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THE STATE OF SOUTH CAROLINA

In the Supreme Court

S.C. SUPREME COURT

APPEAL FROM THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

**In Re: Application of Blue Granite Water Company
for Approval to Adjust Rate Schedules and Increase Rates Appellant.**

South Carolina Public Service Commission Docket No. 2019-290-WS

Appellate Case No. 2020-001283

**RECORD ON APPEAL
VOLUME I OF III**

Frank R. Ellerbe, III, Counsel
Samuel J. Wellborn, Counsel
ROBINSON GRAY STEPP & LAFFITTE, LLC
1310 Gadsden Street
Post Office Box 11449
Columbia, South Carolina 29211
Telephone: 803-929-1400
Attorneys for Appellant

Andrew M. Bateman, Counsel
Alexander W. Knowles, Counsel
Christopher M. Huber, Counsel
Steven W. Hamm, Counsel
South Carolina Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201
Telephone: 803-737-0800
Attorneys for Respondent
South Carolina Office of Regulatory Staff

Carolyn Grube Lybarker, Counsel
Roger P. Hall, Counsel
Connor J. Parker, Counsel
P.O. Box 5757
Columbia, SC 29250
Attorney for Respondent
South Carolina Department of Consumer Affairs

Richard L. Whitt, Counsel
Whitt Law Firm, LLC
P.O. Box 362
Irmo, SC 29063
Attorney for Respondent
South Carolina Department of Consumer Affairs

Michael Kendree, County Attorney
York County, South Carolina
P.O. Box 299
York, SC 29745
Attorney for York County, South Carolina

James Knowlton, Pro Se
306 Brookside Drive
Fort Mill, SC 29715
Intervenor, Self-represented

Laura Puccia Valtorta, Counsel
Valtorta Law Office
903 Calhoun Street
Columbia, SC 29201
Attorney for Forty Love Point Homeowners'
Association

S. Jahue Moore, Counsel
Moore Taylor Law Firm, PA
P.O. Box 5719
West Columbia, SC 29171
Attorney for Town of Irmo

John J. Pringle, Jr., Counsel
Adams and Reese, LLP
1501 Main Street, 5th Floor
Columbia, SC 29201
Attorney for Building Industry Association of
South Carolina

Stefan Dover, Pro Se
206 Pelham Lane
Fort Mill, SC 29715
Intervenor, Self-Represented

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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 76-352-C - ORDER NO. 77-33 ✓

January 24, 1977

IN RE: Petition of the Southern Bell Telephone	)	
and Telegraph Company for approval of	)	ORDER DENYING
certain adjustments in its monthly rates	)	APPROVAL FOR
and charges and non-recurring charges for	)	CHANGES IN RATES
intrastate telecommunication services	)	AND CHARGES
provided by it in the State of South	)	
Carolina.	)	

On July 1, 1976, Southern Bell Telephone and Telegraph Company (hereinafter referred to as "SBT&T") filed a Petition requesting approval of certain adjustments in its monthly rates and charges, and non-recurring charges for intrastate telecommunication services provided by it in the State of South Carolina, which would have produced additional revenues of \$34,160,653 for the twelve-month period ending March 31, 1976. SBT&T proposed to place these rates into effect on August 1, 1976. The Petition was assigned Docket No. 76-352-C.

On July 7, 1976, the Commission issued Order No. 19,379 suspending the proposed rates and charges for a period of six (6) months from August 1, 1976, to February 1, 1977, unless a final Order was issued in the interim. This Order also advised SBT&T that a hearing would be held on this Petition at the earliest practicable date.

Thereafter, on July 16, 1976, SBT&T filed an Undertaking, pursuant to S.C. Code Ann., § 58-405 (1975 Cum. Supp.) advising the Commission of its intent to place \$19,925,271 of the total proposed increase of approximately \$34,000,000 into effect on August 1, 1976, subject to refund with interest at the statutory rate of 9%, should the Commission ultimately decide that all or any portion of the proposed increases placed into effect

under bond were excessive. Order No. 19,413, issued under this Docket on July 22, 1976, approved the Undertaking as filed by SBT&T and, further, directed SBT&T to keep adequate records of the amounts collected pursuant to this statutory provision, and directed that any amounts found to be excessive be refunded with interest, within sixty (60) days after the effective date of the final Commission Order disposing of the Petition. The Order also directed SBT&T to provide general notice to its customers that a portion of the proposed adjustments were to be effective after August 1, 1976. The Order also directed SBT&T to file its direct testimony and exhibits with the Commission on or before September 1, 1976.

Thereafter, SBT&T was directed to publish a Notice of Filing once a week for two consecutive weeks in a publication of general circulation in the affected area. This Notice of Filing contained a general description of the Petition, set forth the present and proposed rates, and directed anyone desiring to become a party of record and appear at the hearing to notify the Commission on or before October 1, 1976. Affidavits of Publication were submitted by SBT&T on September 1, 1976, indicating that the foregoing Notice of Filing appeared in nine newspapers of general circulation in each of SBT&T's geographic service areas in South Carolina.

SBT&T also mailed a Notice of Filing to each affected customer pursuant to Commission Rule RUT-401b, and filed a certificate that this notice requirement had been met.

On August 12, 1976, the Commission staff issued "Information Data Request No. 1", wherein SBT&T was directed to furnish certain information regarding its operations on or before September 6, 1976, although this date was later extended to September 16, 1976, upon written request of SBT&T.

On September 16, 1976, the Commission received a Petition to Intervene from the Attorney General of the State of South Carolina, [hereinafter "Attorney General"] requesting that he be made a formal party of record in these proceedings on behalf of the affected citizenry of the State of South Carolina. The Commission granted this request on September 21, 1976.

On October 1, 1976, the Commission received a Petition to Intervene from the Midlands Welfare Rights Organization, [hereinafter "MWRO"], and the South Carolina Public Interest Research Group, [hereinafter "SCPIRG"], requesting that they be made formal parties of record in these proceedings on behalf of the members of their respective organization. The Commission granted both requests on October 5, 1976.

A supplemental data request was issued on October 21, 1976, seeking further information regarding the Company's operations, as well as updated requests for data required by the Commission's initial data request.

At staff's request, a pre-hearing conference was held on October 27, 1976, establishing procedural guidelines. SCPIRG withdrew at that time as an active intervenor.

Prior to hearing, intervenor MWRO filed a Motion for Order Requiring Production of Books, etc., on November 18, 1976, seeking certain items it contended were necessary in the preparation of its case. On November 19, 1976, SBT&T filed a Motion to Deny and Dismiss the Motion of intervenor MWRO.

After oral argument on the foregoing Motion of MWRO and Motion to Dismiss of SBT&T, the Commission issued Order No. 19,729, dated November 26, 1976, wherein each of the specific items requested was considered by the Commission setting forth the requirements for disclosure or non-disclosure by SBT&T. Reference

is made to the provisions of Order No. 19,929 for a detailed analysis of these items.

Thereafter, at 2:30 P. M., on November 30, 1976, after notice as required by law and the rules and regulations of this Commission was duly and properly given, hearings on the Petition commenced. Appearances were entered by Hubert F. Owens, Esq., of Columbia, and John F. Beasley, Esq., of Atlanta, for SBT&T; Robert Guild, Esq., on behalf of intervenor MWRO; Harry Burchstead, Jr., Esq., and James W. Johnson, Esq., on behalf of intervenor Attorney General's Office; Nathan Kaminski, Jr., Esq., and Robert T. Bockman, Esq., on behalf of the Commission and Commission staff pursuant to S.C. Code Ann., § 58-62 (1962). All interested parties were given the opportunity to present evidence in support of or in opposition to the proposed increase.

The record consists of 15 volumes of testimony, and numerous exhibits. SBT&T presented 12 witnesses, including one rebuttal witness. Four witnesses, including a rebuttal witness, were presented by Commission staff. Eleven members of the public, appearing on behalf of themselves individually as consumers or on behalf of various associations or corporations as consumers, presented testimony and exhibits. Although not a part of the formal record, the Docket contains numerous letters from members of the public commenting generally on this proceeding.

After the conclusion of the hearings, briefs were submitted by Commission staff and intervenor Attorney General. Reply briefs were submitted by SBT&T. Intervenor MWRO submitted a Motion to Deny and Dismiss SBT&T's Petition in this proceeding, to which SBT&T filed a reply asking that this Motion be denied.

I.

THE COMPANY

Southern Bell Telephone and Telegraph Company is a wholly-owned subsidiary of the American Telephone and Telegraph

Company (AT&T). SBT&T operates as a public utility in a four-state region in the Southeastern section of the United States. The Bell System consists of twenty-three(23) operating telephone companies; the Western Electric Company, Inc.; Bell Telephone Laboratories; and the American Telephone and Telegraph Company.

South Carolina is one of the four states that comprise SBT&T's operating territory. SBT&T is presently operating 84 exchanges in South Carolina serving 46% of the geographic area of the State. As of March 31, 1976, SBT&T had 1,243,000 telephones in service in the state representing 73% of all telephones in use in the state.

II.

TEST YEAR

A basic premise underlying rate regulation is the establishment of a test year. This should represent the latest twelve-month period preceding the filing date for which complete data is available. While an analysis of rate levels must be prospective in nature, we have adhered to the view that the immediate past experience reflected through actual operating results for a full twelve-month period provides the most reliable guide for the immediate future.

The use of a test year is not, and was never, designed to preclude the recognition and use of other historical data that precedes or postdates the test year. Use of such data is often the case and was presented to us during the course of this proceeding by witnesses representing SBT&T, staff, and consumers.

Without apparent controversy, all parties utilized data based on a test year for the twelve months ending March 31, 1976. Considering that this case was filed on July 1, 1976, and was heard commencing on November 30, 1976, the test year is reasonably proximate. While we have experienced considerable difficulty

in reconciling the time of this application with the economic indicators evidenced in the record [which we discuss subsequently in more detail], we find that the March 31, 1976, test year provides a reasonable basis around which to frame and decide the issues in this case.

III.

RATE BASE, CAPITAL STRUCTURE,
RATE OF RETURN AND REVENUE REQUIREMENTS

The "rate base" historically has been defined in our jurisdiction as consisting of the total net value of a utility's tangible and intangible capital or property value. In more precise terms, we consistently have held that the rate base should be made up of the telephone utility's property used and useful in providing intrastate telephone service, plus materials and supplies, cash working capital, construction work in progress, less reserve for depreciation and amortization, accumulated deferred income taxes, and customer deposits.

Although the proper determination of the rate base in a given case may be the source of heated argument, there was only slight disagreement here.

We do not agree with SBT&T's position that the Commission should allow inclusion in the rate base of property held for future use. Although SBT&T argues that the purchase of property in advance of its use is "essential", and that it should be allowed to earn a return on property held for future use, we believe that the utility should not earn a return on this investment until the property is actually employed in providing telephone service and it becomes "used and useful". We believe that this encourages prudent and timely purchases on the part of the utility and protects the ratepayer from undue speculation. See, Utilities Commission v. Southern Bell Tel. & Tel. Co., 15 N.C. App. 411, 189 S.E.2d 777 (1972). We agree

with staff's treatment of this item, wherein property held for future use was excluded from rate base (Tr., Vol. XII, Hammond, pp. 19, 40-41).

We also agree with staff's position that \$34,901,459 should be deducted from rate base, which represents accumulated deferred income taxes. SBT&T retained the amount in rate base, showing accumulated deferred income taxes as cost-free capital in its proposed capital structure. SBT&T recognized during the hearings that accumulated deferred income taxes could be treated for ratemaking purposes as either a reduction in rate base or as cost-free capital. (Tr., Vol. V, Walker, pp. 31-32). We choose to follow staff's recommendation, which was based on our own directive of November 19, 1974, and we deduct accumulated deferred income taxes from rate base.

We find that staff's treatment of the rate base, as found in Hearing Exhibit No. 20, on page 26 of the "Accounting Report", reflects the proper treatment and determination for each of the rate base items. The original cost rate base, which we believe is fair and reasonable, is set forth on Schedule A of this Order.

As was the case with our rate base determination, there was little controversy concerning the appropriateness of the capital structure. Both staff and SBT&T witnesses utilized the capital structure of the Bell System and the associated cost rates.¹

¹ SBT&T witnesses La Blanc and Walker and staff witness Hammond utilized the capital structure as of March 31, 1976. However, witness La Blanc included short term debt as a part of long term debt and assigned the embedded cost rate of long term debt as the cost of both, whereas witness Hammond assigned a different cost rate to the short term debt. Witness Walker did not include short term debt as a part of total capitalization.

(See, Vol. IV, Walker, p. 68; Vol. XII, Hammond p. 23; Hearing Exhibit 20, Accounting Report, p. 42; Hearing Exhibit 21). We believe the use of the Bell System capital structure is correct. SBT&T is wholly owned by AT&T and is an integral part of the Bell System. SBT&T's common equity requirements are completely supplied by AT&T and the cost of capital to SBT&T will be the same as that for the Bell System as a whole. Indeed, as this case demonstrates, evidence as to the current cost of equity capital must be based on an evaluation of the requirements for AT&T equity.

For the purposes of this proceeding we have adopted the Bell System capital structure at the end of the test period, as shown on its books and as proposed by Staff. This capital structure, as set forth in Schedule B includes short term debt which is a departure from the Commission's finding in the last SBT&T rate case, Docket No. 17,944, Order No. 18,474, dated July 11, 1975, at pp. 8-9. The Commission's inclusion of short term debt as part of capitalization is not without precedent. The Commission took the same action in its Order No. 18,978, (Docket No. 18,269) dated January 23, 1976, issued to General Telephone Company of the Southeast, and we rely on the analysis contained therein underlying their action.

Both SBT&T witness Walker and staff witness Hammond utilized an embedded cost of long-term debt for the Bell System at the end of the test year of 6.84%. Both witnesses placed the embedded cost of preferred stock for the Bell System as of March 31, 1976, at 7.83%. We see no reason to disagree and adopt these cost rates. The Commission has utilized and adopted staff's 5.72% rate as the embedded cost of short term debt. The only unknown remaining in determining the overall cost of capital involves the establishment of the cost of equity capital. This has proven singularly difficult in this case.

SBT&T presented three witnesses, Ia Blanc, Jones, and Walker in their case in chief, and one witness, Brigham, in rebuttal, who discussed their analysis of the return requirements on common equity for SBT&T. As we have already mentioned, this analysis must be focused on the return requirements of AT&T common stock. SBT&T does not market common equity, and its capital requirements are met through AT&T or by the sale of long-term bonds by SBT&T system. (See, Tr., Vol. I, Marsh, pp. 77-78).

SBT&T witnesses Ia Blanc, Jones, and Walker testified respectively that AT&T required a return on equity of 14.2% to 15.2%, 14.65% and 14%. We find their testimony on rate of return unconvincing and contrary to the facts upon which AT&T and SBT&T's financial condition are premised.

SBT&T witness Ia Blanc purportedly appeared as a "full-time advisor to institutional investors". Much of his testimony appears to us to be of no probative value in determining what the present financial needs of SBT&T may be (Tr., Vol. III, Ia Blanc, pp. 5-58; Vol. XIII, Bicksler, pp. 68-71). The crux of Ia Blanc's analysis rested ultimately on his "judgment and experience, as well as [his] daily contacts with individuals responsible for making investment decisions". (Tr., Vol. III, Ia Blanc, p. 59). When asked for details about his conversations with investors, witness Ia Blanc was unsure about his specific "contacts" (Tr., Vol. III, Ia Blanc, pp. 79-80, 93-103). Staff witness Philippatos sent questionnaires to a group of the institutional investors with whom Mr. Ia Blanc indicated that he had conversations regarding the rate of return on AT&T common stock (Tr., Vol. XV, Philippatos, pp. 5-11). Although responses appeared to contradict Mr. Ia Blanc's testimony, SBT&T argued that the questionnaires were "biased" towards eliciting a response showing an investor requirement of less than 13% return on common equity for AT&T. We believe witness Philippatos' methodology reflects less "bias" than that shown in witness Ia Blanc's approach. We discount witness Ia Blanc's testimony entirely.

SBT&T witness Jones apparently developed a rate of return analysis by examining historical returns on common equity and adding "increments" to compensate for inflation and other risks. Also included was a comparable earnings approach. Witness Jones' testimony reflects uncertainty concerning the development of the data which he used in his analysis. (Tr., Vol. III, Jones, pp. 175-179, 181, 185-187, Vol. IV, Jones, pp. 17-18, 20-21). When asked how he developed an "increment" of 1% to be added to his required return, witness Jones stated:

Well, it's an arbitrary number, but I considered it a conservative number because it's the lowest small integer. When you get down to below one percentage point, it's sort of a nit-picking thing. I don't see how--I mean, to me I don't view that as significant. Some college professors would. (Tr., Vol. III, Jones, p. 187).

Subsequent SBT&T witness Brigham, and staff witness Bicksler, disagreed with witness Jones' methodology and analysis in several basic areas. (Tr., Vol. XIV, Brigham, pp. 52-53, 61, 67-69, 82, 83-89; Vol. XIII, Bicksler, pp. 64-66, 75). These flaws in witness Jones' analysis arguing that a minimum return requirement on equity is at 14.65%, renders his testimony unconvincing and unacceptable as a basis for a decision by this Commission which could have significant impact on the SBT&T ratepayers in this state.

SBT&T witness Walker, Vice President and Treasurer of SBT&T, testified that cost of common equity capital to the Bell System is no less than 14%. Witness Walker employed what he defined as the "opportunity cost/comparable earnings" method. He referred to the "discounted cash flow" approach, but neither he nor any of the other SBT&T rate of return witnesses used "DCF" in their analysis. (Tr., Vol. IV, Walker, pp. 38-39).

SBT&T's rebuttal witness Brigham was asked on cross-examination by staff counsel:

- Q. And what are your thoughts about those analysts who don't use those two methods to come up with the market value cost of equity? That is, that don't first start out with DCF and then a risk-free rate plus a risk premium and then check to see if the results are consistent?
- A. "I think they're following a very dangerous procedure."
(Tr., Vol. XIV, Brigham, pp. 68-69).

Subsequently, Dr. Brigham stated that a comparable earnings method might be used, but only as a part of a DCF analysis. (Tr., Vol. XIV, Brigham, pp. 82, 83-87). This was certainly not the way in which witness Walker employed his comparable earnings study.

Additionally, we have some difficulty in accepting witness Walker's analysis that "the overall risk of the Bell System equity investor is no less than that of investors in well-established industrial companies". (Tr., Vol. IV, Walker, pp. 47-48). We are not certain what definition was given the term "well established" by witness Walker, but his reliance upon Standard & Poor's published group of 425 Industrials, United Business Service's Blue Ribbon Stocks, and all Compustat Industrials to which Value Line has assigned a safety rating of 1 or 2, includes a wide assortment of industrials, with significant variables in their respective financial positions (See, Hearing Exhibit 5, Data Request No. 2, Items 12 and 14). Common sense dictates the response given by SBT&T witness Jones when asked if utilities are less risky than industrials:

- A. It all depends on which industrials you are talking about.
- Q. Well, a composite of industrials and a composite of utilities?

A. If they were high-grade industrials - No, I can't say that. Not in AT&T's case, because I think AT&T has some other risk factors now that didn't exist in the past. No, I can not say that.

Q. I am talking about utilities in general, a composite of utilities versus a composite of industrials, just as you had a composite of stocks versus a composite of bonds and you subtracted it?

A. Yes, they would be somewhat less risky in my opinion.

Q. Can you name any utility that has less risk than AT&T?

A. No, not off hand.
(Tr., Vol. IV, Jones, pp. 20-21)

We are not persuaded by Witness Walker's evaluation,² and are convinced by the uncontroverted facts contained in the record before us that SBT&T return requirements with the existing economic climate are far less than that postulated by SBT&T's witnesses.

The record reflects that AT&T earnings per share increased 26.8% from \$4.77, in the first quarter of 1975, to \$6.05 during the third quarter of 1976. (Tr., Vol. I, Marsh, p. 69; Hearing Exhibit 5, Data Request No. 2, Item 2).

² We believe staff witness Bicksler's responses to SBT&T's witness Walker's analysis are credible and cast further doubt upon the probative value of SBT&T's testimony. (Tr., Vol. XIII, Bicksler, pp. 56-58). As noted by witness Bicksler:

Specifically, if the capital markets are efficient, then all relevant information is impounded into the prices and yields of equity shares and that such shares are fairly priced in terms of risk and return. Inasmuch as shares are fairly priced, there is no reason for investors to be "depressed" and for the AT&T equity to exhibit "lack of investor confidence." Similarly, the efficient market hypothesis, and there is substantial evidence to suggest that it is a good working approximation, would directly contradict Mr. Walker's statement that "my review of investors' appraisals of the risk and earnings relationships, as measured by P/E multiples and market to book ratios, clearly points out a lack of investor confidence in the future of AT&T's common equity relative to others." (Tr., Vol. XIII, Bicksler, p. 58). See also witness Walker's response that the capital markets are "generally" efficient. (Tr., Vol. V, Walker, p. 17).

This constituted the highest level of earnings per share recorded by AT&T in the 1966-1976 period reflected in this record. AT&T quarterly reports reflect that AT&T's net income in the first quarter of 1976 was \$831,203,000. This increased 22.8% by the third quarter of 1976 to record levels of \$1,012,416,000.³ (Tr., Vol. II, Marsh, pp. 19-20; Hearing Exhibit 5, supra, item 3). Correspondingly, the payout ratio decreased during 1975-76 from 69.60% to 61.16%, a situation promoting maximum growth in per share earnings with a minimum of new stock issues. (Hearing Exhibit 5, supra, item 2). Dividend levels increased from \$3.32 in the first quarter of 1975, to \$3.70 or \$3.80 in the third quarter of 1976. Likewise, the return on common equity for AT&T moved from 9.25% in the first quarter of 1975 to 11.27% in the third quarter of 1976. (Tr., Vol. I, Marsh, p. 69; Hearing Exhibit 5, supra, item 2). In December, 1975, the average price of AT&T stock was \$50.23, and at the time of hearing it was estimated to be selling at \$62.00 per share (Tr., Vol. I, Marsh, p. 63).

We do not find this evidence reflecting in any sense a deterioration of the financial condition of the Bell System. Indeed, every item points toward the strengthening of its position during a time of moderating inflation. SBT&T holds a bond rating by Standard & Poor's and Moodys of Triple A, reflecting the financial community's belief in the

³ SBT&T's Witness Walker's stated:

"I say that if we all live long enough, we hopefully will see that AT&T or the Bell System is earning 2 billion a year so long as that is a reasonable amount related to the investment required, because that will mean that this country of ours is still growing sound and healthy and it has a good, sound and healthy communication system to go along with it." (Tr., Vol. V, Walker, p. 45). The question which will be asked is whether the amount earned is "reasonable" and whether it can be earned by following incentives to efficiency and growth in the economy rather than unnecessary rate adjustments.

strength and solidity of its financial position. (Tr., Vol. I, Marsh, p. 68). In 1975-76, the Rate of Return on both rate base and common equity of SBT&T's South Carolina operations improved. (Tr., Vol. II, Marsh, p. 21; Hearing Exhibit 4, Data Request No. 1, items 3 & 4). Similarly, SBT&T's operations as a whole showed improvement in 1975-76 in return on rate base and common equity. (Hearing Exhibit 4, supra, items 1 and 2). Fixed charge coverages for SBT&T South Carolina operations showed continued improvement in 1975 and into 1976.⁴ (Tr., Vol. II, Marsh, p. 21; Hearing Exhibit 4, supra, item 20).

We believe these facts should be accorded significant weight. Our finding that the fair and reasonable rate of return on common equity is lower than that predicated by SBT&T is confirmed by the testimony of staff witness Bicksler. Witness Bicksler, utilizing an analysis based on a capital asset pricing model (CAPM) approach, testified that the upper limit to the equilibrium rate of return on equity for SBT&T is 10.45%.⁵ Southern Bell vigorously attacked the validity of his testimony, maintaining that the CAPM is an academecian's theory, rather than a "decision maker's" tool. Yet, SBT&T's rebuttal witness indicated he believed the two appropriate methods for determining the cost of equity were (1) DCF and (2) a risk-free rate plus a risk premium, the CAPM

⁴ We do not agree with Witness Walker's protestations that this data is "totally unrealistic." (Tr., Vol. V, Walker, p. 44).

⁵ Uncontroverted testimony in the record shows that this methodology produces a range of 8.04% to 10.45%, (Tr., Vol. XIV, Brigham, p. 28).

falling into the second category. (Tr., Vol. XIV, Brigham, p. 38). The SBT&T witnesses used neither. Additionally, we believe that witness Bicksler appropriately defended his use of the 30 day treasury bill rate as the appropriate risk free rate of return, one of SBT&T's major criticism's of his method. (Tr., Vol. XIII, Bicksler, pp. 36-39). While it may be that the CAPM requires further development before it is completely accepted in ratemaking, we believe the theory underlying it is sound and the results produced more in touch with reality than those furnished to us by the Southern Bell witnesses.

SBT&T argues that the results produced by staff witness fall below that level of return authorized in the last two rate proceedings. We are not aware of any principals in law or reason that dictate that the fair and proper return for a given utility cannot vary from time to time, depending on the conditions at the time of the determination. Indeed, the opposite view prevails. We believe that SBT&T cannot rely on a former finding on Rate of Return as the departure point for seeking a higher Rate of Return, but rather has the duty of establishing what is an adequate return at present.

We are mindful of these dictates as expressed by the United States Supreme Court, in the case of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923). In Bluefield, the Court stated:

What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at

the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises on speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate under efficient and economical management to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time, and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally. 262 U.S. at 692-693. (Emphasis added).

Further, in 1944, the Supreme Court restated this view in Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944):

We held in Federal Power Commission v. Natural Pipeline Co. ... that the Commission was not bound to the use of any formula or combination of formulae in determining its rates. Its ratemaking function, moreover, involves the making of "pragmatic adjustments" (cite omitted) ... Under the statutory standard of "just and reasonable" it is the result reached, not the method employed which is controlling (cites omitted) ... The ratemaking process under the Act, i.e., the fixing of "just and reasonable" rates involves the balancing of the investor and the consumer interests. Thus we stated in the Natural Gas Pipeline Co. case, that regulation does not insure that the business shall produce net revenues. (Cite omitted). But such considerations aside the investor interests has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on debt and dividend on the stock. (Cite omitted). By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital. 320 U.S. at 602-603.

The vitality of these decisions has not been eroded, as indicated by the language of the recent decision of the Supreme Court in In Re Permian Basin Area Rate Cases, 390 U. S. 747 (1968).

We are firmly convinced that the record before us demands the conclusion that the fair and proper return on equity for SBT&T falls within a zone of reasonableness between 8% and 11%.⁶ South Carolina SBT&T can continue to improve its financial posture and earn a return in the upper portion of this range by insuring efficient operations and utilizing every method available to it to achieve cost reductions. We are not convinced by SBT&T's assertions that it has reduced costs as much as possible. SBT&T argues that its overall percentage increases in expenses, as reflected in Hearing Exhibit 4, Data Request No. 1, items 6, 7 & 8 are only 10.9%, "well within the parameters of the increase registered by the Consumer Price Index (9.1%) and the Wholesale Price Index (9.2%) for the same period. With the resources available to it, SBT&T can reduce increases in total expenses below these indexes, rather than exceeding them. Most convincing would be evidence in written form of cost reduction plans implemented by SBT&T, not presented in this case.

Considering these factors, we find that the rate schedules presented by SBT&T for approval, which would produce additional revenues of \$34,160,653, and produce a return on common equity of 16.45% and an overall rate of return of 11.29% are unlawful and unreasonable and cannot be approved. The record reflects that SBT&T, is presently earning on common equity 8.75%, which produces an

⁶We note with interest the testimony of a member of the public, a stockholder in AT&T:

I am a stockholder of AT&T. I am not dissatisfied... And I love Ma Bell. But Ma Bell, I don't need any more money, and the average stockholder isn't complaining. (Tr. Vol. VIII, Broils, pp. 39-40).

overall rate of return on rate base of 7.73% as shown in Schedule C. We find this return on equity reasonable and proper and within the lower end of the zone of reasonableness established in this proceeding. The resultant return on rate base determined by the return on equity is fair and reasonable. We further find that no rate adjustments are necessary or proper. For several years, we have asked the ratepayer to meet the costs imposed upon the utilities by rising inflation and a sluggish economy. We believe that, for the first time in several years, economic conditions warrant some relief. We now ask SBT&T to "tighten its belt" and utilize its own resourcefulness to continue to improve its financial posture.

IV.

MISCELLANEOUS ISSUES

We do not find it necessary to deal specifically with any accounting & pro forma adjustments proposed by staff or SBT&T (including the so called "earnings erosion" issue) since approval or disapproval will not have any material effect upon our decision. Nor do we find it necessary to deal specifically with any questions regarding rate structure, since our decision leaves unchanged the rates as approved in Docket No. 17,944 in Order No. 18,474. We do not deal specifically with the Motion to Deny and Dismiss filed by MWRO since our decision here renders that moot. The Petition of MWRO for "initiation of an inquiry into certain of the policies and practices of SBT&T" will be dealt with apart from this proceeding. Finally, we find that SBT&T established under S. C. Code Ann., § 58-382

(1962) that the fees and charges growing out of transactions between AT&T and SBT&T, and Western Electric Company, Inc., and SBT&T, were reasonable and fair and free of injurious effect upon the public interest. (See, Tr., Vol. VII & VIII, Landau, McLaughlin, Gibbons, and Brooks).

FINDINGS AND CONCLUSIONS

Based upon the preceding considerations, and a review of all the testimony and exhibits given by SBT&T, staff, and members of the public, we make the following findings concerning the operations, and reasonable requirements for earnings to be allowed SBT&T:

1. SBT&T is a wholly-owned subsidiary of AT&T, providing telephone service in a four-state region in the Southeastern section of the United States and is subject to the jurisdiction of this Commission with regard to its operations in South Carolina, described more fully in Section I of this Order;

2. The test period for the purposes of this proceeding is the 12 month period ending March 31, 1976;

3. A year-end, original cost, rate base, for SBT&T's South Carolina intrastate operations of \$464,599,919, consisting of the components set forth in Schedule A is adopted; that property held for future use and accumulated deferred income taxes properly are deducted from rate base for the reasons set forth in Section III of this Order;

4. That the capital structure for the Bell System, per books, and as set forth in Schedule B is adopted, for the reasons set forth in Section III of this Order;

5. The embedded cost of long term debt for the Bell System as of March 31, 1976, was 6.84%; embedded cost

rate of short term debt was 5.72%; and the embedded cost rate of preferred stock was 7.83%;

6. The establishment of the cost of equity capital constitutes the only unknown in determining the overall cost of capital; that the testimony of SBT&T's three witnesses who testified that AT&T required a return on equity of 14.2% to 15.2%, 14.65%, and 14% must be discounted because their testimony is based on hearsay, and is contradicted by other evidence in the record; reflects confusion regarding the data underlying development of their analyses; reflects basic contradictions within the testimony of each of SBT&T rate of return witnesses; and ignores the facts contained in the record concerning the financial vitality and strength of SBT&T, all of which is fully set forth in Section III of this Order;

7. AT&T earnings per share increased 26.8% from \$4.77, in the first quarter of 1975, to \$6.05 during the third quarter of 1976, the highest level recorded in the 10 year period reflected in the record; AT&T's net income, or "profits" increased 22.8% in the three quarters of 1976 to a record level of \$1,012,416,000; AT&T's payout ratio decreased in 1975-76 from 69.6% to 61.16%; dividend levels increased from \$3.32 in 1975 to \$3.80 in the third quarter of 1976; AT&T's return on common equity moved from 9.25% in 1975 to 11.27% in 1976; SBT&T's bond rating is Triple A; SBT&T's rate of return on rate base and common equity for South Carolina operations, and its operations as a whole, showed continued improvement in 1975-76; the fixed charge coverages for SBT&T's South Carolina operations improved in 1975-76; that this evidence does not reflect a deterioration

of the financial condition of SBT&T, but shows a strengthened position during a period of moderating inflation;

8. These facts reflect that the fair rate of return on common equity is lower than that recommended by SBT&T's witness; the staff witness on rate of return supports this view, and testified that the upper limit to the equilibrium rate of return for SBT&T (through AT&T) is 10.45%; that the range produced by staff witness' methodology is from 8.04% to 10.45%; that although the CAPM may require further development, the theory underlying it is sound and the results produced are more in touch with reality than that furnished by SBT&T; that the staff witness appropriately defended his use of the 30 day treasury bill rate as more fully explained in Section III of this Order;

9. The fair and proper return for a given utility will vary from time to time, depending on the conditions at the time of the determination; that this position accords with the precepts set forth in the Bluefield and Hope cases, supra;

10. The fair and proper return on common equity for SBT&T, considering the facts deduced from the record and already set forth herein, falls within a zone of reasonableness between 8% and 11%; SBT&T can earn within the upper limits of this range if it effects cost reductions and improves the efficiency of its operations; SBT&T should make every effort to effect cost reductions in its operations, as more fully set forth in Section III of this Order;

11. The proposed rate schedules presented in this case for approval, which produce additional revenues of \$34,160,653 and produce a return on common equity of 16.45%,

and an overall rate of return of 11.29%, are unlawful and unreasonable and should be denied; that SBT&T, under its rates approved in Order No. 18,474, in Docket No. 17,944, is presently earning 8.75% on common equity, which produces an overall rate of return on rate base of 7.73% as fully set forth in Schedule C; this return on common equity is fair and reasonable and within the range of reasonableness established in this proceeding; the resultant return on rate base is fair and reasonable; and no rate adjustments are necessary or proper at this time;

12. It is not necessary to deal specifically with any accounting and pro forma adjustments proposed by staff and SBT&T (including the so called "earnings erosion" issue) since approval or disapproval has no material effect on the decision; it is not necessary to deal specifically with any questions regarding the present rate structure; it is not necessary to deal with the Motion to Deny and Dismiss filed by MWRO; the petition of MWRO for "initiation of an inquiry into certain of the policies and practices of SBT&T" will be dealt with apart from this proceeding; and SBT&T met its burden of proof under S. C. Code Ann., § 58-382 (1962).

13. The rates in effect under bond should be cancelled, and all revenues collected under bond should be refunded with interest at 9% per annum within 60 days after the date of this Order; the Undertaking filed by SBT&T should be cancelled upon written certification filed with the Commission that all refunds have been made in accordance with this Order.

14. That SBT&T should continue to file with this Commission as ordered in Order No. 18,474, Docket No. 17,944, dated July 11, 1975, quarterly reports showing:

- (a) Rate of Return on Approved Intrastate Rate Base.
- (b) Return on Common Equity (allocated to intrastate operations).
- (c) Earnings per share on Common Stock.
- (d) Debt coverage ratio of earnings to Fixed Charges.

ACCORDINGLY, IT IS ORDERED, ADJUDGED AND DECREED:

1. Approval of the rates proposed by SBT&T in this proceeding, attached to and made a part of its Petition as Exhibit A, is denied; and SBT&T's Petition in this matter is dismissed.

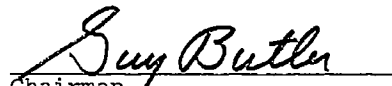
2. The rates in effect under bond are cancelled, and all revenues collected under bond shall be refunded with interest at 9% per annum within 60 days after the date of this Order.

3. The Undertaking filed by SBT&T will be cancelled upon written certification filed with the Commission that all refunds have been made in accordance with this Order.

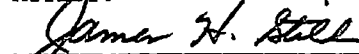
4. SBT&T shall continue to file quarterly reports with this Commission showing:

- (a) Rate of Return on Approved Intrastate Rate Base.
- (b) Return on Common Equity (allocated to intrastate operations).
- (c) Earnings per share on Common Stock.
- (d) Debt coverage ratio of earnings to Fixed Charges.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director
(SEAL)

SCHEDULE A
ORDER NO. 77-33
DOCKET NO. 76-352-C
January 24, 1977

ORIGINAL COST INTRASTATE RATE BASE

March 31, 1976

Gross Plant in Service	\$590,776,325
Less: Accumulated Depreciation	109,844,229
Net Plant	<u>\$480,932,096</u>
Add: Const. Work in Progress	14,589,006
Materials and Supplies	4,736,839
Cash Working Capital	740,107
Less: Accum. Deferred Income Taxes	34,901,459
Customer Deposits	<u>1,496,670</u>
TOTAL YEAR END RATE BASE	<u><u>\$464,599,919</u></u>

SCHEDULE B
ORDER NO. 77-33
DOCKET NO. 76-352-C
January 24, 1977

CAPITALIZATION BELL SYSTEM-PER BOOKS
(Thousands of Dollars)

March 31, 1976

	<u>AMOUNT</u>	<u>PERCENT OF TOTAL</u>
Long Term Debt	\$32,327,641	46.64%
Short Term Debt	1,983,710	2.86%
Preferred Stock	2,984,725	4.31%
Common Equity	<u>32,018,043</u>	<u>46.19%</u>
 TOTAL CAPITALIZATION	 <u>\$69,314,119</u>	 <u>100.00%</u>

SCHEDULE C
ORDER NO. 77-33
DOCKET NO. 76-352-C
January 24, 1977

OVERALL RATE OF RETURN

	<u>RATIO</u>	<u>COST</u>	<u>WEIGHTED COST</u>
Long Term Debt	46.64%	6.84%	3.19%
Short Term Debt	2.86%	5.72%	.16%
Preferred Stock	4.31%	7.83%	.34%
Common Equity	<u>46.19%</u>	8.75%	<u>4.04%</u>
TOTAL	<u>100.00%</u>		<u>7.73%</u>

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2004-212-S - ORDER NO. 2005-42
FEBRUARY 2, 2005

IN RE: Application of Development Service, Inc. for Approval	) ORDER GRANTING
of a New Schedule of Rates and Charges for Sewage	) INCREASE IN
Service Provided to Residential and Commercial	) RATES AND CHARGES
Customers in all Areas Served.	)

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina ("the Commission") on an application for increases in sewer rates and charges filed by Development Service, Inc. ("DSI"). DSI's application was accepted by the Commission pursuant to S.C. Code Ann. § 58-5-210 *et. seq.* and 26 S.C. Regs. 103-512. DSI's application was filed on July 28, 2004.

By correspondence, the Commission instructed DSI to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the areas affected by DSI's application. The Notice of Filing indicated the nature of the application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings. In the same correspondence, the Commission also instructed DSI to notify directly, by U.S. Mail, each customer affected by the application by mailing each customer a copy of the Notice of Filing. DSI furnished the Commission with an Affidavit of Publication demonstrating that the Notice of Filing had been duly published and with a letter in which DSI certified compliance with the instruction of the

Commission to mail a copy of the Notice of Filing to all customers affected by the application. No Petitions to Intervene were filed.

The Office of Regulatory Staff made on-site investigations of DSI's facilities, audited DSI's books and records, and gathered other detailed information concerning DSI's operations. Prior to January 1, 2005, the Public Service Commission Staff also made on-site investigations.

On January 5, 2005 at 10:30 a.m., a public hearing concerning the matters asserted in DSI's application was held in the Commission's hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, SC. The full Commission, with Chairman Randy Mitchell presiding, heard the matter of DSI's application. Scott Elliott, Esquire and Charles Cook, Esquire represented DSI. Florence Belser, General Counsel of ORS, and Shannon Hudson, Esquire represented the Office of Regulatory Staff. David Butler, Esquire served as legal counsel to the Commission.

DSI presented the testimony of Keith G. Parnell, President of DSI. The Office of Regulatory Staff presented the testimony of Willie J. Morgan, Program Manager for the Office of Regulatory Staff Water and Wastewater Department, Dawn Hipp, Project Specialist for the Office of Regulatory Staff Water and Wastewater Department, and Sharon Scott, Office of Regulatory Staff Auditor.

BACKGROUND AND PROCEDURAL MATTERS

DSI is a privately owned company operating a collection only system in Richland County in the area around Dutch Square Shopping Mall. At the time of its Application, DSI provided sewer service to 67 commercial customers and 66 residential customers. DSI's present rate schedule was approved by the Commission in Order Number 96-44 dated January 19, 1996

(Docket Numbers 94-727-S and 94-728-S). The wastewater collected by DSI is treated by Bush River Utilities, Inc. ("BRUI"), making DSI a wholesale customer of BRUI.

BRUI is a privately owned sewer company furnishing sewer collection and sewer treatment in Richland and Lexington Counties. BRUI and DSI (collectively "Companies") are commonly owned by brothers Keith Parnell (President) and Ken Parnell (Vice President). DSI is the largest customer of BRUI. BRUI applied for a rate increase on August 18, 2004, and the Commission hearing on BRUI's application was heard on January 20, 2005, approximately two weeks after the DSI hearing. Both Companies' applications for rate increases contain substantially identical issues and identical rate schedules.

During the DSI hearing, counsel for DSI made a three part Motion requesting: 1) the Commission allow an extra five (5) days past the six-month time period for publishing an order in a rate case, consistent with the provisions of S.C. Code Ann. § 58-5-240(D); 2) consolidation of the DSI and BRUI sewer dockets, so that the evidence presented in both dockets would be available for consideration during deliberation in both dockets, and 3) an extension of the six-month time period for issuing an Order past the additional five (5) days allowed in S.C. Code Ann. § 58-5-240(D). *See* Commission Order No. 2005-29 (January 18, 2005), Docket No. 2004-212-S. The Commission granted the additional five (5) days for publishing the Order as allowed by S.C. Code Ann. § 58-5-240(D), but did not allow an extension beyond this additional five (5) days for publishing the Order. *Id.* The Commission, however, did allow the dockets of DSI and BRUI to be combined so that evidence presented in both dockets could be considered during deliberation. *Id.* Similarly, in the last rate case, the Commission combined the operations of the Companies for ratemaking purposes and, in a single Order addressing both rate applications,

ordered the Companies to charge identical rates for residential and commercial customers due to the relationship and dependence between BRUI and DSI. *See* Commission Order No. 96-44 (January 19, 1996), Docket No. 94-727-S Application of Development Service, Inc. for Approval of an Increase in Rates and Charges for Sewer Service and Docket No. 94-728-S – Application of Bush River Utilities, Inc. for Approval of an Increase in Rates and Charges for Sewer Service. In the 1996 Order, the Commission also set a wholesale rate for DSI which is dependent upon the rates charged by BRUI. *Id.* In this matter, the Commission has carefully considered the applications filed by the Companies and will issue separate Orders consistent with the Order allowing evidence from both dockets to be considered in reaching a determination. *See* Commission Order No. 2005-29 (January 18, 2005), Docket No. 2004-212-S.

FINDINGS OF FACT AND EVIDENCE SUPPORTING FINDINGS OF FACT

After thorough consideration of the entire record in the DSI and BRUI hearings, including the testimony and all exhibits, and the applicable law, the Commission makes the following findings of fact and conclusions of law with respect to DSI:

1. DSI is a sewer utility operating in Richland County, South Carolina in the area around Dutch Square Shopping Mall and is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 et seq.

The evidence supporting this finding is contained in the application filed by DSI, in the testimony of DSI witness Parnell, and in prior Commission Orders in the docket files of the Commission, of which the Commission takes judicial notice. By filing its application, DSI admits that it is a public utility within the meaning of S.C. Code Ann. § 58-5-10 and submits itself to the jurisdiction of the Commission.

2. The appropriate test year period for purposes of this proceeding is the twelve-month period ending December 31, 2003.

DSI chose to file its application on the twelve months ending December 31, 2003. Accordingly, DSI picked the test year ending December 31, 2003. Based on DSI's proposed test year, the ORS utilized the same test period for its accounting and pro forma adjustments. A fundamental principle of the ratemaking process is the establishment of a historical test year with the basis for calculating a utility's operating margin and, consequently, the validity of the utility's requested rate increase. The test year is established to provide the basis for making the most accurate forecast of the utility's rate base, reserves, and expenses in the near future when the prescribed rates are in effect. *Porter v. South Carolina Public Service Commission*, 328 S.C. 222, 493 S.E.2d 92 (1997), citing *Hamm v. S.C. Pub. Serv. Comm'n*, 309 S.C. 282, 422 S.E. 2d 110 (1992). While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists which shows that the test year figures are atypical, the Commission should adjust the test year data. See *Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E. 2d 278 (1978); see also, *Parker v. South Carolina Public Service Commission*, 280 S.C. 310, 313 S.E.2d 290 (1984), citing *City of Pittsburgh v. Pennsylvania Public Utility Commission*, 187 P.A. Super. 341, 144 A.2d 648 (1958); *Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E.2d 278 (1978). Based on the information available to the

Commission, the Commission is of the opinion, and therefore concludes, that the test year ending December 31, 2003 is appropriate for the purposes of this rate request.

3. The Commission will use the operating margin as a guide in determining the lawfulness of DSI's proposed rates and for the fixing of just and reasonable rates.

In its application, DSI does not specify or propose a particular rate setting methodology. "The Public Service Commission has wide latitude to determine an appropriate rate-setting methodology." *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 64, 478 S.E.2d 826, 830 (1996). The ORS, in support of its position and recommendations in this case, presented in its exhibits and testimonies information regarding the operating margins for per books test year, test year as adjusted, and Phase-I of the proposed increase. See Hearing Exhibit No. 4, P. i (Synopsis) and Audit Exhibit A. The ORS also presented various alternative operating margins and associated revenue requirements for those operating margins. Hearing Exhibit 3, Exhibit DMH-9. DSI neither supplied any operating margin information in its application nor supplied sufficient information on which rates could be set using rate of return on rate base methodology. Because the only information available relates to operating margin methodology, the Commission finds that operating margin is the appropriate rate-setting methodology to use in this case.

4. DSI is seeking an increase in rates in two phases.

By its Application, DSI is seeking an increase in its rates and charges, net of uncollectibles, for sewer service pursuant to a two-phase approach which DSI asserts results in an increase of sewer service revenues, net of uncollectibles, during Phase-I of \$73,713 and an additional increase in revenues, net of uncollectibles, of \$47,538 during Phase-II. As will be

demonstrated infra, we believe that a Phase-I increase in revenues of \$71,860, and an additional increase in revenues of \$47,880 in Phase-II is appropriate.

The evidence for this finding concerning the amount of the requested rate increase is contained in the Application (as amended) by DSI. DSI application (as amended), Exhibit 2, P. 1 of 4. The testimony and exhibits of ORS witness Sharon Scott show that the level of operating revenues under Phase-I of the rates are \$321,826 which reflects ORS' adjustments and a net authorized increase in operating revenues of \$66,960. Unfortunately, ORS basically netted out uncollectibles from revenues, while still including uncollectibles in expenses. This amounts to a double-counting of uncollectibles, and ORS should have done one or the other, but not both. Removing the effect of the uncollectibles produces a revenue figure of \$71,860 for Phase-I, which we hereby adopt. Further, ORS does not recommend the increase of Phase-II rates as those rates are tied to construction and rates at BRUI. Since BRUI has also filed an application for an increase in rates and charges, and construction has not begun at BRUI, ORS asserts that the Phase-II rates are tied to costs that are not known and measurable. We disagree with this assertion and we will discuss infra why we believe that these costs are known and measurable, and why a Phase-II increase is therefore reasonable.

5. The appropriate operating revenues of DSI during the test year under present rates and after accounting and pro forma adjustments are \$254,866.

DSI's application shows per book test year total operating revenues of \$247,883. DSI application (as amended), Exhibit 2, P. 1 of 4. ORS began with the per book test year operating revenues of \$247,883, and then ORS proposed an adjustment to per book operating revenues to annualize service revenues. Hearing Exhibit 4, Audit Exhibit A and A-1. ORS's proposed

adjustment results in an increase to per book operating revenues of \$6,983. ORS's adjustment was based on a bill frequency analysis. DSI amended its application and changed its revenues to include revenue in the amount of \$27,120 for contract service revenues. DSI proposes to charge \$27,120 to Midlands Utility, Inc., an affiliated company, for use of DSI's equipment. However, ORS witness Scott stated that ORS found no justification for DSI's amendment to its revenues and therefore did not allow the adjustment. Scott Prefiled Testimony, P. 5, ll. 3-10; Hearing Exhibit No. 4, Audit Exhibit A-1. While not allowing the DSI revenue adjustment for lack of justification, witness Scott stated that she did make and allow several adjustments on the Depreciation Schedule to allocate costs to BRUI and Midlands Utility, Inc. (MUI), another sewer utility owned by Keith Parnell and Ken Parnell.

We find the adjustments proposed by ORS to be reasonable and adopt the ORS's adjustments. The effect of the ORS adjustments annualizes the test year revenues and as stated by witness Scott was justified and therefore verified by her audit. DSI has offered no further explanation of the proposed adjustment for contract service revenues. Therefore, we find the appropriate operating revenues for the test year after accounting and pro forma adjustments to be \$254,866.

6. The appropriate operating expenses for DSI for the test year under present rates and after accounting and pro forma adjustments are \$264,835.

The parties offered certain adjustments affecting operating expenses for the test year. DSI witness Parnell and ORS witnesses Morgan, Hipp and Scott offered testimony and exhibits detailing adjustments proposed by the parties. See Hearing Exhibits 2, 3, and 4 and DSI's Application. This section addresses the adjustments:

A) Officer's Salary [ORS Adjustment #3]

- 1) Position of DSI: DSI proposes to increase officer's salary by \$534.
- 2) Position of ORS: ORS found that no salary increase had been given and the increase was due to DSI's rounding of officer's salary. Prefiled Testimony of Scott, P.5, ll. 11-14. Hearing Exhibit No. 4, Audit Exhibit A-1.
- 3) Decision of the Commission: According to witness Scott, this adjustment does not reflect a known and measurable change. DSI offered no further explanation for this proposed adjustment. Therefore, because the adjustment does not reflect a known and measurable out-of-test year change, we find that the adjustment cannot be accepted. DSI's proposed increase of officer's salary of \$534 is not allowed.

B) Other Salaries [ORS Adjustment #4]

- 1) Position of DSI: DSI proposes to increase other salaries by \$885.
- 2) Position of ORS: ORS found that no salary increase had been given and the increase was due to DSI's rounding of other salaries. Scott Prefiled Testimony, p. 5, ll. 15-18; Hearing Exhibit No. 4, Audit Exhibit A-1.
- 3) Decision of the Commission: ORS witness Scott testified that this adjustment appears to be due to rounding. Witness Scott further stated that no salary increases had been given and that the proposed adjustment was not known and measurable. Because the adjustment cannot be verified, DSI's proposed increase of other salaries is not allowed.

C) Expenses for Repairs [ORS Adjustment #5]

- 1) Position of DSI: DSI proposes to increase expenses for repairs by \$45.

- 2) Position of ORS: ORS neither found justification for this increase nor a known and measurable out of test year change, therefore, no adjustment was made for DSI's proposed increase in expenses for repairs. Scott Prefiled Testimony, P. 5, ll. 19-22; Hearing Exhibit No. 4, Audit Exhibit A-1.
- 3) Decision of the Commission: Because ORS did not find justification for this adjustment and because DSI offered no further explanation for this adjustment, we do not accept the proposed increase in repairs expense. DSI's proposed increase in expenses for repairs is not allowed.

D) Expenses for Taxes Other Than Income [ORS Adjustment #6]

- 1) Position of DSI: DSI proposes to decrease expenses for Taxes Other Than Income by \$1,126.
- 2) Position of ORS: ORS found no justification or other known and measurable change for this decrease, therefore, ORS made no adjustment. Scott Prefiled Testimony, P. 6, ll. 1-5; Hearing Exhibit No. 4, Audit Exhibit A-1.
- 3) Decision of the Commission: Because no justification for the proposed decrease to Taxes Other Than Income was found in the ORS audit or produced at the hearing, the Commission denies this adjustment proposed by DSI. Accordingly, the proposed decrease of \$1,126 to Taxes Other Than Income is not allowed.

E) Interest Expenses [ORS Adjustment #7]

- 1) Position of DSI: DSI proposes to include interest expense of \$5,751 as an above-the-line operating expense.

- 2) Position of ORS: ORS found no justification to include interest expense as an above-the-line operating expense. ORS does not include interest expense as an above-the-line operating expense, but ORS does include interest expense of \$2,284 in computing operating margin. The allowable interest expense is computed using the as adjusted rate base, which ensures that only interest expense associated with DSI's regulated operations is allowed. ORS has computed a Total Rate Base of \$97,006. DSI had negative equity of (\$47,138). Therefore, ORS proposed to use a 50/50 capital structure which reflects a more normal capital structure to compute allowable interest expense. ORS Staff computes the portion of rate base supported by Long-Term Debt by using 50% of the Total Rate Base of \$97,006 resulting in an amount of \$48,503. ORS Staff computed a cost of debt factor of 4.71% using the Long-Term Debt balances at December 31, 2003. The factor of 4.71% is applied to \$48,503 for the allowable interest expense of \$2,284. See Testimony of ORS witness Scott at 6-8.
- 3) Decision of the Commission: The Commission adopts the interest expense of \$2,284, as outlined by ORS, and based on the reasoning of ORS. DSI has provided no justification for including interest expense as an above-the-line item.

F) Depreciation Expense [ORS Adjustment #8]

- 1) Position of DSI: DSI proposes to depreciate its plant over 20 years and its equipment over 7 years for an increase in depreciation expense of \$9,697.
- 2) Position of ORS: The Water/Wastewater Department proposes basing depreciation on Florida Public Service Commission Water and Wastewater System Regulatory Law as recommended by NARUC. Accordingly, ORS recommends that the plant be depreciated

over 45 years. DSI equipment includes a pick-up truck, backhoe, computer, desk, chemical sprayer, and an emergency generator. The truck and backhoe are used by DSI, BRUI, and Midlands Utility, Inc. ORS recommends a 6-year depreciation for the truck and a 12-year depreciation for the backhoe with the relevant depreciation expense further allocated among the three companies that use the equipment. The computer and desk are not currently being capitalized by DSI, and ORS recommends their capitalization with a service life of 6 and 15 years, respectively. The chemical sprayer is being used solely at BRUI, and the generator is being used solely at Midlands Utility, Inc. Because DSI is neither using the chemical sprayer nor generator, no depreciation expense is recommended to be allocated to DSI for these items. ORS's proposed net depreciation expense is \$3,907. ORS Witnesses Morgan and Scott Direct Testimonies; Hearing Exhibits 2 and 4; Morgan Exhibit WJM-2 and Audit Exhibit A-2.

- 3) Decision of the Commission: We find that ORS's adjustments are appropriate and adopt them as computed. Although the Commission ordered a 50-year service life in the last Order, we find the ORS recommended 45-year service life for plant is reasonable and sound. *See* Commission Order No. 96-44 (January 19, 1996), Docket No. 94-727-S Application of Development Service, Inc. for Approval of an Increase in Rates and Charges for Sewer Service and Docket No. 94-728-S – Application of Bush River Utilities, Inc. for Approval of an Increase in Rates and Charges for Sewer Service. NARUC's recommendation to follow the Florida Public Service Commission Water and Wastewater System Regulatory Law for service life is respected by this Commission, and will be

adopted for this proceeding. However, we reserve our right to examine and adopt an additional source for depreciation rates and information in the future, if appropriate.

G) Treatment Expenses [ORS Adjustment #9]

- 1) DSI Position: BRUI treats DSI's wastewater collections, and DSI pays BRUI monthly charges for BRUI's treatment of the wastewater. The monthly treatment expense charged by BRUI to DSI is computed by aggregating the monthly service charges which BRUI would charge each DSI customer if the customer was directly on BRUI's system. Seventy-five percent (75%) of this aggregate figure is then charged to DSI as a monthly service charge. The effect is that the monthly service charge paid to BRUI is 75% of DSI's revenue. This fee method was approved by the Commission in DSI's last rate case, *See* Commission Order No. 96-44 (January 19, 1996), Docket No. 94-727-S Application of Development Service, Inc. for Approval of an Increase in Rates and Charges for Sewer Service and Docket No. 94-728-S – Application of Bush River Utilities, Inc. for Approval of an Increase in Rates and Charges for Sewer Service. DSI proposes to adjust its treatment expense it pays to BRUI based on the amount of rate increases requested by DSI in its application for an increase in rates and charges. This amount is \$72,500 for the Phase-I increase and \$36,000 for the Phase-II increase.
- 2) ORS position: Currently, DSI and BRUI have the same approved rates. *Id.* ORS proposes to adjust treatment expense to reflect seventy-five percent (75%) of the adjusted DSI revenue. This amount is \$19,477. ORS did not base its proposed adjustment on BRUI's proposed rates, because BRUI's proposed rates have not been approved and

DSI's proposed adjustment is speculative. ORS Witness Scott Direct Testimony PP. 9-11 and Audit Exhibit A-1.

- 3) Decision of the Commission: We approve the ORS's adjustment of \$19,477, based on seventy-five percent (75%) of the adjusted DSI revenue. We also hold that \$53,895 should be adopted for Phase-I and \$35,910 for Phase II for this adjustment, based on seventy-five percent (75%) of the revenue after the increase, as approved herein. This reflects increased treatment expense payments to BRUI resulting from the approved rate increase.

H) Professional Services [ORS Adjustment #11]

- 4) DSI Position: DSI proposes to include rate case expenses of \$700, bank services and loan closing fees for the construction loan of \$1,800, and to increase regular accounting services by \$100 for a total adjustment of \$2,600.
- 5) ORS position: ORS removes the rate case expenses as a professional service and adjusts for the rate case expenses separately in Rate Case Expenses. [ORS Adjustment #13]. Further, since DSI is not undergoing construction, ORS removed the \$1,800 loan closing fees for the construction loan. Construction is proposed only at BRUI and Midlands Utility, Inc., and the loan proceeds will not be used at DSI. Therefore, in order not to overcharge the customers of DSI by including the construction loan or costs associated with the construction loan directly to DSI, ORS does not include any costs associated with securing the construction loan in DSI's rate case. ORS does propose an adjustment of \$100 to this account to reflect an increase in accounting services during the test year

from \$900 to \$1,000. ORS Witness Scott Direct Testimony PP. 9-11 and Audit Exhibit A-1.

- 6) Decision of the Commission: The Commission agrees with the ORS position on disallowance of construction loan costs since DSI is not undergoing construction. DSI will pay its share of loan costs by paying the monthly treatment charges to BRUI. If BRUI includes the costs of the loan in its expenses on which rates will be set, BRUI will recoup the costs of the loan through its charges to its customers, including DSI. The Commission also agrees with the ORS to treat rate case expenses as a separate adjustment. Accordingly, expenses for this rate case will be discussed separately. The Commission agrees with the ORS recommended adjustment of \$100 for accounting services during the test year as ORS has verified this increase during its audit. As such, the proposed increase represents a known and measurable change which is appropriately included in expenses.

D) Rate Case Expenses [ORS Adjustment 13]

- 1) Position of DSI: DSI proposes to adjust for rate case expenses associated with this filing by amortizing \$24,950 for rate case expenses over a three year period for an adjustment of \$8,317. See Hearing Exhibit No. 8. DSI presented testimony that three years is the standard amortization period used for rate case expenses that has been approved by the Commission in the past. Further, in response to ORS Data Requests, DSI stated "this is the standard amortization period used for rate case expense that has been approved by the Commission in the past." Hearing Exhibit No. 6, Data Request No. 1.38.

- 2) Position of ORS: ORS proposes to amortize the rate case expenses of \$9,457 over a 5-year period. ORS Witness Scott Direct Testimony P. 12, l. 17- P. 13, l.5. The adjustment is comprised of \$700 for expenses for accounting services during the test year and \$8,757 for legal expenses. At the hearing, ORS did not object to DSI submitting a late-filed exhibit for rate case expenses. ORS received the late-filed exhibit on Monday, January 24, 2005, and the exhibit indicates total rate case legal expenses of \$24,950. ORS considered time between rate cases as one measure for an amortization period. DSI's previous rate case proceedings were in 1996 and 1987 resulting in approximately 8.5 years between rate cases. However, ORS testified that an 8.5 year amortization period is too long and proposed a more reasonable amortization period of 5 years. ORS Witness Scott Direct Testimony and Audit Exhibit A-1. Using the ORS amortization period of 5 years with the updated rate case expenses from hearing Exhibit 8, results in an adjustment of \$5,130.
- 3) Decision of the Commission: The Commission concludes that a total of \$25,650 (\$700 in accounting expenses and \$24,950 in legal expenses) should be amortized over a three-year period, for an increase in rate case expenses of \$6,659 above the amount of \$1,891 included by ORS in its audit report. The Commission adopts a three-year amortization period as a reasonable period for DSI to recover these expenses without causing undue hardship on ratepayers. We agree with ORS's position that three years for a standard amortization period that has been approved by the Commission in the past is not sufficient legal justification for use of such a period. The Commission cannot make an adjustment based merely on past Commission practice. *Hamm v. South Carolina Public*

Service Comm'n, 309 S.C. 282, 422 S.E.2d 110 (1992). However, we believe that the three-year amortization period is appropriate for this case, especially due to the fact that the Company could possibly be involved with further regulatory proceedings due to our findings herein before implementation of the Phase-II increase. The Commission will therefore allow \$25,650 in rate case expenses to be recovered over 3 years.

J) Telephone Expenses [ORS Adjustment #14]

- 1) Position of DSI: In the application, DSI proposed to increase telephone expenses by \$63.
- 2) Position of ORS: ORS presented testimony that this proposed adjustment was due to rounding and was not due to any known and measurable change. Therefore, ORS did not allow this adjustment. ORS Witness Scott Direct Testimony P. 13 and Audit Exhibit A-1.
- 3) Decision of the Commission: The Commission finds that no testimony or evidence was presented which would show this adjustment was known and measurable. Therefore, because no justification for the proposed increase to telephone expenses was found in the ORS audit or produced at the hearing, the Commission denies this adjustment proposed by DSI. Accordingly, the proposed increase of \$63 to telephone expense is not allowed.

K) Vehicle Expenses [ORS Adjustment #15]

- 1) Position of DSI: DSI's application reflects \$1,109 in vehicle expenses during the test year. This expense is comprised of \$858 for vehicle insurance and \$251 for vehicle repairs. The vehicle is a Ford F-250. DSI proposed to decrease this amount to \$1,000.
- 2) Position of ORS: ORS witness Scott testified the Ford F-250 was used 1/3 of the time by DSI, and the vehicle expenses should be adjusted accordingly to reflect DSI's portion of

these expenses. One-third of \$1,109 is \$370, therefore, ORS's adjustment is (\$739) to Operating and Maintenance expenses. ORS also allocated and allowed one-third (1/3) of the total vehicle taxes of \$328 to DSI resulting in an adjustment to taxes other than income of (\$219) to remove two-thirds (2/3) of that amount. ORS Witness Scott Direct Testimony, P. 13 and Audit Exhibit A-2.

- 3) Decision of the Commission: The Commission adopts the ORS position on vehicle expenses and will allow the vehicle expenses to be adjusted to reflect DSI's expenses for its portion of the truck usage. Testimony shows DSI only uses the truck responsible for vehicle expenses 1/3 of the time. It would not be prudent to allow DSI rate payers to pay for 100% of the truck expenses when the truck is only used 1/3 of the time for its benefit, therefore, the Commission adopts the ORS adjustments to vehicle expenses.

L) Insurance Premiums [ORS Adjustment #16]

- 1) Position of DSI: DSI did not propose to include group insurance premiums paid on DSI's Plant in Service in its expenses for the test year.
- 2) Position of ORS: ORS proposes to allocate a portion of group insurance coverage premiums for general liability coverage and umbrella coverage on DSI's Plant in Service. ORS witness Scott testified that an insurance payment of \$5,106 was made by BRUI. Of this payment, ORS determined during its audit that \$3,926 was for insurance coverage on vehicles not owned by DSI. ORS determined the remaining \$1,180 is for general liability and umbrella coverage on commercial property. ORS allocated the \$1,180 among the three companies based on single family equivalents resulting in an adjustment to DSI's expenses of \$256. ORS Witness Scott Direct Testimony, p. 13-14 and Audit Exhibit A-1.

- 3) Decision of the Commission: The Commission has found ORS's adjustments and manner in arriving at these adjustments to be reasonable and verifiable. The Commission allows the ORS recommended adjustments to DSI's expenses of \$256 for its portion of group insurance coverage premiums.

M) Gross Receipts Tax [ORS Adjustment #17]

- 1) Position of DSI: DSI proposes to include \$2,055 relating to the Gross Receipts Tax as reflected in its per book expenses.
- 2) Position of ORS: ORS witness Scott testified ORS applied the most recent gross receipts factor of 0.007733226 to the as adjusted revenues. The gross receipts factor includes costs for administration, the Public Service Commission, and the Office of Regulatory Staff. ORS applied the factor to the as adjusted revenue of \$254,866 for total gross receipts of \$1,971 less the per book amount of \$2,055 for an adjustment of (\$84).
- 3) Decision of the Commission: The Commission adopts the adjustment made by ORS as reasonable and verifiable for regulatory purposes. Since the Commission has adopted and approved the ORS adjusted revenues, it is appropriate to apply the most recent gross receipts factor for an adjustment of (\$84) to DSI's Gross Receipts Tax Expense.

N) Uncollectibles Associated with As Adjusted Revenues [ORS Adjustment #18]

- 1) Position of DSI: DSI proposed to adjust revenues for a 1.5% allowance for uncollectibles associated with the as adjusted service revenues for an adjustment of \$4,897. DSI indicated this adjustment is reasonable in light of the fact DSI's uncollected rates in the test year were 2.66% based on test year revenues for sewer service of \$247,883 and

annualized total revenues based on 100% collections from the customer base equaling \$254,636.16. Hearing Exhibit 6, Response to First Set of Data Requests, 1.28.

- 2) Position of ORS: ORS proposes to adjust expenses for a 1.5% allowance for uncollectibles associated with the as adjusted revenues. ORS witness Scott testified that the 1.5% allowance is an industry standard and is less than DSI's actual test year uncollectible rate of 2.72% as determined by ORS. ORS also concludes a total adjustment of \$3,820 is reasonable. ORS Witness Scott Direct Testimony, P. 14 and Audit Exhibit A-1.
- 3) Decision of the Commission: The Commission agrees with ORS and adjusts DSI's test year expenses to reflect 1.5% in uncollectibles for a total adjustment of \$3,820. The Commission finds a 2.72% uncollectible rate unreasonable.

O) Service Revenues [ORS Adjustment #19]

- 1) Position of DSI: DSI proposes to adjust service revenues for the proposed increase in rates. DSI's proposed service revenue adjustment is \$73,713 net of uncollectibles in Phase-I and \$47,538 net of uncollectibles in Phase-II.
- 2) Position of ORS: ORS also proposes to adjust service revenues for the proposed increase in the amount of \$66,960 based on DSI's Phase-I rate structure. ORS did not include DSI's "after construction" or Phase-II proposed rates as being known and measurable at this time, and therefore, did not compute the impact of the Phase-II increase as proposed by the Company.
- 3) Decision of the Commission: The Commission disagrees with ORS, and finds that the rates and charges requested in this proceeding and approved herein produce additional

gross annual revenues of \$71,860 under Phase-I and \$47,880 under Phase-II. The impact of the proposed rates and charges as requested by the Company is fully known and measurable.

P) Uncollectibles Associated with the Proposed Revenue [ORS Adjustment #20]

- 1) Position of DSI: DSI proposes to reduce revenues by an allowance of 1.5% of proposed revenues for uncollectibles. This adjustment amounts to \$4,897 which is computed using DSI's total proposed revenues of \$326,493 multiplied by the 1.5% allowance.
- 2) Position of ORS: ORS proposes to adjust operating expenses for a 1.5% allowance for uncollectibles. As ORS witness Scott testified, because ORS has already allowed an amount for uncollectibles on the as adjusted service revenue, ORS needs only to make an additional adjustment for the proposed increase for service revenues. This adjustment was computed using the ORS proposed increase of \$66,960 multiplied by the 1.5% allowance resulting in a total adjustment of \$1,004. ORS Witness Scott Direct Testimony, P. P. 15 and Audit Exhibit A-1.
- 3) Decision of the Commission: As the Commission has found the appropriate level of revenues, the Commission also adjusts to allow for 1.5% uncollectibles on the approved increase in service revenues under Phase-I and Phase-II for an adjustment of \$1,078 and \$718 under Phase-I and Phase II, respectively.

Q) Gross Receipts Taxes Associated with the Proposed Increase [ORS Adjustment #21]

- 1) Position of DSI: DSI did not propose to adjust for gross receipts taxes associated with the proposed increase.

- 2) Position of ORS: ORS proposed to adjust for gross receipts tax associated with the proposed increase. ORS presented testimony that it used the proposed increase of \$66,960 multiplied with the gross receipts factor of 0.007733226 for a total adjustment of \$518. ORS Witness Scott Direct Testimony, P. 15 and Audit Exhibit A-1.
- 3) Decision of the Commission: The Commission believes the adjustment for gross tax receipts is reasonable and consistent with the previous adjustments. Since the Commission has found the appropriate level of revenues, it is appropriate to apply the most recent gross receipts factor to this amount for an adjustment of \$556 in Phase-I and \$370 in Phase-II.

R) Income Taxes [ORS Adjustment #22]

- 1) Position of DSI: DSI proposes to adjust for income taxes associated with DSI's proposed increase in income. DSI states in its application that this adjustment is \$1,847.
- 2) Position of ORS: ORS also proposes to adjust for income taxes associated with the proposed increase. ORS witness Scott testified that ORS's adjustment was based on revenues, expenses, and interest expense after the proposed increase for a total adjustment of \$12,205. DSI is organized as a Sub-Chapter S corporation and does not pay income taxes. Instead, income taxes are paid by the shareholders on their personal income tax returns. Although DSI will not pay corporate income taxes, ORS proposes to allow income taxes on the net income of DSI since its operations cause a tax liability. ORS's proposed treatment of income taxes is consistent with the Commission's decision in the Madera Utilities, Inc. rate case. *See* Docket No. 2003-368-S. ORS Witness Scott Direct Testimony, PP. 15-16 and Audit Exhibit A-3.

- 3) Decision of the Commission: The Commission agrees with both DSI and ORS that the income taxes associated with the proposed increase should be adjusted. However, the Commission finds that the appropriate adjustment to income taxes should be \$785 after the approved increase in Phase-I and \$2,880 after the approved increase in Phase-II. The allowance of income taxes is due to utility operations being the source of the tax liability.

S) Customer Growth [ORS Adjustment #23]

- 1) Position of DSI: DSI did not propose to adjust net operating income for customer growth.
- 2) Position of ORS: ORS proposes to adjust Net Operating Income for Customer Growth after the proposed increase. ORS used a customer growth factor of 0.007634 based on DSI's customer growth during the test year and applies the factor to the Net Operating Income after the proposed increase of \$49,923 for an adjustment of \$381. ORS Witness Scott Direct Testimony, p. 16 and Audit Exhibit A-4.
- 3) Decision of the Commission: The Commission finds that DSI experienced a growth in customers from 131 customers at the beginning of the test year to 132 customers at the end of the test year based on evidence presented by ORS. Using the Computation of Growth factor of $(\text{Ending Customers} - \text{Average Customers}) / \text{Average Customers}$, the Commission agrees with ORS's customer growth factor of 0.007634 and adjusts net operating income by \$43 after the Phase-I increase and \$110 after the Phase-II increase.

Summary of Adjustments to Expenses:

The adjustments to test year operating expenses adopted herein result in an increase in O&M Expenses of \$18,438; an increase in General and Administrative ("G&A") Expenses of \$8,896; a decrease in Depreciation Expense of (\$9,976); a decrease in Taxes Other Than Income

of (\$303); and a decrease in Interest Expense of (\$2,249). Total operating expenses amount to \$264,835.

7. The operating margin for the test year under present rates and after accounting and pro forma adjustments approved herein is (4.81%). The calculation for the operating margin was based on using the test year adjusted operating revenues of \$254,866 as approved herein and test year as adjusted operating expenses of \$264,835 as approved herein. Adjusted test year operations result in a "Net Loss for Return" of (\$9,969). Using the adjusted Net Loss for Return less Interest Expense (if applicable) divided by Operating Revenues, we calculate a negative operating margin of (4.81%).

The following table indicates (1) DSI's gross revenues for the test year after adjustments approved herein under the current rate schedule; (2) DSI's operating expenses for the test year after accounting and pro forma adjustments and adjustments for known and measurable out-of test year occurrences approved herein; and (3) the operating margin under the presently approved schedule for the test year:

TABLE A

Before Increase As Adjusted

Operating Revenues	\$254,866
Operating Expenses	<u>264,835</u>
Net Operating Income/Loss	(9,969)
Add: Customer Growth	<u>0</u>
 NET INCOME/ (LOSS) FOR RETURN	 <u>(9,969)</u>
 Operating Margin	 <u>(4.81%)</u>
(Interest Expense For Operating Margin)	<u>\$2,284</u>

8. Based on the operating margin for the test year after accounting and pro forma adjustments, we find that DSI has demonstrated a need for an increase in rates. Adjusted test year operations reveal an operating margin of (4.81%). Expenses of operating the system outweigh the revenues of the system.

9. When applied to as adjusted test year operations, the rates requested and proposed by DSI result in an operating margin of 1.02% for Phase-I and 3.25% for Phase-II. Information concerning the effect of the proposed rates when applied to as adjusted test year operations of DSI is found in ORS exhibits introduced during the hearing and the Company's Application. ORS witness Scott calculated the rates proposed by DSI for the Phase-I rate increase, would produce additional revenues of \$66,960 which result in an operating margin of 14.92%. Hearing Exhibit 4, Audit Exhibit A. However, we calculate that the rates proposed by DSI for the Phase-I rate increase, would produce additional revenues of \$71,860 which results in an operating margin of 1.02%. We also calculate that the rates proposed by DSI for the Phase-II rate increase, would produce additional revenues of \$47,880 which results in an operating margin of 3.25%.

10. The Commission finds that an operating margin of 1.02% in Phase-I and 3.25% in Phase-II is just and reasonable and results in just and reasonable rates to charge for the services offered by DSI.

11. The level of operating revenues required in order for DSI to have an opportunity to earn a 1.02% operating margin is found to be \$326,726.

The following table indicates (1) DSI's gross revenues for the test year after adjustments approved herein, under the proposed Phase-I rate schedule; (2) DSI's operating expenses for the test year after accounting and pro forma adjustments and adjustments for known and measurable

out-of-test year occurrences approved herein; and (3) the operating margin under the proposed Phase-I rate schedule:

TABLE B

After Phase-I Increase

Operating Revenues	\$326,726
Operating Expenses	<u>321,149</u>
Net Operating Income/Loss	5,577
Add: Customer Growth	<u>43</u>
NET INCOME/ (LOSS) FOR RETURN	<u>5,620</u>
Operating Margin	<u>1.02%</u>
(Interest Expense For Operating Margin)	<u>\$2,284</u>

12. In order to meet the income requirement for the opportunity to earn an operating margin of 1.02%, DSI will require additional revenues of \$71,860. This amount of additional revenues represents DSI's proposed Phase-I increase.

13. The need for the Phase-II increase has been justified by DSI. ORS asserts that DSI could not justify the second phase of the proposed rates, because there were no additional known and measurable out of test year adjustments. This is not the case. First, Bush River and DSI have both applied for and obtained financing sufficient to pay for the construction of a DHEC-mandated wastewater treatment plant upgrade. The minimum cost of the system is \$932,278. We believe that there is no question that the additional monies for the new treatment plant are going to be spent. We do hold that ORS must conduct an audit of such plant expenditures and report back to this Commission, prior to the Phase-II rate increase going into

effect. This will be discussed further infra, along with other conditions that must be met before the Company may put the Phase-II increase into effect.

Additional revenues of \$47,880 are appropriate for Phase-II of the increase, for total operating revenues of \$374,606. Total operating expenses for Phase-II are \$360,242. We hold that all accounting adjustments from Phase-I will carry over into Phase-II, except that operating and maintenance expenses shall be increased by \$35,910 to reflect increased treatment expense payments to BRUI resulting from the rate increase. Total operating margin for Phase-II is 3.25%, considering interest expense of \$2,284. This may be calculated as follows:

TABLE C

After Phase-II Increase

Operating Revenues	\$374,606
Operating Expenses	<u>360,242</u>
Net Operating Income/Loss	14,364
Add: Customer Growth	<u>110</u>
NET INCOME/ (LOSS) FOR RETURN	<u>14,474</u>
Operating Margin	<u>3.25%</u>
Interest Expense for Operating Margin	<u>\$2,284</u>

14. The Commission finds that the increase in tap fees should not be approved.

By its Application, DSI requested to increase its customer tap fees by 300%. However, DSI did not provide cost justification for the proposed increase in tap fees with its application as required by 26 S.C. Code Regs. 103-512.4.A.9 (Supp. 2004) and 103-502(11). From the ORS audit of DSI, the requested increase in tap fees appears to be due to increased plant investment

upon upgrade of the BRUI wastewater treatment facility ("WWTF"). DSI also stated in responses to ORS Data Requests that "little material cost is associated with the tap." Hearing Exhibit No. 6, Response to Data Request 1.6(f). Further, DSI indicated that tap fees are used to pay officer salaries. Hearing Exhibit No. 6, Response to Data Request 1.6(f) and (h). Normally, tap fees are booked as Contributions in Aid of Construction ("CIAC") and included as a deduction from rate base. Therefore, the Commission finds the requested tap fee increase to be unnecessary at this time as the Company has not provided sufficient cost justification for the increase in tap fees.

15. The current performance bond of DSI is insufficient and does not meet the requirements of S.C. Code Ann. Section 58-5-720 (Supp. 2004).

S.C. Code Ann. Section 58-5-720 (Supp. 2004) was amended in May 2000 and increased the required amounts of performance bonds to a minimum of \$100,000 and a maximum of \$350,000. Thereafter, the Commission's regulations were amended to provide for determining the amount of bond required by each utility. 26 S.C. Code Regs. 103-512.3.1 (Supp. 2004) was amended to provide that the amount of the bond should be based on the total amount of certain expense categories.

ORS witness Hipp provided testimony concerning the performance bond filed by DSI. According to witness Hipp, DSI has on file a performance bond with a face amount of \$10,000. The performance bond is secured by a personal financial statement of Mr. Keith Parnell, President of DSI. Witness Hipp opined that the performance bond is insufficient because it does not meet the statutory amount required for the performance bond. Further, Ms. Hipp testified that that the surety filed to support the performance bond is insufficient because (1) the amount

of the surety does not comply with the requirement of 26 S.C. Code Regs. 103-512.3.1 (Supp. 2004); (2) the financial statement does not accurately depict the net worth of the surety as required by 26 S.C. Code Regs. 103-512.3.2 and 103-512.3.3; (3) the real estate indicated on the financial statement is in the name of another person and there is no documentation indicating authorization to pledge the real estate as part of the surety; and (4) the same financial statements and surety are used to secure performance bonds of DSI's sister companies BRUI and MUI. Witness Hipp calculated that an appropriate bond for DSI, based upon the criteria contained in 26 S.C. Code Regs. 103-512.3.1, would be \$236,146. ORS Witness Hipp Direct Testimony PP. 5 and Surrebuttal Testimony PP. 5-7.

