metered Sales-Other	0	0	0		0
Billing Adj (Remove Tap Fees)	0	0	0		0
Total Revenues	547,076	542,475	668,263		1,210,737
Operating Expense:					
Wages	82,376	88,295			88,295
Benefits	5,343	3,100			3,100
Officer & Director's Fees	8,250	8,250			8,250
Sludge Disposal	0	0			0
Purchased Water	0	0			0
Power	83,095	64,953			64,953
Chemicals	4,740	4,510			4,510
Supplies & Maintenance	14,544	13,828			13,828
Outside Services-Mgmt	85,682	85,682			85,682
Outside Services-Engineering	2,570	425			425
Outside Services-Accounting	1,381	1,381			1,381
Outside Services-Legal	11,589	11,589			11,589
Outside Services-Testing	81,578	81,578			81,578
Outside Services-Other	31,026	31,026			31,026
Other Operating Expenses	0	0			0
Transportation	1,378	1,225			1,225
Bad Debt	6,676	54,280	66,765	(20)	121,045
Insurance	24,161	19,455			19,455
Regulatory Commission Expense	13,506	13,506			13,506
Other A&G Expenses	14,683	14,683			14,683
Accepted ORS Adjustment	0	(30,136)			(30,136)
Total O&M Expense	472,578	467,629	66,765		534,394
Depreciation, Net	41,938	42,120			42,120
Amortization	103,038	175,426			175,426
Revenue Taxes	3,455	4,647	5,722	(21)	10,369
Property Taxes	91,967	91,967			91,967
Payroll Taxes	6,866	6,606			6,606
State and Federal Income Taxes	0	0	93,236	(22)	93,236
Total Operating Expenses	719,842	788,395	165,723		954,119
Net Operating Income	($172,766)	($245,921)			$256,618
Rate Base	$3,278,504	$3,224,844			$3,224,844
Rate of Return	-5 27%	-7 63%			7 96%
		Revenue Increase			123 2%

Exhibit GCW-R1 (p. 003)

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Daufuskie Island Utility Company, Inc.

Sewer Operating Statement

	Company's Pro Forma Proposed Rates	PSC Order Pro Forma Present Rates	PSC Order Adjustments		PSC Order Pro Forma Proposed Rates
Operating Revenue:					
Residential	$180,814	$172,590	$238,481	(1b)	$411,071
Commercial	75,576	73,365	94,566	(1d)	167,931
Irrigation	0	0	0		0
Availability Billing	272,171	274,683	334,731	(1f)	609,414
Misc. Other Revenue	9,783	10,468	13,427	(1h)	23,895
Interdepartmental Sales	0	0	0		0
Billing Adj (Remove Tap Fees)	0	0	0		0
Total Revenues	538,344	531,107	681,205		1,212,312
Operating Expense:					
Wages	82,376	88,296			88,296
Benefits	5,343	3,100			3,100
Officer & Director's Fees	8,250	8,250			8,250
Sludge Disposal	0	0			0
Power	83,623	65,228			65,228
Chemicals	4,770	4,510			4,510
Supplies & Maintenance	13,999	13,288			13,288
Outside Services-Mgmt	85,682	85,682			85,682
Outside Services-Engineering	5,443	9,712			9,712
Outside Services-Accounting	1,381	1,381			1,381
Outside Services-Legal	11,589	11,589			11,589
Outside Services-Testing	10,711	10,711			10,711
Outside Services-Other	7,596	7,596			7,596
Other Operating Expenses	0	0			0
Transportation	1,378	1,225			1,225
Bad Debt	8,086	54,069	67,468	(20)	121,536
Insurance	24,161	19,456			19,456
Regulatory Commission Expense	2,130	2,130			2,130
Other A&G Expenses	21,753	21,753			21,753
Accepted ORS Adjustment	0	(15,897)			(15,897)
Total O&M Expense	378,271	392,078	67,468		459,546
Depreciation	53,328	53,420			53,420
Amortization	103,038	175,426			175,426
Revenue Taxes	3,400	4,549	5,835	(21)	10,384
Property Taxes	100,334	100,334			100,334
Payroll Taxes	6,866	6,606			6,606
State and Federal Income Taxes	0	0	108,431	(22)	108,431
Total Operating Expenses	645,237	732,413			914,148
Net Operating Income	($106,893)	($201,307)			$298,164
Rate Base	$3,806,971	$3,750,397			$3,750,397
Rate of Return	-2.81%	-5.37%			7.95%
			Revenue Increase		128.3%

Exhibit GCW-R1 (p. 004)

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Schedules in Support
of a
Rate Increase
Rehearing

Historical Test Year 12/31/2014

With Known and Measurable Changes through 12/31/2015
and Remand

GUASTELLA ASSOCIATES LLC

May 2015

Exhibit GCW-R1 (p. 005)

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Comparative Balance Sheets

	Water					
Assets	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Utility Plant	$3,211,843	$3,851,101	$3,858,489	$3,864,959	$3,814,485	$3,905,259
Accumulated Depreciation	(208,008)	(250,512)	(283,720)	(317,092)	(341,904)	(382,950)
Construction Work in Progress	0	0	0	0	0	29,511
Cash	4,956	5,146	11,842	30,152	369,870	34,576
Accounts Receivable	97,128	212,594	228,274	312,173	205,909	202,206
Provision for Uncollectibles	(45,013)	(67,825)	(67,825)	(67,825)	0	0
Receivables from Associated Co.	0	0	0	0	0	0
Deferred Expenses	0	0	0	202,503	408,150	502,686
Accumulated Deferred Income Tax	0	0	0	0	0	0
Total Assets	$3,060,906	$3,750,504	$3,747,060	$4,024,870	$4,456,510	$4,291,287
Liabilities & Equity						
Common Stock	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Premium on Capital Stock	1,328,041	1,328,041	664,021	664,021	664,021	664,021
Paid in Capital	2,670,205	3,150,047	2,829,589	2,801,457	1,765,964	1,765,964
Retained Earnings	(1,305,625)	(1,211,687)	(212,815)	(65,714)	(69,317)	(18,326)
Notes and Loans Payable	0	0	0	0	1,369,979	1,307,975
Accounts Payable	42,523	75,245	82,296	272,010	61,678	100,225
Advances from Associated Co.	0	(20,586)	(42,109)	(61,577)	(25,615)	(25,615)
Accrued Taxes	0	0	0	2,130	(1,468)	157
Deferred Credits	0	0	0	0	269,779	72,195
Misc Accrued Liabilities	0	0	0	0	12,443	16,771
Misc Operating Reserves	0	10,659	10,659	0	0	0
Contributions in Aid of Construction	354,000	453,500	454,000	455,000	455,500	458,500
Accum. Amortization of CIAC	(29,238)	(35,715)	(39,581)	(45,456)	(47,455)	(51,580)
Total Liabilities & Equity	$3,060,906	$3,750,504	$3,747,060	$4,022,870	$4,456,510	$4,291,287

	Sewer					
Assets	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Utility Plant	$2,679,330	$3,637,399	$3,642,884	$3,645,734	$3,474,402	$4,077,571
Accumulated Depreciation	(258,167)	(317,217)	(347,008)	(376,912)	(369,432)	(404,688)
Construction Work in Progress	0	0	0	18,170	92,951	225,342
Cash	1,479	5,146	11,843	30,152	369,870	34,576
Accounts Receivable	100,732	227,191	279,018	278,142	194,956	198,409
Provision for Uncollectibles	(54,036)	(96,662)	(96,662)	(96,662)	0	0
Receivables from Associated Co.	282,366	5,139	0	0	0	0
Deferred Expenses	0	0	770	202,503	408,150	502,686
Accumulated Deferred Income Tax	0	0	0	0	0	0
Total Assets	$2,751,704	$3,460,995	$3,490,845	$3,701,129	$4,170,897	$4,633,896
Liabilities & Equity						
Common Stock	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Premium on Capital Stock	0	0	664,020	664,020	664,021	664,021
Paid in Capital	2,579,174	3,226,883	3,547,341	3,519,209	2,459,067	2,459,067
Retained Earnings	(15,339)	31,720	(901,197)	(879,745)	(851,298)	(178,173)
Notes and Loans Payable	0	0	0	0	1,369,979	1,307,975
Accounts Payable	52,443	31,915	32,633	272,010	61,678	100,255
Advances from Associated Co.	26,166	(20,586)	(42,109)	(61,577)	(25,615)	(25,615)
Accrued Taxes	(418)	(418)	(418)	1,674	6,440	8,065
Deferred Credits	0	0	0	0	265,359	72,195
Misc Accrued Liabilities	0	0	0	0	36,673	41,001
Misc Operating Reserves	0	5,118	5,118	0	0	0
Contributions in Aid of Construction	116,795	197,295	197,795	199,295	199,795	201,795
Accum. Amortization of CIAC	(8,117)	(11,932)	(13,338)	(14,757)	(16,202)	(17,689)
Total Liabilities & Equity	$2,751,704	$3,460,995	$3,490,845	$3,701,129	$4,170,897	$4,633,896

Exhibit GCW-R1 (p. 007)

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Comparative Income Statements for 12 Months Ended

	Water					
	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Revenues						
Metered Sales	$152,708	$219,825	$234,370	$281,237	$315,254	$309,860
Availability Billing	38,173	128,829	132,903	154,579	208,970	213,004
Interdepartmental Sales	0	0	0	0	0	0
Other Revenue	1,051	3,775	2,671	5,405	4,908	20,444
Total Operating Revenue	191,932	352,429	369,944	441,221	529,131	543,308
Expenses:						
O&M Expense	200,864	327,999	315,487	338,308	427,489	472,592
Depreciation	29,371	29,209	29,342	29,498	29,981	36,921
Amortization					46,210	46,210
Taxes, Other	616	9,132	10,721	11,684	7,633	8,759
Income Tax	0	0	0	0	0	0
Total Operating Expense	230,851	366,340	355,550	379,490	511,313	564,482
Net Operating Income	(38,919)	(13,911)	14,394	61,731	17,818	(21,174)
Other Income	0	0	0	0	65	122
Interest Expense	0	0	0	0	(6,061)	(88,763)
Other Expenses	0	0	0	0	0	(3,607)
Net Income	($38,919)	($13,911)	$14,394	$61,731	$11,822	($113,422)

	Sewer					
	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Revenues:						
Metered Sales	$111,102	$172,731	$171,405	$195,602	$224,335	$246,745
Availability Billing	67,864	159,901	165,380	191,065	271,878	276,661
Interdepartmental Sales	137,080	0	0	0	0	0
Other Revenue	1,966	4,975	2,881	6,609	4,908	9,749
Total Operating Revenue	318,012	337,607	339,666	393,276	501,120	533,155
Expenses:						
O&M Expense	271,573	262,600	250,362	263,682	338,772	382,145
Depreciation	25,884	28,170	28,384	28,486	28,770	36,151
Amortization					46,210	46,210
Taxes, Other	1,963	6,498	9,358	9,645	11,392	8,759
Income Tax	0	0	0	0	0	0
Total Operating Expense	299,420	297,268	288,104	301,813	425,144	473,265
Net Operating Income	18,592	40,339	51,562	91,463	75,977	59,890
Other Income	0	0	0	0	65	122
Interest Expense	0	0	0	0	(6,061)	(88,763)
Other Expenses	0	0	0	0	0	(3,607)
Net Income	$18,592	$40,339	$51,562	$91,463	$69,981	($32,358)

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Water and Sewer Operations

Capital Structure and Rate of Return

PSC Order	Amount	Ratio	Cost Rate	Weighted Cost	Return
L-T Debt	$3,750,000	53.8%	5.75%	3.09%	$281,455
S-T Debt	0	0.0%	0.00%	0.00%	0
Equity	5,358,573	46.2%	10.50%	4.86%	442,677
	$9,108,573	100.0%		7.95%	$724,132

ORS Adjusted	Amount	Ratio	Cost Rate	Weighted Cost	Return
L-T Debt	$3,250,000	46.0%	5.29%	2.43%	$171,685
S-T Debt	0	0.0%	0.00%	0.00%	0
Equity	3,815,217	54.0%	9.31%	5.03%	355,380
	$7,065,217	100.0%		7.46%	$527,065

DIUC Application	Amount	Ratio	Cost Rate	Weighted Cost	Return
L-T Debt	$3,750,000	41.2%	6.20%	2.55%	$232,269
S-T Debt	0	0.0%	0.00%	0.00%	0
Equity	5,358,573	58.8%	10.50%	6.18%	562,910
	$9,108,573	100.0%		8.73%	$795,178

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

	Company	ORS	PSC Order		
	Pro Forma Proposed Rates	Pro Forma Proposed Rates	Pro Forma Present Rates	Adjustments	Pro Forma Proposed Rates
Operating Revenue:					
Residential	$710,786	$496,239	$312,153	$435,718	$747,871
Commercial	287,589	230,909	146,277	165,155	311,432
Irrigation	213,238	145,780	99,193	118,385	217,578
Availability Billing	992,880	773,555	485,761	591,074	1,076,835
Misc. Other Revenue	63,229	46,653	30,197	39,136	69,333
Interdepartmental Sales	0	0	0	0	0
Billing Adjustments	0	0	0	0	0
Total Revenues	2,267,722	1,693,136	1,073,581	1,349,467	2,423,049
Operating Expense:					
Wages	164,752	176,590	176,590	0	176,590
Benefits	10,686	6,200	6,200	0	6,200
Director's Fees	16,500	16,500	16,500	0	16,500
Sludge Disposal	0	0	0	0	0
Power	166,718	130,181	130,181	0	130,181
Chemicals	9,510	9,020	9,020	0	9,020
Supplies & Maintenance	28,543	27,116	27,116	0	27,116
Outside Services-Mgmt	171,364	132,211	171,365	0	171,365
Outside Services-Engineering	8,013	10,137	10,137	0	10,137
Outside Services-Accounting	2,762	2,761	2,761	0	2,761
Outside Services-Legal	23,178	23,178	23,178	0	23,178
Outside Services-Testing	92,289	92,288	92,288	0	92,288
Outside Services-Other	38,622	38,621	38,621	0	38,621
Other Operating Expenses	0	0	0	0	0
Transportation	2,756	2,450	2,450	0	2,450
Bad Debt	30,852	171,253	108,349	134,233	242,582
Insurance	48,322	38,913	38,911	0	38,911
Regulatory Commission Expense	15,636	15,636	15,636	0	15,636
Other A&G Expenses	36,436	36,436	36,436	0	36,436
Accepted ORS Adjustment	0	(46,033)	(46,033)	0	(46,033)
Total O&M Expense	866,939	883,459	859,707	134,233	993,939
Depreciation	95,266	71,070	95,539	0	95,539
Amortization	206,076	50,112	350,853	0	350,853
Revenue Taxes	14,320	13,940	9,196	11,557	20,753
Property Taxes	192,301	140,880	192,302	0	192,302
Payroll Taxes	13,732	13,213	13,212	0	13,212
State and Federal Income Taxes	260,495	149,053	0	201,668	201,668
Total Operating Expenses	1,649,129	1,321,727	1,520,809	347,457	1,868,266
Net Operating Income	$618,593	$371,409	($447,228)		$554,782
Rate Base	$7,085,475	$4,981,166	$6,975,242		$6,975,242
Rate of Return	8.73%	7.46%	-6 41%		7.95%
Revenue Increase	108.9%	57.7%			125.7%
Interest Expense	$180,680	$121,212			$215,535
Operating Margin	19 3%	14 8%			14 0%

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Daufuskie Island Utility Company, Inc.
Revenue Impact Analysis
Test Year Revenue - Existing Rates

WATER

Customer	Classification	Consumption	Usage Charge	Units	Base Charge	Revenue
Haig Point-Residential	3/4" Meter			1,061	$62 09	$65,877
	0 to 22,500 gals.	8,360,179	$2 76			$23,074
	Over 22,500 gals.	3,192,728	$2.76			$8,812
Haig Point-Irrigation				727		
	0 to 18,000 gals.	8,367,838	$2.76			$23,095
	18,001 to 60,000 gals.	9,829,270	$3 09			$30,372
	Over 60,000 gals.	10,049,342	$3.50			$35,173
Melrose-Residential	3/4" Meter			452	$80.72	$36,485
	0 to 22,500 gals.	4,105,940	$0.00			$0
	Over 22,500 gals	2,177,808	$2.44			$5,314
Melrose-Irrigation				100		
	0 to 18,000 gals.	1,368,330	$1.66			$2,271
	18,001 to 60,000 gals.	2,002,230	$1.66			$3,324
	Over 60,000 gals.	2,986,298	$1 66			$4,957
Haig Point-Commercial	Metered			106	$86.93	$9,215
	0 to 22,500 gals.	2,413,190	$2.76			$6,660
	Over 22,500 gals	2,132,690	$2 76			$5,886
Melrose-Commercial	Metered			329	$136.60	$44,941
	0 to 22,500 gals.	1,752,659	$0 00			$0
	Over 22,500 gals.	2,544,703	$2.44			$6,209
	Water Service Total	**61,283,205**		**2,775**		**$311,667**

SEWER

Customer	Classification	Consumption	Usage Charge	Units	Base Charge	Revenue
Haig Point-Residential	3/4" Meter			1,061	$110.38	$117,113
	0 to 22,500 gals	8,360,179	$1 32			$11,035
	Over 22,500 gals	3,192,728	$1.32			$4,214
Melrose-Residential	3/4" Meter			448	$80.72	$36,163
	0 to 22,500 gals.	3,926,008	$0 00			$0
	Over 22,500 gals	2,296,390	$1 77			$4,065
Haig Point-Commercial	Metered			102	$178 21	$18,177
	0 to 22,500 gals.	2,362,530	$1.32			$3,119
	Over 22,500 gals.	2,132,690	$1 32			$2,815
Melrose-Commercial	Metered			329	$136.60	$44,941
	0 to 22,500 gals.	1,559,487	$0.00			$0
	Over 22,500 gals	2,436,565	$1.77			$4,313
	Water Service Total	**26,266,577**		**1,940**		**$245,955**

REVENUE SUMMARY:

Total Residential Water and Sewer Service Revenues				$312,153
Total Commercial Water and Sewer Service Revenues				$146,277
Total Irrigation Service Revenues				$99,193
		Total Water and Sewer Service Revenues		**$557,623**
Availability Billing-Water	Haig Point	1,917	$31.04	$59,504
	Melrose	1,617	$76.36	$123,474
	Bloody Point	368	$76.36	$28,100
Availability Billing-Sewer	Haig Point	1,917	$55 19	$105,799
	Melrose	1,617	$85 08	$137,574
	Bloody Point	368	$85.08	$31,309
		Total Water and Sewer Availability Revenues		**$485,761**
Misc. Other Revenue	Other			
	Return Check Fees			
	Late Fees-Metered Sales			
	Late Fees-Availability			
		Total Misc. Other Revenue		**$30,197**
		Total Operating Revenue		**$1,073,581**

Daufuskie Island Utility Company, Inc.
Revenue Impact Analysis
Test Year Revenue - Proposed Rates

WATER

Customer	Classification	Consumption	Usage Charge	Units	Base Charge	Revenue	Increase Amt.	Increase %
Haig Point-Residential	3/4" Meter			1,061	$166.37	$176,519	$110,641	167 9%
	0 to 22,500 gals.	8,360,179	$4.77			$39,878	$16,804	72.8%
	Over 22,500 gals.	3,192,728	$4.77			$15,229	$6,417	72 8%
Haig Point-Irrigation				727		$0	$0	N/A
	0 to 18,000 gals.	8,367,838	$5 24			$43,847	$20,752	89 9%
	18,001 to 60,000 gals.	9,829,270	$6.20			$60,941	$30,569	100.6%
	Over 60,000 gals	10,049,342	$7.15			$71,853	$36,680	104.3%
Melrose-Residential	3/4" Meter			452	$166 37	$75,199	$38,714	106.1%
	0 to 22,500 gals.	4,105,940	$4.77			$19,585	$19,585	N/A
	Over 22,500 gals	2,177,808	$4.77			$10,388	$5,074	95 5%
Melrose-Irrigation				100		$0	$0	N/A
	0 to 18,000 gals.	1,368,330	$5.24			$7,170	$4,899	215.7%
	18,001 to 60,000 gals.	2,002,230	$6.20			$12,414	$9,090	273.5%
	Over 60,000 gals.	2,986,298	$7.15			$21,352	$16,395	330 7%
Haig Point-Commercial	Metered			106	$232.92	$24,690	$15,475	167 9%
	0 to 22,500 gals.	2,413,190	$4.77			$11,511	$4,851	72.8%
	Over 22,500 gals.	2,132,690	$4.77			$10,173	$4,287	72.8%
Melrose-Commercial	Metered			329	$232.92	$76,631	$31,689	70 5%
	0 to 22,500 gals.	1,752,659	$4.77			$8,360	$8,360	N/A
	Over 22,500 gals.	2,544,703	$4.77			$12,138	$5,929	95 5%
	Water Service Total	**61,283,205**		**2,775**		**$697,879**	**$386,212**	**123.9%**

