THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

MALINI R. GANDHI, CPA

OCTOBER 17, 2008

DOCKET NO. 2008-196-E

COMBINED APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY FOR A CERTIFICATE OF ENVIRONMENTAL COMPATIBILITY AND PUBLIC CONVENIENCE AND NECESSITY AND FOR A BASE LOAD REVIEW ORDER FOR THE CONSTRUCTION AND OPERATION OF A NUCLEAR FACILITY AT JENKINSVILLE, SOUTH CAROLINA
DIRECT TESTIMONY OF

MALINI R. GANDHI, CPA

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2008-196-E

IN RE: COMBINED APPLICATION OF SOUTH CAROLINA ELECTRIC &
GAS COMPANY FOR A CERTIFICATE OF ENVIRONMENTAL
COMPATIBILITY AND PUBLIC CONVENIENCE AND NECESSITY AND FOR
A BASE LOAD REVIEW ORDER FOR THE CONSTRUCTION AND
OPERATION OF A NUCLEAR FACILITY AT JENKINSVILLE, SOUTH
CAROLINA

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

A. My name is Malini R. Gandhi. My business addresses is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I have been employed as Deputy Director of Auditing for the Office of Regulatory Staff ("ORS") of South Carolina since June 2006.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration, with a major in Business Finance from the University of Central Oklahoma. I also received a Bachelor's degree with a major in Accounting from the University of Bombay.
I am a Certified Public Accountant licensed by the Oklahoma Accountancy Board, with over twenty years of experience in both public and private accounting. In 1993, I was employed by the Public Utility Division of the Oklahoma Corporation Commission and have participated in various utility cases involving electric, gas, telephone, and water companies, and administered the Oklahoma Universal Service Fund from 1998 to 2006.

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

A. The purpose of my testimony is to set forth my findings resulting from ORS’s examination of the books and records of South Carolina Electric & Gas Company ("SCE&G" or "Company") relative to the rate increase requested in its combined application for a certificate of environmental compatibility, public convenience and necessity and for a base load review order as filed in Docket No. 2008-196-E. These findings are set forth in detail in the attached Report, Audit Exhibit MG-1. In this report, the examination period covers the completed Construction Work In Progress ("CWIP") through June 30, 2008, for SCE&G’s proposed V.C. Summer Nuclear Station ("VCSNS") Units 2 & 3 (the "Units"), and the associated revenue requirement calculations.

Q. PLEASE EXPLAIN THE ALLOCATION OF TOTAL NUCLEAR CONSTRUCTION COST BETWEEN SCE&G AND Santee Cooper REQUESTED IN THIS APPLICATION.

A. On May 30, 2008, the Company applied to the Public Service Commission of South Carolina ("the Commission") for a Base Load Review Order to construct and

THE OFFICE OF REGULATORY STAFF
1401 Main Street, Suite 900
Columbia, SC 29201
operate two 1,117 net megawatt ("MW") nuclear generating facilities to be located at the VCSNS site near Jenkinsville, South Carolina. The anticipated net dependable capacity from the Units, in total will be approximately 2,234 MW, of which 55% or 1,228 MW will be available to serve SCE&G customers. Santee-Cooper will receive 45% of the electric output when the units are in operation and will pay 45% of the capital and operating costs of the Units. SCE&G will operate the units upon completion.

Q. PLEASE EXPLAIN THE PROCESS FOR MEASURING SCE&G’S CWIP TO CALCULATE THE RATE INCREASE SOUGHT IN THIS APPLICATION.

A. S.C. Code Ann. § 58-33-280(B) (Supp. 2007), provides that, SCE&G may specify the date on which the outstanding balance of CWIP shall be calculated. In Chart A to Exhibit M of the application, SCE&G provides the projected CWIP balance and the rate impact associated with the VCSNS units as of June 30, 2008 and the associated rate impact. Additionally, the Company estimates the year-by-year revenue requirements associated with the projected CWIP as of June 30th of each year during the construction of the VCSNS units.