DSI witness Parnell testified that DSI had complied with the Commission's requirements concerning the performance bond. Parnell Rebuttal Testimony, P. 10, ll. 12-16. Upon review of this issue, however, we find that DSI's bond does not meet the statutory requirements of S.C. Code Ann. Section 58-5-720 (Supp. 2004). The statute requires a minimum bond of \$100,000 up to a maximum of \$350,000. The requirement of the performance bond is to protect the public and to insure that the utility provides adequate and proper service. Accordingly, we hold that DSI must provide a \$100,000 bond by the end of its construction phase, i.e. Phase-I. We waive, pursuant to the provisions of 26 S.C. Code Ann. Regs. 103-501.3, that portion of 26 S.C. Code Ann. Regs. 103-512.3.1 which requires that the amount of bond be based on, but not limited to, the total amount of certain categories of Company expenses for twelve months. The Commission's waiver regulation for sewer companies, 26 S.C. Code Ann. Regs. 103-501.3, states that in any case where compliance with any of the rules and regulations introduces unusual difficulty, such rules or regulations may be waived by the Commission upon a finding by the

Commission that such waiver is in the public interest. Considering the present financial position of the Company, and considering the fact that the Company has had difficulty in the past in obtaining a surety bond, we believe that setting the bond in the amount recommended by ORS, which is in line with the cited portion of the Commission regulation, is going to introduce unusual difficulty for the Company in complying with that portion of the regulation. Further, the waiver of the stated portion of 26 S.C. Code Ann. Regs. 103-512.3.1 is in the public interest, since it allows the Company to more easily transition to a bond amount in line with the statutory language found in S.C. Code Ann. Section 58-5-720 (Supp. 2004). DSI must comply with the bonding requirement by completion of construction of Bush River's new treatment facility. The Commission will review bonding requirements if a merger of the three companies occurs.

16. Although we would certainly encourage the Company to prepare a business plan, this Commission does not have the authority to order the Company to prepare one. Therefore, the recommendation that DSI prepare and file with the Commission and with ORS a business plan is rejected. Also, we believe that SCDHEC and lending institutions already require this type of plan. Any further planning requirements would be burdensome and may detract from DSI or its sister companies devoting resources to upgrading the system and bringing it into compliance. However, as was previously stated, we encourage the Company to examine such a business plan if feasible.

Mr. Parnell testified, and the application also states, that the intention of the Parnells is to merge all three companies into one company. However, Mr. Parnell indicated that there are no firm plans or timetable for a merger to occur.

The ORS witnesses recommended that the Commission require DSI to merge with its affiliated companies. However, this Commission does not have the authority to order a company to merge with another. While this Commission's decisions are often based on the prudence or imprudence of management decisions, those decisions involve a review of the management decisions, and this Commission has no authority to manage the utility. But while this Commission cannot manage the day to day operations of the utility, this Commission can require utilities under its jurisdiction to investigate various avenues or strategies to assist the utility. Accordingly, we reaffirm our position encouraging a merger of these companies as outlined in Order No. 96-44.

17. The Commission finds that DSI should maintain its books and records in accordance with the NARUC Uniform System of Accounts, as adopted by this Commission.

DSI witness Parnell admitted that DSI is not maintaining its books and records under the NARUC Uniform System of Accounts. The Commission's rules and regulations require sewerage utilities to use the NARUC Uniform System of Accounts. Keeping books and records in compliance with NARUC's Uniform System of Accounts will not only mean compliance with 26 S.C. Code Regs. 103-517, but will also make regulatory audits easier and less burdensome. ORS requested that DSI be required to maintain its books and records under NARUC's Uniform System of Accounts. We believe that the Company should be in compliance with this requirement by the end of Phase-I.

After considering the Company's testimony in this case, it appears that Company personnel lack understanding of our Rules and Regulations, for whatever reason. We encourage the Company to study the Commission's Rules and Regulations more carefully, and attempt to

gain a better understanding of them. Further, we urge the Company to seek help from personnel at the Office of Regulatory Staff when appropriate in this endeavor.

CONCLUSIONS OF LAW

Based upon the Findings of Fact as contained herein and the record of this proceeding, the Commission makes the following Conclusions of Law:

1. DSI is a public utility as defined in S.C. Code Ann. § 58-5-10(3) (Supp. 2004) and as such is subject to the jurisdiction of this Commission.

2. The appropriate test year on which to set rates for DSI is the twelve month period ending December 31, 2003.

3. Based on the information provided by the parties, the Commission concludes the appropriate rate setting methodology to use as a guide in determining the lawfulness of DSI's proposed rates and for the fixing of just and reasonable rates is operating margin.

4. For the test year of December 31, 2003, the appropriate operating revenues, under present rates and as adjusted in this Order, are \$254,866, and the appropriate operating expenses, under present rates and as adjusted in this Order, are \$264,835.

5. We conclude that DSI has demonstrated a need for a rate increase as operating expenses outweigh operating revenues. We further conclude that DSI has demonstrated the need for the two-phase increase in rates proposed in the application. DSI has provided justification for an increase beyond the Phase-I rates as additional known and measurable expenses have been identified. After Phase-I of the rates, DSI should have an operating margin of 1.02%. We conclude that an operating margin of 1.02% is fair and reasonable and results in rates which are

just and reasonable. Likewise, we believe that an operating margin of 3.25% is fair and reasonable, and results in rates which are fair and reasonable for Phase-II of the rate increase.

6. In order for DSI to have the opportunity to earn the 1.02% operating margin for Phase-I and 3.25% for Phase-II found fair and reasonable herein, DSI must be allowed additional revenues of \$71,860 and \$47,880, respectively.

7. The proposed increase in the tap fee is not allowed because the proposal does not correctly identify the expenses associated with the tap fee as required by 26 S.C. Code Regs. 103-502.11.

8. The rates as set forth in the attached Appendix A are approved for use by DSI and are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of DSI.

9. Based upon the requirements of S.C. Code Ann. Section 58-5-720 (Supp. 2004) and the unwaived portion of 26 S.C. Regs. 103-512.3.1 (Supp. 2004), DSI shall post a performance bond of \$100,000 by the end of Phase-I. The performance bond shall be in a form as allowed by S.C. Code Ann. Section 58-5-720 and the unwaived portion of 26 S.C. Code Regs. 103-512.3 through 103-512.3.3 (Supp. 2004).

IT IS THEREFORE ORDERED THAT:

1. DSI is granted an operating margin for its sewer service of 1.02% for Phase-I and 3.25% for Phase-II.

2. The schedule of rates and charges attached hereto for Phase-I of the rate increase as Appendix A are hereby approved for service rendered on or after the date of this Order. Further, the schedule is deemed filed with the Commission pursuant to S.C. Code Ann. Section

58-5-240 (Supp. 2004). Prior to the Company implementing Phase-II of the rate increase, the Company shall undergo an audit from the Office of Regulatory Staff. Further, prior to entering Phase-II, DSI shall be in compliance with all SCDHEC regulations. In addition, prior to implementing Phase-II, the Company must be maintaining its books and records according to the NARUC System of Accounts, and must post a \$100,000 performance bond as discussed above. The Company must certify its compliance with all of these requirements before entering Phase-II of the rate increase. Further, ORS must certify to this Commission that it has performed the required audit, and the results of that audit. Should the audit reveal non-compliance with Commission directives in this matter, the Company may not implement Phase-II of the rate increase until further Order of the Commission. In addition, DHEC must certify compliance of the Company with all of its requirements to the Commission. We cannot stress enough the necessity for compliance with all directives of this Commission before implementation of Phase-II of the rate increase.

3. Should the schedules containing rates for Phase-I of the rate increase approved herein not be placed into effect within three months of this Order, DSI shall require written approval from this Commission to place the rates into effect.

4. As referred to above, DSI shall maintain its books and records in accordance with the NARUC Uniform System of Accounts as adopted by this Commission by the end of Phase-I.

5. Also, as referred to above, pursuant to and consistent with S.C. Code Ann. Section 58-5-720 and the unwaived portion of 26 S.C. Code Regs. 103-512.3 through 103-512.3.3 (Supp. 2004), DSI shall post a performance bond with a face value of \$100,000 by the end of Phase-I.

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

BY ORDER OF THE COMMISSION:

/s/
Randy Mitchell, Chairman

ATTEST:

/s/
G. O'Neal Hamilton, Vice Chairman

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2017-292-WS - ORDER NO. 2018-345

MAY 17, 2018

IN RE: Application of Carolina Water Service, Inc.	)	ORDER APPROVING
for Adjustment of Rates and Charges and	)	RATES AND CHARGES
Modification to Certain Terms and	)	
Conditions for the Provision of Water and	)	
Sewer Service	)	

This matter is before the Public Service Commission of South Carolina ("Commission") on the Application of Carolina Water Service, Inc. ("CWS" or "Company") for approval of a new schedule of rates and charges and modifications to certain terms and conditions for the provision of water and sewer services for its customers in South Carolina. CWS filed its Application on November 10, 2017, pursuant to S.C. Code § 58-5-240 and S.C. Code Regs. §§ 103-503, 103-703, 103-512.4.A and 103-712.4.A.

In the Application, CWS requested an increase in revenues for combined operations of \$4,511,414 consisting of a water revenue increase of \$2,272,914 and a sewer revenue increase of \$2,238,500. The revenue increase utilizes a return on equity ("ROE") of 10.5% based on the rate of return on rate base methodology and a historical test year beginning September 1, 2016, and ending August 31, 2017.

CWS requested permission to modify its sewer service tariff to reduce the frequency with which customers must test their backflow devices from every year to every

two years, and to authorize the Company to terminate service, after notice, to a customer who fails to demonstrate that his backflow device is working properly. App. p. 6, ¶ 20. CWS requested authorization to increase its Water Meter Installation Charge from \$35 to \$45 per year, to more accurately reflect the utility's cost of providing this service. App. p. 6, ¶ 21. The Company also requested approval of a provision in its tariff limiting the liability of the Company, its agents, and employees for interruption of service, whether caused by acts or omissions, to those remedies provided in the Commission's rules and regulations. App. p. 6, ¶ 22.

CWS last rate case before this Commission was in Docket No. 2015-199-WS. In that case, the Commission approved a settlement in which CWS received a combined revenue increase of \$3,068,441 based on a \$50,955,443 rate base; an operating margin of 11.95%, an ROE of 9.34%, and a return on rate base of 7.99%.

CWS' South Carolina operations are classified by the National Association of Regulatory Utility Commissioners ("NARUC") as a Class A water and wastewater utility according to water and sewer revenues reported on its Application for the test year ending August 31, 2017. The Commission's approved service area for CWS is in parts of sixteen counties.

I. PROCEDURAL BACKGROUND

The Commission's Clerk's Office instructed CWS to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by CWS' Application and to mail copies of the Notice of Filing to all customers affected by the proposed rates and charges and modifications. The Notice of Filing indicated the nature of

the Application and advised all interested parties desiring to participate in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. CWS filed affidavits demonstrating the Notice of Filing had been duly published and provided to all customers.

Petitions to Intervene were subsequently filed on behalf of the Forty Love Point Homeowners' Association ("Forty Love"), York County, and James S. Knowlton. The South Carolina Office of Regulatory Staff ("ORS"), a party of record pursuant to S.C. Code § 58-4-10(B), made on-site investigations of CWS' facilities, audited CWS' books and records, issued data requests, and gathered other detailed information concerning CWS' operations.

CWS was represented by Charles L.A. Terreni, and Scott Elliott. Laura P. Valtorta represented Forty Love. Michael K. Kendree represented York County, Mr. Knowlton appeared pro se. Jeffrey M. Nelson, and Florence P. Belser represented the ORS. On March 28, 2018 York County moved to withdraw from the proceedings without prejudice after CWS withdrew its request for approval of the Utility System Improvement Rate ("USIR"). York County's request was granted on the same day. Order No. 2018-38-H.

The Commission held public hearings in Lexington, York, and Greenville counties to allow CWS's customers to present their views regarding the Application. An evidentiary hearing was held April 3-4, 2018, at the Commission's offices in Columbia with the Honorable Swain E. Whitfield, presiding.

The Company presented the testimony of Michael R. Cartin, Operations and Regulatory Affairs Manager (direct, rebuttal and supplemental), Robert M. Hunter,

Financial Planning and Analysis Manager (direct and rebuttal), and Bob Gilroy, Vice President of Operations (direct, rebuttal, and testimony responsive to customers who testified at public hearings). Mr. Cartin, testified about the Company's operations and various expenses and capital expenditures made by CWS. Mr. Hunter testified about the Company's finances and revenue requirement, and Mr. Gilroy testified about various aspects of the Company's operations and customer service. The Company also presented the testimony of Dylan W. D'Ascendis, CRRA, Director at ScottMadden, Inc., who testified to the Company's capital structure, cost of debt, and recommended ROE.

Forty Love presented the direct testimony of subdivision residents and customers Barbara King and Jay Dixon. They testified to problems experienced with the sewer system serving Forty Love Point. Mr. Knowlton presented his rebuttal testimony opposing the amount and frequency of the Company's rate increases.

ORS presented the testimony of Matthew Schellinger (direct and surrebuttal), Zachary Payne (direct and surrebuttal), and Douglas H. Carlisle, Jr., Ph.D. (direct and surrebuttal) as a panel. Dr. Carlisle testified to the Company's capital structure, cost of debt, and recommended ROE.

Dr. Carlisle's testimony included an analysis and recommendation for an allowed ROE. Mr. Payne testified about ORS's examination of the Application and CWS' books and records and the subsequent accounting and pro forma adjustments recommended by ORS. Mr. Schellinger's direct testimony focused on CWS' compliance with Commission rules and regulations, ORS' business office compliance review, inspections of CWS' water

and wastewater systems, test year and proposed revenue, and performance bond requirements.

II. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS

A. Standards and Required Findings

In considering the Application, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. The Commission must give due consideration to the Company's total revenue requirements and review the operating revenues and operating expenses of CWS to establish adequate and reasonable levels of revenues and expenses. The Commission will consider a fair rate of return for CWS based on the record and any increase must be just and reasonable and free of undue discrimination. CWS has also asked this Commission to approve revenues based on an authorized ROE established to allow CWS the opportunity to earn a fair return.

After evaluation of the positions of the parties, the Commission reaches the legal and factual conclusions discussed below, based on its review of the facts and evidence of record. The evidence supporting the Company's business and legal status is contained in the Application filed by CWS, testimony, and in prior Commission orders in the docket files of the Commission, of which the Commission takes judicial notice.

CWS has approximately 16,000 water customers and 14,000 sewer customers in Lexington, Richland, Sumter, Aiken, Saluda, Orangeburg, Beaufort, Georgetown, Abbeville, Union, Anderson, York, Cherokee, Greenville, Greenwood, and Williamsburg counties. App. Schd. F; R. p. 345 (Gilroy Dir. p. 2, ll. 21-24). As a public utility, its

operations are subject to the jurisdiction of the Commission pursuant to S.C. Code §§ 58-5-10 et seq.

B. Test Year

A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's return on rate base. To determine the utility's expenses and revenues, we must select a 'test year' for the measurement of the expenses and revenues. *Heater of Seabrook v. PSC*, 324 S.C. 56, 59 n.1 (1996). While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. When the test year figures are atypical, the Commission should adjust the test year data. See *S. Bell Tel. & Tel. Co. v. Pub. Serv. Com*, 270 S.C. 590, 603 (1978).

In its Application, CWS utilized a historic test year, the twelve months beginning September 1, 2016, and ending August 31, 2017, with adjustments for 2018 expectations. App. p.2, ¶ 5. ORS used the same historical test year. R. p. 729 (Payne Dir. p. 2, ll. 5-10). None of the other parties contested CWS' proposed test year. Based on the information available to the Commission, and that none of the parties objected to CWS' proposed test year, the Commission concludes that the test year beginning September 1, 2016, and ending August 31, 2017, is appropriate for this Application.

C. Rate of Return on Rate Base

The Company requested rate base and rate of return treatment for its Application. App. pp. 4-5, ¶ 16. No other party of record proposed an alternative method for determining just and reasonable rates and the testimony of ORS' witnesses Payne and Carlisle assumes that return on rate base will be the methodology employed.

The Commission has wide latitude in selecting a rate setting methodology. Heater of Seabrook, at 64. Even though S.C. Code § 58-5-240(H) requires the Commission to specify an operating margin in all water and sewer rate cases, the Commission is not precluded by that statute from employing the return on rate base approach to ratemaking. Id. Operating margin "is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary debt and equity capital that a large utility needs for sound operation." Id at 65. In the Company's last rate case, the Commission employed the return on rate base methodology. The Commission finds the return on rate base methodology is appropriate. The Company's rate base, according to its Application, is \$54,853,170. App. Ex. B, Sch. C, p. 1.

The determination of return on rate base requires consideration of three components, namely: capital structure, cost of equity (or "ROE") and the cost of debt. R. pp. 397-398 (D' Ascendis Dir. pp. 4-5).

Mr. D'Ascendis and Dr. Carlisle agreed the capital structure and cost of debt of CWS's parent, Utilities, Inc. should be employed: it is 48.11% long-term debt and 51.89% common equity. R. pp. 395 (D'Ascendis Dir. p. 2, ll. 10-17); 649 (Carlisle Dir. p.4, ll. 21-

p.5, l. 3). No other party disagreed. The Commission finds this capital structure supported by the uncontroverted testimony of the parties.

Mr. D'Ascendis and Dr. Carlisle disagreed on CWS's cost of debt. Mr. D'Ascendis used an embedded debt rate of 6.60%. Dr. Carlisle lowered CWS's cost of debt rate from 6.60% to 6.58% due to what he described as "unfavorable terms" of the Company's long-term debt. R. p. 649 (Carlisle Dir., p. 4, l. 21 – p. 5, l. 9). Dr. Carlisle argued the Company imprudently refinanced its long-term debt when interest rates were high and agreed to terms which prevent it from refinancing now that interest rates are lower. Id. Mr. D'Ascendis countered that the Company's long-term debt financing, which was agreed to in 2006, was in line with bond yields for similarly situated companies at the time. R. p. 438 (D'Ascendis, Rebut. p. 3, ll. 1-14). However, the Commission has not been provided any evidence to support the ORS position. We find the appropriate long-term debt rate for CWS is 6.60%.

The rate of return on common equity, or ROE, is a key figure used in calculating a utility's overall rate of return. *Porter v. PSC*, 333 S.C. 12 (1998). A utility is entitled to the opportunity to earn a fair rate of return. *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) and *Bluefield Water Works Improvement Co. v. Public Service Comm'n*, 262 U.S. 679 (1922),

Mr. D'Ascendis recommended that CWS' ROE should fall within a range of 10.45% to 10.95%. R. p. 397 (D'Ascendis Dir. p. 4, ll. 4-20 (Table 2)).

To determine the cost of equity, Mr. D'Ascendis used the Discounted Cash Flow ("DCF") Risk Premium Model ("RPM") and the Capital Asset Pricing Model ("CAP-M")

and ("ECAP-M") model to similar risk companies, i.e. proxy groups, of regulated and non-regulated companies. R. pp. 396-397 (D'Ascendis Direct pp. 3-4).

The proxy groups were used by Mr. D'Ascendis because the Company's common stock is not publicly traded, and, therefore, CWS's market-based common equity cost rates cannot be determined directly. Id. He used a proxy group of eight water companies whose common stocks were actively traded for insight into a common equity cost rate applicable to CWS. R. p. 402 (D'Ascendis Direct, p.10). The utility proxy group was selected according to these criteria: 1) they are included in the Water Utility Group of Value Line's Standard Edition (October 13, 2017); 2) they have 70% or greater of 2016 total operating income and 70% or greater of 2016 total assets attributable to regulated water operations; 3) at the time of the preparation of this testimony, they had not publicly announced that they were involved in any major merger or acquisition activity (i.e. one publicly traded utility merging with or acquiring another); 4) they have not cut or omitted their common dividends during the five years ending 2016 or through the time of the preparation of this testimony; 5) they have Value Line and Bloomberg adjusted betas; 6) they have a positive Value Line five-year dividends per share ("DPS") growth rate projection; and 7) they have Value Line, Reuters, Zacks, or Yahoo! Finance consensus five-year earnings per share ("EPS") growth rate projections. Id. The companies that met Mr. D'Ascendis' criteria were: American States Water Co., American Water Works Co., Inc., Aqua America, Inc., California Water Service Group, Connecticut Water Service, Inc., Middlesex Water Co., SJW Corp., and York Water Co. Id.

Mr. D'Ascendis also selected a proxy group of twenty-eight non-price regulated companies comparable in total risk to the proxy group of water companies. R. Ex. 8 (D'Ascendis Direct, Ex. 1, Schd. DWD-6). The criteria for non-price regulated proxy group were: 1) they must be covered by Value Line Investment Survey (Standard Edition); 2) they must be domestic, non-price regulated companies, i.e., non-utilities; 3) their beta coefficients must lie within plus or minus two standard deviations of the average unadjusted beta of the utility proxy group; and 4) the residual standard errors of the Value Line regressions, which gave rise to the unadjusted beta coefficients, must lie within plus or minus two standard deviations of the average residual standard error of the utility proxy group. R. p. 423 (D'Ascendis Direct, p. 30, ll. 15-23).

Mr. D'Ascendis' DCF analysis yields cost rates for the water company proxy group of 8.64%. The RPM analysis produced a common equity cost rate of 10.69% for the water company proxy group. The CAP-M cost rate is 10.51% for the water company proxy group. D'Ascendis averaged the mean, 10.43%, and median, 10.58%, equity costs of the water company proxy group, resulting in 10.51%. R. p. 424 (D'Ascendis Direct, p. 29, ll. 10-15). With the non-price regulated proxy group, the DCF yields 13.57%, the RPM, 11.91%, and the CAP-M/ECAP-M, 11.15%. R. p. 424 (D'Ascendis Direct, pp. 31, l. 12-32, l. 4). The average of the mean and median of the non-price regulated proxy group is 12.06%. R. p. 425 (D'Ascendis Direct, p. 32, ll. 7-14).

The approximate average of the results produced by any of Mr. D'Ascendis' models is 10.45%. R. p. 426 (D'Ascendis Direct, p. 33, ll. 5-9). He also recommended an upward adjustment of 0.50% ROE, due to CWS's small size. R. pp. 426 - 429 (D'Ascendis Direct,

p. 33, l. 11- 36, l. 20). His average ROE after the size adjustment is 10.95%. R. p. 429 (D'Ascendis Direct, p. 36, ll. 17-20). Mr. D'Ascendis recommended range of ROE was 10.45% to 10.95%. R. p. 397 (D'Ascendis Dir. p. 4, ll. 4-20 (Table 2)).

Dr. Carlisle employed the DCF model, the Comparable Earnings Model ("CEM"), and the CAP-M method to calculate his ROE range of 8.82% to 9.54%. R. p. 647 (Carlisle Direct, p. 2, ll. 12-15).

Dr. Carlisle also used a water company proxy group of ten water companies for his DCF and CAP-M analyses. R. p. 649 (Carlisle Direct, p. 4, ll. 15-20). Dr. Carlisle's water company proxy group was identical to Mr. D'Ascendis' water company proxy group except for the addition of Global Water Resources and Artesian Resources. Carlisle Rev. Exhibit DHC-4.

Dr. Carlisle's DCF analysis yields cost rates for his water company proxy group of 8.82%. R. p. 654 (Carlisle Direct, p. 9, ll. 5-6). Dr. Carlisle did not perform the DCF analysis on non-price regulated proxy group as Mr. D'Ascendis did.

Dr. Carlisle's CAP-M analysis compared the returns of the companies in his water company proxy group to a "risk free rate of return" (projected 30 yr. Treasury bond yield). R. p. 658 (Carlisle Direct, p. 13, ll. 17-23). Dr. Carlisle's CAP-M analysis produced a range of 9.38% to 9.70%, which he averaged for a final CAP-M rate of 9.54%. R. p. 659 (Carlisle Direct, p. 14, ll. 12-13). Dr. Carlisle did not perform the CAP-M analysis on comparable non-price regulated stocks, as Mr. D'Ascendis did.

Dr. Carlisle's CEM analysis, was applied to a group of non-price regulated stocks selected from Value Line with a comparable price volatility factor ("beta" or " β ") to those

in his water company proxy group. R. p. 655 (Carlisle Dir. p. 10, ll. 1-6). The CEM analysis produced a “retrospective” return on equity of 9.15%, and a “prospective” ROE of 8.63%. Dr. Carlisle averaged the two to arrive at a CEM ROE of 8.89%. R. p. 656 (Carlisle Dir. p. 11, ll. 3-7).

Finally, Dr. Carlisle averaged his DCF, CEM, and CAP-M rates to arrive at his recommended ROE of 9.08%.

Mr. D’Ascendis and Dr. Carlisle disagreed often. Mr. D’Ascendis argued that Dr. Carlisle should have relied on analysts’ estimates of earnings per share rather than historical and projected measures of book value per share, dividends per share, and sales growth to predict growth in earnings per share when performing his DCF analysis. R. p. 438 (D’Ascendis, Rebut. p. 3, l. 15 – p. 7, l. 5). On the other hand, Dr. Carlisle took issue with Mr. D’Ascendis’ reliance on analysts’ projections of earnings per share (“EPS”) as the sole factor in his DCF analysis. R. pp. 666–667 (Carlisle Surr. p. 5, l. 8 – p. 6, l. 12). Dr. Carlisle, instead, also considers dividends per share (“DPS”), book value per share (“BPS”), and revenue or sales. R. pp. 650-651 (Carlisle Dir., pp. 6-7). Mr. D’Ascendis pointed to common market references, such as Yahoo Finance and Bloomberg, which provide earnings per share projections, but not projections of dividends per share, book value per share or sales growth, as evidence the investment community relies on the former but not the latter. R. p. 458, l. 24 – p. 459, l. 13. Had he done so, Mr. D’Ascendis testified, Dr. Carlisle’s analysis would have produced a higher ROE. R. p. 442 (D’Ascendis Rebut., p. 7, ll. 1-5). Dr. Carlisle disagreed, citing studies showing that analysts’ estimates have

been historically overly optimistic, and should not be the sole basis for the DCF analysis.

R. pp. 664–666 (Carlisle, Surr. p. 3, l. 6 – p. 5, l. 4).

Mr. D’Ascendis also disagreed with Dr. Carlisle’s CAP-M calculations. He argued that Dr. Carlisle used the wrong measures of market return, and that he should have used the arithmetic mean of monthly total return rates instead of a geometric mean (or compound growth rate). Mr. D’Ascendis contends using the arithmetic produces the best insight into future returns. R. pp. 443–445 (D’ Ascendis Rebut. pp. 8-10). Dr. Carlisle responded that his market return measure better reflects the variety of companies in the market. Dr. Carlisle also defended his use of the geometric mean arguing that the arithmetic mean ignores the “compounding” effect of investing and can mislead investors by masking over the ups and downs of the market. R. p. 668 (Carlisle Surr. p. 7, l. 5 – p. 10, l. 26).

Mr. D’Ascendis criticized Dr. Carlisle for not performing an ECAP-M analysis, which he testified would have produced an equity cost rate of 10.03%. R. pp. 444–445 (D’Ascendis Rebut. p. 9, l. 8 – p. 10, l. 9). Mr. D’Ascendis also testified that Dr. Carlisle’s selection of non-price regulated companies for his CEM analysis failed to reflect the total risk of his water company proxy group. Mr. D’Ascendis performed Dr. Carlisle’s DCF and CAP-M analyses using a group that better reflected the risk of the water proxy group and found cost rates of 14.66% and 9.85% respectively. R. p. 448 (D’Ascendis Rebut. p. 13, ll. 14-24). Using the amended proxy group, Dr. Carlisle’s range would change to 9.57% (DCF), 10.03% (CAP-M), and 12.26% (CEM) with an average of 10.62%. R. p. 449 (D’Ascendis Rebut. p. 14, ll. 4-10).

The Commission finds Mr. D'Ascendis' arguments persuasive. He provided more indicia of market returns, by using more analytical methods and proxy group calculations. Mr. D'Ascendis' use of analysts' estimates for his DCF analysis is supported by consensus, as is his use of the arithmetic mean. The Commission also finds that Mr. D'Ascendis' non-price regulated proxy group more accurately reflects the total risk faced price regulated utilities and CWS. Furthermore, there is no dispute that CWS is significantly smaller than its proxy group counterparts, and, therefore, it may present a higher risk. . An appropriate ROE for CWS is 10.45% to 10.95%. The Company used an ROE of 10.5% in computing its Application, a return on the low end of Mr. D'Ascendis' range, and the Commission finds that ROE is supported by the evidence.

Table 1 below indicates the capital structure of the Company, the cost of debt, the cost of equity as approved in this Order, and the resulting rate of return on rate base:

Table 1: Summary of Overall Rate of Return

<u>Type of Capital</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	48.11%	6.60%	3.17%
Common Equity	<u>51.89%</u>	10.50%	<u>5.45%</u>
Total	100.00%		8.62%

D. Contested Rate Base Adjustments

The rate base proposed by CWS for combined operations was \$54,853,170. App. Ex B., Sch. C. CWS disputed two of ORS's rate base adjustments: Adj. 32(c) in which ORS proposes to disallow \$1,081,375 spent in connection with a liner of the equalization

basin (“EQ Liner”) at the Friarsgate wastewater treatment plant, and Adj. 32(d) in which ORS proposes to disallow \$306,552 in engineering costs incurred at the Friarsgate Plant. R. p. 744 (Payne Direct, p. 17).

1. Friarsgate EQ Basin Removal and Site Remediation

The Company proposes to include \$1,081,375 for engineering costs and remediation costs associated with the replacement of the Equalization Basin’s (“EQ”) liner at the Friarsgate WWTF. An EQ Liner is a heavy-mill plastic liner placed in an in-ground basin that holds water. R. p. 478, ll. 20-24. CWS hired an engineering firm, W.K. Dickson, after an upset occurred at its Friarsgate Wastewater Treatment Facility (“Friarsgate Plant”). W.K. Dickson assisted CWS in formulating and presenting a Corrective Action Plan required by a Consent Order with DHEC. R. p. 555, l. 16 – p. 557, l. 1. W.K. Dickson submitted engineering plans on an expedited basis for various changes and improvements made to the plant. R. p. 555, ll. 19-25. DHEC also required CWS to have a professional engineer who was a wastewater expert on site to supervise the plant’s operations. R. p. 556, ll. 14-22. W.K. Dickson also provided required monthly reports to DHEC. R. p. 556, l. 22 – p. 557, l. 1.

The Company was required by a DHEC Consent Order to: 1) remove the existing liner, 2) complete any environmental mitigation efforts concerning the soils under the existing liner, and 3) replace the EQ Liner. This effort included removing and properly disposing of any affected soils. Once the site was sufficiently mitigated, new soil was brought in, graded, and compacted to prepare the site for the installation of the new liner. Although the EQ plastic liner has yet to be installed, the Company removed the existing

EQ Liner and completed the environmental mitigation required by DHEC before the audit cutoff date of February 12, 2018. CWS acted expeditiously to comply with the DHEC mandate. CWS is not asking to recover the cost of the new liner. R. p. 505, ll. 8-14.

CWS witness Cartin testified that the DHEC Consent Order required CWS to remove the EQ Liner at the Friarsgate Plant, remediate the soil underneath the liner, and replace the liner. R. pp. 318-319 (Cartin Rebut. p. 3, l. 3 – p. 4, l. 2). CWS spent \$1,081,375 to remove the EQ Liner and remediate the soil under the liner. Id. The Company had not installed the new liner yet but is in the process of doing so. Id. CWS contends that its compliance with DHEC's Consent Order was required for its continued operations and the public has benefitted from the removal of the old EQ Liner and the soil remediation, and therefore the costs should be included in rate base. Id.

The ORS proposes to disallow these costs because the EQ Liner has not yet been replaced. The ORS reasons that the project included both the engineering and remediation and the replacement of the EQ Liner. ORS's witness, Zachary Payne, testified that, since the new EQ Liner is still under construction, the whole project is not used and useful and should not be included in rate base. R. p. 754 (Payne Surr. p. 4, ll. 7-17).

The Commission finds the measures required by the DHEC Consent Order were in the public interest. Disallowing recovery of remediation costs acts to impair a utility's ability to address environmental concerns and conflicts with the policy of allowing recovery of necessary and prudently incurred costs. These known and measurable expenditures provided prompt regulatory and environmental compliance and immediate environmental and customer benefits. CWS has not requested recovery of the cost of the

new EQ Liner, the part of the project that ORS challenges as not used and useful. The Commission finds the \$1,081,375 cost of the removal of the existing EQ Liner and environmental remediation served the Company's customers and the public interest, and the Company is entitled to its recovery.

2. Friarsgate Engineering Costs

ORS proposed to disallow \$306,552 in engineering costs paid to the W.K. Dickson firm for services at the Friarsgate Plant. R. p. 744 (Payne Direct, p. 17, l. 11 (Adj. 32(d))). CWS contends the costs are recoverable because W.K. Dickson was hired to comply with the terms of the Consent Order with DHEC. R. pp. 319-320 (Cartin Rebut. p. 4, l. 3 – p. 5, l. 4). Mr. Cartin testified that W.K. Dickson was hired to design an O&M Manual and take other measures to ensure compliance at the plant. Id. Mr. Gilroy testified that W.K. Dickson was continuously present at the plant following an upset that occurred in June 2016 which led to a DHEC enforcement action. R. p. 353 (Gilroy Direct p. 10 ll. 1-7); R. p. 487, l. 12 – p. 488, l. 9. During that period, W.K. Dickson served as the principal point of contact with DHEC personnel and obtained permission for changes and improvements made to the facility. Id.

ORS took the position the W.K. Dickson costs should not be recoverable because they were incurred to comply with DHEC's Consent Order, which was caused by the Company's failure to adequately operate and maintain the Friarsgate Plant. R. p. 683, ll. 5-22. ORS's witness, Mr. Schellinger also testified the invoices for the work lacked sufficient detail to allow it to determine the work performed, and the work was required by Consent Orders which arose from the Company's violation of its NPDES permit. R.

pp.712-715 (Schellinger Surr. p. 5, l. 13 – p. 8, l. 20). If the costs were allowable, Mr. Schellinger testified that they should be booked as operations and maintenance expenses, not capital assets. CWS responded that costs incurred to ensure the Company's compliance with environmental regulations should be recoverable, and that treating them as capital expenditures is consistent with the practice adopted by the Company and the ORS in the settlement of the last rate case. R. pp. 319 - 320 (Cartin Rebut. p. 4, l. 3 – p. 5, l. 4). The Commission finds the engineering fees are recoverable as a capital expense prudently incurred to ensure necessary compliance with environmental regulations.

E. Expenses

CWS contested adjustments proposed by the ORS to the Company's O&M expenses: a reduction of \$96,892 in sludge hauling expenses (Adj. 9(d)), and the disallowance of \$998,606 in legal expenses incurred during litigation involving the I-20 wastewater treatment plant (Adj. 16).

1. Adjustment for Litigation Expenses

The Company proposes to amortize \$998,606 in financial costs and litigation expenses associated with its I-20 sewer system over 66.67 years. R, pp. 316-317 (Cartin Rebut., p. 1, l. 12 – p. 2, l. 18). These costs were primarily incurred with five actions: 1) a lawsuit brought by the Congaree Riverkeeper in the U.S. District Court, 2) a condemnation action brought by the Town of Lexington, 3) a challenge to DHEC's denial of a permit for the I-20 Plant in the Administrative Law Court, 4) the Town of Lexington's challenge of DHEC's order that it interconnect with CWS brought in the Administrative Law Court, and 5) CWS's lawsuit against the EPA in the United States District Court. Schellinger Sur.

p. 3, ll. 1-11. The Company proposed to amortize these costs over 66.7 years, resulting in an expense of \$14,979 per year. R. p. 300 (Cartin, Dir., p. 2, ll. 15-18).

ORS argued the legal expenses should not be allowed for two reasons. Mr. Schellinger testified that legal expenses incurred to defend the Congaree Riverkeeper's lawsuit should not be allowed because the District Court had ruled against CWS finding various violations of its NPDES permit and of effluent limitations since 2009. R. p. 692 (Schellinger Surr. p. 3, l. 11 – p. 4, l. 5). Mr. Schellinger viewed the company's lawsuit against the EPA and its litigation in the Administrative Law Court as related to the Riverkeeper proceeding, a position not disputed by CWS. Schellinger asserts that CWS should not be allowed to recover its legal costs because the actions arose from the Company's violations of environmental regulations. Id.

Schellinger testified the legal costs incurred in the condemnation action should not be recovered because CWS may be allowed to recover some costs if it prevailed. R. p. 730 (Schellinger Surr. p. 4, ll. 6-22). Schellinger also posited the actions before the Administrative Law Court could turn on the outcome of the condemnation action. R. p. 731 (Schellinger Surr. p. 5, ll. 1-12). He testified that since the outcome of the condemnation action was unknown and since if successful CWS may recover its litigation costs, the Commission should establish a regulatory asset in which to defer the litigation costs for future rate making treatment.

Mr. Cartin testified that CWS had no choice but to defend the Congaree Riverkeeper's lawsuit, and to prosecute its related actions. R. p. 490, l. 22 – p. 491, l. 7. He pointed out the Congaree Riverkeeper brought his suit to force an interconnection of

the I-20 Plant to the Town of Lexington's sewer system, an action CWS was ready to take but the Town of Lexington would not allow. R. p. 489, ll. 8-20. It was not until 2016, after DHEC ordered the Town of Lexington to seek an interconnection with CWS, that Lexington brought its condemnation proceeding. R. p. 567, ll. 1-12. When the condemnation suit was brought, CWS readily allowed the town to take possession of the I-20 system and interconnect the plant, reserving its right to contest Lexington's valuation of the plant. Id.

The Commission finds that regulated utilities, like any business, will experience litigation costs associated with its business operations. CWS acted to limit exposure to liability and benefit the utility and its rate payers. The financial and litigation costs were prudently incurred. Recovery of these costs equates to \$14,979 in annual amortization expense. As Mr. Cartin testified, CWS had no alternative but to defend the Congaree Riverkeeper's lawsuit and engage in the related litigation. Therefore, CWS will be allowed to recover \$998,606 amortized over 66.7 years, at the rate of \$14,979 per year.

2. Sludge Hauling Expenses

CWS incurred \$284,233 in sludge hauling expenses at its Friarsgate Plant and at its Watergate wastewater treatment facility ("Watergate Plant") during the test year. R. p. 753 (Payne Surr. p. 3). ORS proposed to remove \$96,892 in sludge hauling costs. ORS proposes an adjustment to allow recovery of a three-year average of annual sludge hauling costs at the two facilities.

ORS witness Payne testified that the ORS reviewed the sludge costs in the test year and the costs in the previous two years, concluding that the sludge hauling costs in the test

year were atypical. R. pp. 751-752 (Payne Surr. p. 2, l. 19 – p. 3, l. 12). The ORS proposes to average the annual sludge expense for the three years reviewed and proposed an adjustment of \$96,892, normalizing this operating expense. Id.

CWS witness Gilroy testified the increase of sludge hauling expense during the test year was caused by additional sludge removal requirements at the Friarsgate WWTF which produces large amounts of sludge that must be disposed of in a timely manner. R. pp. 358-360. The amount of sludge produced depends on many factors within the process of the waste water treatment. Id. The active sludge inventory within the process must be kept at a certain concentration for the biological process to be effective and result in a clear compliant effluent. Id. Excess sludge inventory must be removed frequently to keep sludge from building up to unacceptable levels which could cause problems with effluent quality. Id.

Mr. Gilroy testified that because the Friarsgate WWTF has been on a Consent Order, these sludge inventories are also monitored by DHEC, which recommends that the inventory to be kept at a constant rate. R. p. 365 (Gilroy Rebut. p. 3, ll. 3-12)). Ordinarily, the liquid sludge is poured into filtrate boxes that drain off the water leaving a very dry cake behind, which is then hauled and disposed of at the Northeast Sanitary Landfill. Id. When the sludge production exceeds the capacity of the filtrate boxes, CWS utilizes contractor liquid tanker trucks to haul the sludge to the City of Cayce's disposal site. Id. Disposing of the sludge in the cake form is more cost-effective than hauling truckloads of liquid sludge. Id. Although more expensive, sometimes the filtrate boxes are full, and tankers must be utilized. Id.

The Commission finds that the sludge hauling costs in the test year are recoverable as known and measurable, prudently incurred costs. The ORS does not dispute the sludge costs in the test year. It simply speculates that the costs will not recur in a similar amount. Speculation is not sufficient. Moreover, the testimony indicates that the sludge costs have increased because of the DHEC Consent Order, and were prudently incurred. The Commission denies the ORS adjustment to reduce the sludge hauling expenses.

3. Effects of the Income Tax and Jobs Act

a) Excess Accumulated Deferred Income Taxes

The Company filed its Application before Congress enacted the Tax Cuts and Jobs Act of 2017 (“TCJA”), which took effect on January 1, 2018. P.L. No: 115-97. The TCJA changed the tax laws affecting the Company. Mr. Hunter testified the TCJA reduced the corporate income tax rate from 35% to 21%, causing the Company to reduce its requested revenue requirement by approximately \$877,000. R. p. 255, ll. 16-22. This Commission held in Order No. 2018-308 that, beginning January 1, 2018, regulatory accounting treatment is required for all regulated utilities for any impacts of the new law, including current and deferred tax impacts. We also held that the utilities should track and defer the effects resulting from the Tax Act in a regulatory liability account, and further, for water/wastewater utilities with operating revenues that are equal or greater than \$250,000, the issue will be addressed at the next rate case or other proceeding. The provisions of Order No. 2018-308 apply to the present case, as well as to other utilities indicated in Order No. 2018-308.

F. Rate Case Expenses

CWS proposed to include rate case expenses incurred in this rate case through the date of the hearing, and ORS agreed to this proposal, subject to its review of the requested additional amount and examination of supporting documentation. R p. 754 (Payne Surreb., p. 4, ll. 5-7). ORS received and reviewed documentation supporting rate case expenses of \$88,500 and informed the Commission at the hearing that the ORS agrees with them. After the hearing, CWS presented documentation supporting additional rate case expenses of \$64,560. Because the additional rate case expenses are known and measurable, the Commission will allow them to be included in the total rate case expense and amortized over three years. We find the Company is entitled to \$153,060 in total rate case expenses, including those expenses submitted to ORS post-hearing. This amount amortized over three years less the Company's per book amount yields a post-hearing adjustment of \$21,520.

G. Other Adjustments

The remaining ORS adjustments are accepted by this Commission without discussion. They either were not disputed by the parties or were caused by carrying out the effects of the adjustments adopted above.

H. Deferred Accounts

By Order No. 2015-876 in Docket No. 2015-199-WS, the Commission approved two regulatory deferred accounts authorizing CWS 1) to record and monitor all rate increases from third-party providers for water supply and sewer treatment; and 2) to recover non-revenue water expenses. The Commission authorized CWS to seek recovery

of the balance of these deferred accounts, subject to audit by ORS and approval by the Commission in a subsequent rate case. In this Application CWS is seeking recovery of the balance in the regulatory deferral account associated with increases in purchased water from bulk water providers. (Application, para. 17) Mr. Hunter testified that the purchase water deferred account had a balance of \$669,808 as of March 8, 2018 and explained CWS sought recovery of this balance in this docket R. p. 278 (Hunter Rebut. p. 3 ll. 7–17). At the hearing, Mr. Payne testified that the ORS had reviewed the supporting documentation of the purchase water deferred account and that the ORS agreed with CWS’ request to recover the balance of \$669,808. R. p. 752 (Payne Surreb., p. 2, ll.8-18). The Commission finds it reasonable for CWS to recover the purchased water deferred account balance of \$669,808.

Because the non-revenue water deferral account has a balance of zero, the ORS recommended this account be closed. R. p. 701 (Schellinger Dir., p. 11, l. 18 – p. 12, l. 8). The Company did not dispute this recommendation. The Commission finds it reasonable that the non-revenue water account be closed.

I. Performance Bond

CWS currently provides the maximum amount required for its performance bond in the amount of \$350,000 for water and \$350,000 for sewer operations. Using the criteria set forth in S.C. Code Regs. §§ 103-512.3.1 and 103-712.3.1, ORS recommended that CWS be required to continue the current performance bond amounts. R. p. 701 (Schellinger Dir. p. 12, ll. 9-15). CWS agreed to the performance bond amounts. The Commission requires

that CWS maintain its performance bond in \$350,000 for water and \$350,000 for sewer operations.

J. Changes to Rates, Charges and Term of Service

1. Irrigation Only Meters

Mr. Cartin testified that after hearing concerns expressed by customers with irrigation only meters, the Company had determined to eliminate the base facilities charge for irrigation only meters for residential customers who are no longer receiving an economic benefit from having an irrigation meter. The impact on revenues will be \$37,946 annually. The Company is not seeking recovery of this lost revenue here. R. p. 320 (Cartin Reb., p. 5, ll. 5-20).

The ORS has no objection to eliminating the base facilities charge on customers with irrigation only meters.

The Commission finds that eliminating the base facilities charge for customers with irrigation only meters is just and reasonable and in the public interest.

2. Backflow Testing.

CWS proposed to change the terms and conditions of its tariff to permit its customers to test their backflow devices every two years. The ORS proposed to limit the testing requirement to every two years for those residential customers with irrigation cross connections. R. pp. 699 - 700 (Schellinger Dir., p. 10, l. 18 – p. 11, l. 6). CWS concurred with the ORS recommendation with the additional provision that if the sewer system utilizes chemical injection, annual testing will be required. R. p. 363 (Gilroy Rebut., p. 1, ll. 1-7).

The Commission finds that permitting CWS' residential irrigation customers to test backflow preventers every two years is reasonable, provided that if the sewer system utilizes chemical injection, annual testing will be required

3. Water Meter Installation Charge

CWS requests authority to increase its Water Meter Installation Charge from \$35.00 to \$45.00 to more closely reflect the utility's costs. (Application at ¶ 20) The ORS has reviewed the cost justification for this increase and agrees the increase is reasonable. R. p. 699 (Schellinger Dir., p. 10, ll. 14 – 17). The \$45.00 charge is reasonable and CWS is authorized to increase its Water Meter Installation Charge to \$45.00.

4. Limitation of Liability

CWS seeks authority to limit the liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, to those remedies provided in the Commission's rules and regulations governing water and wastewater utilities. (Application at ¶ 22). Mr. Cartin points out that the Commission has promulgated regulations for quality of service and interruption of service. Limiting customer remedies to those provided in the regulations will eliminate the prospect of unnecessary litigation and result in cost savings which will benefit customers. R. pp. 310-311 (Cartin Dir., p. 12, l. 14 – p. 13 l. 1, l. 2). The ORS does not oppose the Company's proposed changes to tariff language regarding liability for interruption of service. Interruption of service is regulated by the Commission in S.C, Code Ann. Regs. 103-771 and 103-551. R. p. 670 (Schellinger Dir., p. 11, ll. 7-12) The

proposed limitation of liability to those protections found in S.C. Code Reg. 103-771 and 103-551 is reasonable and is approved.

K. Authorized Revenues

CWS requested in its Application to increase revenues for combined operations by \$4,511,414, comprising a water revenue increase of \$2,272,914 and a sewer revenue increase of \$2,238,500, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and an historical test year ending August 31, 2017. The revenue and expense adjustments to the requested increase in revenue set out herein at the approved ROE of 10.50% produce additional operating revenue of \$2,936,437 consisting of a water revenue increase of \$1,286,127 and a sewer revenue increase of \$1,650,310.

L. Rate Design

Exhibit “A” to the Application contains the Company’s Schedule of Proposed Water Charges. The proposed water rate structure for Territory 1 and Territory 2 will remain the same as approved in Order No. 2015-876. In Territory 1 and Territory 2 there will remain separate charges for Water Supply Customers (where water is supplied by wells owned and operated by CWS) and Water Distribution Customers (where water is purchased from a governmental body or agency or other entity for distribution and resale by CWS). R. p. 264 (Hunter Dir. p. 5, ll. 18–25).

Exhibit “A” to the Application contains the Company’s Schedule of Proposed Sewer Charges. Under the existing tariff, the flat rate charge for Sewer Collection & Treatment Only Customers and the flat rate charge for Sewer Collection Only Customers are two different rates. CWS proposes to combine Sewer Collection & Treatment Only

Customers and Sewer Collection Only Customers into one single rate per unit. Separate rates will remain on the tariff for Mobile Homes, and The Village Sewer Collection Customers. R. p. 265 (Hunter Dir., p.6, ll. 16–23).

Rate design is a matter of discretion for the Commission. In establishing rates, it is incumbent upon us to fix rates which “distribute fairly the revenue requirements [of the utility].” See *Seabrook Island Property Owners Association v. S.C. Public Service Comm’n*, 303 S.C. 493, 499 (1991). Our determination of “fairness” with respect to the distribution of the Company’s revenue requirement is subject to the requirement that it be based upon some objective and measurable framework. See *Utilities Services of South Carolina, Inc., v. South Carolina Office of Regulatory Staff*, 392 S.C. 96, 113-114 (2011).

CWS has combined certain of its sewer rates in this docket moving closer to uniform rates. The water rate design was approved by Order No. 2015-876. No party contests the proposed rate design and it is approved by the Commission.

M. Forty Love Point

The Forty Love Point Homeowners Association intervened questioning sewer service in the neighborhood. Barbara King and Jay Dixon, residents of the Forty Love subdivision, testified that they experienced sewer backups in their homes and chronicled the efforts of CWS to address their concerns. Representatives of CWS and its engineers, DHEC and ORS have met with the witnesses. CWS provides collection only services to Forty Love and Richland County treats the sewage. The witnesses testified that Richland County and CWS should coordinate any remedy for the customer concerns. The witnesses believe their sewer system is outdated and inadequate. The witnesses also contest the

proposed rate increase. R. pp. 608–610 (Dixon Dir. p. 1, l. 1 – p. 4, l. 76); R. pp. 603 – 605 (King Dir., p. 1, l. 1 – p. 3, l. 59).

CWS witness Gilroy testified that the Forty Love sewer system is a LETTS design installed by the developer. LETTS systems are modified septic tanks in which solid waste accumulates in a holding tank with the gray water draining to a common sewer main for transport to the Richland County Utilities treatment plant. CWS has been working with the Kings and Dixons to determine why their LETTS tanks fail to drain during prolonged rain events. CWS believes the elevation and distance between their finished basements and the sewer main outside provides for no leeway when the sewer main backs up slightly. CWS has a contractor working to install a pump tank that will both pump their water into the main and provide the separation needed to eliminate backups of their homes. R. pp. 363–364 (Gilroy Rebut., p. 1, l. 8 – p. 2, l. 10).

CWS is also retaining a professional engineering firm to inspect the system and help solve the sewerage backup problems experienced by these customers. While it is working towards a permanent solution, CWS will continue to alleviate the problem by dispatching pump trucks to the neighborhood when heavy rains are anticipated. CWS is also inspecting each LETTS tank and will reseal them as necessary. Reduced water from the tanks should ease the stress placed on the system. Id.

CWS will continue to communicate the engineering assessment with the outside contractor with Forty Love. CWS and Forty Love have agreed to report their findings to the Commission and ORS in six months – by September 30, 2018. Id. The Commission finds that the agreement between CWS and Forty Love is reasonable.

CWS and the HOA have agreed to the following plan of action which, at their request, the Commission incorporates in its Order:

CWS acknowledges that some of its customers in the Forty Love Point neighborhood have experienced problems with sewerage backups. CWS has taken, and will continue to take, measures to address these customers' concerns. CWS and the HOA agree to cooperatively investigate the source and extent of sewerage problems experienced by customers in the Forty Love Point neighborhood and formulate a plan to address them. The company is retaining an engineering firm to perform an assessment of the Forty Love Point system, and CWS will continue to work with DHEC and Richland County to determine whether issues with the latter's system may be affecting Forty Love Point. CWS and the HOA will report their findings to the PSC and the ORS in six months.

N. Dancing Dolphin, LLC

The Commission requested that the ORS investigate the allegations made by CWS' customer the Dancing Dolphin, LLC. The ORS recommends that CWS complete an inflow and infiltration study and a cost benefits analysis for the sewer system serving the properties owned by the Dancing Dolphin. R. pp. 705– 706 (Schellinger Dir., p. 16, l. 20 - -p. 17, l. 3) CWS will conduct an inflow and infiltration study and provide a report to the Commission within one year of the date of the Order. R. pp. 317–318 (Cartin Rebut., p. 2, 19 - p. 3, l. 2). In addition, CWS has credited the Dancing Dolphin, LLC with one month's bill to address the customer's concerns. R. p. 310 (Cartin Dir. p. 12, ll. 12–13). The Commission finds CWS conduct to be prudent and reasonable.

O. Customer Communications

The record reflects that CWS is working to give its customers a better understanding of the pressures and costs of operating its water and sewer systems. The Company has hired a communications coordinator to direct its customer outreach activities. R. pp. 251-253. Since December of 2017, CWS scheduled meetings with its customers in York County on December 4, 2017, and February 27, 2018; Lexington County on December 5, 2017; Anderson County on December 6, 2017; Richland County on February 21, 2018, and Greenville County on March 1, 2018. At those meetings, CWS gave customers the opportunity to meet with its management and field personnel to learn more about its operations and cost of service. R. p. 371 (Gilroy Resp., p.1, ll. 6–16).

This Commission would observe that, in prior years, the Company's customer service was perceived by some as being below standard. However, the Company's testimony in this case shows that it is committed to improvement in a proactive fashion. Relatively few customers appeared to complain about quality of service, as compared to the last several rate cases. We hold that the Company should routinely be responsive on quality of service issues, and that CWS should set the standard for quality and customer service.

However, in order to ensure that the Company is being responsive to quality of service issues, and to its customers, CWS shall prepare a report and submit it to the Commission and to ORS no less than semiannually, and the document should have headings for "Customer Complaint," "Company Response," "Customer Reaction to Company," and explain the Company reaction to Customer Complaints during the period

addressed, along with any explanations regarding quality of service. The Company shall also submit a separate report no less than semiannually reporting on all capital improvements made during the period to enhance customer service and to explain the cost of such capital improvements.

III. FINDINGS OF FACT

1) CWS is a water and sewer utility providing water and sewer service in its assigned service area in South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. §58-5-210, et. seq. CWS's operations in South Carolina are subject to the jurisdiction of the Commission.

2) CWS requested in its Application to increase revenues for combined operations by \$4,511,414 comprising a water revenue increase of \$2,272,914 and a sewer revenue increase of \$2,238,500, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and a historical test year ending August 31, 2017.

3) The test year period for this proceeding, selected by the Company, is September 1, 2016 through August 31, 2017.

4) The Commission will use the return on rate base methodology in determining and fixing just and reasonable rates.

5) The return on rate base methodology requires three components: capital structure, cost of debt, and cost of equity (or ROE).

6) CWS's rate base is \$55,524,956 after the adjustments adopted by the Commission.

7) The Commission adopts and approves of a capital structure of 48.11% long-term debt and 51.89% equity; a cost of debt rate of 6.60%; and an ROE of 10.50%.

8) The approved capital structure, cost of debt rate, and ROE produce additional operating revenue of \$2,936,437 consisting of a water revenue increase of \$1,286,127 and a sewer revenue increase of \$1,650,310.

9) The approved revenues and expenses establish a fair and reasonable operating margin of 13.23%, and a return on rate base of 8.62%.

10) The schedule of rates and terms and conditions attached to this Order as Exhibit A (Order Exhibit 1) are just and reasonable and designed to achieve the Company's new revenue requirement.

IV. CONCLUSIONS OF LAW

Based upon the discussion, findings of fact and the record of the instant proceeding, the Commission makes these Conclusions of Law:

1) CWS is a public utility as defined in S.C. Code § 58-5-10(3) and is subject to the jurisdiction of this Commission.

2) The appropriate test year on which to set rates for CWS is the twelve-month period beginning September 1, 2016 and ending August 31, 2017.

3) Based on the information provided by the parties, the Commission concludes the rate setting methodology to use as a guide in determining the lawfulness of CWS's proposed rates and for fixing just and reasonable rates is return on rate base.

4) For CWS to have the opportunity to earn the 10.5% ROE, found fair and reasonable herein, CWS must be allowed additional revenues of \$2,936,437.

5) The schedule of rates and terms and conditions in the attached Exhibit A are approved for use by CWS and are just and reasonable without undue discrimination and are also designed to meet the revenue requirements of CWS.

6) Pursuant to S.C. Code § 58-5-720 and 10 S.C. Code Regs. §§ 103-512.3 and 103-712.3, CWS will post a performance bond of \$350,000 for water and \$350,000 for sewer operations.

V. ORDERING PROVISIONS

IT IS THEREFORE ORDERED THAT:

I. The rates, fees, and charges in Order Exhibit 1 are both fair and reasonable and will allow CWS to continue to provide its customers with adequate water and wastewater services.

II. The Company is to provide thirty (30) days' notice of the increase to customers of its water and wastewater services prior to the rates and schedules being put into effect for service rendered. The schedules will be deemed filed with the Commission under S.C. Code § 58-5-240.

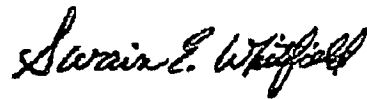
III. An ROE of 10.5%, return on rate base of 8.62% and operating margin of 13.23% based on the new rates, fees, and charges, is approved for CWS.

IV. The Company will continue to maintain current performance bonds in the amounts of \$350,000 for water operations and \$350,000 for wastewater operations pursuant to S.C. Code § 58-5-720.

V. The Company shall provide the written reports on quality of service and capital improvements no less than semiannually as described above.

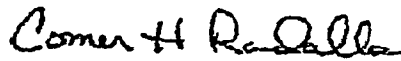
VI. This Order will remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



Swain E. Whitfield, Chairman

ATTEST:



Comer H. Randall, Vice Chairman

EXHIBIT A

Tariff

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

WATER

Service Territory 1

Monthly Charges - Water Supply Customers Only

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Proposed</u>
<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home, or apartment unit	\$14.64 per unit	\$14.43 per unit
Residential Commodity Charge	\$5.69 per 1,000 gal. or 134 cft.	\$5.61 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size		
5/8" meter *	\$ 14.64 per unit	\$ 14.43 per unit
3/4" meter	\$ 14.64 per unit	\$ 14.43 per unit
1" meter	\$ 38.10 per unit	\$ 37.54 per unit
1.5" meter	\$ 76.21 per unit	\$ 75.10 per unit
2" meter	\$ 121.93 per unit	\$ 120.15 per unit
3" meter	\$ 228.63 per unit	\$ 225.29 per unit
4" meter	\$ 381.16 per unit	\$ 375.59 per unit
8" meter	\$1,171.21 per unit	\$1,154.08 per unit
Commercial Commodity Charge	\$5.69 per 1,000 gal. or 134 cft.	\$5.61 per 1,000 gal. or 134 cft.

Monthly Charges - Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home, or apartment unit	\$14.64 per unit	\$14.43 per unit
Residential Commodity Charge	\$6.67 per 1,000 gal. or 134 cft.	\$7.57 per 1,000 gal. or 134 cft.

Corrected

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

	<u>Current</u>	<u>Proposed</u>
<u>Commercial</u>		
Base Facilities Charge		
by meter size		
5/8" meter *	\$ 14.64 per unit	\$ 14.43 per unit
3/4" meter	\$ 14.64 per unit	\$ 14.43 per unit
1" meter	\$ 38.10 per unit	\$ 37.54 per unit
1.5" meter	\$ 76.21 per unit	\$ 75.10 per unit
2" meter	\$ 121.93 per unit	\$ 120.15 per unit
3" meter	\$ 228.63 per unit	\$ 225.29 per unit
4" meter	\$ 381.16 per unit	\$ 375.59 per unit
8" meter	\$1,171.21 per unit	\$1,154.08 per unit
Commercial Commodity Charge		
	\$6.67 per 1,000 gal. or 134 cft.	\$7.57 per 1,000 gal. or 134 cft/

*A "Fire Line" customer will be billed a monthly base facilities charge of a 5/8" meter or at the rate of any other meter size used as a detector.

Corrected

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

Service Territory 2

Monthly Charges - Water Supply Customers

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Proposed</u>
<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home or apartment unit:	\$24.72 per unit	\$28.62 per unit
Residential Commodity Charge	\$ 8.88 per 1,000 gal. or 134 cft.	\$10.28 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size		
5/8" meter*	\$ 24.72 per unit	\$ 28.62 per unit
1" meter	\$ 68.81 per unit	\$ 79.65 per unit
1.5" meter	\$ 126.45 per unit	\$146.38 per unit
3" meter	\$ 431.52 per unit	\$499.53 per unit
Commercial Commodity Charge	\$ 8.88 per 1,000 gal. or 134 cft.	\$10.28 per 1,000 gal. or 134 cft.

Monthly Charges - Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home or apartment unit:	\$ 24.72 per unit	\$ 28.62 per unit
Residential Commodity Charge	\$ 9.41 per 1,000 gal. or 134 cft.	\$ 11.86 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size:		
5/8" meter*	\$ 24.72 per unit	\$ 28.62 per unit
1" meter	\$ 68.81 per unit	\$ 79.65 per unit
1.5" meter	\$ 126.45 per unit	\$146.38 per unit
3" meter	\$ 431.52 per unit	\$499.53 per unit
Commercial Commodity Charge	\$ 9.41 per 1,000 gal.	\$ 11.86 per 1,000 gal.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

or 134 cft.

or 134 cft.

***A "Fire Line" customer will be billed a monthly base facilities charge of a 5/8" meter or at the rate of any other meter size used as a detector.**

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

WATER SERVICE
TERMS AND CONDITIONS
AND
NON-RECURRING CHARGES

1. Terms and Conditions

A. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will also be charged to the Utility's affected customers on a pro rata basis, without markup.

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

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

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

E. Billing Cycle

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

F. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, and pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has for any reason restricted the Utility from adding additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

G. Cross-Connection Inspection

Any customer installing, permitting to be installed, or maintain any cross connection between the Utilities water system and any other non-public water system, sewer, or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2, as may be amended for time to time. Such a customer shall have such cross connection inspected by a licensed certified tester and provide to Utility a copy of written inspection report indicating the back-flow device is functioning properly and testing results submitted by the tester in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2, as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later June 30th of each year for required residential and commercial customers, provided that said report and results for residential irrigation customers shall be provided by the customer to the Utility no later than June 30th of every other year (unless the sewer system utilizes chemical injection for which annual testing will be required). Should a customer subject to these requirements fail to timely provide such report and results, Utility may arrange for inspection and testing by a licensed certified tester and add the charges incurred by the Utility in that regard to the customer's next bill. If after inspection and testing by the Utility's certified tester, the back-flow device fails to function properly, the customer will be notified and given a 30 day period in which to have the back-flow device repaired or replaced with a subsequent follow-up inspection by a licensed certified tester indicating the back-flow device is functioning properly. Failure to submit a report indicating the back-flow device is functioning properly will result in discontinuation of water service to said customer until such time as a passing inspection report is received by Utility.

H. A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 6 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee. The Company shall have the right to request and receive water usage records from the water provider to its customers. In addition, the Company shall have the right to conduct an inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Company shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

I. The liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, shall be limited to those remedies provided in the Public Service Commission's rules and regulations governing water utilities.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

2. Non-Recurring Charges

A. Water Service Connection (New connections only) - \$300 per SFE

B. Plant Impact Fee (New connections only) - \$400 per SFE

The Plant Capacity Fee reflects the portion of plant capacity which will be used to provide service to the new customers as authorized by Commission Rule R. 103-702.13. The plant capacity fee represents the Utility's investment previously made (or planned to be made) in constructing water production, treatment and/or distribution facilities that are essential to provide adequate water service to the new customer's property.

C. Water Meter Installation - 5/8 inches x 3/4 inches meter \$45.00

All 5/8 inch x 3/4 inch water meters shall meet the Utility's standards and shall be installed by the Utility. A one-time meter fee of \$35 shall be due upon installation for those locations where no 5/8 inch x 3/4 inch meter has been provided by a developer to the Utility.

For the installation of all other meters, the customer shall be billed for the Utility's actual cost of installation. All such meters shall meet the Utility's standards and be installed by the Utility unless the Utility directs otherwise.

D. Customer Account Charge – (New customers only) \$30.00

A one-time fee to defray the costs of initiating service.

E. Reconnection Charges: In addition to any other charges that may be due, in those cases where a customer's service has been disconnected for any reason as set forth in Commission Rule R.103-732.5, a reconnection fee shall be due in the amount of \$40.00 and shall be due prior to the Utility reconnecting service.

F. Tampering Charge: In the event the Utility's equipment, water mains, water lines, meters, curb stops, service lines, valves or other facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility's equipment, not to exceed \$250. The tampering charge shall be paid in full prior to the Utility re-establishing service or continuing the provision of service.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

SEWER

Service Territory 1 and 2

(Former customers of Carolina Water Service, Inc., Utilities Services of SC, Inc. and United Utility Companies, Inc.)

Former Customers of Carolina Water Service, Inc.

Monthly Charges – Sewer Collection & Treatment Only

Where sewage collection and treatment are provided through facilities owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Proposed</u>
Residential - charge per single-family house, condominium, villa, or apartment unit:	\$57.58 per unit	\$65.69 per unit
Mobile Homes:	\$42.01 per unit	\$47.94 per unit
Commercial	\$57.58 per SFE*	\$65.69 per SFE*

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

Monthly charge – Sewer Collection Only

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

Residential – per single-family house, condominium, or apartment unit	\$52.93 per unit	\$65.69 per unit
Commercial	\$52.93 per SFE*	\$65.69 per SFE*
The Village Sewer Collection	\$29.95 per SFE*	\$34.18 per SFE*

* Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

Corrected

SEWER SERVICE

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

TERMS AND CONDITIONS
AND
NON-RECURRING CHARGES

1. Terms and Conditions

- A. Where the Utility is required under the terms of a 201/208 Plan, or by other regulatory authority with jurisdiction over the Utility, to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.
- B. The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.
- C. Billing Cycle
Recurring charges will be billed monthly in arrears. Non-recurring charges will be billed and collected in advance of service being provided.
- D. Toxic and Pretreatment Effluent Guidelines
The utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.
- E. Extension of Utility Service Lines and Mains
The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, and pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless sewer capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has for any reason restricted the Utility from adding additional customers to the serving sewer system.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

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

F. A Single Family Equivalent ("SFE") shall be determined by 6 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service, plant impact fee and tap fee. The Company shall have the right to request and receive water usage records from the water provider to its customers. In addition, the Company shall have the right to conduct an inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Company shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

G. The liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, shall be limited to those remedies provided in the Public Service Commission's rules and regulations governing wastewater utilities.

2. Solids Interceptor Tanks

For all customers receiving sewage collection service through an approved solids interceptor tank, the following additional charges shall apply:

A. Pumping Charge

At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the Utility will arrange for the pumping tank and will include \$150.00 as a separate item in the next regular billing to the customer.

B. Pump Repair or Replacement Charge

If a separate pump is required to transport the customer's sewage from solids interceptor tank to the Utility's sewage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement as a separate item in the next regular billing to the customer and may be paid for over a one-year period.

C. Visual Inspection Port

In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer's expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

3. Non-recurring Charges

A. Sewer Service Connection (New connections only) \$300 per SFE

B. Plant Capacity Fee (New connections only) \$400 per SFE

The Plant Capacity Fee shall be computed by using South Carolina DHEC "Guide Lines for Unit Contributory Loadings to Wastewater Treatment Facilities" (1972) to determine the single family equivalency rating. The plant capacity fee represents the Utility's investment previously made (or planned to be made) in constructing treatment and/or collection system facilities that are essential to provide adequate treatment and disposal of the wastewater generated by the development of the new property.

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

C. Notification Fee

A fee of \$15.00 shall be charged to each customer per notice to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

D. Customer Account Charge - (New customers only)

\$30.00

A one-time fee to defray the costs of initiating service. This charge will be waived if the customer is also a water customer.

E. Reconnection Charges: In addition to any other charges that may be due, in those cases where a customer's service has been disconnected for any reason as set forth in Commission Rule R. 103-532.4 a reconnection fee in the amount of \$500.00 shall be due at the time the customer reconnects service. Where an elder valve has been previously installed, a reconnection fee of \$40.00 shall be charged.

F. Tampering Charge: In the event the Utility's equipment, sewage pipes, meters, curb stops, service lines, elder valves or other facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility's equipment, not to exceed \$250. The tampering charge shall be paid in full prior to the Utility re-establishing service or continuing the provision of service.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2017-292-WS - ORDER NO. 2018-345(A)
MAY 30, 2018

IN RE:	Application of Carolina Water Service, Inc.	)	AMENDED ORDER
	for Approval of an Increase in Its Rates for	)	APPROVING RATES
	Water and Sewer Services	)	AND CHARGES

This amended Order is being issued to amend Order No. 2018-345 to correct an error in the pro forma estimated Uncollectible Accounts calculation and to reflect the resultant reduction to direct revenues and rates, and to correct the docket caption to conform to the Docket Management System. The remainder of the Order is identical to Order No. 2018-345.

This matter is before the Public Service Commission of South Carolina ("Commission") on the Application of Carolina Water Service, Inc. ("CWS" or "Company") for approval of a new schedule of rates and charges and modifications to certain terms and conditions for the provision of water and sewer services for its customers in South Carolina. CWS filed its Application on November 10, 2017, pursuant to S.C. Code § 58-5-240 and S.C. Code Regs. §§ 103-503, 103-703, 103-512.4.A and 103-712.4.A.

In the Application, CWS requested an increase in revenues for combined operations of \$4,511,414 consisting of a water revenue increase of \$2,272,914 and a sewer revenue increase of \$2,238,500. The revenue increase utilizes a return on equity

(“ROE”) of 10.5% based on the rate of return on rate base methodology and a historical test year beginning September 1, 2016, and ending August 31, 2017.

CWS requested permission to modify its sewer service tariff to reduce the frequency with which customers must test their backflow devices from every year to every two years, and to authorize the Company to terminate service, after notice, to a customer who fails to demonstrate that his backflow device is working properly. App. p. 6, ¶ 20. CWS requested authorization to increase its Water Meter Installation Charge from \$35 to \$45 per year, to more accurately reflect the utility’s cost of providing this service. App. p. 6, ¶ 21. The Company also requested approval of a provision in its tariff limiting the liability of the Company, its agents, and employees for interruption of service, whether caused by acts or omissions, to those remedies provided in the Commission’s rules and regulations. App. p. 6, ¶ 22.

CWS last rate case before this Commission was in Docket No. 2015-199-WS. In that case, the Commission approved a settlement in which CWS received a combined revenue increase of \$3,068,441 based on a \$50,955,443 rate base; an operating margin of 11.95%, an ROE of 9.34%, and a return on rate base of 7.99%.

CWS’ South Carolina operations are classified by the National Association of Regulatory Utility Commissioners (“NARUC”) as a Class A water and wastewater utility according to water and sewer revenues reported on its Application for the test year ending August 31, 2017. The Commission’s approved service area for CWS is in parts of sixteen counties.

I. PROCEDURAL BACKGROUND

The Commission's Clerk's Office instructed CWS to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by CWS' Application and to mail copies of the Notice of Filing to all customers affected by the proposed rates and charges and modifications. The Notice of Filing indicated the nature of the Application and advised all interested parties desiring to participate in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. CWS filed affidavits demonstrating the Notice of Filing had been duly published and provided to all customers.

Petitions to Intervene were subsequently filed on behalf of the Forty Love Point Homeowners' Association ("Forty Love"), York County, and James S. Knowlton. The South Carolina Office of Regulatory Staff ("ORS"), a party of record pursuant to S.C. Code § 58-4-10(B), made on-site investigations of CWS' facilities, audited CWS' books and records, issued data requests, and gathered other detailed information concerning CWS' operations.

CWS was represented by Charles L.A. Terreni, and Scott Elliott. Laura P. Valtorta represented Forty Love. Michael K. Kendree represented York County, Mr. Knowlton appeared pro se. Jeffrey M. Nelson, and Florence P. Belser represented the ORS. On March 28, 2018 York County moved to withdraw from the proceedings without prejudice after CWS withdrew its request for approval of the Utility System Improvement Rate ("USIR"). York County's request was granted on the same day. Order No. 2018-38-H.

The Commission held public hearings in Lexington, York, and Greenville counties to allow CWS's customers to present their views regarding the Application. An evidentiary hearing was held April 3-4, 2018, at the Commission's offices in Columbia with the Honorable Swain E. Whitfield, presiding.

The Company presented the testimony of Michael R. Cartin, Operations and Regulatory Affairs Manager (direct, rebuttal and supplemental), Robert M. Hunter, Financial Planning and Analysis Manager (direct and rebuttal), and Bob Gilroy, Vice President of Operations (direct, rebuttal, and testimony responsive to customers who testified at public hearings). Mr. Cartin, testified about the Company's operations and various expenses and capital expenditures made by CWS. Mr. Hunter testified about the Company's finances and revenue requirement, and Mr. Gilroy testified about various aspects of the Company's operations and customer service. The Company also presented the testimony of Dylan W. D'Ascendis, CRRA, Director at ScottMadden, Inc., who testified to the Company's capital structure, cost of debt, and recommended ROE.

Forty Love presented the direct testimony of subdivision residents and customers Barbara King and Jay Dixon. They testified to problems experienced with the sewer system serving Forty Love Point. Mr. Knowlton presented his rebuttal testimony opposing the amount and frequency of the Company's rate increases.

ORS presented the testimony of Matthew Schellinger (direct and surrebuttal), Zachary Payne (direct and surrebuttal), and Douglas H. Carlisle, Jr., Ph.D. (direct and surrebuttal) as a panel. Dr. Carlisle testified to the Company's capital structure, cost of debt, and recommended ROE.

Dr. Carlisle's testimony included an analysis and recommendation for an allowed ROE. Mr. Payne testified about ORS's examination of the Application and CWS' books and records and the subsequent accounting and pro forma adjustments recommended by ORS. Mr. Schellinger's direct testimony focused on CWS' compliance with Commission rules and regulations, ORS' business office compliance review, inspections of CWS' water and wastewater systems, test year and proposed revenue, and performance bond requirements.

II. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS

A. Standards and Required Findings

In considering the Application, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. The Commission must give due consideration to the Company's total revenue requirements and review the operating revenues and operating expenses of CWS to establish adequate and reasonable levels of revenues and expenses. The Commission will consider a fair rate of return for CWS based on the record and any increase must be just and reasonable and free of undue discrimination. CWS has also asked this Commission to approve revenues based on an authorized ROE established to allow CWS the opportunity to earn a fair return.

After evaluation of the positions of the parties, the Commission reaches the legal and factual conclusions discussed below, based on its review of the facts and evidence of record. The evidence supporting the Company's business and legal status is contained in

the Application filed by CWS, testimony, and in prior Commission orders in the docket files of the Commission, of which the Commission takes judicial notice.

CWS has approximately 16,000 water customers and 14,000 sewer customers in Lexington, Richland, Sumter, Aiken, Saluda, Orangeburg, Beaufort, Georgetown, Abbeville, Union, Anderson, York, Cherokee, Greenville, Greenwood, and Williamsburg counties. App. Schd. F; R. p. 345 (Gilroy Dir. p. 2, ll. 21-24). As a public utility, its operations are subject to the jurisdiction of the Commission pursuant to S.C. Code §§ 58-5-10 et seq.

B. Test Year

A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's return on rate base. To determine the utility's expenses and revenues, we must select a 'test year' for the measurement of the expenses and revenues. *Heater of Seabrook v. PSC*, 324 S.C. 56, 59 n.1 (1996). While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. When the test year figures are atypical, the Commission should adjust the test year data. See *S. Bell Tel. & Tel. Co. v. Pub. Serv. Com*, 270 S.C. 590, 603 (1978).

In its Application, CWS utilized a historic test year, the twelve months beginning September 1, 2016, and ending August 31, 2017, with adjustments for 2018 expectations. App. p.2, ¶ 5. ORS used the same historical test year. R. p. 729 (Payne Dir. p. 2, ll. 5-

10). None of the other parties contested CWS' proposed test year. Based on the information available to the Commission, and that none of the parties objected to CWS' proposed test year, the Commission concludes that the test year beginning September 1, 2016, and ending August 31, 2017, is appropriate for this Application.

C. Rate of Return on Rate Base

The Company requested rate base and rate of return treatment for its Application. App. pp. 4-5, ¶ 16. No other party of record proposed an alternative method for determining just and reasonable rates and the testimony of ORS' witnesses Payne and Carlisle assumes that return on rate base will be the methodology employed.

The Commission has wide latitude in selecting a rate setting methodology. Heater of Seabrook, at 64. Even though S.C. Code § 58-5-240(H) requires the Commission to specify an operating margin in all water and sewer rate cases, the Commission is not precluded by that statute from employing the return on rate base approach to ratemaking. Id. Operating margin "is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary debt and equity capital that a large utility needs for sound operation." Id at 65. In the Company's last rate case, the Commission employed the return on rate base methodology. The Commission finds the return on rate base methodology is appropriate. The Company's rate base, according to its Application, is \$54,853,170. App. Ex. B, Sch. C, p. 1.

The determination of return on rate base requires consideration of three components, namely: capital structure, cost of equity (or "ROE") and the cost of debt. R. pp. 397-398 (D' Ascendis Dir. pp. 4-5).

Mr. D'Ascendis and Dr. Carlisle agreed the capital structure and cost of debt of CWS's parent, Utilities, Inc. should be employed: it is 48.11% long-term debt and 51.89% common equity. R. pp. 395 (D'Ascendis Dir. p. 2, ll. 10-17); 649 (Carlisle Dir. p.4, ll. 21-p.5, l. 3). No other party disagreed. The Commission finds this capital structure supported by the uncontroverted testimony of the parties.