SEWER

Customer	Classification	Consumption	Usage Charge	Units	Base Charge	Revenue	Increase Amt.	Increase %
Haig Point-Residential	3/4" Meter			1,061	$242.14	$256,911	$139,797	119.4%
	0 to 22,500 gals.	8,360,179	$2.57			$21,486	$10,450	94 7%
	Over 22,500 gals.	3,192,728	$2.57			$8,205	$3,991	94.7%
Melrose-Residential	3/4" Meter			448	$242.14	$108,479	$72,316	200.0%
	0 to 22,500 gals.	3,926,008	$2.57			$10,090	$10,090	N/A
	Over 22,500 gals.	2,296,390	$2.57			$5,902	$1,837	45 2%
Haig Point-Commercial	Metered			102	$339 00	$34,578	$16,401	90.2%
	0 to 22,500 gals.	2,362,530	$2 57			$6,072	$2,953	94.7%
	Over 22,500 gals.	2,132,690	$2.57			$5,481	$2,666	94.7%
Melrose-Commercial	Metered			329	$339.00	$111,531	$66,590	148.2%
	0 to 22,500 gals.	1,559,487	$2.57			$4,008	$4,008	N/A
	Over 22,500 gals.	2,436,565	$2.57			$6,262	$1,949	45.2%
	Water Service Total	**26,266,577**		**1,940**		**$579,003**	**$333,048**	**135.4%**

REVENUE SUMMARY:	Total Residential Water and Sewer Service Revenues			$747,870	$435,717	139 6%
	Total Commercial Water and Sewer Service Revenues			$311,434	$165,157	112.9%
	Total Irrigation Service Revenues			$217,578	$118,385	119 3%
		Total Water and Sewer Service Revenues		**$1,276,882**	**$719,259**	**129.0%**
	Availability Billing-Water Haig Point	1,917	$119.79	$229,637	$170,134	285.9%
	Melrose	1,617	$119.79	$193,700	$70,226	56.9%
	Bloody Point	368	$119.79	$44,083	$15,982	56.9%
	Availability Billing-Sewer Haig Point	1,917	$156.18	$299,397	$193,598	183.0%
	Melrose	1,617	$156.18	$252,543	$114,969	83.6%
	Bloody Point	368	$156.18	$57,474	$26,165	83.6%
		Total Water and Sewer Availability Revenues		**$1,076,835**	**$591,074**	**121.7%**
		Total Misc. Other Revenue		**$69,333**	**$39,136**	**129.6%**
		Total Operating Revenue		**$2,423,050**	**$1,349,469**	**125.7%**

Exhibit GCW-R1 (p. 012)

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Rate Base Calculation

	Company's Application	ORS Adjusted	Adjusted Test Year	PSC Order Pro Forma Adjustment	Pro Forma 12/31/2015
Plant in Service	$3,949,957	$2,546,008	$3,905,258	$44,698	$3,949,956
Accumulated Depreciation	(429,396)	(463,677)	(382,950)	(46,446)	(429,396)
CWIP	0	0	29,511	(29,511)	0
Contributions in Aid of Construction	(477,750)	(458,500)	(458,500)	0	(458,500)
Accum. Amortization of CIAC	56,088	51,619	51,580	4,326	55,906
Net Plant	3,098,899	1,675,450	3,144,898	(26,932)	3,117,966
Working Capital (1/5th O&M)	95,955	89,314	93,920	12,958	106,878
Unamortized Balances	83,650	0	0	0	0
Rate Base	$3,278,504	$1,764,764	$3,238,819	($13,974)	$3,224,844

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Schedule W-B.1

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Adjustments to Pro Forma Water System Rate Base

1	Adjustments to Utility Plant in Service.		
	a) UPIS Pro Forma Additions		
	Meter & Meter Boxes	$ 15,187	
	b) UPIS Reclass from CWIP		
	Storage Tank Land Costs	29,511	
	Adjustment		$ 44,698
2	Adjust accumulated depreciation to reflect pro forma annual depreciation.		
	a) Annual Depreciation (Schedule C-3)	$ -	
	Adjustment		$ -
3	Reclass Construction Work in Progress to Plant in Service.		
	Adjustment		$ (29,511)
4	Adjust CIAC for Tap Fees related to pro forma customer growth.		
	Adjustment		$ -
5	Adjust accumulated amortization of CIAC to reflect pro forma annual amortization.		
	a) Annual Amortization (Schedule C-3)	$ (4,326)	
	Adjustment		$ 4,326
6	Adjust working capital allowance for changes to O&M expenses.		
	Expense Adjustment	64,792	
	Working Capital Allowance (Qtrly Billing)	20%	
	Adjustment		$ 12,958
7	Adjustment to reflect the average unamortized balance of rate case expense and deferred property taxes.		
	Rate Case Costs	397,105	
	Amortization Period (yrs)	3	
	Average Unamortized Balance	330,921	
	Adjustment		$ -

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Utility Plant in Service

	UPIS Acct	Balance 12/31/2014	Plant Reductions Prior	Condemn.	GA Cap Mgmt	Additions
Organizational Costs	301	$ 73,597	-			
Land	303	56,702	-	-		5,128
Wells	307	794,865	-			
Misc Equipment-Source	339	9,104			-	
Water Treatment Plant	320	321,643	-		-	(1,824)
Distribution Reservoirs	330	869,379	-			
Storage - Other	330A	37,946			-	
T&D Plant	311	75,414	-		-	
Mains, Hydrts, Serv	331	1,509,688	-			
Meters	334	8,786	-		-	2,922
Other Intangible Plant	348	404				
Plant-Structures	304	104,082	-			
Office Equipmt	340	13,820	-		-	
Transportation Equipmt	341	18,067	-			
General Plant-Tools & Equip	343	5,536	-		-	
Total Water Plant		$ 3,899,032	$ -	$ -	$ -	$ 6,226

Exhibit GCW-R1 (p. 015)

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Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
$ 73,597		$ 73,597
61,830	29,511	91,340
794,865		794,865
9,104		9,104
319,819		319,819
869,379		869,379
37,946		37,946
75,414		75,414
1,509,688		1,509,688
11,708	15,187	26,896
404		404
104,082		104,082
13,820		13,820
18,067		18,067
5,536		5,536
$ 3,905,258	$ 44,698	$ 3,949,956

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Accumulated Depreciation

	UPIS Acct	Balance 12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Wells	307	$ 88,101		$ 88,101	$ 7,500	$ 95,601
Misc Equipment-Source	339	82		82	172	254
Water Treatment Plant	320	21,797		21,797	3,749	25,546
Distribution Reservoirs	330	60,598		60,598	8,203	68,802
Storage - Other	330A	-		-	3,162	3,162
T&D Plant	311	(3,048)		(3,048)	907	(2,142)
Mains, Hydrts, Serv	331	195,966	-	195,966	14,245	210,212
Meters	334	649		649	846	1,495
Other Intangible Plant	348	8		8	16	24
General Plant-Structures	304	7,672		7,672	2,836	10,508
Office Equipmt	340	808		808	691	1,499
Transportation Equipmt	341	8,369		8,369	3,011	11,380
General Plant-Tools & Equip	343	1,947		1,947	1,107	3,054
Total Water Plant		$ 382,950	$ -	$ 382,950	$ 46,446	$ 429,396

Exhibit GCW-R1 (p. 017)

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Schedule W-B.4

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water CIAC and Accumulated Amortization

	Balance 12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
CIAC - Tap Fees	$ 339,500	$ -	$ 339,500	$ -	$ 339,500
CIAC - Other	119,000		119,000	-	119,000
Water - CIAC	$ 458,500	$ -	$ 458,500	$ -	$ 458,500
Accum. Amortization - Tap Fees	$ 38,193	$ -	$ 38,193	$ 3,204	$ 41,396
Accum. Amortization - Other	13,387	-	13,387	$ 1,123	14,510
Water - CIAC Amortization	$ 51,580	$ -	$ 51,580	$ 4,326	$ 55,906

Exhibit GCW-R1 (p. 018)

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Operating Statement

	Company's Application	ORS Adjusted	Year-End 12/31/2014	Ref	Adjustments	PSC Order Pro Forma Present Rates	PSC Order Adjustments	PSC Order Pro Forma Proposed Rates
Operating Revenue								
Residential	$146,590	$139,562	$139,071	E-1	$491 (1a)	$139,563	$197,237 (1b)	$336,800
Commercial	72,931	72,911	72,479	E-1	432 (1c)	72,912	70,589 (1d)	143,501
Irrigation	104,868	99,192	98,309	E-1	883 (1e)	99,193	118,385 (1f)	217,578
Availability Billing	202,156	211,078	213,004	E-1	(1,926) (1g)	211,078	256,342 (1h)	467,421
Misc Other Revenue	20,531	19,729	20,444	E-1	(715) (1i)	19,729	25,709 (1j)	45,438
Metered Sales-Other	0	0	0		0	0	0	0
Billing Adj (Remove Tap Fees)	0	0	0		0	0	0	0
Total Revenues	547,076	542,472	543,308		(834)	542,475	668,263	1,210,737
Operating Expense								
Wages	82,376	88,295	78,301	C-2	9,994 (2)	88,295		88,295
Benefits	5,343	3,100	4,490	C-2	(1,390) (3)	3,100		3,100
Officer & Director's Fees	8,250	8,250	8,250	C-2	0 (4)	8,250		8,250
Sludge Disposal	0	0	0	C-2		0		0
Purchased Water	0	0	0	C-2		0		0
Power	83,095	64,953	57,581	C-2	7,372 (5)	64,953		64,953
Chemicals	4,740	4,510	4,510	C-2	0 (6)	4,510		4,510
Supplies & Maintenance	14,544	13,828	13,849	C-2	(21) (7)	13,828		13,828
Outside Services-Mgmt	85,682	66,105	78,825	C-2	6,857 (8)	85,682		85,682
Outside Services-Engineering	2,570	425	425	C-2	0 (9)	425		425
Outside Services-Accounting	1,381	1,381	1,381	C-2		1,381		1,381
Outside Services-Legal	11,589	11,589	11,589	C-2		11,589		11,589
Outside Services-Testing	81,578	81,578	81,578	C-2		81,578		81,578
Outside Services-Other	31,026	31,026	31,026	C-2		31,026		31,026
Other Operating Expenses	0	0	0	C-2		0		0
Transportation	1,378	1,225	1,225	C-2	(0) (10)	1,225		1,225
Bad Debt	6,676	54,280	52,834	C-2	1,447 (11)	54,280	66,765 (20)	121,045
Insurance	24,161	19,457	18,197	C-2	1,258 (12)	19,455		19,455
Regulatory Commission Expense	13,506	13,506	10,861	C-2	2,645 (13)	13,506		13,506
Other A&G Expenses	14,683	14,683	14,683	C-2		14,683		14,683
Accepted ORS Adjustment	0	(30,136)			(30,136)	(30,136)		(30,136)
Total O&M Expense	472,578	448,053	469,602		(1,973)	467,629	66,765	534,394
Depreciation, Net	41,938	30,538	36,921	C-2	5,198 (14)	42,120		42,120
Amortization	103,038	25,056	46,210	C-2	129,216 (15)	175,426		175,426
Revenue Taxes	3,455	4,647	3,052	C-2	1,595 (16)	4,647	5,722 (21)	10,369
Property Taxes	91,967	70,441	2,105	C-2	89,863 (17)	91,967		91,967
Payroll Taxes	6,866	6,606	6,591	C-2	15 (18)	6,606		6,606
State and Federal Income Taxes	0	0	0	C-2	0 (19)	0	93,236 (22)	93,236
Total Operating Expenses	719,842	585,341	564,482		223,913	788,395	165,723	954,119
Net Operating Income	($172,766)	($42,869)	($21,174)			($245,921)		$256,618
Rate Base	$3,278,504	$1,764,764	$3,238,819			$3,224,844		$3,224,844
Rate of Return	-5 27%	-2 43%	-0 65%			-7 63%		7 96%
						Revenue Increase		123 2%

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Schedule W-C.1

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (1)

a) Adjust residential revenue to reflect the pro forma number of customers at present rates.

Residential Revenue Per Schedule E.1	139,563	
Less: Residential Revenue - Test Year	139,071	
Adjustment		491

b) Adjust residential revenue to reflect the pro forma number of customers at proposed rates.

Residential Revenue Per Schedule E.2	336,800	
Less: Residential Revenue Per Schedule E 1	139,563	
Adjustment		197,237

c) Adjust commercial revenue to reflect the pro forma number of customers at present rates.

Commercial Revenue Per Schedule E.1	72,912	
Less: Commercial Revenue - Test Year	72,479	
Adjustment		432

d) Adjust commercial revenue to reflect the pro forma number of customers at proposed rates.

Commercial Revenue Per Schedule E 2	143,501	
Less: Commercial Revenue Per Schedule E.1	72,912	
Adjustment		70,589

e) Adjust irrigation revenue to reflect the pro forma demand at present rates

Irrigation Revenue Per Schedule E 1	99,193	
Less: Irrigation Revenue - Test Year	98,309	
Adjustment		883

f) Adjust irrigation revenue to reflect the pro forma demand at proposed rates.

Irrigation Revenue Per Schedule E 2	217,578	
Less: Irrigation Revenue Per Schedule E.1	99,193	
Adjustment		118,385

g) Adjust availability revenue to reflect the pro forma number of customers at present rates.

Availability Revenue Per Schedule E.1	211,078	
Less: Availability Revenue - Test Year	213,004	
Adjustment		(1,926)

h) Adjust availability revenue to reflect the pro forma number of customers at proposed rates.

Availability Revenue Per Schedule E 2	467,421	
Less Availability Revenue Per Schedule E 1	211,078	
Adjustment		256,342

i) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at present rates relative to test year total revenue.

	Total Rev		Misc. Rev.	
Misc Revenue Per Schedule E.1	542,475	3.64%	19,729	
Less: Misc Revenue - Test Year	544,745	3.75%	20,444	
Adjustment				(715)

j) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at proposed rates relative to pro forma total revenue at present rates.

	Total Rev		Misc. Rev	
Misc Revenue Per Schedule E 2	1,210,737	3.75%	45,438	
Less: Misc Revenue Per Schedule E.1	542,475	3.64%	19,729	
Adjustment				25,709

Exhibit GCW-R1 (p. 020)

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Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (2)
Increase the previuos level of wages for 4 full-time shared employees to reflect the wages of 4 full-time 1 part-time shared employee (an effort to reduce OT) including a 3% wage increase for the full-time employees.

Pro forma costs (WP 7.4)	88,295	
Less: Test period costs	78,301	
Adjustment		9,994

Adjustment (3)
Adjust employee insurance benefits to reflect current premiums.

Pro forma costs (WP 7.4)	3,100	
Less: Test period costs	4,490	
Adjustment		(1,390)

Adjustment (4)
Adjust Directors' Fees to reflect annual Officer's fees of $12,000 and Directors' fees of $4,500 split between water and sewer operations.

Pro forma costs	8,250	
Less: Test period costs	8,250	
Adjustment		0

Adjustment (5)
Adjust pro forma bills to reflect corrected 2nd and 3rd quarter SCE&G bills and increase the level of power costs for increased system demand.

	Test Period	Factor	Pro Forma	
July-YE Power	39,527			
Annualized SCE&G Corrected Bills	79,053	1.000	79,053	
less: Test Year			57,581	
Adjustment				7,372

Adjustment (6)
Increase the level of chemical costs for increased system demand.

	Test Period	Factor	Pro Forma	
Chemicals	4,510	1.000	4,510	
Adjustment				0

Adjustment (7)
Increase the level of operating supply costs for increased number of customers.

Test period costs	13,849	
Factor for increase in customers	1.000	
	13,849	
Adjustment		(21)

Adjustment (8)
Adjust Outside Services-Management to reflect contractual annual increases.

Test period costs	78,825	
Factor for increase in customers	1.050	
	82,785	
Annual Increase	3.5%	
	85,682	
Adjustment		6,857

Adjustment (9)
Adjust Outside Services-Engineering to reflect 2011-2014 average cost

	2011	2012	2013	2014	Average	
Annual Cost	3,200	3,563	3,093	425	425	
Less: Test period costs					425	
Adjustment						0

Exhibit GCW-R1 (p. 021)

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Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (10)
Adjust transportation costs relative to the number of employees.

	Test Period	Factor	Pro Forma	
Transportation	1,225	1.000	1,225	
Adjustment				0

Adjustment (11)
Adjust bad debt expense to reflect revenue write-off percentages established in prior case applied to pro forma revenue under present rates.

Metered Sales-Bad debt at .5% of revenues	311,667	0.5%	1,558	
Availability Sales-Bad Debt at 2.5% of revenue	211,078	2.5%	5,277	
			6,835	
Test period costs			52,834	
Adjustment				1,447

Adjustment (12)
Adjustment to record general liability insurance to reflect recent premiums.

	Vehicle	Op Bond	General	Flood	Water Syst.	
Pro Forma Expense	2,576	10,500	28,531	6,715	19,455	
Test Period Expense					18,197	
Adjustment						1,258

Adjustment (13)
Adjust Regulatory Expenses to reflect most recent DHEC drinking water annual bills.

	Melrose Area	Haig Pt.		
Pro Forma Expense	6,731	6,775	13,506	
Test Period Expense			10,861	
Adjustment				2,645

Adjustment (14)
Adjustment to reflect the annual depreciation for pro forma plant in service.

Pro Forma Depreciation Expense	42,120	
Test period Depreciation Expense	36,921	
Adjustment		5,198

Adjustment (15)
Adjustment to reflect the amortization of rate case expense and deferred Property Taxes.

	Cost	Years	Annual	
Bond Costs (Req'd due to Delayed Rate Order)	30,391	3	10,130	
Total rate case cost	397,105	3	132,368	
Property Taxes	263,422	8	32,928	
Annual amortization less: current amort disallowed			(46,210)	129,216

Adjustment (16)
Adjustment to reflect the revenue taxes on pro forma revenue under present rates.

Revenue		542,475	
Revenue Tax Rate		0.85657%	
	0.85657%	4,647	
Less: Test Year Revenue Tax		3,052	
Adjustment			1,595

Adjustment (17)
Adjustment property Taxes to reflect actual tax bills and rates for updated market values of Land, Building & Contents.

	Market Value	Assessed Value	Effective Tax Rate	Property Tax Amt	
Pro Forma Property Taxes	3,520,560	369,659	0.248790	91,967	
Less: Test Year Property Taxes				2,105	
Adjustment					89,863

Adjustment (18)
Increase the level of payroll taxes to reflect pro forma wages.