Q. WHAT WAS THE CWIP BALANCE AND ASSOCIATED REVENUE INCREASE REQUESTED BY SCE&G FOR THE PERIOD THROUGH JUNE 30, 2008?

A. SCE&G estimated allocated expenditures for the VCSNS Units’ CWIP through June 30, 2008 of $71,848,000. Based upon this estimate the Company requested an incremental revenue requirement of $8,986,000 calculated using its estimated
weighted cost of capital, at that date, of 8.76%, and grossed-up for tax purposes to
12.51%.

Q. BASED ON ORS’S EXAMINATION OF THE APPLICATION AND THE
UNDERLYING FINANCIAL RECORDS THROUGH JUNE 30, 2008, WHAT IS THE RESULTING REVENUE REQUIREMENT INCREASE?

A. Based on ORS’s examination, the incremental revenue requirement is $8,271,484. This amount was calculated for the nuclear CWIP of $65,960,797 as of June 30, 2008 based on the Company’s updated tax grossed-up cost of capital of 12.54% at that date.

Q. WHY WAS THE COMPANY’S COST OF CAPITAL UPDATED TO REFLECT BALANCES AS OF JUNE 30, 2008?

A. In Chart A to Exhibit M of the Application, SCE&G specified the CWIP measurement date of June 30, 2008 as being the appropriate date for establishing revised rates in this proceeding. Accordingly, cost of capital was updated to June 30, 2008 in order to better match the Company’s cost of capital to its actual investment in CWIP through that date.

Q. HOW WAS THE INCREMENTAL REVENUE REQUIREMENT ALLOCATED TO RETAIL OPERATIONS?

A. In order to calculate the required retail revenue increase for rate design purposes, the incremental revenue requirement of $8,271,484 was allocated at 94.33% to retail service classes as recommended by the ORS Electric Department. The resulting retail revenue increase is $7,802,491.
1 Q.   DOES THIS CONCLUDE YOUR TESTIMONY?

2 A.   Yes it does.
REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2008-196-E
SOUTH CAROLINA ELECTRIC AND GAS COMPANY

ANALYSIS

On May 30, 2008, South Carolina Electric & Gas Company ("SCE&G" or "Company") applied to the Public Service Commission of South Carolina ("the Commission") for a Base Load Review Order to construct and operate two 1,117 net megawatt ("MW") nuclear generating facilities, units 2&3, (the "Units") to be located at the V.C. Summer Nuclear Station ("VCSNS") site near Jenkinsville, South Carolina. The anticipated net dependable capacity from the Units will be approximately 2,234 MW, of which 55% or 1,228 MW will be available to serve SCE&G customers. Santee-Cooper will receive 45% of the electric output when the units are in operation and will pay 45% of the capital and operating costs of the Units.

The South Carolina Office of Regulatory Staff’s ("ORS") Audit Department conducted an examination of the Company’s Combined Application. The purpose of our examination was to verify:

- That the capital expenditures reflected in the Company’s filing were complete, accurate and supported by the books and records of the Company;
- That those costs were properly allocated between SCE&G and its co-owner, Santee Cooper; and
- That the Company’s tax grossed-up cost of capital as of June 30, 2008 was calculated accurately and supported by the books and records of the Company.
Our examination included the actual cost of Construction Work In Progress ("CWIP") through June 30, 2008, and the associated revenue requirement calculations.

S.C. Code Ann. § 58-33-280(B) (Supp. 2007), provides that, SCE&G may specify the date on which the outstanding balance of CWIP shall be calculated. In Chart A to Exhibit M of its Application, SCE&G estimated the projected CWIP balance as of June 30, 2008 and the incremental rate impact associated with the units. Additionally, the Company presented estimates of the year-by-year incremental revenue requirements associated with the projected CWIP balances as of June 30th of each year during the construction of the VCSNS units. In its application, the Company had projected their investment in CWIP as of June 30, 2008, to be $71,848,000 with a resulting incremental revenue requirement of $8,986,000.