Mr. D'Ascendis and Dr. Carlisle disagreed on CWS's cost of debt. Mr. D'Ascendis used an embedded debt rate of 6.60%. Dr. Carlisle lowered CWS's cost of debt rate from 6.60% to 6.58% due to what he described as "unfavorable terms" of the Company's long-term debt. R. p. 649 (Carlisle Dir., p. 4, l. 21 – p. 5, l. 9). Dr. Carlisle argued the Company imprudently refinanced its long-term debt when interest rates were high and agreed to terms which prevent it from refinancing now that interest rates are lower. Id. Mr. D' Ascendis countered that the Company's long-term debt financing, which was agreed to in 2006, was in line with bond yields for similarly situated companies at the time. R. p. 438 (D'Ascendis, Rebut. p. 3, ll. 1-14). However, the Commission has not been provided any evidence to support the ORS position. We find the appropriate long-term debt rate for CWS is 6.60%.

The rate of return on common equity, or ROE, is a key figure used in calculating a utility's overall rate of return. *Porter v. PSC*, 333 S.C. 12 (1998). A utility is entitled to the opportunity to earn a fair rate of return. *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) and *Bluefield Water Works Improvement Co. v. Public Service Comm'n*, 262 U.S. 679 (1922),

Mr. D'Ascendis recommended that CWS' ROE should fall within a range of 10.45% to 10.95%. R. p. 397 (D'Ascendis Dir. p. 4, ll. 4-20 (Table 2)).

To determine the cost of equity, Mr. D'Ascendis used the Discounted Cash Flow ("DCF") Risk Premium Model ("RPM") and the Capital Asset Pricing Model ("CAP-M") and ("ECAP-M") model to similar risk companies, i.e. proxy groups, of regulated and non-regulated companies. R. pp. 396-397 (D'Ascendis Direct pp. 3-4).

The proxy groups were used by Mr. D'Ascendis because the Company's common stock is not publicly traded, and, therefore, CWS's market-based common equity cost rates cannot be determined directly. Id. He used a proxy group of eight water companies whose common stocks were actively traded for insight into a common equity cost rate applicable to CWS. R. p. 402 (D'Ascendis Direct, p.10). The utility proxy group was selected according to these criteria: 1) they are included in the Water Utility Group of Value Line's Standard Edition (October 13, 2017); 2) they have 70% or greater of 2016 total operating income and 70% or greater of 2016 total assets attributable to regulated water operations; 3) at the time of the preparation of this testimony, they had not publicly announced that they were involved in any major merger or acquisition activity (i.e. one publicly traded utility merging with or acquiring another); 4) they have not cut or omitted their common dividends during the five years ending 2016 or through the time of the preparation of this testimony; 5) they have Value Line and Bloomberg adjusted betas; 6) they have a positive Value Line five-year dividends per share ("DPS") growth rate projection; and 7) they have Value Line, Reuters, Zacks, or Yahoo! Finance consensus five-year earnings per share ("EPS") growth rate projections. Id. The companies that met

Mr. D'Ascendis' criteria were: American States Water Co., American Water Works Co., Inc., Aqua America, Inc., California Water Service Group, Connecticut Water Service, Inc., Middlesex Water Co., SJW Corp., and York Water Co. Id.

Mr. D'Ascendis also selected a proxy group of twenty-eight non-price regulated companies comparable in total risk to the proxy group of water companies. R. Ex. 8 (D'Ascendis Direct, Ex. 1, Schd. DWD-6). The criteria for non-price regulated proxy group were: 1) they must be covered by Value Line Investment Survey (Standard Edition); 2) they must be domestic, non-price regulated companies, i.e., non-utilities; 3) their beta coefficients must lie within plus or minus two standard deviations of the average unadjusted beta of the utility proxy group; and 4) the residual standard errors of the Value Line regressions, which gave rise to the unadjusted beta coefficients, must lie within plus or minus two standard deviations of the average residual standard error of the utility proxy group. R, p. 423 (D'Ascendis Direct, p. 30, ll. 15-23).

Mr. D'Ascendis' DCF analysis yields cost rates for the water company proxy group of 8.64%. The RPM analysis produced a common equity cost rate of 10.69% for the water company proxy group. The CAP-M cost rate is 10.51% for the water company proxy group. D'Ascendis averaged the mean, 10.43%, and median, 10.58%, equity costs of the water company proxy group, resulting in 10.51%. R. p. 424 (D'Ascendis Direct, p. 29, ll. 10-15). With the non-price regulated proxy group, the DCF yields 13.57%, the RPM, 11.91%, and the CAP-M/ECAP-M, 11.15%. R. p. 424 (D'Ascendis Direct, pp. 31, l. 12-32, l. 4). The average of the mean and median of the non-price regulated proxy group is 12.06%. R. p. 425 (D'Ascendis Direct, p. 32, ll. 7-14).

The approximate average of the results produced by any of Mr. D'Ascendis' models is 10.45%. R. p. 426 (D'Ascendis Direct, p. 33, ll. 5-9). He also recommended an upward adjustment of 0.50% ROE, due to CWS's small size. R. pp. 426 - 429 (D'Ascendis Direct, p. 33, l. 11- 36, l. 20). His average ROE after the size adjustment is 10.95%. R. p. 429 (D'Ascendis Direct, p. 36, ll. 17-20). Mr. D'Ascendis recommended range of ROE was 10.45% to 10.95%. R. p. 397 (D'Ascendis Dir. p. 4, ll. 4-20 (Table 2)).

Dr. Carlisle employed the DCF model, the Comparable Earnings Model ("CEM"), and the CAP-M method to calculate his ROE range of 8.82% to 9.54%. R. p. 647 (Carlisle Direct, p. 2, ll. 12-15).

Dr. Carlisle also used a water company proxy group of ten water companies for his DCF and CAP-M analyses. R. p. 649 (Carlisle Direct, p. 4, ll. 15-20). Dr. Carlisle's water company proxy group was identical to Mr. D'Ascendis' water company proxy group except for the addition of Global Water Resources and Artesian Resources. Carlisle Rev. Exhibit DHC-4.

Dr. Carlisle's DCF analysis yields cost rates for his water company proxy group of 8.82%. R. p. 654 (Carlisle Direct, p. 9, ll. 5-6). Dr. Carlisle did not perform the DCF analysis on non-price regulated proxy group as Mr. D'Ascendis did.

Dr. Carlisle's CAP-M analysis compared the returns of the companies in his water company proxy group to a "risk free rate of return" (projected 30 yr. Treasury bond yield). R. p. 658 (Carlisle Direct, p. 13, ll. 17-23). Dr. Carlisle's CAP-M analysis produced a range of 9.38% to 9.70%, which he averaged for a final CAP-M rate of

9.54%. R. p. 659 (Carlisle Direct, p. 14, ll. 12-13). Dr. Carlisle did not perform the CAP-M analysis on comparable non-price regulated stocks, as Mr. D'Ascendis did.

Dr. Carlisle's CEM analysis, was applied to a group of non-price regulated stocks selected from Value Line with a comparable price volatility factor ("beta" or " β ") to those in his water company proxy group. R. p. 655 (Carlisle Dir. p. 10, ll. 1-6). The CEM analysis produced a "retrospective" return on equity of 9.15%, and a "prospective" ROE of 8.63%. Dr. Carlisle averaged the two to arrive at a CEM ROE of 8.89%. R. p. 656 (Carlisle Dir. p. 11, ll. 3-7).

Finally, Dr. Carlisle averaged his DCF, CEM, and CAP-M rates to arrive at his recommended ROE of 9.08%.

Mr. D'Ascendis and Dr. Carlisle disagreed often. Mr. D'Ascendis argued that Dr. Carlisle should have relied on analysts' estimates of earnings per share rather than historical and projected measures of book value per share, dividends per share, and sales growth to predict growth in earnings per share when performing his DCF analysis. R. p. 438 (D'Ascendis, Rebut. p. 3, l. 15 – p. 7, l. 5). On the other hand, Dr. Carlisle took issue with Mr. D'Ascendis' reliance on analysts' projections of earnings per share ("EPS") as the sole factor in his DCF analysis. R. pp. 666–667 (Carlisle Surr. p. 5, l. 8 – p. 6, l. 12). Dr. Carlisle, instead, also considers dividends per share ("DPS"), book value per share ("BPS"), and revenue or sales. R. pp. 650-651 (Carlisle Dir., pp. 6-7). Mr. D'Ascendis pointed to common market references, such as Yahoo Finance and Bloomberg, which provide earnings per share projections, but not projections of dividends per share, book value per share or sales growth, as evidence the investment community relies on the

former but not the latter. R. p. 458, l. 24 – p. 459, l. 13. Had he done so, Mr. D’Ascendis testified, Dr. Carlisle’s analysis would have produced a higher ROE. R. p. 442 (D’Ascendis Rebut., p. 7, ll. 1-5). Dr. Carlisle disagreed, citing studies showing that analysts’ estimates have been historically overly optimistic, and should not be the sole basis for the DCF analysis. R. pp. 664–666 (Carlisle, Surr. p. 3, l. 6 – p. 5, l. 4).

Mr. D’Ascendis also disagreed with Dr. Carlisle’s CAP-M calculations. He argued that Dr. Carlisle used the wrong measures of market return, and that he should have used the arithmetic mean of monthly total return rates instead of a geometric mean (or compound growth rate). Mr. D’Ascendis contends using the arithmetic produces the best insight into future returns. R. pp. 443–445 (D’ Ascendis Rebut. pp. 8-10). Dr. Carlisle responded that his market return measure better reflects the variety of companies in the market. Dr. Carlisle also defended his use of the geometric mean arguing that the arithmetic mean ignores the “compounding” effect of investing and can mislead investors by masking over the ups and downs of the market. R. p. 668 (Carlisle Surr. p. 7, l. 5 – p. 10, l. 26).

Mr. D’Ascendis criticized Dr. Carlisle for not performing an ECAP-M analysis, which he testified would have produced an equity cost rate of 10.03%. R. pp. 444–445 (D’Ascendis Rebut. p. 9, l. 8 – p. 10, l. 9). Mr. D’Ascendis also testified that Dr. Carlisle’s selection of non-price regulated companies for his CEM analysis failed to reflect the total risk of his water company proxy group. Mr. D’Ascendis performed Dr. Carlisle’s DCF and CAP-M analyses using a group that better reflected the risk of the water proxy group and found cost rates of 14.66% and 9.85% respectively. R. p. 448

(D'Ascendis Rebut. p. 13, ll. 14-24). Using the amended proxy group, Dr. Carlisle's range would change to 9.57% (DCF), 10.03% (CAP-M), and 12.26% (CEM) with an average of 10.62%. R. p. 449 (D'Ascendis Rebut. p. 14, ll. 4-10).

The Commission finds Mr. D'Ascendis' arguments persuasive. He provided more indicia of market returns, by using more analytical methods and proxy group calculations. Mr. D'Ascendis' use of analysts' estimates for his DCF analysis is supported by consensus, as is his use of the arithmetic mean. The Commission also finds that Mr. D'Ascendis' non-price regulated proxy group more accurately reflects the total risk faced price regulated utilities and CWS. Furthermore, there is no dispute that CWS is significantly smaller than its proxy group counterparts, and, therefore, it may present a higher risk. . An appropriate ROE for CWS is 10.45% to 10.95%. The Company used an ROE of 10.5% in computing its Application, a return on the low end of Mr. D'Ascendis' range, and the Commission finds that ROE is supported by the evidence.

Table 1 below indicates the capital structure of the Company, the cost of debt, the cost of equity as approved in this Order, and the resulting rate of return on rate base:

Table 1: Summary of Overall Rate of Return

<u>Type of Capital</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	48.11%	6.60%	3.17%
Common Equity	<u>51.89%</u>	10.50%	<u>5.45%</u>
Total	100.00%		8.62%

D. Contested Rate Base Adjustments

The rate base proposed by CWS for combined operations was \$54,853,170. App. Ex B., Sch. C. CWS disputed two of ORS's rate base adjustments: Adj. 32(c) in which ORS proposes to disallow \$1,081,375 spent in connection with a liner of the equalization basin ("EQ Liner") at the Friarsgate wastewater treatment plant, and Adj. 32(d) in which ORS proposes to disallow \$306,552 in engineering costs incurred at the Friarsgate Plant. R. p. 744 (Payne Direct, p. 17).

1. Friarsgate EQ Basin Removal and Site Remediation

The Company proposes to include \$1,081,375 for engineering costs and remediation costs associated with the replacement of the Equalization Basin's ("EQ") liner at the Friarsgate WWTF. An EQ Liner is a heavy-mill plastic liner placed in an in-ground basin that holds water. R. p. 478, ll. 20-24. CWS hired an engineering firm, W.K. Dickson, after an upset occurred at its Friarsgate Wastewater Treatment Facility ("Friarsgate Plant"). W.K. Dickson assisted CWS in formulating and presenting a Corrective Action Plan required by a Consent Order with DHEC. R. p. 555, l. 16 – p. 557, l. 1. W.K. Dickson submitted engineering plans on an expedited basis for various changes and improvements made to the plant. R. p. 555, ll. 19-25. DHEC also required CWS to have a professional engineer who was a wastewater expert on site to supervise the plant's operations. R. p. 556, ll. 14-22. W.K. Dickson also provided required monthly reports to DHEC. R. p. 556, l. 22 – p. 557, l. 1.

The Company was required by a DHEC Consent Order to: 1) remove the existing liner, 2) complete any environmental mitigation efforts concerning the soils under the

existing liner, and 3) replace the EQ Liner. This effort included removing and properly disposing of any affected soils. Once the site was sufficiently mitigated, new soil was brought in, graded, and compacted to prepare the site for the installation of the new liner. Although the EQ plastic liner has yet to be installed, the Company removed the existing EQ Liner and completed the environmental mitigation required by DHEC before the audit cutoff date of February 12, 2018. CWS acted expeditiously to comply with the DHEC mandate. CWS is not asking to recover the cost of the new liner. R. p. 505, ll. 8-14.

CWS witness Cartin testified that the DHEC Consent Order required CWS to remove the EQ Liner at the Friarsgate Plant, remediate the soil underneath the liner, and replace the liner. R. pp. 318-319 (Cartin Rebut. p. 3, l. 3 – p. 4, l. 2). CWS spent \$1,081,375 to remove the EQ Liner and remediate the soil under the liner. Id. The Company had not installed the new liner yet but is in the process of doing so. Id. CWS contends that its compliance with DHEC's Consent Order was required for its continued operations and the public has benefitted from the removal of the old EQ Liner and the soil remediation, and therefore the costs should be included in rate base. Id.

The ORS proposes to disallow these costs because the EQ Liner has not yet been replaced. The ORS reasons that the project included both the engineering and remediation and the replacement of the EQ Liner. ORS's witness, Zachary Payne, testified that, since the new EQ Liner is still under construction, the whole project is not used and useful and should not be included in rate base. R. p. 754 (Payne Surr. p. 4, ll. 7-17).

The Commission finds the measures required by the DHEC Consent Order were in the public interest. Disallowing recovery of remediation costs acts to impair a utility's ability to address environmental concerns and conflicts with the policy of allowing recovery of necessary and prudently incurred costs. These known and measurable expenditures provided prompt regulatory and environmental compliance and immediate environmental and customer benefits. CWS has not requested recovery of the cost of the new EQ Liner, the part of the project that ORS challenges as not used and useful. The Commission finds the \$1,081,375 cost of the removal of the existing EQ Liner and environmental remediation served the Company's customers and the public interest, and the Company is entitled to its recovery.

2. Friarsgate Engineering Costs

ORS proposed to disallow \$306,552 in engineering costs paid to the W.K. Dickson firm for services at the Friarsgate Plant. R. p. 744 (Payne Direct, p. 17, l. 11 (Adj. 32(d))). CWS contends the costs are recoverable because W.K. Dickson was hired to comply with the terms of the Consent Order with DHEC. R. pp. 319-320 (Cartin Rebut. p. 4, l. 3 – p. 5, l. 4). Mr. Cartin testified that W.K. Dickson was hired to design an O&M Manual and take other measures to ensure compliance at the plant. Id. Mr. Gilroy testified that W.K. Dickson was continuously present at the plant following an upset that occurred in June 2016 which led to a DHEC enforcement action. R. p. 353 (Gilroy Direct p. 10 ll. 1-7); R. p. 487, l. 12 – p. 488, l. 9. During that period, W.K. Dickson served as the principal point of contact with DHEC personnel and obtained permission for changes and improvements made to the facility. Id.

ORS took the position the W.K. Dickson costs should not be recoverable because they were incurred to comply with DHEC's Consent Order, which was caused by the Company's failure to adequately operate and maintain the Friarsgate Plant. R. p. 683, ll. 5-22. ORS's witness, Mr. Schellinger also testified the invoices for the work lacked sufficient detail to allow it to determine the work performed, and the work was required by Consent Orders which arose from the Company's violation of its NPDES permit. R. pp. 712-715 (Schellinger Surr. p. 5, l. 13 – p. 8, l. 20). If the costs were allowable, Mr. Schellinger testified that they should be booked as operations and maintenance expenses, not capital assets. CWS responded that costs incurred to ensure the Company's compliance with environmental regulations should be recoverable, and that treating them as capital expenditures is consistent with the practice adopted by the Company and the ORS in the settlement of the last rate case. R. pp. 319 - 320 (Cartin Rebut. p. 4, l. 3 – p. 5, l. 4). The Commission finds the engineering fees are recoverable as a capital expense prudently incurred to ensure necessary compliance with environmental regulations.

E. Expenses

CWS contested adjustments proposed by the ORS to the Company's O&M expenses: a reduction of \$96,892 in sludge hauling expenses (Adj. 9(d)), and the disallowance of \$998,606 in legal expenses incurred during litigation involving the I-20 wastewater treatment plant (Adj. 16).

1. Adjustment for Litigation Expenses

The Company proposes to amortize \$998,606 in financial costs and litigation expenses associated with its I-20 sewer system over 66.67 years. R, pp. 316-317 (Cartin

Rebut., p. 1, l. 12 – p. 2, l. 18). These costs were primarily incurred with five actions: 1) a lawsuit brought by the Congaree Riverkeeper in the U.S. District Court, 2) a condemnation action brought by the Town of Lexington, 3) a challenge to DHEC's denial of a permit for the I-20 Plant in the Administrative Law Court, 4) the Town of Lexington's challenge of DHEC's order that it interconnect with CWS brought in the Administrative Law Court, and 5) CWS's lawsuit against the EPA in the United States District Court. Schellinger Sur. p. 3, ll. 1-11. The Company proposed to amortize these costs over 66.7 years, resulting in an expense of \$14,979 per year. R. p. 300 (Cartin, Dir., p. 2, ll. 15-18).

ORS argued the legal expenses should not be allowed for two reasons. Mr. Schellinger testified that legal expenses incurred to defend the Congaree Riverkeeper's lawsuit should not be allowed because the District Court had ruled against CWS finding various violations of its NPDES permit and of effluent limitations since 2009. R. p. 692 (Schellinger Surr. p. 3, l. 11 – p. 4, l. 5). Mr. Schellinger viewed the company's lawsuit against the EPA and its litigation in the Administrative Law Court as related to the Riverkeeper proceeding, a position not disputed by CWS. Schellinger asserts that CWS should not be allowed to recover its legal costs because the actions arose from the Company's violations of environmental regulations. Id.

Schellinger testified the legal costs incurred in the condemnation action should not be recovered because CWS may be allowed to recover some costs if it prevailed. R. p. 730 (Schellinger Surr. p. 4, ll. 6-22). Schellinger also posited the actions before the Administrative Law Court could turn on the outcome of the condemnation action. R. p.

731 (Schellinger Surr. p. 5, ll. 1-12). He testified that since the outcome of the condemnation action was unknown and since if successful CWS may recover its litigation costs, the Commission should establish a regulatory asset in which to defer the litigation costs for future rate making treatment.

Mr. Cartin testified that CWS had no choice but to defend the Congaree Riverkeeper's lawsuit, and to prosecute its related actions. R. p. 490, l. 22 – p. 491, l. 7. He pointed out the Congaree Riverkeeper brought his suit to force an interconnection of the I-20 Plant to the Town of Lexington's sewer system, an action CWS was ready to take but the Town of Lexington would not allow. R. p. 489, ll. 8-20. It was not until 2016, after DHEC ordered the Town of Lexington to seek an interconnection with CWS, that Lexington brought its condemnation proceeding. R. p. 567, ll. 1-12. When the condemnation suit was brought, CWS readily allowed the town to take possession of the I-20 system and interconnect the plant, reserving its right to contest Lexington's valuation of the plant. Id.

The Commission finds that regulated utilities, like any business, will experience litigation costs associated with its business operations. CWS acted to limit exposure to liability and benefit the utility and its rate payers. The financial and litigation costs were prudently incurred. Recovery of these costs equates to \$14,979 in annual amortization expense. As Mr. Cartin testified, CWS had no alternative but to defend the Congaree Riverkeeper's lawsuit and engage in the related litigation. Therefore, CWS will be allowed to recover \$998,606 amortized over 66.7 years, at the rate of \$14,979 per year.

2. Sludge Hauling Expenses

CWS incurred \$284,233 in sludge hauling expenses at its Friarsgate Plant and at its Watergate wastewater treatment facility (“Watergate Plant”) during the test year. R. p. 753 (Payne Surr. p. 3). ORS proposed to remove \$96,892 in sludge hauling costs. ORS proposes an adjustment to allow recovery of a three-year average of annual sludge hauling costs at the two facilities.

ORS witness Payne testified that the ORS reviewed the sludge costs in the test year and the costs in the previous two years, concluding that the sludge hauling costs in the test year were atypical. R. pp. 751-752 (Payne Surr. p. 2, l. 19 – p. 3, l. 12). The ORS proposes to average the annual sludge expense for the three years reviewed and proposed an adjustment of \$96,892, normalizing this operating expense. Id.

CWS witness Gilroy testified the increase of sludge hauling expense during the test year was caused by additional sludge removal requirements at the Friarsgate WWTF which produces large amounts of sludge that must be disposed of in a timely manner. R. pp. 358-360. The amount of sludge produced depends on many factors within the process of the waste water treatment. Id. The active sludge inventory within the process must be kept at a certain concentration for the biological process to be effective and result in a clear compliant effluent. Id. Excess sludge inventory must be removed frequently to keep sludge from building up to unacceptable levels which could cause problems with effluent quality. Id.

Mr. Gilroy testified that because the Friarsgate WWTF has been on a Consent Order, these sludge inventories are also monitored by DHEC, which recommends that the

inventory to be kept at a constant rate. R. p. 365 (Gilroy Rebut. p. 3, ll. 3-12)). Ordinarily, the liquid sludge is poured into filtrate boxes that drain off the water leaving a very dry cake behind, which is then hauled and disposed of at the Northeast Sanitary Landfill. Id. When the sludge production exceeds the capacity of the filtrate boxes, CWS utilizes contractor liquid tanker trucks to haul the sludge to the City of Cayce's disposal site. Id. Disposing of the sludge in the cake form is more cost-effective than hauling truckloads of liquid sludge. Id. Although more expensive, sometimes the filtrate boxes are full, and tankers must be utilized. Id.

The Commission finds that the sludge hauling costs in the test year are recoverable as known and measurable, prudently incurred costs. The ORS does not dispute the sludge costs in the test year. It simply speculates that the costs will not recur in a similar amount. Speculation is not sufficient. Moreover, the testimony indicates that the sludge costs have increased because of the DHEC Consent Order, and were prudently incurred. The Commission denies the ORS adjustment to reduce the sludge hauling expenses.

3. Effects of the Income Tax and Jobs Act

a) Excess Accumulated Deferred Income Taxes

The Company filed its Application before Congress enacted the Tax Cuts and Jobs Act of 2017 ("TCJA"), which took effect on January 1, 2018. P.L. No: 115-97. The TCJA changed the tax laws affecting the Company. Mr. Hunter testified the TCJA reduced the corporate income tax rate from 35% to 21%, causing the Company to reduce its requested revenue requirement by approximately \$877,000. R. p. 255, ll. 16-22. This

Commission held in Order No. 2018-308 that, beginning January 1, 2018, regulatory accounting treatment is required for all regulated utilities for any impacts of the new law, including current and deferred tax impacts. We also held that the utilities should track and defer the effects resulting from the Tax Act in a regulatory liability account, and further, for water/wastewater utilities with operating revenues that are equal or greater than \$250,000, the issue will be addressed at the next rate case or other proceeding. The provisions of Order No. 2018-308 apply to the present case, as well as to other utilities indicated in Order No. 2018-308.

F. Rate Case Expenses

CWS proposed to include rate case expenses incurred in this rate case through the date of the hearing, and ORS agreed to this proposal, subject to its review of the requested additional amount and examination of supporting documentation. R p. 754 (Payne Surreb., p. 4, ll. 5-7). ORS received and reviewed documentation supporting rate case expenses of \$88,500 and informed the Commission at the hearing that the ORS agrees with them. After the hearing, CWS presented documentation supporting additional rate case expenses of \$64,560. Because the additional rate case expenses are known and measurable, the Commission will allow them to be included in the total rate case expense and amortized over three years. We find the Company is entitled to \$153,060 in total rate case expenses, including those expenses submitted to ORS post-hearing. This amount amortized over three years less the Company's per book amount yields a post-hearing adjustment of \$21,520.

G. Other Adjustments

The remaining ORS adjustments are accepted by this Commission without discussion. They either were not disputed by the parties or were caused by carrying out the effects of the adjustments adopted above.

H. Deferred Accounts

By Order No. 2015-876 in Docket No. 2015-199-WS, the Commission approved two regulatory deferred accounts authorizing CWS 1) to record and monitor all rate increases from third-party providers for water supply and sewer treatment; and 2) to recover non-revenue water expenses. The Commission authorized CWS to seek recovery of the balance of these deferred accounts, subject to audit by ORS and approval by the Commission in a subsequent rate case. In this Application CWS is seeking recovery of the balance in the regulatory deferral account associated with increases in purchased water from bulk water providers. (Application, para. 17) Mr. Hunter testified that the purchase water deferred account had a balance of \$669,808 as of March 8, 2018 and explained CWS sought recovery of this balance in this docket R. p. 278 (Hunter Rebut. p. 3 ll. 7–17). At the hearing, Mr. Payne testified that the ORS had reviewed the supporting documentation of the purchase water deferred account and that the ORS agreed with CWS' request to recover the balance of \$669,808. R. p. 752 (Payne Surreb., p. 2, ll.8-18). The Commission finds it reasonable for CWS to recover the purchased water deferred account balance of \$669,808.

Because the non-revenue water deferral account has a balance of zero, the ORS recommended this account be closed. R. p. 701 (Schellinger Dir., p. 11, l. 18 – p. 12, l.

8). The Company did not dispute this recommendation. The Commission finds it reasonable that the non-revenue water account be closed.

I. Performance Bond

CWS currently provides the maximum amount required for its performance bond in the amount of \$350,000 for water and \$350,000 for sewer operations. Using the criteria set forth in S.C. Code Regs. §§ 103-512.3.1 and 103-712.3.1, ORS recommended that CWS be required to continue the current performance bond amounts. R. p. 701 (Schellinger Dir. p. 12, ll. 9-15). CWS agreed to the performance bond amounts. The Commission requires that CWS maintain its performance bond in \$350,000 for water and \$350,000 for sewer operations.

J. Changes to Rates, Charges and Term of Service

1. Irrigation Only Meters

Mr. Cartin testified that after hearing concerns expressed by customers with irrigation only meters, the Company had determined to eliminate the base facilities charge for irrigation only meters for residential customers who are no longer receiving an economic benefit from having an irrigation meter. The impact on revenues will be \$37,946 annually. The Company is not seeking recovery of this lost revenue here. R. p. 320 (Cartin Reb., p. 5, ll. 5-20).

The ORS has no objection to eliminating the base facilities charge on customers with irrigation only meters.

The Commission finds that eliminating the base facilities charge for customers with irrigation only meters is just and reasonable and in the public interest.

2. Backflow Testing.

CWS proposed to change the terms and conditions of its tariff to permit its customers to test their backflow devices every two years. The ORS proposed to limit the testing requirement to every two years for those residential customers with irrigation cross connections. R. pp. 699 - 700 (Schellinger Dir., p. 10, l. 18 – p. 11, l. 6). CWS concurred with the ORS recommendation with the additional provision that if the sewer system utilizes chemical injection, annual testing will be required. R. p. 363 (Gilroy Rebut., p. 1, ll. 1-7).

The Commission finds that permitting CWS' residential irrigation customers to test backflow preventers every two years is reasonable, provided that if the sewer system utilizes chemical injection, annual testing will be required

3. Water Meter Installation Charge

CWS requests authority to increase its Water Meter Installation Charge from \$35.00 to \$45.00 to more closely reflect the utility's costs. (Application at ¶ 20) The ORS has reviewed the cost justification for this increase and agrees the increase is reasonable. R. p. 699 (Schellinger Dir., p. 10, ll.14 – 17). The \$45.00 charge is reasonable and CWS is authorized to increase its Water Meter Installation Charge to \$45.00.

4. Limitation of Liability

CWS seeks authority to limit the liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, to those remedies provided in the

Commission's rules and regulations governing water and wastewater utilities. (Application at ¶ 22). Mr. Cartin points out that the Commission has promulgated regulations for quality of service and interruption of service. Limiting customer remedies to those provided in the regulations will eliminate the prospect of unnecessary litigation and result in cost savings which will benefit customers. R. pp. 310-311 (Cartin Dir., p. 12, l. 14 – p. 13 l. 1, l. 2). The ORS does not oppose the Company's proposed changes to tariff language regarding liability for interruption of service. Interruption of service is regulated by the Commission in S.C, Code Ann. Regs. 103-771 and 103-551. R. p. 670 (Schellinger Dir., p. 11, ll. 7-12) The proposed limitation of liability to those protections found in S.C. Code Reg. 103-771 and 103-551 is reasonable and is approved.

K. Authorized Revenues

CWS requested in its Application to increase revenues for combined operations by \$4,511,414, comprising a water revenue increase of \$2,272,914 and a sewer revenue increase of \$2,238,500, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and an historical test year ending August 31, 2017. The revenue and expense adjustments to the requested increase in revenue set out herein at the approved ROE of 10.50% produce additional operating revenue of \$2,936,395 consisting of a water revenue increase of \$1,286,013 and a sewer revenue increase of \$1,650,382.

L. Rate Design

Exhibit "A" to the Application contains the Company's Schedule of Proposed Water Charges. The proposed water rate structure for Territory 1 and Territory 2 will remain the same as approved in Order No. 2015-876. In Territory 1 and Territory 2 there

will remain separate charges for Water Supply Customers (where water is supplied by wells owned and operated by CWS) and Water Distribution Customers (where water is purchased from a governmental body or agency or other entity for distribution and resale by CWS). R. p. 264 (Hunter Dir. p. 5, ll. 18–25).

Exhibit “A” to the Application contains the Company’s Schedule of Proposed Sewer Charges. Under the existing tariff, the flat rate charge for Sewer Collection & Treatment Only Customers and the flat rate charge for Sewer Collection Only Customers are two different rates. CWS proposes to combine Sewer Collection & Treatment Only Customers and Sewer Collection Only Customers into one single rate per unit. Separate rates will remain on the tariff for Mobile Homes, and The Village Sewer Collection Customers. R. p. 265 (Hunter Dir., p.6, ll. 16–23).

Rate design is a matter of discretion for the Commission. In establishing rates, it is incumbent upon us to fix rates which “distribute fairly the revenue requirements [of the utility].” See *Seabrook Island Property Owners Association v. S.C. Public Service Comm’n*, 303 S.C. 493, 499 (1991). Our determination of “fairness” with respect to the distribution of the Company’s revenue requirement is subject to the requirement that it be based upon some objective and measurable framework. See *Utilities Services of South Carolina, Inc., v. South Carolina Office of Regulatory Staff*, 392 S.C. 96, 113-114 (2011).

CWS has combined certain of its sewer rates in this docket moving closer to uniform rates. The water rate design was approved by Order No. 2015-876. No party contests the proposed rate design and it is approved by the Commission.

M. Forty Love Point

The Forty Love Point Homeowners Association intervened questioning sewer service in the neighborhood. Barbara King and Jay Dixon, residents of the Forty Love subdivision, testified that they experienced sewer backups in their homes and chronicled the efforts of CWS to address their concerns. Representatives of CWS and its engineers, DHEC and ORS have met with the witnesses. CWS provides collection only services to Forty Love and Richland County treats the sewage. The witnesses testified that Richland County and CWS should coordinate any remedy for the customer concerns. The witnesses believe their sewer system is outdated and inadequate. The witnesses also contest the proposed rate increase. R. pp. 608–610 (Dixon Dir. p. 1, l. 1 – p. 4, l. 76); R. pp. 603 – 605 (King Dir., p. 1, l. 1 – p. 3, l. 59).

CWS witness Gilroy testified that the Forty Love sewer system is a LETTS design installed by the developer. LETTS systems are modified septic tanks in which solid waste accumulates in a holding tank with the gray water draining to a common sewer main for transport to the Richland County Utilities treatment plant. CWS has been working with the Kings and Dixons to determine why their LETTS tanks fail to drain during prolonged rain events. CWS believes the elevation and distance between their finished basements and the sewer main outside provides for no leeway when the sewer main backs up slightly. CWS has a contractor working to install a pump tank that will both pump their water into the main and provide the separation needed to eliminate backups of their homes. R. pp. 363–364 (Gilroy Rebut., p. 1, l. 8 – p. 2, l. 10).

CWS is also retaining a professional engineering firm to inspect the system and help solve the sewerage backup problems experienced by these customers. While it is working towards a permanent solution, CWS will continue to alleviate the problem by dispatching pump trucks to the neighborhood when heavy rains are anticipated. CWS is also inspecting each LETTS tank and will reseal them as necessary. Reduced water from the tanks should ease the stress placed on the system. ¹Id.

CWS will continue to communicate the engineering assessment with the outside contractor with Forty Love. CWS and Forty Love have agreed to report their findings to the Commission and ORS in six months – by September 30, 2018. ²Id. The Commission finds that the agreement between CWS and Forty Love is reasonable.

CWS and the HOA have agreed to the following plan of action which, at their request, the Commission incorporates in its Order:

CWS acknowledges that some of its customers in the Forty Love Point neighborhood have experienced problems with sewerage backups. CWS has taken, and will continue to take, measures to address these customers' concerns. CWS and the HOA agree to cooperatively investigate the source and extent of sewerage problems experienced by customers in the Forty Love Point neighborhood and formulate a plan to address them. The company is retaining an engineering firm to perform an assessment of the Forty Love Point system, and CWS will continue to work with DHEC and Richland County to determine whether issues with the latter's system may be affecting Forty Love Point. CWS and the HOA will report their findings to the PSC and the ORS in six months.

N. Dancing Dolphin, LLC

The Commission requested that the ORS investigate the allegations made by CWS' customer the Dancing Dolphin, LLC. The ORS recommends that CWS complete an inflow and infiltration study and a cost benefits analysis for the sewer system serving the properties owned by the Dancing Dolphin. R. pp. 705– 706 (Schellinger Dir., p. 16, l. 20 - -p. 17, l. 3) CWS will conduct an inflow and infiltration study and provide a report to the Commission within one year of the date of the Order. R. pp. 317–318 (Cartin Rebut., p. 2, 19 - p. 3, l. 2). In addition, CWS has credited the Dancing Dolphin, LLC with one month's bill to address the customer's concerns. R. p. 310 (Cartin Dir. p. 12, ll. 12–13). The Commission finds CWS conduct to be prudent and reasonable.

O. Customer Communications

The record reflects that CWS is working to give its customers a better understanding of the pressures and costs of operating its water and sewer systems. The Company has hired a communications coordinator to direct its customer outreach activities. R. pp. 251-253. Since December of 2017, CWS scheduled meetings with its customers in York County on December 4, 2017, and February 27, 2018; Lexington County on December 5, 2017; Anderson County on December 6, 2017; Richland County on February 21, 2018, and Greenville County on March 1, 2018. At those meetings, CWS gave customers the opportunity to meet with its management and field personnel to learn more about its operations and cost of service. R. p. 371 (Gilroy Resp., p.1, ll. 6–16).

This Commission would observe that, in prior years, the Company's customer service was perceived by some as being below standard. However, the Company's testimony in this case shows that it is committed to improvement in a proactive fashion. Relatively few customers appeared to complain about quality of service, as compared to the last several rate cases. We hold that the Company should routinely be responsive on quality of service issues, and that CWS should set the standard for quality and customer service.

However, in order to ensure that the Company is being responsive to quality of service issues, and to its customers, CWS shall prepare a report and submit it to the Commission and to ORS no less than semiannually, and the document should have headings for "Customer Complaint," "Company Response," "Customer Reaction to Company," and explain the Company reaction to Customer Complaints during the period addressed, along with any explanations regarding quality of service. The Company shall also submit a separate report no less than semiannually reporting on all capital improvements made during the period to enhance customer service and to explain the cost of such capital improvements.

III. FINDINGS OF FACT

1) CWS is a water and sewer utility providing water and sewer service in its assigned service area in South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. §58-5-210, et. seq. CWS's operations in South Carolina are subject to the jurisdiction of the Commission.

2) CWS requested in its Application to increase revenues for combined operations by \$4,511,414 comprising a water revenue increase of \$2,272,914 and a sewer revenue increase of \$2,238,500, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and a historical test year ending August 31, 2017.

3) The test year period for this proceeding, selected by the Company, is September 1, 2016 through August 31, 2017.

4) The Commission will use the return on rate base methodology in determining and fixing just and reasonable rates.

5) The return on rate base methodology requires three components: capital structure, cost of debt, and cost of equity (or ROE).

6) CWS's rate base is \$55,524,956 after the adjustments adopted by the Commission.

7) The Commission adopts and approves of a capital structure of 48.11% long-term debt and 51.89% equity; a cost of debt rate of 6.60%; and an ROE of 10.50%.

8) The approved capital structure, cost of debt rate, and ROE produce additional operating revenue of \$2,936,395 consisting of a water revenue increase of \$1,286,013 and a sewer revenue increase of \$1,650,382.

9) The approved revenues and expenses establish a fair and reasonable operating margin of 13.23%, and a return on rate base of 8.62%.

10) The schedule of rates and terms and conditions attached to this Order as Order Exhibit 1(A) are just and reasonable and designed to achieve the Company's new revenue requirement.

IV. CONCLUSIONS OF LAW

Based upon the discussion, findings of fact and the record of the instant proceeding, the Commission makes these Conclusions of Law:

- 1) CWS is a public utility as defined in S.C. Code § 58-5-10(3) and is subject to the jurisdiction of this Commission.
- 2) The appropriate test year on which to set rates for CWS is the twelve-month period beginning September 1, 2016 and ending August 31, 2017.
- 3) Based on the information provided by the parties, the Commission concludes the rate setting methodology to use as a guide in determining the lawfulness of CWS's proposed rates and for fixing just and reasonable rates is return on rate base.
- 4) For CWS to have the opportunity to earn the 10.5% ROE, found fair and reasonable herein, CWS must be allowed additional revenues of \$2,936,395.
- 5) The schedule of rates and terms and conditions in the attached Order Exhibit 1(A) are approved for use by CWS and are just and reasonable without undue discrimination and are also designed to meet the revenue requirements of CWS.
- 6) Pursuant to S.C. Code § 58-5-720 and 10 S.C. Code Regs. §§ 103-512.3 and 103-712.3, CWS will post a performance bond of \$350,000 for water and \$350,000 for sewer operations.

V. ORDERING PROVISIONS

IT IS THEREFORE ORDERED THAT:

I. The rates, fees, and charges in Order Exhibit 1(A) are both fair and reasonable and will allow CWS to continue to provide its customers with adequate water and wastewater services.

II. The Company is to provide thirty (30) days' notice of the increase to customers of its water and wastewater services prior to the rates and schedules being put into effect for service rendered. The schedules will be deemed filed with the Commission under S.C. Code § 58-5-240.

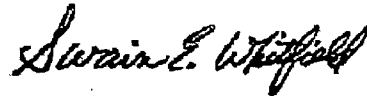
III. An ROE of 10.5%, return on rate base of 8.62% and operating margin of 13.23% based on the new rates, fees, and charges, is approved for CWS.

IV. The Company will continue to maintain current performance bonds in the amounts of \$350,000 for water operations and \$350,000 for wastewater operations pursuant to S.C. Code § 58-5-720.

V. The Company shall provide the written reports on quality of service and capital improvements no less than semiannually as described above.

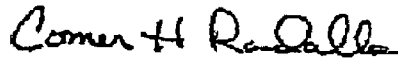
VI. This Order will remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



Swain E. Whitfield, Chairman

ATTEST:



Comer H. Randall, Vice Chairman

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF RATES AND CHARGES

WATER

Service Territory 1

Monthly Charges - Water Supply Customers Only

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Ordered</u>
<u>Residential</u>		
Base Facilities Charge		
per single-family house, condominium, mobile home, or apartment unit	\$14.64 per unit	\$14.38 per unit
Residential Commodity Charge	\$5.69 per 1,000 gal. or 134 cft.	\$5.59 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge		
by meter size		
5/8" meter *	\$ 14.64 per unit	\$ 14.38 per unit
3/4" meter	\$ 14.64 per unit	\$ 14.38 per unit
1" meter	\$ 38.10 per unit	\$ 37.43 per unit
1.5" meter	\$ 76.21 per unit	\$ 74.86 per unit
2" meter	\$ 121.93 per unit	\$ 119.78 per unit
3" meter	\$ 228.63 per unit	\$ 224.59 per unit
4" meter	\$ 381.16 per unit	\$ 374.42 per unit
8" meter	\$1,171.21 per unit	\$1,150.51 per unit
Commercial Commodity Charge	\$5.69 per 1,000 gal. or 134 cft.	\$5.59 per 1,000 gal. or 134 cft.

Monthly Charges - Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

<u>Residential</u>		
Base Facilities Charge		
per single-family house, condominium, mobile home, or apartment unit	\$14.64 per unit	\$14.38 per unit
Residential Commodity Charge	\$6.67 per 1,000 gal. or 134 cft.	\$7.55 per 1,000 gal. or 134 cft.

Carolina Water Service, Inc.
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SCHEDULE OF RATES AND CHARGES

	<u>Current</u>	<u>Ordered</u>
<u>Commercial</u>		
Base Facilities Charge		
by meter size		
5/8" meter *	\$ 14.64 per unit	\$ 14.38 per unit
3/4" meter	\$ 14.64 per unit	\$ 14.38 per unit
1" meter	\$ 38.10 per unit	\$ 37.43 per unit
1.5" meter	\$ 76.21 per unit	\$ 74.86 per unit
2" meter	\$ 121.93 per unit	\$ 119.78 per unit
3" meter	\$ 228.63 per unit	\$ 224.59 per unit
4" meter	\$ 381.16 per unit	\$ 374.42 per unit
8" meter	\$1,171.21 per unit	\$1,150.51 per unit
Commercial Commodity Charge		
	\$6.67 per 1,000 gal. or 134 cft.	\$7.55 per 1,000 gal. or 134 cft/

***A "Fire Line" customer will be billed a monthly base facilities charge of a 5/8" meter or at the rate of any other meter size used as a detector.**

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF RATES AND CHARGES

Service Territory 2

Monthly Charges - Water Supply Customers

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Ordered</u>
<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home or apartment unit:	\$24.72 per unit	\$28.59 per unit
Residential Commodity Charge	\$ 8.88 per 1,000 gal. or 134 cft.	\$10.27 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size		
5/8" meter*	\$ 24.72 per unit	\$ 28.59 per unit
1" meter	\$ 68.81 per unit	\$ 79.59 per unit
1.5" meter	\$ 126.45 per unit	\$146.27 per unit
3" meter	\$ 431.52 per unit	\$499.14 per unit
Commercial Commodity Charge	\$ 8.88 per 1,000 gal. or 134 cft.	\$10.27 per 1,000 gal. or 134 cft.

Monthly Charges - Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home or apartment unit:	\$ 24.72 per unit	\$ 28.59 per unit
Residential Commodity Charge	\$ 9.41 per 1,000 gal. or 134 cft.	\$ 11.85 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size:		
5/8" meter*	\$ 24.72 per unit	\$ 28.59 per unit
1" meter	\$ 68.81 per unit	\$ 79.59 per unit
1.5" meter	\$ 126.45 per unit	\$146.27 per unit
3" meter	\$ 431.52 per unit	\$499.14 per unit
Commercial Commodity Charge	\$ 9.41 per 1,000 gal. or 134 cft.	\$ 11.85 per 1,000 gal. or 134 cft.

Carolina Water Service, Inc.
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SCHEDULE OF RATES AND CHARGES

***A "Fire Line" customer will be billed a monthly base facilities charge of a 5/8" meter or at the rate of any other meter size used as a detector.**

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF RATES AND CHARGES

WATER SERVICE
TERMS AND CONDITIONS
AND
NON-RECURRING CHARGES

1. Terms and Conditions

A. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will also be charged to the Utility's affected customers on a pro rata basis, without markup.

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

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

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

E. Billing Cycle

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

F. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, and pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has for any reason restricted the Utility from adding additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF RATES AND CHARGES

G. Cross-Connection Inspection

Any customer installing, permitting to be installed, or maintain any cross connection between the Utilities water system and any other non-public water system, sewer, or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2, as may be amended for time to time. Such a customer shall have such cross connection inspected by a licensed certified tester and provide to Utility a copy of written inspection report indicating the back-flow device is functioning properly and testing results submitted by the tester in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2, as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later June 30th of each year for required commercial customers and no later than June 30th of every other year for required residential customers. Should a customer subject to these requirements fail to timely provide such report and results, Utility may arrange for inspection and testing by a licensed certified tester and add the charges incurred by the Utility in that regard to the customer's next bill. If after inspection and testing by the Utility's certified tester, the back-flow device fails to function properly, the customer will be notified and given a 30 day period in which to have the back-flow device repaired or replaced with a subsequent follow-up inspection by a licensed certified tester indicating the back-flow device is functioning properly. Failure to submit a report indicating the back-flow device is functioning properly will result in discontinuation of water service to said customer until such time as a passing inspection report is received by Utility.

H. A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 6 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee. The Company shall have the right to request and receive water usage records from the water provider to its customers. In addition, the Company shall have the right to conduct an inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Company shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

I. The liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, shall be limited to those remedies provided in the Public Service Commission's rules and regulations governing water utilities.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF RATES AND CHARGES

2. Non-Recurring Charges

A. Water Service Connection (New connections only) - \$300 per SFE*

B. Plant Impact Fee (New connections only) - \$400 per SFE*

The Plant Capacity Fee reflects the portion of plant capacity which will be used to provide service to the new customers as authorized by Commission Rule R. 103-702.13. The plant capacity fee represents the Utility's investment previously made (or planned to be made) in constructing water production, treatment and/or distribution facilities that are essential to provide adequate water service to the new customer's property.

C. Water Meter Installation - 5/8 inches x 3/4 inches meter \$45.00

All 5/8 inch x 3/4 inch water meters shall meet the Utility's standards and shall be installed by the Utility. A one-time meter fee of \$45 shall be due upon installation for those locations where no 5/8 inch x 3/4 inch meter has been provided by a developer to the Utility.

For the installation of all other meters, the customer shall be billed for the Utility's actual cost of installation. All such meters shall meet the Utility's standards and be installed by the Utility unless the Utility directs otherwise.

D. Customer Account Charge -- (New customers only) \$30.00

A one-time fee to defray the costs of initiating service.

E. Reconnection Charges: In addition to any other charges that may be due, in those cases where a customer's service has been disconnected for any reason as set forth in Commission Rule R.103-732.5, a reconnection fee shall be due in the amount of \$40.00 and shall be due prior to the Utility reconnecting service.

F. Tampering Charge: In the event the Utility's equipment, water mains, water lines, meters, curb stops, service lines, valves or other facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility's equipment, not to exceed \$250. The tampering charge shall be paid in full prior to the Utility re-establishing service or continuing the provision of service.

Carolina Water Service, Inc.
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SCHEDULE OF RATES AND CHARGES

SEWER

Service Territory 1 and 2

(Customers of Carolina Water Service, Inc., and former Utilities Services of SC, Inc. and United Utility Companies, Inc.)

Monthly Charges – Sewer Collection & Treatment Only

Where sewage collection and treatment are provided through facilities owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Ordered</u>
Residential - charge per single-family house, condominium, villa, or apartment unit:	\$57.58 per unit	\$65.77 per unit
Mobile Homes:	\$42.01 per unit	\$47.94 per unit
Commercial	\$57.58 per SFE*	\$65.77 per SFE*

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

Monthly charge – Sewer Collection Only

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

Residential – per single-family house, condominium, or apartment unit	\$52.93 per unit	\$65.77 per unit
Commercial	\$52.93 per SFE*	\$65.77 per SFE*
Wholesale Service (Midlands Utility)	\$26.66 per SFE*	\$N/A per SFE*
The Village Sewer Collection	\$29.95 per SFE*	\$34.18 per SFE*

* Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF RATES AND CHARGES

SEWER SERVICE
TERMS AND CONDITIONS
AND
NON-RECURRING CHARGES

1. Terms and Conditions

- A. Where the Utility is required under the terms of a 201/208 Plan, or by other regulatory authority with jurisdiction over the Utility, to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.
- B. The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.
- C. Billing Cycle
Recurring charges will be billed monthly in arrears. Non-recurring charges will be billed and collected in advance of service being provided.
- D. Toxic and Pretreatment Effluent Guidelines
The utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.
- E. Extension of Utility Service Lines and Mains
The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, and pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless sewer capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has for any reason restricted the Utility from adding additional customers to the serving sewer system.

Carolina Water Service, Inc.
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SCHEDULE OF RATES AND CHARGES

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

F. A Single Family Equivalent ("SFE") shall be determined by 6 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service, plant impact fee and tap fee. The Company shall have the right to request and receive water usage records from the water provider to its customers. In addition, the Company shall have the right to conduct an inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Company shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

G. The liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, shall be limited to those remedies provided in the Public Service Commission's rules and regulations governing wastewater utilities.

2. **Solids Interceptor Tanks**

For all customers receiving sewage collection service through an approved solids interceptor tank, the following additional charges shall apply:

A. **Pumping Charge**

At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the Utility will arrange for the pumping tank and will include \$150.00 as a separate item in the next regular billing to the customer.

B. **Pump Repair or Replacement Charge**

If a separate pump is required to transport the customer's sewage from solids interceptor tank to the Utility's sewage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement as a separate item in the next regular billing to the customer and may be paid for over a one-year period.

C. **Visual Inspection Port**

In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer's expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF RATES AND CHARGES

3. Non-recurring Charges

A. Sewer Service Connection (New connections only) \$300 per SFE

B. Plant Capacity Fee (New connections only) \$400 per SFE

The Plant Capacity Fee shall be computed by using South Carolina DHEC "Guide Lines for Unit Contributory Loadings to Wastewater Treatment Facilities" (1972) to determine the single family equivalency rating. The plant capacity fee represents the Utility's investment previously made (or planned to be made) in constructing treatment and/or collection system facilities that are essential to provide adequate treatment and disposal of the wastewater generated by the development of the new property.

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

C. Notification Fee

A fee of \$15.00 shall be charged to each customer per notice to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

D. Customer Account Charge - (New customers only) \$30.00

A one-time fee to defray the costs of initiating service. This charge will be waived if the customer is also a water customer.

E. Reconnection Charges: In addition to any other charges that may be due, in those cases where a customer's service has been disconnected for any reason as set forth in Commission Rule R. 103-532.4 a reconnection fee in the amount of \$500.00 shall be due at the time the customer reconnects service. Where an elder valve has been previously installed, a reconnection fee of \$40.00 shall be charged.

F. Tampering Charge: In the event the Utility's equipment, sewage pipes, meters, curb stops, service lines, elder valves or other facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility's equipment, not to exceed \$250. The tampering charge shall be paid in full prior to the Utility re-establishing service or continuing the provision of service.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-319-E - ORDER NO. 2019-323

MAY 21, 2019

IN RE: Application of Duke Energy Carolinas, LLC) ORDER
for Adjustments in Electric Rate Schedules)
and Tariffs)

I. INTRODUCTION AND PROCEDURAL HISTORY

This matter comes before the Public Service Commission of South Carolina (“Commission” or “PSC”) on the Application of Duke Energy Carolinas, LLC (“DEC” or “Company”) filed November 8, 2018, requesting authority to adjust and increase its electric rates, charges, and tariffs. The Application was filed pursuant to S.C. Code Ann. §§ 58-27-820 and 58-27-870 and 10 S.C. Code Ann. Regs. 103-303 and 103-823.

Along with its Application, on November 8, 2018, the Company filed the direct testimony of Steven D. Capps, Senior Vice President of Nuclear Operations for Duke Energy Corporation (“Duke Energy”); James H. Cowling, Director of Outdoor Lighting for Duke Energy Business Services, LLC (“DEBS”); Nils J. Diaz, Ph.D., Managing Director of The ND2 Group, LLC; David L. Doss, Jr., Director of Electric Utilities and Infrastructure Accounting for DEBS; Christopher M. Fallon, Vice President of Duke Energy Renewables and Commercial Portfolio; Kodwo Ghartey-Tagoe, State President – South Carolina for DEC and Duke Energy Progress, LLC (“DEP”); Janice Hager, President

of Janice Hager Consulting, LLC; Robert B. Hevert, Partner at ScottMadden, Inc.; Retha Hunsicker, Vice President, Customer Connect-Solutions for DEBS; Jon F. Kerin, Vice President, Coal Combustion Products (“CCP”) Operations, Maintenance and Governance for DEBS; Kimberly D. McGee, Rates and Regulatory Strategy Manager for DEC; Joseph A. Miller, Jr., Vice President of Central Services for DEBS; Jay W. Oliver, General Manager, Grid Solutions Engineering and Technology for DEBS; John Panizza, Director, Tax Operations for DEBS; Michael J. Pirro, Director, Southeast Pricing & Regulatory Solutions for DEC, DEP, and Duke Energy Florida, LLC (“DEF”); Donald Schneider, Jr., General Manager, Advanced Metering Infrastructure (“AMI”) Program Management for DEBS; Kim H. Smith, Director of Rates and Regulatory for DEC; John L. Sullivan, III, Director, Corporate Finance and Assistant Treasurer for DEBS and Assistant Treasurer of DEC; and Dr. Julius A. Wright, Managing Partner, J.A. Wright & Associates, LLC. Exhibits were included with the direct testimony of witnesses Cowling, Diaz, Doss, Fallon, Hevert, Hunsicker, Kerin, McGee, Oliver, Pirro, Smith, and Wright. The Company filed supplemental direct testimony and exhibits for Company witness Smith on January 18, 2019.

The Company’s general electric rates and charges were last approved by the Commission in Docket No. 2013-59-E, Order No. 2013-661, dated September 18, 2013.

In its Application, the Company requested a net revenue increase of approximately \$168 million¹ and a return on equity (“ROE”) of 10.50 percent.

¹ The net annual revenue increase includes the impact of the return of deferred income taxes through the excess deferred income tax rider (“EDIT Rider”) of approximately \$63 million, as discussed below.

On November 26, 2018, the Commission Clerk's Office issued the Notice of Filing and Hearing and instructed the Company to publish it in newspapers of general circulation in the areas affected by the Company's Application by December 6, 2018, to notify each affected customer of the hearing by December 6, 2018, and to provide a certification to the Commission by December 27, 2018. On November 27, 2018, the Company filed a letter requesting additional time to complete the notification to customers. On November 28, 2018, the Commission's Docketing Department issued a Revised Notice of Filing and Hearing and instructed the Company to publish it in newspapers of general circulation in the areas affected by the Company's Application by December 6, 2018, and to provide proof of publication by December 27, 2018. The Revised Notice of Filing and Hearing indicated the revenue being requested by the Company, the overall impact to residential customers, and other important details and references necessary to advise the public of the breadth and nature of the Company's request. The Revised Notice of Filing and Hearing also advised those desiring to participate in the proceeding, scheduled to begin March 21, 2019, of the manner and time in which to file appropriate pleadings. The Company also had to notify each affected customer of the hearing by January 11, 2019, and provide a certification to the Commission by February 1, 2019. On December 20, 2018, the Company filed affidavits with the Commission demonstrating that the Revised Notice was duly published in accordance with the Docketing Department's instructions. On January 31, 2019, the Company filed an affidavit certifying that the Revised Notice of Filing and Hearing had been furnished to all applicable customers.

Pursuant to Commission Order No. 2019-119, the Docketing Department scheduled public hearings in the Counties of Anderson, Greenville, and Spartanburg. On February 11, 2019, the Commission's Docketing Department instructed the Company to notify each affected customer of the Public Night Hearings by February 22, 2019. DEC requested that, in lieu of mailing customers Notice of the Public Night Hearings, it be permitted to provide notice of the hearings using the Company's automated calling system to place calls to customers between February 19 and 22, 2019, informing them of the dates, times, and locations of all three hearings. On February 13, 2019, pursuant to Commission Order No. 2019-15-H, the Standing Hearing Officer granted the Company's request for approval of alternative notice of public night hearings.

Walmart Inc. ("Walmart"), represented by Stephanie U. Eaton, Esquire; Carrie Harris Grundmann, Esquire; and Derrick Price Williamson, Esquire, filed a petition to intervene on November 27, 2018. Vote Solar, represented by Bess J. Durant, Esquire and Thadeus B. Culley, Esquire, filed a petition to intervene on December 27, 2018. CMC Recycling, represented by Alexander G. Shissias, Esquire, filed a petition to intervene on December 28, 2018. The South Carolina Solar Business Alliance ("SCSBA") represented by Richard L. Whitt, Esquire, filed a petition to intervene on January 2, 2019. On January 10, 2019, the petition to intervene of Hasala Dharmawardena was filed. The South Carolina Energy Users Committee ("SCEUC") represented by Scott Elliott, Esquire, filed a petition to intervene on January 10, 2019. Cypress Creek Renewables, LLC ("Cypress Creek"), represented by Richard L. Whitt, Esquire, filed a petition to intervene on January 18, 2019. Sierra Club, represented by Robert Guild, Esquire and Bridget Lee, Esquire,

filed a petition to intervene on January 28, 2019. The South Carolina State Conference of the National Association for the Advancement of Colored People, South Carolina Coastal Conservation League, and Upstate Forever (collectively, “SC NAACP, et al.”), represented by Stinson Woodward Ferguson, Esquire; David L. Neal, Esquire; and Gudrun E. Thompson, Esquire, filed a petition to intervene on February 1, 2019. The Office of Regulatory Staff (“ORS”), automatically a party pursuant to S.C. Code Ann. § 58-4-10(B), was represented by Jeffrey M. Nelson, Esquire; C. Lessie Hammonds, Esquire; and Jenny R. Pittman, Esquire. DEC was represented by Heather Shirley Smith, Esquire; John T. Burnett, Esquire; Camal O. Robinson, Esquire; Frank R. Ellerbe, III, Esquire; Brandon F. Marzo, Esquire; Molly McIntosh Jagannathan, Esquire; and Len S. Anthony, Esquire. Collectively, DEC, Walmart, Vote Solar, CMC Recycling, SCSBA, Hasala Dharmawardena, SCEUC, Cypress Creek, Sierra Club, SC NAACP, et al., and ORS are referred to as the “Parties” or individually as a “Party.”

On February 26, 2019, ORS filed the direct testimony of Willie J. Morgan, P.E., Deputy Director of the Utility Rates Department; David C. Parcell, Principal and Senior Economist of Technical Associates, Inc.; Zachary J. Payne, Senior Auditor in the Audit Department; Anthony Sandonato, Regulatory Analyst in the Utility Rates and Services Division; Matthew P. Schellinger II, Regulatory Analyst in the Utility Rates and Services Division; Michael L. Seaman-Huynh, Senior Regulatory Manager in the Utility Rates and Services Division; Gaby Smith, Audit Manager in the Audit Department; and Dan J. Wittliff, Managing Director of Environmental Services for GDS Associates, Inc. Exhibits were included with the direct testimony of witnesses Morgan, Parcell, Seaman-Huynh,

Smith, and Wittliff. On February 26, 2019, Sierra Club filed the direct testimony and exhibits of Ezra D. Hausman, Ph.D., an independent consultant doing business as Ezra Hausman Consulting. Walmart filed the direct testimony and exhibits of Gregory W. Tillman, its Senior Manager, Energy and Regulatory Analysis, on February 26, 2019. SCEUC filed the direct testimony and exhibits of Kevin W. O'Donnell, President of Nova Energy Consultants, Inc., on February 26, 2019. Vote Solar filed the direct testimony and exhibits of Justin R. Barnes, Director of Research with EQ Research, LLC, on February 26, 2019. On February 26, 2019, SC NAACP, et al. filed the direct testimony and exhibits of John Howat, Senior Policy Analyst at the National Consumer Law Center, and Jonathan Wallach, Vice President of Resource Insight, Inc. On February 26, 2019, SCSBA filed the direct testimony and exhibits of Hamilton Davis, Director of Regulatory Affairs for Southern Current, LLC, and Christopher Villarreal, President of Plugged In Strategies. Hasala Dharmawardena filed direct testimony on February 26, 2019. On March 6, 2019, ORS filed the supplemental direct testimony and exhibits of witnesses Seaman-Huynh and Smith.

In Order No. 2019-154, issued on February 27, 2019, the Commission granted the Company's request for leave to file the direct testimony of Steve Immel, Vice President of Carolinas Coal Generation for Duke Energy, adopting the pre-filed direct testimony of Joseph A. Miller, Jr.

On March 12, 2019, the Company filed the rebuttal testimony of witnesses Capps, Doss, Ghartey-Tagoe, Hager, Hevert, Hunsicker, Immel, Kerin, Renee Metzler, Oliver,

Pirro, Lesley Quick, Smith, Sullivan, and Wright. Exhibits were included with the rebuttal testimony of witnesses Doss, Hevert, Pirro, Smith, and Sullivan.

On March 18, 2019, the Sierra Club filed the surrebuttal testimony of witness Hausman. On March 19, 2019, SC NAACP, et al. filed the surrebuttal testimony of witnesses Howat and Wallach; Vote Solar filed the surrebuttal testimony of witness Barnes; intervenor Mr. Dharmawardena filed surrebuttal testimony; and the ORS filed the surrebuttal testimony of witnesses Steven W. Hamm, Morgan, Parcell, Payne, John C. Ruoff, Seaman-Huynh, Smith, and Wittliff. Exhibits were included with the surrebuttal testimony of Vote Solar witness Barnes; ORS witnesses Smith, Seaman-Huynh, Parcell, Wittliff, Ruoff, and Hamm; and SC NAACP, et. al. witness Howat.

On March 8, 2019, the ORS moved to establish a new and separate hearing docket to review and consider the Company's proposed Grid Improvement Plan ("GIP"). On March 12, 2019, ORS and DEC filed a Stipulation agreeing that the GIP shall be considered in a separate docket independent from the Application. The Company agreed to withdraw from Commission consideration the GIP and the associated cost recovery proposal for costs incurred related to plant placed in service on or after January 1, 2019. Pursuant to the Stipulation, all testimony and evidence relating to the GIP may be moved to the new docket, and all Parties who have expressed any position on the GIP shall automatically be granted intervenor status in the new docket. ORS and the Company further agreed that DEC may defer into a regulatory asset account all GIP-related costs until the underlying costs and proposed recovery are considered in a general rate case proceeding. On March

13, 2019, the Standing Hearing Officer approved the Stipulation pursuant to Order No. 2019-26H.

Public hearings were held on March 12, 2019 in Spartanburg; March 13, 2019 in Anderson; and March 14, 2019 in Greenville. Hundreds of customers attended these hearings and spoke to the Commission about their concerns regarding the Company's proposal. Many customers testified that they were struggling to pay their power bills under the rates currently in place and that they would not be able to afford an increase of the magnitude requested. A number of customers complained specifically of the high compensation of Duke Energy executives.

On March 18, 2019, the Standing Hearing Officer excused from the hearing Company witnesses Cowling, McGee, and Panizza; SCSBA witnesses Davis and Villareal; Walmart witness Tillman; and ORS witnesses Schellinger and Sandomato. Witnesses Davis and Villareal will testify in a subsequent hearing addressing the GIP, and witnesses Tillman, Cowling, McGee, Panizza, Schellinger, and Sandomato's pre-filed verified testimony was entered into the record without the witnesses being required to appear in person at the hearing. On March 20, 2019, the Standing Hearing Officer excused from the hearing Company witness Oliver and Sierra Club witness Hausman. On March 25, 2019, the Commission excused from the hearing SC NAACP, et al. witnesses Howat and Wallach.

The Commission conducted an evidentiary hearing on this matter from March 21, 2019 through March 27, 2019 in the hearing room of the Commission with the Honorable Comer H. Randall presiding.

The following witnesses appeared, gave summaries of their testimonies, and answered questions from counsel and the Commission: DEC witnesses Ghartey-Tagoe, Smith, Fallon, Diaz, Capps, Immel, Doss, Hunsicker, Quick, Schneider, Metzler, Kerin, Wright, Pirro, Hager, Hevert, and Sullivan; ORS witnesses Parcell, Wittliff, Smith, Payne, Hamm, Morgan, Seaman-Huynh, and Ruoff; Vote Solar witness Barnes; and SCEUC witness O'Donnell.

On March 21, 2019, DEC witnesses Ghartey-Tagoe and Smith testified as the Company's first panel of witnesses. Witness Ghartey-Tagoe provided an overview of the reasons for the Company's request for an increase in electric rates and charges. Company witness Smith explained the Company's pro-forma accounting adjustments and revenue requirements for the test period. Company witnesses Fallon and Diaz testified as the Company's second panel regarding the abandoned Lee Nuclear Station project. Witness Fallon provided background on the Lee Nuclear Station Units 1 and 2 ("Lee Nuclear Project") development activities and addressed the Company's position regarding the reasonableness and prudence of the associated costs incurred to obtain the Lee Nuclear Project Combined Operating License ("COL" or "Lee COL"). Witness Diaz testified that the Company's strategy and efforts were reasonable and prudent in securing the COL, as was the Company's decision to extend the units' target operation dates.

The Commission reconvened on March 22, 2019, with testimony from Intervenor Dharmawardena. Mr. Dharmawardena testified regarding the appropriateness of the Company's proposed rate design and cost allocation, as well as the costs being requested for recovery in this proceeding. The Company then presented its third panel of witnesses,

Capps and Immel. Witness Capps discussed the Company's nuclear generation fleet, capital and operating and maintenance ("O&M") expense, and operational performance during the test period ending December 31, 2017, as well as the Company's request to begin collecting a reserve for nuclear End-of-Life ("EOL") costs. Witness Immel described the Company's new generation assets and other capital additions since the Company's last general rate case in 2013 and operational performance of DEC's fossil, hydroelectric, and solar portfolio during the test period ending December 31, 2017. Next, DEC presented its fourth panel of witnesses, Hunsicker, Quick, and Schneider. Witness Hunsicker testified regarding the Company's Customer Connect program currently under implementation to replace its current customer information system ("CIS"). Witness Quick's testimony responded to ORS witness Smith's recommendation to not include the Company's growth projections in the Company's proposed adjustment for credit, debit, and Automated Clearing House ("ACH") payment (collectively, "credit card") convenience fees; and SC NAACP, et al. witness Howat's request that the Company publicly file with the Commission monthly billing, payment, arrearage and disconnection data regarding general residential and low-income customer accounts. Witness Schneider testified regarding the Company's AMI deployment and the proposed commercialization of the Company's Prepaid Advantage program. Next, Company witness Doss addressed the financial position and results of DEC's operations for the test period, the Company's request for approval of revised depreciation rates, the status of the nuclear decommissioning trust fund, and the propriety of the Company's Asset Retirement Obligation ("ARO") accounting for coal ash closure costs.

The Commission reconvened on March 25, 2019, with testimony from DEC witness Metzler. Witness Metzler testified regarding the Company's employee incentive compensation program and why the Company believes it is appropriate to recover those costs from customers, as well as the appropriateness of certain expenses being included in rates. ORS witness Parcell testified regarding the appropriate ROE based on his analyses, the Company's capital structure, and his recommended ROE for the Company. DEC presented its fifth panel of witnesses, Wright and Kerin. Witness Wright testified that the Company's practices around coal ash management were reasonable and prudent. Company witness Kerin testified regarding the Company's coal ash expenditures. Next, ORS witness Wittliff testified regarding the Company's coal ash expense request and his recommended disallowances for certain coal ash expenses.

The Commission reconvened on March 26, 2019, with the testimony of Vote Solar witness Barnes. Witness Barnes testified in response to the Company's request to increase its Basic Facilities Charge ("BFC"). Next, SCEUC witness O'Donnell testified that the Commission should disallow a significant portion of the Company's request to recover its coal ash expense. DEC presented the testimony of witness Pirro regarding rate design and the Company's request to increase the BFC. ORS presented its first panel of witnesses, which consisted of witnesses Smith, Payne, and Hamm. ORS witness Smith explained the findings and recommendations as reflected in the ORS Audit Exhibits resulting from ORS' examination of DEC's Application and supporting books and records. Witness Payne offered recommendations for the treatment of the Company's requests for recovery of

accounting deferrals. Witness Hamm addressed regulatory policy issues related to certain legal expenses sought by the Company.

The hearing reconvened on March 27, 2019. The Company presented its sixth panel of witnesses, Hevert and Sullivan. Witness Sullivan addressed the Company's financial objectives, capital structure, cost of capital, and cost of debt. Company witness Hevert presented his independent analysis of a fair ROE which would allow DEC to attract capital on reasonable terms and maintain financial strength. Next, Company witness Hager testified regarding the Company's cost of service study and change in methodology to use the Minimum System Method. ORS presented its second panel of witnesses consisting of witnesses Morgan, Seaman-Huynh, and Ruoff. Witness Morgan testified regarding the Company's request to recover costs for the Lee Nuclear Project COL, nuclear EOL reserve, the appropriate amortization period for certain Company deferral requests, and storm cost normalization. Witness Seaman-Huynh addressed the Company's cost of service study, depreciation study, rate design, revenue verification, and revenue requirement distribution. Witness Ruoff addressed the impact to customers if the Commission adopted the Company's positions outlined in its rebuttal testimony and testified that the Company's request for recovery was in excess of reasonable levels necessary to support safe, reliable, and high- quality utility service.

As requested by the Commission, ORS entered one late-filed hearing exhibit provided on March 27, 2019 as composite Hearing Exhibit #49 consisting of the Company's response to ORS Audit Request #55-5 addressing coal ash litigation expenses. DEC filed late-filed Hearing Exhibit #56 which was marked and received in evidence upon

receipt on April 2, 2019, and provides additional detail on the Company's coal ash litigation expenses as requested by the Commission. On April 5, 2019, the ORS objected to the Commission's consideration of Hearing Exhibit #56. The Parties filed proposed orders and legal briefs on April 18, 2019.

II. GUIDING LEGAL PRINCIPLES

It bears noting the legal standards applicable to rate applications in South Carolina. The overarching legal standard that must be met by all electric utility rates approved by this Commission is found in S.C. Code Ann. § 58-27-810. That statute provides: "Every rate demanded or received by any electrical utility . . . shall be just and reasonable." The South Carolina Supreme Court has reasoned "the fixing of 'just and reasonable' rates involves the balancing of the investor and the consumer interests. . . . [T]he investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated." *Southern Bell Tel. & Tel. Co. v. Pub. Serv. Comm'n*, 270 S.C. 590, 596-97 (1978)(quoting *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 602-03 (1944)).

These legal standards have been consistently employed by the Commission and the South Carolina courts and reflect the fact that utility customers have a direct interest, not only in low rates today, but also in the financial soundness of the utilities that serve them going forward. This is especially true for electric utility customers because of the universal and immediate importance of the electric utility service to the public and the capital investment that a utility must be able to make month-by-month to provide the quality of service that customers depend on and expect. As the U.S. Supreme Court stated in *Hope*:

From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

320 U.S. at 603 (citations omitted). This principle is expanded by *Bluefield Waterworks & Imp. Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679 (1923), where the U.S. Supreme Court held:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.

Bluefield, 262 U.S. at 692-93. Together, the *Hope* and *Bluefield* cases provide “the basic principles of utility rate regulation” in South Carolina. (See also *Southern Bell*, 270 S.C. at 595, 244 S.E.2d at 281; *Patton v. S.C. Pub. Serv. Comm'n*, 280 S.C. 288, 291, 312 S.E.2d 257, 259 (1984)).

Another long-standing regulatory standard applied by this Commission in setting rates is the application of a test year. As routinely recited by this Commission: “The test year is established to provide a basis for making the most accurate forecast of the utility’s rate base, revenues, and expenses in the near future when the prescribed rates are in effect. The historical test year may be used as long as adjustments are made for any known and

measurable out-of-period changes in expenses, revenues, and investments.” See Order No. 2018-445, Docket No. 2016-384-S (2018) (citing *Porter v. S.C. Pub. Serv. Comm’n*, 328 S.C. 222, 493 S.E.2d 92 (1997)) (emphasis added); Order No. 2018-369, Docket No. 2017-28-S (2018); Order No. 2017-80, Docket No. 2016-29-WS (2017). The object of using test year figures is to reflect typical conditions. Where an unusual situation indicates that the test year figures are atypical, the Commission should adjust the test year data. *Parker v. S.C. Pub. Serv. Comm’n*, 280 S.C. 310, 312, 313 S.E.2d 290, 292 (1984). Indeed, the Commission must adjust for known and measurable changes in expenses, revenues, and investments so that the resulting rates will accurately and truly reflect the actual rate base, net operating income, and cost of capital. *Southern Bell*, 270 S.C. at 602–03, 244 S.E.2d at 284–85. Such adjustments are within the discretion of the Commission and, although they must be known and measurable within a degree of reasonable certainty, absolute precision is not required. *Hamm*, 309 S.C. at 291, 422 S.E.2d at 115 (citing *Michaelson v. New England Tel. & Tel. Co.*, 121 R.I. 722, 404 A.2d 799 (1979)); *Porter*, 328 S.C. at 230.

The purpose of this regulatory scheme of using a test year and making adjustments based on atypical conditions is to permit sufficient and accurate cost recovery as the expenses are incurred by the utility in real-time. In other words, the purpose of this ratemaking exercise of using a test year and making appropriate adjustments is to match—as closely as possible—the utility’s revenue to the costs it will incur after the rates are implemented. See *Southern Bell*, 270 S.C. at 602, 244 S.E.2d at 284 (“[W]e believe that the Commission should make any adjustments for known and measurable changes in expenses, revenues and investments occurring after the test year, in order that the resulting

rates will reflect the actual rate base, net operating income, and cost of capital.”). In that regulatory context, there is no need to consider the time value of money or the carrying costs of debt because the utility’s revenue matches its expenses as they are incurred.

The Commission’s Findings of Facts and Legal Conclusions reflect these standards.

III. AREAS OF DISPUTE

While many aspects of this case are not in dispute, others are contested. Specifically, there are nine accounting and pro forma adjustments proposed by the Company that are not contested and ten additional adjustments recommended by the ORS that the Company has agreed to accept as discussed further. Other accounting adjustments remain contested and addressed herein. In addition, no party in this proceeding opposed the Company’s request to revise its depreciation rates; the Company’s proposed base fuel and fuel-related factors; the prudence of the Company’s investments in nuclear, fossil, hydro, solar, or its transmission and distribution system; the Company’s proposed modifications to its lighting tariffs, or the manner in which the Federal Tax Cuts and Jobs Act of 2017 (“Tax Act”) should be addressed in this case. The Company’s request to commercialize its Prepaid Advantage Pilot program, remove the customer cap and make it available to residential customers across its entire service territory is also uncontested.

The Company initially requested to increase the amount of the BFC to \$28 a month but later agreed with the ORS to increase the BFC to \$11.96 for residential non-time of use (“TOU”), \$13.09 for residential TOU, and \$11.70 for SGS customers, and to put the remaining revenue requirement ultimately determined by the Commission in the variable component of the Company’s base rates. The parties also agreed to address the Company’s

proposed GIP in a separate docket. The Company suggested updating the cost of long-term debt in this case and the ORS agreed with the Company's proposal. Initially, the Company proposed to increase its storm cost recovery using a ten-year average but later accepted the ORS suggestion to remove the highest and lowest cost years and use an eight-year average. The Company's application of a historic inflation adjustment to the storm cost calculation remains contested. No party contested the Company's proposal to eliminate credit card convenience fees, but the ORS opposed the Company's adjustment to recover the forecasted uptick in customer usage of credit cards once the program is deployed. The Company's requests to recover deferred costs related to its AMI and Customer Connect deployments are also uncontested except with respect to the ORS' recommendation concerning recovery of a return on the deferred costs.

The other contested areas in this case include: (1) the appropriate ROE that the Company should be allowed in this case; (2) the appropriate recovery of the Company's deferred costs including the appropriate amortization period and whether the Company should be permitted to earn a return on its deferred costs both during the deferral period and the amortization period; (3) whether the Company should be permitted to begin collecting EOL nuclear reserve for materials & supplies and the unused portion of nuclear fuel remaining when the Company's nuclear units are retired; (4) whether it is appropriate to allow a return on the unamortized balance related to the Company's Lee Nuclear Project during the amortization period; (5) the Company's use of the Minimum System Method to allocate distribution costs as customer-related costs in the Company's cost of service studies; (6) whether the Company's proposed adjustment to include Customer Connect

projected two-year average O&M expense is sufficiently known and measurable to appropriately include in rates; (7) whether certain costs the ORS has flagged as “non-allowable” (such as expenses related to employee recognition awards, state and local chambers of commerce and other community organization membership dues, the Lineman’s Rodeo, costs imposed by other jurisdictions such as motor vehicle registration expenses, and costs that were billed outside the test period but paid during the test period) should be included in rates; (8) whether a portion of the Company’s incentive compensation relating to shareholder and earnings metrics should be disallowed; (9) whether the Company should be allowed to include inflationary adjustments in their calculation of certain costs (10) whether the Company should be required to submit monthly billing, collection and disconnect data on residential and low-income customers; (11) whether the Company should be required to perform comprehensive economic analyses before making investments needed to continue to operate its coal plants; (12) treatment of the Company’s coal ash expenses including whether costs imposed as a result of the North Carolina Coal Ash Management Act (“CAMA”) should be collected from South Carolina customers, whether the Company’s ARO accounting for coal ash closure costs is appropriate, and whether ORS’ criticism of the Company’s response to data requests from the ORS is justified and sufficient enough to overcome the presumption of reasonableness related to the requested recovery of certain legal expenses related to coal ash litigation, including litigation to pursue insurance monies to help offset coal ash compliance costs for customers; (13) whether the Company has submitted sufficient documentation to support recovery of certain rate case expenses; and (14) whether the

Company has provided appropriate notice of the proposed rate increase to meet the due process requirements of S.C. Const., Art. 1, § 22.