Pro forma costs (WP 7.4)	6,866	
Test period costs	6,591	
Adjustment		15

Exhibit GCW-R1 (p. 022)

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Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (19)				
Adjustment to reflect State and Federal Income Taxes.				
Revenue	542,475			
O&M Expense	(467,629)			
Depreciation	(42,120)			
Amortization	(175,426)			
Taxes - Other	(103,221)			
Interest Expense	(99,648)			
State Taxable Income	(345,569)			
State Income Tax Rate		5.000%		
SIT			0	
Federal Taxable Income	(345,569)			
Federal Income Tax Rate		34 000%		
FIT			0	
Pro Forma Income Tax			0	
Test Period Income Tax			0	
Adjustment				0
Adjustment (20)				
Adjust bad debt expense to reflect rate increase.				
Pro forma Bad Debt at Present Rates			54,280	
Rate Increase Percentage			123.0%	
Adjustment				66,765
Adjustment (21)				
Adjustment to reflect the revenue taxes on pro forma revenue under proposed rates.				
Revenue Requirement			1,210,494	
Revenue Tax Rate			0 85657%	
Revenue Tax at Proposed Rates			10,369	
Revenue Tax at Present Rates			4,647	
Adjustment				5,722
Adjustment (22)				
Adjustment to reflect State and Federal Income Taxes.				
Revenue Requirement	1,210,494			
O&M Expense	(534,394)			
Depreciation	(42,120)			
Amortization	(175,426)			
Taxes - Other	(108,943)			
Interest Expense	(99,648)			
State Taxable Income	249,964			
State Income Tax Rate		5.000%		
SIT			12,498	
Federal Taxable Income	237,466			
Federal Income Tax Rate		34 000%		
FIT			80,738	
Pro Forma Income Tax-Proposed Rates			93,236	
Pro Forma Income Tax-Present Rates			0	
Adjustment				93,236

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Schedule W-C.2

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Operating Expenses - Water

	Acct	12 Months Ended 12/31/13 Expense	12 Months Ended 12/31/14 Expense	Adjusted Rate Year Expense
Wages	601	89,584	78,301	88,295
Benefits	603	5,495	4,490	3,100
Officer & Director's Fees	604	2,250	8,250	8,250
Sludge Disposal		0	0	0
Purchased Water		0	0	0
Power	615	36,586	57,581	64,953
Chemicals	618	5,936	4,510	4,510
Supplies & Maintenance	620	9,411	13,849	13,828
Outside Services-Mgmt	634	76,157	78,825	85,682
Outside Services-Engineering	631	3,093	425	425
Outside Services-Accounting	632	2,496	1,381	1,381
Outside Services-Legal	633	5,819	11,589	11,589
Outside Services-Testing	635	45,770	81,578	81,578
Outside Services-Other	636	11,438	31,026	31,026
Other Operating Expenses		0	0	0
Transportation	650	2,715	1,225	1,225
Bad Debt	670	71,457	52,834	54,280
Insurance	657	31,100	18,197	19,455
Regulatory Commission Expense	667	12,839	13,850	13,506
a) Reclass to Revenue Tax	667	(1,995)	(2,989)	
Other A&G Expenses	675	15,344	14,683	14,683
Total O&M Expense		425,494	469,602	497,765
Depreciation	403	29,981	36,921	42,120
Amortization	407	46,210	46,210	175,426
Revenue Taxes	408	63	63	4,647
a) Reclass from Reg. Comm. Exp.	408	1,995	2,989	0
Property Taxes	408	3,985	2,105	91,967
Payroll Taxes	408	3,586	6,591	6,606
State and Federal Income Taxes	409	0	0	0
Total Operating Expenses		511,313	564,482	818,531

Exhibit GCW-R1 (p. 025)

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Schedule W-C.3

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Depreciation Expense - Water

	Pro Forma UPIS Balance	Depreciation Rate	ORS Pro Forma Utilization	Pro Forma Depreciation Expense
Wells	$ 794,865	2.000%	47.18%	$ 7,500
Misc Equipment-Source	9,104	4.000%	47.18%	172
Water Treatment Plant	319,819	2.484%	47.18%	3,749
Distribution Reservoirs	869,379	2.000%	47.18%	8,203
Storage - Other	37,946	8.333%	100.00%	3,162
T&D Plant	75,414	2.548%	47.18%	907
Mains, Hydrts, Serv	1,509,688	2.000%	47.18%	14,245
Meters	26,896	6.667%	47.18%	846
Other Intangible Plant	404	4.000%	100.00%	16
T&D-Structures	81,907	2.725%	100.00%	2,232
General Plant-Structures	22,175	2.725%	100.00%	604
Office Equipmt	13,820	5.000%	100.00%	691
Transportation Equipmt	18,067	16.667%	100.00%	3,011
General Plant-Equipment	5,536	20.000%	100.00%	1,107
CIAC - Tap Fees	(339,500)	2.000%	47.18%	(3,204)
CIAC - Other	(119,000)	2.000%	47.18%	(1,123)
	3,326,519			42,120
Depreciation Expense				$ 46,446
Amortization of CIAC				(4,326)
Net Depreciation				$ 42,120

Exhibit GCW-R1 (p. 026)

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Docket No. 2014-346-WS Schedule W-D

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

PSC Order	Amount	Ratio	Cost Rate	Weighted Cost
L-T Debt	$1,733,727	53.8%	5.75%	3.09%
S-T Debt	0	0.0%	0.00%	0.00%
Equity	1,491,117	46.2%	10.50%	4.86%
	$3,224,844	100.0%		7.95%

ORS Adjusted	Amount	Ratio	Cost Rate	Weighted Cost
L-T Debt	$811,791	46.0%	5.29%	2.43%
S-T Debt	0	0.0%	0.00%	0.00%
Equity	952,973	54.0%	9.31%	5.03%

Exhibit GCW-R1 (p. 027)

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Schedule W-E

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Billing Analysis at Present Rates
12/31/2014

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,044.0			$62.09		$64,822		$64,822
Total gals		11,552.907	11,553.000		$2.76		$31,886	$31,886
Residential-MUC/BP	447.0			$80.72		$36,082		$36,082
Total gals		6,283.748	2,178.000		$2.44		$5,314	$5,314
	1,491.0	17,836.655	13,731.000			$100,904	$37,201	$138,104
Commercial-DIUC	106.0			$86.93		$9,215		$9,215
Total gals		4,545.880	4,546.000		$2.76		$12,547	$12,547
Commercial-MUC/BP	166.0			$136 60		$22,676		$22,676
Total gals		4,297.362	2,544.703		$1.95		$4,962	$4,962
Multi-Unit-MUC/BP	168.0			$136 60		$22,949		$22,949
Total gals					$1.95		$0	$0
	440.0	8,843.242	7,090.703			$54,839	$17,509	$72,348
Irrigation-DIUC								
0 to 18,000 gals (quarterly)	817.0	8,367.838	8,368.000		$2.76		$23,096	$23,096
18,001 to 60,000 gals		9,829.270	9,829.000		$3.09		$30,372	$30,372
Over 60,000 gals		10,049.342	10,049.000		$3.50		$35,172	$35,172
Irrigation-MUC/BP								
All gallons	184.0	6,356.858	6,356.858		$1.66		$10,552	$10,552
	1,001.0	34,603 308	34,602.858				$99,191	$99,191
Total Water Revenues	2,932.0	61,283.205	55,424.561			$155,743	$153,901	$309,644
						50.3%	49.7%	
Availability Billing-DIUC	2,063.0			$31.04				$64,036
Availability Billing-MUC/BP	1,972.0			$76.38				$150,621
	4,035.0							$214,657
Misc. Revenue (Late Chgs)							3.75%	$20,444
Total Water Operating Revenue								$544,745
Revenue Per Books								$543,308
Difference								$1,436
								0.26%

Exhibit GCW-R1 (p. 028)

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Billing Analysis at Present Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,061.0			$62.09		$65,877		$65,877
Total gals		11,552.907	11,552.907		$2.76		$31,886	$31,886
Residential-MUC/BP	452.0			$80.72		$36,485		$36,485
Total gals		6,283.748	2,177.808		$2.44		$5,314	$5,314
	1,513.0	17,836.655	13,730.715			$102,363	$37,200	$139,563
Commercial-DIUC	106.0			$86.93		$9,215		$9,215
Total gals		4,545.880	4,545.880		$2.76		$12,547	$12,547
Commercial-MUC/BP	329.0			$136.60		$44,941		$44,941
Total gals		4,297.362	2,544.703		$2.44		$6,209	$6,209
Multi-Unit-MUC/BP	0.0			$136.60		$0		$0
Total gals					$2.44		$0	$0
	435.0	8,843.242	7,090.583			$54,156	$18,756	$72,912
Irrigation-DIUC	727.0							
0 to 18,000 gals (quarterly)		8,367.838	8,367.838		$2.76		$23,095	$23,095
18,001 to 60,000 gals		9,829.270	9,829.270		$3.09		$30,372	$30,372
Over 60,000 gals		10,049.342	10,049.342		$3.50		$35,173	$35,173
Irrigation-MUC/BP	100.0							
0 to 18,000 gals (quarterly)		1,368.330	1,368.330		$1.66		$2,271	$2,271
18,001 to 60,000 gals		2,002.230	2,002.230		$1.66		$3,324	$3,324
Over 60,000 gals		2,986.298	2,986.298		$1.66		$4,957	$4,957
	827.0	34,603.308	34,603.308				$99,193	$99,193
Total Water Revenues	2,775.0	61,283.205	55,424.606			$156,519	$155,148	$311,667
						50.22%	49.78%	
Availability Billing-DIUC	1,917.0			$31.04				$59,504
Availability Billing-MUC/BP	1,985.0			$76.36				$151,575
	3,902.0							$211,078
Misc. Revenue (Late Chgs)							3.64%	$19,729
Total Water Operating Revenue								$542,475

Exhibit GCW-R1 (p. 029)

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Billing Analysis at Proposed Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,061.0			$166.37		$176,519		$176,519
Total gals		11,552.907	11,552.907		$4.77		$55,107	$55,107
Residential-MUC/BP	452.0			$166.37		$75,199		$75,199
Total gals		6,283.748	6,284.000		$4.77		$29,975	$29,975
	1,513 0	17,836 655	17,836.907			$251,718	$85,082	$336,800
Commercial-DIUC	106.0			$232.92		$24,690		$24,690
Total gals		4,545.880	4,545.880		$4.77		$21,684	$21,684
Commercial-MUC/BP	329.0			$232.92		$76,631		$76,631
Total gals		4,297.362	4,297.000		$4.77		$20,497	$20,497
Multi-Unit-MUC/BP	0.0			$232.92		$0		$0
Total gals		0.000	0.000		$4.77		$0	$0
	435.0	8,843.242	8,842.880			$101,320	$42,181	$143,501
Irrigation-DIUC	727.0							
0 to 18,000 gals (quarterly)		8,367.838	8,367.838		$5.24		$43,847	$43,847
18,001 to 60,000 gals		9,829.270	9,829.270		$6.20		$60,941	$60,941
Over 60,000 gals		10,049.342	10,049.342		$7.15		$71,853	$71,853
Irrigation-MUC	100.0							
0 to 18,000 gals (quarterly)		1,368.330	1,368.330		$5.24		$7,170	$7,170
18,001 to 60,000 gals		2,002.230	2,002.230		$6.20		$12,414	$12,414
Over 60,000 gals		2,986 298	2,986.298		$7.15		$21,352	$21,352
	827 0	34,603.308	34,603 308				$217,578	$217,578
Total Water Revenues	2,775 0	61,283.205	61,283.095			$353,038	$344,840	$697,878
						29 16%	28 48%	
Availability Billing-DIUC	1,917.0			$119.79				$229,637
Availability Billing-MUC/BP	1,985 0			$119.79				$237,783
	3,902 0							$467,421
Misc. Revenue (Late Chgs)							3 75%	$45,438
Total Water Operating Revenue								$1,210,737

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Schedule W-F.1

Docket No. 2014-346-WS

Daufuskie Island Utility Company, Inc.

Revenue Requirement

		Company Application	ORS Adjusted	PSC Order Water
Equity Return		$202,612	$88,768	$156,727
Gross Revenue Tax	0.85657%	2,054	1,223	2,160
Effective Income Tax Rate	37.3000%	120,533	52,808	93,237
Equity Grossed-Up	37.8371%	325,199	142,798	252,124
O&M Expenses		479,779	473,329	534,394
Depreciation		41,938	30,538	42,120
Amortization		103,038	25,056	175,426
Property Taxes		91,967	70,441	91,967
Payroll Taxes		6,866	6,606	6,606
Interest Expense		83,602	42,884	99,648
		807,190	648,854	950,161
Gross Revenue Tax		5,130	5,606	8,209
		812,320	654,460	958,370
Revenue Requirement		$1,137,519	$797,259	$1,210,494
Revenue @ Present Rates		547,077	542,472	542,475
Percentage Increase		107.9%	47.0%	123.1%

Exhibit GCW-R1 (p. 031)

Daufuskie Island Utility Company, Inc.

Rate Design - Water System

Metered Sales

	PRESENT Quarterly Rates	Factor	PROPOSED Quarterly Rates	Percentage Change
Base Service:				
Residential-DIUC	$ 62.09	1.00	$ 166.37	167.9%
Residential-MUC/BP	$ 80.72	1.30	$ 166.37	106.1%
Commercial-DIUC	$ 86.93	1.40	$ 232.92	167.9%
Commercial-MUC/BP	$ 136 60	2.20	$ 232.92	70.5%
Multi-Family-MUC/BP	$ 136.60	2.20	$ 232.92	70.5%
Availability Billing-DIUC	$ 31.04	0.50	$ 119.79	285.9%
Availability Billing-MUC/BP	$ 76.36	1 23	$ 119.79	56.9%
Usage:				
Residential-DIUC	$ 2 76	1.00	$ 4.77	72 8%
Residential-MUC/BP	$ 2.44	0.88	$ 4.77	95.5%
Commercial-DIUC	$ 2 76	1.00	$ 4.77	72 8%
Commercial-MUC/BP	$ 2.44	0.88	$ 4.77	95.5%
Multi-Family-MUC/BP	$ 2 44	0.88	$ 4.77	95.5%
TPL Treatment Plant-DIUC				
0 to 18,000 gals (quarterly)	$ -	0.00	$ -	0.0%
18,001 to 60,000 gals	$ -	0.00	$ -	0.0%
Over 60,000 gals	$ -	0.00	$ -	0.0%
Irrigation-DIUC				
0 to 18,000 gals (quarterly)	$ 2 76	1 00	$ 5.24	89.9%
18,001 to 60,000 gals	$ 3 09	1 12	$ 6.20	100.6%
Over 60,000 gals	$ 3.50	1.27	$ 7.15	104.3%
Irrigation-MUC				
0 to 18,000 gals (quarterly)	$ 1 66	0.60	$ 5.24	215.7%
18,001 to 60,000 gals	$ 1.66	0.60	$ 6.20	273.5%
Over 60,000 gals	$ 1.66	0.60	$ 7.15	330.7%

Pro Forma Existing Rates:

Service Charge Revenue	$ 156,518.91	28 85%	67.76%	Base
Metered Usage Revenue	55,955 58	10 31%	28.60%	Usage
Irrigation Revenue	99,192.76	18.29%		
Availability Revenue	211,078.28	38 91%		
Subtotal	$ 522,745.53			
Late Charge Revenue	19,729.00	3.64%	3.64%	
Total Revenue	$ 542,474.53		100.00%	

Pro Forma Revenue Requirement:		(Sch E.2 Results)	% Increase
Service Charge Revenue	$ 349,261.02	$ 353,038.01	125.6%
Metered Usage Revenue	124,860.97	127,262.58	127.4%
Irrigation Revenue	221,341.72	217,577.65	119.3%
Availability Revenue	471,006.45	467,420.58	121.4%
Subtotal	$ 1,166,470.16	$ 1,165,298.82	
Late Charge Revenue	44,023.89	45,438.25	130.3%
Total Revenue	$ 1,210,494.04	$ 1,210,737 07	123 2%

Service Charge Rates

	Quarterly Bills	Factor	Factored Bills	Proposed Rate
Residential-DIUC	1,061	1 00	1,061.0	$ 166.37
Residential-MUC/BP	452	1.00	452.0	$ 166.37
Commercial-DIUC	106	1 40	148.4	$ 232.92
Commercial-MUC/BP	329	1.40	460.6	$ 232 92
Multi-Family-MUC/BP	0	1 40	0.0	$ 232.92
Availability Billing-DIUC	1,917	0.72	1,380.2	$ 119.79
Availability Billing-MUC/BP	1,985	0.72	1,429.2	$ 119.79
	5,850		4,931.4	
			$ 820,267.47	
			$ 166.37	

Usage Rates

	TG	Factor	Factored Bills	Proposed Rate
Residential-DIUC	11,552.9	1.00	11,552.9	$ 4.77
Residential-MUC/BP	6,284.0	1.00	6,284.0	$ 4.77
Commercial-DIUC	4,545.9	1.00	4,545.9	$ 4.77
Commercial-MUC/BP	4,297.0	1 00	4,297.0	$ 4.77
Multi-Family-MUC/BP	-	1.00	0.0	
0 to 18,000 gals (quarterly)	9,736 2	1.10	10,709 8	$ 5 24
18,001 to 60,000 gals	11,831 5	1.30	15,381 0	$ 6 20
Over 60,000 gals	13,035.6	1.50	19,553.4	$ 7.15
	61,283.1		72,324.0	
			$ 346,202.68	
			$ 4 77	

Exhibit GCW-R1 (p. 032)

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Rate Base Calculation

	Company's Application	ORS Adjusted	PSC Order Adjusted Test Year	PSC Order Pro Forma Adjustment	PSC Order Pro Forma 12/31/2015
Plant in Service	$4,189,304	$3,793,675	$4,077,571	$111,733	$4,189,304
Accumulated Depreciation	(348,458)	(467,545)	(404,688)	56,230	(348,458)
CWIP	0	0	225,342	(225,342)	0
Contributions in Aid of Construction	(213,545)	(201,795)	(201,795)	0	(201,795)
Accum. Amortization of CIAC	18,589	17,863	17,863	1,573	19,436
Net Plant	3,645,890	3,142,198	3,714,294	(55,806)	3,658,488
Working Capital (1/5th O&M)	77,431	74,204	75,842	16,067	91,909
Unamortized Balances	83,650	0	0	0	0
Rate Base	$3,806,971	$3,216,402	$3,790,136	($39,739)	$3,750,397

Exhibit GCW-R1 (p. 033)

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Schedule S-B.1

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Adjustments to Pro Forma Sewer System Rate Base

1	Adjustments to Utility Plant in Service.			
	a) General Plant-Structures (Lagoon)	$ 225,342		
	Retire Prior Lagoon Pond	(113,609)		
	Adjustment			$ 111,733
2	Adjust accumulated depreciation to reflect pro forma annual depreciation.			
	a) Annual Depreciation (Schedule C-3)	$ -		
	Retire Prior Lagoon Pond	$ -		
	Adjustment			$ -
3	Reclass Construction Work in Progress to Plant in Service.			
	Adjustment			$ (225,342)
4	Adjust CIAC for Tap Fees related to pro forma customer growth.			
	Adjustment			$ -
5	Adjust accumulated amortization of CIAC to reflect pro forma annual amortization.			
	a) Annual Amortization (Schedule C-3)	$ (1,573)		
	Adjustment			$ 1,573
e)	Adjust working capital allowance for changes to O&M expenses.			
	Expense Adjustment	$ 80,334		
	Working Capital Allowance (Qtrly Billing)	20%		
	Adjustment			$ 16,067
f)	Adjustment to reflect the average unamortized balance of rate case expense and deferred property taxes.			
	Rate Case Costs	$ -		
	Amortization Period (yrs)	3		
	Average Unamortized Balance	-		
	Adjustment			$ -

Exhibit GCW-R1 (p. 034)

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Utility Plant in Service

	UPIS Acct	12/31/2014	Plant Reductions Prior	Plant Reductions GA Cap Mgmt	Additions	Adjusted Test Year
Organizational Costs	351	$ 73,597	$ -			$ 73,597
Land	353	63,710	-			63,710
Collection Mains	361	2,118,279	-			2,118,279
Flow Measuring Device	367				1,956	1,956
WW Pumping Plant	371	158,189	-	-	2,549	160,738
WW Treatment & Disposal Plant	380	259,462	-	-	4,411	263,873
T&D-Aeration Motors	380A	31,832		-		31,832
Plant Sewers	381	818,187				818,187
Outfall Sewer Lines	382	66,704				66,704
Power Generation Equip	355	4,632		-	3,308	7,940
Other Intangible Plant	398	204				204
General Plant-Structures	354	437,859		-		437,859
Office Equipment	390	14,117	-	-		14,117
Transportation Equipmt	391	5,103				5,103
General Plant-Tools & Equip	393	13,472	-	-		13,472
Total Sewer Plant		$ 4,065,347	$ -	$ -	$ 12,224	$ 4,077,571

Exhibit GCW-R1 (p. 035)

Pro Forma Adjustment	Pro Forma 12/31/2015
$ -	$ 73,597
-	63,710
-	2,118,279
	1,956
-	160,738
(113,609)	150,264
-	31,832
	818,187
-	66,704
	7,940
-	204
225,342	663,201
-	14,117
-	5,103
-	13,472
$ 111,733	$ 4,189,304

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Accumulated Depreciation

	UPIS Acct	12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Collection Mains	361	$ 251,560	$ -	$ 251,560	$ 16,513	$ 268,073
Flow Measuring Device	367			-	46	46
WW Pumping Plant	371	7,029		7,029	2,426	9,455
WW Treatment & Disposal Plant	380	21,103	(2,386)	18,717	(109,899)	(91,181)
T&D-Aeration Motors	380A	2,274		2,274	4,547	6,821
Plant Sewers	381	105,306		105,306	7,210	112,516
Outfall Sewer Lines	382	8,997		8,997	473	9,470
Power Generation Equip	355	34		34	122	157
Other Intangible Plant	398	4		4	8	12
General Plant-Structures	354	3,835		3,835	18,071	21,906
Office Equipment	390	791		791	706	1,497
Transportation Equipmt	391	2,224		2,224	850	3,075
General Plant-Tools & Equip	393	3,918		3,918	2,694	6,612
Total Sewer Plant		$407,074	-$2,386	$404,688	-$56,230	$348,458

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer CIAC and Accumulated Amortization

	12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
CIAC - Tap Fees	$ 201,795	$ -	$ 201,795	$ -	$ 201,795
CIAC - Other	-	-		-	-
Water - CIAC	$ 201,795	$ -	$ 201,795	$ -	$ 201,795
Accum. Amortization - Tap Fees	$ 17,689	$ 174	$ 17,863	$ 1,573	$ 19,436
Accum. Amortization - Other	-	-		-	-
Water - CIAC Amortization	$ 17,689	$ 174	$ 17,863	$ 1,573	$ 19,436

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Operating Statement

	Company's Application	ORS Adjusted	PSC Order Pro Forma Present Rates	PSC Order Adjustments		PSC Order Pro Forma Proposed Rates
Operating Revenue.						
Residential	$180,814	$172,590	$172,590	$238,481	(1b)	$411,071
Commercial	75,576	73,365	73,365	94,566	(1d)	167,931
Irrigation	0	0	0	0		0
Availability Billing	272,171	274,682	274,683	334,731	(1f)	609,414
Misc. Other Revenue	9,783	10,468	10,468	13,427	(1h)	23,895
Interdepartmental Sales	0	0	0	0		0
Billing Adj (Remove Tap Fees)	0	0	0	0		0
Total Revenues	538,344	531,105	531,107	681,205		1,212,312
Operating Expense:						
Wages	82,376	88,296	88,296			88,296
Benefits	5,343	3,100	3,100			3,100
Officer & Director's Fees	8,250	8,250	8,250			8,250
Sludge Disposal	0	0	0			0
Power	83,623	65,228	65,228			65,228
Chemicals	4,770	4,510	4,510			4,510
Supplies & Maintenance	13,999	13,288	13,288			13,288
Outside Services-Mgmt	85,682	66,106	85,682			85,682
Outside Services-Engineering	5,443	9,712	9,712			9,712
Outside Services-Accounting	1,381	1,381	1,381			1,381
Outside Services-Legal	11,589	11,589	11,589			11,589
Outside Services-Testing	10,711	10,711	10,711			10,711
Outside Services-Other	7,596	7,596	7,596			7,596
Other Operating Expenses	0	0	0			0
Transportation	1,378	1,225	1,225			1,225
Bad Debt	8,086	54,069	54,069	67,468	(20)	121,536
Insurance	24,161	19,456	19,456			19,456
Regulatory Commission Expense	2,130	2,130	2,130			2,130
Other A&G Expenses	21,753	21,753	21,753			21,753
Accepted ORS Adjustment	0	(15,897)	(15,897)			(15,897)
Total O&M Expense	378,271	372,501	392,078	67,468		459,546
Depreciation	53,328	40,532	53,420			53,420
Amortization	103,038	25,056	175,426			175,426
Revenue Taxes	3,400	4,549	4,549	5,835	(21)	10,384
Property Taxes	100,334	70,440	100,334			100,334
Payroll Taxes	6,866	6,606	6,606			6,606
State and Federal Income Taxes	0	0	0	108,431	(22)	108,431
Total Operating Expenses	645,237	519,685	732,413			914,148
Net Operating Income	($106,893)	$11,420	($201,307)			$298,164
Rate Base	$3,806,971	$3,216,402	$3,750,397			$3,750,397
Rate of Return	-2.81%	0.36%	-5 37%			7 95%
				Revenue Increase		128 3%

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Exhibit GCW-R1 (p. 039)

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Schedule S-C 1

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (1)

a) Adjust residential revenue to reflect the pro forma number of customers at present rates

Residential Revenue Per Schedule E 1	172,590	
Less Residential Revenue Per Books (Test Year)	170,724	
		1,867

b) Adjust residential revenue to reflect the pro forma number of customers at proposed rates

Residential Revenue Per Schedule E 2	411,071	
Less Residential Revenue Per Schedule E 1	172,590	
		238,481

c) Adjust commercial revenue to reflect the pro forma number of customers at present rates.

