THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY & EXHIBITS

OF

ZACHARY J. PAYNE

OCTOBER 12, 2017

DOCKET NO. 2017-5-G

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric & Gas Company

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DIRECT TESTIMONY AND EXHIBITS OF

ZACHARY J. PAYNE

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2017-5-G

IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS PURCHASING POLICIES OF SOUTH CAROLINA ELECTRIC & GAS COMPANY

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

A. My name is Zachary J. Payne. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") in the Audit Department as a Senior Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a double major in Accounting and Economics from the University of South Carolina in May 2013. I began employment with ORS in March 2015 and since have worked on cases dealing with the regulation of nuclear waste, natural gas, water and wastewater companies.

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

A. Yes.

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

A. The purpose of my testimony is to present ORS Audit Department's findings and recommendations resulting from our examination of the South Carolina Electric & Gas

Company's ("SCE&G" or the "Company") Purchased Gas Adjustment ("PGA") for the year ended July 31, 2017 ("review period"). In Docket No. 87-426-G, Order No. 87-898, dated August 14, 1987, the Commission instituted an annual examination of the PGA and Gas Purchasing Policies of the Company. In accordance with the above referenced Order, ORS Audit Staff examined the Company's PGA for the review period.

Q. DID THE COST OF GAS FACTORS CHANGE DURING THE REVIEW PERIOD?

A. In PGA Docket No. 2006-5-G, Order No. 2006-679, dated November 13, 2006, the Company was authorized to adjust its cost of gas factors on a monthly basis for a "material difference" defined as $0.01, or more, per therm in any cost of gas factor beginning with the first billing cycle of each month. In Docket No. 2009-5-G, Order No. 2009-910, dated December 29, 2009, the amount designated as a "material difference" was increased to an amount greater than $0.04 per therm. During the review period, the company's Demand Cost of Gas factors ("DCOG") and Commodity Cost of Gas factors ("CCOG") were adjusted during the months of August and October 2016 and January and February 2017. The Company's beginning and ending DCOG and CCOG during the review period were as listed below:

DCOG Per Therm	As of August 1, 2016	As of July 31, 2017
Residential	$0.23474	$0.21077
Small/Med. General Service	$0.12981	$0.14045
Large General Service	$0.13117	$0.18859
CCOG Per Therm	$0.26772	$0.38885

Q. DID ORS CONDUCT AN EXAMINATION OF THE COMPANY'S PGA (OVER)/UNDER COLLECTION CALCULATIONS?

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A. Yes. ORS examined the Company's cumulative PGA (over)/under collection calculations for the review period and traced amounts to the books and records of the Company.

Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE, OR CAUSE TO BE PREPARED, CERTAIN EXHIBITS?

A. Yes. Audit Exhibit ZJP-1 through Audit Exhibit ZJP-3 are attached to my testimony.

Q. WHAT IS INCLUDED IN AUDIT EXHIBIT ZJP-1, PURCHASED GAS ADJUSTMENT (OVER)/UNDER COLLECTION?

A. Audit Exhibit ZJP-1 presents, for each month of the review period, the components which comprise the cumulative PGA (over)/under collection. These Components are:

Commodity (Over)/Under Collection – These amounts represent the difference in the Company's actual firm commodity costs, on a monthly basis, compared to the firm commodity benchmark PGA filings during the review period. The commodity (over)/under collection for the review period decreased the under-collection by $2,564,738.

Demand (Over)/Under Collection – These amounts represent the difference in the actual demand charges incurred by the Company as compared to demand charges billed and collected from customers. The demand (over)/under collection for the review period increased the under-collection by $8,473,679.

Uncollectibles – Commodity Only – In Order No. 2006-679 dated November 13, 2006, issued in Docket No. 2006-5-G, the Company was authorized to recover its uncollectible gas costs through the commodity cost of gas, beginning with the first billing cycle in November 2007. This process allows the Company to recover the correct amount of

uncollectible gas cost expense that it has actually incurred. Uncollectible gas cost expense for the review period increased the under-collection by $108,166.

Unbilled Revenue Adjustments – In compliance with Order No. 2009-910 dated December 29, 2009, issued in Docket No. 2009-5-G, the Company converted the PGA administration process from a cycle-month sales calculation basis to a calendar month sales calculation basis. This process is more effective and precise in matching calendar month gas costs with the sales of that month's gas. Unbilled revenue adjustments were applied to the demand component of the cost of gas factor. The net unbilled revenue adjustment for the review period decreased the under-collection by $500,845.