IV. FINDINGS OF FACT

Based upon the Application, the testimony, and exhibits received into evidence at the hearing and the entire record of these proceedings, the Commission makes the following findings of fact:

A. Jurisdiction

1. DEC is a limited liability company duly organized and existing under the laws of the State of North Carolina. It is a public utility under the laws of the State of South Carolina and is subject to the jurisdiction of this Commission pursuant to S.C. Code Ann. § 58-3-140(A). The Company is engaged in the business of generating, transmitting, distributing, and selling electric power to the public in western South Carolina and a broad area of central and western North Carolina. DEC is a wholly-owned subsidiary of Duke Energy, both having their offices and principal places of business in Charlotte, North Carolina.

2. The Commission has jurisdiction over the rates and charges, rate schedules, classifications, and practices of public utilities operating in South Carolina, including DEC, as generally provided in S.C. Code Ann. §§ 58-27-10, et seq.

3. DEC is lawfully before the Commission based upon its Application for a general increase in its retail rates pursuant to S.C. Code Ann. §§ 58-27-820, 5827-870, and 26 S.C. Code Ann. Regs. 103-303 and 103-823.

4. The appropriate test period for use in this proceeding is the 12 months ended December 31, 2017, adjusted for certain known changes in revenue, expenses, and rate base.

B. DEC's Request for a Rate Increase

5. DEC, by its Application and initial direct testimony and exhibits, originally sought a base increase of \$230,807,000 in annual electric sales revenues from its South Carolina retail electric operations, including a rate of return on common equity of 10.5% and a capital structure consisting of 47% debt and 53% equity. The Company subsequently revised its requested base revenue requirement to \$225,214,000. DEC also proposed an excess deferred income tax ("EDIT") rider to reflect the reduction in tax rates enacted in the Tax Cuts and Jobs Act of 2017. DEC's proposed EDIT Rider in the amount of (\$61,888,000) would reduce year 1 revenue to a net increase of \$163,326,000.

6. Following its review of all the evidence presented in this docket by the various parties, the Commission has adopted certain accounting adjustments resulting in a net revenue increase of \$106,931,000 preceding the application of the EDIT Rider calculated by DEC and accepted by ORS.

C. Return on Equity, Cost of Debt, and Capital Structure

7. Based on the record in this proceeding, the Commission finds 9.50% to be a reasonable Return on Equity ("ROE") for DEC for purposes of this general rate case.

8. Based on the record in this proceeding, the Commission finds 53% equity and 47% debt to be a reasonable capital structure for DEC for purposes of this general rate case.

9. Based on the record in this proceeding, the Commission finds 4.53% to be a reasonable cost of debt for purposes of this general rate case.

10. The Commission finds that DEC, through sound management, shall have the opportunity to earn an overall rate of return of 7.16%. The overall rate of return is derived from applying an embedded cost of debt of 4.53% and an ROE of 9.50% to a capital structure consisting of 47% long-term debt and 53% equity. The Commission finds and concludes that evidence in this case supports DEC's overall rate of return, cost of debt, ROE, and capital structure.

Table 1 below indicates the capital structure of the Company, the cost of debt, the cost of equity as approved in this Order, and the resulting rate of return on rate base:

Table 1: Summary of Overall Rate of Return

<u>Type of Capital</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	47.00%	4.53%	2.13%
Common Equity	<u>53.00%</u>	9.50%	<u>5.04%</u>
Total	100.00%		7.16%

D. Base Facilities Charges

11. The Company initially requested increases of 268% in the Base Facility Charges ("BFCs"), but after public hearings in the Upstate, withdrew its initial request and agreed to BFCs of \$11.96 for residential non-TOU customers, \$13.09 for residential TOU customers, and \$11.70 for Small General Service ("SGS") customers. DEC's request for the higher BFCs was based upon its position that the Commission should permit the utility

to utilize the Minimum System Method (“MSM”) of determining the cost of service. The ORS and the intervenors opposed the adoption of the MSM. Additionally, this Commission has previously declined to approve the use of the MSM in setting the BFC.²

In this case, the Commission need not reach the issue of whether to approve the use of the MSM because no party objected to the specific BFC increases eventually proposed by ORS and accepted by the Company. This Commission need not rule on uncontested issues, and therefore will not here address the appropriateness or inappropriateness of the Minimum System Method in future cases. Based upon the evidence presented, and in light of the lack of objection by any party to the agreed-upon BFCs, the Commission finds them to be just and reasonable.

E. Agreed Upon Accounting Adjustments

12. The Company and ORS have agreed to the following accounting adjustments, which were proposed by DEC in its initial filing:

- Adjustment #6 – Adjust for costs recovered through non-fuel riders
- Adjustment #8 – Annualize depreciation on year end plant balances
- Adjustment #9 – Annualize property taxes on year end plant balances
- Adjustment #10 – Adjust for new depreciation rates
- Adjustment #16 – Adjust for coal inventory
- Adjustment #17 – Adjust for approved regulatory assets and liabilities
- Adjustment #24 – Levelize nuclear refueling outage costs
- Adjustment #26 – Adjust aviation expenses

² *In re Duke Power Co.*, Docket No. 91-216-E, Order No. 91-1022, at p. 7 (1991).

- Adjustment #34 – Adjust for Federal tax rate change

13. The Company and ORS have also agreed to the following accounting adjustments recommended by ORS:

- Adjustment #1 – Annualize Retail revenues for current rates
- Adjustment #2 – Update fuel costs to approved rate and other fuel related adjustments
- Adjustment #3 – Adjust other revenue
- Adjustment #4 – Adjust the amount of CWIP in rate base
- Adjustment #5 – Eliminate unbilled revenues
- Adjustment #11 – Adjust for post year additions to plant in service
- Adjustment #12 – Reflect 2017 Lee Combined Cycle Facility (“Lee CC”) addition to plant in service
- Adjustment #23 – Update benefit costs
- Adjustment #31 -- Adjust vegetation management expenses
- Adjustment #32 – Synchronize interest expense with end of period rate base

The adjustments listed above have been agreed to by DEC and the ORS and are not contested by any of the parties. The Commission finds, based upon its review of all the evidence, that these adjustments are just and reasonable to all parties and consistent with the evidence presented.

F. Accounting Adjustments in Dispute

14. As to Adjustment #7, DEC proposes a three-year amortization period for the deferred cost balance related to the Carolinas West Control Center. ORS recommends

that this deferred cost balance be amortized over 30 years, consistent with the service life of the asset. The Commission accepts this recommendation. The Company may earn a Weighted Average Cost of Capital (“WACC”) return on the deferred capital costs, but not on deferred depreciation, O&M, or property tax expense.

15. As to Adjustment #13, DEC proposes a three-year amortization period for the deferred cost balance related to the W.S. Lee Combined Cycle Facility. ORS recommends that this deferred cost balance be amortized over 39 years, consistent with the service life of the asset. The Commission accepts this recommendation. The Company may earn a Weighted Average Cost of Capital (“WACC”) return on the deferred capital costs, but not on deferred depreciation, O&M, or property tax expense.

16. As to Adjustment #14, the ORS has recommended that DEC be allowed recovery of \$124,601,000 of pre-construction costs for the Lee Nuclear Project, but that the Company not be allowed a return on the unamortized balance of this investment. The Commission agrees that the Company’s shareholders should not be permitted to earn a return on the canceled project at the expense of DEC’s customers, and it therefore adopts ORS’s position.

17. As to Adjustment #15, DEC seeks to recover \$6.975 million every year from its customers to be placed into a reserve fund to be used to defray future nuclear EOL costs. The Commission finds that these expenses are not known and measurable, and they should therefore be disallowed.

18. As to Adjustment #18, DEC seeks recovery of Coal Combustion Residuals (“CCR”) expenses incurred from January 2015 through December 2018 related to

compliance with federal and state regulatory requirements. ORS does not oppose DEC's request to recover expenses incurred in complying with the federal CCR rule, but advocates disallowance of \$469,894,472 in additional expenses incurred by the Company in complying with North Carolina's Coal Ash Management Act ("CAMA"), which imposed upon DEC stricter regulation and costlier compliance expenses in connection with management of coal ash basins located in North Carolina.

DEC seeks substantial recovery in this proceeding resulting from North Carolina's CAMA and other state actions. ORS witness Wittliff and SCEUC witness O'Donnell testified that North Carolina's CAMA was brought about by the spill at Dan River. Additionally, this Commission has received evidence that confirms that North Carolina's CAMA is much more stringent and results in costs in excess of those that would be incurred absent CAMA. It is also clear that while the North Carolina General Assembly has enacted statutes requiring actions that result in increased costs, the South Carolina General Assembly has not done so.

The North Carolina General Assembly has the authority to create the laws that govern the business conducted in North Carolina. To subject South Carolina DEC customers to North Carolina laws which are neither necessary for the provision of power nor which confer benefits to South Carolina ratepayers would be inappropriate. The Commission cannot abdicate the sovereign nature of the South Carolina General Assembly, from which this Commission derives its authority. As a result, this Commission will not permit DEC to pass on increased expenses incurred as a result of North Carolina's CAMA.

The Commission finds it just and reasonable to disallow the recovery of additional expenses attributable to CAMA from South Carolina ratepayers.

19. As to Adjustment #19, DEC proposes a three-year amortization period for the deferred cost balance related to the South Carolina Advanced Metering Infrastructure. ORS recommends that this deferred cost balance be amortized over 15 years, consistent with the service life of the asset. The Commission accepts ORS's recommendation. The Company may earn a Weighted Average Cost of Capital ("WACC") return on the deferred capital costs, but not on deferred depreciation, O&M, or property tax expense.

20. As to Adjustments #20, DEC seeks to normalize storm restoration costs to the average level of costs the Company experienced over the past ten years. ORS recommended eliminating the expenses in the highest and lowest years to use an eight-year average expense level, and the Company does not oppose this recommendation. The Commission finds that it is appropriate to use the eight-year average method to normalize storm restoration costs and approves this method.

21. In Adjustment #21, DEC seeks to add an inflation adjustment to non-labor O&M expense. ORS opposes this adjustment. This position is based on the longstanding accounting principle that any adjustments to Test Year expenses must be both known and measurable. *See*, Tr. p. 1602-14, ll. 4-9. *Heater of Seabrook, Inc., v. Public Serv. Comm'n of S.C.*, 324 S.C. 56, 60, 478 S.E. 2d 826, 828 (1996). Because the Commission likewise finds prospective adjustments for inflation to be generalized and speculative, and not known and measurable, it declines to grant them in normalizing for non-labor O&M expenses.

22. As to Adjustment #22, in which the Company proposed adjustment of wages, salaries, and related benefit costs to reflect current annual levels, ORS recommended removal of \$15,428,000, consisting of 50% of short-term incentive compensation and long-term incentive compensation for all qualifying employees. The Commission finds ORS's proposed disallowance to be inappropriate. The incentive compensation which the ORS seeks to disallow is a prudently incurred cost of service which comprises only a portion of overall employee compensation expense. The Commission finds that the disallowance recommended by ORS is unwarranted, and therefore adopts the Company's adjustment.

23. Adjustment #25 relates to rate case expenses. ORS proposes that the Commission disallow \$2,000,000 in estimated rate case expenses projected to be incurred through May 2019, as well as \$512,313 in rate case expenses for which DEP failed to provide adequate supporting documentation. The Commission has reviewed the evidence presented and agrees to these disallowances. After applying these adjustments, the Company may recover approximately \$1,339,000 in rate case expenses, amortized over a five-year period, resulting in an annual amortization expense of \$268,000. The Company may continue to defer rate case expenses incurred after December 31, 2018, and will be given the opportunity to propose including these expenses in a future proceeding.

24. Adjustment #28 relates to the Company's request that it be allowed to recover approximately \$3,162,000 for costs incurred from accepting credit card payments without surcharging customers for using credit. DEC's proposed adjustment includes approximately \$645,000 in projected expenses resulting from customer growth and

expected increases in the number of customers using credit cards as their mode of payment. ORS advocates disallowance of the portion of the adjustment resulting from these growth projections. The Commission agrees that the portion of the requested expenses attributable to growth projections is not known and measurable and disallows that portion, resulting in the Company being permitted to recover approximately \$2,517,000 for its credit card program.

25 In Adjustment #29, the Company agreed to remove 50% of the compensation of the four Duke Energy executives with the highest level of compensation allocated to Duke Energy Carolinas in the test period. DEC's proposed adjustment would amount to a reduction in O&M expense by (\$948,000) and income taxes by \$237,000. The Commission accepts the Company's proposed adjustment as to the compensation of all these executives except for Duke Energy CEO Lynn Good, whose compensation the Commission finds to be excessive because Ms. Good was the highest paid CEO for an investor-owned utility in the nation for test year 2017 with a salary of \$21.4 million. The Commission therefore imposes an additional 25% disallowance of Ms. Good's compensation allocated to South Carolina. Adding this adjustment of (\$137,000) to the agreed reductions above yields a total adjustment to O&M expense of (\$1,085,000) and income taxes by \$271,000.

26. As to Adjustment #30, the Company seeks recovery of its deferred costs and approval to include approximately \$4,700,000 annually for ongoing O&M expenses, including carrying costs at its weighted average cost of capital, associated with replacing its Customer Information System with a new system called Customer Connect. The

Company is proposing to recover the deferred costs over a three-year period. ORS initially recommended disallowance of \$4,025,000, since the Company recorded \$640,000 in O&M expense relating to Customer Connect during the test year and deemed the balance of the request to be not known and measurable. On surrebuttal, ORS subsequently proposed an O&M adjustment of \$2,549,000, resulting in a total allowance of \$3,189,000 consisting of the Company's actual deferred O&M expenditures as of December 31, 2018. The Commission finds the total O&M adjustment of \$2,549,000, with the resulting deferral balance to be amortized over a three- year period, to be just and reasonable. The Commission, though, rejects the Company's request to include the deferred balance in Rate Base as these costs consist entirely of deferred O&M expenses.

27. Adjustment #33 adjusts DEC's rate base to include the additional working capital required as a result of the additional O&M expenses proposed in this proceeding. In rebuttal testimony, Company witness Smith explained that while the amounts calculated by DEC, \$320,870,000, and the ORS, \$80,166,000, for this adjustment are different based on other areas of disagreement, the Company and the ORS agree on the concept of and the method used to calculate this adjustment. (Tr. 4, p. 659-19 – 659-20.) In her surrebuttal testimony, ORS witness Smith agreed with this characterization, stating that the ORS and the Company amounts differ only due to the underlying adjustments of ORS and the Company and the recommended ROE. (Tr. p. 1607-13.) Therefore, Working Capital is adjusted \$83,971,000 as a result of the underlying adjustments approved by the Commission in this order.

28. In Adjustment #35, DEC seeks recovery of deferred costs incurred in connection with grid reliability, resiliency, and modernization work. The Company has placed in service investments of approximately \$44 million on a South Carolina retail basis. The Company requests recovery of the deferred costs over a two-year period, including a net of tax return on the unamortized balance of the regulatory asset through inclusion in rate base for a revenue requirement impact of approximately \$3 million for this adjustment. ORS recommends a deferral balance of \$5,904,000 with the deferred cost of capital portion of the deferral balance included in rate base, excluding the deferred depreciation, O&M, and property tax expense portion of the deferral balance. This treatment is consistent with ORS's overall recommendation for deferral accounting treatment in this case. The ORS also recommends recovery over a five-year amortization period. Based upon the evidence, the Commission adopts the adjustment recommended by ORS.

29. As to Adjustment #36, ORS seeks disallowance of certain expenses incurred for sponsorships, lobbying, advertising, the Lineman's Rodeo, employee service awards, spot awards, and safety awards, dues to Chambers of Commerce, club dues, and other costs ORS deems unrelated to the delivery of electric service to customers. In response, DEC agreed, and the Commission concurs, to an adjustment of (\$227,033) and income taxes of (\$57,000) to remove lobbying costs and image building advertising expenses. In addition, the Commission removes (\$575,000) incurred in litigation expenses incurred in defending state enforcement actions relating to coal ash disposal and insurance coverage litigation seeking recovery of losses incurred due to liability for coal ash removal. The Commission finds the other expenses addressed in Adjustment #36 to be recoverable.

30. Adjustment #37 reflects customer growth after accounting and pro forma adjustments. To capture the additional revenues and expenses generated by customers added to the Company's system, an adjustment is included for customer growth. The customer growth factor is calculated by taking the difference between the total number of customers at the end of the Test Year and the average number of customers during the year and dividing the result by the average number of customers during the Test Year. The Company and ORS agree to a customer growth factor of 0.9008%.

31. Adjustment #38 adjusts for revenue, taxes, and customer growth. The Company proposes to adjust electric operating revenue by \$225,214,000, general taxes by \$998,000, income taxes by \$55,942,000, and customer growth by \$1,516,000 for the proposed revenue increase. (Hearing Ex. 10 (Smith Rebuttal Ex. 1, p. 1).) ORS proposes to adjust electric operating revenue by \$82,357,000, general taxes by \$365,000, income taxes by \$20,457,000, and customer growth by \$554,000 for the ORS proposed revenue increase and to achieve an ROE of 9.3% as recommended by ORS witness Parcell. (Hearing Exhibit No. 44 (Surrebuttal Audit Exhibit GS-1)). In her rebuttal testimony, Company witness Smith explained that while the amounts calculated by DEC and the ORS for this adjustment are different based on other areas of disagreement, the Company and the ORS agree on the concept of and the method used to calculate this adjustment. (Tr. 4, p. 659-24.) In her surrebuttal testimony, ORS witness Smith agreed with this characterization, stating that the ORS and Company amounts differ only due to the underlying adjustments of ORS and the Company and the recommended ROE. (Tr. p. 1607-13.)

The adjustments approved by the Commission in this order adjust electric operating revenue by \$106,931,000, general taxes by \$474,000, income taxes by \$26,561,000, and customer growth by \$720,000 to give the Company the opportunity to achieve an ROE of 9.5%, as proposed within the recommended range of ORS witness Parcell. This represents approximately a 53% reduction from the Company's requested revenue increase.

G. Fuel Costs

32. The Company proposes to use the following base fuel factors by customer class (excluding gross receipts tax and regulatory fees):

- Residential 2.1094 cents per kWh
- General Service/Lighting 2.1004 cents per kWh
- Industrial 2.0721 cents per kWh

The Commission finds, based upon the evidence, that the proposed base fuel and fuel-related factors, as updated by the Company in its supplemental filing, are just and reasonable.

H. Cost of Service

33. The Company has proposed the Summer Coincident Peak ("SCP") methodology for cost allocation between jurisdictions and among customer classes in this case. The Commission finds and concludes that for purposes of this proceeding, the Company may continue to use the SCP methodology for allocation between jurisdictions and among customer classes and that the Company's cost of service methodology is just and reasonable.

I. Lighting

34. DEC proposes modifications of certain outdoor lighting fees and schedules to help modernize the Company's outdoor lighting products and services to reflect the continued adoption of light emitting diode ("LED") technology. These modifications, as set forth in the testimony of Company witnesses Cowling and Pirro, are just and reasonable.

J. Prepaid Advantage Program

35. The Company seeks approval to commercialize its Prepaid Advantage program by removing it from pilot status, by removing the customer cap and making the program available to customers across its entire jurisdiction. The proposed modifications to commercialize the Prepaid Advantage program, as set forth in the testimony of Company witnesses Schneider and Pirro, are just and reasonable.

K. Customer Data

36. South Carolina NAACP et al., recommended that DEC should be required to provide detailed monthly residential and low-income customer usage data by zip code in a format accessible to the public. The Company is in the process of implementing its new Customer Connect program, which may facilitate the compilation of the requested data. While the Commission believes that making the requested data publicly available may be beneficial, it declines to order the Company to do so at this time.

L. Depreciation

37. The depreciation study, as filed by the Company as Doss Exhibit 2 (part of composite Hearing Exhibit 22), and the depreciation rates proposed by DEC in this case, as filed by the Company as Doss Exhibit 3 (part of composite Hearing Exhibit 22), are just

and reasonable and should be approved in this case. The Company seeks to adopt these new depreciation rates effective August 1, 2018, and defer into a regulatory asset account the incremental depreciation expense resulting from the new depreciation rates. The Company proposes to amortize the regulatory asset over a three-year period with inclusion of the unamortized balance of the regulatory asset in rate base. The Commission finds and concludes that the new depreciation rates approved by the Commission shall be effective as of August 1, 2018, and the Company's deferral request relating to incremental depreciation expense is just and reasonable.

M. EDIT Rider

38. The Company has proposed to implement flow back of excess deferred income taxes to customers through an EDIT Rider, as follows:

- a. For Federal EDIT protected under Internal Revenue Service ("IRS") normalization rules, in accordance with those rules;
- b. For Federal EDIT not protected by normalization rules, but related to property, plant and equipment, over a 20-year period;
- c. For Federal EDIT not protected by normalization rules, but not related to property, plant and equipment, over a five-year period;
- d. For deferred revenue, net of deferred balances related to the Distributed Energy Resource Program ("DERP"), over a five-year period; and
- e. For North Carolina EDIT, over a five-year period.

The Company's proposed EDIT Rider is just and reasonable and will result in rates that are just and reasonable and should be implemented. The appropriate annual revenue requirement for the EDIT Rider is a decrement of approximately (\$61,800,000) in year 1.

The ORS will review the changing ARAM rate related to protected EDIT to ensure that it is correctly calculated during the annual change in the EDIT rider.

N. Revenue Requirement

39. Based upon the foregoing, the Commission finds the just and reasonable gross revenue requirement to be approximately \$106,931,000. The net revenue requirement following the decrement for the EDIT rider is approximately \$45,131,000 in Year 1.

V. EVIDENCE AND LEGAL ANALYSIS AS TO DISPUTED ISSUES

A. Accounting Adjustment #7

The Company has deferred into a regulatory asset account costs incurred from the time its Carolinas West Primary Distribution Control Center (“CWPDCC”) was placed into service until the time the costs are reflected in new rates from this proceeding. DEC is seeking recovery of deferred costs relating to the asset over a three-year period including a net of tax return on the unamortized balance of the regulatory asset through inclusion in rate base. The CWPDCC was placed in service in September 2017. (Tr. 4, p. 796-17.) Company witness Oliver explained that the CWPDCC is part of an enterprise program where the Company is updating and consolidating multiple regional centers into purpose-built, highly reliable, and hardened facilities and this facility supports increased North American Electric Reliability Corporation reliability standard requirements for Critical Infrastructure Protection and Emergency Operations Preparedness. (Id.)

In Docket No. 2018-207-E, we approved the Company’s request to defer into a regulatory asset account, the return and depreciation on the capital costs of the CWPDCC

at its WACC. The total projected deferred costs are approximately \$5 million and in this case, the Company is requesting to amortize the deferred balance over a three-year period including the balance less one year of amortization in rate base, resulting in an annual revenue requirement of \$2 million including net of tax return on the unamortized balance of the regulatory asset through inclusion in rate base. (Id. at 655-15.)

No party contested the prudence of the Company's investment in the CWPDC. However, ORS witness Payne proposes a deferral balance of \$5,042,000, which provides the Company recovery of the same deferred cost of capital and deferred depreciation expenses but does not include a return on those deferred costs. (Tr. p. 1613- 6.) Witness Payne recommends that the deferred cost of capital portion of the deferral balance be included in rate base but to exclude the deferred depreciation expense portion from rate base because he believes this is consistent with regulatory accounting practices for capital-related and operating-related expenses. (Id.) Further, ORS witness Morgan recommends that the Commission not permit the Company to earn a return on the unamortized balance during the amortization period. ORS witness Morgan recommends a 30-year amortization to match the service life of the asset. (Tr. p. 2015-3.)

In his surrebuttal testimony witness Morgan testified that the Company had provided no justification for the amortization period the Company recommends for each deferred cost balance and absent the approval of an accounting order establishing the regulatory asset, the Company would not be able to recover all the costs it incurred because some of those costs were incurred outside the test year period. (Id. at 2017-2.)

Based upon the evidence presented, the Commission finds that ORS's recommended treatment of the CWPDCC is just and reasonable.

B. Accounting Adjustment #13

In Order No. 2018-552 in Docket No. 2018-207-E, the Commission approved the Company's request to defer into a regulatory asset account costs incurred from the time its Lee CC facility was placed into service until the time the costs approved in this proceeding are reflected in new rates. The costs deferred are the return and depreciation on the capital costs, the associated incremental non-fuel O&M expenses, property taxes, and the carrying cost on the deferred costs at the Company's weighted average cost of capital. The total projected costs are approximately \$23 million on a South Carolina retail basis. The Company proposes to recover its deferred costs for this adjustment over a three-year amortization period, resulting in an \$8 million annual revenue requirement, which includes a net of tax return on the unamortized balance of the regulatory asset through inclusion in rate base.

No party contested the prudence of the Company's investment in the Lee CC facility. However, ORS recommends the deferred cost of capital portion of the deferral balance be included in rate base but not the deferred depreciation, O&M, and property tax expense portion of the deferral balance. (Tr. p. 1613-7 – 1613-8.) ORS further recommends that the deferred capital and operating cost be amortized over the remaining service life of the Lee CC facility, which is 39 years. (Tr. p. 2015-4).

The Commission finds that the ORS's recommended treatment of the Lee CC facility is just and reasonable.

C. Accounting Adjustment #14

In this case, DEC has requested to recover its costs associated with the abandonment of the Lee Nuclear Project as of May 31, 2019. (*Id.* at 655-19.) Total system spending for the Lee Nuclear Project was \$559 million, including non-depreciable land costs of \$41 million. (*Id.*) Following transfer of the non-depreciable land costs to Plant Held for Future Use, the total amount of the Lee Nuclear Project development costs for which the Company is requesting recovery from South Carolina retail customers is approximately \$125 million. (*Id.* at 655-19 – 655-20.) The Company requests to amortize this amount over 12 years and to earn a net-of-tax return on the unamortized balance. (*Id.*)

ORS witness Morgan presented testimony concerning ORS' investigation into DEC's project development costs and request for recovery. (Tr. p. 2015-5 – 2015-8.) ORS reviewed DEC's testimony, previous correspondence and orders related to the Lee Nuclear Project, and documents considered by the NCUC regarding the Lee Nuclear Project. (*Id.* at 2015-5.) Following its review, ORS concluded that "DEC's decision to incur costs to obtain the Combined Operating License and support preconstruction activities were reasonable – based upon the information available to DEC at that time the costs were incurred." (*Id.*) ORS' sole exception to the costs presented by DEC was to recommend disallowance of \$129,443 (South Carolina retail) for the costs incurred for the design of a Visitors Center at the Lee Nuclear Project site. (*Id.* at 2015-6.) Witness Morgan testified that these expenditures were not necessary to obtain the Lee COL. (*Id.*) ORS also recommended that the Commission remove the return on the unamortized balance of the Lee Nuclear Project. (*Id.* at 2015-6 – 2015-8.) Witness Morgan reasons that this approach

will ensure that “the risks of the Lee Nuclear Project be equitably shared between the DEC shareholders and its customers through the disallowance of a return on debt and equity.” (Id. at 2015-6.) Furthermore, this approach is consistent with ORS’ interpretation of this Commission’s precedent and the approach adopted by the NCUC for Lee Nuclear Project costs. (Id. at 2015-6 – 2015-8.) Other than the costs associated with the Visitors Center and his recommendation concerning the return on the unamortized balance, witness Morgan did not recommend any other disallowances for the Lee Nuclear Project. (Id. at 2015-6.) No other party to this proceeding presented testimony in opposition to the Company’s recovery of its costs for the Lee Nuclear Project.

In ORS’ view, Lee Nuclear Project pre-construction costs are not extraordinary and do not benefit customers. (Id. at 2017-4.) Allowing a return on the unamortized balance would “saddle its customers with all of the nuclear plant’s risk.” (Id.) This would be consistent with the treatment the Commission afforded to Cherokee Units 2 and 3 in Order No. 1983-92, which ruled on “the exact same set of facts.” (Id. at 2017-4 – 2017-5.) The established precedent of this Commission is to permit utilities to recover prudently incurred abandoned plant costs. See Order No 83-92 at 22-23, 46-47. With respect to abandonment costs associated with Cherokee Units 2 and 3 and Perkins Nuclear Station, the Commission allowed the utility to amortize these investments, including AFUDC, over a ten-year period with no return on the unamortized balance. *Id.* Likewise, in this case, the Commission allows the Company to recover the costs at issue but disallows any return on the unamortized balance.

D. Accounting Adjustment #15

The Company proposes to establish a reserve for EOL nuclear materials & supplies costs and unused last core nuclear fuel not already captured by the decommissioning study. (Tr. p. 655-20 – 655-21.) This accrual would capture unique materials and supplies costs and unburned nuclear fuel costs remaining when the reactor(s) shut down. The expense to write off nuclear inventory materials and supplies, which typically have little or no salvage value when decommissioning occurs, represents one example of the type of expense the Company seeks to accrue for in this reserve. (Id.) The Company requests a \$5 million annual accrual for EOL nuclear materials and supplies and a \$2 million annual accrual for last core fuel. (Id.) The reserves, once created, will be included as an offset to rate base in the cost of service. (Id.)

DEC Witness Smith highlighted that each reserve will create a better matching of costs and benefits for ratemaking purposes. (Id. at 655-20.) For EOL nuclear inventories, the Company will determine annual accrual amounts by dividing the projected inventory balances at the end of each unit's life by the number of years remaining in the unit's life and summing this result for DEC's three nuclear plants. For last core of nuclear fuel, the Company will determine annual accrual amounts by dividing the projected remaining value of the last core of nuclear fuel at the end of each unit's life by the number of years remaining in the unit's life and summing this result for or DEC's three nuclear plants. Witness Smith noted that annual accrual amounts can be reviewed and adjusted, if needed, in each future general rate case before the end of the plant's life. (Id.)

ORS witness Morgan recommended that the Commission reject the Company's request to establish reserves for EOL nuclear costs and last core of nuclear fuel. (Tr. p. 2015-4 – 2015- 5.) Witness Morgan contends that (1) the EOL fuel and parts inventory estimates included in the proposal are not known and measurable and (2) the retirement date for the three nuclear units is uncertain due to the potential for subsequent license renewals.

Importantly, DEC's operating licenses for the Company's nuclear units are currently set to expire between 2033 and 2043. (Tr. p. 2015-4) These dates may have no relationship to the facilities' actual decommissioning.

"When calculating expenses in rate cases, the Commission should use only test year data and known and measurable changes occurring after the test year." *Heater of Seabrook, Inc. v. Pub. Serv. Comm'n of South Carolina*, 324 S.C. 56, 60, 478 S.E.2d 826, 828 (1996). The Commission is persuaded that the EOL expenses for which the Company seeks to establish a reserve fund are not sufficiently known and measurable at this time to warrant the requested funds. The request is therefore denied.

E. Accounting Adjustment #18

The Company is requesting recovery of ash basin closure compliance costs incurred in the period from January 1, 2015 through September 30, 2018, as of the time of filing, and updated through December 31, 2018. On a South Carolina retail jurisdiction basis, these costs amount to \$241 million. Witness Smith stated that the Company is seeking recovery of these costs over a five-year period with the unamortized balance of the regulatory asset included in rate base to mitigate the associated customer rate impacts. (Tr.

p. 655-21 – 655-24.) She explained that the Company has isolated costs related to any fines or penalties it was assessed and/or agreed to pay and is not requesting their recovery in this proceeding, nor will it ever seek to recover these costs from customers. She also explained that while the costs to comply with the Coal Combustion Residuals rule (“CCR Rule”) and North Carolina’s CAMA are largely duplicative, there are a small portion of the costs that the Company has determined are specific to CAMA, unique to North Carolina customers, and appropriate for direct assignment to North Carolina. The Company is likewise not requesting recovery of those costs. (Id. at 655-22.)

The Company expects to continue to invest significant amounts related to coal ash compliance after the December 2018 cut-off in this case. Instead of requesting recovery of an ongoing level of these costs, the Company is requesting that the Commission approve a continuation of the deferral, similar to what was approved in Docket 2016- 196-E, for costs not included in this case. Specifically, the Company proposes deferral of CCR compliance costs related to ash basin closure beginning January 1, 2019, the depreciation and return on CCR compliance investments related to continued plant operations placed in service on or after January 1, 2019, and a return on both deferred balances at the overall rate of return approved in this case. (Id. at 655-23 – 655-24.)

Company witness Kerin provided a detailed discussion of DEC’s coal ash management history and practices and the new obligations imposed on the Company by the CCR Rule, South Carolina regulatory requirements and preferences, and CAMA. He asserted that coal waste, including fly ash, bottom ash, boiler slag, and flue gas desulfurization (“FGD”) material, are by-products produced from burning coal at coal-fired

generation plants, which has allowed the Company to produce reliable and inexpensive electricity for over a century. He stated that environmental regulations related to ash management have evolved significantly over time, affecting how the Company has operated its coal-fired plants in compliance with those obligations. He testified that at each step in the environmental regulatory evolution process, the Company was in line with industry standards and that DEC reasonably and prudently managed coal combustion residuals and its coal ash basins. He explained that since its last rate case, DEC has become subject to both federal and state regulations that require it to take significant action to close its ash basins. (Tr. p. 1232-6 – 1236-9.)

Witness Kerin further provided a detailed history of coal ash regulation, and he testified that since the early 1900s DEC has disposed of ash in compliance with then current regulations and industry practices. Witness Kerin stated that, in many cases, ash basins, of which the Company has 17 in the Carolinas, were actually created or relied upon to effectuate prior environmental regulations. In the mid-1970s, the enactment of the Clean Air Act and its subsequent amendment in the 1990s required electric utilities to capture more ash through the use of electrostatic precipitators (“ESP”) or bag houses and FGD blowdown. (Tr. p. 1232-6 – 1232-7.) Witness Kerin further stated that the Clean Water Act of 1972, and the subsequent creation of the National Pollutant Discharge Elimination System (“NPDES”) permitting system, made wet ash handling and ash basins the primary lawful and effective way to meet ash needs and environmental requirements from 1974 until 2015. (Tr. p. 1232-7.)

Witness Kerin testified that the federal CCR Rule, which the Environmental Protection Agency (“EPA”) proposed in June 2010 and published in final form in April 2015, established national minimum criteria for ash landfills and surface impoundments, which result in different impacts at each unit depending on site-specific factors. He stated that the CCR Rule also contains requirements for how and when ash basins must be closed and that it provides for closure either by cap-in-place or removal of the ash. He noted that as stated in the CCR Rule, the EPA considers coal ash to be a non-hazardous solid waste. (Tr. p. 1232-7; p. 1232-16 – 1232-17.)

Witness Kerin testified further that in 2014, DEC entered into a consent agreement with the South Carolina Department of Health and Environmental Control (“SCDHEC”) relating to the closure of ash basins at the Company’s W.S. Lee Plant in Anderson County, South Carolina (“W.S. Lee Consent Agreement”). The W.S. Lee Consent Agreement requires DEC to excavate ash from two inactive ash storage areas onsite and dispose the ash in a lined landfill. He testified that other South Carolina utilities are closing their ash basins in a similar fashion. (Tr. p. 1232-7 – 1232-8.)

Witness Kerin noted that all of DEC’s ash basins must be closed under the CCR Rule, South Carolina regulatory oversight, and/or CAMA. He explained that the Company has begun the process of developing and submitting closure plans at its ash basins and that ultimately, all closure plans, whether submitted pursuant to the CCR Rule or state requirements, must be approved by SCDHEC or NCDEQ. (Tr. p. 1232-8.) He noted that coal-powered electric generation has ceased at four of the eight coal-fired DEC generating facilities with ash basins, including the Dan River Steam Station (“Dan River”), Buck

Steam Station (“Buck”), Riverbend Steam Station (“Riverbend”), and W.S. Lee Steam Station (“W.S. Lee”). (Tr. p. 1232-11.)

Witness Kerin testified that the environmental compliance obligations—the CCR Rule, South Carolina regulatory oversight, and CAMA—represent new regulatory requirements that have significantly changed the operation and life cycle of the onsite ash basins and landfills. He asserted that there is a great deal of duplication and interaction between federal rule, state law, and agency action and that many of the actions Duke Energy will take will serve multiple compliance purposes.

He stated that many actions and draft rules applicable to many utilities, not just Duke Energy, were already being developed prior to 2014 and that the Company is now in another wave of evolution in environmental regulation pertaining to ash. He said that in response to these new requirements addressing ash disposal activities, the Company is adding dry fly ash, bottom ash, and FGD blowdown handling systems to operating coal-fired plants that are not already so equipped. He also stated that the Company is modifying all active and decommissioned plants to divert storm water and low-volume wastewater away from the basins. He testified that, accordingly, the Company is requesting recovery of the compliance costs related to coal ash pond closures incurred starting January 1, 2015 through December 31, 2018. He testified that these incurred compliance costs are reasonable, prudent, and cost-effective given the individual facts and circumstances at each power plant and ash basin site at issue. (Tr. p. 1232-8 – 1232-9.)

Company witness Wright testified that in August 2014, after the EPA’s proposed coal ash regulations were published but prior to their finalization, North Carolina adopted

CAMA. He noted that while the CCR Rule and CAMA are similar in many respects, DEC must ensure that its coal ash disposal methods meet the standards established in both the CCR Rule and CAMA as well as any other state agency requirements. (Id. at 1242-16 – 1242-18.)

Witness Wright testified further that the Company must also follow guidance from SCDHEC with respect to disposal of coal ash. Specifically, the South Carolina legislature passed H.B. 4857 in 2016, which requires utilities to dispose of by-products resulting from the production of electricity in Class 3 landfills except under limited circumstances, and the Company entered into the W. S. Lee Consent Agreement. (Id. at 1242-18 – 1242-19.)

Witness Wright also testified, “There is no doubt that the Dan River spill certainly helped prompt the North Carolina General Assembly to examine the State’s and national coal ash disposal policies and regulations. Out of that legislative investigation came North Carolina’s Coal Ash Management Act (“CAMA”).” (Tr., p. 1242-17) He noted further that the proposed CCR regulation, promulgated four years before the Dan River incident, also strongly encouraged the states to adopt at least the federal minimum criteria in their solid waste management plans. He concluded that the North Carolina General Assembly and/or the NCDEQ would likely have taken steps to adopt coal ash regulations shortly after the CCR Rule was finalized in 2015. He noted that, regardless, the Company must comply with both the federal and state coal ash disposal standards. (Id. at 1242-17 – 1242-18.)

The SCEUC, the Sierra Club, and ORS each offered testimony addressing the Company’s request to recover environmental costs relating to coal ash remediation. SCEUC Witness O’Donnell opined that DEC should only recover costs to comply with the

CCR Rule, and not any CAMA-only costs that exceed CCR Rule compliance costs (Tr. p. 1459-35 – 1459-39.) Witness O'Donnell compared the DEC coal ash asset retirement obligation ("ARO") to what he termed similar coal ash AROs of utilities across the United States. He concluded that the Company's ARO coal ash costs are among the highest in the nation and contended that the only discernable difference between the Duke utilities and the other utilities in his comparison was the additional cost imposed by CAMA. He stated that DEC did not provide a similar financial analysis for this case. (Id. at 1459-43 – 1459-50.) He testified that there is no evidence to suggest that Duke Energy's coal ash situation is significantly different from that of utilities across the country or from that of utilities in neighboring states. Accordingly, Witness O'Donnell recommended a 75% disallowance for the Company's coal ash request. (Id. at 1459-50.)

SCEUC Witness O'Donnell also testified that he was concerned with the Company's accounting for coal ash remediation costs, specifically in terms of when the Company began recording AROs for coal ash basin closure costs. (Tr. p. 1459-43.) Witness O'Donnell explained that Statement of Financial Accounting Standards ("SFAS") 143 requires that companies establish the ARO liability "in the period in which the liability was incurred." (Id.) Mr. O'Donnell also testified that prior to the Company being subject to SFAS 143, it also did not include any closure costs for its coal ash ponds in depreciation rates; thus, the issue is: "whether it was prudent for the Company not to have sought recovery of the coal ash costs in prior rate cases." (Id.) Mr. O'Donnell further explains that as early as 1981, the Electric Power Research Institute ("EPRI") began publishing manuals for the industry dealing with existing coal ash storage and disposal facilities. (Id.)

However, even with these publications dating back to 1981, the Company did not establish AROs until the promulgation of CAMA and the final CCR Rule in 2014. Therefore, Witness O'Donnell recommends this Commission disallow \$46.7 million for South Carolina. (Id. at 1459-11.)

Sierra Club witness Dr. Ezra Hausman contended that the Commission should require the Company to conduct a comprehensive retirement analysis and that the recovery of any coal ash compliance costs be conditioned upon the filing of this analysis. (Id. at 1522-3.)

ORS contends that costs incurred due to state-specific laws (*i.e.*, CAMA) should not lead to increased costs to customers outside of that jurisdiction. (Tr. p. 1340-29.) ORS Witness Wittliff then calculated a total disallowance of \$406,311,822, which he contended reflects costs attributable to CAMA. Witness Wittliff suggested that CAMA-only costs disallowed in this proceeding could be recovered in a later rate case if DEC can show that those costs would have been incurred under the CCR Rule alone. (Tr. p. 1340-40.)

Witness Wittliff testified that the purpose of his testimony was to quantify the additional costs resulting from CAMA compared to what the Company costs would have been if the Company was solely required to comply with the CCR Rule. (Id.)

Witness Wittliff testified that the Company's proposed closure method for Allen, Belews Creek, Cliffside, and Marshall are consistent with the federal CCR Rule and recommended that the Company be able to recover its requested costs for these sites. Additionally, Witness Wittliff recommended that the Company be allowed to recover its

costs to excavate and remediate its impoundments at its W.S. Lee Plant in Anderson County, South Carolina. (Tr. p. 1340-38.)

For the Company's remaining sites - Riverbend, Buck, and Dan River - Witness Wittliff concluded that CAMA resulted in three categories of expenditures that were not attributable to the CCR Rule: 1) expenditures for plants not covered at all by the CCR Rule; 2) expenditures for closure and/or excavation options not required under the CCR Rule but required under North Carolina law; and 3) expenditures for actions that would not have been required at this time under the CCR Rule but are subject to accelerated schedules under CAMA. (Tr. p. 1340-30).

Witness Wittliff testified that the Riverbend plant fell into the first category because its inactive basins are not explicitly covered by the CCR Rule. He testified that DEC is excavating ash and closing its basins at Riverbend solely because of CAMA. ORS' total recommended disallowance for Riverbend is \$316,680,585, which accounts for all compliance costs incurred to-date. Witness Wittliff goes on to state that should the EPA later decide to regulate the basins at Riverbend, DEC could then seek to recover those costs in rates from South Carolina customers. (Tr. p. 1340-30 – 1340-31.)

Under the second category, ORS recommends a disallowance of \$36,544,788 at Buck for ash beneficiation costs, which witness Wittliff testified would not be required under the federal CCR Rule. Witness Wittliff testified that DEC's beneficiation project at Buck falls under the "CAMA-only" category, and that the customers of South Carolina should not have to reimburse the Company for expenses related to that requirement. To calculate the disallowance amount, Mr. Wittliff first concluded that engineering and

planning costs should be recoverable because those activities are needed to synchronize work between all the coal ash sites being closed. Spending at Buck increased from \$12.9 million between 2015 and 2017 to \$72.4 million in 2018, and witness Wittliff testified that this led him to conclude that a significant portion of the 2018 costs were related to beneficiation, not engineering and planning. For that reason, he recommended disallowing the difference between the total 2018 spend (\$72,417,654) and the average of the previous three (3) years (\$12,895,654) for a total disallowance of \$59,522,499. To adjust the disallowance for the requested recovery through September 30, 2018, the \$22,977,711 reported by DEC as being spent from October 1, 2018 through December 31, 2018, was subtracted for a net proposed disallowance of \$36,544,788. (Tr. p. 1340-33 – 1340-36.)

Regarding the third category, witness Wittliff identified Dan River as a DEC site that has been affected by the accelerated closure timeline imposed by CAMA. He testified that under the CCR Rule, the Company would not have been required to commence closure activities until October 31, 2020, while closure under CAMA is required to be completed by August 1, 2019. Witness Wittliff testified that DEC should be allowed to recover engineering and planning costs that would have been required for compliance with the CCR Rule, and DEC should be allowed to seek recovery after 2020 for prudently incurred construction and transportation expenditures related to CCR compliance. To calculate the disallowance, witness Wittliff testified that he used the same weighted average methodology that he used to calculate the Buck disallowance. He calculated the weighted average of engineering and planning costs as a percentage total of project costs for the four (4) proposed cap-in-place plants (i.e. Allen, Belews Creek, Cliffside, and Marshall) as

19.53% during the period from 2015 through the end of 2018. Applying that percentage to the total project costs, witness Wittliff concluded that recoverable engineering and planning costs are \$50,757,430. ORS recommended that the remaining \$167,426,449 of the Company's requested costs be disallowed. (Tr. p. 1340-38.)

Witness Wittliff testified that the Dan River ash release was largely responsible for the development of CAMA in its present form, which he said accelerated remediation and closures and narrowed the field of removal and closure options. (Tr. p. 1340-19.) He stated that North Carolina was not considering any similar legislation prior to the Dan River spill. (Tr. p. 1340-19 – 1340-20.) He said that the plea agreements into which the Company has entered demonstrate harm to the environment caused by DEC's criminal negligence. (Tr. p. 1340-16.) Witness Wittliff stated that court cases and plea agreements involving DEC's ash facilities also demonstrate that DEC was criminally and civilly negligent in its operations and maintenance of the impoundments for years prior to the enactment of CAMA and that this confirms that the Company failed to responsibly address and correct these issues adequately and in a less-costly manner than it is currently being required to do. (Tr. p. 1340-15 – 1340-16.) He testified that despite increasing concerns about potential water impacts from CCR impoundments, the Company did not vary from its established practice of building, expanding, and continuing to utilize unlined wet surface impoundments. (Tr. p. 1340-27.)

ORS witness Seaman-Huynh likewise recommended that the Commission disallow recovery of coal ash expenses incurred to comply with North Carolina laws and regulations, like CAMA, that impose requirements above and beyond those in effect in

South Carolina. (Tr. p. 2030-6.) In total, ORS witnesses recommended a disallowance of \$469,894,472 for what it described as CAMA-only compliance costs, allocated to South Carolina on a jurisdictional basis. (*Id.*)

ORS witness Wittliff testified that the closure of the Buck site resulted in additional costs of \$36,544,788 on a system-wide basis that was solely the result of the beneficiation requirement under CAMA. (Tr. p. 1340-35 – p. 1340-36) He further testified that CAMA accelerated the closure timeline at the Dan River facility which resulted in \$116,669,019 of additional costs on a system wide basis that was solely the result of CAMA. (Hrg. Ex. 33 at DJW-8.1.2.) Additionally, he testified that the closure at Riverbend was solely the result of CAMA requirements and that there was no requirement to close the facility under the Federal CCR Rules, this should result in a disallowance of \$316,680,655 on a system-wide basis. *Id.*

As explained by ORS witness Seaman-Huynh, DEC utilized a cost causation allocation method on certain costs the Company directly assigned to its North Carolina and South Carolina jurisdictions, respectively. (Tr. p. 2028-5) Cost causation allocation puts the cost responsibility for expenses and rate base items on the customer class that caused the expenses to be incurred. (Tr. p. 2028-3) DEC directly assigned expenses incurred due to South Carolina's Distributed Energy Resource Program ("DERP") Act to South Carolina customers and directly assigned expenses incurred due to the North Carolina Renewable Energy and Energy Efficiency Portfolio Standard and the North Carolina Clean Smokestacks Act to North Carolina customers. (Tr. p. 2028-6– p. 2028-7) ORS witness Seaman-Huynh testified that it is a common practice for utilities operating in multiple

jurisdictions to assign the costs related to certain accounts directly to one jurisdiction as these costs are often derived from laws and regulations that are specific to that jurisdiction. (Tr. p. 2028-7)

DEC witness Kerin testified the Company is not seeking recovery of costs incurred to supply clean drinking water to North Carolina residents affected by the Dan River coal ash spill as that expense is “unusual” and “unique.” (Tr. p. 1279) ORS contends that CAMA’s requirements are also unique – unique to the state of North Carolina, and the burden of its required expenses should not fall on South Carolina customers. ORS recommends this Commission protect South Carolina customers from an increase in rates due to the incremental increases in costs imposed by CAMA above the Federal requirements. ORS maintains that CAMA includes protections above and beyond what is required in the Federal CCR Rule and these protections are only to the benefit of North Carolina residents. On this basis, ORS argues that the CAMA-only portion of coal ash expenses should be disallowed.

The Commission has fully considered all the evidence presented and has concluded that the Company should not be permitted to recover from South Carolina ratepayers the added expenses attributable only to CAMA. Accordingly, the Commission disallows \$469,894,472 in CAMA-only compliance costs, allocated to South Carolina on a jurisdictional basis.

F. Accounting Adjustment #19

Adjustment #19 addresses the appropriate amortization period for DEC’s South Carolina Advanced Metering Infrastructure (“AMI”). In its Application, the Company

requested recovery of its deferred costs,³ plus a net of tax return on the unamortized balance (through inclusion in rate base) for three years, associated with the completed deployment of AMI across the DE Carolinas system. (Application at 11.)

No party contested the prudence of the Company's investment in AMI. However, ORS recommended the deferred cost of capital portion of the deferral balance be included in rate base but not the deferred depreciation and O&M expense portion of the deferral balance. (Tr. p. 1613-10 – 1613-11.) The ORS also recommends recovery over a 15-year amortization period. The Commission finds that the adjustments and amortization period recommended by ORS is just and reasonable.

G. Accounting Adjustment #20

The Company proposes a proforma adjustment to normalize storm restoration costs to the average level of costs the Company experienced over the past ten years. ORS witness Morgan recommended eliminating the expenses in the highest and lowest years to use an eight-year average expense level. The Company does not oppose this recommendation, and the Commission finds that it is appropriate to use the eight-year average method to normalize storm restoration costs as proposed by witness Morgan.

H. Accounting Adjustment #21

In Accounting Adjustment #21, the Company proposes to adjust non-labor O&M expenses for inflation. As discussed previously, ORS opposes such adjustments because

³ In Docket No. 2016-240-E, the Company petitioned for approval to defer into a regulatory asset account incremental operating and maintenance expense and depreciation expense incurred once the AMI meters were installed, as well as the associated carrying costs on the investments and deferred costs at its weighted average cost of capital. The Commission approved the Company's petition on August 7, 2018 in Order No. 2018-552 (2018).

they are insufficiently certain to be known and measurable. When calculating expenses in rate cases, Commission should use only test year data and known and measurable changes occurring after the test year. *Heater of Seabrook, Inc. v. Public Service Com'n of South Carolina*, 324 S.C. 56478 S.E.2d 826 (1996), citing *Southern Bell Tel. & Tel. Co. v. South Carolina Pub. Serv. Comm'n*, 270 S.C. 590, 244 S.E.2d 278 (1978). The Commission adopts the position of ORS.

I. Accounting Adjustment #22

In Accounting Adjustment #22, the Company adjusted wages and salaries, and related employee benefit costs, to reflect annual levels of costs as of July 1, 2018. (Tr. p. 655-25.) This adjustment also reflects changes in related payroll taxes. (Id.)

The ORS made two recommendations with respect to this adjustment, one controverted and one not controverted. The uncontested recommendation made by the ORS was to update the salary allocator for the Company's wages and salaries and related employee benefit costs to the same date as the O&M labor expense, July 1, 2018, to which the Company agreed. (Tr. p. 659-15; Tr. p. 1602-12, 1607-3.)

The contested component of this adjustment relates to compensation the Company pays to its employees, specifically a portion of employee compensation represented by incentive pay. The ORS recommends removal of \$15,428,000-worth of employee compensation, consisting of 50% of STI ("Short-Term Incentive") compensation and LTI ("Long Term Incentive") compensation for all qualifying employees. For the reasons set forth herein, the Commission disagrees with this recommended disallowance. No party takes issue with the Company's overall compensation levels. Incentive compensation,

particularly that of non-executive-level employees, is merely a portion of overall employee compensation expense and a prudently incurred cost of service.

Company witness Metzler, a human resource professional, explained the Company's overall compensation philosophy is to target total compensation of base pay and incentives at the median of the market when compared to peer companies. (Tr. p. 1135.) Witness Metzler asserted that ORS erroneously assumes a divergence of interests between shareholders and customers that has not been demonstrated to exist. (Id. at 1162.) According to witness Metzler, employee compensation and incentives tied to metrics such as Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") benefit customers because those metrics reflect how employees' contributions translate into overall financial performance. (Id. at 1137.) EPS, for example, is a measure of the Company's performance, and that performance is reflective of how certain goals – safety, individual performance, team performance, and customer satisfaction (all of which are components of incentive pay) – are met in a cost-effective way. (Id.)

As the incentive plans result in market-competitive compensation that results in solid operations, there is no evidence that they are not working or that they disadvantage customers. No party has alleged that the "rank and file" employees are overpaid, and how the Company decided to compensate its employees is a managerial decision, which is the sole responsibility of the Company. How to pay employees is a managerial decision, and as long as the costs and results are reasonable this Commission has no basis to reject the compensation at issue. As such, there is no factual or evidentiary basis for the disallowance recommendation made by ORS.

For all of the foregoing reasons, the Commission rejects ORS's proposed (\$15,428,000) employee compensation adjustment.

J. Accounting Adjustment #25

The Company proposes in its Application Adjustment #25 to amortize rate case expenses of approximately \$3,852,000 over five (5) years or \$770,000 annually and earn a return on its rate case costs. The total amount of rate case expenses proposed by the Company includes projected expenses of approximately \$2,000,000 through May 2019. Of the remaining actual \$1,851,000 in rate case expenses, ORS contends the Company was unable to provide sufficient documentation in support of \$512,313. ORS recommends this Commission allow the Company to amortize a total of approximately \$1,339,000 in rate case expenses over a five (5) year period, resulting in an annual amortization expense of \$268,000 as recommended in Hearing Exhibit 44, GS-2. ORS recommends this Commission not allow the Company to recover \$512,313 in rate case expenses due to lack of supporting documentation, or \$2,000,000 for estimated expenses as they are not known and measurable. The ORS further recommends that the Commission disallow the Company's request to earn a return on its rate case costs both during the deferral period and during the amortization period because the costs are not capital in nature. (Tr. p. 1602-13.)

On December 12, 2018, ORS sent an Audit Request to the Company requesting actual rate case expenses for this docket as they became available and requesting that the Company include "a summary listing of expenses, copies of all invoices and proof of payment." DEC responded with Excel files related to rate case expenses which did not

contain enough detail to allow ORS to evaluate their propriety for recovery. In Docket No. 2006-92-WS, this Commission held that it did not have enough evidence to be able to evaluate the reasonableness of attorney's fees, specifically, and rate case expenses in general. *In re Carolina Water Service, Inc.*, 2007 WL 4944726 (S.C.P.S.C.). This Commission held that the complete lack of evidence on rate case expenses, other than the provision of the numbers themselves, severely limited the Commission's ability to make an independent determination as to the justifiable expenses. *Id.* Similar to *In re Carolina Water Service, Inc.*, without proper evidence here the Commission cannot properly evaluate the expenses claimed; therefore this Commission should disallow the recovery of \$512,313 in unsupported rate case expenses. Also, ORS recommends this Commission disallow the inclusion of unamortized rate case expenses in rate base. Including unamortized rate case expenses in rate base would allow the Company to earn a return on operating expenses.

After reviewing all the evidence, the Commission concludes that the Company has not borne its burden of proof as to the expenses disputed in Adjustment #25, and therefore, it adopts the adjustments requested by ORS and disallows the inclusion of unamortized rate case expenses in rate base.

K. Accounting Adjustment #28

In its Application, DEC requests approval of a fee-free payment program for credit, debit and ACH payment methods used by the Company's residential customers to pay their electric bills. (Application at 19.) Currently, customers are required to pay a \$1.50 convenience fee, collected by a third-party vendor, for payments made by a credit card. To

offer this program, the Company proposes to pay these costs on behalf of its residential customers and recover these costs as part of its cost of service. The Company proposes to adjust its O&M expense by approximately \$3 million to adjust for credit card fee expenses. (Tr. p. 655-26.) This figure includes approximately \$645,000 in projected future increased expenses resulting from more customers using credit cards to pay their bills. While ORS does not oppose recovery by DEC of the actual cost incurred in accepting credit cards without surcharging customers, it would disallow the portion of the requested adjustment attributable to growth projections. (Tr. pp. 1602-14.)

The Commission notes that in addition to benefitting the customers, the Company's acceptance of credit cards without a surcharge may also benefit the utility, since it may result in lower collection and administrative costs. Furthermore, the projected expenses resulting from increased use of credit cards is not known and measurable. Accordingly, the Commission disallows (\$645,000) from this adjustment and allows a net recovery of \$2,517,000 for credit card processing expenses.

L. Accounting Adjustment #29

In Adjustment #29, the Company has made an adjustment to remove 50 percent of the compensation of the four Duke Energy executives with the highest level of compensation allocated to DEC in the test period. (Tr. p. 655-27.) This adjustment amounts to a reduction in O&M expense by (\$948,000) and income taxes by (\$237,000). (Hearing Ex. 10 (Smith Rebuttal Ex. 1, p. 3.). ORS does not oppose DEC's proposed reduction. However, the Commission finds, after having heard testimony involving myriad specific complaints at the public night hearings that the total compensation of Duke Energy

CEO Lynn Good is excessive and should not be borne by the ratepayers, that an additional 25 percent of Ms. Good's compensation should be disallowed because during test year 2017, Ms. Good's compensation represented the highest of any IOU's CEO in the United States, totaling \$21.4 million. The portion of Ms. Good's compensation which is allocable to DEC South Carolina is approximately \$547,000. (Tr. p. 2001) Therefore, the Commission would remove an additional (\$137,000) to account for the 25 percent of Ms. Good's allocated compensation in addition to the (\$948,000) disallowance described above.

M. Accounting Adjustment #30

In its Application, the Company, requested recovery of its deferred costs and approval to include approximately \$4.7 million annually for ongoing O&M expenses associated with replacing the Company's current CIS with Customer Connect. (Application at 10.) Specifically, the Company is seeking recovery of the deferred costs over a three-year period including a net of tax return on the unamortized balance of the regulatory asset through inclusion in rate base.

While no party contested the value or benefits to customers associated with the Customer Connect program, ORS witness Payne recommends an adjustment removing the projected two-year average O&M expense of \$4,025,000 for the Customer Connect program from the Company's pro forma because the expenses are not known and measurable. (Tr. p. 1613-13.). Subsequently, following DEC's rebuttal testimony, ORS proposed an additional adjustment to O&M expenses for the Customer Connect project to reflect the actual incurred level of expenses in 2018 of \$3,189,000. (Tr. 1607-8.) This

results in an adjustment to O&M expense of \$2,549,600 (as \$640,000 of costs associated with Customer Connect were included in the test year expenses) and an amortization adjustment of \$1,063,000. ORS, also, recommends that the deferral balance be removed from rate base as the balance consists entirely of deferred O&M expenses.

The Commission adopts ORS's recommendation to adjust other O&M related to Customer Connect to the actual amount experienced by the Company in 2018 and disallowing the inclusion of unamortized Customer Connect costs in rate base.

N. Accounting Adjustment #35

In Order No. 2018-751 in Docket No. 2018-206-E, the Commission approved the Company's request to defer in a regulatory asset account costs incurred in connection with grid reliability, resiliency, and modernization work until the time the costs are reflected in new rates from this proceeding. The Company has placed in service investments of approximately \$44 million on a South Carolina retail basis. (Id. at 655-29 - 655-30.) The Company is seeking recovery of the deferred costs over a two-year period, including a net of tax return on the unamortized balance of the regulatory asset through inclusion in rate base for a revenue requirement impact of approximately \$3 million for this adjustment. (Hearing Ex. 10, Smith Rebuttal Exhibit 1, p. 3.)

ORS recommends the deferred cost of capital portion of the deferral balance be included in rate base but not the deferred depreciation, O&M, and property tax expense portion of the deferral balance consistent with its overall recommendation for deferral accounting treatment in this case. (Tr. p. 1613-14.) The ORS also recommends recovery

over a five-year amortization period. Upon review of the evidence presented, the Commission finds that the ORS recommendation is just and reasonable.

O. Accounting Adjustment #36

ORS proposed to eliminate certain expenses it deemed non-allowable found during ORS' audit of the Company books and records. Specifically, these costs were included in ORS witness Smith's proposed adjustment #36 and include sponsorships, lobbying expenses, advertising, and other miscellaneous expenses such as coffee for employees, expenses related to the Lineman's Rodeo, employee recognition awards such as service awards, spot awards, and safety awards, as well as 50 percent of dues paid to state and local chambers of commerce, 100% of social and athletic club membership dues, costs that are not 100% related to South Carolina, timing differences due to accrual accounting, and litigation expenses. (Tr. p. 1607-11.) ORS proposed to adjust O&M expenses by (\$2,399,000) and income taxes by \$599,000. (Id. at 1602-16.) ORS considers these items non-allowable and not necessary to provide electric service to ratepayers. (Id.) Subsequent to filing the application, the Company proposed an adjustment to other O&M expense of (\$227,000) and income taxes of (\$57,000) to remove lobbying costs and image building advertising. (Tr. p. 1607-9.) In the supplemental testimony of ORS witness Smith, the ORS updated its adjustment to also include (\$575,000) related to coal ash litigation expenses and income taxes by \$143,000 and argued that those costs were inappropriate because customers should not bear the burden of legal costs related to the Company's failure to operate its coal ash basins in accordance with state and local laws. (Id. at 1604-2.)

On balance, the Commission finds it just and reasonable to accept the Company's adjustment of O&M expenses by (\$227,000) as well as (\$575,000) related to coal ash litigation, as recommended by ORS. According to the Company, these legal expenses supposedly relate to the ongoing insurance recovery litigation and the defense of state enforcement actions. (Tr. p. 1604-2) In response to ORS discovery requests, DEC provided limited information regarding the nature of the legal expenses making it difficult for ORS to verify and determine whether the expenses were the result of management decisions or whether the expenses resulted in an outcome economically beneficial to DEC's customers. (Tr. p. 1607-5 – p. 1607-7)

The ongoing insurance litigation was initiated by DEC to enforce insurance policies and obtain indemnity from insurers for costs incurred associated with coal ash remediation. (Tr. p. 1247-26) DEC witness Wright testified DEC believes some of the coal ash remediation costs may be recoverable, but the insurance company has denied any payout to date. (Tr. p. 1310) DEC witness Kerin testified that the litigation is currently in the discovery phase and while there have been some settlement discussions there could be a trial sometime in 2020. The outcome has not been determined to date. (Tr. p. 1311 – p. 1312) This Commission has held that legal expenses incurred where the utility was found at fault and was unable to demonstrate an outcome that provided an economic benefit to its customers will not be included in rates paid by customers, but that they should be the burden of stockholders instead. With regard to these insurance litigation expenses, there is no specific information from DEC for the Commission to determine the benefit to customers or to approve recovery through rates. The litigation is pending, customers have

not received any benefit, and it is unknown at this stage whether any benefit will occur. Should DEC lose in this litigation due to a finding that DEC is at fault and not entitled to insurance coverage, these litigation expenses should be assigned to stockholders as this Commission previously held in Docket No. 2017-292-WS, “Application of Carolina Water Service, Incorporated for Approval of an Increase in Its Rates for Water and Sewer Services.”

Much like the litigation expenses related to the ongoing insurance litigation, DEC has not provided enough information detailing the nature of other coal ash related legal fees incurred during DEC’s defense against state enforcement actions. It must be noted that the burden of proof is on DEC to justify the request to recover expenses. *Hilton Head Plantation Utilities Inc. v. Public Service Com’n of SC*, 312 S.C. 450, 441 S.E. 2d 323 (1994). When payments are made to a third party, a “mere showing of actual payment does not establish a prima facie case of reasonableness.” *Id.* Because we find that DEC did not satisfy its burden of proof with regard to these legal expenses, we disallow them.

P. Rate of Return and Cost of Capital

Three (3) parties’ witnesses addressed the issue of Return on Equity (“ROE” or “Cost of Equity”). Robert Hevert testified on behalf of DEC, David Parcell for ORS, and Gregory Tillman on behalf of Intervenor Wal-Mart.

DEC witness Hevert filed Direct and Rebuttal Testimonies providing his recommended ROE in this proceeding. Specifically, Mr. Hevert recommended a ROE for DEC of 10.75% within a range of 10.25% and 11.25%. In the Company’s Application,

DEC requested that the Commission approve a ROE of 10.5%. See, Application of Duke Energy Carolinas, Para. 24 (Nov. 8, 2018).

Mr. Hevert used a variety of methodologies in his analysis, including two forms of the Discounted Cash Flow (“DCF”) model, the Capital Asset Pricing Model (“CAPM”), and the Bond Yield Plus Risk Premium approach. (Tr. p. 1787-5). Mr. Hevert testified that in formulating his recommended ROE, he also considered a number of other factors to include: (1) the risks associated with certain aspects of the Company’s generation portfolio; (2) the Company’s significant capital expenditure plan; (3) the risk associated with severe weather; (4) the risk associated with the Company’s regulatory environment; and (5) the cost of issuing common stock. In his Rebuttal Testimony, Mr. Hevert updated many of his analyses with data current as of February 15, 2019.

Mr. Hevert acknowledged under cross examination that DEC is, in fact, a less risky company today than it was in 2014 when this Commission granted a 10.2% ROE. (Tr. p. 1843) Mr. Hevert’s testimony, nevertheless, urges the Commission to conclude that DEC, although financially sound and one of the largest electric utility companies in the United States, should be viewed as a somewhat risky investment, thus justifying his high ROE recommendation. None of the DEC witnesses, however, claimed at any point in the presentation of the Company’s case that DEC is on unstable financial footing or has any particular or unique risk not typically encountered by other electric utilities.

Both ORS witness Parcell and DEC witness Hevert presented detailed testimony regarding the methodologies and models each used to reach their recommended appropriate rate of return and ROE. However, ORS urges the Commission to discount Mr. Hevert’s

recommended ROE of 10.75%. Mr. Hevert's methodology produces a 10.75% ROE recommendation that is far out of line with what is being awarded around the country. (*See*, Hrg. Ex. 26, DCP-2, Schedule 3.)

Walmart witness Tillman testified that the average ROE for the one hundred and eleven (111) reported electric utility rate case ROEs authorized by state regulatory commissions to investor-owned electric utilities from 2016 to date is 9.61%. (Tr. p. 1519-15 and *See*, Exhibit GWT-4.) Further, Tillman cited SNL Financial data that shows the average ROE for vertically-integrated utilities authorized from 2016 to present is 9.76%, and that annual average authorized ROEs are trending downward. (Tr. p. 1519-15 *See*, Hrg. Ex. 53 and 54.)

ORS witness Parcell testified that he has provided testimony as a ROE and Cost of Capital expert witness on several occasions before this Commission since the early 1980s. (Tr. p.1178-2) He further stated that he has testified in over 570 utility proceedings in approximately 50 regulatory agencies across the United States and Canada. (Tr. p. 1178-1 - p. 1178-2)

In calculating his recommended Cost of Capital and ROE, Mr. Parcell used the hypothetical capital structure of 47% long-term debt and 53% common equity, which DEC witness Sullivan described as the "optimal" capital structure for the Company. (Tr. p.1178-3) To determine the imbedded cost of debt rate, Mr. Parcell updated the Company's proposed cost of debt (i.e., 4.63% as of December 31, 2017) by considering the replacement of three long-term debts that were scheduled to expire in 2018 with four (4) new long-term debts issued in the same year. The resulting cost of long-term debt originally proposed by

Mr. Parcell was 4.44%. In his Rebuttal Testimony, DEC witness Sullivan stated the Company did not oppose ORS witness Parcell's updating the cost of debt but proposed using the actual cost of long-term debt as of December 31, 2018. This cost of debt (i.e., 4.53%) is the imbedded cost of debt rate used by Mr. Parcell in his final Cost of Capital analysis.

To determine a fair and reasonable rate of return, Mr. Parcell estimated an appropriate ROE for the Company. In both his Direct and Surrebuttal Testimonies, Mr. Parcell employed three (3) recognized methodologies to estimate DEC's Cost of Equity: the DCF, CAPM, and Comparable Earnings (CE) models. He applied each of these methodologies to two (2) proxy groups – his own and the one developed by DEC witness Hevert – to establish an ultimate range of 9.1% to 9.5%, with a 9.3% mid-point. (Tr. p.1178-4, 1.2). Mr. Parcell established this range based on the results of his DCF (range of 9.0% to 9.2% with a 9.1% midpoint) and CE (range of 9.0% to 10.0% with a 9.5% midpoint) models. As a result of these analyses, Mr. Parcell recommended a Cost of Capital in the range of 6.95 to 7.17 %, with a mid-point of 7.06 %. (Tr. p. 1178-3).

In reaching his recommendation of a 9.3% ROE, Mr. Parcell in large part relied on the DCF model, which is an analysis of current market conditions. The DCF model relies on current stock prices in the marketplace and has traditionally been regarded by this Commission as the best indicator of the return investors require in the marketplace for investment-grade regulated utility companies. Mr. Parcell relied on the results of both his DCF and CE analyses to determine his ROE recommendation and did not include the

results of his CAPM analysis as the resulting range (i.e., 6.3% to 6.6%) was too low to be reasonable. (Tr. p. 1178-4)

Throughout his Direct and Surrebuttal Testimonies, Mr. Parcell stated that Mr. Hevert's analyses show a consistent pattern of choosing data and methodologies that result in the highest Cost of Equity conclusions. In other words, the data used by Mr. Hevert is intentionally filtered to produce an inflated ROE recommendation to the benefit of the Company. Mr. Parcell further asserted that Mr. Hevert's use of several "factors" to create more risk for DEC are all factors that are already considered by the rating agencies. In short, Mr. Parcell believes that Mr. Hevert is essentially "double-counting" risk to, again, artificially inflate his ROE recommendation. (Tr. p. 1178-57 – p.1178-58)

As with Walmart witness Tillman's testimony, Mr. Parcell's ROE recommendation is further supported by authorized ROEs nationwide. Mr. Parcell provided evidence that, from 2017 to 2018, ROEs allowed by regulatory jurisdictions across the country for all electric utilities averaged 9.59% with a median ROE of 9.58%. See, Hrg. Ex. 26, DCP-2, Schedule 3. This national average is only 29 basis points higher than Mr. Parcell's recommendation, but 116 basis points lower than Mr. Hevert's recommended 10.75% ROE. Testimony and supporting materials submitted to the Commission in this proceeding confirms a decline in ROEs across the country in recent years, supports the strength of market conditions, and indicates anticipated upward trend in interest rates in the near term. Mr. Hevert's recommendation of a 10.75% ROE is an increase over the recommendation that he made to this Commission in Docket No. 2017-370-E just four months ago. It is abundantly clear that Mr. Hevert's ROE recommendation is extremely misaligned and

biased in the Company's favor. These facts call into question the validity and credibility of his analyses.

While Mr. Parcell was criticized by Mr. Hevert for his application of the CAPM, as noted above, Mr. Parcell did not use his CAPM analysis in formulating his recommended ROE in this case. (Tr. p. 1787-57 - p. 1787-60) By only using the DCF and CE analysis to produce his recommended ROE, and excluding his CAPM analysis, Mr. Parcell evidenced his efforts to produce a fair and reasonable recommendation to the Commission. Conversely, DEC witness Hevert recommended that both of his DCF analyses be given little weight by the Commission, apparently in large part due to their yielding results which he believed to be too low. (*See*, Tr. p.1787-32, Table 5 and P. 1787-32, Table 2.) We find Mr. Parcell was impartial and unbiased by discounting his CAPM results, which he judged to be too low. Mr. Hevert chose to discount two (2) methodologies that he claimed to be too low, which results in his recommending an unreasonably high ROE. Ultimately, Mr. Parcell had a recommended range of 9.1% To 9.5%, with 9.3% as an appropriate midpoint.

The Company is, by law, entitled to a reasonable return on its allowable costs. *See*, *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 64 S.Ct. 281 (1944) and *Bluefield Water Works and Improvement Co. v. Public Service Comm'n*, 262 U.S. 679, 43 S.Ct. 675 (1923). However, it is not a reasonable or fair balancing of the interests of the Company and its customers to approve an inflated ROE that not only exceeds what has been found to be reasonable by other Commissions across the country over the past three (3) years, but would in fact be the highest ROE awarded to any electric utility in the United

States. (See, Hrg. Ex. 26, DCP-2, Schedule 3.) While a public utility is entitled to earn a fair return, it has no entitlement or constitutional right to earn profits comparable with highly profitable enterprises or speculative ventures. *Bluefield v. Pub. Serv. Comm'n*, 262 U.S. 679, 690.

The South Carolina Supreme Court has held that the Commission must determine a fair and reasonable rate of return and must document fully the evidence to justify the rate of return which they award. *Heater of Seabrook, Inc. v. Pub. Serv. Comm'n of S.C.*, 324 S.C. 56, 64, 478 S.E.2d 826, 830 (1996) citing *Nucor Steel v. S.C. Pub. Serv. Comm'n*, 312 S.C. 79, 439 S.E.2d 270 (1994). In fulfilling its obligation to balance the interests of the ratepayers with those of the utility, the Commission has determined that the most appropriate ROE in this case is 9.5%, representing a return within the final range recommended by witness Parcell and within nine basis points of the national average for all electric utilities.

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

1. Based upon the Application, the testimony, and exhibits received into evidence at the hearing and the entire record of these proceedings, the Commission hereby adopts each and every finding of fact enumerated herein. The Commission's conclusions of law are fully stated above.

2. Any motions not expressly ruled upon herein are denied.

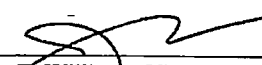
3. The Company shall file revised tariffs within 10 days of receipt of this Order, consistent with the Commission's Rules and Regulations. The tariffs should be electronically filed in a text searchable PDF format using the Commission's DMS System

(<https://dms.psc.sc.gov>). An additional copy should be sent via email to etariff@psc.sc.gov to be included in the Commission's ETariff System (<http://etariff.psc.sc.gov>.) Future revisions should be made using the ETariff System. The tariffs shall be consistent with the findings of this Order and agreements with the other parties to this case. The Company shall provide a reconciliation of each tariff rate change approved as a result of this order to each tariff rate revision filed in the ETariff System. Such reconciliation shall include an explanation of any differences and be submitted separately from the Company's ETariff System filing.

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

BY ORDER OF THE COMMISSION:


Comer H. Randall, Chairman


Justin T. Williams, Vice Chairman

(SEAL)

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

ADMINISTRATIVE MATTER	☐	DATE	<u>October 30, 2019</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☐	ORDER NO.	<u>2019-746</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration the Petition to Intervene Filed on Behalf of Forty Love Point Homeowners' Association.

COMMISSION ACTION:

Grant the Petition to Intervene Filed on Behalf of Forty Love Point Homeowners' Association.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☒	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☐	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☐	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u> Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER	☐	DATE	<u>November 25, 2019</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☐	ORDER NO.	<u>2019-799</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates - Staff Presents for Commission Consideration the Petition to Intervene Filed by Building Industry Association of South Carolina.

COMMISSION ACTION:

Grant the Petition to Intervene filed by Building Industry Association of South Carolina.

PRESIDING: RandallSESSION: RegularTIME: 11:30 a.m.

	MOTION	YES	NO	OTHER
BELSER	☐	☒	☐	
ERVIN	☐	☒	☐	voting via telephone
HAMILTON	☒	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☐	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u> Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER ☐DATE December 04, 2019MOTOR CARRIER MATTER ☐DOCKET NO. 2019-290-WSUTILITIES MATTER ☐ORDER NO. 2019-825

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration the Request to Hold a Public Night Hearing in York County, South Carolina, Filed on Behalf of the York County Legislative Delegation.

COMMISSION ACTION:

Approve the public night hearing in York County.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☐	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☐	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☒	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u>

Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER

☐

DATE

December 04, 2019

MOTOR CARRIER MATTER

☐

DOCKET NO.

2019-290-WS

UTILITIES MATTER

☐

ORDER NO.

2019-826

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration the Request by Michael D. Watson for a Public Night Hearing to be Held in Irmo (Richland County).

COMMISSION ACTION:

A public night hearing has already been approved for the Town of Irmo.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☐	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☐	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☒	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u>

Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER

☐

DATE

December 04, 2019

MOTOR CARRIER MATTER

☐

DOCKET NO.

2019-290-WS

UTILITIES MATTER

☐

ORDER NO.

2019-827

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates - Staff Presents for Commission Consideration a Request for a Public Night Hearing to be Held in Lexington County Filed on Behalf of The Honorable Chris Wooten, The Honorable Katrina Shealy, The Honorable Micajah Caskey, and The Honorable Paula Rawl Calhoun.

COMMISSION ACTION:

Approve the public night hearing in Lexington County.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☐	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☐	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☒	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u>

Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER	☐	DATE	<u>December 04, 2019</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☐	ORDER NO.	<u>2019-829</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates - Staff Presents for Commission Consideration the Request for a Public Night Hearing to be Held in Union County Filed on Behalf of The Honorable Leon D. "Doug" Gilliam.

COMMISSION ACTION:

Approve the public night hearing in Union County.

PRESIDING: Randall

SESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☐	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☐	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☒	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u> Military Leave

(SEAL)

RECORDED BY: J. Schmieding



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

ADMINISTRATIVE MATTER ☐DATE December 04, 2019MOTOR CARRIER MATTER ☐DOCKET NO. 2019-290-WSUTILITIES MATTER ☐ORDER NO. 2019-830

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration the Request for a Public Night Hearing to be Held in Greenville County Filed on Behalf the Canterbury Homeowners Association.

COMMISSION ACTION:

Approve the public night hearing in Greenville County.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☐	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☐	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☒	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u>

Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER	☐	DATE	<u>December 04, 2019</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☐	ORDER NO.	<u>2019-831</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration the Request for a Public Night Hearing to be Held in Greenville County, Anderson County, and the Midlands Area, Filed on Behalf of the South Carolina Office of Regulatory Staff.

COMMISSION ACTION:

Approve the public night hearing in Greenville County and Anderson County.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☐	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☐	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☒	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u> Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER	☐	DATE	<u>December 10, 2019</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☐	ORDER NO.	<u>2019-849</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates - Staff Presents for Commission Consideration the Petition to Intervene Filed on Behalf of the South Carolina Department of Consumer Affairs.

COMMISSION ACTION:

Grant the Petition to Intervene Filed on Behalf of the South Carolina Department of Consumer Affairs.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☐	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☒	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☐	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u> Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER	☐	DATE	<u>January 08, 2020</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☐	ORDER NO.	<u>2020-19</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration the Petition to Intervene Filed on Behalf of the Town of Irmo.