The results of our examination of the application and the underlying financial records through June 30, 2008, are contained in Attachment A.

EXPLANATION OF ATTACHMENT A: NUCLEAR CONSTRUCTION WORK IN PROGRESS (CWIP) BY CATEGORY THROUGH JUNE 30, 2008:

Attachment A shows Total Nuclear CWIP by cost categories, the portion of total cost allocated to SCE&G, the calculated Allowance for Funds Used During Construction ("AFUDC"), and ORS’s calculation of the incremental revenue requirement using the updated cost of capital as of June 30, 2008. The exhibit’s format is designed to reflect “per application” projected CWIP compared to the “completed” CWIP per book amount, and to calculate the difference between the booked and projected total cost of construction. The cost of construction was divided into two categories including Engineering, Procurement and Construction Cost ("EPC Costs") and all other cost reflected as Owners Costs.
Column (A) reflects Per Application CWIP, by cost category, through June 30, 2008 of $127,404,000. Utilizing this total projected CWIP balance, the Company’s 55% portion equals $70,071,000 and adding the AFUDC cost of $1,777,000 the Nuclear CWIP was calculated to be $71,848,000. Based on the Company’s projected cost of capital as of June 30, 2008, an incremental revenue requirement of $8,986,000 was requested.

Column (B) presents actual Completed CWIP through June 30, 2008 verified by ORS. Actual Nuclear CWIP including EPC and Owners costs thru June 30, 2008, totaled $116,305,431. SCE&G’s portion of actual CWIP of $64,185,796 was calculated based on the 55%-45% split between SCE&G and Santee-Cooper, respectively, of shared costs plus 100% of Company specific costs totaling $484,013. These Company specific costs include tax planning and federal policy consulting services, land acquisition and SCE&G reimbursements of Santee-Cooper paid expenditures which are not then subjected to further allocation. The total AFUDC cost of $1,775,001 was added to SCE&G’s allocated CWIP and an incremental revenue requirement of $8,271,484 was calculated based on the Company’s updated tax grossed-up cost of capital as of June 30, 2008. In order to calculate the required incremental retail revenue for rate design purposes, the total incremental revenue requirement of $8,271,484 was allocated at 94.33% to retail as recommended by the ORS Electric Department. The resulting incremental retail revenue was calculated to be $7,802,491.

Column (C) calculates the difference between Columns (A) and (B). The difference between the application and booked Total Nuclear CWIP was ($11,098,569). As a result, the incremental revenue requirement was calculated to be $8,271,484 or a reduction of ($714,516) from the amount requested by SCE&G in its application.
Attachment A was prepared in compliance with recognized accounting and regulatory procedures.
** Total Nuclear CWIP  
$ 127,404,000  
$ 116,305,431  
$ (11,098,569)

** Total Nuclear CWIP prior to SCE&G Allocation

<table>
<thead>
<tr>
<th></th>
<th>(A)</th>
<th>(B)</th>
<th>(C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCE&amp;G Allocated CWIP</td>
<td>$ 70,071,000</td>
<td>$ 64,185,796</td>
<td>$ (5,885,204)</td>
</tr>
<tr>
<td>AFUDC (Capitalized Interest)</td>
<td>$ 1,777,000</td>
<td>$ 1,775,001</td>
<td>$ (1,999)</td>
</tr>
<tr>
<td>Total SCE&amp;G CWIP</td>
<td>$ 71,848,000</td>
<td>$ 65,960,797</td>
<td>$ (5,887,203)</td>
</tr>
</tbody>
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Tax Grossed-up Cost of Capital  
12.51%  
12.54%  

Incremental Revenue Requirement  
$ 8,986,000  
$ 8,271,484  
$ (714,516)

Allocation Factor for Retail Operation  
94.33%  

Allocated Retail Revenue Increase  
$ 7,802,491

* EPC Costs = Engineering, Procurement & Construction Cost