Commercial Revenue Per Schedule E 1	73,365	
Less Commercial Revenue Per Books (Test Year)	74,396	
		(1,030)

d) Adjust commercial revenue to reflect the pro forma number of customers at proposed rates

Commercial Revenue Per Schedule E 2	167,931	
Less Commercial Revenue Per Schedule E 1	73,365	
		94,566

e) Adjust availability revenue to reflect the pro forma number of customers at present rates

Availability Revenue Per Schedule E 1	274,683	
Less Availability Revenue - Test Year	281,635	
Adjustment		(6,952)

f) Adjust availability revenue to reflect the pro forma number of customers at proposed rates.

Availability Revenue Per Schedule E 2	609,414	
Less Availability Revenue Per Schedule E 1	274,683	
Adjustment		334,731

g) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at present rates relative to test year total revenue

	Total Rev		Misc Rev	
Misc Revenue Per Schedule E 1	531,107	1.97%	10,468	
Less Misc Revenue - Test Year	536,503	1 82%	9,749	
Adjustment				719

h) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at proposed rates relative to pro forma total revenue at present rates

	Total Rev		Misc. Rev.	
Misc Revenue Per Schedule E 2	1,212,312	1.97%	23,895	
Less Misc Revenue Per Schedule E 1	531,107	1 97%	10,468	
Adjustment				13,427

Adjustment (2)

Increase the previuos level of wages for 4 full-time shared employees to reflect the wages of 4 full-time 1 part-time shared employee (an effort to reduce OT) including a 3% wage increase for the full-time employees

Pro forma costs (WP 7 4)	88,296	
Less Test period costs	78,301	
Adjustment		9,994

Adjustment (3)

Adjust employee insurance benefits to reflect current premiums

Pro forma costs (WP 7 4)	3,100	
Less Test period costs	4,490	
Adjustment		(1,390)

Exhibit GCW-R1 (p. 040)

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Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (4)
Adjust Directors' Fees to reflect annual Officer's fees of $12,000 and Directors' fees of $4,500 split between water and sewer operations.

Pro forma costs	8,250	
Less Test period costs	8,250	
Adjustment		0

Adjustment (5)
Adjust pro forma bills to reflect corrected 2nd and 3rd quarter SCE&G bills and increase the level of power costs for increased system demand

	Test Period	Factor	Pro Forma	
July-YE Power	39,527			
Annualized SCE&G Corrected Bills	65,228	1 000	65,228	
less Test Year			57,856	
Adjustment				7,372

Adjustment (6)
Increase the level of chemical costs for increased system demand

	Test Period	Factor	Pro Forma	
Test period costs	4,510	1 000	4,510	
Adjustment				0

Adjustment (7)
Increase the level of operating supply costs for increased number of customers

Test period costs	13,288	
Factor for increase in customers	1.000	
	13,288	
Adjustment		0

Adjustment (8)
Adjust Outside Services-Management to reflect contractual annual increases.

Test period costs	78,825	
Factor for increase in customers	1.050	
	82,785	
Annual Increase	3 5%	
	85,682	
Adjustment		6,857

Adjustment (9)
Adjust Outside Services-Engineering to reflect 2010-2013 average cost to normalize expense.

	2011	2012	2013	2014	Average	
Annual Cost	2,350	6,617	3,093	9,712	9,712	
Less Test period costs					9,712	
Adjustment						0

Adjustment (10)
Adjust transportation costs relative to the number of employees

	Test Period	Factor	Pro Forma	
Transportation	1,225	1 000	1,225	
Adjustment				0

Adjustment (11)
Adjust bad debt expense to reflect revenue write-off percentages established in prior case applied to pro forma revenue under present rates

Metered Sales-Bad debt at 5% of revenues	245,955	0.5%	1,230	
Availability Sales-Bad Debt at 2.5% of revenue	274,683	2 5%	6,867	
			52,586	
Test period costs			52,834	
Adjustment				1,235

Adjustment (12)
Adjustment to record general liability insurance to reflect recent premiums

	Vehicle	Op Bond	General	Flood	Sewer Syst	
Pro Forma Expense	2,576	10,500	28,531	6,715	19,456	
Test Period Expense					12,008	
Adjustment						7,448

Exhibit GCW-R1 (p. 041)

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Schedule S-C 1

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (13)
Adjust Regulatory Expenses to reflect most recent DHEC land application permits

	Golf Course	WWTP		
Pro Forma Expense	800	1,330	2,130	
Test Period Expense			4,884	
Adjustment				(2,754)

Adjustment (14)
Adjustment to reflect the annual depreciation for pro forma plant in service

Pro Forma Depreciation Expense	53,420	
Test period Depreciation Expnse	36,151	
Adjustment		17,269

Adjustment (15)
Adjustment to reflect the amortization of rate case expense and deferred Property Taxes

	Cost	Years	Annual	
Bond Costs (Req'd due to Delayed Rate Order)	30,391	3	10,130	
Total rate case cost	397,105	3	132 368	
Property Taxes	263,422	8	32,928	
Annual amortization			(46,210)	129,216

Adjustment (16)
Adjustment to reflect the revenue taxes on pro forma revenue under present rates.

Revenue	531,107	
Revenue Tax Rate	0 85657%	
	4,549	
Less Test Year Revenue Tax	2,996	
Adjustment		1,553

Adjustment (17)
Adjustment property Taxes to reflect actual tax bills and rates for updated market values of Land, Building & Contents

	Market Value	Assessed Value	Effective Tax Rate	Property Tax Amt	
Pro Forma Property Taxes	3,840,846	403,289	0 24879.	100,334	
Less Test Year Property Taxes				2,105	
Adjustment					98,230

Adjustment (18)
Increase the level of payroll taxes to reflect pro forma wages

Pro forma costs (WP 7 4)	6 606	
Test period costs	6,591	
Adjustment		15

Adjustment (19)
Adjustment to reflect State and Federal Income Taxes

Revenue	531,107			
O&M Expense	(392,078)			
Depreciation	(53,420)			
Amortization	(175,426)			
Taxes - Other	(111,490)			
Interest Expense	(115,887)			
State Taxable Income	(317,194)			
State Income Tax Rate		5 000%		
SIT			0	
Federal Taxable Income	(317,194)			
Federal Income Tax Rate		34 000%		
FIT			0	
Pro Forma Income Tax			0	
Test Period Income Tax			0	
Adjustment				0

Exhibit GCW-R1 (p. 042)

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Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (20)				
Adjust bad debt expense to reflect rate increase.				
Pro forma Bad Debt at Present Rates			52,586	
Rate Increase Percentage			128 3%	
Adjustment				67,468
Adjustment (21)				
Adjustment to reflect the revenue taxes on pro forma revenue under proposed rates				
Revenue Requirement			1,212,304	
Revenue Tax Rate		0 8566%	0 85657%	
Revenue Tax at Proposed Rates			10,384	
Revenue Tax at Present Rates			4,549	
Adjustment				5,835
Adjustment (22)				
Adjustment to reflect State and Federal Income Taxes				
Revenue	1,212,304			
O&M Expense	(459,546)			
Depreciation	(53,420)			
Amortization	(175,426)			
Taxes - Other	(117,325)			
Interest Expense	(115,887)			
State Taxable Income	290,701			
State Income Tax Rate		5 000%		
SIT			14,535	
Federal Taxable Income	276,166			
Federal Income Tax Rate		34 000%		
FIT			93,896	
Pro Forma Income Tax-Proposed Rates			108,431	
Pro Forma Income Tax-Present Rates			0	
Adjustment				108,431

Schedule S-C.2

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Operating Expenses - Sewer

	Acct	12 Months Ended 12/31/13 Expense	12 Months Ended 12/31/14 Expense	Adjusted Rate Year Expense
Wages	701	49,297	78,301	88,296
Benefits	703	5,495	4,490	3,100
Officer & Director's Fees	704	2,250	8,250	8,250
Sludge Disposal		0	0	0
Power	715	36,833	57,856	65,228
Chemicals	718	5,936	4,510	4,510
Supplies & Maintenance	720	8,185	13,288	13,288
Outside Services-Mgmt	734	76,157	78,825	85,682
Outside Services-Engineering	731	3,093	9,712	9,712
Outside Services-Accounting	732	1,999	1,381	1,381
Outside Services-Legal	733	5,819	11,589	11,589
Outside Services-Testing	735	16,949	10,711	10,711
Outside Services-Other	736	11,426	7,596	7,596
Other Operating Expenses		0	0	0
Transportation	750	2,714	1,225	1,225
Bad Debt	770	69,756	52,834	54,069
Insurance	757	18,952	12,008	19,456
Regulatory Commission Expense	767	12,572	7,818	2,130
a) Reclass to Revenue Tax	767	(1,889)	(2,934)	
Other A&G Expenses	775	11,339	21,753	21,753
Total O&M Expense		336,882	379,211	407,975
Depreciation	403	28,770	36,151	53,420
Amortization	407	46,210	46,210	175,426
Revenue Taxes	408	63	63	4,549
a) Reclass from Reg. Comm. Exp.	408	1,889	2,934	
Property Taxes	408	3,985	2,105	100,334
Payroll Taxes	408	7,345	6,591	6,606
State and Federal Income Taxes	409	0	0	0
Total Operating Expenses		425,143	473,265	748,310

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Schedule S-C.3

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Depreciation Expense - Sewer

	Pro Forma UPIS Balance	Depreciation Rate	ORS Pro Forma Utilization	Pro Forma Depreciation Expense
Collection Mains	$ 2,118,279	2.198%	35.47%	$ 16,513
Flow Measuring Device	1,956	6.667%	35.47%	46
WW Pumping Plant	160,738	4.255%	35.47%	2,426
WW Treatment & Disposal Plant	150,264	2.484%	35.47%	1,324
T&D-Aeration Motors	31,832	14.286%	100.00%	4,547
Plant Sewers	818,187	2.484%	35.47%	7,210
Outfall Sewer Lines	66,704	2.000%	35.47%	473
Power Generation Equip	7,940	4.348%	35.47%	122
Other Intangible Plant	204	4.000%	100.00%	8
T&D-Structures	641,026	2.725%	100.00%	17,467
General Plant-Structures	22,175	2.725%	100.00%	604
Office Equipment	14,117	5.000%	100.00%	706
Transportation Equipmt	5,103	16.667%	100.00%	850
General Plant-Tools & Equip	13,472	20.000%	100.00%	2,694
CIAC - Tap Fees	(201,795)	2.198%	35.47%	(1,573)
CIAC - Other	-	2.000%	35.47%	-
	3,850,202			53,420
Depreciation Expense				$ 54,993
Amortization of CIAC				(1,573)
Net Depreciation				$ 53,420

Exhibit GCW-R1 (p. 045)

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Docket No. 2014-346-WS Schedule S-D

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Sewer Capital Structure and Rate of Return

PSC Order	Amount	Ratio	Cost Rate	Weighted Cost
L-T Debt	$2,016,273	53.8%	5.75%	3.09%
S-T Debt	0	0.0%	0.00%	0.00%
Equity	1,734,124	46.2%	10.50%	4.86%
	$3,750,397	100.0%		7.95%

ORS Adjusted	Amount	Ratio	Cost Rate	Weighted Cost
L-T Debt	$1,479,545	46.0%	5.29%	2.43%
S-T Debt	0	0.0%	0.00%	0.00%

Exhibit GCW-R1 (p. 046)

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Billing Analysis at Present Rates
12/31/2014

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,044.0			$110.38		$115,237		$115,237
Total gals		11,552.907	11,553.000		$1 32		$15,250	$15,250
Residential-MUC/BP	443 0			$80 72		$35,759		$35,759
Total gals		6,222 398	2,296.390		$1.95		$4,478	$4,478
	1,487.0	17,775.305	13,849.390			$150,996	$19,728	$170,724
Commercial-DIUC	102 0			$178.21		$18,177		$18,177
Total gals		4,495.220	4,495.000		$1.32		$5,933	$5,933
Commercial-MUC/BP	166.0			$136.60		$22,676		$22,676
Total gals		3,996.052	2,389.990		$1 95		$4,660	$4,660
Multi-Unit-MUC/BP	168 0			$136.60		$22,949		$22,949
Total gals					$1.95		$0	$0
	436 0	8,491.272	6,884 990			$63,802	$10,594	$74,396
Total Sewer Revenues	1,923 0	26,266.577	20,734.379			$214,798	$30,322	$245,119
						87.6%	12 4%	
Availability Billing-DIUC	2,063 0			$55.19				$113,857
Availability Billing-MUC/BP	1,972.0			$85.08				$167,778
	4,035 0							$281,635
Misc. Revenue (Late Chgs)							1 82%	$9,749
Interdepartmental Revenue								$0
Total Sewer Operating Revenue								$536,503
Revenue Per Books								$533,155
Difference								$3,349

Exhibit GCW-R1 (p. 047)

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Billing Analysis at Present Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,061.0			$110.38		$117,113		$117,113
Total gals		11,552.907	11,552.907		$1.32		$15,250	$15,250
Residential-MUC/BP	448.0			$80.72		$36,163		$36,163
Total gals		6,222.398	2,296.390		$1.77		$4,065	$4,065
	1,509.0	17,775.305	13,849.297			$153,276	$19,314	$172,590
Commercial-DIUC	102.0			$178.21		$18,177		$18,177
Total gals		4,495.220	4,495.220		$1.32		$5,934	$5,934
Commercial-MUC/BP	329.0			$136.60		$44,941		$44,941
Total gals		3,996.052	2,436.565		$1.77		$4,313	$4,313
Multi-Unit-MUC/BP				$136.60		$0		$0
Total gals					$1.77		$0	$0
	431.0	8,491.272	6,931.785			$63,119	$10,246	$73,365
Total Sewer Revenues	1,940.0	26,266.577	20,781.082			$216,395	$29,561	$245,955
						88.0%	12.0%	
Availability Billing-DIUC	1,917.0			$55.19				$105,799
Availability Billing-MUC/BP	1,985.0			$85.08				$168,884
	3,902.0							$274,683
Misc. Revenue (Late Chgs)							1.97%	$10,468
Interdepartmental Revenue								$0
Total Sewer Operating Revenue								$531,107

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Billing Analysis at Proposed Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,061.0			$242.14		$256,911		$256,911
Total gals		11,552.907	11,552 907		$2.57		$29,691	$29,691
Residential-MUC/BP	448.0			$242.14		$108,479		$108,479
Total gals		6,222.398	6,222.000		$2.57		$15,991	$15,991
	1,509.0	17,775.305	17,774.907			$365,389	$45,682	$411,071
Commercial-DIUC	102.0			$339.00		$34,578		$34,578
Total gals		4,495.220	4,495 220		$2.57		$11,553	$11,553
Commercial-MUC/BP	329.0			$339 00		$111,531		$111,531
Total gals		3,996.052	3,996.000		$2.57		$10,270	$10,270
Multi-Unit-MUC/BP	0.0			$339.00		$0		$0
Total gals		0.000	0.000		$2.57		$0	$0
	431.0	8,491.272	8,491.220			$146,109	$21,822	$167,931
Total Sewer Revenues	1,940 0	26,266.577	26,266.127			$511,498	$67,504	$579,002
						88 34%	11 66%	
Availability Billing-DIUC	1,917.0			$156.18				$299,397
Availability Billing-MUC/BP	1,985.0			$156.18				$310,017
	3,902.0							$609,414
Misc. Revenue (Late Chgs)							1 97%	$23,895
Interdepartmental Revenue								$0
Total Sewer Operating Revenue								$1,212,312

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Daufuskie Island Utility Company, Inc.

Revenue Requirement

		Company Application	ORS Adjusted	PSC Order Water
Equity Return		$235,271	$161,785	$182,269
Gross Revenue Tax	0.85657%	2,385	2,229	2,512
Effective Income Tax Rate	37.3000%	139,962	96,245	108,431
Equity Grossed-Up	37.8371%	377,618	260,260	293,212
O&M Expenses		387,157	409,380	459,546
Depreciation		53,328	40,532	53,420
Amortization		103,038	25,056	175,426
Property Taxes		100,334	70,440	100,334
Payroll Taxes		6,866	6,606	6,606
Interest Expense		97,078	78,159	115,887
		747,801	630,173	911,219
Gross Revenue Tax		4,752	5,445	7,873
		752,553	635,618	919,092
Revenue Requirement		$1,130,171	$895,877	$1,212,304
Revenue @ Present Rates		538,343	531,105	531,107
Percentage Increase		109.9%	68.7%	128.3%

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Daufuskie Island Utility Company, Inc.