COMMISSION ACTION:

Grant the Petition to Intervene Filed on Behalf of the Town of Irmo.

PRESIDING: Randall

SESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☒	☒	☐		
ERVIN	☐	☒	☐		
HAMILTON	☐	☒	☐		
HOWARD	☐	☒	☐		
RANDALL	☐	☒	☐		
WHITFIELD	☐	☐	☐	<u>Absent</u>	Annual Leave
WILLIAMS	☐	☐	☐	<u>Absent</u>	Military Leave

(SEAL)



RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER	☐	DATE	<u>January 08, 2020</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☒	ORDER NO.	<u>2020-20</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates - Staff Presents for Commission Consideration the Petition to Intervene Filed on Behalf of York County.

COMMISSION ACTION:

Grant the Petition to Intervene Filed on Behalf of York County.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☒	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☐	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☐	☐	☐	<u>Absent</u> Annual Leave
WILLIAMS	☐	☐	☐	<u>Absent</u> Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER	☐	DATE	<u>January 08, 2020</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☒	ORDER NO.	<u>2020-21</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates - Staff Presents for Commission Consideration the Petition to Intervene Filed on Behalf of SteFan Dover.

COMMISSION ACTION:

SteFan Dover submits several reasons for which he seeks to intervene in this docket, one of which is to speak on behalf of those in his neighborhood. I move that we Grant his Petition to Intervene. However, Mr. Dover should note that only licensed attorneys in the state can represent the positions of others, so while he may intervene and speak on behalf of himself in this proceeding concerning Blue Granite's application for a rate increase, he may not represent or speak on behalf of others.

PRESIDING: Randall

SESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☒	☒	☐		
ERVIN	☐	☒	☐		
HAMILTON	☐	☒	☐		
HOWARD	☐	☒	☐		
RANDALL	☐	☒	☐		
WHITFIELD	☐	☐	☐	<u>Absent</u>	Annual Leave
WILLIAMS	☐	☐	☐	<u>Absent</u>	Military Leave

(SEAL)

RECORDED BY: J. Schmieding



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

ADMINISTRATIVE MATTER

☐

DATE

January 08, 2020

MOTOR CARRIER MATTER

☐

DOCKET NO.

2019-290-WS

UTILITIES MATTER

☐

ORDER NO.

2020-22

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates - Staff Presents for Commission Consideration the Petition to Intervene Filed by James S. Knowlton.

COMMISSION ACTION:

Grant the Petition to Intervene Filed by James S. Knowlton.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	☒	☒	☐	
ERVIN	☐	☒	☐	
HAMILTON	☐	☒	☐	
HOWARD	☐	☒	☐	
RANDALL	☐	☒	☐	
WHITFIELD	☐	☐	☐	<u>Absent</u> Annual Leave
WILLIAMS	☐	☐	☐	<u>Absent</u> Military Leave

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER	☐	DATE	<u>March 25, 2020</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☒	ORDER NO.	<u>2020-106-A</u>
			<u>2020-260</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval to Adjust Rate Schedules and Increase Rates;

-and-

DOCKET NO. 2020-106-A - Actions in Response to COVID-19 - Staff Presents for Commission Consideration Blue Granite Water Company's Response to Commission Order No. 2020-240.

COMMISSION ACTION:

Blue Granite proposes that the Commission proceed with rendering a decision on the issues in Docket No. 2019-290-WS as required by the statutory deadline Section 58-5-240(C), (D), and (E). The Company states that following the decision, the Commission could issue its final order and address any petitions for rehearing or reconsideration in due course. In the meantime, Blue Granite states it would commit to not putting new rates into effect until September 1, 2020.

I move that we accept concession of the utility, and I thank Blue Granite for their delay in implementing rates.

PRESIDING: Randall

SESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☒	☒	☐		
ERVIN	☐	☒	☐		voting via videoconference
HAMILTON	☐	☒	☐		voting via videoconference
HOWARD	☐	☒	☐		voting via videoconference
RANDALL	☐	☒	☐		
WHITFIELD	☐	☒	☐		
WILLIAMS	☐	☐	☐	<u>Absent</u>	Military Leave

(SEAL)

RECORDED BY: J. Schmieding



BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-290-WS - ORDER NO. 2020-306

APRIL 9, 2020

IN RE:	Application of Blue Granite Water Company	)	ORDER RULING ON
	for Approval to Adjust Rate Schedules and	)	APPLICATION FOR
	Increase Rates	)	ADJUSTMENTS IN
		)	RATES

EXECUTIVE SUMMARY

■ Executive Summary

To provide a condensed summary explanation of our reasoning with respect to certain significant components of this Order for the convenience of the reader, we offer the following Executive Summary which is not exclusive all findings and actions below in the Order of the Commission. This Executive Summary shall not be controlling, or have any substantive impact, regarding all findings and rulings contained in this Order by the Commission if there is any conflict between the Executive Summary and remainder of the Order. The Commission deems that this Summary shall not be controlling if any conflict exists between the text of Executive Summary and the text of the findings and actions of the Commission below in this Order. It is the text of the findings and actions of the Commission's Order, beginning at Section I below, that is controlling in construing the plain meaning of any finding or ruling of the Commission.

► Return on Equity ("ROE")

The Commission is the fact finder in rate proceedings and must balance the interests of the using and consuming public with that of the utility appearing before it. From witnesses presented by the Office of Regulatory Staff (ORS) and the South Carolina Department of Consumer Affairs (Consumer Affairs), the record of evidence before the Commission indicates that the cost of common equity nationally is on the decline. Tr. p. 672.13. Also, the evidence in the record clearly supports the Commission's conclusion that Blue Granite Water Service Company ("Blue Granite," "Company," or "utility") witness D'Ascendis' proposed Return on Equity ("ROE") is too

high. Witness D'Ascendis initially recommended in his direct testimony a ROE between 10.20% and 10.70% Tr. p. 547.4, ln. 9-12. However, in his rebuttal testimony, witness D'Ascendis updated his analysis and recommended a range between 9.75% and 10.25%. Tr. p. 548.4, ln. 4-9. In contrast, both ORS witness Parcell and Consumer Affairs witness Rothschild presented ROE recommendations for Blue Granite that comply with the requirements set forth in *Federal Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591, 602-03(1944) ("*Hope*") and *Bluefield Water Works and Improvement Co. v. Pub. Ser. Comm'n of West Virginia*, 262 U.S. 679, 692-93 (1923) ("*Bluefield*").

Considering the quality of service issues known to exist with Blue Granite and the setting of just and reasonable rates and all of the evidence, including the analysis and methodologies used by the three ROE witnesses in this proceeding, the Commission concludes that the analysis used by Consumer Affairs witness Rothschild is the most compelling, applies cost of equity models using water utility companies without the influence of non-utility companies, is objectively just and reasonable, and supported by ample evidence in the record. Tr. pp. 672.8-672.10. After review of all evidence and analysis provided by the witnesses of the parties, we conclude and find that the ROE of 7.46% provided by Consumer Affairs witness Rothschild is the appropriate ROE for Blue Granite based upon (a) the evidence on the whole record, (b) the rate of return methodology, and (c) a historical test year beginning July 1, 2018 and ending June 30, 2019. The Commission approves a ROE of 7.46% for Blue Granite.

With the above approved ROE of 7.46%, the Commission finds and adopts the resulting total Revenue Requirement for Blue Granite of \$28,733,986, which is an

increase of \$4,958,848 consisting of an additional \$2,161,536 in water revenues and an additional \$2,797,312 in sewer revenues. This represents an approximate 57% reduction from the Company's requested operating revenue increase of \$11,589,537 made in its Application. Additionally, the resulting Operating Margin of 10.54% is found to be just and reasonable and is adopted by the Commission for Blue Granite in accordance with S.C. Code Ann. §58-5-240(H).

► **Depreciation Schedule**

As part of this Application proceeding, Blue Granite conducted its first depreciation study of its water and sewer plant assets in thirty-five (35) years. Blue Granite witness Spanos stated that the Company's current depreciation rates are outdated and were premised upon unrealistically long depreciable lives for facilities and equipment. Tr. p. 564, ln. 17 – p. 565, ln. 3. ORS witness Garrett recommended that the Commission reduce Blue Granite's depreciation accrual by approximately \$760,236 calculated as of December 31, 2018. Tr. p. 1065, ln. 19. Based on the evidence in the record, Blue Granite's existing depreciation rates, which assume a 66 2/3-year useful life for all asset accounts, are largely inaccurate. The service lives proposed by witness Spanos for several of the plant accounts in the depreciation studies prepared by Company witness Spanos are too short given the evidence supporting such service life proposals. Tr. p. 1066, ln. 21-25.

The evidence is clear in this case that an update to Blue Granite's depreciation rates and depreciation expense is needed. Both Company witness Spanos and ORS witness Garrett agree on this. The evidence in the record shows that Blue Granite's

current depreciation rates are artificially low and out of date. The question before the Commission is whether witness Spanos or witness Garrett's proposed accrual rates and expense level are more reasonable and supported by the evidence in the record.

The Commission finds that ORS witness Garrett was credible and compelling in his analysis. Garrett employed reasonable and objective orientated methodology in proposing accrual rates, service lives, and net salvage estimates. In addition to reducing Blue Granite's depreciation accrual by approximately \$760,236, the Commission further adopts ORS witness Garrett's recommended service life estimates and net salvage cost estimates for the purposes of setting Blue Granite's depreciation rates and depreciation expense.

► **Non-Revenue Water Loss Expense Recovery**

Based upon the Record and the public interest, the Commission deems that it is appropriate, just and reasonable to continue to the current ten percent (10%) threshold for recovery of non-revenue water set in Blue Granite's prior rate case. See Order No. 2018-345 & 2018-345(A). While Blue Granite is correct that the American Water Works Association (AWWA) no longer appears to recommend across-the-board thresholds, Blue Granite has not provided subdivision-specific proposals for the Commission to consider. Instead, Blue Granite proposes to recover all non-revenue water from customers, or that a threshold of 20% be set.

The Commission finds the approach of "recovering all non-revenue water from customers" is unreasonable and not beneficial to the customer. It also does not adequately incentivize Blue Granite to reduce nonrevenue water losses. With regard to

increasing the non-revenue water loss recovery threshold to twenty percent (20%), the Commission finds that Blue Granite has not provided sufficient justification to double the threshold set in the prior case. While Blue Granite testifies to projects undertaken to reduce non-revenue water, the Company did not provide any quantifiable support for how those projects have reduced non-revenue water. Therefore, the Commission finds that the current ten percent (10%) threshold for the recovery of non-revenue water shall remain in place at this time.

► **Annual Rate Adjustment Mechanism (“ARAM”)**

The Commission denies Blue Granite’s request in its Application for its proposed Annual Rate Adjustment Mechanism (“ARAM”). The ARAM originally proposed by Blue Granite would have allowed Blue Granite to charge customers for all water they did not consume and for all wastewater that they did not create. It is a “pass-through” mechanism to charge customers for changes in purchased water and wastewater expenses and to recover a significant expense with little to no review and inadequate consumer protections. Tr. p. 1214.2, ln. 13-15, 19-20.

Additionally, the Commission finds that the ARAM would not improve bill clarity for customers because the methodology for calculating the purchased water and sewer charges is confusing and does not yield a number that reflects the actual cost of the purchased water or sewer treatment charged by the third-party provider.

The Commission also declines to approve the changes Blue Granite proposed to its rate structure to add separate purchased water and sewer treatment charges, which were proposed to effectuate the ARAM. Blue Granite shall maintain its existing rate

structure of a Base Facility Charge (unchanged and without increase), a commodity charge based on water consumption for water customers, and per Single Family Equivalent charge for sewer customers. As further discussed herein, and as provided in the attached approved Rate Schedule in Attachment No. 2, the rate schedule/tariff incorporate the changes approved herein reflecting an Operating Margin of 10.54% and 7.46% ROE, including all adjustments approved and adopted by the Commission, which retains the present base facility charge for water service and distributes the rate increase volumetrically to lessen the impact of the rate increase on low-usage water customers.

► **Greenville Office Move, Upfit and Rent Expense**

The Commission approves the adjustment recommended by ORS to disallow the costs of the upfit to Blue Granite's new Greenville office in the amount of \$495,206. Blue Granite indicated employee retention issues were the reason the Company moved its headquarters to Greenville. The Company testified that "[a]ttracting talent in the Columbia market [was] extremely difficult due to the legacy brand issues in that market." The legacy brand issues were caused by Carolina Water Service, which is now rebranded as Blue Granite. Blue Granite's customers should not have to pay the costs to upfit the Greenville office, given the move was necessitated by legacy brand problems the Company created, and Blue Granite previously represented to this Commission and its customers that the refreshing of its brand would be at no cost to customers. Exhibit KDM-2.

Additionally, based upon the record and for same legacy issues as the reason for the sale of its office and move to Greenville, the Commission further finds and

determines that the pro-forma rent expense of \$84,839 should also be removed from the Company's recoverable General Expenses for Rent and is hereby denied.

► **LETTS Tank Pumping Charge**

Blue Granite, in its Application, requested authority to amend its tariff language and fees related to solids interceptor ("LETTS") tanks to change the pumping charge from \$150 to the actual cost to access, pump, and service the tanks on a periodic basis. Tr. p. 362.13, ln. 3-8. Due to cost concerns for all customers, ORS does not oppose Blue Granite's request to change the treatment of LETTS tanks in its tariff such that customers who cause the expense will pay the actual cost of the service; however, ORS asserts that several customer protections must be incorporated into Blue Granite's revised LETTS tariff to protect its customers. Tr. p. 1190.7, ln. 3 - p. 1190.8, ln. 9. ORS witness Bickley provided proposed tariff language for Blue Granite to use and for the Commission to review which incorporated the ORS's proposed modifications to Blue Granite's LETTS tank tariff, including language of "what constitutes an emergency condition" under which Blue Granite could pump the tank without giving the customer the opportunity to select a different vendor. *Id.*; Exhibit 38.

Based upon the testimony and evidence in the record, including that of Intervenor Forty Love Point Homeowners' Association, Commission grants Blue Granite's request to amend its tariff language and fees related to Solids Interceptor ("LETTS") Tanks to change the pumping charge from \$150 to the actual cost to access, pump, and service the tanks on a periodic basis, with and incorporating the changes recommended by ORS to Blue Granite's proposal. The Commission further approves and adopts ORS's proposed

tariff language related to Solids Interceptor (“LETTS”) Tanks in Exhibit 38, including ORS’s language of what constitutes an emergency condition under which Blue Granite could pump the tank without giving the customer the opportunity to select a different vendor. Exhibit No. 38; See, also, Exhibit No. BSB-1. Blue Granite provided no alternate definition of “what constitutes an emergency condition” for the Commission to consider.

► **Contributions in Aid of Construction Under Tax Cuts and Jobs Act**

Due to a lower corporate tax rate as changed by the Tax Cuts and Jobs Act (TCJA), Blue Granite seeks Commission authority to initiate a one-time credit to each customer water and sewer account, to return overcollections of Federal tax expenses accumulated during the period of January 1, 2018 through June 28, 2018. Tr. p. 1115.25, ln. 11-13. Blue Granite witness DeStefano testified that Blue Granite over-collected \$335,713. It is undisputed by Blue Granite and the ORS that this overcollection of funds needs to be returned to each customer water and sewer service account.

Consumer Affairs witness Morgan recommends that these over-collected tax funds from customers should be used to offset the deferred purchased water and sewer treatment costs instead of providing a direct refund to customers. Tr. p. 651.15. ORS verified the Company’s calculations using updated pro forma customer bills of 31,710 and calculated a one-time credit of \$10.59 per account. Tr. p. 1115.25, ln. 14-16. Blue Granite agreed with this updated calculation by ORS based on adjusted pro-forma customer counts. Tr. p. 764.4, ln. 18-19.

The Commission concurs with Blue Granite and ORS and finds that this overcollection of funds needs to be returned to each customer water and sewer service account by providing the one-time credit of \$10.59. The evidence in the record supports the proposed adjustment in the amount of \$335,713 and the calculated one-time credit of \$10.59 as verified and calculated by ORS using the Company's updated data. The Commission further finds that the same is just and reasonable and therefore, orders this one-time credit by Blue Granite in the amount of \$10.59 as proposed by ORS for each customer water account and sewer account effective upon the date of this Order. Blue Granite is to issue these credits to customers as soon as possible and within its next billing cycle following the date of this Order.

▶ **Storm Reserve Fund**

In addition to an increase in base rates, Blue Granite is seeking the authority to create a Storm Reserve Fund for extraordinary storm restoration costs such as those experienced following Hurricane Florence. Tr. p. 354.22, ln 17-20. Blue Granite wants to set aside \$200,000 which would be funded through a monthly surcharge of \$0.53 per customer. Once the \$200,000 threshold is reached, the monthly charge would be suspended, and any over-collections during that last month would be refunded to customers the following month. Tr. p. 764.24, ln. 18-20.

Blue Granite witness Mendenhall testified that major storm events cause the utility to experience service disruptions due to temporary power loss and damage to supply or treatment infrastructure. Tr. p. 363.11, ln. 3-6. The Storm Reserve Fund would

be used for extraordinary storm restoration costs that were not included in the Company's revenue requirement or part of its current rate base recovery.

Blue Granite witness DeStefano also rejected the modifications to the Storm Reserve Fund offered by ORS and by Consumer Affairs. Tr. p. 764.23, ln. 16-22. Even though witness DeStefano agreed that periodic reporting and utilization of funds only for named storms was reasonable, DeStefano testified that such modifications to the Storm Reserve Fund would not serve Blue Granite's ultimate purpose for the Fund.

ORS reviewed Blue Granite's past ten (10) years of storm restoration costs using a ten-year average. After removing the high and low values, ORS witness Bickley testified that ORS's review found the average yearly storm cost to be \$28,320.51. Tr. p. 1186, ln. 15-19. The ORS also recommends a normalization adjustment of storm costs which would be \$23,481. The "method of normalization of storm costs more accurately reflects storm costs for each year." Tr. p. 1186, ln. 23-25. ORS witness further testified that the proposed Storm Reserve Fund by Blue Granite did not have any guidelines on how the Company would access the Fund or customer protections to restrict use, access, or operation of the Fund. Tr. p. 1187, ln. 4-14; Tr. p. 1188.

ORS witness Bickley provided ORS's recommendation to modify the Fund to include sufficient customer protections. With these modifications, the ORS was willing to support a Storm Reserve Fund which limited the Fund balance to \$50,000 and adoption of storm normalization so that once the Company had incurred \$28,321 in storm damage, it could access the money in the account. Tr. p. 1187, ln. 7-14.

Consumer Affairs witness Morgan testified that the Storm Reserve Fund was not necessary because a significant portion of the water and sewer utility infrastructure is below ground. Tr. p. 651.19. He also testified that the establishment of the storm fund is not necessary at this time. Tr. p. 649, ln. 9; Tr. p. 651.19. Consumer Affairs also believed that a monthly surcharge of \$0.53 per customer account was an unnecessary fee to impose on customers and that Blue Granite's data did not support the creation of a Storm Reserve Fund.

The Commission finds ORS witness Bickley's testimony compelling and agrees with Consumer Affairs witness Morgan that it is unreasonable to make a significant policy change based upon a rare occurrence. The current process established by the Commission allows the utility to seek deferred accounting treatment for unusual circumstances. There is no need to burden Blue Granite customers with higher rates to create a fund that history shows will likely end up unused on Blue Granite's balance sheet. We conclude that the Storm Reserve Fund is not necessary.

Based upon the evidence in the record, the Commission finds that Blue Granite's request to establish a \$200,000 Storm Reserve Fund is not needed at this time and that the request is denied. According to the Company's own data, there have been only two times when the Company was allowed deferred accounting treatment. Tr. p. 658.5. The Commission further adopts the position of Consumer Affairs that not only is the fund not needed by Blue Granite to provide safe and reliable service, but also it is unreasonable to establish a \$200,000 Reserve Fund because a level of storm costs was incurred one-time

due to unusual circumstances of two back to back hurricanes occurring in a short span of time from the other.

► **Round Up Program**

Like Consumer Affairs and ORS, the Commission encourages Blue Granite's efforts to assist and help its customers. Its proposed Round Up Program ("Program") can provide some level of financial aid to certain low-income customers in its service territories. There was no evidence presented by the Company to indicate how many of its customers, if any, would benefit from such a program in Blue Granite's service territory. The Commission also realizes in reviewing proposed rate schedule of Blue Granite and the average water and sewer bills that a \$50 benefit level may not completely pay a customer's entire water bill, sewer bill, or water/sewer bill.

The Company also did not provide any supporting evidence for its estimated administrative costs for the Program; therefore, the costs are not known or measurable.

None of Blue Granite's affiliate companies have a similar program and ORS did not know of any other water or sewer utility regulated by the Commission with a similar program. The Program will not impact the ability of Blue Granite to provide safe and reliable services or to manage its administrative duties in maintaining and operating well-functioning water and sewer systems for the public. Therefore, the Commission finds that Blue Granite should pay for all the Program costs and not its ratepayers or customers.

As discussed herein and based upon the record, the Commission approves the Round Up Program as modified by ORS as reflected in testimony of ORS witness Bickley and in witness Sullivan's Audit Exhibit DFS-5, Adjustment 15b (\$0). The

Commission denies Blue Granite's request to recover the estimated costs for the Round Up Program related to modifications of its billing system and MyUtilityConnect customer service application for recovery in the Company's next rate proceeding. Blue Granite's request for recovery of the estimated cost for bill inserts/flyers to be used for the Round Up Program is also denied per recommendation of ORS that is adopted by the Commission.

The Commission further clarifies that Blue Granite is prohibited from passing onto its customers the administrative and implementation costs for the Program, including the bill inserts, notice or flyers, and for the modifications to Blue Granite's billing and customer service systems.

► **Cost of Service Study**

It became clear that throughout this proceeding that the parties recognized that a Cost of Service Study is essential to determine the proper rate design or that there cannot be significant rate design structural changes without such information. ORS recommends that the Commission require Blue Granite conduct a cost of service study to coincide with the test year and include it as part of its next rate case. Tr. p. 1214.7. Blue Granite agreed that it was willing to conduct and file a cost of service study in its next rate case. Tr. p. 764.37. ORS asserts a cost of service study is essential to determine the proper rate design and previously the Commission has required significant rate design changes to be fully supported by relevant data prior to implementing the proposed changes. Tr. 1214.7. Fundamentally, the cost of service study will demonstrate which costs need to be recovered and from which customer classes the cost should be recovered. Id. ORS

believes Blue Granite should retain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers and per Single Family Equivalent charge for sewer customers until a cost of service study is completed.

► **Service and Billing Issues**

The Commission held six public night hearings at locations spread throughout Blue Granite's two service territories: Lexington, Irmo, Union, Greenville, Columbia, and York. In the aggregate, over 500 people attended these hearings, and more than 150 requested the opportunity to testify. The witnesses who testified were angry at the size of Blue Granite's proposed increase. They also complained that the proposed rates, when compared to neighboring utilities, were extremely high, and that the flat-rate design used by the Company for its sewer customers was unfair to low-usage customers. The customers testified about poor service, including poor water quality, unresponsive customer service representatives, inaccurate meter readings, billing errors, and unwarranted service cut-offs, among other problems. The Commission found the customer testimony presented at the night hearings both credible and compelling. It is evident that customer service problems are persistent, widespread, and pervasive throughout Blue Granite's service territories.

While the applicable law set out by the South Carolina Supreme Court will not permit us to deny outright Blue Granite's application for a rate increase in this case, we are entitled to consider the night hearing testimony in creating incentives for the utility to improve its business practices, cut costs, improve efficiency, and enhance quality of service.

Accordingly, we order the Company to implement systems designed to improve customer service and to issue reports to the Commission periodically providing the results and details of its efforts.

► **Disallowed Expenditures**

Based upon the record and evidence presented by the parties in this Docket, the Commission did find that certain expenditures, costs and revenue recovery by the Company were imprudent and should not be allowed. These are discussed in detail in the Order below and in the adjustments supported in the record.

The Commission received detail information from ORS witness about its audit and examination of the Company, as well the responses and rebuttal by the Company's witnesses about costs, expenses, supporting documentation and its accounting for all revenues and expenditures. For example, the Commission received testimony about audited expenditures for employee service awards. It was discovered that Blue Granite had contained expenses for a 65" LED Curved Samsung TV and a 1.15 carat diamond ring for employee service awards. As explained in the Order, the Commission finds that these expenses are disallowed and cannot be recovered by the Company from the ratepayers. *See*, Tr. p. 1133.7, ln. 1-6. Also, expenses that did not have supporting data or that did not provide a benefit to the customer were also disallowed by the Commission. Another example is rejecting the Company's request to recover expenses for dinners with alcohol or items not supported by documentation. Tr. p. 1133.8, ln. 8-11. These were expenses incurred by Blue Granite that were not necessary to provide water and wastewater services and do not provide a benefit to customers.

The Commission ordered Blue Granite to provide the written reports on capital improvements no less than semiannually filed with the Commission and provided to ORS.

As stated in the beginning, the above Executive Summary is only provided for the convenience of the reader. It is not an exclusive summary of all findings and actions below in the Order of the Commission. The Commission deems that this Summary shall not be controlling if any conflict exists between the text of Executive Summary and the text of the findings and actions of the Commission below in this Order. It is the text of the findings and actions of the Commission's Order below that is controlling in construing the plain meaning of any finding or ruling of the Commission. Also, any heading in this Summary or anywhere contained in this Order shall not be construed to limit the plain meaning of the text. Although titles and headings are part of state statutes and rules, they may not be construed to limit or undo what the text makes plain. *Brotherhood of Railroad Trainmen v. Baltimore & O.R. Co.*, 331 U.S. 519, 67 S.Ct. 1387, 91 L.Ed. 1646 (1947); *Garner v. Houck*, 312 S.C. 481, 486, 435 S.E.2d 847, 849 (1993).

ORDER

I. Introduction

This matter is before the Public Service Commission of South Carolina (the "Commission") on the Application of Blue Granite Water Company ("Blue Granite" or "the Company") filed on October 2, 2019, requesting approval of an increase in the monthly water and sewer rates and charges, as well as approval of all fees and charges,

modification of certain terms and conditions for water and sewer services that Blue Granite provides to its customers in its Commission-approved service territories 1 and 2 throughout South Carolina. The Application was filed pursuant to S.C. Code Ann. § 58-5-240 and S.C. Code Ann. Regs. 103-712(4)(A) and 103-512(4)(A).

In its Application, Blue Granite requested to increase service revenues for combined operations by \$11,731,803, consisting of a water revenue increase of \$5,575,957 and a sewer revenue increase of \$6,155,846, and a requested Return on Equity (ROE) of 10.70%. Tr. p. 354.21, ln. 12-17.¹

Blue Granite Water Company Summary of Proposed Revenue Increases		
	Proposed Revenue Increase	Proposed Percentage Increase
Water Service Revenues – Territory 1	\$ 3,636,850	53.5%
Water Service Revenues – Territory 2	\$ 1,939,107	34.9%
Consolidated Sewer Service Revenues	\$ 6,155,846	55.7%
Total Service Revenues	<u>\$ 11,731,803</u>	

Blue Granite's requested revenue increase results in a potential Operating Margin (OM) of 12.26%. According to the Application, Blue Granite requires an increase in rates because it has invested approximately \$23 million in its water and sewer systems in order to continue to provide reliable and high-quality water and sewer service to its customers. Tr. p. 362.4. These recent capital investments by Blue Granite include the Shandon Interconnect (Water) project, the Stonegate Interconnect project, the Friarsgate

¹ However, in his rebuttal testimony, Blue Granite witness D'Ascendis updated his analysis and recommended a ROE range between 9.75% and 10.25%. Tr. p. 548.4, ln. 4-9.

Wastewater (Sewer) Interconnect project, the Lake Wylie Charlotte water system interconnection and a series of wastewater collection system (“WWCS”) improvement projects. Tr. p. 362.4, ln. 7-12.

Blue Granite has approximately 28,300 customers (16,500 water customers and 11,800 sewer customers) in sixteen (16) counties: Lexington, Richland, Sumter, Aiken, Saluda, Orangeburg, Beaufort, Georgetown, Abbeville, Union, Anderson, York, Cherokee, Greenville, Greenwood, and Williamsburg. Tr. p. 354.7, ln. 4-5; Tr. p. 362.3, ln. 18-21. The Company operates 105 water systems and 28 sewer systems in South Carolina and has 105 drinking water permits, 18 NPDES permits, and 10 satellite sewer system permits to support operations to these systems. Tr. p. 362.3, ln. 21 – p. 362.4, ln. 3. See, also Tr. p. 1213.4-1213.5 (ORS witness Sandonato provides updated and specific Test Year data on the exact number of customers of Blue Granite); Exhibit AMS-4.

Blue Granite provides water supply and distribution-only services to its residential and commercial customers in its service territories. Water is provided to its customers by Blue Granite through Blue Granite-operated wells or by third party water providers. Tr. p. 1213.4, ln. 15-16. ORS witness Sandonato testified that:

During the Test Year, Blue Granite purchased water to distribute to its customers from governmental entities including the City of West Columbia, York County, City of Charlotte [North Carolina], Lexington County Joint Municipal Water and Sewer Authority, City of Columbia, town of Lexington, West Anderson Water District, Broadway Water and Sewer, Hammond Water, City of Rock Hill, City of York, Starr-Iva Water co., Electric City Utilities, and Sandy Springs Water District. There are one hundred and five (105) water supply and distribution-only systems with active South Carolina Department of Health and Environmental Control (“DHEC”) Drinking Water Permits operated by Blue Granite. . . . Blue Granite provides fire protection service to customers in the Lake

Wylie service area, the Oakwood Baptist Church, Washington Heights, and Hidden Valley Mobile Home Park located in the I-20 service area.

Tr. p. 1213.4, ln. 16 – p. 1213.5, ln 2.

Blue Granite operates a total of twenty-eight (28) sewer collection and treatment systems. Tr. p. 1213.5, ln 15-16. Blue Granite operates nine (9) sewer collection-only systems for which it collects wastewater from its customers and transports the sewer wastewater to another entity for treatment and disposal. Sewer treatment and disposal is provided to Blue Granite collection-only customers by York County, Richland County, Georgetown County Water and Sewer, the Town of Chapin, Beaufort-Jasper Water and Sewer, City of Columbia, and the Town of Lexington. Tr. p. 1213.5, ln 16-21.

Blue Granite states that it is making this Application for a rate increase at this time due to increases in expenses and the inability of the Company to earn its currently authorized rate of return. Blue Granite witness DeStefano testified that:

With the plant investments the Company has made to maintain and improve its service to customers, and the increased operating expenses we have experienced since August of 2017, the end of the Test Year in the Company's last rate case, we are unable to earn our authorized rate of return and therefore are requesting rate relief. More specifically, we have made capital investments of over \$23 million since the last rate case, including several interconnection projects and numerous wastewater collection system improvement projects, to serve our customers.

Tr. p.763.4, ln. 9-15.

Blue Granite asserts in its Application that its operation and maintenance expenses have increased by approximately \$7.5 million since the last rate case, primarily driven by increases in rates from third-party providers for purchased water and wastewater treatment services, property tax expenses due to the aforementioned capital

investment, and updates in depreciation rates. According to the Company, rate relief is needed to enable the Company to provide safe, reliable, and compliant water and wastewater service to South Carolina customers, and to attract capital for future needed investments in its service territories. Tr. p.763.4, ln. 9-21. According to witness DeStefano, the Company's authorized rate of return is 8.62%²; however, Blue Granite is currently earning only 0.10% on an unadjusted basis which means it is actually earning negative 3% on an adjusted basis. Tr. p.763.6, ln. 10-13.

Blue Granite has a current performance bond for utility operations in the form of an Irrevocable Letter of Credit ("ILC") from JPMorgan Chase Bank, N.A. as surety in the amount of \$350,000 for water and \$350,000 for wastewater operations.³ Tr. p. 1213.6.

In addition to an increase in base rates adjustment, Blue Granite is also seeking authority for the following new authorizations as discussed by Blue Granite witness DeStefano:

- Authority to create a Storm Reserve Fund for extraordinary storm restoration costs such as those experienced following Hurricane Florence;
- Authority to implement a purchased water and purchased sewer services rate adjustment mechanism; and
- Authority to implement a voluntary customer "Round Up" program.

Tr. pp. 354.22 – 354.23.

² Order No. 2018-802 at 35, Docket No. 2017-292-WS (Jan. 25, 2019). Blue Granite's authorized Operating Margin is 13.28% and authorized ROE is 10.50%. *Id.*

³ As part of this proceeding, ORS does request that the Commission require blue Granite to continue to maintain its current performance bond amount for water operations in the amount of \$350,000 and for sewer operations in the amount of \$350,000 in compliance with S.C. Code Ann. §58-5-720 (2015).

II. Procedural History

Blue Granite Water Company filed its notice of intent to apply to adjust its rates on August 30, 2019, and it filed its Application on October 2, 2019. The Company filed amended exhibits to its application on October 16, 2019. The Clerks' Office filed the revised customer and newspaper notices on October 24, 2019. On December 3, 2019, the Company filed an Affidavit of Mailing of the revised notice to all customers, a Certification of Mailing to County and City Administrators, and proofs of publication for The State, the Post and Courier, the Greenville News, the Herald Fort Mill Times, and the Greenwood Index-Journal.

On December 19, 2019, ORS filed a Motion for Partial Summary Judgment Regarding the Proposed Annual Rate Adjustment Mechanism. After an extension, Blue Granite responded on January 6, 2020. ORS withdrew its motion on January 15, 2020, in light of representations in Blue Granite's direct testimony that the Company was willing to agree to procedural protections in connection with the ARAM that were not delineated in its application.

The Commission Clerk's Office established a deadline to file a petition to intervene of December 16, 2019. The Commission received petitions to intervene from Forty Love Point Homeowners' Association ("Forty Love"); the Building Industry Associations of South Carolina; the South Carolina Department of Consumer Affairs ("Consumer Affairs"); the Town of Irmo; James S. ("Jim") Knowlton; Stefan Dover; and

York County, South Carolina. The Commission granted all petitions to intervene filed in this docket⁴.

Pursuant to the schedule for prefiled testimony established by the Clerk's Office, the deadline for the Company's Direct Testimony was December 30, 2019; Intervenor Direct Testimony was due January 22, 2020; the Company's Rebuttal Testimony was due February 5, 2020; and Intervenor Surrebuttal testimony was due February 12, 2020.

Blue Granite filed the Direct Testimony of Dylan D'Ascendis, Donald Denton, Dante DeStefano, Shawn Elicegui (confidential and public versions), Bryce Mendenhall, and John Spanos on December 30, 2020. Blue Granite filed the Corrected Testimony and Exhibit of Dylan D' Ascendis on January 10, 2020.

Following request for a one-day extension of the remaining prefiled testimony deadlines, the deadline to file direct testimony was extended to January 23, 2020. See Order No. 2020-7-H. ORS, Consumer Affairs, York County, Forty Love, Jim Knowlton, and Stefan Dover filed Direct Testimony. ORS filed the Direct Testimony and Exhibits of Daniel F. Sullivan, David J. Garrett, Kyle D. Maurer, Sr., P.E., Anthony D. Briseno, Anthony M. Sandonato, Brandon S. Bickley, and David C. Parcell, and the Direct Testimony of Charles E. Jackson. Consumer Affairs filed the Direct Testimony and Exhibits of Jerome D. Mierzwa, Lafayette K. Morgan, and Aaron L. Rothschild. Consumer Affairs filed corrected Direct Testimony of Lafayette K. Morgan and Aaron L. Rothschild on January 31, 2020 and Corrected Exhibits for Mr. Morgan and Mr. Rothschild on February 2, 2020.

⁴ See Orders No. 2020-22; 2020-21; 20200-20; 2020-19; 2019-849; 2019-799; 2019-746.

Forty Love filed the Direct Testimony of Barbara King and Reid Radtke. York County filed the Direct Testimony of Eric Rekitt. Stefan Dover and Jim Knowlton also prefiled Direct Testimony. Mr. Dover filed corrected testimony on March 3, 2020.

On February 6, 2020, Blue Granite filed the Rebuttal Testimony and Exhibits of Dante DeStefano, J. Bryce Mendenhall, and Dylan D'Ascendis, and the Rebuttal Testimony of John Spanos and Donald Denton.

Following ORS's request for a one-day extension, the deadline to file Surrebuttal Testimony was extended to February 14, 2020⁵. Consumer Affairs filed the Surrebuttal Testimony of Jerome D. Mierzwa (with Exhibit), Aaron L. Rothschild, and Lafayette Morgan, Jr. Consumer Affairs filed updated Corrected Exhibits for Aaron L. Rothschild on February 25, 2020.

ORS filed the Surrebuttal Testimony and Exhibits of Brandon S. Bickley, Anthony D. Briseno, Dr. Kyle Maurer, Sr., P.E., Daniel F. Sullivan, David C. Parcell, and Testimony of Charles E. Jackson and David J. Garrett. On February 24, 2020, ORS filed the Revised Surrebuttal Testimony and Exhibits of Daniel F. Sullivan, and Anthony M. Sandonato, and the Revised Surrebuttal Testimony of Kyle D. Maurer Sr. and Anthony D. Briseno. The revisions primarily reflected a change to ORS's recommended adjustment for purchased water and sewer expenses going forward.

As discussed in Item IV herein, six (6) public night hearings were held in Lexington, Union, Greenville, York and Richland Counties. A total of more than one hundred sixty (160) Blue Granite customers provided testimony at the night hearings.

⁵ Order No. 2020-10H.

These public witnesses voiced objections to the amount of the requested increase in rates and raised general and specific concerns about the quality of water and customer service provided to them by Blue Granite.

The evidentiary hearing was held at the Commission's Hearing Room, beginning on February 26, 2020, at 10:00 a.m. to receive testimony from the parties and any public witnesses. The Honorable Comer H. "Randy" Randall, Chairman of the Commission, presided.

Blue Granite was represented by Frank R. Ellerbe, III, Esquire, and Samuel J. Wellborn, Esquire.

ORS was represented by Andrew M. Bateman, Esquire, Christopher M. Huber, Esquire, and Alexander W. Knowles, Esquire.

Consumer Affairs was represented by Carri Grube Lybarker, Esquire, Laura Becky Dover, Esquire, Roger P. Hall, Esquire, and Richard L. Whitt, Esquire.

Intervenor Town of Irmo was represented by S. Jahue Moore, Esquire.

Intervenor Forty Love Point Homeowner's Association was represented by Laura P. Valtorta, Esquire.

Intervenor York County, South Carolina, was represented by Michael Kendree, Esquire.

Intervenor James S. Knowlton represented himself pro se.

Intervenor Stefan Dover represented himself pro se.

The other intervenor, the Building Industry Association of South Carolina, represented by John J. Pringle, Esquire, did not file any prefiled testimony or otherwise

participate or appear at any public night hearing or in the evidentiary hearing in this Docket. The Building Industry Association of South Carolina did not present any witnesses, nor appear to cross-examine the other party witnesses.

All witnesses were sworn in and had their pre-filed Direct and Rebuttal/Surrebuttal Testimonies, as applicable, accepted into the record, including any corrections and corresponding accompanying exhibits. All witnesses presented summaries of their testimonies and were made available for cross-examination by the other parties to this proceeding. The Town of Irmo did not present any additional witnesses other than those citizen-customers being served by Blue Granite who testified at the night public hearing(s) whose testimony was made part of the record. Tr. pp. 331-336. However, Town of Irmo did cross-examine the other party witnesses during the evidentiary hearing.

III. Public Night Hearings

The Commission held six public night hearings at locations spread throughout Blue Granite's two service territories: Lexington, Irmo, Union, Greenville, Columbia, and York⁶. In the aggregate, over 500 people attended these hearings, and more than 150 requested the opportunity to testify⁷. Most of the customers who testified at these hearings expressed anger at the magnitude of the rate increase sought by the Company in its application, and several of them also complained that the rates charged by Blue Granite were much higher than those charged by neighboring utilities. Many customers

⁶ An additional night hearing was scheduled to be held in Anderson, but it was canceled due to severe weather conditions. Anderson-area customers were invited to attend the Greenville night hearing instead.

⁷ The night hearing sign-in sheets were entered into evidence as Hearing Exhibits No. 1, 6, 9, 10, 24, and 43.

also complained of the inequity of flat sewer rates. Customers also reported numerous incidents of poor water quality, unresponsive customer service, inaccurate meter readings, billing errors, and unwarranted cut-offs, among other problems. Perhaps the most egregious example of the Company's poor service was presented at the Irmo night hearing, where Pat Steadman testified that the Company had wrongfully plugged his sewer line in July 2019, resulting in his house being flooded with sewage⁸.

Many customers urged the Commission to deny the application outright. Some customers complained of the number of increases Blue Granite and related companies had been granted in the recent past, and at least one customer complained that the Company had not been denied a rate increase since 2004.⁹ Another accused the Commission of being a "rubberstamp."¹⁰ Neither of these assertions has any basis in fact.

While we find the customer testimony at the public night hearings in this case to be very compelling and indicative of persistent, widespread, and pervasive problems consistent with those which have frustrated customers of this utility for many years, the Supreme Court of South Carolina has made amply clear that these problems are insufficient justification for an outright denial of the Company's application for a rate increase.

In its *USSC* decision, the Supreme Court made several rulings directly relevant to the case before us today. The Court held that the PSC, while no longer charged with the

⁸ Tr. pp. 158-61.

⁹ Lexington witness Johnny R. Cribb, Jr., Tr. p. 26, ll. 16-17.

¹⁰ Irmo witness Chris Kessler, Tr. p. 178, ll. 9-10.

investigative duties it had performed prior to 2004, remained entitled to create incentives for utilities to improve their business practices, to determine what portions of expenses incurred by utilities should be passed on to their customers, and to encourage measures to cut costs and improve efficiency. *USSC*, 708 S.E.2d 755, 760, 392 S.C. 96, 105. The PSC is the ultimate factfinder in a ratemaking application, with the power to determine, independent of any party, whether a utility has shown that its expenses should be passed on to its customers. 708 S.E.2d at 761, 392 S.C. at 106.

While the *USSC* decision reiterated the longstanding rule that the utility is entitled to a presumption that its expenditures were reasonable and incurred in good faith, 708 S.E.2d at 762-63, 392 S.C. at 109-110, *citing*, *Hamm v. S.C. Pub. Service Comm’n*, 422 S.E.2d 110, 112, 309 S.C. 282, 286 (1992), the PSC is entitled to consider the testimony of non-party customers or other members of the public (“protestants”), which may, when supported by other evidence, overcome the utility’s presumption of reasonableness.¹¹

One case in which the utility’s presumption of reasonableness was overcome by the testimony of a non-party protestant was *Hilton Head Plantation Utilities, Inc. v. Public Service Comm’n of S.C.*, 441 S.E.2d 321, 312 S.C. 448 (1994). In *Hilton Head*, the president of the development’s property owner’s association testified that some of the expenses incurred by the utility were paid to an affiliate entity. On appeal, the Supreme Court held that affiliate transactions were not entitled to a presumption of reasonableness, and that where the Commission found that the utility failed to present sufficient evidence

¹¹ “Because the PSC is both entitled and required to consider the evidence presented to it in the formal record, we hold that the PSC is entitled to rely on sworn testimony by non-party protestants to overcome the presumption of reasonableness.” 708 S.E.2d at 763, 392 S.C. at 111.

to ascertain reasonableness of the expenditure, the Commission could disallow it. 441 S.E.2d at 323, 312 S.C. at 451.

Construing the Court's opinion in *Hilton Head*, the Court in *USSC* held that the Commission's right to rely upon non-party protestant testimony was not limited to cases in which affiliate transactions are at issue. Rather, the Court held that the Commission was required to "believe or disbelieve [the] evidence submitted," including non-party protestant testimony. *USSC*, 708 S.E.2d 755, 763, 392 S.C. 96, 110-11, *quoting*, *Hilton Head*, 441 S.E.2d at 323, 312 S.C. at 451. The Commission had credited the testimony of several non-party protestants alleging that the quality of the water provided by USSC had not improved, and that they saw no evidence that the Company had made capital improvements as it had claimed in its application. On appeal, however, the Supreme Court held that while the customer testimony raised the specter of imprudence, there was insufficient evidence in the record to overcome the Company's presumption of reasonableness as to its expenditures.

The *USSC* decision also made clear that it was error for the Commission to have denied the Company's application entirely where some of the utility's claimed expenditures were not contested. The Court held that the Commission should have evaluated each claimed expenditure individually and should have credited the Company with those expenditures that were not specifically disallowed based upon the evidence presented. Therefore, where a utility's expenses are found to have increased, even after disallowance of expenditures found imprudent, the utility would be entitled to a rate increase. 708 S.E.2d at 763-64, 392 S.C. at 111-12.

The Supreme Court also held that the Commission erred in finding the rates charged by USSC to distribution-only water customers unfair based upon comparisons to rates charged by neighboring utilities, absent a showing that the utilities were similar enough to be meaningfully compared. 708 S.E.2d at 765, 392 S.C. at 114. And lastly, the Court held that to the extent that the PSC relied upon the recency of the Company's prior rate increase as justification for denial of the application, such reliance was in error. 708 S.E.2d at 765, 392 S.C. at 114-15.

Giving effect to the above-cited Supreme Court decisions as we must, we are legally foreclosed from denying Blue Granite's application for a rate increase in its entirety. Applying the standards set by the Supreme Court, we have evaluated the evidence presented and determined which expenditures we deem properly recoverable from ratepayers and which ones we believe should be disallowed. We have further considered all the customer night hearing testimony and used it to guide us in creating incentives for Blue Granite to improve its business practices, cut costs, improve efficiency, and enhance quality of service.

Accordingly, in response to the customer testimony we received in the night hearings, we order the Company to implement systems designed to monitor customer complaints and track resolution of these complaints to ensure that they are timely and effectively addressed. The Company shall prepare quarterly reports to the Commission and the ORS detailing its efforts to improve responsiveness and customer satisfaction. Additionally, the reports shall provide details of every complaint and the resolution of every complaint, as well as the names and addresses of all complainants for use by ORS

in the event follow-up contacts are necessary. The first quarterly reports must be submitted on or before July 1, 2020.

IV. Statutory Standards and Applicable Laws

The current rates now in effect, were approved in Commission Order No. 2018-802, in Docket No. 2017-292-WS. (Commission Order No. 2018-802 and Application, p. 4, ¶ 16). Blue Granite proposes a Test Year of July 1, 2018 to June 30, 2019. (Application, p. 2, ¶ 5).

The Application, testimony, exhibits, affidavits of publication, and public notices submitted by Blue Granite comply with the procedural requirements of the South Carolina Code of Laws and the Regulations promulgated by this Commission.

South Carolina Code Ann. § 58-5-210 provides,

“[t]he Public Service Commission is hereby, to the extent granted, vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the power, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed and followed by every public utility in this State and the State hereby asserts its rights to regulate the rates and services of every ‘public utility.’”

S.C. Code Ann. § 58-5-210 (2015). Also, “adjustments for known and measurable changes in expenses may be necessary in order that the resulting rates reflect the actual rate base, net operating income, and cost of capital. The adjustments are within the discretion of the Commission and must be known and measurable within a degree of reasonable certainty. Absolute precision, however, is not required.” *Hamm v. S.C. Pub. Serv. Comm’n*, 309 S.C. 282, 291, 422 S.E.2d 110, 115 (1992) (citing *Michaelson v. New England Tel. & Tel. Co.*, 121 R.I. 722, 404 A.2d 799 (1979)).

Although the burden of proof of the reasonableness of all costs incurred which enter into a rate increase request rests with the utility, the utility's expenses are presumed to be reasonable and incurred in good faith. *Missouri ex rel. Southwestern Bell Co. v. Public Service Comm'n of Missouri*, 262 U.S. 276, 43 S.Ct. 544, 67 L.Ed. 981 (1923) (Brandis, Jr., J., concurring); *West Ohio Co. v. Pub. Util. Comm'n*, 294 U.S. 63, 55 S.Ct. 316, 79 L.Ed. 761 (1935); *Boise Water Corp. v. Idaho Pub. Util. Comm'n*, 97 Idaho 832, 555 P.2d 163 (1976); *City of Chicago v. Illinois Commerce Comm'n*, 133 Ill.App.3d 435, 88 Ill.Dec. 643, 478 N.E.2d 1369 (1985) (modified by statute as noted in *People ex rel. Hartigan v. Illinois*, 117 Ill.2d 120, 109 Ill.Dec. 797, 510 N.E.2d 865 (1987); *Long Island Lighting Co. v. Pub. Serv. Comm'n*, 134 A.D.2d 135, 523 N.Y.S.2d 615 (1987); *City of Norfolk v. Chesapeake & Potomac Tel. Co.*, 192 Va. 292, 64 S.E.2d 772 (1951). This presumption does not shift the burden of persuasion but shifts the burden of production on to the . . . other contesting party to demonstrate a tenable basis for raising the specter of imprudence. *Long Island, supra.* The ultimate burden of showing every reasonable effort to minimize . . . costs remains on the utility. *Hamm v. South Carolina Pub. Serv. Comm'n and Carolina Power and Light Co.*, 291 S.C. 119, 352 S.E.2d 476 (1987).

Hamm v. S.C. Pub. Serv. Comm'n, 309 S.C. 282, 286–87, 422 S.E.2d 110, 112–13 (1992). The Commission's ratemaking authority "to supervise and regulate" rates and service and "to fix just and reasonable standards, classifications, regulations, practices, and measurements of service," S.C. Code Ann. § 58–3–140(A) (1976 & Supp.2020), entitles the Commission

to create incentives for utilities to improve their business practices. Accordingly, the PSC may determine that some portion of an expense actually incurred by a utility **should not be passed on to consumers.** *Patton v. S.C. Public Service Comm'n*, 280 S.C. 288, 292, 312 S.E.2d 257, 259–60 (1984); *see Southern Bell Telephone*, 270 S.C. at 599, 244 S.E.2d at 283 (finding it was not improper for the PSC to consider whether a utility could undertake measures to cut costs and improve efficiency).

Utilities Servs. of S.C., Inc. v. S.C. Office of Regulatory Staff, 392 S.C. 96, 105, 708 S.E.2d 755, 760 (2011) (emphasis added).

The Commission must determine a fair rate of return that the utility should be allowed the opportunity to earn after recovery of the expenses of utility operations. The legal standards for this determination are set forth in *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 602-03(1944) (“*Hope*”) and *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923) (“*Bluefield*”).

Bluefield holds that:

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

Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. at 692-93.

When determining an appropriate return for public utilities, this Commission and South Carolina courts have consistently applied the principles set forth in *Bluefield* and *Hope*. In *Southern Bell Tel. & Tel. Co. v. Pub. Serv. Comm'n*, 270 S.C. 590, 597, 244 S.E. 2d 278, 281 (1978), quoting *Hope*, the South Carolina Supreme Court held:

...[u]nder the statutory standard of ‘just and reasonable’ it is the result reached not the method employed which is controlling...The ratemaking process under the Act, i.e., the fixing of ‘just and reasonable’ rates, involves the balancing of investor and the consumer interests.

Federal Power Comm’n v. Hope Natural Gas Co., 320 U.S. 591, 602-03(1944). It is the responsibility, duty and delegated charge granted by the Legislature for the Commission to weigh the evidence and to draw “the ultimate conclusion therefrom as to what return is necessary to enable a utility to attract capital It has been said many times that this is so because the Commission is a body of experts ‘composed of men [and women] of special knowledge, observation, and experience’ in the field of rate regulation.” *S. Bell Tel. & Tel. Co. v. Pub. Serv. Comm’n*, 270 S.C. 590, 597, 244 S.E.2d 278, 282 (1978), holding modified by *Parker v. S.C. Pub. Serv. Comm’n*, 280 S.C. 310, 313 S.E.2d 290 (1984).

This Commission must exercise its dual responsibility of permitting utilities an opportunity to earn a reasonable return, on the one hand, and protecting customers from rates that are so excessive as to be unjust or unreasonable, on the other, by “(a) Not depriving investors of the opportunity to earn reasonable returns on the funds devoted to such use as that would constitute a taking of private property without just compensation [and] (b) Not permitting rates which are excessive.” *Southern Bell*, 270 S.C. at 605.

Additionally, the Commission’s determination of a fair rate of return must be documented fully in its findings of fact and based exclusively on reliable, probative, and substantial evidence on the whole record. *Porter v. South Carolina Public Service Commission*, 332 S.C. 93, 99, 504 S.E.2d 320, 323 (1998).

In establishing rates, it is incumbent upon the Commission to fix rates which "distribute fairly the revenue requirements [of the utility.]" See *Seabrook Island Property Owners Association v. S. C. Public Service Comm'n*, 303 S.C. 493, 499, 401 S.E.2d 672, 675 (1991). Our determination of "fairness" with respect to the distribution of the Company's revenue requirement is subject to the requirement that it be based upon some objective and measurable framework.

See *Utilities Services of South Carolina, Inc. v. South Carolina Office of Regulatory Staff*, 392 S.C. 96, 113-114, 708 S.E.2d 755, 764-765 (2011).

Although the burden of proof in showing the reasonableness of a utility's costs that underlie its request to adjust rates ultimately rests with the utility, the S.C. Supreme Court has concluded that the utility is entitled to a presumption that its expenses are reasonable and were incurred in good faith. *Hamm v. S.C. Pub. Serv. Comm'n*, 309 S.C. 282, 422 S.E.2d 110 (1992) (internal citations omitted). However, according to *Utils. Servs. of S.C., Inc. v. S.C. Office of Regulatory Staff*, 392 S.C. 96, 110, 708 S.E.2d 755, 762–63 (2011) "...[I]f an investigation initiated by ORS or by the PSC yields evidence that overcomes the presumption of reasonableness, a utility must further substantiate its claimed expenditures."

A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's operating margin, and, consequently, the amount of the utility's requested rate increase. In order to determine what a utility's expense and revenues are for purposes of determining the reasonableness of proposed rates, one must select a 'test year' for the measurement of the expenses and revenues. *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826, 828 n.1 (1996). While the Commission considers a utility's

proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and capital investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists showing that the test year amounts are atypical, the Commission should adjust the test year data. *See Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E. 2d 278 (1978); *see also, Parker v. South Carolina Public Service Commission*, 280 S.C. 310, 313 S.E.2d 290 (1984), *citing City of Pittsburgh v. Pennsylvania Public Utility Commission*, 187 P.A. Super. 341, 144 A.2d 648 (1958); *Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E.2d 278 (1978).

Finally, according to Commission Regulation § 103-503(B) governing sewerage utilities:

All rates, contract forms, and rules and regulations, proposed to be put into effect by any utility as defined in 103-502(11) shall be first approved by this commission before they shall become effective, unless they are exempt from such approval by statute or other provision of law.

S.C. Code Ann. Regs. § 103-503(B) (2007). Likewise, with water utilities, Commission rule and regulation state:

All rates, contract forms, or rules and regulations, proposed to be put into effect by any utility as defined in 103-702(14), shall be first approved by this commission before they shall become effective, unless they are exempt from such approval by statute or other provision of law.

S.C. Code Ann. Regs. § 103-703(B) (2007). The findings of facts and conclusions of the Commission herein reflect these standards and they were employed by the Commission upon review of the evidence in the record.

V. Review of Evidence and Evidentiary Conclusions

A. Return on Equity

In its Application and testimony, Blue Granite requests that the Commission determine the just and reasonableness of its proposed rates in accordance with the rate base methodology, i.e., the rate base and rate of return treatment. Blue Granite presented Direct and Rebuttal Testimony of witness D'Ascendis recommending a capital structure, overall rate of return, and range of return on equity. Witness D'Ascendis initially recommended in his direct testimony a ROE between 10.20% and 10.70% Tr. p. 547.4, ln. 9-12. However, in his rebuttal testimony, witness D'Ascendis updated his analysis and recommended a range between 9.75% and 10.25%. Tr. p. 548.4, ln. 4-9.

No other party of record proposed an alternative method for determining just and reasonable rates. Both ORS witness Parcell and Consumer Affairs witness Rothschild presented ROE recommendations for Blue Granite. Tr. p. 672.4, ln. 19; 672.12, ln. 14-16.

The Commission has wide latitude in selecting a rate setting methodology. *Heater of Seabrook, Inc. v. Public Service Comm'n*, 324 S.C. 56, 64, 478 S.E. 2d 826, 830 (1996).

While the record of evidence before it from witnesses presented by the ORS and Consumer Affairs indicates that the cost of common equity nationally is on the decline.

Tr. p. 672.13. Also, the evidence in the record clearly supports the Commission's conclusion that Blue Granite witness D'Ascendis' Return on Equity ("ROE") is too high.

In considering the quality of service issues known to exist with Blue Granite and the setting of just and reasonable rates, the Commission concludes that the analysis used by Consumer Affairs witness Rothschild is the most compelling, applies cost of equity models using water utility companies without the influence of non-utility companies, is objectively just and reasonable, and supported by ample evidence in the record. Tr. pp. 672.8-672.10. We conclude that the average ROE of 7.46% by Consumer Affairs witness Rothschild is the approved and appropriate ROE for Blue Granite based upon (a) the evidence on the whole record, (b) the three witnesses, Consumer Affairs Rothschild's approach was unique in that he included the use of both historical and forward-looking, market-based data in his analysis. rate of return methodology, and (c) a Test Year beginning July 1, 2018 and ending June 30, 2019.

With the above approved ROE of 7.46%, the Commission finds and adopts the resulting total Revenue Requirement for Blue Granite of \$28,733,986, which is an increase of \$4,958,848 consisting of an additional \$2,161,536 in water revenues and an additional \$2,797,312 in sewer revenues. This represents an approximate 57% reduction from the Company's requested increase of \$11,589,537 made in its Application. Additionally, the resulting Operating Margin of 10.54% is found to be just and reasonable and is adopted by the Commission for Blue Granite in accordance with S.C. Code Ann. §58-5-240(H).

The ROE is a key figure used in calculating a utility's overall rate of return. *Porter v. South Carolina Public Service Commission*, 333 S.C. 12, 504 S.E2d 320 (1998). A utility is entitled to the opportunity to earn a fair rate of return. *Hope*, supra; *Bluefield*, supra. There were three ROE witnesses presented in this Docket: Blue Granite witness D'Ascendis, ORS witness Parcell and Consumer Affairs witness Rothschild. Each of these three witnesses agreed that "ratemaking and the cost of capital are prospective in nature, i.e., forward looking." Tr. p. 546.19; p. 683.10; p. 1004.9.

The disagreement is on the overall rate of return or cost of capital, on the cost of equity or return on equity, and the methodology or analysis used to determine this value. Tr. p. 541.2, p. 661.2, pp. 1000.3-1000.4. All three ROE witnesses arrived at their recommended rates and ranges of rates by applying common equity models including Constant Growth Discounted Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM"). Tr. p. 541.2, p. 661.5, p. 1000.3-1000.4. Witness D'Ascendis also utilized Empirical Capital Asset Pricing Model ("ECAPM") and the Risk Premium Model ("RPM"). Tr. p. 541.2. ORS witness Parcell's additional model included the Comparable Earnings Model ("CEM"). Tr. pp. 1000.3-1000.4. Consumer Affairs witness Rothschild included the Non-Constant DCF method as his third approach. Tr. p. 661.5. Blue Granite witness D'Ascendis was the only witness to use a non-price regulated proxy group ("NonPrice Regulated Group") for application in his models, which was heavily criticized by ORS witness Parcell and Consumer Affairs witness Rothschild. Tr. pp. 541.2 – 541.3.

In his Direct, Rebuttal and live hearing testimony, Blue Granite witness D'Ascendis was not transparent regarding the data or methodology he used in applying criteria (iii) and (iv) to his Non-Price Regulated Group. Tr. pp. 564-584. Company witness D'Ascendis stated he purchased proprietary data from Value Line in the form of "hard-coded," "raw numbers" without "the data behind it" and which is "not included in the subscription to Value Line". Tr. p. 567. Even assuming this is the case, it was clear on cross examination by the Consumer Advocate Lybarker that witness D'Ascendis erroneously mixed the statistical concepts of simple data distribution and sampling errors. Tr. pp. 564-584. When asked, he was unable to clarify whether the Standard Deviation of Beta in his schedule corresponded to the Standard Deviation of historical returns provided by Value Line. Tr. p. 571. D'Ascendis stated that this Standard Deviation does not refer to the standard deviation of the unadjusted betas of the entire proxy group, yet his description and application to the average beta of the proxy group imply he used it as such. *Id.* For example, D'Ascendis stated "two standard deviations cover 95.5 percent of the population" but also stated "if two standard deviations only came up with three companies and three standard deviations came up with eight companies, I would use three standard deviations." Tr. p. 572-573. When asked about the entire population he was referring to, he stated "the entire population in the database is over 6,000 stocks"¹² yet in his parallel formula for the Standard Deviation of the Standard Error of the Regression he used "N=259" as the number of observations, a concept related to sampling error in the calculation of the beta coefficient for each company, implying a

¹² Tr. pp.573- 574.

larger relevant “population” of observations, which simply did not exist. Exhibit No. 17, p.25; Exhibit DWD-1R, p. 25.

While the concept of attempting to find companies with comparable overall risk by finding companies with similar beta coefficients and residual standard errors is not completely unreasonable, the process used by Blue Granite witness D’Ascendis in this case lacks analytical transparency and statistical coherence. This is further supported by the fact that witness D’Ascendis’ resulting NonPrice Regulated Group indicated an average unadjusted beta that is twenty-five percent (25%) higher than his Water Proxy Group, making it inappropriate for comparison purposes regarding the most fundamental measurement of risk. Tr. p. 575. We find the methodology and analysis performed by Consumer Affairs witness Rothschild, which clearly and appropriately applied three different equity models to his Water Proxy Group, to be more thorough and compelling in this case. Having considered all evidence presented by the parties, the Commission finds that Consumer Affairs witness Rothschild presented a compelling, reasonable analysis regarding Blue Granite’s Cost of Capital and Return on Equity. Tr. pp. 672.3-672.75.

Also, Consumer Affairs witness Rothschild fully rebutted witness D’Ascendis’ testimony,¹³ offering a more comprehensive and transparent application of his Constant Growth DCF, Non-Constant Growth DCF, and CAPM models to his proxy group. Further, the thorough critique presented by Consumer Affairs witness Rothschild

¹³ For example, Consumer Affairs witness Rothschild addressed Blue Granite witness D’Ascendis’ criticisms regarding his use of current market data to determine cost of capital by pointing out that witness D’Ascendis relies on non-market based data (Blue Chip consensus interest rate forecasts) in his analysis. Tr. p. 581, ln 25 - p.582, ln 6.

regarding the use of the non-price regulated proxy group is persuasive. The evidence in this proceeding clearly shows that the non-price regulated proxy group used by witness D'Ascendis is not comparable to the risk faced by Blue Granite.¹⁴

The primary reasons why witness Rothschild and Blue Granite witness D'Ascendis differ in their calculations for Blue Granite is because D'Ascendis includes a group of "14 non-price regulated companies" (i.e., non-public utilities) in his analysis. Tr. p. 672.5, ln. 4-11. These "non-price regulated companies" are not comparable in total risk to water utilities as witness D'Ascendis claims. Tr. p. 672.5. ln. 7-8. Therefore, witness Rothschild did not use these non-price regulated companies as they are significantly riskier than the six (6) water utilities used by witness D'Ascendis in his calculations. Tr. p. 672.5. ln. 10-11. Rothschild did use the same six (6) publicly traded water utilities used by witness D'Ascendis when Rothschild made his recommendations and applied three models to provide an ROE in the range of 7.46% to 8.75%. Tr. pp. 672.7-672.9; *See*, Table 4, Exhibit ALR-2; Tr. p. 672.9.

Table 1 below indicates the capital structure of the Company, as approved in this Order, which both Company witness D'Ascendis and Consumer Affairs witness Rothschild agree:

¹⁴ As stated previously, Blue Granite witness D'Ascendis' Non-Price Regulated Group indicated an average unadjusted beta that is twenty-five percent (25%) higher than his Water Proxy Group, making it inappropriate for comparison purposes regarding the most fundamental measurement of risk. Tr. p. 575.

Table 1: Summary of Blue Granite's Capital Structure

<u>Type of Capital</u>	<u>Ratios</u>
Long-Term Debt	47.09%
Common Equity	<u>52.91%</u>
Total	100.00%

Tr. p. 672.12.

Amongst the three witnesses, Consumer Affairs Rothschild's approach was unique in that he included the use of both historical and forward-looking, market-based data in his analysis. Based on the testimony and facts presented, the Commission therefore adopts the recommended ROE of 7.46% proposed by witness Rothschild. This ROE allows Blue Granite to raise the capital it needs to provide safe and reliable service to its' customers.

B. Depreciation Schedule

As part of his Application proceeding, Blue Granite conducted its first depreciation study of its water and sewer plant assets in thirty-five (35) years. Blue Granite witness Spanos stated that the Company's current depreciation rates are outdated and were premised upon unrealistically long depreciable lives for facilities and equipment. Tr. p. 564, ln. 17 – p. 565, ln. 3. ORS witness Garrett recommended that the Commission reduce Blue Granite's depreciation accrual by approximately \$760,236 calculated as of December 31, 2018. Tr. p. 1065, ln. 19. Based on the evidence in the

record, Blue Granite's existing depreciation rates, which assume a 66 2/3 useful life for all asset accounts, are largely inaccurate. The service lives proposed by witness Spanos for several of the plant accounts in the depreciation studies prepared by Company witness Spanos are too short given the evidence supporting such service life proposals. Tr. p. 1066, ln. 21-25. The evidence is clear in this case that an update to Blue Granite's depreciation rates and depreciation expense is needed. Both Company witness Spanos and ORS witness Garrett agree on this. The evidence in the record shows that Blue Granite's current depreciation rates are artificially low and out of date. The question before the Commission is whether witness Spanos or witness Garrett's proposed accrual rates and expense level are more reasonable and supported by the evidence in the record. The Commission finds that ORS witness Garrett was credible and that he employed reasonable, objective methodology in proposing accrual rates, service lives, and net salvage estimates. In addition to reducing Blue Granite's depreciation accrual by approximately \$760,236, the Commission further adopts ORS witness Garrett's recommended service life estimates and net salvage cost estimates for the purposes of setting Blue Granite's depreciation rates and depreciation expense.

C. Non-Revenue Water Loss Expense Recovery

The parties disagree on whether a limit should be placed on the amount of non-revenue water Blue Granite can recover through rates and if so, what the limit should be. Currently, Blue Granite is operating under a current ten percent (10%) threshold for recovery of non-revenue water as set in Blue Granite's prior rate case. See Order No. 2018-345 & 2018-345(A); Docket No. 2017-292-WS. Prior to its most recent rate case

proceeding, Docket No. 2017-292-WS, Blue Granite reported three (3) subdivisions served by third-party providers for which non-revenue water exceeded ten percent (10%) during the test year. In the prior proceeding, ORS requested an adjustment limiting non-revenue water expense to ten percent (10%). Blue Granite did not oppose the adjustment and it was accepted by the Commission.

However, in this proceeding Blue Granite proposed a twenty percent (20%) non-revenue water threshold. Company witness Mendenhall disagrees and believes

that the Company's non-revenue performance should be evaluated consistent with the AWWA's recommendations, including recognizing the benefit-cost analysis to evaluate alternative activities for achieving compliance. While the Company is taking measures to actively address non-revenue water, infrastructure investigations, repairs, and replacements can be extremely expensive, and these costs would be passed along to customers. Tr. p. 363.7, ln. 3-8.

See, also, Tr. pp. 363.2-363.10. Company witness Mendenhall claims that while the cost of leak detection would cost more than the annual cost of non-revenue water expense, he did acquiesce that leak detection studies are the first step in addressing the non-revenue water issue. Tr. p. 363.7, ln. 14-19 ("...a leak detection study is not guaranteed to identify any and all water losses that lead to non-revenue water ..., but such efforts would be an essential early step in addressing non-revenue water.").

In this case, ORS recommends that Blue Granite's recovery of non-revenue water from the purchase water deferral account¹⁵ also be limited to ten percent (10%), resulting in an amortized annual adjustment of \$16,976. Tr. p. 1202.7. As ORS witness Maurer

¹⁵ In Docket No. 2015-199-WS, the Commission authorized the creation of a deferral account by Blue Granite to record rate increases by third-party water and sewer treatment providers. *See*, Order No. 2015-876, p. 29.

testified, the total adjustment is \$50,929 amortized over three years. Tr. p. 1202.7, fn. 10. “[B]ecause 10% is both appropriate and reasonable, the monetary size of the adjustment should not change the non-revenue water threshold used by ORS or the Company’s position on the previously utilized non-revenue water threshold.” Tr. p. 1202.7., ln. 7-10.

D. Annual Rate Adjustment Mechanism

In its Application, Blue Granite sought approval of an Annual Rate Adjustment Mechanism ("ARAM" or "Mechanism'*) for purchased water and sewer treatment expenses. All the parties, except for Blue Granite, opposed the Mechanism.

The Mechanism Blue Granite proposes would initiate a rate adjustment between base rate filings to recover deferral of changes in third-party service provider rates. Application, p. 5. The annual rate adjustment for purchased water expense deferrals would be applied to "Distribution only" customers, and the annual rate adjustment for purchased sewer treatment deferrals would be applied to "Collection only" customers. Application pp. 5-6. Deferrals would be recorded for 12-month periods beginning on the date rates are effective in this proceeding, and the Company would file for a rate adjustment within 60 days of the end of each annual deferral period. Application p. 6. The Application proposed that "ORS and the Commission complete their respective review and audit of the request within 45 days thereafter, and that the Company notify its customers of the audited rate adjustment within 15 days of audit completion, with the approved rate becoming effective 30 days thereafter. The interim rate(s) would be reset to zero in the next base rate case as the amortization of deferred expenses is incorporated into the setting of base rates." Id.

In describing how the proposed adjustments would be calculated, Blue Granite witness DeStefano testified as follows:

The expense amount for which the Company is seeking recovery through the rate adjustment represents the difference between the amount of purchased water or wastewater expense approved in this rate case, compared to the amount of expense that is known and measurable at the time of the annual rate adjustment, which could be higher or lower. The current amount of expense will be calculated by summing the consumption data from invoices making up the approved amount of expense in this rate case and applying the most current rates charged by third party suppliers where the rate has changed since this rate case. This method would be used to isolate the impact that changes in rates from third party providers have on changes to the expense level, not changes in expense levels due to consumption or customer growth. In addition, the Company will continue to accrue monthly the impact of the rate change from the vendor to a regulatory asset. The combined deferral balance and annualized impact of the change in vendor rates versus authorized will be divided by the annualized authorized consumption of the applicable customer group to determine the adjustment rate. After the initial implementation, the rate adjustments would include true-up calculations for over or under-collection on revenues attributed to the rate adjustments approved in the prior application. Any over- or under-recovery related to the difference between the revenues billed and the authorized recovery through the mechanism would be reconciled and charged or credited to customers, as appropriate, in the next Annual Purchased Water and Wastewater Rate Adjustment filing.

Tr. pp. 763.33-763.34.

Prior to Blue Granite's 2015 rate case, the Company utilized a pass-through approach whereby when a third-party water or wastewater services provider increased its rates, those increases were passed through to the customers serviced by that provider after a notice period and approval from the Commission. Tr. p. 763.25. In 2015, with ORS's support, Blue Granite moved away from the former pass-through system because of administrative issues with constantly altering 39 different rates due to changes in rates by the various third-party providers. Tr. pp. 763.25-763.26. Blue Granite asserts the newly

proposed system will not have these issues because rates will change no more often than once per year, they will change on a consolidated basis utilizing the Company's current consolidated rate system, and the rate changes will be easier to understand because the purchased water and purchased sewer treatment costs will be reflected in separate line items on customer bills. Tr. p. 763.26. Purchased water and wastewater treatment expenses represent over 40% of the increase in costs Blue Granite seeks to recover in this rate proceeding. Tr. p. 763.27. From 2017 to 2018, purchased water expenses increased by 27% and purchased wastewater services expenses increased by 58%. Tr. p. 763.30.

DeStefano asserts purchased water expenses and wastewater services expenses are comparable to fuel costs in electric cases that vary significantly from year to year. Tr. p. 763.30. He testified "[p]ermitting recovery to track, on a one-to-one basis, actual costs—outside of a general rate proceeding—will match expenses to recovery on a more timely basis and mitigate large rate shocks in rate cases, thereby benefitting customers." Tr. p. 763.31. "Additionally, mechanisms such as these can help to alleviate large fluctuations in rates from base rate cases (ke., mitigate rate shock) by providing for more gradual adjustments to rates, while at the same time sending more accurate price signals to customers that reflect the true cost of service." Tr. p. 763.32.

Blue Granite is opposed to a pass-through mechanism that is territory-specific whereby a change in rates by third-party provider is only passed through to the customers who receive water or wastewater treatment from that provider. Tr. p. 763.38. Blue Granite asserts such an approach is inconsistent with the Commission-approved

consolidated rate design it has and would disproportionately impact certain customer groups whose third-party providers have greater rate increases. *Id.*

Blue Granite asserts the ARAM is permissible under S.C. Code 5 58-5-240(G) because it does not require a determination of the Company's entire rate structure. Tr. pp. 763.40-763.41. Rather, the ARAM would adjust a single, segregated charge on customer's bills related to recovery of third-party provider rate changes. *Id.* Consequently, the notice and hearing process of a full rate case are not necessary. Tr. pp. 763.39-763.41. Nonetheless, Blue Granite is open to providing notice and opportunity for a hearing in the annual Mechanism proceedings, if the Commission deems it appropriate. (Tr. p. 907, l. 11-p. 909, l. 13). The Company is agreeable to the public being given the opportunity to participate in the hearing process, also. (Tr. p. 910, ln. 19-21). However, Blue Granite's position is the calculation of the ARAM is "strictly a mathematical exercise," without much room for interpretation. (Tr. p. 909, l. 14-p. 911, l. 3; p. 764.18, ll. 5-8). If a threshold is set for non-revenue water in this proceeding, that threshold could not be altered during the ARAM proceedings because that would affect base rates. (Tr. p. 918, ll. 4-14; p. 919, l. 20-p. 920, l. 8; p. 922, ln. 6-14). Blue Granite is agreeable to whatever threshold for non-revenue set in this proceeding, if any, being factored into the ARAM calculation and carried forward until the next full rate case. (Tr. p. 917, l. 16-p. 918, l. 3; p. 925, ll. 13-25).

In response to York County's arguments in opposition to the ARAM, Blue Granite asserts York County has benefited from the consolidated rate structure which exists. Tr. pp. 764.12- 764.13. Also, rate increases York County has imposed since the last rate case

are a significant component of the increased purchased water and purchased wastewater treatment costs Blue Granite seeks to recover in this proceeding. *Id.* These increased costs from York County will be spread among customers under the Company's consolidated rate structure. *Id.* In addition, Blue Granite argues York County can, at any time, amend the ordinance it enacted limiting further rate increases.

ORS opposes the ARAM as seeking to recover significant annual expenses with little to no review and inadequate customer protections. Tr. p. 1214.2. ORS asserts, through witness Sandonato, that the ARAM is not a pass-through of a change in rates but rather a pass-through of expenses. *Id.* The "pass-through" of a change in rates is fundamentally different than the "passthrough" of a change in expenses. *Id.* The Company's proposed ARAM bases the calculation of the annual rate change to customers on the level of expenses incurred by the Company which includes non-revenue water, changes in customer consumption, and inflow and infiltration. Tr. p. 1213.22. While Blue Granite stated the ARAM allows the Company to track and pass on to customers changes in third party rates on a dollar-for-dollar basis without markup or margin, this is not correct because the Company would be passing on additional costs that could be attributed to non-revenue water or inflow and infiltration ("I&I") for purchased sewer treatment systems. Tr. p. 1214.3. Non-revenue water and I&I are appropriately reviewed in a general rate proceeding. *Id.*

ORS witness Sandonato provided the following example to illustrate how additional costs such as non-revenue water and I&I would be passed on. Tr. pp. 1214.2-1214.3. If a third-party water provider increased the purchased water rate by \$0.05 per

1,000 gallons and the Company was billed for 100,000,000 gallons of water at the updated purchased water rate for the year, then the Company's total increase in purchased water expense would be \$5,000. *Id.* Under the pass-through of expenses the Company proposes in its Application, there would be an allocation of the increased purchased water expense to customers resulting in them paying the \$3,750 attributed to customer consumption plus an additional \$ 1,250 not attributable to customer consumption. *Id.*

In addition, the proposed additional, separate purchased water and sewer treatment charges do not improve clarity, as they do not reflect the actual cost of the purchased water or sewer treatment costs incurred by each customer. Tr. pp. 1211-1212, 1214.8. In other words, if a third-party water supplier for customers is charging \$5 for 1,000 gallons, those customers bills are not going to reflect they are paying \$5 per 1,000 gallons. The bills will reflect some other number because of the consolidated nature of Blue Granite's rate structure. Until Blue Granite is able to provide customers the actual purchased water or purchased sewer treatment expenses related to the services the customer receives from the third-party provider, clarity and transparency will not be improved. Tr. pp. 1212, 1214.8-1214.9. ORS recommends the Commission deny Blue Granite's request to establish an ARAM and continue the current system under which increases by third-party providers are placed into a deferral account to be considered as part of the next general rate proceeding. Tr. p. 1210. If the Commission determines the Company should recover its purchased water and sewer treatment charges more quickly than a general rate proceeding,

ORS recommends that any rate customers pay for purchased water and sewer treatment be established in a way such as to reflect the actual rate from the third-party provider that provides the service to the customer. Tr. p. 1211. In other words, any mechanism approved should be the type of dollar-for-dollar pass-through utilities such as Kiawah Island Utilities, Inc. and Ocean Lakes Utility, L.P. have in place.