Interest/Carrying Cost – In accordance with Order No. 2006-679, carrying cost is computed using the rate of interest, as of the first day of each month, for 10-year U.S. Government Treasury Bills plus an all-in spread of 65 basis points, not to exceed 6% and shall not be applied to (over)/under collection balances in excess of $20 million. The computed carrying costs for the review period increased the under-collection by $387,836. The interest rates used to calculate carrying costs during the review period have been verified to those published in the Wall Street Journal on the first day of each month.

Q. WHAT IS INCLUDED IN AUDIT EXHIBIT ZJP-2, INTERSTATE STORAGE INVENTORY ACTIVITY?

A. Audit Exhibit ZJP-2 shows the detail of gas held in interstate pipeline storage facilities during the review period. ORS has verified injections and withdrawals, by month, for each of the storage facilities on the Southern and Transco interstate pipelines. The Southern system's Contract Storage Service ("CSS") has two facilities: Muldon, located in Prairie County, Mississippi and Bear Creek, located in Bienville Parish, Louisiana. The

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Transco system has four facilities: General Storage Service ("GSS") located in Potter and Clinton counties, Pennsylvania; Eminence Storage Service ("ESS") located in Covington County, Mississippi; a Liquefied Natural Gas Storage Service ("LG-A") located in Carlstadt, New Jersey; and Washington Storage Service ("WSS") located in St. Landry Parish, Louisiana. For the review period, total storage injections were 3,691,969 dekatherms at a total cost of $12,088,067 which converts to a weighted average injection rate of $3.27 per dekatherm. Withdrawals totaled 3,823,142 dekatherms at a total cost of $10,927,347 which converts to a weighted average withdrawal rate of $2.86 per dekatherm. Total interstate pipeline storage inventory at July 31, 2017 equaled 4,212,040 dekatherms with a total cost of $13,233,054 or weighted average cost of $3.14 per dekatherm.

Q. WHAT IS INCLUDED IN AUDIT EXHIBIT ZJP-3, LNG INVENTORY ACTIVITY?

A. Audit Exhibit ZJP-3 details, by month, total Liquefied Natural Gas ("LNG") inventory activities for the Company's Salley and Bushy Park facilities. ORS has verified these inventories to the books and records of the Company. This exhibit summarizes all the activity affecting LNG inventory including boil-off, vaporization, liquefaction, derime gas, gas lost to atmosphere, volume adjustments, and direct costs capitalized. Capitalized costs at both facilities consist mostly of expenses associated with the liquefaction capability at the Bushy Park facility. LNG inventory on July 31, 2017 totaled 1,569,051 dekatherms at a total cost of $6,540,011 or a weighted average rate of $4.17.

Q. WHAT IS THE STATUS OF THE COMPANY'S HEDGING PROGRAM?

A. Commission Order No. 2012-39 issued January 12, 2012, ordered that SCE&G's hedging program be suspended effective on the date of the order. The last of the Company's outstanding hedges settled on January 10, 2013.

Q. WHAT ARE ORS'S FINDINGS REGARDING THE COMPANY'S PGA (OVER)/UNDER COLLECTION?

A. Based on our examination, it is the opinion of ORS that the Company's PGA under collection at July 31, 2017 of $16,152,786, shown on Company Witness Robinson's Exhibit No. ____(RMR-1), is accurately stated.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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SOUTH CAROLINA ELECTRIC AND GAS COMPANY - DOCKET NO. 2017-5-G
PURCHASED GAS ADJUSTMENT (OVER)/UNDER COLLECTION
FOR THE TWELVE MONTHS ENDED JULY 31, 2017

	2016					2017							
	August	September	October	November	December	January	February	March	April	May	June	July	Total
	$	$	$	$	$	$	$	$	$	$	$	$	$
Beginning Balance	10,248,686	12,676,203	14,609,060	16,439,338	15,821,794	14,252,022	13,310,687	12,904,342	10,586,423	11,527,274	12,890,989	14,387,968	
Commodity (Over)/Under Collection	145,389	(246,317)	469,123	2,615,949	4,456,255	386,545	(2,676,794)	(1,800,807)	(2,753,401)	(1,270,896)	(1,175,577)	(714,207)	(2,564,738)
Demand (Over)/Under Collection	2,517,656	2,028,374	2,054,452	527,358	(2,559,927)	(2,869,100)	(669,468)	(344,885)	1,142,382	1,924,975	2,205,867	2,515,995	8,473,679
Uncollectibles-Commodity Only	4,985	2,006	(1,268)	(3,726)	(1,382)	(1,317)	2,372	10,541	15,502	29,863	28,547	22,043	108,166
Unbilled Revenue Adjustment	(263,900)	121,393	(725,988)	(3,796,778)	(3,501,394)	1,508,229	2,905,279	(209,572)	2,508,272	649,251	402,882	(98,519)	(500,845)
Ending Balance Before Interest	12,652,816	14,581,659	16,405,379	15,782,141	14,215,346	13,276,379	12,872,076	10,559,619	11,499,178	12,860,467	14,352,708	16,113,280	
Interest/Carrying Cost	23,387	27,401	33,959	39,653	36,676	34,308	32,266	26,804	28,096	30,522	35,260	39,504	387,836
Ending Balance	12,676,203	14,609,060	16,439,338	15,821,794	14,252,022	13,310,687	12,904,342	10,586,423	11,527,274	12,890,989	14,387,968	16,152,784	
Interest Rate	2.218%	2.255%	2.484%	3.015%	3.096%	3.101%	3.008%	3.046%	2.932%	2.848%	2.948%	2.942%	