Rate Design - Sewer System

Metered Sales

	PRESENT Quarterly Rates	Factor	PROPOSED Quarterly Rates	Percentage Change
Base Service:				
Residential-DIUC	$ 110.38	1 00	$ 242 14	119.4%
Residential-MUC/BP	$ 80.72	0.73	$ 242.14	200.0%
Commercial-DIUC	$ 178.21	1.61	$ 339.00	90 2%
Commercial-MUC/BP	$ 136.60	1.24	$ 339.00	148 2%
Multi-Family-MUC/BP	$ 136.60	1.24	$ 339.00	148 2%
Availability Billing-DIUC	$ 55.19	0.50	$ 156.18	183.0%
Availability Billing-MUC/BP	$ 85.08	0.77	$ 156.18	83.6%
Usage:				
Residential-DIUC	$ 1.32	1 00	$ 2.57	94.7%
Residential-MUC/BP	$ 1.77	1 34	$ 2.57	45.2%
Commercial-DIUC	$ 1 32	1.00	$ 2.57	94 7%
Commercial-MUC/BP	$ 1.77	1.34	$ 2.57	45.2%
Multi-Family-MUC/BP	$ 1 77	1.34	$ 2.57	45.2%

Pro Forma Existing Rates:

Service Charge Revenue	$ 216,394 56	40 74%	92 46%	Base
Metered Usage Revenue	29,560.86	5 57%	5 57%	Usage
Irrigation Revenue	-	0.00%		
Availability Revenue	274,683.03	51.72%		
Subtotal	$ 520,638.45			
Late Charge Revenue	10,468.26	1.97%	1.97%	
Total Revenue	$ 531,106.71		100.00%	

Pro Forma Revenue Requirement:		(Sch E 2 Results)	% Increase
Service Charge Revenue	$ 493,942 23	$ 511,498.26	136.4%
Metered Usage Revenue	67,475.62	67,503.95	128.4%
Irrigation Revenue	-	-	
Availability Revenue	626,991.50	609,414.36	121.9%
Subtotal	$ 1,188,409.35	$ 1,188,416 57	
Late Charge Revenue	23,894.85	23,894.99	128.3%
Total Revenue	$ 1,212,304.20	$ 1,212,311.56	128.3%

Service Charge Rates

	Quarterly Bills	Factor	Factored Bills	Proposed Rate
Residential-DIUC	1,061	1.00	1,061.0	$ 242.14
Residential-MUC/BP	448	1.00	448.0	$ 242.14
Commercial-DIUC	102	1 40	142.8	$ 339 00
Commercial-MUC/BP	329	1 40	460.6	$ 339 00
Multi-Family-MUC/BP	0	1.40	0.0	$ 339 00
Availability Billing-DIUC	1,917	0 645	1,236 5	$ 156 18
Availability Billing-MUC/BP	1,985	0.645	1,280.3	$ 156.18
	5,842		4,629.2	
			$ 1,120,933.73	
			$ 242.14	

Usage Rates	TG	Factor	Factored Bills	Proposed Rate
Residential-DIUC	11,552 9	1.00	11,552.9	$ 2.57
Residential-MUC/BP	6,222 0	1.00	6,222.0	$ 2.57
Commercial-DIUC	4,495 2	1.00	4,495.2	$ 2.57
Commercial-MUC/BP	3,996.0	1.00	3,996.0	$ 2.57
Multi-Family-MUC/BP	-	1.00	0.0	$ 2.57
0 to 18,000 gals (quarterly)	-		0 0	
18,001 to 60,000 gals	-		0.0	
Over 60,000 gals	-		0 0	
	26,266.1		26,266.1	
			$ 67,475.62	
			$ 2 57	

Exhibit GCW-R1 (p. 051)

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Melrose Utility Company, Inc
Sewer Plant In Service-Melrose System
Depreciation Schedule

	Installed	Service Life	Original Cost	1987 Deprec	1988 Deprec	1989 Deprec	1990 Deprec	1991 Deprec	1992 Deprec	1993 Deprec	1994 Deprec	1995 Deprec	1996 Deprec	1997 Deprec	1998 Deprec	1999 Deprec	2000 Deprec	2001 Deprec	2002 Deprec	2003 Deprec	2004 Deprec	2005 Deprec
Sewer Mains	1987	50	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1988	50	0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1989	50	0 00			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1990	50	0 00				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1991	50	0 00					0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1994	50	0 00								0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1996	50	0 00										0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	2000	50	33,500 00														35 64	84 89	97 49	110 68	123 82	137 02
	2005	50	28,962 00																			59 23
Annual Depreciation			62,462 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	35 64	84 89	97 49	110 68	123 82	196 25
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	35 64	120 53	218 02	328 70	452 52	648 77
WW Treatment Plant	1987	32	318 952 40	0 00	0 00	0 00	0 00	0 00	0 00	0 00	73 26	294 03	440 55	604 02	766 48	914 00	1,060 52	1,262 85	1,450.24	1 646 59	1 841 95	2,038 31
	1994	32	113,609 00								26 09	104 73	156 92	215 15	273 02	325 56	377 75	449 82	516 57	586 51	656 09	726 03
	1996	32	5,432 00										3 75	10 29	13 05	15 57	18 06	21 51	24 70	28 04	31 37	34 71
	1997	32	7,070 00											6 69	16 99	20 26	23 61	27 99	32 15	36 60	40 83	45 18
	1999	32	1,024 00													1 47	3 40	4 05	4 66	5 29	5 91	6 54
	2000	32	12,030 00														20 00	47 63	54 70	62 10	69 47	76 88
	2002	32	3,600 00																6 18	18 59	20 79	23 01
	2003	32	23,400 00																	60 40	135 14	149 54
	2004	32	1,496 00																		4 32	9 56
Annual Depreciation			486,613 40	0 00	0 00	0 00	0 00	0 00	0 00	0 00	99 35	398 76	601 22	836 15	1,069 54	1,276 66	1,503.24	1,813 85	2,091 20	2,444 02	2,805 87	3,109 76
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	99 35	498 11	1,099 33	1,935 48	3,005 02	4,281 68	5,785 12	7,598 97	9,690 17	12,134 19	14,940 06	18,049 82
Outfall Main	1987	50	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Annual Depreciation			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Pumping Equipment	1994	32	6 703 00								1 54	6 18	9 26	12 69	16 11	19 21	22 29	26 54	30 48	34 60	38 71	42 84
	1995	32	9,361 00									4 31	12 93	17 73	22 50	26 83	31 13	37 06	42 56	48 33	54 06	59 82
	2000	32	2,393 00														3 98	9 47	10 88	12 35	13 82	15 29
	2002	32	10,741 00																24 42	55 45	62 03	68 64
			29,198 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 54	10 49	22 19	30 42	38 61	46 04	57 40	73 07	108 34	150 73	168 62	186 59
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 54	12 03	34 22	64 64	103 25	149 29	206 69	279 76	388 10	538 83	707 45	894 04
General Plant	1994	50	9,562 50								1 40	5 64	8 44	11 58	14 69	17 52	20 33	24 21	27 80	31 66	35 31	39 07
	1999	10	4,202 50													19 27	44 71	53 25	61 15	69 43	77 66	85 94
	2004	50	13,219 00																		24 43	54 07
Annual Depreciation			26,974 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 40	5 64	8 44	11 58	14 69	36 79	65 04	77 46	88 95	100 99	137 40	179 08
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 40	7 04	15 48	27 06	41 75	78 54	143 58	221 04	309 99	410 98	548 38	727 46
System Utilization Percentage				0 00%	0 00%	0 00%	0 00%	0 00%	0 00%	0 00%	1 47%	2 95%	4 42%	6 06%	7 69%	9 17%	10 64%	12 67%	14 55%	16 52%	18 48%	20 45%
Annual Depreciation				$0 00	$0 00	$0 00	$0 00	$0 00	$0 00	$0 00	$102 29	$414 89	$631 85	$878 15	$1,122 84	$1,359 69	$1,651 32	$2,049 27	$2,385 98	$2,806 42	$3,235 71	$3,671 68
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	102 29	517 18	1,149 03	2,027 18	3,150 02	4,509 71	6,171.03	8,220 30	10,606 28	13,412 70	16,648.41	20,320 09

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Daufuskie Island Utility Company, Inc.
Sewer Plant in Service-Melrose System
Depreciation Schedule

	Installed	Service Life	2014 Adjd Life	Original Cost	2006 Deprec	2007 Deprec	2008 Deprec	2009 Deprec	2010 Deprec	2011 Deprec	2012 Deprec	2013 Deprec	2014 Deprec	2015 Deprec	2016 Deprec	2017 Deprec	2018 Deprec	2019 Deprec	2020 Deprec	2021 Deprec	2022 Deprec	2023 Deprec	2024 Deprec
Sewer Mains	1987	50	45 5	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1988	50	45 5	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1989	50	45 5	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1990	50	45 5	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1991	50	45 5	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1994	50	45 5	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1996	50	45 5	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2000	50	45 5	33,500 00	150 15	162 21	173 20	186 53	192 69	196 31	196 31	207 30	249 45										
	2005	50	45 5	28 962 00	129 81	140 23	149 73	161 26	166 59	169 72	169 72	179 22	215 66										
	2008	50	45 5	0 00			0 00	0 00	0 00	0 00	0 00	0 00	0 00										
Annual Depreciation				62,462 00	279 96	302 44	322 93	347 79	359 28	366 03	366 03	386 52	465 11	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance		648 77	928 73	1,231 17	1,554 10	1,901 89	2,261 17	2,627 20	2,993 23	3,379 75	3,844 86										
WW Treatment Plant	1987	32	40 25	318,952 40	2,233 66	2,413 07	2,576 54	2,774 89	2,866 58	2,920 51	2,920 51	3,083 67	2,684 75										
	1994	32	40 25	113,609 00	795 62	859 52	917 75	988 40	1,021 06	1,040 27	1,040 27	1,098 38	956 29										
	1996	32	40 25	6,432 00	38 04	41 10	43 88	47 26	48 82	49 74	49 74	52 52	45 72										
	1997	32	40 25	7,070 00	49 51	53 49	57 11	61 51	63 54	64 80	64 80	68 36	59 51										
	1999	32	40 25	1,024 00	7 17	7 75	8 27	8 91	9 20	9 38	9 38	9 90	8 62										
	2000	32	40 25	12,030 00	84 25	91 01	97 18	104 66	108 12	110 15	110 15	116 32	101 26										
	2002	32	40 25	3,600 00	25 21	27 24	29 08	31 32	32 36	32 96	32 96	34 81	30 30										
	2003	32	40 25	23,400 00	163 87	177 04	189 03	203 58	210 31	214 26	214 26	226 25	196 97										
	2004	32	40 25	1,496 00	10 48	11 32	12 08	13 02	13 45	13 70	13 70	14 46	12 59										
	2006	32	40 25	2,336 00	8 18	17 67	18 87	20 32	20 99	21 39	21 39	22 59	19 66										
	2007	32	40 25	19 875 00		75 18	160 55	172 91	178 63	181 98	181 98	192 17	167 30										
	2009	32	40 25	0 00			0 00	0 00	0 00	0 00	0 00	0 00	0 00										
Annual Depreciation				508,824 40	3,415 99	3,774 39	4,110 34	4,426 78	4,573 06	4,659 14	4,659 14	4,919 43	4,282 97	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance		18,049 82	21,465 81	25,240 20	29,350 54	33,777 32	38,350 38	43,009 52	47,668 66	52,588 09	56,871 06										
Outfall Main	1987	50		0 00	0 00	0 00	0 00	0 00	0 00														
Annual Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance		0 00	0 00	0 00	0 00	0 00	0 00														
Pumping Equipment	1994	32	23 5	6 703 00	46 94	50 71	54 15	58 32	60 24	61 37	61 37	64 81	96 64										
	1995	32	23 5	9,361 00	65 56	70 82	75 62	81 44	84 13	85 71	85 71	90 51	134 96										
	2000	32	23 5	2,393 00	16 76	18 10	19 33	20 82	21 51	21 91	21 91	23 14	34 50										
	2002	32	23 5	10,741 00	75 22	81 26	86 77	93 45	96 53	98 35	98 35	103 85	164 85										
	2008	32	23 5	0 00			0 00	0 00	0 00	0 00	0 00	0 00	0 00										
Power Transfer Switch	2014		23	4,632 28									34 12										
Annual Depreciation				33,830 28	204 48	220 89	235 87	254 03	262 41	267 34	267 34	282 31	455 07	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance		894 04	1,098 52	1,319 41	1,555 28	1,809 31	2,071 72	2,339 06	2,606 40	2,888 71	3,343 78										
General Plant	1994	50	36 7 SL	8,956 00	40 14	43 36	46 30	49 87	51 51	52 48	52 48	55 42	244 03										
Furn & Fixtures	1994	50	20 SL	596 50	2 67	2 89	3 08	3 32	3 43	3 50	3 50	3 69	29 83										
	1999	10	6 SL	4,202 50	94 18	101 74	108 63	117 00	120 86	123 13	123 13	130 03	700 42										
	2004	50	36 7 SL	13,219 00	59 25	64 01	68 34	73 60	76 04	77 46	77 46	81 80	360 19										
	2007	10		0 00			0 00	0 00	0 00	0 00	0 00	0 00											
	2008	10		0 00				0 00	0 00	0 00	0 00	0 00											
	2010	10		0 00					0 00	0 00	0 00	0 00											
Annual Depreciation				26,974 00	196 24	212 00	226 35	243 79	251 84	256 57	256 57	270 94	1,334 47	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance		727 46	923 70	1,135 70	1,362 05	1,605 84	1,857 68	2,114 25	2,370 82	2,641 76	3,976 23										
System Utilization Percentage					22 41%	24 21%	25 85%	27 84%	28 76%	29 30%	29 30%	30 94%	33 88%										
Annual Depreciation					$4,096 67	$4,509 72	$4,895 49	$5,272 39	$5,446 59	$5,549 08	$5,549 08	$5,859 20	$6,537 62										
Accumulated Depreciation		Balance		20,320 09	24,416 76	28,926 48	33,821 97	39,094 36	44,540 95	50,090 03	55,639 11	61,498 31	68,035 93										
								2009	2010	2011	2012	2013	2014										
CIAC				79,500 00																			
Annual Depreciation								$442 66	$457 28	$466 89	$466 89	$491 91	$538 69										
Accumulated Depreciation								2,420 68	2,877 96	3,343 85	3,809 74	4,301 65	4,840 346										

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Daufuskie Island Utility Company, Inc
Water Plant in Service-Hwy 170 System
Depreciation Schedule

	Installed	Service Life	Original Cost	1987 Deprec	1988 Deprec	1989 Deprec	1990 Deprec	1991 Deprec	1992 Deprec	1993 Deprec	1994 Deprec	1995 Deprec	1996 Deprec	1997 Deprec	1998 Deprec	1999 Deprec	2000 Deprec	2001 Deprec	2002 Deprec	2003 Deprec	2004 Deprec	2005 Deprec
Water Mains	1986	50	83,220 40	46 65	131 82	164 61	181 09	210 05	241 01	274 29	303 75	337 04	366 67	399 79	431.25	462 71	492 17	510 64	540 10	589 87	644 46	664 60
	1987	50	480,308 46	270 41	760 81	950 05	1,045 15	1,212 30	1,390 97	1,583 10	1,753 13	1,945 25	2,116 24	2,307 40	2,488 96	2,670 62	2 840 54	2,947 17	3,117 20	3,404 43	3,719 51	3,835 74
	1988	50	119,068 70		94 30	235 52	259 09	300 53	344 82	392 45	434 60	482 23	524 62	572 01	617 01	662 02	704 17	730 61	772 76	843 96	922 07	950 88
	1989	50	75,197 15			74 37	163 63	189 80	217 77	247 65	274 47	304 55	331 32	361 25	389 67	418 10	444 72	461 41	488 03	533 00	582 33	600 52
	1990	50	125,628 87				136 68	317 09	363 82	414 07	458 55	508 80	553 52	603 52	651 01	698 50	.742 97	770 86	815 33	890 46	972 87	1 003 27
	1991	50	53,728 60					67 81	155 60	177 09	196 11	217 60	236 73	258 11	278.42	298 73	317 75	329 68	348 70	380 83	416 07	429 08
	1994	50	50,624 10								92 39	205 03	223 06	243 20	262 33	281 47	299.39	310 63	328 65	359 82	392 03	404 28
	1996	50	77,957 25										171 74	374 51	403 97	433 44	461 04	478 35	505 94	552 56	603 70	622 57
	1999	50	0 00													0 00	0 00	0 00	0 00	0 00	0 00	0 00
	2000	50	312,121 65														922 94	1,915 18	2,025 67	2,212 32	2,417 07	2,492 60
Annual Depreciation			1,377,855 18	317 26	986 93	1,424 55	1,785 64	2,297 58	2,713 99	3,088 85	3,513 00	4,000 50	4,523 89	5,119 79	5,522 62	5,925 49	7,225 69	8,454 53	8,942 28	9,766 25	10,670 11	11,003 54
Accumulated Depreciation				317 26	1,304 19	2 728 74	4,514 38	6,811 96	9 525 95	12,614 80	16,127 80	20,128 30	24 652 19	29,771 98	35 294 60	41,220 09	48 445 78	56 900 31	65,842 59	75,608 84	86,278 95	97,282 49
Wells, Supply Main & Appert	1987	50	353,359 67	198 94	559 72	698 95	768 91	891 88	1,023 33	1,164 67	1,289 76	1,431 11	1,556 90	1,697 54	1,831 11	1,964 68	2,089 77	2,168.21	2,293 30	2,504 61	2,736.42	2,821 93
	2000	50	0 00														0 00	0 00	0 00	0 00	0 00	0 00
Annual Depreciation			353,359 67	198 94	559 72	698 95	768 91	891 88	1,023 33	1,164 67	1,289 76	1,431 11	1,556 90	1,697 54	1,831 11	1,964 68	2 089 77	2,168 21	2,293 30	2,504 61	2,736 42	2,821 93
Accumulated Depreciation				198 94	758 66	1,457 61	2,226 52	3,118 40	4,141 73	5,308 40	6,596 16	8,027 27	9 584 17	11,281 71	13,112 82	15,077 50	17,167 27	19,335 48	21,628 78	24,133 39	26,869 81	29,691 74
Reservoirs & Standpipes		50	0 00																		0 00	0 00
Annual Depreciation			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Water Treatment Plant	1994	50	0 00								0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1996	50	0 00										0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1997	50	0 00											0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1999	50	0 00													0 00	0 00	0 00	0 00	0 00	0 00	0 00
	2000	50	0 00														0 00	0 00	0 00	0 00	0 00	0 00
	2004	50	0 00																		0 00	0 00
Annual Depreciation			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Transmission & Distrib.Plant	2000	50	0 00														0 00	0 00	0 00	0 00	0 00	0 00
	2005	50	0 00																			0 00
Annual Depreciation			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
General Plant	1994	50	0 00								0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1999	10	0 00													0 00	0 00	0 00	0 00	0 00	0 00	0 00
	2004	50	0 00																		0 00	0 00
Annual Depreciation			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
System Utilization Percentage				5 63%	7 92%	9 89%	10 88%	12 62%	14 48%	16 48%	18 25%	20.25%	22 03%	24 02%	25 91%	27 80%	29 57%	30 68%	32 45%	35 44%	38 72%	39 93%
Annual Depreciation				$516 20	$1,546 65	$2,123 50	$2,564 55	$3,189 46	$3,737 32	$4,253 62	$4,802 76	$5,431 61	$6,080 79	$6,817 33	$7,353 73	$7,890 17	$9,315 46	$10,622 74	$11,235 68	$12,270 86	$13,406 63	$13,825 47
Accumulated Depreciation				516 20	2,062 85	4,186 35	6,740 90	9,930 36	13,667 68	17,921 20	22,723 96	28,155 57	34 236 36	41,053 69	48,407.42	56,297 59	65,613 05	76,235 79	87,471 37	99,742 23	113,148 76	126,974.23

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Daufuskie Island Utility Company, Inc
Water Plant in Service-Haig Pt System
Depreciation Schedule