Should the Commission deny approval of the ARAM and continue the current deferral system, ORS further recommends the Commission not approve Blue Granite's request to apply carrying costs at the Company's cost of debt to the purchased water and sewer treatment deferral accounts. Tr. 1214.9. The request to receive carrying costs in addition to recovery of the deferral will impact customers negatively by increasing the amount to be recovered from them. Id. Purchased water and sewer treatment expenses are similar to power, contract labor, and chemicals. Id. The continuation of the deferral allows the Company the opportunity to recover expenses outside of the historic test year. Id. This benefit accrues to the Company and is sufficient. Id. The addition of carrying costs is not necessary and does not benefit the customer. Id. ORS also recommends the Commission require Blue Granite conduct a cost of service study that coincides with the test year and is included as part of its next rate case. Tr. p. 1214.7. Blue Granite stated it is open to filing a cost of service study in its next rate case. Tr. p. 764.37. ORS asserts a cost of service study is essential to determine the proper rate design and previously the Commission has required significant rate design changes to be fully supported by relevant data prior to implementing the proposed changes. Tr. 1214.7. Fundamentally, the cost of service study will demonstrate which costs need to be recovered and from which

customer classes the cost should be recovered. *Id.* ORS believes Blue Granite should retain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers and per Single Family Equivalent charge for sewer customers until a cost of service study is completed. *Id.*

York County, through its witness Eric Rekitt, indicated it was opposed to the ARAM. York County, in December 2019, passed an ordinance suspending water and sewer rate increases. Tr. pp. 1029.2-1029.3. It is concerned that if other third-party providers increase their rates in the future, rates for York County customers could be impacted because of Blue Granite's consolidated rate structure. Tr. p. 1029.3. The County has concerns similar to that of ORS which are that an ARAM does not adequately incentivize Blue Granite to reduce I&I and non-revenue water loss. *Id.* York County supports a dollar for dollar territory-specific pass-through under which the rates for Blue Granite customers in York County only change in accordance with the rates of third-parties servicing customers in the County. *Id.* If an annual mechanism is approved, York County asserts it should include an opportunity for interested parties such as it to participate in the process. Tr. 1029.4.

The two witnesses for Forty Love Point Homeowners Association also expressed opposition to Blue Granite's proposed ARAM. Tr. pp. 732.1-732.3, 737.1-737.3.

Consumer Affairs witness Morgan testified to Consumer Affairs concerns about how non-revenue water loss recovery is treated under the ARAM and regarding the Blue Granite's effort to recover 100% of its non-revenue water from customers. (Tr. p. 698,1.

15-p. 700, l. 8). Witness Morgan agrees that Blue Granite's proposal is not a pass-through of rates. *Id.*

The Commission is charged with setting "just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed and followed." S.C. Code Ann. §58-5-210. Applying this statutory charge, the Commission declines to approve the ARAM that Blue Granite proposes based upon the record.

While Blue Granite has sought to address some of the concerns raised by the parties through incorporation of the non-revenue water threshold set in this Order and through agreeing to notice and a hearing in which the public can participate as part of the annual process, it also has stated the process would be a "strictly a mathematical exercise," without much room for interpretation. Blue Granite has indicated the threshold set for non-revenue water loss recovery herein could not be altered in the annual proceedings, as that would constitute a change in base rates and require a full rate case.

Blue Granite also has not demonstrated the ARAM would improve bill clarity for customers, as the methodology for calculating the purchased water and sewer charges is confusing and would not yield a number that reflects the actual cost of the purchased water or sewer treatment costs incurred by each customer.

The Commission finds that Blue Granite is authorized to continue the deferral accounting treatment of changes in purchased water and wastewater treatment rates established in Docket Number 2015-199-WS.

Additionally, with regard to additional adjustment to the Company's "Rate Base – Deferred Charges," the Commission finds and determines that Blue Granite is authorized to amortize \$3,178,824 of Purchased Water and Sewer Deferrals over five (5) years and to remove the first year's amortization of \$635,765 for a total increase of \$2,543,059 in a regulatory asset.

With regard to additional adjustment to the Company's "Maintenance Expenses - Purchased Water and Sewer Expense," the Commission finds and determines that Blue Granite is authorized to amortize this expense over five (5) years and that one year's amortized expense of \$635,765 will be included in expenses in this rate case. The unamortized portion, a total of \$2,119,000, will be placed in a Regulatory Asset to be recovered annually.

The Commission finds and determines that Blue Granite is not authorized to apply carrying costs to these deferral accounts other than as approved and directed herein.

Lastly, the Commission also declines to approve the changes Blue Granite proposes to its rate structure to add separate purchased water and sewer treatment charges, which were proposed to effectuate the ARAM. Blue Granite shall maintain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers, and per Single Family Equivalent charge for sewer customers.

E. Greenville Office Move, Upfit and Rent Expense - \$580,045

The evidence in record clearly supports the conclusion that Blue Granite's decision to sell its office building in West Columbia, South Carolina, and to relocate its

office to downtown Greenville, South Carolina is unreasonable and that the cost of upfitting the leased space, as well as the cost of the leased space (i.e., in the form of rent) should not be the responsibility of Blue Granite's customers. Tr. p. 1201.8, ln. 3-5.

ORS witness Maurer recommends an adjustment of \$495,206 to eliminate cost recovery for the Blue Granite Office Upgrades. This is reflected in ORS Adjustment 32. Tr. p. 1201.7, ln. 20-22.

ORS's recommendation is based on its position that Blue Granite's decision to relocate its West Columbia, South Carolina office to Greenville was unreasonable and the cost of upfitting the space the Company leased in Greenville should not be the responsibility of customers. Tr. p. 1201.8. When asked during discovery about its justification for moving the office, Blue Granite stated:

The primary focus of the office relocation was to attract and retain the professionals needed to maintain and improve the Company's ability to provide utility service at reasonable cost. The Company and the industry as a whole has an aging workforce, and the eligible workforce is shrinking, so ensuring that the right professionals are being attracted to the Company and retained by the Company is fundamental to the Company's ability to continue providing quality and cost effective service. The Company looked at Greenville and Columbia/West Columbia as location options. We used CBRE data (attached) to compare labor statistics of Columbia versus Greenville and decided upon Greenville. The Greenville office is within walking distance of our outside engineers (GMC) and peer utilities, Pacolet Milliken and Duke Energy, and offers additional conveniences to current and potential employees. The Columbia area did not have these same benefits. Customers benefit from the acquisition and retention of talented employees for the Company, which can minimize turnover costs and institutional knowledge loss over time. Please see attached file "Office Expenses" for the Columbia office costs offset by rent expense for the Greenville office."

Id.

Blue Granite witness Denton objected to the disallowance of these upfit costs with the move and relocation of its office to Greenville. However, Company witness Denton testified on cross examination that the Blue Granite's relocation and lease of Greenville office space was due to legacy brand issues which were caused by the Company itself. Tr. p.355.6; Tr. p. 445, ln. 15 – p. 446, ln. 8. Witness Denton also repeatedly pointed to employee retention issues as the driving force behind the Greenville move, and further admitted through his testimony that "[a]ttracting talent in the Columbia market has been extremely difficult due to the legacy brand issues in that market." Tr. p.355.6, ln. 5-7.

ORS witness Maurer provided undisputed evidence of Blue Granite's prior statements before the Commission in Docket No. 2018-365-WS that rebranding by Carolina Water Service, now known as Blue Granite Water Company, would be "at no cost to [Blue Granite's] customers." Tr. p. 1202.8, ln. 5-25; see, also, Exhibit KDM-2. Now by seeking recovery from the ratepayers for these costs associated with the Greenville Office in this proceeding, Blue Granite is contradicting its prior representation by attempting to pass onto customers office upgrade costs and Greenville expenses that were part of its rebranding plan and self-caused talent acquisition issues. Tr. p. 1202.8.. The evidence in the record supports the finding by the Commission that the Greenville move and its resulting rent and upfit costs are directly and casually related to Blue Granite rebranding itself, and that the Company's customers should not have to pay the costs associated with Blue Granite continuing its rebranding process.

Notably, Blue Granite sought through its Application to have ratepayers pay for other expenses associated with its rebranding such as vehicle logo and decal expenses,

new uniforms, and legal fees. Tr. pp. 1133.3- 1133.4, 1133.7-1133.8. Blue Granite agrees to the adjustments proposed by ORS witness Jackson to remove these other rebranding expenses but opposes the removal of the Greenville office upfit, moving and associated rent expenses. Tr. p. 764.4

Based upon the record, the Commission further finds that an additional adjustment or reduction of \$84,839 to Blue Granite's revenue request for additional rent is just and reasonable. Blue Granite's headquarters were formerly located at 150 Foster Brothers Drive in West Columbia, South Carolina ("Property"). This Property was acquired by Blue Granite in 2014 for the sum of \$214,500 and consists of a 4,050 square-foot office building along with 1.88 acres of treed acreage. See, Blue Granite Late-Filed Exhibit No. 1. The Property was sold during the Test Year on September 28, 2018 for \$356,400 to Palmetto Services Properties, LLC. Id. Net proceeds received were \$325,769. See, Blue Granite Late-Filed Exhibit No. 1, Attachment B.

The Company removed the Property from the rate base in October 2018. At that time, the original cost of the Property, inclusive of improvements since acquisition, was credited as a reduction of the amount carried upon the books of the Company under NARUC Account 304, "Utility Plant in Service – Structures and Improvements," for \$254,395. An offsetting entry was made to NARUC Account 421.1, Gain on Disposition of Property.

See, Blue Granite Late-Filed Exhibit No. 1.

The substantial evidence in record as a whole indicates that these adjustments reducing the additional revenue sought by Blue Granite related to the Greenville Office Move, Upfit and Rent/Lease as proposed by ORS and determined by Commission in the amount of \$580,045 are just and reasonable.

F. LETT's Tank Pumping Charge

Blue Granite, in its Application, requested authority to amend its tariff language and fees related to solids interceptor ("LETTS") tanks to change the pumping charge from \$150 to the actual cost to access, pump, and service the tanks on a periodic basis. Tr. p. 362.13, ln. 3-8. Blue Granite witness Mendenhall testified that this change is necessary to permit Blue Granite to recover from the responsible customer the actual costs associated with the necessity of pumping and cleaning a customer's tank when excessive solids have accumulated in the interceptor tank. The actual cost of performing this task, inclusive the cost to access the tank, is often more than the currently effective charge of \$150 and it needs to be performed every three to five years. Blue Granite proposes to bill the applicable customer for the actual cost of pumping and cleaning the tank, and that the pumping charge be included as a separate line item on the customer's next bill. Tr. p. 362.13, ln. 9-16. If requested by the customer, Blue Granite would divide the pumping charge into twelve equal monthly installments. Tr. p. 362.13, ln. 17-18.

Blue Granite previously filed a request to amend its tariff in the manner it proposes in November 2018 in docket number 2018-361-S and subsequently withdrew that application without prejudice, indicating judicial economy would be best served by including the matter in its next general rate case. Blue Granite identified 581 tanks in its service territory and indicated it owned 301 of those tanks. Tr. p. 1191.3, ln. 4-5. Blue Granite typically hired a third-party contractor to perform the work. Blue Granite confirmed to ORS the actual cost it would seek to recover from customers is the total cost

quoted by a contractor to perform the service without any additional costs or markup. Tr. p. 1191.4, ln. 8-11.

Blue Granite indicated that in advance of filing docket number 2018-361-S, it suspended charging customers the \$150 fee for pumping the tanks, although one instance was identified during 2018 to 2019 where a customer was charged. Tr. p. 1190.4, ln. 4-8. Blue Granite provided the ORS with thirty (30) instances of pumping charges during the Test Year. *Id.* ln. 8-9. The work generally was performed by three different third-party vendors during the test year, with the average cost being approximately \$750. *Id.* ln. 9-13. Blue Granite did not bill twenty-nine (29) customers for the approved \$150 pumping charge and included the full expense from the third-party vendors as an expense to be recovered from all customers. *Id.* ln. 13-15. ORS recommends a miscellaneous revenue adjustment of \$4,350 reflected in ORS's Adjustment No 3 (*see*, item VII:C below) for imputed revenue for services Blue Granite was able to charge for pumping LETTS tanks but for which Blue Granite did not. Tr. p. 1213.8-1213.9. Blue Granite indicated it agreed to this adjustment. Tr. pp. 764.3-764.4.

When ORS witness Bickley suggested that Blue Granite provide customers faced with the pumping of their LETTS tank the option of seeking alternative service providers, Company witness Mendenhall rejected the idea and was concerned that it could lead to unsanitary sewer overflows. When an interceptor or LETTS tank is full and in need of pumping, it creates the potential for an unsanitary sewer overflow or back-up into the customer's residence unless there is prompt response to pump out the interceptor tank in order to limit or prevent such overflows. Tr. p. 363.12, ln. 19-23.

For cost causation reasons, ORS does not oppose Blue Granite's request to change the treatment of LETTS tanks in its tariff such that customers who cause the expense will pay the actual costs of this service, but ORS asserts the proposal should be modified to incorporate the following customer protections:

- (1) require Blue Granite to provide an estimate of the actual cost of the pumping service to the customer prior to the work being scheduled and completed;
- (2) allow customers to seek alternative options for the pumping services by obtaining quotes/estimates from qualified and appropriately licensed third-party vendors and contractors;
- (3) require customers to approve and authorize Blue Granite providing pumping services in writing prior to service being performed;
- (4) the pumping charge may not exceed the estimate of the actual cost Blue Granite provided to the customer and the charge may not exceed the amount Blue Granite paid to any third-party vendor to perform the work;
- (5) if the customer chooses to use an alternative third-party vendor to perform services on their LETTS tank, Blue Granite may oversee and inspect the work but will not charge the affected customers for the personnel and overhead costs incurred in managing the LETTS tank-related work;
- (6) require the customer to provide, in a timely manner, Blue Granite proof the pumping and service on the tank occurred;
- (7) if the customer authorizes Blue Granite to perform the work, require the pumping charge be included as a separate line item on the customer's next bill and allow the customer the choice to have the charge billed in twelve equal monthly installments; and
- (8) if an emergency condition arises that presents a health risk to the customer, the public, or the environment, Blue Granite may proceed with pumping the tank without giving the customer the opportunity to select a different vendor. Blue Granite shall present, upon request, evidence supporting the need for immediate action.

Tr. p. 1190.7, ln. 3 - p. 1190.8, ln. 9. ORS witness Bickley also provided proposed tariff language for Blue Granite to use which would incorporate their proposed modifications to the LETTS tank tariff, including its language of what constitutes an emergency condition under which Blue Granite could pump the tank without giving the customer the opportunity to select a different vender. Exhibit No. 38; See, also, Exhibit No. BSB-1. Blue Granite witness Mendenhall testified in his Rebuttal that Blue Granite was in agreement with ORS's proposed modifications, with the exception of the exact definition of what constitutes an emergency condition under which Blue Granite could pump a tank without giving the customer the opportunity to select a different vendor. Tr. p. 395, ln. 8 -p. 396, ln. 5. However, Blue Granite did not provide an alternate definition for emergency condition for the Commission to consider other than what was in ORS's proposed tariff language.

Based upon the testimony and evidence in the record, including that of Intervenor Forty Love Point Homeowners' Association, Commission grants Blue Granite's request to amend its tariff language and fees related to Solids Interceptor ("LETTS") Tanks to change the pumping charge from \$150 to the actual cost to access, pump, and service the tanks on a periodic basis, with and incorporating the changes recommended by ORS to Blue Granite's proposal. The Commission further approves and adopts ORS's proposed tariff language related to Solids Interceptor ("LETTS") Tanks in Exhibit 38, including ORS's language of what constitutes an emergency condition under which Blue Granite could pump the tank without giving the customer the opportunity to select a different vender. Exhibit No. 38; See, also, Exhibit No. BSB-1. Blue Granite provided no

alternate definition of “what constitutes an emergency condition” for the Commission to consider.

G. Contributions in Aid of Construction Under Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (TCJA) lowered the federal corporate income tax rate from 35% to 21%. Due to this lower corporate tax rate, Blue Granite seeks Commission authority to initiate a one-time credit to each customer water and sewer account, to return overcollections of Federal tax expenses. Blue Granite witness DeStefano proposes to initiate a one-time credit of \$10.64 to each customer water and sewer service account in order to return overcollections of federal income tax expenses accumulated between January 1, 2018 to June 28, 2018 related to the TCJA in the amount \$335,713. Tr. p. 763.10. Blue Granite witness DeStefano testified that Blue Granite over-collected \$335,713. It is undisputed by Blue Granite and the ORS that this overcollection of funds needs to be returned to each customer water and sewer service account.

SCDCA witness Morgan recommends that the deferred liability of \$335,713 be used to offset the deferred purchased water and sewer treatment costs instead of providing a direct refund to customers. Tr. p. 651.15.

ORS verified the Company’s calculations using updated pro forma customer bills of 31,710 and calculated a one-time credit of \$10.59 per account. Tr. p. 1115.25, ln. 14-16. Blue Granite agreed with this updated calculation by ORS based on adjusted pro-forma customer counts. Tr. p. 764.4, ln. 18-19.

The Commission concurs with Blue Granite and ORS and finds that this overcollection of funds needs to be returned to each customer water and sewer service

account by providing the one-time credit of \$10.59. The evidence in the record supports the proposed adjustment in the amount of \$335,713 and the calculated one-time credit of \$10.59 as verified and calculated by ORS using the Company's updated data. The Commission further finds that the same is just and reasonable and therefore, orders this one-time credit by Blue Granite in the amount of \$10.59 as proposed by ORS for each customer water account and sewer account effective upon the date of this Order. Blue Granite is to issue these credits to customers as soon as possible and within its next billing cycle following the date of this Order.

H. Storm Reserve Fund

In addition to an increase in base rates, Blue Granite is seeking the authority to create a Storm Reserve Fund for extraordinary storm restoration costs such as those experienced following Hurricane Florence. Tr. p. 354.22, ln 17-20. Blue Granite wants set aside \$200,000 which would be funded through a monthly surcharge of \$0.53 per customer. Once the \$200,000 threshold is reached, the monthly charge would be suspended once the threshold amount was reached, and any overcollections during that last month would be refunded to customers the following month. Tr. p. 764.24, ln. 18-20.

Blue Granite witness Mendenhall testified that major storm events cause the utility to experience service disruptions due to temporary power loss and damage to supply or treatment infrastructure. Tr. p. 363.11, ln. 3-6. Storm damage can also cause main breaks which result in low pressure and boil water advisories. Tr. p. 363.11, ln. 6-7. Repairs can take less than an hour to several days to restore full service to customers depending on the nature of the damage to Blue Granite's systems. Tr. p. 363.11, ln. 7-9.

The Storm Reserve Fund would be used for extraordinary storm restoration costs that were not included in the Company's revenue requirement. For example, this could be generator services, damage assessments, damage inspections, site preparation and facilities repair. Tr. p. 363.11, ln. 9-13.

Blue Granite witness DeStefano also rejected the modifications to the Storm Reserve Fund offered by ORS and by Consumer Affairs. Tr. p. 764.23, ln. 16-22. Even though witness DeStefano agreed that periodic reporting and utilization of funds only for named storms was reasonable, DeStefano testified that such modifications to the Storm Reserve Fund:

would not serve the ultimate purpose of the Storm Reserve Fund. The purpose of the fund is to set aside capital for immediate deployment in cases of an extraordinary level of storm recovery expense, an amount significantly above the annual average 'normal' level of storm-related expense we typically experience."

Tr. p. 764.23, ln 22 – p. 764.24, ln. 2. The \$50,000 fund as proposed by ORS, according to witness DeStefano, would not accomplish the goals of the Company in maintaining the Fund which are: (a) to have funds on hand to respond to extraordinary storms, and (b) to save the administrative burden and expense of filing repeated deferred accounting petitions with the Commission. Absent a Storm Reserve Fund and absent a filing before the Commission by the Company for deferred accounting treatment, witness DeStefano states that Blue Granite has no available recourse to recover costs related to major storm events. Tr. p. 764.24, ln 3-20. Blue Granite believes that the potential for a catastrophic storm will erode the Company's earnings and impair the Company's financial ability; thus, adversely affecting customers because such issues or pressures lead to increasing

capital costs, diminish resources for other operating needs, and contribute to the need for more frequent regulatory filings. Tr. p. 764.25, ln. 10-13.

ORS reviewed Blue Granite's past ten (10) years of storm restoration costs using a ten-year average. After removing the high and low values, ORS witness Bickley testified that ORS's review found the average yearly storm cost to be \$28,320.51. Tr. p. 1186, ln. 15-19. The ORS also recommends a normalization adjustment of storm costs which was be \$23,481. The "method of normalization of storm costs more accurately reflects storm costs for each year" and is a method approved by the Commission for use by utilities. Tr. p. 1186, ln. 23-25. ORS witness further testified that the proposed Storm Reserve Fund by Blue Granite did not have any guidelines on how the Company would access the Fund or customer protections to restrict use, access, or operation of the Fund. Tr. p. 1187, ln. 4-14; Tr. p. 1188.

ORS witness Bickley provided ORS's recommendation to modify the Fund to include sufficient customer protections. With these modifications, the ORS would support a Storm Reserve Fund if : (1) only allowed to be used for damage incurred as a result of a named storm (as named by the World Meteorological Organization); (2) use the Fund if the Company's insurance does not cover all costs related to damage from a named storm; (3) mandatory quarterly reporting to the Commission and ORS of the status of the Fund including, but not limited to, dates and amounts of withdrawals and expenditures from the Fund, current balance, and current monthly surcharge; (4) limit the maximum Fund balance to \$50,000; and (5) the balance of Storm Reserve Fund should be included as a reduction to rate base. Tr. p. 1188, ln. 14 – p. 1189, ln. 8. ORS also

recommends that the Commission approve its recommendation for storm normalization so that Blue Granite would have access to the Fund once the company had incurred \$28,321 in storm damage. Tr. p. 1187, ln. 7-14.

Consumer Affairs witness Morgan testified that the Storm Reserve Fund was not necessary because a significant portion of the water and sewer utility infrastructure is below ground. Tr. p. 651.19. He also testified that the establishment of the storm fund is necessary at this time. Tr. p. 649, ln. 9; Tr. p. 651.19. While Blue Granite cites Hurricane Florence in September 2018 as an example of the type of storm where the resulting damage which would be covered by such a fund, the data shows that this type of storm is not incurred frequently. Tr. p. 649, ln. 10-15; Tr. p. 651.19, ln. 20-21. A monthly surcharge of \$0.53 per customer account is an unnecessary fee to impose on customers. Tr. p. 649, ln. 15-17. Consumer Affairs witness Morgan continued to testify that in the data presented by Blue Granite in support of its request does not support a historical need for a fund. Tr. p. 649, ln. 15-17. See the following Table¹⁶ from Rebuttal Testimony of witness DeStefano which was relied upon and referenced by witness Morgan as being “significantly less than \$200,000”. Tr. p. 658.5, ln. 17.

¹⁶ Tr. p. 764.22, ln. 2-3.

Year	Storm Costs	Five-Year Average
2010	\$16,207.41	\$14,533.90
2011	\$31,631.02	
2012	\$1,510.19	
2013	\$4,942.69	
2014	\$18,378.21	
2015	\$47,938.40	\$42,493.62
2016	\$43,737.13	
2017	\$33,469.27	
2018	\$54,716.21	
2019	\$32,607.10	

Given that storm costs are already included in the cost of service, witness Morgan testified that an adequate allowance has been provided to the Blue Granite in its rate base to cover storm damage costs. Tr. p. 649, ln. 15-17; Tr. p. 658.3, ln. 16-19.

The Commission finds ORS witness Bickley's testimony compelling and agrees with Consumer Affairs witness Morgan that it is unreasonable to make a significant policy change based upon a rare occurrence. The current process established by the Commission allows the utility to seek deferred accounting treatment for unusual circumstances. There is no need to burden Blue Granite customers with higher rates to create a fund that history shows will likely end up unused on Blue Granite's balance sheet. We conclude that the Storm Reserve Fund is not necessary.

Based upon the evidence in the record, the Commission finds that Blue Granite's request to establish a \$200,000 Storm Reserve Fund is not needed at this time and that the request is denied. According to the Company's own data, there have been only two times

when the Company was allowed deferred accounting treatment. Tr. p. 658.5. Due to a storm in 2016, the Company was authorized to defer approximately \$60,000 which is being amortized over a 5-year period. The other storm deferral occurred as a result of back to back Hurricanes in September and October 2018. Blue Granite incurred approximately \$209,000 in storm restoration costs and is being allowed to recover those costs over a 5-year period. These are the only two instances over the most recent four (4) years of the Company's history where it incurred significant storm damage expenses to receive authority to defer the expenses. Blue Granite explains that the \$200,000 amount that it seeks to accumulate in the Storm Reserve Fund is based upon the level of expenses incurred for back to back storms, Hurricane Florence and Hurricane Michael, in September and October 2018. The Commission further adopts the position of Consumer Affairs that not only is the fund needed by Blue Granite to provide safe and reliable service, but also it is unreasonable to establish a \$200,000 Reserve Fund because a level of storm costs was incurred one-time due to unusual circumstances of two back to back hurricanes occurring in a short span of time from the other.

I. Round Up Program

With its Application, Blue Granite requests Commission authority to implement a voluntary Round Up Program ("Program"). This program would round the bills of participating customers to the nearest higher dollar, with the difference accumulated in a reserve fund for remittance to the South Carolina Office for Economic Opportunity ("SCOEO"). Tr. p. 1190.8, ln. 12-15. The funds would be distributed to community action agencies in Blue Granite's service territory to assist low income customers with the

payment of their water and sewer bills. Tr. p. 1190.8, ln. 15-17. The funds would be (1) distributed to Community Action Agencies in Blue Granite's service territory to assist low income customers with their water and sewer bills; (2) issued in an amount not to exceed fifty dollars (\$50) per qualifying household for the payment of outstanding water or sewer service charges, or a deposit on a residential customer account; and (3) provided as a one-time service for eligible residential customers during the Program Year. Tr. pp. 1190.10, ln. 1-12. Blue Granite also seeks approval from the Commission to defer implementation costs from the customer Round Up Program related to modification of its billing system and "MyUtilityConnect" customer service application, for recovery in the Company's next rate proceeding. Tr. p. 763.23-763.24; Tr. p. 1190.8, ln. 17-20; See, also, Application, page 7 of 8, item 26.

In its request for approval of the Round Up Program, Blue Granite also requested additional revenue adjustment in its office supplies and other office expenses to include expenses for annual filing notices associated with the bill inserts and notices associated with the Program's estimated costs as proposed Pro-Forma Adjustments within this rate case in the amount of \$14,674. Tr. p. 1190.12, ln 16 – p. 1190.13, ln. 13. Blue Granite witness DeStefano continued to testify that the Company seeks to "defer implementation costs" for the recovery of the Program in the next base rate case. Tr. p. 763.24, ln. 2; See, also, Application, page 7 of 8, item 26.

Consumer Affairs was supportive of the Program to aid low-income customers but concerned that Blue Granite's customers would be shouldering the costs of implementing the Round Up Program. In fact, Consumer Affairs witness Morgan

testified that Consumer Affairs was “opposed to the deferral of costs that assumes an automatic recovery in the next rate case.” Tr. p. 650, ln 6-9; Tr. p. 651.20. Consumer Affairs recommended “that a cap be placed on the deferral of costs related to modifying the billing system and customer service applications...also ...that the Commission require[] the deferred cost to be subject to scrutiny in the Company’s next rate case.” Tr. p. 650, ln 10-15; Tr. p. 651.20.

ORS witness Bickley testified that neither Blue Granite, nor its affiliates, currently have a similar Round Up Program. Tr. p. 1190.11, ln. 8-12. “ORS is not aware of any water or sewer utilities under the Commission’s jurisdiction that utilize a Round Up Program that is the same or similar to the one proposed in this proceeding” testified witness Bickley. Tr. p. 1190.11, ln. 17-18. ORS was able to identify two electric utilities in the State of South Carolina subject to the jurisdiction of the Commission that have similar programs which work with local agencies to help customers pay their electric and/or natural gas bills and that the shareholders of those electric utilities pay for the program costs. Tr. p. 1190.11, ln. 20 – p. 1190.12, ln. 6.

ORS witness Bickley testified that ORS’s review in this matter discovered that Blue Granite’s actual total estimated cost range for implementation of the Program is between \$29,000 and \$50,000. Tr. p. 1190.13, ln. 19-20. Witness Bickley further testified that:

the Round Up Program, as proposed by the Company, is a voluntary program that customers can opt in or out of at any time. It is not a program that would be required to assist, aid, or otherwise support the Company’s ability to provide safe and reliable service to its customers. The proposed Round Up Program also does not impact the Company’s

ability to provide safe and reliable water and sewer service to customers.

Tr. p. 1190.14, ln. 5-9. ORS opposes Blue Granite's adjustment to include annual expenses associated with the Round-Up program as discussed in the direct testimony of ORS witness Bickley. Tr. p. 1190.14, ln. 10 – p. 1190.15, ln. 2; See, also, ORS Witness Sullivan's Audit Exhibit DFS-5, Adjustment 15b.

While ORS is supportive of a Round Up Program to assist the low-income customers of Blue Granite, ORS recommended changes to Blue Granite's Round Up Program to ensure that customers of Blue Granite did not pay the Company's estimated costs associated with the development, implementation, maintenance, and communication expenses. Tr. p. 1190.14, ln. 12-15. The ORS wanted to make modifications and adjustments ensuring that Blue Granite customers are treated in a similar manner as customers of Duke Energy customers. Tr. p. 1190.14, ln. 15-17.

The ORS recommends that the Commission deny Blue Granite's request to recover the estimated costs for the Round Up Program related to modifications of its billing system and MyUtilityConnect customer service application for recovery in the Company's next rate proceeding. Additionally, ORS recommends that the Commission deny Blue Granite's request for recovery of the estimated cost for bill inserts/flyers to be used for the Round Up Program. The Company's estimated costs are not known and measurable and this Program does not contribute to the provision of safe and reliable water and sewer service. ORS's adjustment is reflected in ORS Witness Sullivan's Audit Exhibit DFS-5, Adjustment 15b. Tr. p. 1190.14, ln. 10 - p. 1190.15, ln. 2; Tr. pp. 1191.5-1191.7.

The Commission encourages Blue Granite's efforts to assist and help its customers. Its proposed Round Up Program ("Program") can provide some level of financial aid to certain low-income customers in its service territories. There was no evidence presented by the Company to indicate how many of its customers, if any, would actually benefit from such a program in Blue Granite's service territory. The Commission also realizes in reviewing proposed rate schedule of Blue Granite and the average water and sewer bills that a \$50 benefit level may not completely pay a customer's entire water bill, sewer bill, or water/sewer bill.

The Company also did not provide any supporting evidence for its estimated administrative costs for the Program; therefore, the costs are not known or measurable.

None of Blue Granite's affiliate companies have a similar program and ORS did not know of any other water or sewer utility regulated by the Commission with a similar community assistance program. The Program will not impact the ability of Blue Granite to provide safe and reliable services or to manage its administrative duties in maintaining and operating well-functioning water and sewer systems for the public. Therefore, and based upon the record, the Commission finds that it is just and reasonable that Blue Granite (i.e., its shareholders) should pay for all the costs associated with a Round Up Program authorized for it by the Commission and that Blue Granite's rate payers or customers should not pay for the costs of such Program.

Additionally, evidence in the record supports the Commission finding that it is just and reasonable to approve the Round Up Program for Blue Granite as modified by ORS in testimony of ORS witness Bickley and in Witness Sullivan's Audit Exhibit DFS-

5, Adjustment 15b (\$0). Additionally, the Commission finds support in the record to deny Blue Granite's request to recover estimated costs for a Round Up Program related to modifications of its billing system and MyUtilityConnect customer service application in the Company's next rate proceeding when such costs are unknown and not measurable. The Commission further denies Blue Granite's request for recovery of the estimated cost for bill inserts/flyers to be used for the Round Up Program based upon the record.

Among other things, based upon the record, the Commission further finds that it is just and reasonable to prohibit Blue Granite from passing onto its customers the administrative and implementation costs for the Program, including the bill inserts, notice or flyers, and for the modifications to Blue Granite's billing and customer service systems. It is just and reasonable that Blue Granite, or its shareholders, should pay all the costs associated with a Round Up Program authorized for the Company by the Commission and that Blue Granite's rate payers or customers should not pay for the costs of such Program.

J. Cost of Service Study

Blue Granite did not perform a Class Cost of Service Study in order to justify the proposed rates in its application. Tr. p. 633.6, l. 1-4. Blue Granite's current base facility/monthly charge for water service in Territory 1 is \$14.38 and it is \$28.59 in its Service Territory 2. Tr. p. 631. Under Blue Granite's application, these charges would increase to approximately \$22.09 in Territory 1 and \$38.58 in Territory 2 for water service. Tr. p. 633.6.

It became clear that throughout this proceeding that the parties recognized that a Cost of Service Study is essential to determine the proper rate design or that there cannot be significant rate design structural changes without such information. Blue Granite agreed that it was willing to conduct and file a cost of service study in its next rate case. Tr. p. 764.37.

Consumer Affairs presented an analysis with its witness Mierzwa of the cost-based base facility charges for Blue Granite. Witness Mierzwa used the base-extra capacity method in the American Water Works Association's *Principles of Water Rates, Fees and Charges* ("AWWA M1 Manual"). His initial analysis indicated an appropriate cost-based facility charge for residential water service customers was approximately \$10.00 per month in each Service Territory. Tr. p. 633.9. However, the Company's current and proposed base facility charges are higher than that calculated by Consumer Affairs witness Mierzwa using the base-extra capacity method. Witness Mierzwa testified that Blue Granite's proposed increases in the base facility/monthly customer charges were unreasonable and that any increase in revenue authorized by the Commission should be recovered through increases in the volumetric usage (commodity and distribution) charges. Tr. p. 633.4.

ORS witness Sandonato also recommends that Blue Granite conduct a cost of service study. "A Cost of Service Study is essential to determine the proper rate design. Fundamentally, the Cost of Service Study will demonstrate which costs need to be recovered and from which customer classes the cost should be recovered. Due to its importance, ORS recommends the Commission require Blue Granite conduct a Cost of

Service Study that coincides with the test year and is included as part of its next rate case.” Tr. p. 1214.7, ln. 1-5. Witness Sandonato continued to testify that the Company should retain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers and a Base Facility Charge for sewer customers until the Company completes a Cost of Service Study. Tr. p. 1214.7.

VI. Review of Evidence and Evidentiary Conclusions – Other Adjustments

In the rebuttal testimony of Dante DeStefano, Director of Financial Planning and Analysis for the Company, Blue Granite witness DeStefano stated that there were several areas of agreement and that the purpose of his testimony was to identify these points of agreement between the Company, ORS, Consumer Affairs and other intervenors. Tr. p. Tr. pp. 764.3, ln. 11-13. The record will show that the Company agreed with ORS’ Adjustments No. 1, 2, 3, 4, 5, 6, 9b, 9e, 13a, 13b, 14, 15a, 15c, 16a, 17a, 19, 20, 21a, 21c, 21d, 21e, 23b, 26a, 26b, 27, 28, 35a, 35b, 37, and 39. *See*, Tr. p. 764.4, ln. 1-19. ORS also agreed without change to some of Blue Granite’s filed Application known as Adjustments No. 7, 10, 11a, 11b, 12a, 12b, 21b, 22, 23a, 29, 30 and 31. *See*, Tr. p. 764.4, ln. 19-22.

A. Adjustment No. 1 – Water Service Revenues

ORS Witness Sandonato testified that during ORS’ comprehensive review of the Company’s Application and Test Year information, discrepancies were discovered in the water billing units used to calculate Blue Granite’s water service revenue for the Test Year. ORS proposed this adjustment to more accurately reflect the total revenues for the Company. ORS’ Accounting and Pro Forma Adjustment No. 1 is \$280,468. Ex. DFS-1.

Blue Granite witness DeStefano agreed with ORS on this adjustment. Tr. p. 764.4, ln. 1-2. No party contested the \$280,468 accounting and proforma adjustment proposed by ORS Witness Sandonato. The Commission finds that the evidence in the record supports the ORS proposed accounting and proforma adjustment and the Commission further finds the accounting and proforma adjustment to be just and reasonable.

With regard to the revenue adjustment for water service revenues following accounting and proforma adjustments (Adjustment No. 40), using the ROE methodology and the 7.46% ROE adopted by the Commission as supported by the evidence in the record and as discussed in this Order, the resulting revenue increase in water revenues is \$2,176,490. For these reasons discussed herein, this Commission finds the revenues detailed in Order Exhibit 1 (PSC Prepared Reconciliation Document) to be just and reasonable.

B. Adjustment No. 2 – Sewer Service Revenues

There were also discrepancies discovered by ORS in the Company's Application and Test Year for sewer billing units per the direct testimony of ORS Witness Sandonato. (Dir. Pp. 6-7). Like the discrepancies found during ORS' comprehensive review of the Company's Application and Test Year information for water billing units, there were also errors in the sewer billing units used by Blue Granite to calculate its sewer service revenue for the Test Year. ORS proposed an accounting and proforma adjustment in the amount of \$504,321 as Adjustment No. 2 to more accurately reflect the total revenues for the Company. Ex. DFS-1. Blue Granite witness DeStefano agreed with ORS on this adjustment. Tr. p. 764.4, ln. 1-2. No party contested the \$504,321 accounting and

proforma adjustment proposed by ORS Witness Sandonato. The Commission finds that the evidence in the record supports the ORS proposed accounting and proforma adjustment and the Commission further finds the accounting and proforma adjustment to be just and reasonable.

With regard to the revenue adjustment for sewer service revenues following accounting and proforma adjustments (Adjustment No. 41), using the ROE methodology and the 7.46% ROE adopted by the Commission as supported by the evidence in the record and as discussed in this Order, the resulting revenue increase in sewer revenues is \$2,785,194. For these reasons discussed herein, this Commission finds the revenues detailed in Order Exhibit 1 (PSC Prepared Reconciliation Document) to be just and reasonable.

C. Adjustment No. 3 – Miscellaneous Revenues

ORS witness Sandonato also proposed an adjustment in the amount of \$4,350 to the total miscellaneous revenues for water and sewer services. *See*, Exhibit AMS-3. This adjustment was due to the imputed revenue attributable to the Company regarding its suspension of charging its sewer customers \$150 for pumping the LETTS tanks. Tr. p. 1214.7-1217.8. During the Test Year, Blue Granite identified one customer that was charged the \$150 fee which was included in the Company's miscellaneous revenue. However, the Test Year showed that there were thirty (30) Blue Granite customers for which the Company's LETT's tank pumping service was performed, but while the Company was able to charge, it chose not to charge them for the service. ORS calculated that the imputed miscellaneous revenue adjustment of \$4,350 for the twenty-nine (29)

customers whose charge for the pumping service was not accounted. *Id.* Blue Granite witness DeStefano agreed with ORS on this adjustment. Tr. p. 764.4, ln. 1-2. No party contested the \$4,350 accounting and proforma adjustment proposed by ORS Witness Sandonato. The Commission finds that the evidence in the record supports the ORS proposed adjustment and the Commission further finds the adjustment to be just and reasonable.

With regard to the revenue adjustment for miscellaneous revenues following accounting and proforma adjustments (Adjustment No. 41), using the ROE methodology and the 7.46% ROE adopted by the Commission as supported by the evidence in the record and as discussed in this Order, the resulting miscellaneous revenue increase is \$49,482. For these reasons discussed herein, this Commission finds the revenues detailed in Order Exhibit 1 (PSC Prepared Reconciliation Document) to be just and reasonable.

D. Adjustment No. 4 – Uncollectible Accounts

Based upon the revenue requirements proposed by the Company and ORS, ORS witness Sullivan proposed to adjust uncollectible accounts of (\$89,309) associated with the company's revenues after ORS's proposed accounting and pro forma Adjustments. (tr. P. 1115.6, 11. 2-3). The percentages used to calculate uncollectible accounts were provided by the company and were verified and found reasonable by ORS. (Tr. p. 1115.6, ln. 34). Company Witness DeStefano testified that Blue Granite agrees with ORS's proposed service uncollectible account adjustment as it relates to the uncollectible expenses for the utility; meaning that Blue Granite also agreed with the percentages used

by the ORS to calculate the adjusted amount of uncollectible accounts. (tr. P. 764.4, ln. 1-2).

The record further clearly demonstrates that no party contested the percentages used by ORS witness Sullivan to calculate the uncollectible accounts based upon the proposed revenue increase. Instead rather, the percentages used by ORS for the calculation were accepted in the record. Other than the accounting and proforma adjustments by ORS, the Commission does not agree to and does not adopt the revenue adjustments or requests in Adjustment No 4 proposed by the Company or ORS. However, using the ROE methodology and the Commission's 7.46% ROE adopted herein, the Commission does adopt the percentages used by ORS witness Sullivan to calculate the adjusted amount in the utilities uncollectible accounts based upon the Commission's adopted total revenue increase for Blue Granite of \$4,958,848.

Therefore, resulting in the adjusted amount of (\$52,318) which is adopted, and found to be just and reasonable, by the Commission. The evidence in the record supports the proposed adjustment of (\$52,318) regarding the utility's uncollectible accounts. See, Order Exhibit 1.

E. Adjustment No. 5 – Salaries and Wages – Maintenance

In its Application, the Company proposed an adjustment in the amount of (\$1,155,286). ORS proposes to annualize operator's salaries for maintenance expenses details of this adjustment are reflected in the direct testimony of ORS witness Jackson. Tr. p.1133.3. Blue Granite witness DeStefano testified that this an Adjustment to which Blue Granite and ORS agree. Tr. p. 674.4, ln. 3. There is no dispute between the parties

regarding this adjustment. The Commission finds that this adjustment is just and reasonable and adopts the same.

The evidence in the record supports the ORS's proposed adjustment of (\$1,344,062). The Commission finds that this adjustment is just and reasonable and adopts the same.

F. Adjustment No. 6 – Capitalized Time

ORS witness Charles E. Jackson testified that an adjustment is need in the revenue requirement of Blue Granite “to reflect the capitalized time based on pro forma salaries.” Tr. p. 1133.3, ln. 11-12. Blue Granite had proposed an adjustment of \$58,345 using the salary and wages data as of June 30, 2019 which was the end of the Test Year. However, upon review and verification by ORS, witness Jackson updated the calculation and testified that an additional adjustment needed to be made of \$73,614. Tr. p. 1133.3, ln. 13-15. “ORS verified the capitalized time percentages from the data as of June 30, 2019 and used those percentages on the annualized salary and wages data from October 31, 2019 to propose an adjustment of \$73,614.” Id.

The evidence in the record supports the ORS's proposed reduction adjustment of \$73,614. Additionally, no party contests the adjustment that ORS witness Jackson proposed. In fact, in his rebuttal testimony Blue Granite witness DeStefano agrees with the proposal by ORS and its witness Jackson to the adjustment in Capitalized Time of \$73,614. Tr. p. 764.4, ln. 3-4.

Blue Granite witness DeStefano testified that this an Adjustment to which Blue Granite and ORS agree. Tr. p. 674.4, ln. 3. There is no dispute between the parties

concerning this adjustment. Supported by the record, the Commission finds this adjustment of \$73,614 to be just and reasonable and hereby adopts the same.

G. Adjustment No. 7 – Purchased Power

The Company has purchased power expenses in the amount of \$250,091 for Transmission and Distribution Expenses and in the amount of \$531,717 for Treatment and Disposal Expenses in its Schedule 302 Operating Expenses (Operation and Maintenance Account No. 401). *See*, Application, p. 118 & p. 151 (Exhibit E).

Per the testimony of ORS witness Sullivan, ORS made no adjustments to the Company's purchased power amount of \$771,660 as documented by the Company in its Application. Tr. p. 1115.6, ln. 11-12. Thus, there is zero (\$0) adjustment by ORS who is agreeing with Company's position and request as provided in Blue Granite's Application as testified by Company witness DeStefano. Tr. p. 764.4, ln. 19-22. There is no disagreement and the parties agree regarding this adjustment. The Commission finds that there is \$0 adjustment for No. 7, purchased power and hereby adopts the same.

H. Adjustment No. 8 – Purchased Water and Sewer

The purchased water and sewer adjustments are items of disagreement between the parties. ORS witness Sullivan testified in his direct that ORS's total purchased water and sewer adjustment is \$3,178,824 . Tr. p. 1115.6; Surrebuttal Exhibit DFS-5.

In addition to the adjustments determined and adopted by the Commission related to "Maintenance Expenses – Purchased Water and Sewer Expense" above, the following additional adjustments are made to Adjustments No. 8a and No. 8b related to the ten percent (10%) threshold limitation more fully discussed in Section V.C above concerning

the non-revenue recovery expense and Section V.D regarding the Commission finding and ordering that (1) Blue Granite amortize “Maintenance Expenses – Purchased Water and Sewer Expense” over five (5) years and include one year’s expense in the amount of \$635,765 in expenses in this case so that the unamortized portion in the amount of \$2,543,059 shall be placed in a Regulatory Asset; and (2) Blue Granite amortize \$3,178,824 of Purchased Water and Sewer Deferral over five (5) years and remove one year’s amortization in the amount of \$635,765 for a total increase of \$2,543,059 in a Regulatory Asset.

(1) Adjustment No. 8a - Adjustment to Purchase Water Deferral Account \$50,929

For the reasons discussed more fully above in Item V.C and findings herein, the Commission finds that Blue Granite failed to rebut ORS witness Maurer’s testimony that the Company regarding the adjustments for purchased water deferral account and the ten percent (10%) threshold limitation, and it therefore finds ORS’s adjustment just and reasonable to limit the customer’s responsibility for non-revenue water expenses to 10% in each subdivision for Blue Granite Service Territories 1 and 2 and to adopt the adjustment of \$50,929 to reduce the Purchased Water Deferral Account for all of Blue Granite’s service territories.

(2) Adjustment No. 8b – Adjustment to Purchase Water Expense \$271,930

For the reasons discussed more fully above in Item VII.C and findings herein, the Commission finds that Blue Granite failed to rebut ORS witness Maurer’s testimony that the Company regarding the adjustments for purchased water expense and the 10%

threshold limitation, and it therefore finds ORS's adjustment just and reasonable to limit the customer's responsibility for non-revenue water expenses to 10% in each subdivision for Blue Granite Service Territories 1 and 2 and to adopt the adjustment of \$271,930 to reduce purchased water expenses for all Blue Granite's service territories.

I. Adjustment No. 9 – Maintenance and Repair

ORS's total maintenance and repair adjustment is \$937,334 . This adjustment is comprised of the following maintenance and repair adjustments as noted below in the record. The Commission finds that this adjustment is supported by evidence in the record and is just and reasonable.

During the hearing, Blue Granite admitted that it did not seek or obtain approval from the Commission of its ClearWater Solutions, LLC contract ("ClearWater Solutions") as is required by S.C. Ann. Regs. 103-541 and 103-743. Tr. p. 775; See, also, Blue Granite Late-File Exhibit No. 4. The Commission further finds that Blue Granite immediately file with the Commission the contract between itself and ClearWater Solutions for review and possible approval by the Commission. The Commission further cautions the Company that it must file its contracts for approval in the future in compliance with the Commission's regulations.

(1) Adjustment No. 9a - Deferred Maintenance Adjustment

ORS proposes an adjustment to maintenance and repair for the amortization of deferred maintenance in amount of (\$232,402). Details of this adjustment are reflected in the direct testimony of ORS witness Briseno. Tr. pp. 1128.4-5. Blue Granite witness DeStefano testified that this an Adjustment to which Blue Granite and ORS agree. Tr. p.

674.4, ln. 5. There is no dispute between the parties regarding this adjustment. The Commission finds that this adjustment is just and reasonable and adopts the same.

(2) Adjustment No. 9b - ClearWater Solutions – Maintenance and Repair

ORS proposes an adjustment in the amount of \$851,676 to maintenance and repair for Clearwater Solutions contract cost impacts. Details of this adjustment are reflected in the direct Testimony of ORS witness Briseno. Tr. pp. 1128.5-6. Blue Granite witness DeStefano testified that this an Adjustment to which Blue Granite and ORS agree. Tr. p. 674.4, ln. 6. There is no dispute between the parties regarding this adjustment. The Commission finds that this adjustment is just and reasonable and adopts the same.

(3) Adjustment No. 9c - Amortization of Litigation Deferrals, Deferred Storm Costs Decommissioning Costs and Net Book Value (“NBV”) of Decommissioned Assets

ORS proposes an adjustment in the amount of \$354,373 to maintenance and repair for the amortization of deferred litigation expenses, deferred storm costs, decommissioning costs and the NBV of decommissioned assets. Details of this adjustment are reflected in the revised surrebuttal testimony of ORS witness Sullivan. Tr. p. 1128.6.

There is disagreement between the parties regarding this adjustment. The Commission finds that this adjustment is just and reasonable and adopts the same.

(4) Adjustment No. 9d - Normalize Storm Costs

ORS proposes an adjustment in the amount of (\$23,481) to maintenance and repair to normalize test year storm costs. Details of this adjustment are reflected in the direct testimony of ORS witness Bickley. Tr. pp. 1186-87.

There is disagreement between the parties regarding this adjustment. The Commission finds that this adjustment is just and reasonable and adopts the same.

(5) Adjustment No. 9e - Rebranding – Maintenance

It is ORS's position that the rebranding expenses in the amount of \$12,832 requested by Blue Granite should not be allowable for ratemaking purposes as they are not necessary to provide water and sewer services and do not provide a benefit to customers. ORS witness Jackson testified that ORS views rebranding expenses as comparable to the transition costs deemed not recoverable from customers in Commission Order No. 2018-804. Tr. p. 1133.3, ln. 18-21.

ORS proposes an adjustment to maintenance and repair for the removal of rebranding expenses incurred within the test year. Details of this adjustment are reflected in the direct testimony of ORS witness Jackson. Tr. p. 1133.7-8. Blue Granite witness DeStefano testified that this an Adjustment to which Blue Granite and ORS agree. Tr. p. 674.4, ln. 19-22. There is no dispute between the parties regarding this adjustment. The Commission finds that this adjustment is just and reasonable and adopts the same.

J. Adjustment No. 10 – ClearWater Solutions – Maintenance Testing

ORS agrees to the adjustment of (\$174,416) regarding maintenance testing for ClearWater Solutions contract cost impacts proposed by Blue Granite. Blue Granite

witness DeStefano testified that this item is one in which Blue Granite and ORS agree as ORS did not make any adjustment from Blue Granite's filed Application in adjustment 10. Tr. p. 674.4, ln. 19-22. Details of this adjustment are reflected in the direct testimony of ORS witness Briseno. Tr. p. 1128.8. There is no dispute between the parties regarding this adjustment. The Commission finds that this adjustment is just and reasonable and adopts the same.

K. Adjustment No. 11 – Meter Reading

ORS's total meter reading adjustment is (\$72,815). Blue Granite witness DeStefano testified that this item is one in which Blue Granite and ORS agree as ORS did not make any adjustment from Blue Granite's filed Application in these two adjustments 11a and 11b by ORS. Tr. p. 674.4, ln. 19-22. This adjustment is comprised of the following meter reading adjustments detailed below in items K(1) & K(2) and there is no dispute by the parties. The evidence in the record supports the ORS's proposed reduction adjustment of \$72,815. The Commission finds that this adjustment is just and reasonable and adopts the same.

(1) Adjustment No. 11a - ClearWater Solutions – Meter Reading

ORS proposes an adjustment of (\$44,748) to meter reading for ClearWater Solutions contract cost impacts. Details of this adjustment are reflected in the direct testimony of ORS witness Briseno. Tr. p. 1128.8.

(2) Adjustment No. 11b - Remove Meter Reading Expenses due to Advance Metering Infrastructure (“AMI”)

ORS proposes an adjustment of (\$28,067) to meter reading to reflect the reduction in meter reading expenses due to the deployment of AMI. Details of this adjustment are reflected in the direct testimony of ORS witness Jackson. Tr. p. 1133.4.

I. Adjustment No. 12 – Chemicals

ORS’s total chemicals adjustment is (\$99,043). Blue Granite witness DeStefano testified that this item is one in which Blue Granite and ORS agree as ORS did not make any adjustment from Blue Granite’s filed Application in these two adjustments 12a and 12b by ORS. Tr. p. 674.4, ln. 19-22. This adjustment is comprised of the following chemical adjustments in items L(1) and L(2) below and there is no dispute by the parties. The evidence in the record supports the ORS’s proposed reduction adjustment of (\$99,043). The Commission finds that this adjustment is just and reasonable and adopts the same.

(1) Adjustment #12a - ClearWater Solutions – Chemicals

ORS proposes an adjustment of (\$67,524) to chemicals for ClearWater Solutions contract cost impacts. Details of this adjustment are reflected in the direct testimony of ORS witness Briseno. Tr. p. 1128.8. There was no dispute between the parties.

(2) Adjustment #12b – Remove Chemicals Associated with Decommissioned Plants

ORS proposes an adjustment of (\$31,519) to adjust test year chemical expenses for the removal of chemical expenses associated with the decommissioned Stonegate and

Friarsgate treatment plants. Details of this adjustment are reflected in the direct testimony of ORS witness Jackson. Tr. p. 1133.4. There was no dispute between the parties.

M. Adjustment No. 13 – Transportation

ORS'S total Transportation Adjustment is (\$118,674). This Adjustment is comprised of the following Transportation Adjustment as more fully detailed in items M(1) and M(2) below. Blue Granite witness DeStefano testified that Blue Granite agreed with these two adjustments 13a and 13b by ORS which were greater than the originally proposed adjustments in Blue Granite's application. Tr. p. 674.3-674.4. The evidence in the record supports the ORS's proposed reduction adjustment of \$118,674. The Commission finds that this adjustment is just and reasonable and adopts the same.

(1) Adjustment #13a - ClearWater Solutions – Transportation

ORS proposes an adjustment of (\$110,230) to transportation for ClearWater Solutions contract cost impacts. Details of this adjustment are reflected in the direct testimony of ORS witness Briseno. Tr. p. 1128.8. Blue Granite fully agrees with the Adjustment 13a made by ORS. Tr. p. 764.4, ln. 6. The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$110,230. The Commission finds that this adjustment is just and reasonable and adopts the same.

(2) Adjustment #13b - Rebranding - Transportation

ORS proposes an adjustment of (\$8,444) to transportation expenses for the removal of rebranding expenses incurred within the test year. Details of this adjustment are reflected in the direct testimony of ORS witness Jackson. Tr. p. 1133.4. Blue Granite fully agrees with the Adjustment 13b made by ORS. Tr. p. 764.4, ln. 8. The

evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$8,444. The Commission finds that this adjustment is just and reasonable and adopts the same.

N. Adjustment No. 14 – Salaries and Wages - General

ORS proposes to annualize office employee salaries for general expenses in the amount of (\$118,674). Details of this adjustment are reflected in the direct testimony of ORS witness Jackson. Tr. p. 1133.9.

Blue Granite fully agrees with the Adjustment 14 made by ORS which is greater than the adjustment originally proposed by Blue Granite. Tr. p. 764.4, ln. 3. The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$118,674. The Commission finds that this adjustment is just and reasonable and adopts the same.

O. Adjustment No. 15 – Office Supplies and Other Office Expenses

ORS's total office supplies and other office expenses adjustment is (\$1,564,724). ORS witness Sullivan testified that this adjustment is comprised of the following office supplies and other office expense adjustments detailed below. Tr. p. 1115.10, ln. 5-7. Adjustment No. 15 has three subparts, 15a to 15c. Adjustment 15b is the only adjustment in dispute as it relates to Blue Granite's proposed Round Up Program and its proposed Annual Rate Adjustment Mechanism ("ARAM"). There is no dispute between the parties regarding adjustments 15a and 15c.

The evidence in the record supports this adjustment of (\$1,564,724) as more fully explained below in the subitems regarding Adjustments 15a, 15b, 15c, 15d and 15e. The

Commission finds that Adjustment 15 and all of its subitems, Adjustment No. 15a, 15b, and 15c, are just and reasonable and adopts the same.

(1) Adjustment No. 15a - Company Excluded Items

Blue Granite proposed removing \$1,549,457 in expenses from the Test Year which were the following items: (a) \$758,000 for I-20 settlement expenses, (b) \$16,024 for Congaree River Keeper litigation, (c) \$759,730 for vandalized site restoration, and (d) \$15,703 for penalties, fines and contributions. Blue Granite witness DeStefano testified as to this expenses and the Company's agreement with ORS. Tr. p. 764.4, ln. 8-9.

The ORS proposed the same adjustments to remove these same items that Blue Granite has removed and excluded, as well as correctly removing an additional \$8,268 in penalties, fines and contributions recorded on Blue Granite's books and records. Tr. p. 1115.10, ln. 9-17. However, according ORS witness Sullivan, Blue Granite inadvertently removed allowable bank charges rather than contributions in the calculation of the adjustment. Tr. p. 1115.10, ln. 9-17. Thus, ORS's adjustment 15a is in the amount of \$1,542,022.

Blue Granite fully agrees with the Adjustment 15a made by ORS. Tr. p. 764.4, ln. 8. The evidence in the record supports ORS's adjustment of \$1,542,022. There is also no dispute between the parties regarding this adjustment. The Commission finds that this adjustment is just and reasonable and adopts the same.

**(2) Adjustment No. 15b - Purchased Services Annual Filing
Notices and Round-Up Inserts or Flyers**

For the reason discussed herein, particularly in Section V.I, the Commission adopts and approves ORS's Adjustment 15b of \$0. Blue Granite has asked for an additional \$22,670 in its Application. Based upon the record, the Commission approves the Round Up Program as modified by ORS as reflected in testimony of ORS witness Bickley and in Witness Sullivan's Audit Exhibit DFS-5, Adjustment 15b (\$0). Additionally, the Commission finds supports in the record that it is just and reasonable to deny Blue Granite's request to recover the estimated costs for the Round Up Program related to modifications of its billing system and MyUtilityConnect customer service application for recovery in the Company's next rate proceeding, and for the Commission to deny Blue Granite's request for recovery of the estimated cost for bill inserts/flyers to be used for the Round Up Program.

Among other things, based upon the record, the Commission further finds that it is just and reasonable to prohibit Blue Granite from passing onto its customers the administrative and implementation costs for the Program, including the bill inserts, notice or flyers, and for the modifications to Blue Granite's billing and customer service systems. Therefore, the Company cannot charge ratepayers \$22,670 for this expense.

**(3) Adjustment No. 15c - Non-Allowables – Office Supplies &
Other Office Expenses**

ORS proposes an adjustment to office supplies and other office expenses to remove expenses within the Test Year that should not be allowable for ratemaking purposes. Details of this adjustment are reflected in the direct testimony of ORS witness

Jackson. Tr. p. 1133.5-6. Blue Granite fully agrees with the Adjustment 15c made by ORS. Tr. p. 764.4, ln. 8. The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$22,702. The Commission finds that this adjustment is just and reasonable and adopts the same.

P. Adjustment No. 16 – Regulatory Commission Expense

For the reasons discussed below, the Commission finds that an adjustment in the amount of \$164,724 to be just and reasonable and adopts the same. Details are reflected in and comprised of the following regulatory commission expense adjustments:

(1) Adjustment 16a - Rate Case Expenses

Blue Granite fully agrees with the Adjustment 16a made by ORS. Tr. p. 764.4, ln. 12. ORS proposes an adjustment to regulatory commission expense for the amortization of rate case expenses over a three (3) year period. Tr. p. 1115.11, ln. 14 – p. 1115.13, ln. 7.

The Company's proposed adjustment includes \$227,077 of rehearing expenses, \$152,196 of 2017 and prior unamortized rate case expenses as of December 31, 2019, and current estimated rate case expenses of \$258,000, for total rate case expenses of \$637,273. The Company's per book rate case expense amount was \$108,294, resulting in a Company adjustment of \$104,130. *Id.*

ORS's adjustment includes \$232,435 of rehearing expenses based on updated supporting documentation provided by the Company and \$116,608 of prior unamortized rate case expenses as of April 30, 2020. ORS's adjustment also includes actual incurred current rate case expenses based on supporting documentation provided by the Company

as of the audit cutoff date of December 20, 2019 of \$145,148, for total rate case expenses of \$494,191. ORS's calculation of current rate case expenses includes legal expenses of \$36,864 associated with Docket Nos. 2018-358-WS and 2018-361-WS and Company provided supporting documentation as of December 20, 2019. The Company's per book rate case expense amount was \$108,294, resulting in an ORS adjustment of \$61,813. Tr. p. 1115.11, ln. 14 – p. 1115.13, ln. 7. Subsequent to the hearing, Blue Granite submitted to ORS, and ORS verified additional rate case expenses in the amount of \$345,590.

The evidence in the record supports that the amount of rate case expenses submitted to, and verified by, ORS are just and reasonable with the exception of legal expenses associated with Docket Nos. 2018-358-WS and 2018-361-WS. Disallowance of these expenses is discussed below in section U, Adjustment 21c - Reclassify Annual Rate Adjustment Mechanism and Pumping Interceptor Tank Legal Expenses to Rate Case Expenses. Rate case expenses amortized over three years less the Company's per book amount yields an adjustment of \$164,724. The Commission finds that this adjustment is just and reasonable.

**(2) Adjustment 16b – Purchased Services – Annual Rate
Adjustment Mechanism Legal Fees**

There is disagreement between Blue Granite and ORS regarding Adjustment 16b reflecting legal cost associated with purchased services annual rate adjustment mechanism filings by Blue Granite. ORS recommends denying the request by Blue Granite to recover \$3,394 for expenses related to annual rate adjustment mechanism for which Blue Granite is not authorized to utilize.

The Company proposes an adjustment to regulatory commission expense to include annual legal expenses associated with the purchased water and sewer annual rate adjustment mechanism. ORS opposes this adjustment as discussed in the direct testimony of ORS witness Sandonato. Tr. p. 1213.24-25. Additionally, the record is clear that Consumer Affairs, York County, and Forty Love Homeowners Association also oppose the ARAM.

The evidence in the record supports that the Commission adopt the recommendation of ORS and there was no dispute and it supports proposed reduction adjustment of \$56,437 to \$0 as proposed by ORS. This is the current and unamortized prior rate case expenses over a three-year period. The Commission finds that this adjustment of \$0 recommended by ORS to be just and reasonable and adopts the same.

Q. Adjustment No. 17 – Pension & Other Benefits

ORS's total pension and other benefits adjustment is (\$165,041). Blue Granite sought (\$62,113) in total Pension and Other Benefits Expense. For the reasons discussed below, the Commission finds that ORS's adjustment in the amount of (\$165,041) to be just and reasonable and adopts the same. Details are reflected in and comprised of the following regulatory commission expense adjustments:

(1) Adjustment 17a - Pension & Other Benefits

Blue Granite fully agrees with the Adjustment 17a made by ORS. Tr. p. 764.4, ln. 3. ORS proposes an adjustment to annualize pension and other benefits associated with pro forma salaries in the amount of \$(161,830). Blue Granite had sought an adjustment of (\$62,113). Details of this adjustment are reflected in the direct testimony of

ORS witness Jackson. Tr. p. 1133.6, ln. 7-12. The evidence in the record supports the proposed reduction recommended by ORS. The Commission finds that this adjustment is just and reasonable and adopts the same.

(2) Adjustment 17b – Service Awards

ORS proposes an adjustment in the amount of (\$3,211) to remove Blue Granite's service award for ratemaking purposes. Details of this adjustment are reflected in the direct testimony of ORS witness Jackson. Tr. p. 1133.6, ln. 13 – p. 1133.7, ln. 6. ORS reviewed the service award for employees reaching career milestones. Witness Jackson testified that sample was selected and analyzed by ORS which contained expenses for a 65" LED Curved Samsung TV and a 1.15 carat diamond ring from a vender named Awards Network. ORS determined that all the items from this vendor were service awards and should be treated as expenses that are not necessary to provide water and wastewater services and do not provide a benefit to customers. Tr. p. 1133.7, ln. 1-6.

The evidence in the record supports the proposed reduction of \$3,211 as recommended by ORS. The Commission finds that this adjustment is just and reasonable and adopts the same.

R. Adjustment No. 18 – Rent Expense

For the reasons discussed more fully above in Section V.E regarding rent expense and findings herein, the Commission denied any increase or additional revenue for rent expense to the Company as the it found that the evidence contained in the record did not support such an increase adjustment, and that such a finding by the Commission is just and reasonable.

Blue Granite sought an increase in its rent expense of \$84,839. See Exhibit DFS-1. Its current rent expense is \$97,022. *Id.* The Company testified that "[a]ttracting talent in the Columbia market [was] extremely difficult due to the legacy brand issues in that market." The legacy brand issues were caused by Carolina Water Service, which is now rebranded as Blue Granite. Blue Granite's customers should not have to pay the costs to upfit the Greenville office, given the move was necessitated by legacy brand problems the Company created, and Blue Granite previously represented to this Commission and its customers that the refreshing of its brand would be at no cost to customers. Exhibit KDM-2.

Additionally, based upon the record and for same legacy issues as the reason for the sale of its office and move to Greenville above in Section V.E, the Commission further finds and determines that the proforma rent expense of \$84,839 should be removed from the Company's recoverable General Expenses for Rent and is hereby denied.

S. Adjustment No. 19 – Insurance Expense

As testified by Blue Granite witness DeStefano, the company agrees with ORS Adjustment No. 19 in the amount of \$163,371 as detailed in the testimony of ORS witness Sullivan. Tr. p. 764.33, ln. 8-18 Witness Sullivan's testimony updates as-filed estimates for policy premiums confirmed in the company's insurance renewal process, completed and effective November 1, 2019. Blue Granite has therefore provided data sufficient to support ORS Adjustment No. 19 and the pro-forma amount included in ORS Exhibit DFS-1. Accordingly, Consumer Affairs' concern about using estimates is moot.

The parties appear to agree with the same as a result of these updates. The Commission finds that this adjustment is supported by evidence in the record and is just and reasonable.

T. Adjustment No. 20 – ClearWater Solutions – Lawn Care

Blue Granite fully agrees with the Adjustment 20 of (\$98,634) made by ORS to adjust for the removal of lawn care expenses that will no longer be applicable due to the Company entering into a contract with ClearWater Solutions to run and maintain their Midlands BUs. Tr. p. 764.4, ln. 3. Blue Granite's proposed adjustment was (\$27,003) in its Application for this item. ORS proposes an adjustment to office utilities for ClearWater Solutions contract cost impacts. Details of this adjustment are reflected in the direct testimony of ORS witness Briseno. Tr. p. 1128.9, ln. 11-22. The difference between the two figures proposed by ORS and Blue Granite is the removal of an additional \$71,631, as calculated by the Company for lawn care/landscaping expenses which Blue Granite admitted to ORS that "it was an oversight to not remove these costs in the preparation of their adjustment request." Tr. p. 1128.9, ln. 19-20.

The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$98,634 as recommended by ORS. The Commission finds that this adjustment is just and reasonable and adopts the same.

U. Adjustment No. 21 – Outside Services – Other

ORS's total outside services adjustment is (\$188,889). For the reasons discussed below, the Commission finds that ORS's adjustment in the amount of \$196,091 to be just

and reasonable and adopts the same. Details are reflected in and comprised of the following outside services adjustments:

(1) Adjustment 21a – Outside Services – Annualize Corix Allocations

Blue Granite fully agrees with the Adjustment 21a of (\$341,915) made by ORS. Tr. p. 764.4, ln. 11. ORS proposed this adjustment to outside services to reflect the annualized Corix corporate cost allocations.

Blue Granite had proposed an adjustment of (\$362,759) in its Application, calculated by annualizing the first and second quarters of 2019 for a total of \$426,283, less per book management fees of \$789,042. Whereas, ORS's adjustment is calculated by annualizing the first, second and third quarters of 2019 as provided by Blue Granite in response to its Audit Request to the Company for a total of \$447,126, less per book management fees of \$789,042.

The Company provided the Corix Group of Companies Cost Allocation Manual ("CAM"), which provides an explanation of services performed and the methods used to allocate indirect costs to the operating businesses. ORS reviewed the CAM and verified the methods specified in the CAM to allocate costs were followed by the Company to calculate the allocation of costs to Blue Granite. Corporate services performed by Corix for Blue Granite and its other operating businesses include: communications, finance, information technology, human resources, legal, and chief executive officer functions. ORS found the allocation of Corix corporate costs to Blue Granite for this Docket to be reasonable. Tr. p. 1115.15, ln. 1-5.

ORS witness Sullivan testified that ORS will continue to examine, test and analyze the corporate services performed by Corix for Blue Granite, the costs incurred by Corix, and the allocation of those costs to Blue Granite in future dockets to ensure these costs continue to be reasonable and beneficial for Blue Granite customers. Tr. p. 1115.15, ln. 6-9.

The evidence in the record supports that there was no dispute and it supports proposed adjustment of (\$341,915). Tr. p. 1115.14, ln. 12 – p. 1115.15, ln. 9. The Commission finds that this adjustment is just and reasonable and adopts the same.

(2) Adjustment 21b – AMI Data Support, York County Franchise Fees and York County Asset Lease

Blue Granite witness DeStefano testified that Adjustment 21b of \$214,731 is one in which Blue Granite and ORS agree as ORS did not make any adjustment from Blue Granite's filed Application regarding this adjustment by the Company. Tr. p. 674.4, ln. 19-22.

ORS witness Jackson proposes the same adjustment as Blue Granite to outside services reflecting the cost of AMI data support for AMI installation in Lake Wylie, York County franchise fees and York County asset leases. Tr. p. 1133.7, ln. 9-15. The York County franchise agreement describes the terms and conditions with respect to the lease of certain water and sewer service facilities in York County that provide Blue Granite the non-exclusive franchise to operate water and sewer systems in designated areas of the county. The franchise agreement was approved by this Commission on May 2, 2018, per Order No. 2018-325. *Id.*

There is no dispute by the parties. The evidence in the record supports the ORS's proposed adjustment of \$214,731. Tr. p. 1115.15, ln. 10-14. The Commission finds that this adjustment is just and reasonable and adopts the same.

(3) Adjustment 21c – Reclassify Annual Rate Adjustment Mechanism and Pumping Interceptor Tank Legal Expenses to Rate Case Expenses

Blue Granite fully agrees with the Adjustment 21c made by ORS. Tr. p. 764.4, ln. 12. ORS witness Sullivan proposed to remove legal expenses associated with the annual rate adjustment mechanism and pumping interceptor tanks of (\$36,864) from Test Year legal expenses and reclassify them as current rate case expenses as part of ORS Adjustment #16a to be amortized over a three-year period. The Company withdrew its petition in Docket Nos. 2018-358-WS and 2018-361-WS and has included the requests as part of this docket.

The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$36,864. Tr. p. 1115.15, ln. 15-22. The Commission finds that this adjustment is just and reasonable, but reclassification of these legal expenses as rate case expenses is denied. The Company filed proceeding in Docket Nos. 2018-358-WS and 2018-361-WS and later requested to withdraw its applications in each docket. Ratepayers should not bear the burden of expenses from proceedings that are duplicitous in nature to the Company's current rate case before this Commission.

(4) Adjustment No. 21d – Rebranding- Outside Services - Other

Blue Granite fully agrees with the Adjustment 21d of (\$9,833) made by ORS. Tr. p. 764.4, ln. 8. ORS proposed this adjustment to outside services for the removal of

rebranding expenses incurred within the Test Year. Details of this adjustment are reflected in the direct testimony of ORS witness Jackson. Tr. p. 1133.7, ln. 16 – p. 1133.8, ln. 3. Witness Jackson testified that ORS's position is that rebranding expenses should not be allowable for ratemaking purposes as they are not necessary to provide water and wastewater services and do not provide a benefit to customers. Tr. 1133.7, ln. 18-20. When responding to an Audit request by ORS to the utility, ORS discovered that Blue Granite has included legal fees as expenses related to the rebranding of Carolina Water Service to Blue Granite Water Company. ORS also found additional legal fees related to rebranding that the Company did not identify, and those expenses were removed as well. Tr. p. 1133.8, ln. 1-3.

The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$9,833. Tr. p. 1115.16, ln. 1-3. The Commission finds that this adjustment is just and reasonable and adopts the same.

(5) Adjustment No. 21e – Remove Legal Expenses - Outside Services – Other

Blue Granite fully agrees with the Adjustment 21e of (\$15,008) made by ORS. Tr. p. 764.12, ln. 3. ORS proposes to remove and defer \$31,788 of legal expenses associated with civil actions that have not yet concluded for Blue Granite. ORS also proposes to remove \$151,589 of legal expenses associated with Congaree River Keeper litigation that were not removed by the Company. The Commission deemed and ordered legal expenses for the Congaree River Keeper ("CRK") litigation as not recoverable by Blue Granite from its customers in Commission Order No. 2020-57.

In addition, ORS proposes to add back \$168,310 to eliminate the effects of transactions related to I-20 condemnation. This is comprised of legal fees in the amount of \$7,844 and a credit in the amount of \$176,154 that Blue Granite posted to Account 6025 for reimbursement from the Town of Lexington for a previous condemnation attempt in the early 2000's (see, Civil Action No. 2001-CP-32-0711). ORS testified that it will continue to review the appropriate accounting treatment for the reimbursement and reserves its rights to make further recommendations. The Company is not seeking treatment of I-20 condemnation related expenses as part of the determination of the Company's revenue requirement. ORS also proposes to remove \$7,143 of legal expenses for services performed outside of the Test Year.

The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$15,008. Tr. p. 1115.16, ln. 4–22. The Commission finds that this adjustment is just and reasonable and adopts the same.

V. Adjustment No. 22 – Non-Utility Miscellaneous Expense

Blue Granite witness DeStefano testified that Adjustment 22 is one in which Blue Granite and ORS agree as ORS did not make any adjustment from Blue Granite's filed Application regarding this adjustment by the Company. Tr. p. 674.4, ln. 19-22. ORS witness Sullivan testified that ORS removed non-utility activity from the Test Year. The activity is related to the CRK litigation and Commission ordered adjustments. Tr. p. 1115.17, ln. 1-3.

There is no dispute by the parties. The evidence in the record supports the ORS's proposed reduction adjustment of \$442,691. Tr. p. 1115.17, ln. 1-3. The Commission finds that this adjustment is just and reasonable and adopts the same.

W. Adjustment No. 23 – Miscellaneous

ORS's total miscellaneous adjustment is \$4,566. For the reasons discussed below, the Commission finds that ORS's adjustment in the amount of \$4,566 to miscellaneous to be just and reasonable and adopts the same. Details are reflected in and comprised of the following miscellaneous expense adjustments:

(1) Adjustment No. 23a – Customer Deposit Interest Expense

Blue Granite witness DeStefano testified that Adjustment 23a is one in which Blue Granite and ORS agree as ORS did not make any adjustment from Blue Granite's filed Application regarding this adjustment by the Company. Tr. p. 674.4, ln. 19-22.

There is no dispute by the parties. The evidence in the record supports the ORS's proposed reduction adjustment of \$442,691. The Commission finds that this adjustment is just and reasonable and adopts the same.

(2) Adjustment No. 23b – Non-Allowables - Miscellaneous

Blue Granite fully agrees with the Adjustment 23b of (\$6,678) recommended by ORS. Tr. p. 764.4, ln. 8. ORS recommended an adjustment to miscellaneous expenses to remove items from the Test Year should not be included by the Company and would not be allowable for ratemaking purposes. Details of this adjustment are reflected in the direct testimony of ORS witness Jackson. Tr. p. 1133.8, ln. 4-11. These were expenses incurred by Blue Granite that were not necessary to provide water and wastewater

services and do not provide a benefit to customers. Tr. p. 1133.8, ln. 6-7. ORS witness Jackson testified that these expenses were for dinners with alcohol in the amount of \$3,992, and for items not supported by sufficient documentation in the amount of \$2,686. The items which were removed for lack of supporting documentation did not contain a clear or valid business purpose or were not supported by itemized receipts. Tr. p. 1133.8, ln. 8-11. As a result, ORS proposes an adjustment in the amount of \$6,678. *Id.*

The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$6,678. The Commission finds that this adjustment is just and reasonable and adopts the same.

X. Adjustment No. 24 – Depreciation Expense

ORS proposes an adjustment of \$1,494,488 to annualize depreciation expense for known and measurable plant in service. Details of this adjustment are reflected in Audit Exhibit DFS-6 and the direct testimony of ORS witness Briseno. Tr. p. 1128.10; Exhibit DFS-6. ORS witness Briseno presented credible evidence from his audit and review of the Company supporting ORS's recommendation.

The evidence in the record supports proposed depreciation expense adjustment proposed by ORS of \$1,494,488. The Commission finds that this adjustment is just and reasonable, and adopts the same.

Y. Adjustment No. 25 – Amortization of Contributions in Aid of Construction ("CIAC")

ORS proposes an adjustment of (538,846) to the amortization of CIAC for known and measurable changes. Details of this adjustment are reflected in Audit Exhibit DFS-6

and the direct testimony of ORS witness Briseno. Tr. p. 1128.10; Exhibit DFS-6. ORS witness Briseno presented credible evidence from his audit and review of the Company supporting ORS's recommendation.

The evidence in the record supports proposed depreciation expense adjustment proposed by ORS of (\$538,846). The Commission finds that this adjustment is just and reasonable, and adopts the same

Z. Adjustment No. 26 – Taxes Other Than Income

ORS's total taxes other than income adjustment is \$166,467. For the reasons discussed below, the Commission finds that ORS's adjustment in the amount of \$356,303 to taxes other than income to be just and reasonable and adopts the same. Details are reflected in and comprised of the following taxes other than income adjustments:

(1) Adjustment No. 26a - Payroll Taxes

Blue Granite fully agrees with the Adjustment 26a made by ORS of (\$33,874). Tr. p. 764.4, ln. 8. Blue Granite proposes in its Application an adjustment of (\$14,449) using the salary and wages data as of June 30, 2019.

ORS witness Jackson testified that ORS's recommended adjustment in the amount of (\$33,874) is based on the annualized salary and wages data from October 31, 2019 that was provided to ORS by the Company. This adjustment reflects the payroll taxes associated with the pro forma adjusted salaries & wages. Tr. p. 1133.8, ln. 12-17.

The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$33,874. The Commission finds that this adjustment is just and reasonable and adopts the same.

(2) Adjustment No. 26b - Gross Receipts Taxes

ORS witness Sullivan testified regarding Adjustment No. 26b to adjust gross receipts taxes for the adjustments to accounting and pro forma revenue using a factor of .00527282 in the amount of \$4,160. Details of this adjustment are reflected in the Surrebuttal Testimony of ORS witness Sullivan. Tr. pp. 1116.6-7; Surrebuttal Exhibit DFS-5.

The evidence in the record supports proposed depreciation expense adjustment proposed by ORS of \$4,160. The Commission finds that this adjustment is just and reasonable and adopts the same.

(3) Adjustment No. 26c - Pro Forma Property Taxes

ORS proposes to adjust taxes other than income for property taxes on pro forma plant balances in the amount of \$196,181. Details of this adjustment are reflected in the direct testimony of ORS witness Briseno. Tr. pp. 1128.10-11.

The evidence in the record supports proposed depreciation expense adjustment proposed by ORS of \$196,181. The Commission finds that this adjustment is just and reasonable and adopts the same.

AA. Adjustment No. 27 – Federal Income Taxes

Blue Granite fully agrees with the Adjustment 27 made by ORS. Tr. p. 764.4, ln. 15. ORS proposes to adjust federal income taxes after accounting and pro forma adjustments using the federal income tax rate of 21%. In addition, ORS and the Company propose to reduce the calculated federal income taxes by the amortization of protected and unprotected Excess Deferred Income Taxes (“EDIT”). The amortization of

EDIT reduces federal income taxes by \$129,064, which is comprised of \$50,402 related to protected EDIT and \$78,662 related to unprotected EDIT. The amortization of EDIT of \$129,064 in this Docket differs from the amount ordered by the Commission of \$136,924 in Docket No. 2017-292-WS due to the tax net operating loss (“NOL”) balance for the Company per the 2017 tax return. Based on ORS Audit Request #20, the original entry booked in December 2017 to remeasure Accumulated Deferred Income Taxes did not include a component for NOL remeasurement. ORS accepts the Company’s calculation of \$129,064 for the amortization of EDIT that is included as a reduction to federal income taxes in this docket. Details of this adjustment are reflected in Audit Exhibit DFS-7. Tr. p. 1115.18, ln. 16 – p. 1115.19, ln. 6; Exhibit DFS-7.

The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$456,552. The Commission finds that this adjustment is just and reasonable and adopts the same.

BB. Adjustment No. 28 – State Income Taxes

Blue Granite fully agrees with the Adjustment 28 made by ORS. Tr. p. 764.4, ln. 15. ORS witness Sullivan testified regarding an adjustment of \$5,184 to state income taxes after accounting and pro forma adjustments using the state income tax rate of five percent (5%). Details of this adjustment are reflected in Exhibit DFS-7. Tr. p. 1115.19, ln. 7-9.

The evidence in the record supports that there was no dispute and it supports proposed reduction adjustment of \$5,184. The Commission finds that this adjustment is just and reasonable and adopts the same.

CC. Adjustment No. 29 – Sale of Utility Property

Blue Granite witness DeStefano testified that Adjustment 29 is one in which Blue Granite and ORS agree as ORS did not make any adjustment from Blue Granite's filed Application regarding this adjustment by the Company. Tr. p. 674.4, ln. 19-22. ORS witness Sullivan testified that the ORS proposes for the Commission to adopt an adjustment in the amount of \$20,253 to remove the sale of utility property for ratemaking purposes from the Test Year. Tr. p. 1115.19, ln. 11-13.

There is no dispute by the parties. The evidence in the record supports the ORS's proposed reduction adjustment of \$20,253. The Commission finds that this adjustment is just and reasonable and adopts the same.

DD. Adjustment No. 30 – Customer Growth

According to the ORS witness Sullivan, no accounting and pro forma adjustments have been proposed for customer growth by ORS. Tr. p. 1115.19, ln. 14-15. Blue Granite witness DeStefano testified that Adjustment 30 is one in which Blue Granite and ORS agree as ORS did not make any adjustment from Blue Granite's filed Application regarding this adjustment by the Company. Tr. p. 674.4, ln. 19-22. There is no dispute by the parties. The Commission finds that this adjustment is just and reasonable and adopts the same.

EE. Adjustment No. 31 – Interest During Construction ("IDC")

Blue Granite witness DeStefano testified that Adjustment 31 is one in which Blue Granite and ORS agree as ORS did not make any adjustment from Blue Granite's filed

Application regarding this adjustment by the Company. Tr. p. 674.4, ln. 19-22. There is no dispute by the parties.

The adjustment is in the amount of \$172,635 to remove IDC from the test year for rate making purposes. Construction work in progress is not included in rate base. Tr. p. 1115.19, ll. 16-18. The Commission finds that this adjustment is supported by evidence in the record and is just and reasonable.

FF. Adjustment No. 32 – Gross Plant in Service

ORS proposes an adjustment in the amount of \$415,288 to adjust gross plant in service to reflect plant additions and retirements since the last rate case as well as pro forms general ledger additions, pro forma plant, pro forma retirements, removal of the Company's Northbrook Office, removal of the Stonegate WTP and Friarsgate WWTP, and the removal of vehicles sold to Clearwater Solutions as part of the contract. The Company proposes an adjustment in the amount of \$2,600,952 Tr. p. 1128.11, ll. 4-9. ORS Witness Briseno testified that the difference in adjustment amounts is attributable to the following:

1. ORS opposes the recovery by the Company of \$495,206 in upgrades to its Greenville office. Tr. p. 1201.7, ln. 20-22.
2. ORS proposes to increase gross plant in service by \$19,361 to account for the Company's erroneous removal of the Stonegate WTP decommissioning balance. ORS also proposes a corresponding adjustment to accumulated depreciation.
3. ORS proposes to adjust gross plant in service by \$98 to account for errors in the Company's calculation of the Northbrook Office removal.

4. ORS used actual numbers provided by the Company through its audit, while the Company used estimates.

See, Tr. pp. 1128.11-12.

We have reviewed the recommendations of ORS and found them to be just and reasonable. The adjustments to gross plant in service are not disputed.

GG. Adjustment No. 33 – Accumulated Depreciation

ORS proposes an adjustment in the amount of \$3,337,761 to adjust accumulated depreciation to reflect the updated gross plant in service whereas the Company proposes an adjustment in the amount of \$3,701,703. Tr. p. 1128.12, ll. 5-7. ORS witness Briseno testified that the difference in adjustment amounts is attributable to the following:

1. ORS proposes to adjust accumulated depreciation by \$4,929 to correctly account for the Company's erroneous Stonegate WTP decommissioning removal.

2. ORS proposes to adjust accumulated depreciation by (\$310,276) for prior rate case adjustments related to the Indian Pines extraordinary retirement, Purdy Shores & Foxwood retirement, and engineering expenses.

3. ORS proposes to adjust accumulated depreciation by (\$98).

4. ORS proposes to adjust accumulated depreciation for the depreciation expense ORS calculated utilizing ORS witness Garrett's depreciation rates applied to ORS's calculation of gross plant in service.

See, Tr. p. 1128.12, ll. 7-21.

ORS adjusted accumulated depreciation and accumulated amortization of CIAC using the proposed depreciation rates as proposed by ORS witness Garrett. Tr. p. 1129.5, ll. 6-8. Witness Briseno testified that Blue Granite's accounting books must balance, like a scale. Tr. p. 1129.5, l. 15. Accordingly, he testified that if one side of the scale receives increased depreciation expense, the other side of the scale should receive an equal increase to accumulated depreciation expense. Tr. p. 1129.5, ll. 15-17. When a journal entry is made to record a debit to depreciation expense, a corresponding credit entry is made in the same amount to accumulated depreciation. Tr. p. 1129.6, ll. 13-14. The Accounting for Public Utilities Manual, Chapter 7.08, Section 2, states:

Depreciation and amortization expenses are also based upon forecasted levels or upon historical levels with proforma adjustments to recognize changes in depreciation rates or changes in test year depreciable plant (e.g., to recognize depreciation requirements on year-end plant levels or construction projects added to the rate base because of imminent completion and use). Some commissions, in annualizing depreciation expenses to a year-end rate base, have concurrently added an equal amount (or sometimes one-half of the expense amount) to the recorded yearend depreciation reserve. The adjustment to the reserve is generally based on the rationale that double entry accounting concepts will produce an equal impact on the accumulated provisions for depreciation and on the assumption that to fail to recognize the impact on net plant will result in an overstated rate base on a prospective basis.

Tr. p. 1129.7, ll. 10-21.

Briseno also cited the Accounting for Public Utilities Manual, Chapter 6.04:

Regulators typically require recording the depreciation reserve at the same depreciable group level used for calculating annual provisions.

Tr. p. 1129.7, ll. 23-26.

Briseno further testified that several past Commission rulings concur with ORS's proposed treatment. He cited Dockets No. 2018-319-E (Duke Energy Carolinas), 2018-318-E (Duke Energy Progress), and 2017-292-WS (Carolina Water Service) as three recent dockets in which the Commission adopted the methodology recommended by ORS. Tr. p. 1129.7, ll. 28-30.

Finally, witness Briseno testified that by only utilizing 1.5% on the impact to accumulated depreciation and accumulated amortization of CIAC, Blue Granite fails to adjust for known and measurable changes. Tr. p. 1129.5, ll. 11-13. A rate case adjusts a test year for known and measurable changes to reflect the expected expense levels and rate base in order to set fair and reasonable rates providing a company an opportunity to earn a fair and reasonable return. Tr. p. 1129.5, ll. 18-21. Incorporating the impact of depreciation expense based upon proposed rates without accounting for the impact of proposed rates in the calculation of accumulated depreciation does not reflect known and measurable changes. Tr. p. 1129.5-6. Briseno testified that Blue Granite's proposal is not fair or reasonable for customers in that Blue Granite seeks to receive the benefit of increased depreciation expense using the new depreciation rates to determine the revenue requirement without being required to make an equal offsetting entry to accumulated depreciation. Tr. p. 1129.6, ll. 3-8).

Company witness DeStefano testified that ORS is improperly incorporating the effects of post-audit cutoff changes for only certain components of rate base-without the ability to similarly account for the effects of interrelated activity in Utility Plant in Service and CIAC (*i.e.*, capital and CIAC additions after 12/20/2019), thereby violating

the matching principle prioritized in utility regulation. Tr. p. 764.34, ll. 12-19. He recommends that the Commission approve a rate base balance utilizing a consistent cutoff period for interrelated components, in this case Utility Plant in Service with Accumulated Depreciation and CIAC with Accumulated Amortization. Tr. p. 764.34, ll. 20-23.

The Commission has considered the positions of ORS and the Company. Furthermore, we credit ORS witness Briseno's observation that ORS's treatment of accumulated depreciation is consistent with that adopted by the Commission in recent rate proceedings. The substantial evidence on the whole record indicates that the adjustments proposed by ORS are just and reasonable.

HH. Adjustment No. 34 – Deferred Charges

ORS's total deferred charges adjustment is \$4,818,974. This adjustment, set out in Hearing Exhibit 34, is comprised of the following:

(1) Adjustment #34a – Unamortized Balance for Deferred Maintenance

The Company proposes an adjustment of \$348,417 to include the unamortized balance of proposed deferred maintenance in deferred charges in rate base. The Company's adjustment included an unamortized amount of \$49,167 related to a wastewater treatment plant tank recoating and \$299,250 related to hydrotank inspections. Tr. p. 1115.20, ll. 8-12.

Company witness DeStefano testified that it should be permitted to defer the costs associated with the hydrotank inspection and include the unamortized balance of the deferred tank inspections in rate base because they are significant, do not recur annually,

and provide the Company and its customers a multi-year benefit. The Company seeks rate base treatment for these deferred maintenance costs. Tr. p. 764.27, ll. 4-13.

Blue Granite provided documentation to support the hydrotank inspection expenses, but no documentation to support the wastewater treatment tank recoating. ORS has included annual amortization of \$62,926 for the hydrotank inspections as part of ORS Adjustment #9a as reflected in the direct testimony of ORS witness Briseno. ORS's calculated unamortized balance for the hydrotank inspections is \$251,704. ORS takes the view that this unamortized balance should not be included in rate base. Such treatment is consistent with the treatment of deferred maintenance in several recent rate cases¹⁷. Tr. pp. 1115.20-21.

ORS recommends that the recovery of the costs associated with the hydrotank inspections be amortized over a five-year period rather than placed in rate base. We agree with ORS. This treatment is consistent with prior treatment of similar expenditures in previous rate cases and is just and reasonable to both the utility and its customers.

(2) **Adjustment #34b – Unamortized Balances for
Decommissioned Assets, NBV on Decommissioned
Assets and EDIT**

ORS proposes an adjustment in the amount of \$4,818,974 to adjust deferred charges to include the unamortized balances as of April 30, 2020 net of a full year of amortization for removal costs on decommissioned assets, NBV on decommissioned assets and EDIT. Witness Briseno testified that the difference in adjustment amounts is

¹⁷ See, e.g., Dockets No. 2015-199-WS and 2017-292-WS (Carolina Water Service) and 2018-257-WS (Kiawah Island Utility).

attributable to the differences identified in the Amortization of Litigation Deferrals, Deferred Storm Costs, Decommissioning Costs and Net Book Value of Decommissioned Assets adjustment and the full year of amortization netted against the April 30, 2020, balances. Based upon calculations that were updated in the Amortization of Litigation Deferrals, Deferred Storm Costs, Decommissioning Costs and Net Book Value of Decommissioned Assets adjustment, this adjustment is updated to total \$4,818,972. Tr. p. 1129.3, ll. 1-7. ORS witness Briseno testified that a similar adjustment was accepted by the Commission in Docket No. 2017-292-WS (Carolina Water Service), Order No. 2018-345(A), p. 24.

The Company proposes an adjustment in the amount of \$4,596,244. Company witness DeStefano testified that deferral balances and their related amortization are "known and measurable" in a complete sense, and he therefore rejects ORS's calculation of the decommissioning/NEV and EDIT balances through 4/30/2021. Instead, Blue Granite recommends all deferral balances be calculated as of the same cut-off date of 4/30/2020, because no foreseeable change in the amortizable balance would occur between the audit cut-off and 4/30/2020. Tr. pp. 764.35-36.

Having reviewed the evidence in the record, including the testimony of ORS witness Briseno which we find credible, we credit his testimony and adopt the ORS position.

II. Adjustment No. 35 – Cash Working Capital

According to witness Sullivan, ORS's total cash working capital adjustment is (\$300,581), as detailed in Hearing Exhibit 34. After ORS was able to verify additional

rate case expenses, Order Exhibit 1 indicates a cash working capital adjustment of (\$286,181).

(1) **Adjustment 35a – Cash Working Capital – Accounting and Pro-Forma Adjustments**

Witness Sullivan testified that ORS proposes an adjustment to reflect cash working capital after accounting and proforma adjustments. According to witness Sullivan, ORS and the Company used a 45-day allowance or 1/8 of maintenance and general expenses for the cash working capital adjustment. According to witness DeStefano, the Company agrees with ORS's proposed Cash Working Capital adjustment. Tr. p. 764.4, ll. 13-17. No party contests this adjustment. The evidence contained in the record supports this adjustment, and the Commission finds it to be just and reasonable.

(2) **Adjustment 35b -- Cash Working Capital Rate Mitigation**

ORS proposes to remove purchased services from the calculation of cash working capital. ORS requested the Company to explain the change in methodology for calculating cash working capital from Carolina Water Service Docket Nos. 2015-199-WS and 2017-292-WS. According to Blue Granite's response, it removed purchased services expenses as that is the practice with the Company's North Carolina affiliate and Blue Granite proposed this adjustment to mitigate the overall rate request. Tr. p. 1115.21-22. ORS accepts the Company's methodology in this docket to calculate cash working capital. (Tr. p. 1115.22, ll. 10-11). ORS's adjustment to remove purchased services from the calculation of cash working capital results in a reduction to cash working capital of \$1,055,693. Hearing Exhibit 34. The Company agrees with this adjustment. No party

contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment, and this Commission finds it to be just and reasonable.

JJ. Adjustment No. 36 – CIAC

ORS proposes an adjustment in the amount of \$2,205,788 to adjust CIAC to reflect the amortization of CIAC expenses, pro forma CIAC additions, and decommissioned plants. The Company proposes an adjustment in the amount of \$1,068,166. Witness Briseno testified that the difference is attributable to the utilization of ORS witness Garrett's depreciation rates and the updates to CIAC provided by Blue Granite to ORS. ORS updated its calculation to capture the inverse of its calculation of CIAC expense, resulting in a total adjustment of \$2,205,787. Tr. p. 1128.13, ll. 8-13. The Commission approves this adjustment.

KK. Adjustment No. 37 – Plant Held for Future Use

ORS has accepted Company witness DeStefano's proposal to remove \$350,000 associated with a land purchase. Tr. p. 1128.13, ll. 15-21. Witness DeStefano testified that the Company agrees with ORS's proposed Plant Held for Future Use adjustment. Tr. p. 764.4, l. 14. No party contests the adjustment that ORS has proposed. As a result, the evidence in the record supports the ORS proposed adjustment of \$0 for plant held for future use and this Commission finds it to be just and reasonable.

LL. Adjustment No. 38 – Excess Book Value

ORS proposes to remove excess book value for ratemaking purposes by removing \$1,937,905 from plant and \$1,473,259 from accumulated depreciation through April 30, 2020, due to new rates going into effect in May 2020. The Company proposes an

adjustment in the amount of (\$435,586). According to witness Briseno, there has historically been a difference between ORS and Blue Granite's calculations of the excess book value adjustment because Blue Granite utilized the incorrect carry forward amount in Docket No. 2004-357-WS. Tr. p. 1128.14, 1n. 1-8. Company witness DeStefano testified that excess book value has been included for ratemaking purposes in prior proceedings. Tr. p. 763.15, 1l. 1-2.

The Commission finds that Blue Granite failed to rebut ORS witness Briseno's testimony that the Company had utilized an incorrect carry forward amount, and it therefore finds ORS's adjustment just and reasonable.

MM. Adjustment No. 39 – Interest Expense

ORS proposes an adjustment to synchronize interest expense with rate base after accounting and pro forma adjustments, using the capitalization ratio of 47.09% for long-term debt and 52.91% for equity, with a cost of debt of 5.73%. Tr. p. 1115.23, II. 4-7.

ORS Witness Sullivan testified that ORS's calculated synchronized interest expense of \$2,001,300, less the Company's per book interest expense of \$1,828,315, yields an ORS adjustment of \$172,985, as indicated in Hearing Exhibit 34. As a result of the addition of verified rate case expenses, the interest expense adjustment becomes \$173,374, as indicated in Order Exhibit 1. Company witness DeStefano agrees with ORS's proposed Interest Expense adjustment. Tr. p. 764.4, 1l. 15-17. No party contests the adjustment that ORS has proposed, and the Commission finds it to be just and reasonable.

NN. Adjustment No. 40 – Service Revenues -Water

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

OO. Adjustment No. 41 – Service Revenues – Sewer

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

PP. Adjustment No. 42 – Service Revenues – Miscellaneous Accounts

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

QQ. Adjustment No. 43 – Uncollectible Accounts

ORS proposes to adjust uncollectible accounts for ORS's adjustments to revenues. The percentages used to calculate uncollectible accounts were provided by the Company and were verified and found reasonable by ORS. While Blue Granite contests ORS's proposed treatment of Blue Granite's revenues, because this Commission has accepted ORS's proposed adjustment, as indicated in this Order, it finds ORS's proposed uncollectible account adjustment to be reasonable. Tr. p. 1115.24, ll. 1-3.

RR. Adjustment No. 44 – Taxes Other Than Income – Gross Receipts

ORS proposes an adjustment to gross receipts taxes after ORS's adjustments to revenues using a factor of .00527282. Tr. p. 1115.24, ll. 5-6. This Commission has found ORS's proposed taxes other than income-gross receipts adjustment to be reasonable and accepted it.

SS. Adjustment No. 45 – Federal Income Taxes

ORS proposes to adjust federal income taxes after ORS's adjustments to revenues and gross receipts taxes using the federal income tax rate of 21%. In addition, ORS proposes to reduce the calculated federal income taxes by the amortization of protected and unprotected Excess Deferred Income Taxes EDIT. Tr. p. 1115.24, ll. 8-11. While Blue Granite contests certain ORS adjustments that impact ORS's proposed Federal Income Tax adjustment, this Commission has found ORS's proposed Federal Income Tax adjustment to be reasonable and has accepted it.

TT. Adjustment No. 46 – State Income Taxes

ORS proposes to adjust state income taxes after ORS's adjustments to revenues and gross receipts taxes using the state income tax rate of 5%. Tr. p. 1115.24, ll. 13-15). While Blue Granite contests certain ORS adjustments that impact ORS's proposed State Income Tax adjustment, this Commission has found ORS's proposed State Income Tax adjustment to be reasonable and has accepted it.

UU. Adjustment No. 47 – Customer Growth

According to ORS witness Sullivan's testimony, the growth factors of 2.0392% for water territory 1, 0.0904% for water territory 2 and 2.0076% for sewer are discussed in the direct testimony of ORS witness Sandonato. Tr. p. 1115.24, ll. 19-20. This Commission accepts ORS's proposed customer growth factors for water territories 1 and 2 as reasonable.

VII. FINDINGS OF FACT AND CONCLUSIONS OF LAW

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

1. Blue Granite is a water and sewer utility providing water and sewer service in its assigned service areas located in sixteen (16) counties throughout South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. Ann. §58-5-210, et. seq. Blue Granite's operations in South Carolina are subject to the jurisdiction of the Commission.

2. Blue Granite is a direct subsidiary of CRU (previously named Utilities, Inc.) which in turn is an indirect subsidiary of CII. In addition to Blue Granite, CRU has 15 utility subsidiaries in several other states. CII is a diversified, privately held corporation that designs, builds, installs, finances and operates local utility infrastructure on behalf of municipal, institutional, military, and private-sector customers.

3. The appropriate Test Year period for this proceeding, selected by Blue Granite, is July 1, 2018 through June 30, 2019. Blue Granite submitted evidence in this case with respect to its revenues and expenses using a Test Year consisting of the twelve (12) months ending June 30, 2019.

4. Blue Granite requested an overall increase in revenue requirements of \$11,731,803 for combined operations of water and sewer services and which is an increase of 49.18% over pro-forma present rate revenues of \$23,856,072. Tr. p. 354.21,

ln. 12-14. Blue Granite is seeking a grand total of \$35,587,875 in total revenue. Blue Granite's requested revenues increase consists of a \$5,575,957 water revenue increase and a sewer revenue increase of \$6,155,846; meaning, that Blue Granite is seeking an overall 44.42% increase in water revenue and an overall 54.45% increase in wastewater (sewer) revenues. Tr. p. 354.21, ln. 12-17.

5. Of the \$11,731,803 in additional revenue sought by Blue Granite, \$4,774,305 results from third-party purchased water and sewer treatment expenses while the remaining \$6,987,498 is primarily recovering revenue for shareholders from investments in infrastructure needed to serve customers. With its plant investments made to maintain and improve its service to customers and the increased operating expenses that the Company has experienced, Blue Granite asserts that it has been unable to earn its authorized rate of return and it is requesting rate relief. Tr. p. 750, ln. 12-22; p.763.4, ln. 9-21.

6. The Commission declines to approve the Annual Rate Adjustment Mechanism ("ARAM") requested by Blue Granite, as well as declines to approve any proposed ARAM for the Company as suggested, modified, or altered by any other another party in this Docket. The Commission finds and holds that an ARAM does not incentivize Blue Granite to reduce wastewater infiltration and inflow or non-revenue water losses and that it is just and reasonable to deny and decline this request. The Commission further finds that the proposed ARAM as designed would recover significant annual expenses with little to no review and does not provide adequate customer protections. All risk is borne by the customers under this mechanism.

Additionally, the Commission also finds that the proposed ARAM in this Docket would not improve bill clarity. The methodology for calculating the purchased water and sewer charges is confusing under this mechanism and does not yield a number reflecting the actual costs of the purchased water or sewer treatment charged by the third-party provider.

7. Based upon the above findings and discussion regarding an ARAM, the Commission further refuses to adopt the changes the Company proposed to its rate structure to add separate purchased water and sewer treatment charges. The Commission finds that it is just and reasonable to adopt the Company's its existing rate structure at this time which provides for a Base Facility Charge, a commodity charge based on water consumption and per Single Family Equivalent charge (a/k/a flat rates) for sewer customers.

8. The Commission finds that the evidence in the record demonstrates that flat rates for sewer service are burdensome to Blue Granite's customers who have low water usage, who only have one or two people in a household, who are senior citizens on fixed incomes, and who are on low and moderate income customers. However, the Commission finds that Blue Granite does not have any other rate methodology at this time available for its sewer service customers. The Commission finds that it is just and reasonable to direct and order that Blue Granite provide alternate rate designs for its water and sewer services in its next rate proceeding. Additionally, the Commission finds that is also just and reasonable given the continued complaints and issues raised by the more than one hundred and fifty (150) customers testifying in the hearings before the

Commission and the utility's ongoing problems wastewater infiltration and inflow and its increased non-revenue water losses, to order the Company to investigate the feasibility of converting its sewer rate to a volumetric rate design and to provide a report to the Commission when Blue Granite files its next rate case.

9. The Commission finds that Blue Granite has water usage data for a little more than fifty-three percent (53%) of its customers per ORS witness Sandonato with 16,848 of its overall 31,710 customers from Service Territories 1 and 2 receiving water service from Blue Granite as provided in the Chart below and in Exhibit AMS-4.¹⁸

Date	6/30/2018	6/30/2019	Average	Growth Factor
Service Territory 1 Water # of Customers	9,800	10,208	10,004	2.0392%
Service Territory 2 Water # of Customers	6,628	6,640	6,634	0.0904%
Service Territory 1 & 2 Sewer -- # of Customers	14,277	14,862	14,570	2.0076%
Consolidated # of Customers	30,705	31,710	31,208	1.6102%

10. Given the issues with Blue Granite's sewer service rates as discussed herein and more fully detailed in the whole record, it is reasonable and just for the Commission to find and to order that Blue Granite should obtain water usage, or volumetric water consumption, data from entities providing water service to Blue Granite's sewer only customers so that this information may be used in the development

¹⁸ See, Exhibit AMS-4. As of the end of the Test Year, Blue Granite was providing water supply/distribution services to 16,848 residential and commercial customers and wastewater (sewer) collection/treatment services to 14,862 residential and commercial customers. Tr. p. 1213.4, ln. 5-7.

of a just and reasonable volumetric sewer service rate methodology to be reviewed, and subject to approval, by the Commission in its next rate case.

11. Additionally, the Commission finds that it is just and reasonable to order that, within one hundred and twenty (120) days from the date of this Decision, Blue Granite shall provide to the Commission a Report on its progress to obtain water usage, or volumetric water consumption, data from other entities providing water service to Blue Granite's sewer only customers, as well as the cost of installing flow meters. The Report must be filed in the Docketing Management System (DMS) for this Docket and served upon all parties in accordance with S.C. Code Ann. Reg. 103-830.1 and applicable rules.

12. The Company originally requested the opportunity to earn a 10.7% Return on Equity (ROE); however, later in its rebuttal testimony of witness D'Ascendis, Blue Granite updated its analysis and recommended a range between 9.75% and 10.25%. Tr. p. 548.4, ln. 4-9. The Commission agreed with witnesses from ORS and Consumer Affairs and finds that witness D'Ascendis' ROE recommendation is too high.

13. The Commission finds that analysis and testimony provided by Consumer Affairs witness Rothschild is credible, compelling, unbiased and without prejudice in balancing the interests of the consumer and the utility by allowing the utility the opportunity to earn a 7.46% return on equity. *See*, Tr. pp. 672.8-672.10.

14. The Commission finds that analysis of witness Rothschild shows that it is just and reasonable to conclude the approved and appropriate ROE for Blue Granite is 7.46% based upon (a) the evidence in the whole record, (b) the rate of return

methodology, and (c) a historical test year beginning July 1, 2018 and ending June 30, 2019.

15. With the above approved ROE of 7.46% for utility, the Commission finds that it is just and reasonable to further adopt the resulting Revenue Requirement for Blue Granite of \$28,733,986, resulting in an increase of \$4,958,848 consisting of an increase in water revenues of \$2,161,536 and an increase in sewer revenues of \$2,797,312. This represents an approximate 57% reduction from the Company's requested increase of \$11,589,537 made in its Application, and therefore, the resulting Operating Margin of 10.54% is likewise adopted by the Commission for Blue Granite pursuant to S.C. Code Ann. §58-5-240(H).

Blue Granite Water Company Summary of Commission Revenue Increase and Findings (7.46% ROE)		
	Approved Additional Revenue Increase	Percentage Increase
Water Service Revenues – Territory 1	\$1,491,460	23%
Water Service Revenues – Territory 2	\$670,076	12%
Consolidated Sewer Service Revenues	\$2,797,312	24%
Total Operating Revenues	\$4,958,848	21%

16. For the reasons discussed herein, the Commission finds the revenues detailed in Order Exhibit No. 1 to be just and reasonable and based upon credible evidence in the record.

17. Blue Granite filed its application with rates set on an ROE and OM basis, as well as requesting a purchased water and purchased sewer services rate adjustment mechanism. Tr. p. 763.3; Tr. pp. 1214.2-1214.6. While there is no requirement that OM

methodology be used in determining a fair rate of return, Blue Granite requested OM treatment in its Application. ORS performed its audit and recommendation based on an OM methodology. No party contested Blue Granite's use of an OM methodology. The weight of the evidence, including witnesses' testimony, supports this methodology.

18. The ROE and OM methodology are appropriate for determining the lawfulness of the Company's rates and in fixing just and reasonable rates.

19. Consumer Affairs proposed the option and analysis for the ROE of 7.46% with witness Rothschild. We conclude that the weight of the evidence, including witnesses' testimony and the credibility of Rothschild analysis which demonstrated flawed ROE calculations based upon non-utility business by Blue Granite witness DeStefano, support the 7.46% ROE and OM of 10.54% for Blue Granite as determined by the Commission.

20. Supported by the evidence, we conclude that the ROE of 7.46% and resulting OM of 10.54% herein is just and reasonable while allowing Blue Granite to continue to provide its customers with quality water and sewer service.

21. The requested revenue increase of \$11,731,803 for a total revenue requested of \$35,587,875 by Blue Granite results in a potential OM of 12.26% and ROE of 10.70%.

22. Even the adjusted revenue increase of \$8,435,953 by ORS results in a potential OM of 11.34% and ROE of 9.45%.

23. Blue Granite apportioned its requested revenue requirement equally to all base facility charges and monthly water consumption rates. The proposed increase to all

customer classes proposed by Blue Granite and by ORS is approximately the following Table:

	COMPANY PROPOSAL				ORS PROPOSAL		
	Current Rate	Proposed Rate	Proposed Increase	% Increase	Proposed Rate	Proposed Increase	% Increase
Service Territory 1							
Water Supply Customers							
Monthly Residential Base Facilities Charge	\$ 14.38	\$ 21.91	7.53	52.36%	\$ 20.13	\$ 5.75	39.99%
Water Commodity Charge per 1,000 gallons	5.59	8.53	2.94	52.59%	7.88	2.29	40.97%
Monthly Residential Water Rate based on 6,000 gallons usage	47.92	73.09	25.17	52.53%	67.41	19.49	40.67%
Water Distribution Customers Only							
Monthly Residential Base Facilities Charge	14.38	21.91	7.53	52.36%	20.13	5.75	39.99%
Water Commodity Charge per 1,000 gallons	7.55	4.33	(3.22)	-42.65%	10.65	3.10	41.06%
Purchased Water Charge per 1,000 gallons	N/A	7.19	6.85	N/A	0.00	0.00	N/A
Monthly Residential Water Rate based on 6,000 gallons usage	59.68	91.03	31.35	52.53%	84.03	24.35	40.80%
Service Territory 2							
Water Rates - Water Supply Customers							
Monthly Residential Base Facilities Charge	\$ 28.59	\$ 36.49	7.90	27.63%	\$ 34.74	\$ 6.15	21.51%
Water Commodity Charge per 1,000 gallons	10.27	13.12	2.85	27.75%	12.45	2.18	21.23%
Monthly Residential Water Rate based on 6,000 gallons usage	90.21	115.21	25.00	27.71%	109.44	19.23	21.32%
Water Distribution Customers Only							
Monthly Residential Base Facilities Charge	28.59	36.49	7.90	27.63%	37.74	9.15	32.00%
Water Commodity Charge per 1,000 gallons	11.85	4.35	(7.50)	-63.29%	14.36	2.51	21.18%
Purchased Water Charge	N/A	10.79	11.08	N/A	0.00	0.00	N/A
Monthly Residential Water Rate based on 6,000 gallons usage	99.69	127.33	27.64	27.73%	123.90	24.21	24.29%

24. With regard to the changes or increases in the sewer rates for customers using the same ROE and OM respectively proposed by Blue Granite and ORS for Service Territories 1 & 2 is as follows:

	COMPANY PROPOSAL				ORS PROPOSAL		
	Current Rate	Proposed Rate	Proposed Increase	% Increase	Proposed Rate	Proposed Increase	% Increase
Service Territories 1 & 2							
Sewer Collection and Treatment Rates							
Monthly Residential Base Facilities Charge	65.08	95.21	30.13	46.30%	91.25	26.17	40.21%
Monthly Residential Base Facilities Charge - Mobile Home	47.50	69.49	21.99	46.29%	66.50	19.10	40.21%
Service Territories 1 & 2							
Sewer Collection Only Rates							
Monthly Residential Base Facilities Charge	65.08	45.81	(19.27)	-29.61%	91.25	26.17	40.21%
Sewer Treatment Charge	N/A	49.40	54.20	N/A	0.00	0.00	0.00%
The Village Sewer Collection	33.86	49.54	15.68	46.31%	47.48	13.62	40.22%

25. The Commission finds that it is just and reasonable to accept ORS's recommendation to limit the water service Territory 2 increase to 31% of total water service revenue requirement and finds that it is just and reasonable. The Commission

orders that Blue Granite prepare a rate schedule consist with this finding, as well as all other findings, so that water service Territory 2 increase to 31% of total water service revenue requirement.

26. The Commission finds that Blue Granite did not seek or obtain approval from the Commission of its ClearWater Solutions contract as is required by S.C. Ann. Regs. 103-541 and 103-743 prior to use and engagement thereof.

27. The Commission further finds that Blue Granite immediately file with the Commission the contract between itself and ClearWater Solutions for review and possible approval by the Commission. The Commission further cautions the Company that it must file its contracts for approval in the future in compliance with the Commission's regulations.

28. The Commission finds that Blue Granite is authorized to continue the deferral accounting treatment of changes in purchased water and wastewater treatment rates established in Docket Number 2015-199-WS.

29. Additionally, with regard to additional adjustment to the Company's "Rate Base – Deferred Charges," the Commission finds and determines that Blue Granite is authorized to amortize \$3,178,824 of Purchased Water and Sewer Deferrals over five (5) years and to remove the first year's amortization of \$635,765 for a total increase of \$2,543,059 in a regulatory asset.

30. With regard to additional adjustment to the Company's "Maintenance Expenses - Purchased Water and Sewer Expense," the Commission finds and determines that Blue Granite is authorized to amortize this expense over five (5) years and that one

year's amortized expense of \$635,765 will be included in expenses in this rate case. The unamortized portion, a total of \$2,119,000, will be placed in a Regulatory Asset to be recovered annually.

31. The Commission finds and determines that Blue Granite is not authorized to apply carrying costs to these deferral accounts other than as approved and directed herein.

32. The Commission finds that it is just and reasonable to decline approval of the changes proposed by Blue Granite to its rate structure to add separate purchased water and sewer treatment charges, which were proposed to effectuate the ARAM.

33. The Commission finds that Blue Granite shall maintain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers, and per Single Family Equivalent charge for sewer customers.

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

35. Attached as Order Exhibit No 2, Blue Granite filed the rate schedule/tariff on March 30, 2020 incorporating the changes approved herein reflecting an Operating Margin of 10.54% and 7.46% ROE which retains the present base facility charge for water service and distributes the rate increase volumetrically to lessen the impact of the rate increase on low-usage water customers.¹⁹

¹⁹ On April 1, 2020, the Commission issued Commission Directive Order No. 2020-280 adopting the rate schedule during the Commission's regularly scheduled Business Meeting which is Order Exhibit No. 2. On

VIII. ORDERING PROVISIONS

IT IS THEREFORE ORDERED THAT:

1. The accounting adjustments reflected in Order Exhibit No. 1 are approved, adopted and accepted into the record and are incorporated and made part of this Order by reference. Order Exhibit 1 includes adjustments and modifications by the Commission as discussed herein this Order to adjustments which may have been agreed upon by Blue Granite, ORS, and other parties, as well as to adjustments for which no party objected.

2. While the record contains ample credible evidence supporting the Commission's concern as to what rate increase, or any rate increase, is appropriate in this Docket, existing law binds the Commission and there is credible evidence in the record supporting a limited increase in the Company's revenue requirement.

3. The record of evidence, and the controlling law binding the Commission, support a finding that the rate request or revenue requirement sought by Blue Granite is not just and reasonable and as Blue Granite witness testified is equal to "rate shock." See, Tr. pp. 887-894 (Company witness DeStefano testifying that "rate shock would be -- again, generally is --- a steep -- or spike in -- in end cost to -- to consumers" when being cross examined about a 50% rate increase by Intervenor York County. Tr. p. 887, ln. 11-13); Tr. pp. 1055.8-1055.9.

March 25, 2020, Blue Granite was ordered pursuant to Commission Directive of the same date to provide and file alternate rate schedules on March 30, 2020 consistent with the Commission's findings so that this rate schedule would be included in this final Order dated April 9, 2020.

4. Based on the information provided by the parties, the Commission concludes the appropriate rate setting methodology to use as a guide in determining the lawfulness of Blue Granite's proposed rates and for fixing just and reasonable rates is return on equity base with a resulting operating margin.

5. Based upon the rates, charges and accounting adjustments discussed, adopted and approved herein in Order Exhibit Nos. 1 & 2, Blue Granite is authorized to have the opportunity to earn an 7.46% ROE and the resulting 10.54% Operating Margin is approved for Blue Granite.

6. For Blue Granite to have the opportunity to earn the 7.46% ROE, found fair and reasonable herein and within the public's interest, Blue Granite must be allowed additional revenues of \$4,958,848.

7. The Commission orders Blue Granite to limit the water service Territory 2 increase to 31% of total water service revenue requirement and further orders that Blue Granite shall prepare a rate schedule consist with this ruling, as well as all other findings and rulings, so that water service Territory 2 increase to 31% of total water service revenue requirement.

8. As offered by the utility, Blue Granite is ordered to delay implementation of any new rates authorized and allowed by this Order until September 1, 2020 so that there will be no change in the current rates for water and for sewer charges to Blue Granite customers until on or after September 1, 2020.²⁰

²⁰ Commission Directive dated March 25, 2020 references the March 19, 2020 letter offer by Blue Granite to delay implementation of any rate increase or change in Docket No. 2019-290-WS in response to Commission Order No. 2020-240 dated March 18, 2020. Upon issuance of a final order by the

9. The schedule of rates, terms and conditions in the attached Exhibit 2 are approved for use by Blue Granite effective on September 1, 2020 and are just and reasonable without undue discrimination and are also designed to meet revenue requirements for Blue Granite as discussed herein.

10. Due to the Company's voluntary offer to delay implementation of any rates until September 1, 2020, the Company has time and is ordered to provide at least thirty (30) days' advance notice of the increase to customers of its water and wastewater services prior to the rates and schedules being put into effect for service rendered. The schedules shall be deemed to be filed with the Commission pursuant to S.C. Code Ann. § 58-5-240.

11. The following Table reflects an operating margin of 10.54%:

Operating Revenues	\$28,733,986
Operating Expenses	<u>23,715,106</u>
Net Operating Income (Loss)	5,018,880
Customer Growth	<u>78,664</u>
Total Income for Margin	<u>\$ 5,097,544</u>
Operating Margin (After Interest)	<u>10.54%</u>
Return on Equity	<u>7.46%</u>
Interest Expense for Operating Margin	<u>\$ 2,069,789</u>

See, Order Exhibit No. 1.

12. Blue Granite's capital structure is 47.09% debt and 52.91% common equity.

Commission, Blue Granite states that it "would commit to not putting new rates into effect until September 1, 2020." Letter on behalf of Blue Granite, dated March 19, 2020 and filed in this Docket.

13. Blue Granite is ordered to provide a one-time credit in the amount of \$10.59 for each customer water account and sewer account effective upon the date of this Order. Blue Granite is to issue these credits to customers as soon as possible and within its next billing cycle following the date of this Order.

14. The Commission finds Blue Granite's updated rate case expenses submitted at the conclusion of the hearing following review by the ORS, to be reasonable and that Blue Granite's rate case expenses shall be amortized over a 3-year period as the Company and ORS agreed.

15. The Company shall continue to maintain current performance bonds in the amounts of \$350,000 for water operations and \$350,000 for wastewater operations pursuant to S.C. Code Ann. § 58-5-720.²¹

16. Blue Granite shall conduct a cost of service study prior to filing its next adjustment to rates case in order to ensure that cost allocation is appropriate and to propose a rate design methodology that eliminates subsidization. Evidence does exist in the record to conclude there is inequity in the existing rate design among Blue Granite's customers. However, in order for the Commission to set rates that fairly distribute the revenue requirement of the utility equitably between its customers, the Commission finds and directs that Blue Granite conduct a cost of service study prior to filing its next rate case.

²¹ ORS requested that Commission continue to require a performance bond for Blue Granite. Currently, Blue Granite has a Commission required performance bond pursuant to S.C. Code Ann. §58-5-720 for utility operations for Blue Granite, which is in the form of an Irrevocable Letter of Credit ("ILC") from JP Morgan Chase Bank, N.A. as surety in the amount of \$350,000 for water and \$350,000 for sewer operations.

17. Blue Granite's books and records shall be maintained according to NARUC Uniform System of Accounts. The Company is directed to make any necessary adjustments to its accounting system to conform to the NARUC Uniform System of Accounts.

18. Blue Granite will provide the Commission an update on information provided in its bill format on or before July 1, 2020.

19. Blue Granite shall prepare quarterly reports to the Commission and the ORS detailing its efforts to improve responsiveness and customer satisfaction. Additionally, the reports shall provide details of every complaint and the resolution of every complaint, as well as the names and addresses of all complainants for use by ORS in the event follow-up contacts are necessary. The first quarterly reports must be submitted on or before July 1, 2020.

20. The Company shall provide the written reports on capital improvements no less than semiannually as described above to ORS and filed with the Commission.

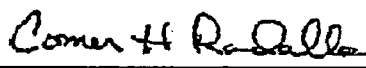
21. The Commission further orders Blue Granite to immediately file with the Commission the contract between itself and ClearWater Solutions for review and possible approval by the Commission. The Commission further cautions the Company that it must file its contracts for approval in the future in compliance with the Commission's regulations.

22. The Commission overrules Blue Granite's objection to York County Councilwoman Allison Love's testimony at the Public Night Hearing in this Docket held in York, South Carolina, on March 5, 2020. Further, all hearing exhibits presented at the

evening public hearings in this case are admitted into the evidence as well as any late filed exhibits.

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

BY ORDER OF THE COMMISSION:


Comer H. "Randy" Randall, Chairman

ATTEST:


Jocelyn Boyd, Chief Clerk/Executive Director

BLUE GRANITE WATER COMPANY
OPERATING EXPERIENCE, RATE BASE AND RATE OF RETURN - 7.46% ROE
TEST YEAR ENDED JUNE 30, 2019
COMBINED OPERATIONS

	(1)	(2)	(3)	(4)	(5)
Description	Per Books	Accounting & Pro Forma Adjustments	As Adjusted	Effect of Proposed Increase	After Increase
<u>Operating Revenue:</u>					
Service Revenue-Water					
Service Revenue-Sewer					
Miscellaneous Revenue					
Uncollectibles					
<u>Total Operating Revenues</u>					
<u>Maintenance Expenses</u>					
Salaries and Wages					
Capitalized Time					
Purchased Power					
Purchased Water and Sewer					
Maintenance and Repair					
Maintenance Testing					
Meter Reading					
Chemicals					
Transportation					
Operating Exp. Charged to Plant					
<u>Total Maintenance Expenses</u>					
<u>General Expenses</u>					
Salaries and Wages					
Office Supplies and Other Office Exp					
Regulatory Commission Exp					
Pension and Other Benefits					
Rent					
Insurance					
Office Utilities					
Outside Services					
Non-Utility Misc Income					
Miscellaneous					
<u>Total General Expenses</u>					
Depreciation					
Amortization of CIAC					
Taxes Other Than Income					
Income Taxes - Federal					
Income Taxes - State					
Sale of Utility Property					
Amort. Investment Tax Credit					
Amortization of PAA					
<u>Total Other Expenses</u>					
<u>Total Operating Expenses</u>					
<u>Net Operating Income</u>					
Customer Growth					
Interest During Construction					
<u>Net Income For Return</u>	238,496	1,078,599	1,317,095	3,780,449	5,097,544
<u>Original Cost Rate Base:</u>					
Gross Plant In Service					
Accumulated Depreciation					
Net Plant In Service					
Deferred Charges					
Cash Working Capital					
Contributions in Aid of Construction					
Accumulated Deferred Income Taxes					
Customer Deposits					
Advances in Aid of Construction					
Plant Acquisition Adjustment					
Excess Book Value					
<u>Total Rate Base</u>					
<u>Return on Rate Base</u>					
<u>Operating Margin After Interest Exp.</u>					
<u>Return on Equity</u>					
<u>Interest Expense for Oper. Margin</u>					

SCHEDULE OF RATES AND CHARGES**WATER****Service Territory 1****Monthly Charges - Water Supply Customers Only**

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Per Order</u>
Base Facilities Charge	\$ 14.38 per unit	\$ 14.38 per unit
Commodity Charge	\$ 5.59 per 1,000 gal. or 134 cft.	\$ 7.39 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size		
5/8" meter *	\$ 14.38 per unit	\$ 14.38 per unit
3/4" meter	\$ 14.38 per unit	\$ 14.38 per unit
1" meter	\$ 37.43 per unit	\$ 37.43 per unit
1.5" meter	\$ 74.86 per unit	\$ 74.86 per unit
2" meter	\$ 119.78 per unit	\$ 119.78 per unit
3" meter	\$ 224.59 per unit	\$ 224.59 per unit
4" meter	\$ 374.42 per unit	\$ 374.42 per unit
8" meter	\$1,150.51 per unit	\$1,150.51 per unit
Commercial Commodity Charge	\$ 5.59 per 1,000 gal or 134 cft.	\$ 7.39 per 1,000 gal. or 134 cft.

Monthly Charges – Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

	<u>Current</u>	<u>Per Order</u>
Base Facilities Charge per single-family house, condominium, mobile home, or apartment unit	\$14.38 per unit	\$14.38 per unit
Residential Commodity Charge	\$ 7.55 per 1,000 gal. or 134 cft.	\$ 9.98 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size		
5/8" meter *	\$ 14.38 per unit	\$ 14.38 per unit
3/4" meter	\$ 14.38 per unit	\$ 14.38 per unit
1" meter	\$ 37.43 per unit	\$ 37.43 per unit

Attachment A – No changes to base charges

1.5" meter	\$ 74.86 per unit	\$ 74.86 per unit
2" meter	\$ 119.78 per unit	\$ 119.78 per unit
3" meter	\$ 224.59 per unit	\$ 224.59 per unit
4" meter	\$ 374.42 per unit	\$ 374.42 per unit
8" meter	\$1,150.51 per unit	\$1,150.51 per unit
Commercial Commodity Charge	\$ 7.55 per 1,000 gal. or 134 cft.	\$ 9.98 per 1,000 gal. or 134 cft.

Service Territory 2Monthly Charges - Water Supply Customers

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Per Order</u>
Base Facilities Charge	\$ 28.59 per unit	\$ 28.59 per unit
Commodity Charge	\$ 10.27 per 1,000 gal. or 134 cft.	\$ 12.34 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size		
5/8" meter*	\$ 28.59 per unit	\$ 28.59 per unit
1" meter	\$ 79.59 per unit	\$ 79.59 per unit
1.5" meter	\$ 146.27 per unit	\$146.27 per unit
3" meter	\$ 499.14 per unit	\$499.14 per unit
Commercial Commodity Charge	\$ 10.27 per 1,000 gal. or 134 cft.	\$12.34 per 1,000 gal. or 134 cft.

Monthly Charges – Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

	<u>Current</u>	<u>Proposed</u>
Base Facilities Charge	\$28.59 per unit	\$28.59 per unit
Commodity Charge	\$11.85 per 1,000 gal. or 134 cft.	\$14.24 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size:		
5/8" meter*	\$ 28.59 per unit	\$ 28.59 per unit
1" meter	\$ 79.59 per unit	\$ 79.59 per unit
1.5" meter	\$ 146.27 per unit	\$146.27 per unit
3" meter	\$ 499.14 per unit	\$499.14 per unit

Attachment A – No changes to base charges

Commercial Commodity Charge	\$ 11.85 per 1,000 gal. or 134 cft.	\$ 14.24 per 1,000 gal. or 134 cft.

SEWER**Monthly Charges – Sewer Collection & Treatment Only**

Where sewage collection and treatment are provided through facilities owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Per Order</u>
Residential	\$65.08 per unit	\$80.93 per unit
Mobile Homes	\$47.50 per unit	\$59.07 per unit
Commercial, per Single Family Equivalent	\$65.08 per SFE	\$80.93 per SFE

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

Monthly Charges – Sewer Collection Only

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

	<u>Current</u>	<u>Per Order</u>
Residential – per single-family house, condominium, or apartment unit	\$65.08 per unit	\$80.93 per unit
Commercial	\$65.08 per SFE*	\$80.93 per SFE*
The Village Sewer Collection	\$33.86 per SFE*	\$42.11 per SFE*

Blue Granite Water Company
Calculated Revenues
Docket No. 2019-290-WS

ATTACHMENT A-1

Calculated Revenue Summary - BGWC (Service Territory #1 and Service Territory #2)

A	B	C	D	E
Operating Revenue	Calculated Test Year Revenue	Additional Revenue at Calculated Rates	Revenue at Calculated Rates	% Increase
Service Territory 1 - Well Water	\$1,022,329	\$233,227	\$1,255,556	23%
Service Territory 1 - Purchased Water	\$5,557,459	\$1,283,227	\$6,840,686	23%
Service Territory 1 - Water - Misc. Revenue	\$84,650	\$5,275	\$89,926	6%
Total Service Territory 1 Water	\$6,664,438	\$1,521,729	\$8,186,168	23%
Service Territory 2 - Well Water	\$3,917,788	\$458,219	\$4,376,007	12%
Service Territory 2 - Purchased Water	\$1,651,814	\$201,403	\$1,853,217	12%
Service Territory 2 - Water - Misc. Revenue	\$115,189	\$4,197	\$119,386	4%
Total Service Territory 2 Water	\$5,684,791	\$663,819	\$6,348,610	12%
Service Territory 1 & 2 - Sewer	\$11,434,254	\$2,784,790	\$14,219,043	24%
Service Territory 1 & 2 - Sewer - Misc. Revenue	\$249,770	\$37,194	\$286,964	15%
Total Service Revenue Sewer	\$11,684,024	\$2,821,984	\$14,506,008	24%
Total Water and Sewer Service Revenues	\$24,033,254	\$5,007,532	\$29,040,786	21%

Blue Granite Water Company
Calculated Revenues
Docket No. 2019-290-WS

ATTACHMENT A-2

Calculated Revenue at Current Rates - Service Territory 1							
A	B	C	D	E		G	H
	Customer Classification	Average Monthly Consumption per Customer	Charge per 1,000 gallons	Test Year End Customers ¹	Annunli ed Service Units	Base acility Charge (B C)	Test Year Revenue (D C 1000) (G)
WATER	400PW M - 1" Purchase Water o ercial	12,561	\$7.55	5	60	\$37.43	\$7,936
	400PW M - 1.5" Purchase Water o ercial	1,166	\$7.55	1	12	\$74.86	\$1,004
	400PW M - 2" Purchase Water o ercial	60,650	\$7.55	7	84	\$119.78	\$48,526
	400PW M - 3" Purchase Water o ercial	108,723	\$7.55	1	12	\$224.59	\$12,545
	400PW M - 3 4" Purchase Water o ercial	0	\$7.55	2	24	\$14.38	\$345
	400PW M - 5 8" Purchase Water o ercial	7,336	\$7.55	20	240	\$14.38	\$16,744
	400PW R - 1" Purchase Water o ercial - Riverhills	12,212	\$7.55	41	492	\$37.43	\$63,778
	400PW R - 1.5" Purchase Water o ercial - Riverhills	35,220	\$7.55	38	456	\$74.86	\$155,392
	400PW R - 2" Purchase Water o ercial - Riverhills	66,720	\$7.55	43	516	\$119.78	\$321,734
	400PW R - 3" Purchase Water o ercial - Riverhills	121,237	\$7.55	5	60	\$224.59	\$68,396
	400PW R - 3 4" Purchase Water o ercial - Riverhills	4,500	\$7.55	22	264	\$14.38	\$12,766
	400PW R - 4" Purchase Water o ercial - Riverhills	107,190	\$7.55	3	36	\$374.42	\$42,613
	400PW R - 5 8" Purchase Water o ercial - Riverhills	6,137	\$7.55	101	1,212	\$14.38	\$73,586
	400PW R - 8" Purchase Water o ercial - Riverhills	592,148	\$7.55	1	12	\$1,150.51	\$67,455
	400PWR S - 1" Purchase Water Residential	3,302	\$7.55	88	1,056	\$14.38	\$41,511
	400PWR S - 1.5" Purchase Water Residential	1,845	\$7.55	56	672	\$14.38	\$19,024
	400PWR S - 2" Purchase Water Residential	2,957	\$7.55	93	1,116	\$14.38	\$40,963
	400PWR S - 3 4" Purchase Water Residential	10,752	\$7.55	1	12	\$14.38	\$1,147
	400PWR S - 4" Purchase Water Residential	599	\$7.55	16	192	\$14.38	\$3,629
	400PWR S - 5 8" Purchase Water Residential	4,636	\$7.55	3,028	36,336	\$14.38	\$1,794,337
	400PWR R - Purchase Water Res - R ll Meter Si es	4,610	\$7.55	4,683	56,196	\$14.38	\$2,764,028
	400W M - 1" o ercial	611	\$5.59	1	12	\$37.43	\$490
	400W M - 5 8" o ercial	7,998	\$5.59	7	84	\$14.38	\$4,963
	400W R - o ercial rrigation	30,295	\$7.55	16	192	\$0.00	\$43,916
	400WR R - Residential rrigation	7,412	\$7.55	212	2,544	\$0.00	\$142,364
	400WR S - Water Residential ll Meter Si es	4,716	\$5.59	1,545	18,540	\$14.38	\$755,365
	402WR S - Water Residential ll Meter Si es	3,948	\$5.59	172	2,064	\$14.38	\$75,231
Water Service Total							\$6,579,788
Miscellaneous Revenues - ate ees							\$23,123
ew usto er harges							\$28,731
Miscellaneous Service Revenue							\$36
S hec & Reconnect ee							\$32,760
Total Miscellaneous Revenues							\$84,650
Total Operating Revenues							\$6,664,438

Blue Granite Water Company
Calculated Revenues
Docket No. 2019-290-WS

ATTACHMENT A-2

Revenue at Calculated Rates - Service Territory 1							
A	B	C	D	E		G	H
	Customer Classification	Average Monthly Consumption per Customer	Charge per 1,000 gallons	Test Year End Customers ¹	Annualized Service Units	Base Facility Charge (B - C)	Test Year Revenue (D * C 1000) (G)
WATER	400PW M - 1" Purchase Water Commercial	12,561	\$9.98	5	60	\$37.43	\$9,767
	400PW M - 1.5" Purchase Water Commercial	1,166	\$9.98	1	12	\$74.86	\$1,038
	400PW M - 2" Purchase Water Commercial	60,650	\$9.98	7	84	\$119.78	\$60,906
	400PW M - 3" Purchase Water Commercial	108,723	\$9.98	1	12	\$224.59	\$15,716
	400PW M - 3.4" Purchase Water Commercial	0	\$9.98	2	24	\$14.38	\$345
	400PW M - 5.8" Purchase Water Commercial	7,336	\$9.98	20	240	\$14.38	\$21,022
	400PW R - 1" Purchase Water Commercial - Riverhills	12,212	\$9.98	41	492	\$37.43	\$78,378
	400PW R - 1.5" Purchase Water Commercial - Riverhills	35,220	\$9.98	38	456	\$74.86	\$194,418
	400PW R - 2" Purchase Water Commercial - Riverhills	66,720	\$9.98	43	516	\$119.78	\$405,393
	400PW R - 3" Purchase Water Commercial - Riverhills	121,237	\$9.98	5	60	\$224.59	\$86,072
	400PW R - 3.4" Purchase Water Commercial - Riverhills	4,500	\$9.98	22	264	\$14.38	\$15,653
	400PW R - 4" Purchase Water Commercial - Riverhills	107,190	\$9.98	3	36	\$374.42	\$51,990
	400PW R - 5.8" Purchase Water Commercial - Riverhills	6,137	\$9.98	101	1,212	\$14.38	\$91,660
	400PW R - 8" Purchase Water Commercial - Riverhills	592,148	\$9.98	1	12	\$1,150.51	\$84,722
	400PWR S - 1" Purchase Water Residential	3,302	\$9.98	88	1,056	\$14.38	\$49,985
	400PWR S - 1.5" Purchase Water Residential	1,845	\$9.98	56	672	\$14.38	\$22,037
	400PWR S - 2" Purchase Water Residential	2,957	\$9.98	93	1,116	\$14.38	\$48,982
	400PWR S - 3.4" Purchase Water Residential	10,752	\$9.98	1	12	\$14.38	\$1,460
	400PWR S - 4" Purchase Water Residential	599	\$9.98	16	192	\$14.38	\$3,909
	400PWR S - 5.8" Purchase Water Residential	4,636	\$9.98	3,028	36,336	\$14.38	\$2,203,680
	400PWR R - Purchase Water Res - R ll Meter Sizes	4,610	\$9.98	4,683	56,196	\$14.38	\$3,393,553
	400W M - 1" Commercial	611	\$7.39	1	12	\$37.43	\$503
	400W M - 5.8" Commercial	7,998	\$7.39	7	84	\$14.38	\$6,173
	400W R - Commercial Irrigation	30,295	\$9.98	16	192	\$0.00	\$58,050
	400WR R - Residential Irrigation	7,412	\$9.98	212	2,544	\$0.00	\$188,184
	400WR S - Water Residential ll Meter Sizes	4,716	\$7.39	1,545	18,540	\$14.38	\$912,747
	402WR S - Water Residential ll Meter Sizes	3,948	\$7.39	172	2,064	\$14.38	\$89,899
Water Service Total							\$8,096,242
Miscellaneous Revenues - Late Fees							\$28,399
New Customer Charges							\$28,731
Miscellaneous Service Revenue							\$36
Sewer & Reconnect Fee							\$32,760
Total Miscellaneous Revenues							\$89,926
Total Operating Revenues							\$8,186,168

¹ For Response to Initial dated 1.4
from W.

Blue Granite Water Company
Calculated Revenues
Docket No. 2019-290-WS

ATTACHMENT A-3

Calculated Revenue at Current Rates - Service Territory 2

A	B	C	D	E		G	H
	Customer Classification	Average Monthly Consumption per Customer	Base Charge per 1,000 gallons	Test Year End Customers ¹	Annualized Service Units	Base Facility Charge (B - C)	Test Year Revenue (D * C 1000) (E * G)
WATER	401W M - 5/8" Commercial Water Service	8,498	\$10.27	1	12	\$28.59	\$1,390
	401W M - 1" Commercial Water Service	1,006	\$10.27	2	24	\$79.59	\$2,158
	401W M - 1.5" Commercial Water Service	5,492	\$10.27	1	12	\$146.27	\$2,432
	401W M - 3" Commercial Water Service	3,820	\$10.27	3	36	\$499.14	\$19,381
	401WR S - Water Residential 1/2 Meter Sizes	3,880	\$10.27	4,641	55,692	\$28.59	\$3,811,427
	401PWR W - Wood Purchased Water	1,089	\$11.85	210	2,520	\$28.59	\$104,567
	401WRP R - 1" Water Distribution and Purchased Water Charge	22,758	\$11.85	4	48	\$28.59	\$14,317
	401WRP R - 2" Water Distribution and Purchased Water Charge	33,126	\$11.85	18	216	\$28.59	\$90,965
	401WRP R - 3/4" Water Distribution and Purchased Water Charge	23,996	\$11.85	1	12	\$28.59	\$3,755
	401WRP R - 5/8" Water Distribution and Purchased Water Charge	3,640	\$11.85	1,671	20,052	\$28.59	\$1,438,210
	403WR S - Water Residential 1/2 Meter Sizes	4,685	\$10.27	88	1,056	\$28.59	\$81,000
	Water Service Total						\$5,569,602
	Miscellaneous Revenues - Late Fees						\$35,884
	New Customer Charges						\$21,985
	Miscellaneous Service Revenue						\$0
	Shut-off & Reconnect Fee						\$57,320
	Total Miscellaneous Revenues						\$115,189
	Total Operating Revenues						\$5,684,791

Blue Granite Water Company
Calculated Revenues
Docket No. 2019-290-WS

ATTACHMENT A-3

Revenue at Calculated Rates - Service Territory 2

A	B	C	D	E		G	H
	Customer Classification	Average Monthly Consumption per Customer	Base Charge per 1,000 gallons	Test Year End Customers ¹	Annualized Service Units	Base Facility Charge (B - C)	Test Year Revenue (D * C 1000) (G * H)
WATER	401W M - 5/8" Commercial Water Service	8,498	\$12.34	1	12	\$28.59	\$1,601
	401W M - 1" Commercial Water Service	1,006	\$12.34	2	24	\$79.59	\$2,208
	401W M - 1.5" Commercial Water Service	5,492	\$12.34	1	12	\$146.27	\$2,568
	401W M - 3" Commercial Water Service	3,820	\$12.34	3	36	\$499.14	\$19,666
	401WR S - Water Residential 1/2 Meter Sizes	3,880	\$12.34	4,641	55,692	\$28.59	\$4,258,723
	401PWR W - Wood Purchased Water	1,089	\$14.24	210	2,520	\$28.59	\$111,125
	401WRP R - 1" Water Distribution and Purchased Water Charge	22,758	\$14.24	4	48	\$28.59	\$16,928
	401WRP R - 2" Water Distribution and Purchased Water Charge	33,126	\$14.24	18	216	\$28.59	\$108,066
	401WRP R - 3/4" Water Distribution and Purchased Water Charge	23,996	\$14.24	1	12	\$28.59	\$4,444
	401WRP R - 5/8" Water Distribution and Purchased Water Charge	3,640	\$14.24	1,671	20,052	\$28.59	\$1,612,654
	403WR S - Water Residential 1/2 Meter Sizes	4,685	\$12.34	88	1,056	\$28.59	\$91,241
	Water Service Total						\$6,229,224
	Miscellaneous Revenues - Late Fees						\$40,081
	New Customer Charges						\$21,985
	Miscellaneous Service Revenue						\$0
	Shut-off & Reconnect Fee						\$57,320
	Total Miscellaneous Revenues						\$119,386
	Total Operating Revenues						\$6,348,610

¹ For Response to 1 dated 1.4
from

Blue Granite Water Company
Docket No. 2019-290-WS

ATTACHMENT A-4

Calculated Revenue at Current Rates - Service Territory 1 2					
A	B	C	D		G
	Customer Classification	Test Year End Customers ¹	Annualized Service Units ¹	B C	Test Year Revenues (D)
SEWER	400WW M - WW o ercial ll Meter Si es	233	2,796	\$65.08	\$181,964
	400WW R - o ercial WW Treat ent - R ll Meter Si es	1,896	22,752	\$65.08	\$1,480,700
	400WWR P - Residential WW Service ll Meter Si es	414	4,968	\$65.08	\$323,317
	400WWR S - WW Residential ll Meter Si es	6,171	74,052	\$65.08	\$4,819,304
	400WWR - Residential WW Service ll Meter Si es	89	1,068	\$65.08	\$69,505
	400WWR - Residential WW Treat ent - ll Meter Si es	4,455	53,460	\$65.08	\$3,479,177
	400WWRT - Town of ha in Purchase WW Res ll Meter Si es	88	1,056	\$65.08	\$68,724
	400WWTR - WW Trailer Residential ll Meter Si es	2	24	\$47.50	\$1,140
	400WWTRT - an rsdale WW Treat ent ll Meter Si es	2	24	\$33.86	\$813
	400WW P - o ercial Wastewater Service Richland ounty	2	24	\$65.08	\$1,562
	400WWR T - Riverhills WW Treat ent ll Meter Si es	10	120	\$65.08	\$7,810
	401WWR S - Residential WW Service ll Meter Si es	358	4,296	\$65.08	\$279,584
	401WW M - o ercial WW Treat ent - ll Meter Si es	16	192	\$65.08	\$12,495
	403WWR S - Residential WW Service ll Meter Si es	593	7,116	\$65.08	\$463,109
	403WWM - Mo ile o e Wastewater Service	174	2,088	\$47.50	\$99,180
	403WW - Wastewater Residential ollection harge	359	4,308	\$33.86	\$145,869
	Sewer Service Total		178,344		\$11,434,254
	Miscellaneous Revenues - ate ees				\$79,143
	ew usto er harges				\$39,595
	Miscellaneous Service Revenue				\$113,153
	S hec & Reconnect ee				\$17,880
Total Miscellaneous Revenues					\$249,770
Total Operating Revenues					\$11,684,024

Blue Granite Water Company
Docket No. 2019-290-WS

ATTACHMENT A-4

Revenue at Calculated Rates - Service Territory 1 2					
A	B	C	D		G
	Customer Classification	Test Year End Customers ¹	Annualized Service Units ¹	B C	Test Year Revenues (D)
SEWER	400WW M - WW o ercial ll Meter Si es	233	2,796	\$80.93	\$226,280
	400WW R - o ercial WW Treat ent - R ll Meter Si es	1,896	22,752	\$80.93	\$1,841,319
	400WWR P - Residential WW Service ll Meter Si es	414	4,968	\$80.93	\$402,060
	400WWR S - WW Residential ll Meter Si es	6,171	74,052	\$80.93	\$5,993,028
	400WWR - Residential WW Service ll Meter Si es	89	1,068	\$80.93	\$86,433
	400WWRR - Residential WW Treat ent - ll Meter Si es	4,455	53,460	\$80.93	\$4,326,518
	400WWRT - Town of ha in Purchase WW Res ll Meter Si es	88	1,056	\$80.93	\$85,462
	400WWTR - WW Trailer Residential ll Meter Si es	2	24	\$59.07	\$1,418
	400WWTRT - an rsdale WW Treat ent ll Meter Si es	2	24	\$42.11	\$1,011
	400WW P - o ercial Wastewater Service Richland ounty	2	24	\$80.93	\$1,942
	400WWR T - Riverhills WW Treat ent ll Meter Si es	10	120	\$80.93	\$9,712
	401WWR S - Residential WW Service ll Meter Si es	358	4,296	\$80.93	\$347,675
	401WW M - o ercial WW Treat ent - ll Meter Si es	16	192	\$80.93	\$15,539
	403WWR S - Residential WW Service ll Meter Si es	593	7,116	\$80.93	\$575,898
	403WWM - Mo ile o e Wastewater Service	174	2,088	\$59.07	\$123,338
	403WW - Wastewater Residential ollection harge	359	4,308	\$42.11	\$181,410
	Sewer Service Total		178,344		\$14,219,043
	Miscellaneous Revenues - ate ees				\$98,424
	ew usto er harges				\$39,595
	Miscellaneous Service Revenue				\$131,066
	S hec & Reconnect ee				\$17,880
Total Miscellaneous Revenues					\$286,964
Total Operating Revenues					\$14,506,008

¹ ro Res onse to 1 dated 1.4

Service Territory #1 Residential Customers

Rate description	Mont ly sage in Gallons	Current olume Rate	Current Base C arge	Current Bill	roposed olume Rate	roposed Base C arge	roposed Bill	% C ange
Residential - Wells	1,000	\$5.59	\$14.38	\$19.97	\$7.39	\$14.38	\$21.77	9.01%
Residential - Wells	2,000	\$5.59	\$14.38	\$25.56	\$7.39	\$14.38	\$29.16	14.08%
Residential - Wells	3,000	\$5.59	\$14.38	\$31.15	\$7.39	\$14.38	\$36.55	17.34%
Residential - Wells	4,000	\$5.59	\$14.38	\$36.74	\$7.39	\$14.38	\$43.94	19.60%
Residential - Wells	5,000	\$5.59	\$14.38	\$42.33	\$7.39	\$14.38	\$51.33	21.26%
Residential - Wells	6,000	\$5.59	\$14.38	\$47.92	\$7.39	\$14.38	\$58.72	22.54%
Residential - Wells	7,000	\$5.59	\$14.38	\$53.51	\$7.39	\$14.38	\$66.11	23.55%
Residential - Wells	8,000	\$5.59	\$14.38	\$59.10	\$7.39	\$14.38	\$73.50	24.37%
Residential - Wells	9,000	\$5.59	\$14.38	\$64.69	\$7.39	\$14.38	\$80.89	25.04%
Residential - Wells	10,000	\$5.59	\$14.38	\$70.28	\$7.39	\$14.38	\$88.28	25.61%

Rate description	Mont ly sage in Gallons	Current olume Rate	Current Base C arge	Current Bill	roposed olume Rate	roposed Base C arge	roposed Bill	% C ange
Residential - Purchased Water	1,000	\$7.55	\$14.38	\$21.93	\$9.98	\$14.38	\$24.36	11.08%
Residential - Purchased Water	2,000	\$7.55	\$14.38	\$29.48	\$9.98	\$14.38	\$34.34	16.49%
Residential - Purchased Water	3,000	\$7.55	\$14.38	\$37.03	\$9.98	\$14.38	\$44.32	19.69%
Residential - Purchased Water	4,000	\$7.55	\$14.38	\$44.58	\$9.98	\$14.38	\$54.30	21.80%
Residential - Purchased Water	5,000	\$7.55	\$14.38	\$52.13	\$9.98	\$14.38	\$64.28	23.31%
Residential - Purchased Water	6,000	\$7.55	\$14.38	\$59.68	\$9.98	\$14.38	\$74.26	24.43%
Residential - Purchased Water	7,000	\$7.55	\$14.38	\$67.23	\$9.98	\$14.38	\$84.24	25.30%
Residential - Purchased Water	8,000	\$7.55	\$14.38	\$74.78	\$9.98	\$14.38	\$94.22	26.00%
Residential - Purchased Water	9,000	\$7.55	\$14.38	\$82.33	\$9.98	\$14.38	\$104.20	26.56%
Residential - Purchased Water	10,000	\$7.55	\$14.38	\$89.88	\$9.98	\$14.38	\$114.18	27.04%

Service Territory #2 Residential Customers

Rate description	Mont ly sage in Gallons	Current olume Rate	Current Base C arge	Current Bill	roposed olume Rate	roposed Base C arge	roposed Bill	% C ange
Residential - Wells	1,000	\$10.27	\$28.59	\$38.86	\$12.34	\$28.59	\$40.93	5.33%
Residential - Wells	2,000	\$10.27	\$28.59	\$49.13	\$12.34	\$28.59	\$53.27	8.43%
Residential - Wells	3,000	\$10.27	\$28.59	\$59.40	\$12.34	\$28.59	\$65.61	10.45%
Residential - Wells	4,000	\$10.27	\$28.59	\$69.67	\$12.34	\$28.59	\$77.95	11.88%
Residential - Wells	5,000	\$10.27	\$28.59	\$79.94	\$12.34	\$28.59	\$90.29	12.95%
Residential - Wells	6,000	\$10.27	\$28.59	\$90.21	\$12.34	\$28.59	\$102.63	13.77%
Residential - Wells	7,000	\$10.27	\$28.59	\$100.48	\$12.34	\$28.59	\$114.97	14.42%
Residential - Wells	8,000	\$10.27	\$28.59	\$110.75	\$12.34	\$28.59	\$127.31	14.95%
Residential - Wells	9,000	\$10.27	\$28.59	\$121.02	\$12.34	\$28.59	\$139.65	15.39%
Residential - Wells	10,000	\$10.27	\$28.59	\$131.29	\$12.34	\$28.59	\$151.99	15.77%

Rate description	Mont ly sage in Gallons	Current olume Rate	Current Base C arge	Current Bill	roposed olume Rate	roposed Base C arge	roposed Bill	% C ange
Residential - Purchased Water	1,000	\$11.85	\$28.59	\$40.44	\$14.24	\$28.59	\$42.83	5.91%
Residential - Purchased Water	2,000	\$11.85	\$28.59	\$52.29	\$14.24	\$28.59	\$57.07	9.14%
Residential - Purchased Water	3,000	\$11.85	\$28.59	\$64.14	\$14.24	\$28.59	\$71.31	11.18%
Residential - Purchased Water	4,000	\$11.85	\$28.59	\$75.99	\$14.24	\$28.59	\$85.55	12.58%
Residential - Purchased Water	5,000	\$11.85	\$28.59	\$87.84	\$14.24	\$28.59	\$99.79	13.60%
Residential - Purchased Water	6,000	\$11.85	\$28.59	\$99.69	\$14.24	\$28.59	\$114.03	14.38%
Residential - Purchased Water	7,000	\$11.85	\$28.59	\$111.54	\$14.24	\$28.59	\$128.27	15.00%
Residential - Purchased Water	8,000	\$11.85	\$28.59	\$123.39	\$14.24	\$28.59	\$142.51	15.50%
Residential - Purchased Water	9,000	\$11.85	\$28.59	\$135.24	\$14.24	\$28.59	\$156.75	15.91%
Residential - Purchased Water	10,000	\$11.85	\$28.59	\$147.09	\$14.24	\$28.59	\$170.99	16.25%

Service Territory Consolidated Sewer

Rate description			Current Base C arge	Current Bill		roposed Base C arge	roposed Bill	% C ange
Residential - Per S			\$65.08	\$65.08		\$80.93	\$80.93	24.35%

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

ADMINISTRATIVE MATTER	☐	DATE	<u>August 18, 2020</u>
MOTOR CARRIER MATTER	☐	DOCKET NO.	<u>2019-290-WS</u>
UTILITIES MATTER	☒	ORDER NO.	<u>2020-106-A</u>
			<u>2020-549</u>

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates;

-and-

DOCKET NO. 2020-106-A - Actions in Response to COVID-19 - Staff Presents for Commission Consideration the Request for Clarification and Alternatives to the Proposed Rate Implementation, Filed on Behalf of the South Carolina Department of Consumer Affairs.

COMMISSION ACTION:

The Department of Consumer Affairs seeks clarification regarding the bond that was approved pursuant to S.C. Code Ann. Section 58-5-240(D).

Move to direct the Clerk's Office to schedule oral arguments on the request for clarification of the Department of Consumer Affairs. Further move that the rates under bond are stayed until further notice.

PRESIDING: RandallSESSION: Regular

TIME: 11:00 a.m.

	MOTION	YES	NO	OTHER	
BELSER	☐	☒	☐		voting via videoconference
ERVIN	☒	☒	☐		voting via videoconference
HAMILTON	☐	☒	☐		voting via videoconference
HOWARD	☐	☐	☐	<u>Absent</u>	Sick Leave
RANDALL	☐	☒	☐		voting via videoconference
WHITFIELD	☐	☒	☐		voting via videoconference
WILLIAMS	☐	☐	☐	<u>Absent</u>	Military Leave

(SEAL)

RECORDED BY: J. Schmieding



BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-290-WS - ORDER NO. 2020-641
SEPTEMBER 23, 2020

IN RE: APPLICATION OF	) ORDER ON PETITIONS FOR
BLUE GRANITE	) CLARIFICATION AND
WATER COMPANY	) REHEARING/RECONSIDERA
FOR APPROVAL TO	) TION BY BLUE GRANITE
ADJUST RATE	) WATER COMPANY AND BY
SCHEDULES AND	) THE OFFICE OF
INCREASE RATES	) REGULATORY STAFF

This matter comes before the Public Service Commission of South Carolina (“Commission”) by way of the Petition for Reconsideration and Clarification (the “Petition for Reconsideration and Clarification” or “Petition”) of Commission Order No. 2020-306 (“Order”) filed by Blue Granite Water Company (“Blue Granite” or “Company”) and by way of the Petition for Clarification and Rehearing/Reconsideration (the “Petition for Rehearing/Reconsideration” or “ORS Petition”) of the Order filed by the Office of Regulatory Staff (“ORS”). The South Carolina Department of Consumer Affairs also filed a response in support of the Commission’s ruling on a 7.46% Rate of Return on Equity commonly referred to as “ROE.” For the reasons stated below, we deny Blue Granite’s Petition for Reconsideration and Clarification and grant, in part, and deny, in part, the Petition for Clarification and Rehearing/Reconsideration filed by the Office of Regulatory Staff. The three issues raised by ORS in its Motion are also issues raised by Blue Granite which motions are addressed at the same time when the issues are discussed herein.

This Order sets out the Commission's clarification and reconsideration on issues and resulting changes to Order No. 2020-306. To the extent that any rulings within this Order conflict with Order No. 2020-306, this Order supersedes the prior Order. Any matters not specifically addressed in this Order remain unchanged. Our holdings herein and the holdings contained in Order No. 2020-306, which remain unchanged, are all supported by the record of this case. Based upon the evidence in the record and the discussion herein, the Commission finds and concludes that it shall retain its ruling for a 7.46% ROE; therefore, the revised Revenue Requirement then is \$29,191,874 due to these revised calculations herein.

**I. ORS' PETITION FOR CLARIFICATION AND REHEARING
RECONSIDERATION OF COMMISSION ORDER NO. 2020-306 AND
BLUE GRANITE'S PETITION FOR RECONSIDERATION AND
CLARIFICATION**

- A. BOTH ORS AND BLUE GRANITE SEEK CLARIFICATION ON THE COMMISSION'S ON RULING FOR ADJUSTMENT NO. 8 (PURCHASED WATER AND SEWER) AND REQUEST RECONSIDER TO INCLUDE THE UNAMORTIZED BALANCE OF ADJUSTMENT NO. 8 IN RATE BASE, SO AS TO ALLOW BLUE GRANITE THE OPPORTUNITY TO EARN ITS WEIGHTED COST OF CAPITAL ON PURCHASED WATER AND SEWER DEFERRAL OR THE PURCHASED WATER AND SEWER EXPENSES GOING FORWARD¹

Both ORS and Blue Granite,² seek Clarification and Reconsideration of the Commission's ruling regarding Adjustment No. 8 to purchased water and sewer expenses which includes two parts. Adjustment 8a is Third-Party Purchased Water and Sewer

¹ The three issues raised by ORS in its Motion are also issues raised by Blue Granite in its Motion; therefore, the Commission addresses both motions by Blue Granite and ORS at the same time.

² See Item II.H, p. 25-26, and Item II.K.3, p. 29, of its Motion.

Treatment Deferral totaling \$2,563,596. Adjustment 8b is Third-Party Purchased Water and Sewer Expenses Going Forward in the amount of \$2,324,292, which already reflects the reduction for the non-revenue water limit of 10%.