	Installed	Service Life	2014 Adj'd Life		Original Cost	2006 Deprec	2007 Deprec	2008 Deprec	2009 Deprec	2010 Deprec	2011 Deprec	2012 Deprec	2013 Deprec	2014 Deprec	2015 Deprec	2016 Deprec	2017 Deprec	2018 Deprec	2019 Deprec	2020 Deprec	2021 Deprec	2022 Deprec	2023 Deprec	2024 Deprec
Water Mains	1986	50			83,220 40	684 74	705 04	725 16	752 65	767 46	767 46	767 29	767 29	753 64										
	1987	50			480,308 46	3,951 98	4,069 17	4,185 41	4,343 91	4,429 40	4,429 40	4,428 44	4,438 74	4,349 67										
	1988	50			119,068 70	979 70	1,008 75	1,037 56	1,076 86	1,098 05	1,098 05	1,097 81	1,097 81	1,078 29										
	1989	50			76 197 15	618 72	637 07	655 27	680 08	693 47	693 47	693 32	693 32	680 99										
	1990	50			125,628 87	1,033 67	1,064 33	1,094 73	1,135 19	1,158 55	1,158 55	1,158 30	1,158 30	1,137 70										
	1991	50			53,728 60	442 08	455 19	468 19	485 92	495 49	495.49	495 38	495 38	486 57										
	1994	50			50,624 10	416 54	428 89	441 14	457 84	466 86	466 86	466 75	466 75	458 45										
	1996	50			77,957 25	641 43	660 45	679 32	705 05	718 92	718 92	718 77	718 77	705 98										
	1999	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2000	50			312,121 65	2,568 14	2,644.29	2,719 83	2,822 83	2,878 39	2,878 39	2,877 76	2,877 76	2,826 57										
	2002	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2005	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
Retirement (1986 Mains)	2006	50			-16,112 00	-66 28	-136 50	-140 40	-145 72	-148 58	-148 58	-148 55	-148 55	-145 91										
Retirement - Meters (1986)	2007	50			-3,554 00		-15 05	-30 97	-32 14	-32 77	-32 77	-32 77	-32 77	-32 19										
	2008	50			45,430 00			197 94	410 87	418 96	418 96	418 86	418 86	411 41										
Meters	2008	50	15		6,662 43			29 03	60 26	61 44	61.44	61 43	61.43	201 12										
Meters	2010	50	15		1,007 53					4 65	9 29	9 29	9 29	30 41										
	2011	50			6,013 02						49 75	55 44	55 44	54 45										
Meters	2012	50	15		399 26							3 68	3 68	12 05										
Meter Valves	2012	50	15		716 75							6 61	6 61	21 64										
Annual Depreciation					1,418,418 17	11,270 72	11,521 63	12,062 23	12,754 60	13,010 29	13,064 68	13,077 81	13,088 11	13,030 84	0 00	0.00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Retirement	2006					-16,112 00																		
Retirement	2007						-3,554 00																	
Accumulated Depreciation		Balance			97 282 49	92 441 21	100,408 84	112 471 07	125,225 67	138,235 96	151,300 64	164,378 45	177,466 56	190,497 40										
Wells, Supply Main & Appert	1987	50			353,359 67	2,907 44	2,993 66	3,079 18	3,195 78	3,258 68	3,258 68	3,257 98	3,257 98	3,200 03										
	2000	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2007	50			439,705 00		1,862 59	3,831 59	3,976 69	4 054 96	4,054 96	4,054 08	4,054 08	3,981 97										
Chlor Gas Detector	2014		25		9,103 70									82 45										
Annual Depreciation					802,168 37	2,907 44	4 856 25	6,910 77	7,172 47	7 313 64	7,313 64	7 312 06	7 312 06	7,264 45		0.00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance			29,691 74	32,599 18	37,455 43	44,366 20	51,538 67	58,852 31	66,165 95	73,478 01	80,790 07	88,054 52										
Reservoirs & Standpipes	0	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2007	50			863,379 00		3,657 27	7,523 48	7,808 40	7,962 08	7,962 08	7,960 35	7,960 35	7,818 76										
Tank Painting	2014	50	12	S	37,945 74									1,581 08										
Annual Depreciation					901,324 74	0 00	3,657 27	7,523 48	7,808 40	7,962 08	7,962 08	7,960 35	7,960 35	9,399 84		0 00	0 00	0 00	0 00	0.00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance			0 00	0 00	3,657.27	11,180 75	18,989 15	26,951 23	34,913 31	42,873 66	50,834 01	60,233 85										
Water Treatment Plant	1994	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2004	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2006	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2007	50			0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2008	50	40	25	15,525 42			67 64	140 41	143 18	143 18	143 14	143 14	174 66										
	2009	50	40	25	1 820 84				8 23	16 79	16 79	16 79	16 79	20 48										
	2014	50	40	25	3,559 00									20 02										
Annual Depreciation					20,905 26	0 00	0 00	67 64	148 64	159 97	159 97	159 93	159 93	215 16		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance			0 00	0 00	0 00	67 64	216 28	376 25	536 22	696 15	856 08	1,071 24										
Transmission & Distrib.Plant	2000	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
Structures	2007	50	39	25	81,907 00		346 96	713 74	740 77	755 35	755 35	755 18	755 18	945 00										
Pumping Equipmt	2008	50	39	25	23,506 08			102 42	212 59	216 77	216 77	216 73	216 73	271 20										
Pumping Equipmt	2009	50	39	26	6,198 49				28 03	57 16	57 16	57 16	57 16	71 51										
Pumping Equipmt	2012	50	39	25	2,503 60							22 64	23 08	28 89										
Pumping Equipmt & Flow Meter	2014	50	39	25	15,044 13									86 79										
Annual Depreciation					129,159 30	0 00	346 96	816 16	981 39	1 029 28	1,029 28	1 051 71	1 052 15	1,403 39		0 00	0 00	0 00	0 00	0.00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance			0 00	0 00	346 96	1,163 12	2,144 51	3,173 79	4,203 07	5,254 78	6,306 93	7,710 32										
General Plant	1994	50			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
Transportation Equipmt	2007	10	6	S	12,964 00		274 58	564 84	586 23	597 77	597 77	597 64	597 64	2,160 67										
Tools & Shop	2008	10	5	S	3,196 34			69 63	144 54	147 38	147 38	147 38	147 38	639 27										
Transportation Equipmt	2010	10	6	S	900 00					20 75	41 50	41 50	41 50	160 00										
Shop	2010	10	5	S	844 29					19 47	38 93	38 93	38 93	168 86										
Office Equipment	2011	10	20	S	240 22						2 13	11 07	11 07	12 01										
Tools & Shop	2011	10	5	S	290 11						2 50	13 37	13 37	58 02										
Billing Software	2012	10	20	S	2,850 00							131 39	131 39	142 50										
Sign At Wellsite	2014		25	S	403 66									8 08										
Tools & Shop	2014		5	S	1,205 24									120 53										
Server & Software & Website	2014		20	S	10,133.74									253.35										
Annual Depreciation					33,027 60	0 00	274.58	634 47	730 77	785 37	830 21	981 28	981 28	3,713 28		0 00	0 00	0 00	0 00	0.00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance			0 00	0 00	274 58	909 05	1,639 82	2,425 19	3,255.40	4,236 68	5,217 96	8,931 24										
System Utilization Percentage						41 14%	42 36%	43 57%	45 22%	46 11%	46 11%	46 10%	46 10%	45 28%										
Annual Depreciation						$14,178 16	$20 656 69	$28,014 75	$29 596 27	$30 260 63	$30,359 86	$30,543 14	$30,553 88	$35 026 95										
Accumulated Depreciation		Balance			126,974 23	125,040 39	142 143 08	170,157 83	199 754 10	230 014 73	260,374 59	290,917 73	321,471 61	356,498 55										
									2009	2010	2011	2012	2013	2014										
CIAC					354,000 00					$2,500 00	$0 00	$1,000 00	$1,000 00	$3,000 00										
Annual Depreciation									$3,201 58	$3 276 12	$3,286 23	$3,296 15	$3 420 34	$3,546 31										
Accumulated Depreciation									29,237 86	32,513 98	35,800 20	39,096 35	42,516 69	46,063 00										
Consolidated Water System																								
Annual Depreciation										$33,089 60	$33,188 83	$33,372 11	$33,989 81	$41,046 28										
Accumulated Depreciation										$250,538 18	$283,727 01	$317,099 12	$341,920 87	$382 967 14										

Melrose Utility Company, Inc
Water Plant in Service-Melrose System
Depreciation Schedule

	Installed	Service Life	Original Cost	1987 Deprec	1988 Deprec	1989 Deprec	1990 Deprec	1991 Deprec	1992 Deprec	1993 Deprec	1994 Deprec	1995 Deprec	1996 Deprec	1997 Deprec	1998 Deprec	1999 Deprec	2000 Deprec	2001 Deprec	2002 Deprec	2003 Deprec	2004 Deprec	2005 Deprec
Water Mains	1986	50	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1987	50	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1988	50	0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1989	50	0 00			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1990	50	0 00				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1991	50	0 00					0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Mains & Meters	1994	50	7,734 00								0 89	4 21	6 65	9 40	11 99	14 43	16 86	20 32	23 48	26 73	29 96	33 04
	1996	50	0 00										0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Meters	1999	50	632 00													0 59	1 38	1 66	1 92	2 18	2 45	2 70
	2000	50	0 00														0 00	0 00	0 00	0 00	0 00	0 00
	2002	50	18,743 00																28 45	64 78	72 61	80 07
	2005	50	72,947 00																			155 81
Annual Depreciation			100,056 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 89	4 21	6 65	9 40	11 99	15 02	18 24	21 98	53 85	93 69	105 02	271 62
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 89	5 10	11 75	21 15	33 14	48 16	66 40	88 38	142 23	235 92	340 94	612 56
Wells, Supply Main & Appert	1987	50	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	2000	50	1,800 00														1 96	4 73	5 46	6 22	6 97	7 69
Annual Depreciation			1,800 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 96	4 73	5 46	6 22	6 97	7 69
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 96	6 69	12 15	18 37	25 34	33 03
Reservoirs & Standpipes	2004	50	6,000 00																		11 62	25 63
Annual Depreciation			6,000 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	11 62	25 63
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	11 62	37 25
Water Treatment Plant	1994	50	210 987 00								24 26	114 78	181 45	256 56	327 03	393 70	459 95	554 47	640 56	729 17	817 36	901 34
	1995	50	10,086 00										4 34	12 26	15 63	18 82	21 99	26 51	30 62	34 86	39 07	43 09
	1997	50	13,130 00											7 98	20 35	24 50	28 62	34 51	39 86	45 38	50 87	56 09
	1999	50	15,929 00													14 86	34 73	41 96	48 36	55 05	61 71	68 05
	2000	50	4 816 00														5 25	12 66	14 62	16 64	18 66	20 57
	2004	50	2,778 00																		5 38	11 87
Annual Depreciation			257,726 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	24 26	114 78	185 79	276 80	363 01	451 88	550 54	670 01	774 02	881 10	993 05	1,101 01
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	24 26	139 04	324 83	601 63	964 64	1,416 52	1,967 06	2,637 07	3,411 09	4,292 19	5,285 24	6,386 25
Transmission & Distrib Plant	2000	50	10,850 00														11 83	28 51	32 94	37 50	42 03	46 35
	2005	50	12,717 00																			27 16
Annual Depreciation			23,567 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	11 83	28 51	32 94	37 50	42 03	73 51
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	11 83	40 34	73 28	110 78	152 81	226 32
General Plant	1994	50	9,552 50								1 10	5 20	8 22	11 62	14 81	17 82	20 82	25 10	29 00	33 01	37 01	40 81
	1999	10	4,202 50													19 60	45 81	55 22	63 79	72 62	81 40	89 77
	2004	50	13,219 00																		25 61	56 47
Annual Depreciation			26,974 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 10	5 20	8 22	11 62	14 81	37 42	66 63	80 32	92 79	105 63	144 02	187 05
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 10	6 30	14 52	26 14	40 95	78 37	145 00	225 32	318 11	423 74	567 76	754 81
System Utilization Percentage				0 00%	0 00%	0 00%	0 00%	0 00%	0 00%	0 00%	1 15%	2 72%	4 30%	6 08%	7 75%	9 33%	10 90%	13 14%	15 18%	17 28%	19 37%	21 36%
Annual Depreciation				$0 00	$0 00	$0 00	$0 00	$0 00	$0 00	$0 00	$26 25	$124 19	$200 66	$297 82	$389 81	$504 32	$649 20	$805 55	$959 06	$1,124 14	$1,302 71	$1,666 51
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	26 25	150 44	351 10	648 92	1,038 73	1,543 05	2,192 25	2,997 80	3,956 86	5,081 00	6,383 71	8,050 22

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Daufuskie Island Utility Company, Inc
Water Plant In Service-Melrose System
Depreciation Schedule

	Installed	Service Life	2014 Adj'd Life	Original Cost	2006 Deprec	2007 Deprec	2008 Deprec	2009 Deprec	2010 Deprec	2011 Deprec	2012 Deprec	2013 Deprec	2014 Deprec	2015 Deprec	2016 Deprec	2017 Deprec	2018 Deprec	2019 Deprec	2020 Deprec	2021 Deprec	2022 Deprec	2023 Deprec	2024 Deprec
Water Mains	1986	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1987	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1988	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1989	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1990	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1991	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1994	50		7,734 00	36 12	39 04	41 96	44 67	46 14	46 14	46 14	56 04	70 04										
	1996	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1999	50		632 00	2 95	3 19	3 43	3 65	3 77	3 77	3 77	4 58	5 72										
	2000	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2002	50		18,743 00	87 53	94 61	101 70	108 26	111 82	111 82	111 82	135 81	169 74										
	2005	50		72,947 00	340 66	368 24	395 81	421 34	435 20	435 20	435 20	528 57	660 61										
	2006	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2007	50		0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2008	50		0 00			0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2008	50		0 00			0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2010	50		0 00					0 00	0 00	0 00	0 00	0 00										
Annual Depreciation				100,056 00	467 26	505 08	542 90	577 92	596 93	596 93	596 93	725 00	906 11	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Retirement	2006																						
Retirement	2007																						
Accumulated Depreciation		Balance		612 56	1,079 82	1,584 90	2,127 80	2,705 72	3,302 65	3,899 58	4,496 51	5,221 51	6,127 62										
Wells, Supply Main & Appert	1987	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2000	50		1 800 00	8 41	9 09	9 77	10 40	10 74	10 74	10 74	13 04	16 30										
	2007	50		0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
Annual Depreciation				1,800 00	8 41	9 09	9 77	10 40	10 74	10 74	10 74	13 04	16 30	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance		33 03	41 44	50 53	60 30	70 70	81 44	92 18	102 92	115 96	132 26										
Reservoirs & Standpipes	2004	50		6 000 00	28 02	30 29	32 56	34 66	35 80	35 80	35 80	43 48	54 34										
	2007	50		0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
Annual Depreciation				6,000 00	28 02	30 29	32 56	34 66	35 80	35 80	35 80	43 48	54 34	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance		37 25	65 27	95 56	128 12	162 78	198 58	234 38	270 18	313 66	368 00										
Water Treatment Plant	1994	50	40 25	210,967 00	985 31	1,065 06	1,144 82	1,218 66	1 258 75	1,258 75	1,258 75	1 528 81	2,373 54										
	1996	50	40 25	10,086 00	47 10	50 91	54 73	58 26	60 17	60 17	60 17	73 08	113 46	114 00									
	1997	50	40 25	13,130 00	61 32	66 28	71 24	75 84	78 33	78 33	78 33	95 14	147 71	147 00									
	1999	50	40 25	15,929 00	74 39	80 41	86 43	92 01	95 03	95 03	95 03	115 42	179 20	179 00									
	2000	50	40 25	4,816 00	22 49	24 31	26 13	27 82	28 73	28 73	28 73	34 90	54 18										
	2004	50	40 25	2,778 00	12 97	14 02	15 07	16 05	16 57	16 57	16 57	20 13	31 25										
	2006	50	40 25	4,339 00	10 13	21 90	23 54	25 06	25 89	25 89	25 89	31 44	48 81										
	2007	50	40 25	36,912 00		93 17	200 28	213 20	220 22	220 22	220 22	267 46	415 25										
Retirement (1994 Plant)	2013	50	40 25	-2,540 06								0 00	-28 57										
	2013	50	40 25	4,300 00								0 00	48 37										
Annual Depreciation				300,736 94	1 213 71	1 416 06	1,622 24	1,726 90	1 783 69	1 783 69	1,783 69	2,166 38	3,383 20	440 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Retirement	2013											-2 540 06											
Accumulated Depreciation		Balance		6,386 25	7,599 96	9,016 02	10,638 26	12,365 16	14,148 85	15,932 54	17,716 23	17,342.55	20,725 75										
Transmission & Distrib.Plant	2000	50	39.25	10,850 00	50 67	54 77	58 87	62 67	64 73	64 73	64 73	78 62	125 18										
	2005	50	39.25	12 717 00	59 39	64 20	69 00	73 45	75 87	75 87	75 87	92 15	146 72										
Retirement (2005 Plant)	2013	50	39.25	-6 628 00								0 00	-76 47										
	2007	50		0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2008	50		0 00			0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2013	50	39.25	11,222 71								0 00	129 48										
Annual Depreciation				28,161 71	110 06	118 97	127 87	136 12	140 60	140 60	140 60	170 77	324 91	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Retirement	2013											-6 628 00											
Accumulated Depreciation		Balance		226 32	336 38	455 35	583 22	719 34	859 94	1,000 54	1,141 14	-5,316 09	-4,991 18										
General Plant	1994	50	36 7 SL	6,956 00	41 82	45 21	48 60	51 73	53 43	53 43	53 43	64 90	244 03										
Furn & Fixtures	1994	50	20 SL	596 50	2 79	3 01	3 24	3 45	3 56	3 56	3 56	4 32	29 83										
	1999	10	6 SL	4,202 60	98 13	106 07	114 01	121 37	125 36	125 36	125 36	152 26	700 42										
	2004	50	36 7 SL	13,219 00	61 73	66 73	71 73	76 35	78 86	78 86	78 86	95 78	360 19										
	2007	10		0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00											
	2008	10		0 00			0 00	0 00	0 00	0 00	0 00	0 00											
	2010	10		0 00					0 00	0 00	0 00	0 00											
Annual Depreciation				26,974 00	204 47	221 02	237 58	252 90	261 21	261 21	261 21	317 26	1,334 47	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		Balance		754 81	959 28	1,180 30	1,417 88	1,670 78	1,931 99	2,193 20	2,454 41	2,771 67	4,106 14										
System Utilization Percentage					23 35%	25 24%	27 13%	28 86%	29 83%	29 83%	29 83%	36 23%	45 28%										
Annual Depreciation					$2,031 93	$2,300 51	$2,572 92	$2,738 90	$2,828 97	$2,828 97	$2,828 97	$3,435 93	$6,019 33										
Accumulated Depreciation		Balance		8,050 22	10,082 15	12,382 66	14,955 58	17,694 48	20 523 45	23,352 42	26,181 39	20,449.26	26,468 59										
								2009	2010	2011	2012	2013	2014										
CIAC				97,000 00																			
Annual Depreciation								$560 27	$578 70	$578 70	$578 70	$578 70	$578 70										
Accumulated Depreciation								2,623 08	3,201 78	3,780 48	4,359 19	4,937 89	5,516 59										

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Daufuskie Island Utility Company, Inc
Sewer Plant in Service-Haig Pt System
Depreciation Schedule

	Installed	Service Life	Original Cost	1987 Deprec	1988 Deprec	1989 Deprec	1990 Deprec	1991 Deprec	1992 Deprec	1993 Deprec	1994 Deprec	1995 Deprec	1996 Deprec	1997 Deprec	1998 Deprec	1999 Deprec	2000 Deprec	2001 Deprec	2002 Deprec	2003 Deprec	2004 Deprec	2005 Deprec
Sewer Mains	1987	50	767,416 85	263 99	834 95	1,086 66	1,255 49	1,468 64	1,700 60	1,964 59	2,190 21	2,454 20	2,681 35	2,945 35	3,189 38	3,434 96	3,660 58	3,849 36	4,076 62	4,357 39	4,865 42	5,072 63
	1988	50	14,681 70		7 99	20 79	24 02	28 10	32 63	37 59	41 90	46 95	51 30	56 35	61 02	65 72	70 03	73 64	77 99	83 36	93 08	97 05
	1989	50	142,173 10			100 66	232 60	272 12	315 06	363 96	405 76	454 67	496 75	545 66	590 87	636 37	678 17	713 14	755 22	807 26	901 38	939 76
	1990	50	90,386 25				73 94	173 00	200 30	231 39	257 96	289 06	315 81	346 90	375 65	404 57	431 14	453 38	480 13	513 21	573 05	597 45
	1991	50	69,783 00					66 78	154 64	178 64	199 16	223 17	243 82	267 83	290 02	312 35	332 86	350 03	370 69	396 23	442 42	461 27
	1994	50	117,511 20								167 69	375 80	410 58	451 01	488 38	525 98	560 53	589 44	624 22	667 23	745 02	776 75
	1996	50	139,879 45										244 37	536 86	581 34	626 10	667 22	701 64	743 04	794 24	886 84	924 60
	2000	50	705,985 45														1,683 78	3,541 22	3,750 19	4,008 59	4,475 95	4,666 56
	2005	50																				0 00
Annual Depreciation			2,047,817 01	263 99	842 94	1,208 11	1,586 05	2,008 64	2,403 13	2,776 17	3,262 68	3,843 85	4,443 98	5,149 96	5,576 66	6,006 05	8,084 31	10,271 85	10,878 00	11,627 51	12,983 16	13,536 07
Accumulated Depreciation				263 99	1,106 93	2,315 04	3,901 09	5,909 93	8,313 06	11,089 23	14,351 91	18,195 76	22,639 74	27,789 70	33,366 36	39,372 41	47,456 72	57,728 57	68,606 57	80,234 08	93,217 24	106,753 31
WW Treatment Plant	1987	32	478 428 60	257 16	813 33	1 056 52	1 222 98	1 430 60	1 656 56	1,913 71	2 133 49	2,390 65	2 611 92	2,869 08	3,106 80	3,346 01	3,565 79	3 749 68	3,970 96	4,244 56	4,739.43	4,941 27
	1994	32	0 00								0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0.00	0 00	0 00	0 00
	1996	32	0 00										0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1997	32	0 00											0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
	1999	32	0 00													0 00	0 00	0 00	0 00	0 00	0 00	0 00
	2000	32	0 00														0 00	0 00	0 00	0 00	0 00	0 00
	2002	32	0 00																0 00	0 00	0 00	0 00
	2003	32	35,100 00																	155 70	347 71	362 52
	2004	32	0 00																		0 00	0 00
Annual Depreciation			513,528 60	257 16	813 33	1,056 52	1,222 98	1,430 60	1,656 56	1,913 71	2,133 49	2,390 65	2,611 92	2,869 08	3,106 80	3,346 01	3,565 79	3,749 68	3,970 96	4,400 26	5,087 14	5,303 79
Accumulated Depreciation				257 16	1,070 49	2,129 01	3 351 99	4,782 79	6 439 35	8,353 06	10,486 55	12,877 20	15,489 12	18,358 20	21,465 00	24,811 01	28,376 80	32,126 48	36,097 44	40,497 70	45,584 84	50,888 63
Outfall Main	1987	50	66,703 75	22 95	72 57	94 45	109 13	127 67	147 82	170 76	190 37	213 32	233 06	256 01	277 22	298 57	318 18	334 59	354 33	378 74	422 90	440 91
Annual Depreciation			66,703 75	22 95	72 57	94 45	109 13	127 67	147 82	170 76	190 37	213 32	233 06	256 01	277 22	298 57	318 18	334 59	354 33	378 74	422 90	440 91
Accumulated Depreciation				22 95	95 52	189 97	299 10	426 77	574 59	745 35	935 72	1,149 04	1,382 10	1,638 11	1,915 33	2,213 90	2,532 08	2,866 67	3,221 00	3,599 74	4,022 64	4,463 55
Pumping Equipment	1994	32	0 00																			
	1995	32	0 00																			
	2000	32	0 00																			
	2002	32	0 00																			
Annual Depreciation			0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0.00	0 00	0 00	0 00
General Plant	1994	50	0 00																			
	1999	10	0 00																			
	2004	50	0 00																			
			0 00																			
Accumulated Depreciation				0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
System Utilization Percentage				3 44%	5.44%	7 08%	8 18%	9 57%	11 08%	12 80%	14 27%	15 99%	17.47%	19 19%	20 78%	22 38%	23 85%	25 08%	26 56%	28 39%	31 70%	33 05%
Annual Depreciation				$544 10	$1,728 84	$2 361 08	$2 916 16	$3,567 31	$4,207 51	$4,860 64	$5,586 54	$6,447 82	$7,288 96	$8,275 05	$8,960 68	$9,650 63	$11,968.28	$14,356 12	$15,203.29	$16,406 51	$18,493 20	$19,280 77
Accumulated Depreciation				$544 10	$2,272 94	$4,634 02	$7,552 18	$11,119 49	$15,327 00	$20,187 64	$25,774 18	$32,222 00	$39,510 96	$47,786 01	$56,746 69	$66,397 32	$78,365 60	$92,721 72	$107,925 01	$124,331 52	$142,824 72	$162,105 49