First, ORS requests limited clarification of the Commission’s ruling regarding Adjustment No. 8, adjustment to purchased water and sewer expenses. ORS only seeks reconsideration of Commission Adjustment No. 8 to the extent the Commission determines that, upon clarification, the total sum of expenses that correlate to Adjustment Nos. 8(a) and 8(b) need to be altered or the unamortized portion of Adjustment No. 8 should be removed from the calculation of rate base. Adjustment No. 8 consisted of two distinct accounting adjustments. Adjustment No. 8a (the “Purchased Water and Wastewater Treatment Deferral”) is an adjustment to reduce the deferral account Blue Granite had been authorized to create to record purchased water and wastewater treatment costs resulting from rate increases by third-party water and sewer treatment providers. *Tr. p. 763.9, ll. 9-18*. The total deferred amount for which Blue Granite sought recovery was \$2,803,968. *Tr. p. 763.9, ll. 14-15*. During the hearing on the merits, ORS and Blue Granite each proposed to amortize the total deferred amount over three years. The South Carolina Department of Consumer Affairs proposed a longer amortization period of five years. ORS proposed limiting recovery of non-revenue water to 10%. *Tr. p. 1128.3, ll. 5-22*. The changes proposed by ORS resulted in recovery of the Purchased Water and Wastewater Treatment Deferral that totaled \$2,563,596. *Id.* ORS’s proposed Adjustment No. 8a was \$854,532, which was \$2,563,596 amortized over three years. *Tr. p. 1128.3, ll. 5-6*. In its Order No. 2020-306, the Commission found “ORS’s adjustment just and reasonable to limit the

customer's responsibility for non-revenue water expenses to 10% in each subdivision for Blue Granite Service Territories 1 and 2....” *Order No. 2020-306, p. 83.*

ORS further asserts that Adjustment No. 8b (referred to as “Purchased Water and Sewer Expenses Going Forward”), in the amount of \$2,324,292 was made, in part, to adjust test year expenses for purchased water and sewer expenses to allow the Company recovery of the expenses going forward at approximately the current levels experienced by the Company, with recovery of non-revenue water limited to 10%. *Tr. p. 1128.4, ll. 1-20, Tr. p. 1129.2, l. 17.* The Commission also found ORS’s Adjustment 8b to be “just and reasonable to limit the customer’s responsibility for non-revenue water expenses to 10% in each subdivision and to adopt the adjustment of \$271,930 to reduce purchased water expenses for all Blue Granite’s service territories.” *Order No. 2020-306, p. 84.* ORS further asserts in its Motion that the correct amount of non-revenue water is \$251,311, as updated in witness Briseno’s Revised Surrebuttal testimony. *Tr. p. 1129.2, ll. 15-17.* ORS’s proposed adjustment of \$2,324,292 constituted a reduction of the Company’s proposed adjustment of \$2,640,647. *Tr. p. 1128.4, ll. 1-3.* ORS further asserts that the \$2,324,292 was not an amortized amount and reflected the \$251,311 reduction for the non-revenue water limit of 10%. *Tr. p. 1129.2, ll. 15-17.* ORS’s proposed Adjustment No. 8 appeared as an adjustment of \$3,178,824 to Purchased Sewer and Water – Pass Through Maintenance Expense in Exhibit 1 to ORS’s proposed order and consisted of Adjustment No. 8a, which equals \$854,532, plus Adjustment No. 8b, which equals \$2,324,292.

In Order No. 2020-306, Commission Adjustment No. 8 is comprised of the sum of Adjustment Nos. 8a and 8b. The Commission ordered that Adjustment No. 8, in its entirety,

be amortized over five years with one year's expense in the amount of \$635,765 placed in expenses and the unamortized remainder, in the amount of \$2,543,059, placed in a Regulatory Asset. *Order No. 2020-306, p. 83.* ORS asserts in its Motion that only Adjustment No. 8a is limited to the purchased water and sewer deferral whereas Adjustment No. 8b does not correspond to the deferral and reflects the accounting treatment necessary to establish the purchased water and sewer expenses going-forward to current expense levels experienced by the Company. There, ORS requested clarification regarding the accounting treatment authorized by the Commission, which amortized the sum of the Purchased Water and Wastewater Treatment Deferral, as adjusted by ORS, and ORS's proposed Purchased Water and Sewer Expenses Going Forward adjustment over five years. The sum of the Purchased Water and Wastewater Treatment Deferral, as adjusted by ORS, and ORS's proposed Purchased Water and Sewer Expenses Going Forward adjustment equals \$4,887,888. As a result, ORS asserts that if the Commission intended to amortize to the total of the Purchased Water and Wastewater Treatment Deferral, as adjusted by ORS, and ORS's proposed Purchased Water and Sewer Expenses Going Forward adjustment over five years, the adjustment should be \$977,578.

Upon consideration of the request of ORS and Blue Granite, we agree that clarification and reconsideration are needed to make an accounting adjustment to the total amount of Purchased Water and Sewer Treatment Deferral as adjusted by ORS, and the proposed Purchased Water and Sewer Expenses Going Forward which is to be amortized over five years. The Commission finds and concludes upon review and reconsideration of the evidence in the record related to Adjustment No. 8 as provided by ORS, Blue Granite,

and all parties in this Docket to clarify its Order No. 2020-306 that the sum of the Purchased Water and Wastewater Treatment Deferral (Adjustment 8a), as adjusted by ORS, \$2,563,596, and ORS's proposed Purchased Water and Sewer Expenses Going Adjustment (Adjustment 8b), \$2,324,292, amortized over five years, equals \$977,578. *See, ORS Motion, p.4; Tr. p. 1129.2, ll. 15-17; Tr. p. 1128.4, ll. 1-3; Tr. p. 1129.2, ll. 15-17; & Tr. p. 1115.6.*

The Commission further hereby clarifies Order No. 2020-306 by adopting the total amount of \$4,887,888 as proposed by ORS on page 4 of their Motion for Clarification and Rehearing/Reconsideration to correct the dollar amount for Adjustment No. 8 regarding Third-Party Purchased Water and Sewer Treatment Deferral and Expenses and then the Commission finds, clarifies, and concludes to allow one-fifth of the corrected dollar amount for Adjustment No. 8 (\$4,887,888), which is the amount of \$977,578, shall be placed in expenses. The Commission finds, clarifies, and concludes that the remainder of Adjustment No. 8 following the deduction of one-fifth for expenses is the amount of \$3,910,310 and that this remainder shall be amortized over the remaining four (4) years. The above clarification in the calculation of Adjustment 8 has addressed the concerns raised by Blue Granite in its Motion for Reconsideration and Clarification related to a calculation or numerical error have been corrected in granting, in part, the Motion of ORS and therefore, no further action is needed related to motion of Blue Granite regarding the numerical error. *See, Blue Granite's Motion, Item II.H, p. 25-26, and Item II.K.3, p. 29.*

Whereas the Commission has reconsidered and clarified the calculation of Adjustment 8, its accounting treatment authorized by the Commission, as well as the

amount to be placed in expenses and the amount to be amortized over the remaining four (4) years in a Regulatory Asset (*see, Order No. 2020-306, p. 83*), we deny the request by ORS to remove this item from the calculation of rate base, as well as the request by ORS and Blue Granite to otherwise change Adjustment 8a and 8b to provide for a resulting pro-forma adjustment of \$2,837,011. *See, ORS Motion, pp. 5-8; Blue Granite's Motion, Item II.K.3, p. 29.*

B. ORS AND BLUE GRANITE SEEK CLARIFICATION AND RECONSIDERATION ON THE COMMISSION'S ON RULING FOR ADJUSTMENT NO. 16 (RATE CASE EXPENSES)³

The second issue raised by ORS is the request for clarification and reconsideration of Commission's decision concerning rate case expenses in Adjustment 16a. We find and conclude to grant ORS' request for reconsideration and clarification by removing an additional \$16,132 from Rate Case Expenses. Blue Granite also requested reconsideration by the Commission of its decision to disallow certain rate case expense and other legal expenses.⁴ ORS makes a compelling argument for reconsideration and grant of its request. Based upon the calculations provided by the Commission,⁵ it appears that there was an inadvertent error including, while intending to exclude, \$16,132 of post-test year legal expenses associated with Docket Nos. 2018-358-WS and 2018-361-WS from its calculation of rate case expenses amortized over a three-year period. Tr. p. 1116.2, l. 9. As a result, the Commission's amortization of rate case expenses over a three-year period

³ The three issues raised by ORS in its Motion are also issues raised by Blue Granite in its Motion; therefore, the Commission addresses both motions by Blue Granite and ORS at the same time.

⁴ See Blue Granite's Motion, Item II.G, p. 21-25.

⁵ See Order No. 2020-306, Exhibit 1.

includes \$5,377 per year associated with Docket Nos. 2018-358-WS and 2018-361-WS. The Commission finds and concludes to deny the Company's request except to the extent that such request is modified by granting of ORS' request herein which removes an additional \$5,377 from Rate Case Expenses for three years which is an additional \$16,132 removed from its total Rate Case Expenses. Blue Granite also raised a calculation error in its Motion for Reconsideration⁶ that the Commission should have also removed \$16,132, which is also addressed and corrected by this motion.

- C. BOTH ORS AND BLUE GRANITE SEEK CLARIFICATION ON THE COMMISSION'S ON RULING FOR ADJUSTMENT NO. 8 (PURCHASED WATER AND SEWER) AND REQUEST RECONSIDER TO INCLUDE THE UNAMORTIZED BALANCE OF ADJUSTMENT NO. 8 IN RATE BASE, SO AS TO ALLOW BLUE GRANITE THE OPPORTUNITY TO EARN ITS WEIGHTED COST OF CAPITAL ON PURCHASED WATER AND SEWER DEFERRAL OR THE PURCHASED WATER AND SEWER EXPENSES GOING FORWARD⁷

The third issue raised by ORS is that the Commission clarify and reconsider the dollar amount of the Company's allowable rent expense that excluded the Greenville Office Rent Expense as well as other rent expenses. Blue Granite also requests we reconsider Rent Expense in the amount of \$84,685.⁸ Both ORS and the Company clarified post-hearing in subsequent filings that the annual rent for the Greenville Office was not \$84,685 as testified at the hearing but that it was in fact \$73,665. The Company and ORS failed to breakdown the Company's annual rent expenses so that the Commission could specifically disallow the Greenville Office rent expenses of \$73,665. Based upon the above

⁶ See Blue Granite's Motion, Item II.K.2

⁷ The three issues raised by ORS in its Motion are also issues raised by Blue Granite in its Motion; therefore, the Commission addresses both motions by Blue Granite and ORS at the same time.

⁸ See Blue Granite's Motion, Item II.F, p. 19-20

and additional clarifying evidence, the Commission grants ORS' motion to reconsider and adjust the Rent Expense to allow rent expense in the amount of \$11,174 for other areas than the Greenville Office so that the total amount disallowed relating to the Greenville Office Upfit and Rent Expense is \$579,890 and the only amount allowed is \$11,174 for rent expenses associated with the Company's Rock Hill Office and warehouse, Anderson Office, Water Service Corporation Public Storage and Water Service Corporation Office. The Commission further finds and concludes to deny Blue Granite's request for reconsideration of the Commission's ruling denying recovery of the Greenville Office rent expense except as changed herein to allow recovery of "other than rent expense for the Greenville Office" in the amount of \$11,174 which corrects the calculation error which was raised by Blue Granite.⁹

D. BLUE GRANITE SEEKS SPECIFIC RULINGS IN COMMISSION ORDER NO. 2020-306 IN SECTION II OF ITS MOTION AND REMAINING PORTIONS OF MOTION NOT SPECIFICALLY ADDRESSED.

Blue Granite's Petition for Reconsideration and Clarification of specific rulings in Commission Order No. 2020-306 separately set out in Section II of the Company's Motion multiple grounds for reconsideration and modification. The Commission finds, concludes and denies all requests for reconsideration and modification in Section II of the Company's Motion except for the following:

(1) The Commission finds and grants to make the technical typographical change requested by Blue Granite to delete reference on page 128 of the Commission's Order No.

⁹ See Blue Granite's Motion, Item II.K.1.

2020-306 to “Operative Margin” and insert “the rate base rate of return methodology.”¹⁰

Upon review of the evidence in the record and application, the Commission finds that this typographical error should be corrected. *See, Blue Granite Application, p. 5; Blue Granite Direct Testimony of Dante DeStefano, p. 4, Tr. 763.4.*

(2) The Commission finds and grants the Company’s request for the Commission to clarify certain rulings or matters in its Order as outlined in Item III.A, III.B, III.C and III.D of Blue Granite’s Motion. The Commission finds and clarifies that with regard to Bill Format in Item III.A, the Company shall file a draft proposed Bill Format for review and approval. The Commission finds and clarifies that with regard to the recovery of Purchase Water and Sewer Treatment Charges in Item III.B of the Company’s Motion, the above discussion of the ruling and clarification of Adjustment No. 8 has answered this question and not further action is needed.

The Commission finds and clarifies that Blue Granite, with reporting customer complaints to the Commission Item III.C of the Company’s Motion, shall to file the quarterly reports without customer addresses, and to instead provide addresses to ORS on an as-needed basis and to the Commission as may be requested under seal.

With regard to Item III.D of the Company’s Motion, the Commission finds and clarifies the Company shall continue to file semiannual capital improvement reports in this Docket in the same manner and format as required of the Company pursuant to Order No. 2018-345(A) in Docket No. 2017-292-WS.

¹⁰ See Blue Granite’s Motion, Item II.A.1, p. 3.

The Commission finds denies all other requests for reconsideration or rehearing not specifically addressed herein.

E. CLARIFICATION ON THE COMMISSION’S ORDER NO. 2020-306 REGARDING TESTING ON RULING FOR INFLOW & INFILTRATION TESTING AND REPORTING

The Commission’s order the Company to address its “I & I” issues through testing and reporting the results to the Commission which must be done prior to its next rate proceeding. The Commission finds that the Company shall comply with the provisions of Order No. 2020-306 and shall further provide the “I&I” study and information to the Commission prior to its next rate proceeding. The Company may seek further approval or guidance from the Commission and ORS regarding any methods or studies sought to be used by the Company in providing information and addressing “I&I”

IT IS THEREFORE ORDERED that, based on the above stated findings and conclusions,

1. The Commission agrees that clarification and reconsideration are needed to make an accounting adjustment to the total amount of Purchased Water and Sewer Treatment Deferral as adjusted by ORS, and the proposed Purchased Water and Sewer Expenses Going Forward which is to be amortized over five years.

2. The Commission finds and concludes upon review and reconsideration of the evidence in the record related to Adjustment No. 8 as provided by ORS, Blue Granite, and all parties in this Docket to clarify its Order No. 2020-306 that the sum of the Purchased Water and Wastewater Treatment Deferral (Adjustment 8a), as adjusted by ORS, \$2,563,596, and ORS’s proposed Purchased Water and Sewer Expenses Going Adjustment (Adjustment 8b), \$2,324,292, amortized over five years, equals \$977,578.

3. The Commission further hereby clarifies Order No. 2020-306 by adopting the total amount of \$4,887,888 to correct the dollar amount for Adjustment No. 8 regarding Third-Party Purchased Water and Sewer Treatment Deferral and Expenses.

4. The Commission finds, clarifies, and concludes to allow one-fifth of the corrected dollar amount for Adjustment No. 8 (\$4,887,888), which is the amount of \$977,578, shall be placed in expenses.

5. The Commission finds, clarifies, and concludes that the remainder of Adjustment No. 8 following the deduction of one-fifth for expenses is the amount of \$3,910,310 and that this remainder shall be amortized over the remaining four (4) years.

6. The Commission finds and grants to make the technical typographical change requested by Blue Granite to delete reference on page 128 of the Commission's Order No. 2020-306 to "Operative Margin" and insert "the rate base rate of return methodology."

7. The Commission finds and concludes to deny the Company's request except to the extent that such request is modified by granting of ORS' request herein which removes an additional \$5,377 from Rate Case Expenses for three years which is an additional \$16,132 removed from its total Rate Case Expenses. Blue Granite also raised a calculation error in its Motion for Reconsideration¹¹ that the Commission should have also removed \$16,132, which is also addressed and corrected by this motion.

8. Based upon the above and additional clarifying evidence, the Commission finds and grants ORS' motion to reconsider and adjust the Rent Expense to allow rent

¹¹ See Blue Granite's Motion, Item II.K.2

expense in the amount of \$11,174 for other areas than the Greenville Office so that the total amount disallowed relating to the Greenville Office Upfit and Rent Expense is \$579,890 and the only amount allowed is \$11,174 for rent expenses associated with the Company's Rock Hill Office and warehouse, Anderson Office, Water Service Corporation Public Storage and Water Service Corporation Office.

9. The Commission further finds and concludes to deny Blue Granite's request for reconsideration of the Commission's ruling denying recovery of the Greenville Office rent expense except as changed herein to allow recovery of "other than rent expense for the Greenville Office" in the amount of \$11,174 which corrects the calculation error which was raised by Blue Granite.¹²

10. Based upon the evidence in the record and the discussion herein, the Commission finds and concludes that it shall retain its ruling for a 7.46% ROE; therefore, the revised Revenue Requirement then is \$29,191,874 due to these revised calculations herein.

11. The Commission finds and clarifies that with regard to Bill Format in Item III.A, the Company shall file a draft proposed Bill Format for review and approval.

12. The Commission finds and clarifies that with regard to the recovery of Purchase Water and Sewer Treatment Charges in Item III.B of the Company's Motion, the above discussion of the ruling and clarification of Adjustment No. 8 has answered this question and not further action is needed.

¹² See Blue Granite's Motion, Item II.K.1.

13. The Commission finds and clarifies that Blue Granite, with reporting customer complaints to the Commission Item III.C of the Company's Motion, shall to file the quarterly reports without customer addresses, and to instead provide addresses to ORS on an as-needed basis and to the Commission as may be requested under seal.

14. With regard to Item III.D of the Company's Motion, the Commission finds and clarifies the Company shall continue to file semiannual capital improvement reports in this Docket in the same manner and format as required of the Company pursuant to Order No. 2018-345(A) in Docket No. 2017-292-WS.

15. The Commission finds that the Company shall comply with the provisions of Order No. 2020-306 and shall further provide the "I&I" study and information to the Commission prior to its next rate proceeding. The Company may seek further approval or guidance from the Commission and ORS regarding any methods or studies sought to be used by the Company in providing information and addressing "I&I"

16. The Commission finds denies all other requests for reconsideration or rehearing not specifically addressed herein.

17. The Company shall update and refile the schedule of rates, terms and conditions to reflect values adjusted or clarified in this Order with this Commission as soon as practicable.

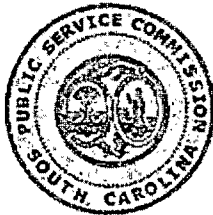
18. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Comer H. Randall

Comer H. "Randy" Randall, District 3
for the Public Service Commission of South Carolina

(SEAL)



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

ADMINISTRATIVE MATTER

☐

DATE

May 28, 2020

MOTOR CARRIER MATTER

☐

DOCKET NO.

2019-290-WS

UTILITIES MATTER

☒

ORDER NO.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration Blue Granite Water Company's Petition for Reconsideration and Clarification, as well as the Office of Regulatory Staff's Petition for Clarification and Rehearing/Reconsideration.

COMMISSION ACTION:

Mr. Chairman, the Commission has received a Petition for Clarification and for Rehearing and Reconsideration on our ruling in Order No. 2020-306. These Requests come from the South Carolina Office of Regulatory Staff (ORS) and also from Blue Granite Water Company (Blue Granite). The South Carolina Department of Consumer Affairs also filed a response in support of the Commission's ruling on a 7.46% Rate of Return on Equity commonly referred to as "ROE".

The three issues raised by ORS in its Motion are also issues raised by Blue Granite; therefore, I would like to address them one issue at a time, and this will decide both as follows:

The first issue raised by ORS, and also raised by Blue Granite,^[i] is the Clarification and Reconsideration of the Commission's ruling regarding Adjustment No. 8 to purchased water and sewer expenses which includes two parts – 8a is Third-Party Purchased Water and Sewer Treatment Deferral totaling \$2,563,596 and 8b is a Third-Party Purchased Water and Sewer Expenses Going Forward in the amount of \$2,324,292, which already reflects the reduction for the non-revenue water limit of 10%.

Mr. Chairman, I believe that we should clarify, reconsider, and make an accounting adjustment to the total amount of Purchased Water and Sewer Treatment Deferral as adjusted by ORS, and the proposed Purchased Water and Sewer Expenses Going Forward which is amortized over five years. I move that we reconsider and clarify by adopting the total amount of \$4,887,888 as proposed by ORS on page 4 of their Motion to correct the dollar amount for Adjustment No. 8 regarding Third-Party Purchased Water and Sewer Treatment Deferral and Expenses and then proceed to allow one-fifth in the amount of \$977,578 placed in expenses with the remainder of \$3,910,310 amortized over the remaining four (4) years.

However, I move that the Commission deny the request by ORS to remove this item from the calculation of rate base, as well as the request by ORS and Blue Granite to otherwise change Adjustment 8a and 8b to provide for a resulting pro-forma adjustment of \$2,837,011. Blue Granite's Motion for reconsideration^[ii] related to the numerical error in the Deferred Charges in Adjustment 8a has been corrected with this Motion and no further action is needed.

The second issue raised by ORS is the request for clarification and reconsideration of Commission's decision concerning rate case expenses in Adjustment 16a. I move that the Commission grant ORS' request for reconsideration and clarification by removing an additional \$16,132 from Rate Case Expenses. Blue Granite also requested reconsideration by the Commission of its decision to disallow certain rate case expense and other legal expenses.^[iii] I move that we **deny** the Company's request except to the extent that such request is modified by granting of ORS' request herein which removes an additional \$5,377 from Rate Case Expenses for three years which is an additional \$16,132 removed from its total Rate Case Expenses.

Blue Granite also raised a calculation error in its Motion for Reconsideration^[iv] that the Commission should have also removed \$16,132, which is also addressed and corrected by this motion;

The third issue raised by ORS is that the Commission clarify and reconsider the dollar amount of the Company's allowable rent expense that excluded the Greenville Office Rent Expense as well as other rent expenses. Blue Granite also requests we reconsider Rent Expense in the amount of \$84,685^[v] Both ORS and the Company clarified post-hearing in subsequent filings that the annual rent for the Greenville Office was not \$84,685 as testified at the hearing but that it was in fact \$73,665. The Company and ORS failed to breakdown the Company's annual rent expenses so that the Commission could specifically disallow the Greenville Office rent expenses of \$73,665. I move that we grant ORS' motion to reconsider and adjust the Rent Expense to allow rent expense in the amount of \$11,174 for other areas than the Greenville Office so that the **total amount disallowed** relating to the Greenville Office Upfit and Rent Expense is \$579,890 and the only amount allowed is \$11,174 for rent expenses associated with the Company's Rock Hill Office and warehouse, Anderson Office, Water Service Corporation Public Storage and Water Service Corporation Office. I further move that we **deny** Blue Granite's request for reconsideration of the Commission's ruling denying recovery of the Greenville Office rent expense except as changed herein to allow recovery of "other than rent expense for the Greenville Office" in the amount of \$11,174 which corrects the calculation error which was raised by Blue Granite.^[vi]

With regard to Blue Granite's Petition for Reconsideration and Clarification of specific rulings in Commission Order No. 2020-306 separately set out in Section II of the Company's Motion, I move that the Commission:

- (1) **Grant** the technical typographical change to delete reference on page 128 of the Commission's Order to "Operative Margin" and insert "the rate base rate of return methodology"^[vii] and
- (2) **Deny** all other requests for reconsideration or rehearing not specifically addressed herein; and
- (3) I move that we **Grant** the Company's request for the Commission to clarify certain rulings or matters in its Order as outlined in Item III.A, III.B, III.C and III.D of Commission Order No. 2020-306; and

Additionally, I move that the staff make any other appropriate changes needed to effectuate and provide a Final Order consistent with the above, as well clarify the Commission's order the Company to address its "I & I" issues through testing and reporting the results to the Commission which must be done prior to its next rate proceeding. I move the Commission retains its ruling for a 7.46% ROE. The revised Revenue Requirement then is \$29,191,874 due to these revised calculations.

As part of my motion, I would request that we direct Blue Granite to provide a revised rate schedule as modified herein no later than Monday, June 8th at the close of business. A full written order will follow, Mr. Chairman. So moved.

^[i] See Item II.H, p. 25-26, and Item II.K.3, p. 29, of its Motion

^[ii] See Item II.K.3

^[iii] See Item II.G, p. 21-25.

^[iv] See Item II.K.2

^[v] See Item II.F, p. 19-20.

^[vi] See Item II.K.1.

^[vii] See Item II.A.1, p. 3.

PRESIDING: Randall

SESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☐	☐	☒		voting via videoconference
ERVIN	☒	☒	☐		voting via videoconference
HAMILTON	☐	☒	☐		voting via videoconference
HOWARD	☐	☒	☐		voting via videoconference
RANDALL	☐	☒	☐		voting via videoconference
WHITFIELD	☐	☒	☐		voting via videoconference

WILLIAMS

☐☐☐

Absent

Military Leave

(SEAL)



RECORDED BY: J. Schmieding

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-290-WS - ORDER NO. 2020-758
NOVEMBER 6, 2020

IN RE: APPLICATION OF BLUE	)	ORDER GRANTING BLUE GRANITE
GRANITE WATER	)	WATER COMPANY'S MOTION FOR
COMPANY FOR	)	APPROVAL OF BOND AS STAYED,
APPROVAL TO ADJUST	)	GRANTING CONSUMER AFFAIRS'
RATE SCHEDULES AND	)	MOTION FOR CLARIFICATION,
INCREASE RATES	)	GRANTING BLUE GRANITE'S
	)	REQUEST FOR EXPEDITED REVIEW
	)	OF CONDITIONAL PETITION FOR
	)	ACCOUNTING ORDER, AND
	)	CONTINUATION OF STAY

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina ("Commission") on the request of Blue Granite Water Company ("Blue Granite" or "BGWS") for approval of a bond under South Carolina Code Section 58-5-240(D) (2015) as surety for the rates Blue Granite intends to implement beginning September 1, 2020 while its appeal of Commission's Order No. 2020-641 to the appellate courts is pending. Thereafter, the Commission also received the Motion for Clarification filed by the S.C. Department of Consumer Affairs ("Consumer Affairs") and Blue Granite's request for expedited review of the Company's Conditional Petition for an Accounting Order, and the continuation of the Stay of an increase in rates under bond originally issued in Order No. 2020-549.

Under South Carolina law, Blue Granite may, notwithstanding this Commission's Order rejecting its petition to adjust and increase Company rates, implement the proposed rate increases requested in its filed rate petition during the pendency of its appeal, provided Blue Granite posts a sufficient bond in accordance with S.C. Code Ann. § 58-5-240(D). Pursuant to this subsection, if the Commission's Order denying Blue Granite's proposed rate relief is upheld on appeal, Blue Granite is required to refund the additional funds collected from its customers during the pendency of appeal with interest accrued at the rate of twelve percent per annum. For the reasons set forth herein, the Commission having determined that the surety company selected by Blue Granite and the proposed amount of the bond is in accordance with the requirements of the applicable statute, the Commission is required to approve the bond.¹ However, subsequent to the issuance of the Directive approving the bond but prior to the issuance of an Order, the South Carolina Department of Consumer Affairs filed a Motion for Clarification. The Commission issued Order No. 2020-549, which stayed the placement by the Company of rates into effect under bond and the Commission proceeded to schedule oral argument for August 27, 2020. Subsequently, Blue Granite filed a Conditional Motion for Approval of Accounting Order, and requested expedited review of that Conditional Petition.

¹ Pursuant to SC Code Ann § 58-5-240(D), Blue Granite Water Company filed a motion for approval of a bond as surety for rates the utility intends to implement beginning September 1, 2020, while appealing the Commission's rate case decision in this docket. Blue Granite seeks approval of a bond in the amount of \$3,874,516, which represents the difference in the revenue requirement authorized by the Commission and the rates the utility wants to charge over an eighteen (18) month estimated appellate period plus interest. Blue Granite will secure this bond from surety, Liberty Mutual Insurance Company. Blue Granite estimates that its appeal to the South Carolina Supreme Court will take approximately an eighteen (18) month period before the Company, rate payers, and Commission will know if the Supreme Court upholds its decision setting the utility rates for water and sewer services charged by Blue Granite.

II. PROCEDURAL HISTORY

On June 8, 2020, Blue Granite moved for approval of bond.

On July 15, 2020, the Commission approved the Company's request for bond in the amount of \$3,874,516 by Commission Directive by finding the amount of the bond to be reasonable and that Liberty Mutual was an acceptable surety.

On August 7, 2020, Consumer Affairs moved for Clarification of the Commission's ruling.

On August 18, 2020, the Commission issued Order No. 2020-549, which stayed the placement by the Company of rates into effect under bond.

On August 24, 2020, Blue Granite filed its Conditional Motion for Approval of Accounting Order, and a request for Expedited Review.

Due to public health concerns, the COVID-19 pandemic, and the need to consider the Consumer Affairs Motion for Clarification, the Commission conducted oral arguments in this matter virtually on August 27, 2020, beginning at 10:00 a.m.

The South Carolina Department of Consumer Affairs ("Consumer Affairs") was represented by Carri Grube Lybarker, Esquire, and Roger P. Hall, Esquire. Attorney Hall appeared and argued on behalf of Consumer Affairs.

Intervenor Town of Irmo, represented by S. Jahue Moore, Esquire, appeared and participated in the oral arguments.

Blue Granite was represented by Frank R. Ellerbe, III, Esquire, and Samuel J. Wellborn, Esquire.

Office of Regulatory Staff (ORS) was represented by Andrew M. Bateman, Esquire and Christopher M. Huber, Esquire, and Alexander W. Knowles, Esquire. Attorney Bateman appeared at the oral arguments for ORS but did not make an argument.

Both Intervenor York County, South Carolina, which was represented by Michael Kendree, Esquire, and Intervenor James S. Knowlton representing himself pro se, also appeared at the oral arguments.

The other intervenor, the Building Industry Association of South Carolina, represented by John J. Pringle, Esquire, was notified of the oral arguments, but did not participate or otherwise appear.

III. TERMS AND CONDITIONS OF THE PROPOSED BOND

Blue Granite requested that the Commission approve a bond pursuant to South Carolina Code Section 58-5-240(D) in the amount of \$3,874,516, pending issuance of the order on the Petition for Rehearing or Reconsideration and any subsequent appeal. S.C. Code Ann. §58-5-240(D) (2015). The Company furnished a proposed bond form to be executed by a surety company authorized to do business in South Carolina. Blue Granite further asserts that it has the right to collect rates under bond under the statute, but at the same time Blue Granite claims that it poses no risk of harm to customers. Blue Granite further argues that any rates collected during the eighteen (18)-months appeals period will be subject to refund protected by the bond with twelve percent interest in the event Blue Granite's subsequent appeal to the South Carolina Supreme Court is unsuccessful.

The Commission found on rehearing that Blue Granite was authorized to implement an annual revenue requirement in the amount of \$29,191,874. Blue Granite intends to

charge rate payers an additional \$2,179,211 under bond so that it will implement a revenue requirement of \$31,371,085, which is greater than approved by the Commission² but less than originally sought in Blue Granite's Application.³ With its Motion for Approval of Bond, Blue Granite provided Exhibit No. 1 setting forth its Schedule of Rate Charges for Water and for Sewer services to be charged to all customers within its service territories.

IV. THE APPLICABLE STATUTE

Pursuant to SC Code Ann § 58-5-240(D), Blue Granite Water Company filed a motion for approval of a bond as surety for rates the utility intends to implement beginning September 1, 2020, while the appeal of the Commission's decision in this docket is pending. Subsection (D) of S.C. Code Ann. Section 58-5-240 states that:

the utility shall appeal from the [Commission] order, by filing with the Commission a petition for rehearing, the *utility may put the rates requested in its schedule into effect under bond only during the appeal and until final disposition of the case.* Such bond must be in a reasonable amount approved by the Commission, with sureties approved by the Commission, conditioned upon the refund, in a manner to be prescribed by order of the Commission, to the persons, corporations, or municipalities, respectively, entitled to the amount of the excess, if the rate or rates put into effect are finally determined to be excessive; *or there may be substituted for the bond other arrangements satisfactory to the Commission for the protection of parties interested.* During any period in which a utility shall charge increased rates under bond, it shall provide records or other evidence of payments made by its subscribers or patrons under the rate or rates which the utility has put into operation in excess of the rate or rates in effect immediately prior to the filing of the schedule.

² With the Commission approved ROE of 7.46%, the Commission in its Order No. 2020-641 adopted a resulting total Revenue Requirement for Blue Granite of \$29,191,874, which is an increase of \$5,416,736.

³ Blue Granite's Application requested a revenue increase of \$11,589,537 resulting in a total Revenue Requirement of \$35,188,858, an approximately 49.18% rate increase over pro-forma rate revenues of Blue Granite. See, Exhibit B of Blue Granite's Application; Blue Granite Witness Denton Direct Testimony p. 21; Tr. p. 354.21.

All increases in rates put into effect under the provisions of this section which are not approved and for which a refund is required shall bear interest at a rate of twelve percent per annum.

The interest shall commence on the date the disallowed increase is paid and continue until the date the refund is made.

In all cases in which a refund is due, the Commission shall order a total refund of the difference between the amount collected under bond and the amount finally approved.

S. C. Code Ann. §58-5-240(D) (2015) (emphasis added). Thus, if the Commission rejects a utility's application for rate relief, the utility may nevertheless choose to implement its requested rates while the utility seeks appeal of the Commission's denial of rate relief, so long as the utility provides an appropriate surety bond in an amount sufficient to ensure repayment of any overcollection, unless the Commission invokes the bond substitution language in the statute.

V. DISCUSSION

It is the utility's decision whether or not to seek approval of bond from the Commission when making its appeal. Only with a bond approved by the Commission or with some other arrangement satisfactory to the Commission for the protection of parties interested can the utility put rates into effect during the appeal of the rate case and until such time as there is final disposition of the case determining whether or not the rate or rates implemented by the Company are finally determined to be excessive. Section 58-5-240(D) requires that the bond be in a reasonable amount approved by the Commission and issued by sureties approved by the Commission. Blue Granite sought approval of a bond in the amount of \$3,874,516, which represents the difference in the revenue requirement authorized by the Commission in its Order and the rates the utility seeks to charge while

the utility appeals the rate determination to the South Carolina Supreme Court over an estimated eighteen (18) month period plus interest. *S.C. Code Ann. §§14-8-200(b), 58-5-340 (2015)*. Blue Granite also sought approval of Liberty Mutual Insurance Company, which is a company authorized to transact business in South Carolina, as a surety. Blue Granite asserts that both the proposed bond amount and the proposed surety company meet the requirements of the statute allowing the Commission to approve Blue Granite's request for implementing rates to achieve a revenue requirement of \$31,371,085 rather than the approved rate revenue requirement of \$29,191,874. In this case, the Commission approved the bond which is one option available to the Commission, but prior to the issuance of the Order, we were presented with another option from Blue Granite seeking an Approval of an Accounting Order. Thus, this Commission continued the Stay placed into effect by Commission Order No. 2020-549 until December 31, 2020 related to a bond, as discussed below concerning the additional filings of Blue Granite offering the alternative option of an accounting order and that of Consumer Affairs seeking alternatives to the proposed rate implementation.

The statute⁴ does provide a utility the option of seeking a bond or other arrangements satisfactory to the Commission for the protection of interested parties. *S.C. Code Ann. §58-5-240(D) (2015)* ("Such bond must be in a reasonable amount approved by the Commission, with sureties approved by the Commission, . . . *or there may be substituted for the bond other arrangements satisfactory to the Commission for the protection of parties interested*"). It is difficult due to COVID-19 and the related state of

⁴ S.C. Code Ann. §58-5-240(D) (2015).

emergencies to know when or how long the appeals process may take and changes may be necessary. Based on the information presented to us, the proposed surety and the bond in the amount of \$3,874,516 are appropriate. We hold in abeyance until the conclusion of the appellate proceedings when refunds may become necessary to rule on the proper refund methodology at that time, if appropriate.

After due consideration of the oral arguments of the parties on August 27, 2020, pursuant to the Consumer Affairs Motion for Clarification, and Blue Granite's filing of the Conditional Petition for Accounting Order, this Commission believes that it must also examine the language in the statute that points to substituting for the bond "other arrangements satisfactory to the Commission for the protection of parties interested," at least for a limited period. Under this scenario, the placement of rates into effect under bond is being stayed until December 31, 2020 as explained below.

With the consent of the parties, the Commission took judicial notice of the Governor's Order Declaring a State of Emergency, dated August 25, 2020, and the Order on Statewide Evictions and Foreclosures of April 30, 2020 issued by South Carolina Supreme Court Justice Donald W. Beatty, which pointed us to various issues that ratepayers of South Carolina, including the ratepayers of Blue Granite were experiencing due to the COVID-19 pandemic. This Commission already issued Order No. 2020-549, which stayed the proposed increase in rates under bond. After due consideration of the documents of which we took judicial notice, and the oral arguments of the parties, we hold that the Stay imposed by Order No. 2020-549 should continue. Implementation of the Company's rate increase under bond shall be stayed through December 31, 2020, due to

the immediate adverse financial impacts that would be suffered by residential and commercial ratepayers during the Governor's declared health care emergency in South Carolina.

Prior to the oral arguments in this matter, Blue Granite filed a Conditional Petition for Approval of an Accounting Order and also requested expedited review. We granted expedited review, due to this Commission's belief that the Conditional Petition constitutes a substitution for the bond of "other arrangements satisfactory to the Commission for the protection of parties interested." Other than having the imposition of rates under bond being stayed, the bond itself is not affected. However, according to Blue Granite, the Accounting Order will enable the Company to have continued access to necessary capital during these "uncertain and rapidly changing economic times," and the granting of an Accounting Order will not change the Company's present rates, but will also not preclude the Commission or parties from addressing the recovery of these costs in a future rate proceeding.

Approval of the Conditional Petition for Approval of Accounting Order would allow Blue Granite to establish a regulatory asset and defer certain costs associated with the delayed implementation of new rate under bond. These costs include 1) the difference between the rates approved by the Commission through Order No. 2020-306, as amended by the Commission's decision on reconsideration, and the rates it had planned to implement under bond, at a rate of \$5,970 per day; 2) the cost of providing additional notice to customers, and 3) carrying costs on these amounts until recovered from customers. This request for an accounting order does not involve a change to any of the Company's rates

at this time or require any change in any Commission rule, regulation, or policy. Further, the issuance of the accounting order will not prejudice the right of any party to address the recovery of these costs in a subsequent rate proceeding. According to Blue Granite, an accounting order will enable the Company to have continued access to necessary capital during these “uncertain and rapidly changing times.”

With all of these matters in mind, we hold that the Conditional Petition for Approval of the Accounting Order should be approved until December 31, 2020. The parties will have further opportunity to be heard on the Company’s Conditional Petition for Approval of Accounting Order before this Commission’s preliminary Stay has expired. The Commission will consider renewal of the Accounting Order at a later date.

We further hold that the offer of an Accounting Order by Blue Granite is appropriate and a sufficient available option under the S.C. Code Ann. §58-5-240(D) (2015) to protect the interests of the parties. This Commission believes that the plan described above is the best way to protect the interests of all parties in this case in this era of the COVID-19 pandemic. The ratepayers are protected from the increase in rates under bond until December 31, 2020, while Blue Granite has an accounting order, which allows it to book costs into a regulatory asset for consideration of recovery as determined in a future rate case.

VI. FINDINGS OF FACT AND CONCLUSIONS OF LAW

Therefore, upon consideration of the request of Blue Granite for approval of a bond under S.C. Code Ann. Section 58-5-240(D) (2015), and also consideration of its Conditional Petition for Approval of an Accounting Order and the continuation of a Stay

in placing rates into bond in effect, the Commission makes the following findings of fact and conclusions of law:

1. S.C. Code Ann. Section 58-5-240(D) (2015) gives the utility appealing an order of the Commission in a rate case the option to proceed to place the requested rates in its Application into effect so that ratepayers are paying the utility's requested rate provided the Company posts a bond in a reasonable amount approved by the Commission to provide refunds to ratepayers with interest if the appellate court agrees with the Commission's decision setting the utility's rates.

2. S.C. Code Ann. Section 58-5-240(D) (2015) not only allows a utility the option of seeking a bond but also allows for other arrangements satisfactory to the Commission for the protection of interested parties.

3. The Commission finds that the bond amount of \$3,874,516 proposed by Blue Granite is a reasonable amount for the bond, as this amount will allow Blue Granite to place into effect the rates which would have been in effect had the Commission approved the rates requested by the Office of Regulatory Staff ("ORS") for Blue Granite over an eighteen (18)-month period; thus, meaning that the bond amount proposed by Blue Granite meets the requirements of S.C. Code Ann. Section 58-5-240(D) (2015).

4. The Commission finds that the proposed bond form and proposed surety to be reasonable and further finds that it is sufficient for use by Blue Granite as it provides for refunds of amounts collected in excess in the amounts finally approved on appeal as required by S.C. Code Ann. Section 58-5-240(D) (2015).

5. The bond is approved, but the Stay of placing rates into effect under bond established under Order No. 2020 shall continue until December 31, 2020.

6. The Commission finds that Blue Granite's petition and offer of an Accounting Order by Blue Granite is appropriate and a sufficient available option under the S.C. Code Ann. §58-5-240(D) (2015) to protect the interests of the parties.

7. The Commission finds that the Stay of placement of rates into effect under the approved bond issued in Order No. 2020-549 shall remain in effect until December 31, 2020, due to the immediate adverse financial impacts that would be suffered by residential and commercial ratepayers during the Governor's declared health care emergency in South Carolina.

8. The Commission finds that the requested expedited review of the Conditional Petition for Approval of an Accounting Order should be granted.

9. The Commission finds that the Conditional Petition for Approval of an Accounting Order should be granted until December 31, 2020, and that the Commission will consider renewal of the Accounting Order at a later date.

10. The Commission finds that the parties to this case will have further opportunity to be heard before the Commission's preliminary Stay has expired.

11. The Commission finds that this Order fully addresses the Consumer Affairs Motion for Clarification.

VII. ORDERING CLAUSE

IT IS THEREFORE ORDERED THAT:

1. In the matter of Blue Granite's rate case as contained in Commission Docket No. 2019-290-WS, Blue Granite will be permitted to place rates into effect under bond as provided by S.C. Code Ann. §58-5-240(D) at the expiration of any Stay ordered by this Commission in the amount of \$3,874,516, which is deemed a reasonable bond amount at this time and until circumstances change requiring further action by the Commission concerning the bond.
2. The proposed bond form submitted by Blue Granite is an appropriate bond form for Blue Granite to use in this matter as required by S.C. Code Ann. Section 58-5-240(D) (2015), once the Stay is lifted.
3. The Stay of the Company's ability to place rates in effect under bond promulgated in Order No. 2020-454 is continued until December 31, 2020.
4. Expedited Review of the Company's Conditional Petition for Accounting Order is granted,
5. The Conditional Petition for Accounting Order is granted through December 31, 2020.
6. At the expiration of the Stay, should Blue Granite place rates into effect under bond under the terms of this Order, Blue Granite shall maintain records or other evidence of payments made by its customers or rate payers of the rates in effect under bond in accordance with the requirements of S.C. Code Ann. Section 58-5-240(D) (2015).

7. With further regard to the imposition of rates under bond at the expiration of the Stay, the Commission shall hold in abeyance a decision on how future refunds, if necessary, shall be made.

8. The Commission reserves the right to further amend or alter this Order as necessary or until circumstances may change requiring further action by the Commission concerning the bond or matters herein.

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

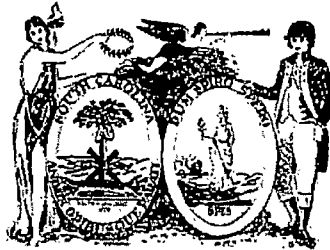
BY ORDER OF THE COMMISSION:



Florence P. Belser
Vice Chair, Public Service Commission of South Carolina



State of South Carolina
Executive Department



FILED

MAR 13 2020

Mark Hammond
SECRETARY OF STATE

Office of the Governor

EXECUTIVE ORDER NO. 2020-08

WHEREAS, the State of South Carolina has taken, and must continue to take, all necessary and appropriate actions in proactively preparing for and promptly responding to the threat posed by the 2019 Novel Coronavirus ("COVID-2019"); and

WHEREAS, to this end, the undersigned has, *inter alia*, convened the Public Health Emergency Plan Committee ("PHEPC"); activated the South Carolina Emergency Operations Plan ("Plan"); regularly conferred with state and federal agencies, officials, and experts, to include the South Carolina Department of Health and Environmental Control ("DHEC"), and the South Carolina Emergency Management Division ("EMD"); and requested that the General Assembly take action to make \$45 million from the 2019-2020 Contingency Reserve Fund immediately available to DHEC in coordinating the State's public health response to COVID-19; and

WHEREAS, in addition to the foregoing, on March 11, 2020, the undersigned issued Executive Order No. 2020-07, suspending certain transportation-related rules and regulations, pursuant to 49 C.F.R. § 390.23 and section 56-5-70 of the South Carolina Code of Laws, as amended, for commercial vehicles and operators of commercial vehicles providing direct assistance to supplement state and local efforts and capabilities to protect public health and safety in connection with COVID-19; and

WHEREAS, having consulted with numerous state and federal agencies, officials, and experts, to include DHEC, EMD, and the PHEPC, the undersigned has determined that it is necessary and prudent to declare that an emergency exists, or that the threat thereof is imminent, due to the evolving nature and scope of the public health threat or other risks posed by COVID-19 and the actual and anticipated impacts associated with the same; and

WHEREAS, section 1-3-420 of the South Carolina Code of Laws, as amended, provides that "[t]he Governor, when in his opinion the facts warrant, shall, by proclamation, declare that, because of . . . a public health emergency . . . a danger exists to the person or property of any citizen and that the peace and tranquility of the State, or any political subdivision thereof, or any

particular area of the State designated by him, is threatened, and because thereof an emergency, with reference to such threats and danger, exists"; and

WHEREAS, as the elected Chief Executive of the State, the undersigned is authorized pursuant to section 25-1-440 of the South Carolina Code of Laws, as amended, to "declare a state of emergency for all or part of the State if he finds a disaster or a public health emergency . . . has occurred, or that the threat thereof is imminent and extraordinary measures are considered necessary to cope with the existing or anticipated situation"; and

WHEREAS, in accordance with section 44-4-130 of the South Carolina Code of Laws, as amended, a "public health emergency" exists when there is an "occurrence of imminent risk of a qualifying health condition," which includes "an illness or health condition that may be caused by . . . epidemic or pandemic disease, or a novel infectious agent . . . that poses a substantial risk of a significant number of human fatalities [or] widespread illness"; and

WHEREAS, for the aforementioned and other reasons, the undersigned has determined that COVID-19 poses an actual or imminent public health emergency for the State of South Carolina.

NOW, THEREFORE, by virtue of the authority vested in me as Governor of the State of South Carolina and pursuant to the Constitution and Laws of this State and the powers conferred upon me therein, I hereby declare that a State of Emergency exists in South Carolina. Accordingly, for the foregoing reasons and in accordance with the cited authorities and other applicable law, I further order and direct as follows:

Section 1. I hereby memorialize and confirm my prior activation of the Plan and direct that the Plan be further placed into effect and that all prudent preparations be taken at the individual, local, and state levels to proactively prepare for and promptly respond to the threat posed by COVID-19.

Section 2. I hereby order and direct that DHEC is immediately vested with those emergency powers set forth in the Emergency Health Powers Act, codified as amended in Title 44, Chapter 4 of the South Carolina Code of Laws, and without limiting the powers DHEC already possesses to combat infectious diseases, to promptly and effectively address the cited public health emergency. In accordance with section 44-4-500 of the South Carolina Code of Laws, as amended, "DHEC must use every available means to prevent the transmission of infectious disease and to ensure that all cases of infectious disease are subject to proper control and treatment." To this end, I further direct DHEC to restrict visitation to nursing homes and assisted living facilities, with the exception of end-of-life situations, as DHEC deems necessary and appropriate.

Section 3. I hereby order the closure of all public schools, to include state-supported colleges, universities, and technical colleges, in the following counties: Kershaw and Lancaster, beginning Monday, March 16, 2020, which shall remain closed for a period of fourteen (14) days, unless otherwise modified, amended, or rescinded. This Order applies to all employees of public

schools located in the aforementioned counties, with the exception of those emergency or other critical personnel designated as essential, or whose presence is otherwise deemed necessary, by the appropriate school district official. DHEC shall consult with the Superintendent of Education to provide guidance to local school district leadership regarding the timing and necessity of any additional school closures. This Order does not apply to state government offices under the authority of the undersigned, which shall remain open for operation during their normal business hours unless and until otherwise directed.

Section 4. I hereby authorize and direct state correctional institutions and local detention facilities to suspend visitation processes and procedures, as necessary, during this State of Emergency.

Section 5. I hereby place specified units and/or personnel of the South Carolina National Guard on State Active Duty, pursuant to section 25-1-1840 of the South Carolina Code of Laws, as amended, and direct the Adjutant General to issue the requisite supplemental orders as he deems necessary and appropriate. I further order the activation of South Carolina National Guard personnel and the utilization of appropriate equipment at the discretion of the Adjutant General, and in coordination with the Director of EMD, to take necessary and prudent actions to assist the people of this State. I authorize Dual Status Command, as necessary, to allow the Adjutant General or his designee to serve as commander over both federal (Title 10) and state forces (National Guard in Title 32 and/or State Active Duty status).

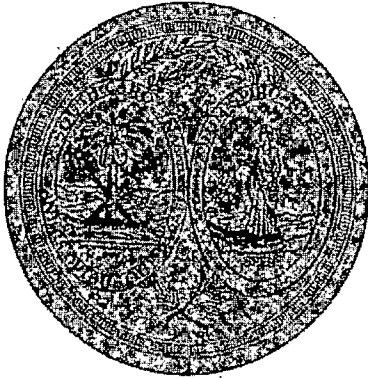
Section 6. I hereby order that all licensing and registration requirements regarding private security personnel or companies who are contracted with South Carolina security companies in protecting property and restoring essential services in South Carolina shall be suspended, and I direct the South Carolina Law Enforcement Division ("SLED") to initiate an emergency registration process for those personnel or companies for a period specified, and in a manner deemed appropriate, by the Chief of SLED.

Section 7. I hereby declare that the prohibitions against price gouging pursuant to section 39-5-145 of the South Carolina Code of Laws, as amended, are in effect and shall remain in effect for the duration of this State of Emergency.

Section 8. I hereby modify and amend Executive Order No. 2020-07, pursuant to 49 C.F.R. § 390.23 and section 56-5-70 of the South Carolina Code of Laws, to extend the provisions thereof to commercial vehicles and operators of commercial vehicles responding to the declared emergency in the State of South Carolina or otherwise assisting with the public health threat posed by COVID-19, as well as to commercial vehicles and operators of commercial vehicles transporting essential goods and products, such as food, water, medicine, medical supplies and equipment, fuels and petroleum products (to include fuel oil, diesel oil, gasoline, kerosene, propane, and liquid petroleum), livestock, poultry, feed for livestock and poultry, and crops and other agricultural products ready to be harvested (to include timber and wood chips).

March 13, 2020

This Order is effective immediately and shall remain in effect for a period of fifteen (15) days unless otherwise modified, amended, or rescinded by subsequent Order. Further proclamations, orders, and directives deemed necessary to ensure the fullest possible protection of life and property during this State of Emergency shall be issued verbally by the undersigned and thereafter reduced to writing and published for dissemination within the succeeding 24-hour period.



GIVEN UNDER MY HAND AND THE
GREAT SEAL OF THE STATE OF
SOUTH CAROLINA, THIS 13th DAY OF
MARCH, 2020.

A handwritten signature in cursive script, reading "Henry McMaster".

HENRY MCMASTER
Governor

ATTEST:

A handwritten signature in cursive script, reading "Mark Hammond".

MARK HAMMOND
Secretary of State

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

ADMINISTRATIVE MATTER

☐

DATE

March 25, 2020

MOTOR CARRIER MATTER

☐

DOCKET NO.

2019-290-WS

UTILITIES MATTER

☒

ORDER NO.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates - Staff Presents for Commission Consideration Blue Granite Water Company's Application for Approval of Adjustment in Rates.

COMMISSION ACTION:

In this Docket No. 2019-290-WS, Blue Granite Water Company seeks Commission approval for an increase in its rates and charges for provision of water and sewer service to its service territories.

- At the public night hearings, customers expressed continuing concerns regarding poor quality of service, lack of proper maintenance, errors in billing and crediting, failure to read meters, inaccurate consumption estimates, erroneous service cut-offs, sometimes without notice, and unresponsive customer service. These and other problems relating to customer service are not new problems with this utility and are not acceptable.

Accordingly, I move that we order the utility to implement systems designed to monitor customer complaints and track resolution of these complaints to ensure timeliness and effectiveness. I further move that we order the Company to prepare quarterly reports to the Commission detailing its efforts to improve responsiveness and customer satisfaction.

These reports should detail every complaint, including service, maintenance, billing, meter reading, etc., and describe resolution of these complaints, and the Company should provide the names and addresses of complainants to the Office of Regulatory Staff for possible follow-up. The first quarterly reports ordered herein shall be due on or before July 1, 2020.

- In many subdivisions throughout Blue Granite's service territories, its systems suffer from extremely high levels of water loss and based upon evidence of record of root intrusion and defects in the lines, wastewater inflow and infiltration is highly probable, although not quantifiable by the utility. Both of these problems adversely impact customer bills. To combat water loss, I move that the Commission order the Company to conduct a water audit and to implement a water control program. I move that we adopt ORS's recommendation to limit recovery of purchased water loss in each subdivision to 10% non-revenue water is appropriate. The Company proposed recovery of 20% of these costs. I move that we deny the Company's proposal and I move that we find the 10% level appropriate and better encourages better monitoring and mitigation

by the utility. I further move that we order the Company to address its "I & I" issues through testing and reporting the results to the Commission.

- After consideration of the Annual Rate Adjustment Mechanism (ARAM) proposed by Blue Granite, I move that we deny this request because it does not incentivize the Company to reduce wastewater infiltration and inflow or non-revenue water losses. The proposed ARAM as designed recovers significant annual expenses with little to no review and does not provide adequate customer protections. All risk is borne by the customers under this mechanism. I do not believe that the ARAM would not improve bill clarity as the methodology for calculating the purchased water and sewer charges is confusing under this mechanism and does not yield a number that reflects the actual costs of the purchased water or sewer treatment charged by the third-party provider. Further, I move that we deny the changes the Company proposed to its rate structure to add separate purchased water and sewer treatment charges. I move that the Company shall maintain its existing rate structure at this time which provides for a Base Facility Charge, a commodity charge based on water consumption and per Single Family Equivalent charge (a/k/a flat rates) for sewer customers.

I have considered the matter of flat rates for sewer service. The Company does not have any other rate methodology at this time available for its sewer service customers. Therefore, I move that we order Blue Granite to provide alternate rate designs for its water and sewer services in its next rate proceeding. Flat rates for sewer service are burdensome on customers with low water usage, on customers where only one or two people are in a household, on senior citizens on fixed incomes, and on low and moderate income customers. I move that we order the Company to investigate the feasibility of conversion of the Company's sewer rate to a volumetric rate design within the same time frame when it files its next rate case.

- To aid in moving to a volumetric rate design for sewer service, I also move that Blue Granite obtain water usage (volumetric water consumption data) from entities providing water to the Company's sewer only customers. I further move that the Company provide a report to the Commission on progress to obtain this data, as well as the cost of flow meter installation within 120 days.
- The Company's application also seeks an increase in the base facilities charge for water service. Thinking we are all concerned that high base facility charges are regressive and cause economic hardship to low and moderate income customers, senior citizens on fixed incomes, and customers with low water usage. For Commission review in this docket, the Company is directed to provide rate schedules reflecting the adjustments ordered in this Directive which will follow. For water service, the Company is directed to provide alternate rate schedules with one rate schedule reflecting no change or increase in the Base Facilities Charge and a second rate schedule which splits or distributes the rate change pursuant to this Directive between the Base Facilities Charge and the volumetric commodity charge for water consumption. These rate schedules must be filed by the Company on the Commission's DMS no later than 4:45 p.m. on Monday, March 30, 2020. Any other party may also propose rate schedules consistent with this Directive by 4:45 p.m. on Monday, March 30, 2020. Parties may comment on the proposed rate schedules until 4:45 p.m. on Tuesday, March 31, 2020, by filing the comments on the DMS. All filings must be served on other parties. The Commission will rule on the rate schedules on Wednesday, April 1, 2020.

- With regard to the LETT'S Tank Pumping charge, I move that we approve ORS's proposed tariff language related to solids interceptor ("LETTS") tanks to change the pumping charge from \$150 to the actual cost to access, pump, and service the tanks on a periodic basis. The tariff language ORS proposes is in Hearing Exhibit 38, including the

ORS' proposed language contained therein regarding what constitutes an emergency condition.

- The Company also seeks Commission authority to amend its tariff regarding connection, plant impact, and plant capacity fees, to incorporate language regarding the gross up of Contributions in Aid of Construction due to its taxability under the Tax Cuts and Jobs Act. I move that we adopt the tariff language proposed by the Company and recommended by ORS that would allow the Company to collect the income tax obligation from the contributor of cash or property.

- In addition, I move that we deny the Company's proposal to establish a Storm Reserve Fund. I would note that the Consumer Advocate's position in this case is that the Fund is not needed to provide safe and reliable service. As stated by ORS, Blue Granite is obligated to restore service within the time frames required under the Commission's regulations, regardless of whether it has the Fund it proposes. The Company refuses to segregate the fund, which handicaps proper accounting for such funds. Thus, I move that the Company's proposal be denied.

- Blue Granite seeks Commission authority to implement a voluntary Round Up Program, which would round the bills of participating customers to the nearest higher dollar, with the difference accumulated in a reserve fund for remittance to the South Carolina Office for Economic Opportunity ("SCOEO"). The funds would be distributed to community action agencies in Blue Granite's service territory to assist low income customers with their water and sewer bills. I move that the program be approved, with the modifications that ORS proposed. Among other things, Blue Granite will be prohibited from passing on to customers the administrative and implementation costs for the Program, including the bill inserts/flyers and the modifications to Blue Granite's billing and customer service systems.

- Considering depreciation, for a majority of plant accounts, the ORS and Company have agreed on both estimated service life and net salvage value. There is no dispute that the estimated service lives used to calculate the Company's depreciation rate have been, overall, too low or that it is appropriate to account for net salvage costs. While Company witness Spanos argues that ORS witness Garrett relies too heavily on mathematics, ORS witness Garrett's explanation of his objective application of mathematics tempered as necessary by his professional judgment represents a reasonable and compelling approach. Witness Garrett has raised meaningful criticisms for the accounts that he addresses. On this basis, I move that the evidence and testimony of witness Garrett should be adopted by the Commission for the Commission's rulings on depreciation rates in this case. I also believe witness Garrett's recommendations are more likely to avoid "incent[ing] economic inefficiency" and over-investment in capital assets, without depriving the Company of recourse if the future provides these depreciation rates to be low. Thus, I move the adoption of the depreciation rates espoused by witness Garrett.

- I move that the Commission approve the ORS adjustments related to the Clearwater Solutions Contract. However, I would like this Commission to issue a word of caution. Blue Granite failed to file the Clearwater Solutions contract for Commission approval as is required by Commission Regulations 103-541 and 103-743. I move that the Company file this Contract for possible approval by the Commission immediately and caution the Company that it must file its contracts for approval in the future in compliance with the Commission's regulations.

- I move that the Commission accept ORS's recommendation to limit the water service Territory 2 increase to 31% of total water service revenue requirement. **431**

- I also move that the Commission order the Company conduct a Class Cost of Service Study prior to its next rate case and to provide both the Commission and ORS with a copy of this study. These studies are essential to determine the proper rate design as it will demonstrate which costs need to be recovered and from which customer classes.

- I move that the Commission adopt the following accounting adjustments:

- With regard to the proposed Maintenance Expenses - Purchased Water and Sewer Expense: I move that the Commission amortize this expense over 5 years. One year's amortized expense of \$635,765 will be included in expenses in this case. The unamortized portion will be placed in a Regulatory Asset to be recovered annually, a total of \$2,119,000.

- With regard to the proposed Company's Maintenance and Repair Expense: I move that the Commission remove and deny recovery of the Administrative Law Court legal expenses for the DHEC Permit Denial (\$43,355) and I-20 Interconnection (\$13,190) on the grounds that the Company should have sought recovery of legal expenses related to the condemnation proceedings as provided by law to the prevailing party. This amounts to remove from proforma adjustments total \$56,545.

- With regard to the proposed General Expenses for Rent: I move that the Commission remove and deny recovery of the proforma rent expense of \$84,839. Company witness Denton stated that its relocation and lease of Greenville office space was due to legacy brand issues which were caused by the Company itself. Also, ORS witness Maurer provided undisputed evidence that the Company stated itself that rebranding would be "at no cost to [Blue Granite's] customers." (Surrebuttal Exhibit KDM-2.)

- With regard to additional adjustments to the Company's Rate Base - Deferred Charges: I move that the Commission amortize \$3,178,824 of Purchased Water and Sewer deferrals over 5 years and remove first year's amortization of \$635,765 for a total increase of \$2,543,059 in a regulatory asset.

- With regard to Legal Expenses requested by the Company for the Annual Rate Adjustment Mechanism from Docket No. 2018-358-WS and for Pumping Interceptor Tank in Docket No. 2018-361-WS: I move that the Commission deny recovery of these legal expenses requested by the Company. The Company filed proceedings in these Dockets and then later requested to withdraw its applications in each docket. The ratepayers should not bear the burden of these expenses.

- I move that the Commission accept all other adjustments proposed by ORS.

- In its Application, the Company seeks Commission authority to initiate a one-time credit of \$10.64 to each customer water and sewer account, to return overcollection of Federal Tax expenses accumulated January 1, 2018 to June 28, 2018. ORS reviewed the updated customer data, and other data, and calculated the one-time credit to be \$10.59 per account. I move that we approve the ORS credit amount.

- While many aspects of the Company's operations raise concerns as to what rate increase, or any rate increase, is appropriate in this matter, existing law binds the Commission and the evidence presented supports a limited increase. I move that we

accept the Company's offer to delay implementation of any rates until September 1, 2020 so that there will no change in the water and sewer rates for customers of the Company until September 1, 2020. And I do thank the Company for this delay.

- In addition, I move that we approve a Return on Equity of 7.46% based upon the evidence provided by Consumer Advocate witness Rothchild. I further move that we approve a Revenue Requirement after all fallout adjustments of \$28,733,986, resulting in an increase of \$4,958,848. This represents an approximate 57% reduction from the Company's requested increase of \$11,589,537. The resulting Operating Margin is 10.54%.

- Additionally, I move that the staff make any other appropriate changes needed to effectuate and provide an Order consistent with the above.

- Lastly, I move that we overrule the Company's objection to the Councilwoman Allison Love's testimony and admit all hearing exhibits presented at the evening public hearings, as well as any late filed exhibits.

PRESIDING: Randall

SESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☒	☒	☐		
ERVIN	☐	☒	☐		Voting via videoconference
HAMILTON	☐	☒	☐		Voting via videoconference
HOWARD	☐	☒	☐		Voting vid videoconference
RANDALL	☐	☒	☐		
WHITFIELD	☐	☐	☒		
WILLIAMS	☐	☐	☐	<u>Absent</u>	Military Leave

(SEAL)

RECORDED BY: J. Schmieding



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

ADMINISTRATIVE MATTER

☐

DATE

May 28, 2020

MOTOR CARRIER MATTER

☐

DOCKET NO.

2019-290-WS

UTILITIES MATTER

☒

ORDER NO.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration Blue Granite Water Company's Petition for Reconsideration and Clarification, as well as the Office of Regulatory Staff's Petition for Clarification and Rehearing/Reconsideration.

COMMISSION ACTION:

Mr. Chairman, the Commission has received a Petition for Clarification and for Rehearing and Reconsideration on our ruling in Order No. 2020-306. These Requests come from the South Carolina Office of Regulatory Staff (ORS) and also from Blue Granite Water Company (Blue Granite). The South Carolina Department of Consumer Affairs also filed a response in support of the Commission's ruling on a 7.46% Rate of Return on Equity commonly referred to as "ROE".

The three issues raised by ORS in its Motion are also issues raised by Blue Granite; therefore, I would like to address them one issue at a time, and this will decide both as follows:

The first issue raised by ORS, and also raised by Blue Granite,^[i] is the Clarification and Reconsideration of the Commission's ruling regarding Adjustment No. 8 to purchased water and sewer expenses which includes two parts – 8a is Third-Party Purchased Water and Sewer Treatment Deferral totaling \$2,563,596 and 8b is a Third-Party Purchased Water and Sewer Expenses Going Forward in the amount of \$2,324,292, which already reflects the reduction for the non-revenue water limit of 10%.

Mr. Chairman, I believe that we should clarify, reconsider, and make an accounting adjustment to the total amount of Purchased Water and Sewer Treatment Deferral as adjusted by ORS, and the proposed Purchased Water and Sewer Expenses Going Forward which is amortized over five years. I move that we reconsider and clarify by adopting the total amount of \$4,887,888 as proposed by ORS on page 4 of their Motion to correct the dollar amount for Adjustment No. 8 regarding Third-Party Purchased Water and Sewer Treatment Deferral and Expenses and then proceed to allow one-fifth in the amount of \$977,578 placed in expenses with the remainder of \$3,910,310 amortized over the remaining four (4) years.

However, I move that the Commission deny the request by ORS to remove this item from the calculation of rate base, as well as the request by ORS and Blue Granite to otherwise change Adjustment 8a and 8b to provide for a resulting pro-forma adjustment of \$2,837,011. Blue Granite's Motion for reconsideration^[ii] related to the numerical error in the Deferred Charges in Adjustment 8a has been corrected with this Motion and no further action is needed.

The second issue raised by ORS is the request for clarification and reconsideration of Commission's decision concerning rate case expenses in Adjustment 16a. I move that the Commission grant ORS' request for reconsideration and clarification by removing an additional \$16,132 from Rate Case Expenses. Blue Granite also requested reconsideration by the Commission of its decision to disallow certain rate case expense and other legal expenses.^[iii] I move that we **deny** the Company's request except to the extent that such request is modified by granting of ORS' request herein which removes an additional \$5,377 from Rate Case Expenses for three years which is an additional \$16,132 removed from its total Rate Case Expenses.

Blue Granite also raised a calculation error in its Motion for Reconsideration^[iv] that the Commission should have also removed \$16,132, which is also addressed and corrected by this motion;

The third issue raised by ORS is that the Commission clarify and reconsider the dollar amount of the Company's allowable rent expense that excluded the Greenville Office Rent Expense as well as other rent expenses. Blue Granite also requests we reconsider Rent Expense in the amount of \$84,685.^[v] Both ORS and the Company clarified post-hearing in subsequent filings that the annual rent for the Greenville Office was not \$84,685 as testified at the hearing but that it was in fact \$73,665. The Company and ORS failed to breakdown the Company's annual rent expenses so that the Commission could specifically disallow the Greenville Office rent expenses of \$73,665. I move that we grant ORS' motion to reconsider and adjust the Rent Expense to allow rent expense in the amount of \$11,174 for other areas than the Greenville Office so that the **total amount disallowed** relating to the Greenville Office Upfit and Rent Expense is \$579,890 and the only amount allowed is \$11,174 for rent expenses associated with the Company's Rock Hill Office and warehouse, Anderson Office, Water Service Corporation Public Storage and Water Service Corporation Office. I further move that we **deny** Blue Granite's request for reconsideration of the Commission's ruling denying recovery of the Greenville Office rent expense except as changed herein to allow recovery of "other than rent expense for the Greenville Office" in the amount of \$11,174 which corrects the calculation error which was raised by Blue Granite.^[vi]

With regard to Blue Granite's Petition for Reconsideration and Clarification of specific rulings in Commission Order No. 2020-306 separately set out in Section II of the Company's Motion, I move that the Commission:

- (1) **Grant** the technical typographical change to delete reference on page 128 of the Commission's Order to "Operative Margin" and insert "the rate base rate of return methodology"^[vii] and
- (2) **Deny** all other requests for reconsideration or rehearing not specifically addressed herein; and
- (3) I move that we **Grant** the Company's request for the Commission to clarify certain rulings or matters in its Order as outlined in Item III.A, III.B, III.C and III.D of Commission Order No. 2020-306; and

Additionally, I move that the staff make any other appropriate changes needed to effectuate and provide a Final Order consistent with the above, as well clarify the Commission's order the Company to address its "I & I" issues through testing and reporting the results to the Commission which must be done prior to its next rate proceeding. I move the Commission retains its ruling for a 7.46% ROE. The revised Revenue Requirement then is \$29,191,874 due to these revised calculations.

As part of my motion, I would request that we direct Blue Granite to provide a revised rate schedule as modified herein no later than Monday, June 8th at the close of business. A full written order will follow, Mr. Chairman. So moved.

[i] See Item II.H, p. 25-26, and Item II.K.3, p. 29, of its Motion

[ii] See Item II.K.3

[iii] See Item II.G, p. 21-25.

[iv] See Item II.K.2

[v] See Item II.F, p. 19-20.

[vi] See Item II.K.1.

[vii] See Item II.A.1, p. 3.

PRESIDING: Randall

SESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☐	☐	☒		voting via videoconference
ERVIN	☒	☒	☐		voting via videoconference
HAMILTON	☐	☒	☐		voting via videoconference
HOWARD	☐	☒	☐		voting via videoconference
RANDALL	☐	☒	☐		voting via videoconference
WHITFIELD	☐	☒	☐		voting via videoconference

WILLIAMS

☐☐☐

Absent

Military Leave

(SEAL)

RECORDED BY: J. Schmieding



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

ADMINISTRATIVE MATTER

☐

DATE

July 15, 2020

MOTOR CARRIER MATTER

☐

DOCKET NO.

2019-290-WS

UTILITIES MATTER

☒

ORDER NO.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration the Motion for Approval of Bond, with Appended Exhibits 1 and 2, of Blue Granite Water Company, Together with Attachment A (Revised Rate Schedules) Submitted Pursuant to the May 28, 2020, Directive of the Commission

COMMISSION ACTION:

Pursuant to SC Code Ann § 58-5-240(D), Blue Granite Water Company has filed a motion for approval of a bond as surety for rates the utility intends to implement beginning September 1, 2020, while the appeal of the Commission's decision in this docket is pending. The statute authorizes a utility to put rates into effect under bond during the appeal of a case and until final disposition of the case. The statute requires that the bond be in a reasonable amount approved by the Commission with sureties approved by the Commission. The Commission has no discretion other than to approve the amount of bond and the sureties. Blue Granite seeks approval of a bond in the amount of \$3,874,516, which represents the difference in the revenue requirement authorized by the Commission and the rates the utility seeks to charge over an 18 month period plus interest. Further, Blue Granite asserts it is securing the bond from Liberty Mutual Insurance Company, which is a company authorized to transact business in South Carolina as a surety.

I move that the Commission find the proposed bond amount reasonable and Liberty Mutual Insurance Company an acceptable surety to ensure that ratepayers are protected and would be reimbursed with interest in the event Blue Granite's appeal is unsuccessful, and I move that the Commission approve the requested bond.

PRESIDING: RandallSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☒	☒	☐		voting via videoconference
ERVIN	☐	☒	☐		voting via videoconference
HAMILTON	☐	☒	☐		voting via videoconference
HOWARD	☐	☒	☐		voting via videoconference

RANDALL	☐	☒	☐	
WHITFIELD	☐	☒	☐	
WILLIAMS	☐	☐	☐	<u>Absent</u>

voting via videoconference

voting via videoconference

Military Leave

(SEAL)

RECORDED BY: J. Schmieding



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

ADMINISTRATIVE MATTER

☐

DATE

August 31, 2020

MOTOR CARRIER MATTER

☐

DOCKET NO.

2019-290-WS

UTILITIES MATTER

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ORDER NO.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates - Staff Presents for Commission Consideration (1) the Request Dated August 7, 2020, of the South Carolina Department of Consumer Affairs for Clarification and Alternatives, Including but not Limited to, the Company's Conditional Petition for Approval of Accounting Order, and Request for Expedited Consideration to the Proposed Rate Implementation, and (2) Oral Arguments Held on August 27, 2020.

COMMISSION ACTION:

Mr. Chairman, I would like to express my appreciation to the parties in this matter for the quality of the oral arguments presented on August 27. I thought they were able to describe very well the untenable situation that Blue Granite's customers face because of a pending rate increase under bond, while at the same time experiencing the troubling effects of the COVID-19 pandemic. We have before us a request from the Consumer Advocate for clarification and alternative to proposed rate implementation under bond and a filing by Blue Granite entitled "Conditional Petition for Approval of Accounting Order, and Request for Expedited Review."

With the consent of the parties, this Commission took judicial notice of the Governor's Order Declaring a State of Emergency dated August 25, 2020, and the Order on Statewide Evictions and Foreclosures of April 30, 2020, issued by South Carolina Supreme Court Chief Justice Donald W. Beatty. Blue Granite also described its desire to proceed with putting its rate increase under bond in effect, despite the fact that Blue Granite had indicated in its letter dated March 19, 2020 that the Company would put into effect whatever rates that the Commission approved, and the Company obviously has not.

Based upon the information before us, I would like to make a Motion:

I move that the Stay of the proposed increase in rates under bond ordered by Commission Order No. 2020-549 remain in effect.

To protect its interests, Blue Granite filed a Conditional Petition for Approval of an Accounting Order and requested expedited review. I also move that we grant Blue Granite's request for expedited review and also grant the request for an accounting order as provided herein.

I further move that the implementation of the Company's rate increase under bond be stayed through December 31, 2020, due to the immediate adverse financial impacts that would be suffered by residential and commercial ratepayers during the Governor's declared health care emergency in South Carolina, and that the Conditional Petition for Approval of an Accounting Order also be granted until December 31, 2020.

The Commission will consider renewal of the Accounting Order at a later date. This accounting order will not involve a change to any of the Company's rates at this time or require any change in any Commission rule, regulation, or policy. Further, the issuance of this accounting order will not prejudice the right of any party to address or challenge the recovery of these costs in a subsequent rate proceeding. Finally, the parties will have further opportunity to be heard on the Company's conditional Petition for Approval of Accounting Order before the Commission's preliminary stay has expired.

Mr. Chairman, I believe that this Motion is the best way to protect the interest of all parties in this case in this ~~439~~ of the

COVID-19 pandemic, and I so move.

Also Mr. Chairman, a full written order will be forthcoming and shall be issued. I further move that the order will address today's directive and the Commission's directive of July 15, 2020 addressing the Company's bond request.

PRESIDING: Williams

SESSION: Special

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☐	☒	☐		Present in hearing room
ERVIN	☐	☒	☐		Voting via videoconference
HAMILTON	☐	☒	☐		Physically present, voting via skype
HOWARD	☐	☒	☐		Voting via videoconference
RANDALL	☒	☒	☐		Physically present, voting via skype
WHITFIELD	☐	☒	☐		Present in hearing room
WILLIAMS	☐	☐	☐	<u>Recused</u>	Present in hearing room

(SEAL)

RECORDED BY: J. Schmieding



Action Item 3

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

ADMINISTRATIVE MATTER ☐MOTOR CARRIER MATTER ☐UTILITIES MATTER ☒DATE September 16, 2020DOCKET NO. 2019-290-WS

ORDER NO. _____

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration Blue Granite Water Company's Petition for Reconsideration of Commission Order No. 2020-549.

COMMISSION ACTION:

I move that the Commission deny the Petition for Reconsideration of Commission Order No. 2020-549 filed by Blue Granite. Blue Granite offered the accounting order as a alternative to putting rates in effect under bond, while at the same time, waiving any objection to the continuing Stay placed into effect by Order No. 2020-549. I further move that the Commission provide a detailed Order setting forth its rationale and basis for denying the Motion to Reconsider Order No. 2020-549.

PRESIDING: WilliamsSESSION: RegularTIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☐	☒	☐		Present in Hearing Room
ERVIN	☒	☒	☐		Voting via Skype
HAMILTON	☐	☐	☐	<u>Absent</u>	Sick Leave
HOWARD	☐	☒	☐		Voting via Skype
RANDALL	☐	☒	☐		Present in Commission Office, Voting via Skype
WHITFIELD	☐	☒	☐		Voting via Skype
WILLIAMS	☐	☐	☐	<u>Recused</u>	Not Present at Hearing

(SEAL)

RECORDED BY: J. Schmieding

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

ADMINISTRATIVE MATTER

☐

DATE

December 09, 2020

MOTOR CARRIER MATTER

☐

DOCKET NO.

2019-290-WS

UTILITIES MATTER

☒

ORDER NO.

SUBJECT:

DOCKET NO. 2019-290-WS - Application of Blue Granite Water Company for Approval of Adjustment in Rates – Staff Presents for Commission Consideration Blue Granite Water Company's Petition for Reconsideration of Commission Order No. 2020-758.

COMMISSION ACTION:

I move that we grant that portion of Blue Granite's Petition for Reconsideration that requests that this Commission reconsider its ruling that the accounting order placed into effect in Order No. 2020-758 have an end date of December 31, 2020.

I further move that the date of December 31, 2020 be held in abeyance so that the parties in this matter would be allowed to file comments within thirty (30) days from the date of this directive on the question of whether the accounting order should be continued and, if so, when the accounting order should be terminated.

I also move that the Stay of the Company's implementation of rates under bond imposed by Order No. 2020-549 shall be continued and the Stay shall be continued until further notice. I also move that the Commission deny the remainder of the Petition for Reconsideration in so much reconsideration of the remaining matters are already denied by directive on September 16, 2020. (See *Commission Directive dated September 16, 2020 addressing the Petition for Reconsideration filed on September 4, 2020 hereinafter "earlier Petition."*). The earlier Petition contained a request for reconsideration with the same matters outlined in the present Petition. For these reasons, we are not going to revisit at this time. So move.

PRESIDING: BelserSESSION: RegularTIME: 4:00 p.m.

	MOTION	YES	NO	OTHER	
BELSER	☐	☒	☐		Present in Hearing Room
CASTON	☐	☐	☐	<u>Recused</u>	Present in Hearing Room
ERVIN	☒	☒	☐		Voting via Skype
POWERS	☐	☒	☐		Voting via Skype
THOMAS	☐	☒	☐		Voting via Skype

C. WILLIAMS	☐	☒	☐
J. WILLIAMS	☐	☒	☐

Present in Hearing Room

Voting via audioconference

RECORDED BY: J. Schmieding

(SEAL)