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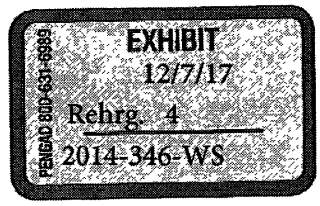
Daufuskie Island Utility Company, Inc.
Sewer Plant in Service-Haig Pt System
Depreciation Schedule

	Installed	Service Life	2014 Adj'd Life	Original Cost	2006 Deprec	2007 Deprec	2008 Deprec	2009 Deprec	2010 Deprec	2011 Deprec	2012 Deprec	2013 Deprec	2014 Deprec	2015 Deprec	2016 Deprec	2017 Deprec	2018 Deprec	2019 Deprec	2020 Deprec	2021 Deprec	2022 Deprec	2023 Deprec	2024 Deprec
Sewer Mains	1987	50	45 5	767,416 86	5,281 36	5,488 57	5,695 77	5,978 18	6,128 59	6,128 59	6,128 59	6,128 59	5,714 30										
	1988	50	45 5	14,681 70	101 04	105 00	108 97	114 37	117 25	117 25	117 25	117 25	109 32										
	1989	50	45 5	142,173 10	978 44	1,016 82	1,055 21	1,107 53	1,135 39	1,135 39	1,135 39	1,135 39	1,058 64										
	1990	50	45 5	90 386 25	622 04	646 44	670 85	704 11	721 82	721 82	721 82	721 82	673 03										
	1991	50	45 5	69,783 00	480 25	499 09	517 93	543 61	557 29	557 29	557 29	557 29	519 61										
	1994	50	45 5	117,511 20	808 71	840 44	872 17	915 41	938 44	938 44	938 44	938 44	875 01										
	1996	50	45 5	139,879 45	962 65	1,000 42	1,038 19	1,089 66	1,117 08	1,117 08	1,117 08	1,117 08	1,041 56										
	2000	50	45 5	705,985 45	4,858 59	5,049 21	5,239 82	5,499 63	5,636 00	5,636 00	5,636 00	5,636 00	5,256 88										
	2005	50	45 5	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2008	50	45 5	7,999 79			29 69	62 32	63 89	63 89	63 89	63 89	59 57										
				2,055,816 80	14,093 08	14,645 99	15,228 60	16 014 82	16,417 75	16,417 75	16,417 75	16,417 75	15,307 92	0 00	0 00	0 00	0 00	0 00	0 00	0.00	0 00	0 00	0 00
Accumulated Depreciation		**Balance**		106,753 31	120,846 39	136,492 38	150,720 98	166,735 80	183,153 55	199,571 30	215,989 05	232,406 80	247,714 72										
WW Treatment Plant	1987	32	40 25	478,428 60	5,144 60	5,346 44	5,548 28	5,823 37	5,969 89	5,969 89	5,969 89	5 969 89	4 027 12										
	1994	32	40 25	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1996	32	40 25	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1997	32	40 25	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1999	32	40 25	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2000	32	40 25	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2002	32	40 25	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2003	32	40 25	35,100 00	377 43	392 24	407 05	427 23	437 98	437 98	437 98	437 98	295 45										
	2004	32	40 25	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2006	32	40 25	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2007	32	40 25	0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2008	32	40 25	1,085 00			6 29	13 21	13 54	13 54	13 54	13 54	9 13										
Retirement (1987 Plant)	2013	32	40 25	-37,694 12									-317 29										
	2013	32	40 25	58,467 13									492 14										
Lagoon Motor Replacement	2014		7 SL	31,832 36									2,273 74										
Lagoon Liner Replacement	2014		36 7	415,684 04									1,918 72										
Reclaimed Water Equip	2014		40 25	525 10									2 21										
T&D Equipmt	2014		40 25	31,913 17									277 04										
Annual Depreciation				1,015,341 28	5,522 03	5,738 68	5,961 62	6,263 81	6,421 41	6,421 41	6,421 41	6,421 41	8,978 26	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Retirement	2013											-37,694 12											
Accumulated Depreciation		**Balance**		50 888 63	56,410 66	62,149 34	68,110 96	74,374 77	80,796 18	87,217 59	93,639 00	62,366 29	71,344 55										
Outfall Main	1987	50		66,703 75	459 06	477 07	495 08	519 62	532 70	532 70	532 70	532 70	451 98										
Annual Depreciation				66,703 75	459 06	477 07	495 08	519 62	532 70	532 70	532 70	532 70	451 98	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		**Balance**		4,463 55	4,922 61	5,399 68	5,894 76	6,414 38	6,947 08	7,479 78	8,012 48	8,545 18	8,997 16										
Pumping Equipment	1994	32		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	1995	32		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2000	32		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2002	32		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00										
	2008	32	23 5	33,741 86			195 65	410 70	421 04	421 04	421 04	421 04	486 46										
	2009	32	23 5	1,138 00				6 93	14 20	14 20	14 20	14 20	16 41										
	2011	32	23 5	4,111 24						51 30	51 30	51 30	59 27										
Irrigation Pumps	2014	32	23 5	89,999 62									648 77										
Annual Depreciation				128,990 72	0 00	0 00	195 65	417 63	435 24	486 54	486 54	486 54	1,210 91	0 00	0 00	0 00	0 00	0 00	0 00	0.00	0 00	0 00	0 00
Accumulated Depreciation		**Balance**		0 00	0 00	0 00	195 65	613 28	1,048 52	1,535 06	2,021 60	2,508 14	3,719 05										
General Plant	1994	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00											
	1999	10		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00											
	2004	50		0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00											
	2007	10		0 00		0 00	0 00	0 00	0 00	0 00	0 00	0 00											
Tools & Shop	2008	10	5 SL	7,316 74			135 76	284 99	292 16	292 16	292 16	292 16	1,463 35										
Transportain Equipmt	2010	10	6 SL	900 00					17 97	35 94	35 94	35 94	150 00										
Shop	2010	10	5 SL	844 28					16 86	33 71	33 71	33 71	168 86										
Office Equipment	2011	10	20 SL	240 21						2 01	9 59	9 59	12 01										
Tools & Shop	2011	10	5 SL	290 09						2 30	11 58	11 58	58 02										
Billing Software	2012	10	20 SL	2,850 00							113 80	113 80	142 50										
Office Equipment	2013	10	20 SL	297 00								0 00	14 85										
Sign at WWTP	2014		25 SL	203 66									4 08										
Tools & Shop	2014		5 SL	5,021 32									502 13										
Server & Software & Website	2014		20 SL	10,133 74									253 35										
Annual Depreciation				28,097 04	0 00	0 00	135 76	284 99	326 99	366 12	496 78	496 78	2,769 14	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Accumulated Depreciation		**Balance**		0 00	0 00	0 00	135 76	420 75	747 74	1,113 86	1,610 64	2,107 42	4,876 56										
System Utilization Percentage					34 41%	35 76%	37 11%	38 95%	39 93%	39 93%	39 93%	39 93%	33 88%										
Annual Depreciation					$20,074 17	$20,861 74	$22,016 71	$23,500 87	$24,134 09	$24,224 52	$24,355 18	$24,355 18	$28,718 20										
Accumulated Depreciation		**Balance**		162,105 49	182,179 66	203,041 40	225,058 11	248,558 98	272,693 07	296,917 59	321,272 77	307,933 83	336,652 03										

	2009	2010	2011	2012	2013	2014
CIAC		$1 000 00	$1 250 00	$250 00	$0 00	$2,000 00
Annual Depreciation	$909 83	$936 72	$940 72	$952 69	$952 69	$949 01
Accumulated Depreciation	8,117 10	9,053 82	9,994 53	10,947 22	11,899 91	12,848 92

Consolidated Sewer System						
Annual Depreciation	$29,560 68	$29,773 60	$29,904 26	$30,214 38	$35,255 82	
Accumulated Depreciation	$317,234 02	$347,007 62	$376,911 88	$369,432 14	$404,687 96	

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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 for Water and Sewer Rates, Terms and Conditions	**REQUESTS FOR PRODUCTION 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 Requests for Production of HPCCA, MPOA, and BPPOA (collectively herein "Intervenors" or "POAs") dated October 27, 2017.

GENERAL OBJECTIONS

DIUC responds and objects generally to the Requests for Production of Intervenors on the following grounds:

DIUC objects to the Instructions and Definitions set forth in the Requests for Production 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.

DIUC objects on the grounds that the Requests for Production dated October 27, 2017, are overly

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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 Requests for Production 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 Requests for Production 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 Requests for Production 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.

DIUC objects to asserted demand for production format included in the Requests for Production dated October 27, 2017, as unduly burdensome and beyond the scope of permissible requirements 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.

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 Requests when they seek information related to those previous findings and rulings. By answering these Requests, 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 Requests, 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 Request for Production.

DIUC reserves the right to amend and supplement these responses to the Requests for Production dated October 27, 2017, as additional information or documents become known to DIUC.

RESPONSES TO REQUESTS FOR PRODUCTION

1. Please provide copies of all documents identified in the Interrogatories served concomitantly with these Requests for Production.

   RESPONSE: Documents identified in the Responses Interrogatories of HPCCA, MPOA, and BPPOA dated October 27, 2017, were provided as attachments to those Responses.

2. Please provide copies of 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 to Intervenors 4 – Collections Policy, provided in response to Interrogatory 4.

3. Please provide copies of 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: See Response to Intervenors' Interrogatory 8, which is herein incorporated. Subject to these objections, DIUC states it has already produced the documents within its possession. See DIUC's Responses to discovery in this matter and Transcript of Testimony and Proceedings of Hearing #15-11494 with Exhibits.

4. Please provide copies of any financial records of Haig Point Utility Company, Inc. showing 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.

RESPONSE: See Response to Intervenors' Interrogatory 8, which is herein incorporated.

5. Please provide copies of any documents supporting the "plant in service" figure of $4,339,598 shown on **Exhibit Two** appended to the Interrogatories.

RESPONSE: See Response to Intervenors' Interrogatory 8, which is herein incorporated.

6. Please provide copies of any documents evidencing 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** appended to the Interrogatories.

RESPONSE: See Response to Intervenors' Interrogatory 8, which is herein incorporated.

7. Please provide copies of any documentation supporting the paid-in capital adjustment listed on **Exhibit Two** appended to the Interrogatories.

RESPONSE: See Response to Intervenors' Interrogatory 5 and Interrogatory 8, which are herein incorporated.

8. Please provide copies of any document (such as a system plat or series of plats) that 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: See Response to Intervenors' Interrogatory 11 and its attachments, which is herein incorporated.

9. With respect to **Exhibit Three** identified in the Interrogatories, please provide copies of all documents supporting the Adjustment No. 2 of $4,339,598 described as "To tie to Thomas & Hutton property schedule ..." or containing the basis for making this adjustment as "Property, Plant, and Equipment."

RESPONSE: See Response to Intervenors' Interrogatory 5 and Interrogatory 8, which is herein incorporated.

10. With respect to **Exhibit Three** identified in the Interrogatories, please provide copies of all documents supporting the Adjustment No. 8 of $4,635,782 described as "To record plant and equipment and other adjustments to paid in capital," or containing the basis for making this adjustment as "Paid in capital."

RESPONSE: See Response to Intervenors' Interrogatory 5 and Interrogatory 8, which are herein incorporated.

11. Please provide copies of all documents used to book the items to DIUC CPR listed on **Exhibit Six** appended to the Interrogatories.

RESPONSE: DIUC objects to this Request on the grounds that it is unduly burdensome and seeks information that is not relevant to this matter; the Request is not reasonably calculated to lead to the discovery of any relevant or admissible evidence. DIUC objects to the request for "all documents used to book the items to DIUC CPR listed on **Exhibit Six** appended to the Interrogatories" because DIUC did not create Exhibit Six and the Request is vague and confusing. Subject to these objections, see Response to Intervenors' Interrogatory 15, which is herein incorporated. 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.

12. Please provide copies of audited financial statements for DIUC for the fiscal years 2014, 2015, and 2016.

RESPONSE: Attachment to Intervenors POD 12 – Financials 2014, 2015 & 2016 contains comparative balance sheets and income statements, combined and separate for water and sewer operations prepared by Guastella Associates. There are no other outside audited statements.

13. Please provide the 2008 Federal and State tax returns for the Company, including all schedules.

RESPONSE: See Attachment to Intervenors POD 13 – 2008 FEDERAL TAX RETURN and Attachment to Intervenors POD 13 – STATE TAX RETURN.

14. With respect to the IRS 2013 and 2014 Tax Returns previously provided, please provide copies of any Forms 4562 filed therewith and referenced therein, along with any depreciation schedules attached to or filed with the Forms.

RESPONSE: Please see attached Attachment to Intervenors POD 14 – 2013 Tax Depreciation Schedule and Attachment to Intervenors POD 14 – 2014 Tax Depreciation Schedule.

15. Please provide copies of any documents containing accounting entries made by CK Materials. LLC to reflect the acquisition of HPUC.

RESPONSE: DIUC objects to this Request 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 ownership structure of the Applicant no longer includes CK Materials, as approved by the Commission. DIUC does not possess or control accounting documents of CK Materials, LLC and therefore is not obligated to or able to produce the same.

16. Please provide copies of the 2015 and 2016 Beaufort County Property Tax Bills issued to the Company.

RESPONSE: The Utility Property Taxes from 2012 to and including 2015 are being paid in accordance with the 8 year installment agreement between DIUC and Beaufort County for property taxes. Beaufort County has advised that it will not pursue any other Utility Property Taxes for those years. The Utility Property Tax for 2016 is provided as Attachment to Intervenors 16 - Utility Property Tax 2016 (does not include property taxes for individual parcels).

17. For the 2015 and 2016 tax years, please provide copies of the South Carolina Department of Revenue Proposed Assessment (Form PT-422) for the Company, including any Distribution Report and Utility Appraisal Summary Worksheet that is a part of or associated with those forms.

RESPONSE: The Department of Revenue assessment for 2016 and related information are provided in Attachment to Intervenors POD 17 Part 1 – DOR 2016 Proposed Assessment PT-422 and Attachment to Intervenors POD 17 Part 2 – DOR 2016 Property Tax Form PT-139.

Respectfully submitted,

/s/ Thomas P. Gressette, Jr.
Thomas P. Gressette, Jr.
Direct: (843)-727-2249
Email: Gressette@WGFLLAW.com
G. Trenholm Walker
Direct: (843)-727-2208
Email: Walker@WGFLLAW.com
WALKER GRESSETTE FREEMAN & LINTON, LLC
Mail: PO Box 22167, Charleston, SC 29413
Office: 66 Hasell Street, Charleston, SC 29401
Phone: 843-727-2200

November 6, 2017
Charleston, South Carolina

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 Requests for Production 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

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 Requests for Production of Documents 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

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 2008 or tax year beginning _____, ending _____

OMB No. 1545-0123

2008

A Check if:
1a Consolidated return (attach Form 851) ☐
b Life/nonlife consolidated return ☐
2 Personal holding co. (attach Sch. PH) ☐
3 Personal service corp. (see instructions) ☐
4 Schedule M-3 attached ☐

Use IRS label. Otherwise, print or type.

Name: DAUFUSKIE ISLAND UTILITY COMPANY INC

Number, street, and room or suite no. If a P.O. box, see instructions.: 1044 WILLIAM HILTON PKWAY

City or town, state, and ZIP code: HILTON HEAD ISLAND, SC 29928

B Employer identification number: 13-3386517

C Date incorporated: 08/28/1986

D Total assets (see instructions): $ 5,137,887.

E Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change

Income	1a Gross receipts or sales: 567,458. b Less returns and allowances:	c Bal ▶	1c	567,458.
	2 Cost of goods sold (Schedule A, line 8)		2	246,815.
	3 Gross profit. Subtract line 2 from line 1c		3	320,643.
	4 Dividends (Schedule C, line 19)		4	
	5 Interest		5	
	6 Gross rents		6	
	7 Gross royalties		7	
	8 Capital gain net income (attach Schedule D (Form 1120))		8	
	9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)		9	
	10 Other income (attach schedule)		10	
	11 **Total income.** Add lines 3 through 10	▶	11	320,643.
Deductions (See instructions for limitations on deductions.)	12 Compensation of officers (Schedule E, line 4)	▶	12	
	13 Salaries and wages (less employment credits)		13	145,979.
	14 Repairs and maintenance		14	
	15 Bad debts		15	13,903.
	16 Rents		16	
	17 Taxes and licenses		17	5,932.
	18 Interest		18	
	19 Charitable contributions		19	
	20 Depreciation from Form 4562 not claimed on Schedule A or elsewhere on return (attach Form 4562)		20	112,182.
	21 Depletion		21	
	22 Advertising		22	
	23 Pension, profit-sharing, etc., plans		23	44,381.
	24 Employee benefit programs		24	
	25 Domestic production activities deduction (attach Form 8903)		25	
	26 Other deductions (attach schedule) SEE STATEMENT 1		26	27,211.
	27 **Total deductions.** Add lines 12 through 26	▶	27	349,588.
	28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11		28	<28,945.>
	29 Less: a Net operating loss deduction 29a			
	b Special deductions (Schedule C, line 20) 29b		29c	
Tax, Refundable Credits, and Payments	30 **Taxable income.** Subtract line 29c from line 28 (see instructions)		30	<28,945.>
	31 **Total tax** (Schedule J, line 10)		31	0.
	32a 2007 overpayment credited to 2008 32a			
	b 2008 estimated tax payments 32b			
	c 2008 refund applied for on Form 4466 32c ( ) d Bal ▶	32d		
	e Tax deposited with Form 7004	32e		
	f Credits (1) Form 2439 _____ (2) Form 4136 _____	32f		
	g Refundable credits from Form 3800, line 19c, and Form 8827, line 8c	32g	32h	
	33 Estimated tax penalty (see instructions). Check if Form 2220 is attached ▶ ☐		33	
	34 **Amount owed.** If line 32h is smaller than the total of lines 31 and 33, enter amount owed		34	0.
	35 **Overpayment.** If line 32h is larger than the total of lines 31 and 33, enter amount overpaid		35	
	36 Enter amount from line 35 you want: **Credited to 2009 estimated tax** ▶ **Refunded** ▶		36	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer _____ Date _____ Title _____

May the IRS discuss this return with the preparer shown below? [X] Yes ☐ No

Paid Preparer's Use Only

Preparer's signature: FRANK G. MAROTTA CPA | Date: 08/19/11 | Check if self-employed ☐ | Preparer's SSN or PTIN: P00087528

Firm's name (or yours if self-employed), address, and ZIP code: MANALAPAN, NJ 07726

EIN _____ Phone no. _____

Attachment to Intervenors' POD 13 – STATE TAX RETURN

11540819 758139 LANDMARINE5 2008.05060 DAUFUSKIE ISLAND UTILITY CO LANDMA42

Schedule A Cost of Goods Sold (see instructions)

1	Inventory at beginning of year	1	
2	Purchases	2	
3	Cost of labor	3	
4	Additional section 263A costs (attach schedule)	4	
5	Other costs (attach schedule) SEE STATEMENT 2	5	246,815.
6	**Total.** Add lines 1 through 5	6	246,815.
7	Inventory at end of year	7	
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	246,815.

9a Check all methods used for valuing closing inventory:
- (i) ☐ Cost
- (ii) ☐ Lower of cost or market
- (iii) ☐ Other (Specify method used and attach explanation.) ▶

b Check if there was a writedown of subnormal goods ▶ ☐

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶ ☐

d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO 9d

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? ☐ Yes ☒ No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☒ No

Schedule C Dividends and Special Deductions (see instructions)

		(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations		See instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	**Total.** Add lines 1 through 8			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	**Total dividends.** Add lines 1 through 17. Enter here and on page 1, line 4 ▶			
20	**Total special deductions.** Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶			

Schedule E Compensation of Officers (see instructions for page 1, line 12)

Note: Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1) are $500,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned (d) Common	(e) Preferred	(f) Amount of compensation
1					
2 Total compensation of officers					
3 Compensation of officers claimed on Schedule A and elsewhere on return					
4 Subtract line 3 from line 2. Enter the result here and on page 1, line 12					

Attachment to Intervenors POD 13 – STATE TAX RETURN.

11540819 758139 LANDMARINE5 2008.05060 DAUFUSKIE ISLAND UTILITY CO LANDMA42

Schedule J Tax Computation (see instructions)

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)) ▶ ☐			
2	Income tax. Check if a qualified personal service corporation (see instructions) ▶ ☐		2	0.
3	Alternative minimum tax (attach Form 4626)		3	
4	Add lines 2 and 3		4	0.
5a	Foreign tax credit (attach Form 1118)	5a		
b	Credit from Form 8834	5b		
c	General business credit (attach Form 3800)	5c		
d	Credit for prior year minimum tax (attach Form 8827)	5d		
e	Bond credits from Form 8912	5e		
6	**Total credits.** Add lines 5a through 5e		6	
7	Subtract line 6 from line 4		7	0.
8	Personal holding company tax (attach Schedule PH (Form 1120))		8	
9	Other taxes. Check if from: ☐ Form 4255 ☐ Form 8611 ☐ Form 8697 ☐ Form 8866 ☐ Form 8902 ☐ Other (attach schedule)		9	
10	**Total tax.** Add lines 7 through 9. Enter here and on page 1, line 31		10	0.

Schedule K Other Information (see instructions)

		Yes	No
1	Check accounting method: a ☐ Cash b ☐ Accrual c ☐ Other (specify) ▶		
2	See the instructions and enter the:		
a	Business activity code no. ▶ 221300		
b	Business activity ▶ WATER & SEWAGE		
c	Product or service ▶ WATER & SEWAGE		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?		X
	If "Yes," enter name and EIN of the parent corporation ▶		
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), or trust own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v).		X

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Percentage Owned in Voting Stock

b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv).		X

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Percentage Owned in Voting Stock

Attachment to Intervenors POD 13 – STATE TAX RETURN.

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Schedule K Continued

	Yes	No
5 At the end of the tax year, did the corporation:		
a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on **Form 851**, Affiliations Schedule? For rules of constructive ownership, see instructions . . . . If "Yes," complete (i) through (iv).		X

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions If "Yes," complete (i) through (iv).		X

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss or Capital

6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.) If "Yes," file **Form 5452**, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.		X
7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of **(a)** the total voting power of all classes of the corporation's stock entitled to vote or **(b)** the total value of all classes of the corporation's stock? For rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned ▶ _____ and (ii) Owner's country ▶ _____ **(c)** The corporation may have to file **Form 5472**, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ _____		X
8 Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ ☐ If checked, the corporation may have to file **Form 8281**, Information Return for Publicly Offered Original Issue Discount Instruments.		
9 Enter the amount of tax-exempt interest received or accrued during the tax year ▶ $ _____		
10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ _____		
11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here ▶ ☐ If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.		
12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) ▶ $ _____		
13 Are the corporation's total receipts (line 1a plus lines 4 through 10 on page 1) for the tax year **and** its total assets at the end of the tax year less than $250,000? If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. ▶ $		X

Attachment to Intervenors POD 13 – STATE TAX RETURN.

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Schedule L Balance Sheets per Books

Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash				10,736.
2a Trade notes and accounts receivable	116,775.		319,209.	
b Less allowance for bad debts	(81,219.)	35,556.	(95,122.)	224,087.
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets (att sch)				
7 Loans to shareholders				
8 Mortgage and real estate loans				
9 Other investments (att sch)				
10a Buildings and other depreciable assets	5,263,898.		5,415,721.	
b Less accumulated depreciation	(393,555.)	4,870,343.	(512,657.)	4,903,064.
11a Depletable assets				
b Less accumulated depletion	( )		( )	
12 Land (net of any amortization)				
13a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
14 Other assets (att. sch.) STMT 3		70,321.		
15 Total assets		4,976,220.		5,137,887.
Liabilities and Shareholders' Equity				
16 Accounts payable		2,470,683.		52,871.
17 Mortgages, notes, bonds payable in less than 1 year				
18 Other current liabilities (att sch)				
19 Loans from shareholders				
20 Mortgages, notes, bonds payable in 1 year or more				
21 Other liabilities (att. sch.)				
22 Capital stock: a Preferred stock				
b Common stock	2,000.	2,000.	2,000.	2,000.
23 Additional paid-in capital		3,968,996.		6,577,420.
24 Retained earnings - Appropriated (attach schedule)				
25 Retained earnings - Unappropriated		<1,465,459.>		<1,494,404.>
26 Adjustments to shareholders' equity (attach schedule)				
27 Less cost of treasury stock		( )		( )
28 Total liabilities and shareholders' equity		4,976,220.		5,137,887.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 required instead of Schedule M-1 if total assets are $10 million or more - see instructions

1 Net income (loss) per books	<28,945.>	7 Income recorded on books this year not included on this return (itemize): Tax-exempt interest $	
2 Federal income tax per books			
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize):		8 Deductions on this return not charged against book income this year (itemize): a Depreciation $ b Charitable contributions $	
5 Expenses recorded on books this year not deducted on this return (itemize): a Depreciation $ b Charitable contributions $ c Travel and entertainment $			
6 Add lines 1 through 5	<28,945.>	9 Add lines 7 and 8	
		10 Income (page 1, line 28) - line 6 less line 9	<28,945.>

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1 Balance at beginning of year	<1,465,459.>	5 Distributions: a Cash	
2 Net income (loss) per books	<28,945.>	b Stock	
3 Other increases (itemize):		c Property	
		6 Other decreases (itemize):	
		7 Add lines 5 and 6	
4 Add lines 1, 2, and 3	<1,494,404.>	8 Balance at end of year (line 4 less line 7)	<1,494,404.>

Attachment to Intervenors POD 13 – STATE TAX RETURN.

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FORM 1120 OTHER DEDUCTIONS STATEMENT 1

DESCRIPTION	AMOUNT
INSURANCE	2,100.
MISCELLANEOUS	25,111.
TOTAL TO FORM 1120, LINE 26	27,211.

SCHEDULE A COST OF GOODS SOLD - OTHER COSTS STATEMENT 2

DESCRIPTION	AMOUNT
PURCHASED POWER	78,493.
MATERIALS/SUPPLIES	42,357.
CONTRACTUAL SERVICES	113,919.
REGULATORY EXPENSES	12,046.
TOTAL TO SCHEDULE A, LINE 5	246,815.

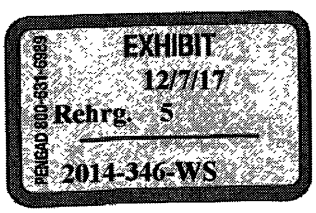
SCHEDULE L OTHER ASSETS STATEMENT 3

DESCRIPTION	BEGINNING OF TAX YEAR	END OF TAX YEAR
OTHER ASSETS	70,321.	0.
TOTAL TO SCHEDULE L, LINE 14	70,321.	0.

Attachment to Intervenors POD 13 – STATE TAX RETURN.

APPENDIX A

LIST OF TESTIMONY, EXPERT PROCEEDINGS, AND ENGAGEMENTS BY CHARLES E. LOY, CPA



LIST OF TESTIMONY, EXPERT PROCEEDINGS, AND ENGAGEMENTS BY CHARLES E. LOY, CPA

ELECTRIC UTILITY RATES AND REGULATION EXPERIENCE

Public Utility Commission of Texas

Docket No. 43731
Prepared a cash working capital study and testimony on behalf of Cross Texas Transmission LLC 2015 Rate Application to establish rates.

Docket No. 41474
Prepared a cash working capital study and testimony on behalf of Sharyland Utilities L.P.'s 2013 Rate Application to establish retail distribution rates.

Public Utility Commission of Texas-cont.

Docket No. 31250
Presented testimony and rate filing on behalf of Rio Grande Electrical Cooperatives 2005 Change in rates for wholesale transmission service.

Docket No. 8702
Assisted in the analysis of Gulf States Utilities 1987 rate request.

Docket 8646
Assisted in the analysis of Central Power & Light's 1988 rate request.

Docket 7661
Assisted in the analysis of the City of Fredericksburg's proposed amendment to Certificate of Convenience.

Docket 7510
Assisted in the analysis of West Texas Utilities Company's 1987 rate request.

Federal Energy Regulatory Commission

Docket No. ER88-202-0000
Assisted in the analysis of the Maine Yankee Atomic Power Plant Decommissioning.

Docket No. ER88-224-0000
Assisted in the analysis of the Carolina Power & Light Company Atomic Power Plant Decommissioning.

City of Bryan

- Developed and programmed data management system for the city electric department.

City of Fredericksburg

- Organized and performed an electric rate survey of Central Texas.

- Assisted in a load and rate design study.

City of Austin
- Assisted in the analysis of the City Electric Utility Department's 1989 rate request.

Other Electric Related Engagements

Dynamic Energy Concepts Incorporated
Assisted with the review of electric contracts, tariffs, analyzed usage data and assessed procurement practices for a number of US Veteran Hospitals across the country

Northeast Texas Electrical Cooperative
- Ongoing review/analysis of Southwest Power Administration's annual Integrated Power Repayment Studies and resulting rates.

- Ongoing review/analysis of Southwest Electric Power Company's annual formulary wholesale rate adjustments.

Tex-La Electric Cooperative
- Ongoing review/analysis of Southwest Power Administration's annual Integrated Power Repayment Studies and resulting rates.

- Ongoing review/analysis of Southwest Electric Power Company's annual formulary wholesale rate adjustments

Sam Rayburn G&T Electrical Cooperative
- Ongoing review/analysis of Southwest Power Administration's annual Integrated Power Repayment Studies and resulting rates.

- Ongoing review/analysis of Southwest Power Administration's annual Robert D. Willis Power Repayment Studies and resulting rates.

East Texas Electrical Cooperative
- Ongoing review/analysis of Southwest Electric Power Company's annual formulary wholesale rate adjustments

- Ongoing review/analysis of Southwest Power Administration's annual Robert D. Willis Power Repayment Studies and resulting rates.

H.E. Butt Grocery Company
Electricity procurement assistance and analysis of supply alternatives

Other Electric Related Engagements-cont.

Martin Marietta Materials
Electricity procurement assistance and analysis of supply alternatives

C.H. Guenther & Son, Inc.
Electricity procurement assistance and analysis of supply alternatives

Van Tuyl, Inc.
Electricity procurement assistance and analysis of supply alternatives

WATER UTILITY RATES AND REGULATION EXPERIENCE

Arizona Corporation Commission
Docket No. WS-01303A-006-0403
Presented testimony, prepared the Cost of Service study and rate design on behalf of Arizona-American Sun City and Sun City West Wastewater rate request.

Docket No. WS-01303A-06-0403
Presented testimony, prepared the Cost of Service study and rate design on behalf of Arizona-American Anthem/Aqua Fria Water and Wastewater rate request.

Docket No. WS-01303A-06-0014
Presented testimony, prepared the Cost of Service study, rate design, and assisted with the preparation of the revenue requirements on behalf of Arizona-American Mohave Water and Wastewater rate request.

Docket No. W-01656A-98-0577, SW-02334A-98-0577
Presented testimony for approval of a Central Arizona Project Water utilization plan, the implementation of a Groundwater Savings Fee and the recovery of deferred project costs.

Docket WS-02334A-98-0569
Presented a filing for the approval of an agreement relating to a wastewater plant de-nitrification project with the Sun City Recreation Centers and Del Webb Corporation.

Docket U-3454-97-599
Prepared and presented a filing for the approval of a CCN to provide water and wastewater services to Del Webb's Anthem project and the approval of two related agreements.

Docket No. E-1032-95-417 ET AL.
Presented testimony and prepared the rate filing on behalf of Citizens Utilities Maricopa County water properties 1995 rate request.

Arkansas Public Service Commission
Docket No. 06-160-U
Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water Arkansas's 2006 rate request.

Docket No. 03-161-U
Presented testimony, prepared the Cost of Service study, rate design, and assisted with the preparation of the revenue requirements on behalf of United Water Arkansas's 2003 rate request.

Connecticut Department of Public Utility Control
Docket No. 07-05-44
Prepared the rate filing and supporting testimony on behalf of United Water Connecticut's 2007 water rate request.

Public Service Commission of Delaware
PSC Docket No. 09-60
Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water Delaware's 2009 rate request.

PSC Docket No. 06-174
Presented testimony, prepared the Cost of Service study, rate design, revenue normalization and cash working capital requirements on behalf of United Water Delaware's 2006 rate request.

Idaho Public Utilities Commission
Case No. UWI-W-09-01
Presented testimony, prepared revenue and expense pro forma adjustments, and proposed rate design on behalf of United Water Idaho, Inc. 2010 rate request.

***Indiana Utility Regulatory* Commission**
Cause No. 41842
Prepared the filing and presented testimony for the Petition of Utility Center Inc. for the recovery of Distribution System Improvement Charges -2001

Cause No. 41559
Prepared the filing and presented testimony for a Certificate of Territorial Authority to render Sewage service.-2000

Cause No. 41968
Directed the preparation of Utility Center Inc.' request for authority to increase its rates and charges for water and sewer service. -2000

Illinois Commerce Commission
Docket No. 94-0481
Presented testimony and prepared the filing on behalf of Citizens Utilities Company of Illinois 1994 rate request.

Docket No. 95-0633
Presented testimony on behalf of Citizens Utilities Company of Illinois in Tudor Park Apartments vs. Citizens Utilities of Illinois.- 1995

Docket No. 97-0372
Presented testimony on behalf of Citizens Utilities of Illinois in the Application for Consent to and Approval of a Contract with Affiliated Interests.

State Board of New Jersey Public Utilities
BPU Docket No. WRO702125
Prepared and presented testimony on the determination of the cash working capital requirements on behalf of United Water New Jerseys 2007 rate request.

New Mexico Public Regulation Commission
Case No. 11-00196-UT
Presented testimony and assisted with the preparation of the water rate filing on behalf of New Mexico American Water Company Clovis District

Case No. 09-00156-UT
Presented testimony and prepared the water rate filing on behalf of New Mexico American Water Company Edgewood District

Case No. 07-00435-UT
Presented testimony and prepared the water and wastewater rate filing on behalf of New Mexico Utilities Inc.

Case No. 08-00134-UT
Presented testimony and prepared the water rate filing on behalf of New Mexico –American Water Co.

New York Public Service Commission
Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water New Rochelle's 2010 rate request.

Public Utilities Commission of Ohio
Docket No. 98-178-WS-AIR
Presented testimony and prepared the filing on behalf of Citizens Utilities Company of Ohio 1998 rate request.

Docket No. 94-1237
Presented testimony and prepared the filing on behalf of Citizens Utilities Company of Ohio 1994 rate request.

Pennsylvania Public Utility Commission

Docket No. R-2009-2122887
Presented testimony, prepared the Cost of Service study and rate design on behalf of United Water Pennsylvania's 2009 rate request.

Docket No. R-00051186
Assisted with analysis/filing preparation of United Water Pennsylvania, Inc. 2005 Rate Case.

Docket No. R-00953300
Presented testimony on behalf of Citizens Utilities Company of Pennsylvania 1995 rate request.

Public Service Commission of South Carolina

Docket No. 2014-346-W/S
Filed testimony on behalf of Daufuskie Property Owner's Group (intervenors) regarding certain water and sewer rate base issues.

Texas Commission of Environmental Quality

SOAH Docket 582-14-3415
Application for a 2013 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application and filed testimony on behalf of Canyon Lake WSC.

SOAH Docket No. 582-14-3384
Application for a 2013 Water and Sewer Rate/Tariff Change of SWWC Inc.
Prepared application on behalf of SWWC, Inc.

SOAH 582-14-3381
Application for a 2013 Water and Sewer Rate/Tariff Change of Monarch Utilities LP
Prepared application on behalf of SWWC, Inc.

SOAH Docket No. 582-12-0224
STM·Application of Monarch Utilities I, L.P. to Transfer Water and Sewer Facilities and Certificates of Convenience and Necessity – provided assistance

Application 37531-R
Application for a Water Rate/Tariff Change of Quadvest L.P. Prepared application on behalf of Quadvest L.P. Prepared application on behalf of Quadvest L.P.

Applications 37507-R and 37508-R
Application for a Water and Sewer Rate/Tariff Change of Ranch Utilities, Inc. Prepared application on behalf of Ranch Utilities, Inc.

Application 37317-R
Application for a Water Rate/Tariff Change of Wiedenfeld Water Works, Inc. Prepared application on behalf of Wiedenfeld Water Works, Inc.

Texas Commission of Environmental Quality-cont.

Applications 37234-R and 37235-R
Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc. North and Southwest Regions
Prepared application on behalf of Aqua Texas, Inc.

SOAH Docket No, 582-12-0224
Application for a Water and Sewer Rate/Tariff Change of Monarch Utilities LP
Prepared application on behalf of SWWC, Inc.

SOAH Docket No. 582-11-1468
Application for a 2010 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application and filed testimony on behalf of Canyon Lake WSC.

SOAH Docket No. 582-11-1458
Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc. Southeast Region
Prepared application on behalf of Aqua Texas, Inc.

Docket No. 0580-UCR
Application for a 2009 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application on behalf of Canyon Lake WSC.

Docket No. 35850-R
Application for a 2007 Water Rate/Tariff Change of Canyon Lake Water Service Company
Prepared the application on behalf of Canyon Lake WSC.

Docket No. 33763-R
Application for a 2007 Water and Sewer Rate/Tariff Change of Midway, Inc. For the City of Oak Point Service area. Filing initially made with the City of Oak Point.

Docket Nos. 35748-R & 35747-R
Application for a Water and Sewer Rate/Tariff Change of Monarch Utilities LP
Prepared the application on behalf of Monarch.

Docket No. 2006-0072-UCR
Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc
Prepared application and presented testimony on behalf of Aqua Texas, Inc.

Docket No. 2007-0478-UCR
Application for a Water and Sewer Rate/Tariff Change of Texas American Water Inc.
Prepared the application on behalf of Texas American Water.

Docket No. 2005-0114-UCR
Application for a Water and Sewer Rate/Tariff Change of Aqua Texas, Inc
Presented Testimony on behalf of Aqua Texas, Inc.

Texas Commission of Environmental Quality-cont.

Docket No. 2004-2029-UCR
Application for a Water and Sewer Rate/Tariff Change of Walker Water Works, Inc.
Prepared the application on behalf of Texas American Water.

Application Nos. 34658-R & 34659-R
Application for a Water and Sewer Rate/Tariff Change of Southwest Utilities, Inc.
Prepared the application on behalf of Texas American Water.

Docket Nos. 2000-1074-UCR, 2000-1075-UCR, 2000-1366 UCR through 2000-1369 UCR
Assisted in the preparation and presentation of the Aqua Source 2000 rate increase

Application No. 7371-R (Texas Water Commission)
Assisted in the analysis of Southern Utilities 1988 rate request on the behalf of Southern Utilities customers.

Other Water Related Engagements and Expert Proceedings

City of Page, Arizona
Water and Wastewater Rate Study – Developed retail water and sewer rates and rate structure change to improve cash flow.

Village of Vinton, Texas
Developed water utility valuation studies for Village water infrastructure improvement efforts.

Town of Providence Village
Developed Expert Witness Report for Denton County Court Cause No. 2011-60876-393
Analysis of Agreements between Mustang SUD and Providence Village WCID

Mitchell County Utility
Assist with divestiture of water utility assets

City of Longview
Ongoing assistance with development of annual formulary wholesale water and wastewater treatment rates.

Aqua Texas, Inc.
Ongoing calculation and updates of Regional Uniform CIAC Fees

Dripping Springs WSC, Hays County WCID 1&2
Review and analysis of West Travis County Public Utility Agency wholesale rate cost of service and rate increase 2012.

Other Water Related Engagements and Expert Proceedings-cont.

SWWC Inc.

- Decertification analysis and valuation of the CCN for Crosswinds development area.
- Decertification analysis and valuation of the CCN for TXI development area.
- Decertification analysis and valuation of the CCN for Tower Terrace/Kilgore Tract development area.
- Decertification analysis and valuation of the CCN for Villages at Warner Ranch development area.

Crystal Clear WSC
Decertification analysis and valuation of the CCN for Texas GLO development area around New Braunfels Texas

Woodbine Development Corp.
Analysis and assistance with LCRA Windmill Ranch wholesale wastewater services contract renegotiations.

Rebecca Creek MUD
Developed before and after merger rate comparison, analysis and forecast regarding the merger proposed by Canyon Lake Water Supply Company.

Global Water Resources
Expert witness before American Arbitration Association regarding the financial standing and regulatory status of Global Water.

City of Alexandria, Louisiana
Financial review, allocated cost of service and rate study for the water and wastewater systems.

Corix Utilities
Assistance with bid preparation and analysis regarding the LCRA retail water and wastewater divestiture.

Golden State Water Company
Assistance with bid concerning divestiture of SWWC Inc.

United Water Management and Services
Developed report regarding Texas IOU regulation for internal assessment of the Texas water regulatory status.

Provide revenue forecasting for various concession projects which involve Municipalities that are considering selling their water and sewer utilities.

Other Water Related Engagements and Expert Proceedings-cont.

Greater Austin Water Forum
Assisted industrial class water users with analysis and participation in the City of Austin 2008 Cost of Service Study.

New Mexico Utilities
Review/analysis and critique report on Albuquerque Bernalillo County Water Utility Authority's Cost of Service Wholesale Wastewater Rate Model

GAS UTILITY RATES AND REGULATION EXPERIENCE

Railroad Commission of Texas
GUD Docket 10190
Prepared filing and testimony of behalf of Hughes Natural Gas 2012 rate increase for the environs of the City of Magnolia.

GUD Docket 10083
Prepared filing and testimony of behalf of Hughes Natural Gas 2011 rate increase for the incorporated area of the City of Magnolia and environs.

GUD Docket 9731
Prepared filing and testimony of behalf of Hughes Natural Gas 2007 rate increase for the environs of the City of Magnolia.

GUD Docket 9488-9512
Prepared filing and testimony of behalf of West Texas Gas 2004 rate increase for the environs of cities served.

GUD Docket 8033
Filed testimony on behalf of Southern Union Gas Company's 1991 appeal for a rate increase in South Jefferson County.

GUD Docket 7878
Filed testimony and prepared the rate filing on behalf of Southern Union Gas Company's 1991 request for a rate increase in the Austin environs.

GUD Docket 6968
Assisted in the analysis of Southern Union Gas Company's 1987 appeal for a rate increase on the behalf of the City of Austin