Purchased Gas Adjustment (Over)/Under Collection as of 7/31/17 **$ 16,152,784**

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SOUTH CAROLINA ELECTRIC AND GAS COMPANY - DOCKET NO. 2017-5-G
INTERSTATE STORAGE INVENTORY ACTIVITY
FOR THE TWELVE MONTHS ENDED JULY 31, 2017

TOTAL INTERSTATE PIPELINE STORAGE

	Injections			Withdrawals			Balance		
	DT's	Price	Amount	DT's	Price	Amount	DT's	Amount	Wtd. Cost
	#	$	$	#	$	$	#	$	$
Beg. Bal.							**4,343,213**	**12,072,334**	**2.77959**
Aug-16	177,556	2.76084	490,204	(122,397)	2.68761	(328,956)	4,398,372	12,233,582	2.78139
Sep-16	97,951	2.93455	287,442	(233,396)	2.68987	(627,804)	4,262,927	11,893,220	2.78992
Oct-16	208,010	2.98800	621,534	(211,620)	2.69220	(569,723)	4,259,317	11,945,031	2.80445
Nov-16	287,421	2.76173	793,778	(616,821)	2.70511	(1,668,566)	3,929,917	11,070,243	2.81692
Dec-16	614,571	3.42394	2,104,253	(737,669)	2.74663	(2,026,105)	3,806,819	11,148,391	2.92853
Jan-17	517,324	3.90400	2,019,634	(448,201)	2.88469	(1,292,919)	3,875,942	11,875,106	3.06380
Feb-17	391,641	3.44229	1,348,140	(436,185)	3.02000	(1,317,278)	3,831,398	11,905,968	3.10747
Mar-17	164,156	2.72503	447,330	(487,364)	3.04432	(1,483,690)	3,508,190	10,869,608	3.09835
Apr-17	257,534	3.24267	835,097	(214,287)	3.02139	(647,445)	3,551,437	11,057,260	3.11346
May-17	364,604	3.20862	1,169,874	(218,210)	3.03494	(662,255)	3,697,831	11,564,879	3.12748
Jun-17	290,313	3.31992	963,816	(68,538)	3.13537	(214,892)	3,919,606	12,313,803	3.14159
Jul-17	320,888	3.13806	1,006,965	(28,454)	3.08266	(87,714)	4,212,040	13,233,054	3.14172
	3,691,969	3.27415	12,088,067	(3,823,142)	2.85821	(10,927,347)			
				Total Interstate Pipeline Storage as of 7/31/17			**4,212,040**	**13,233,054**	**3.14172**

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SOUTH CAROLINA ELECTRIC AND GAS COMPANY - DOCKET NO. 2017-5-G
LNG INVENTORY ACTIVITY
FOR THE TWELVE MONTHS ENDED JULY 31, 2017

TOTAL LNG STORAGE

	Boil-off			Vaporization			Liquefaction			Derime Gas
	DT's	Rate	Amount	DT's	Rate	Amount	DT's	Rate	Amount	DT's
	#	$	$	#	$	$	#	$	$	#
Aug-16	(42,929)	4.422908	(189,871)	0	0.000000	0	104,794	2.597792	272,233	(912)
Sep-16	(39,381)	4.453950	(175,401)	0	0.000000	0	161,523	2.790699	450,762	0
Oct-16	(37,232)	4.358213	(162,265)	(515)	4.357282	(2,244)	108,521	2.834576	307,611	(1,563)
Nov-16	(38,049)	4.338800	(165,087)	0	0.000000	0	201,437	2.633498	530,484	0
Dec-16	(33,378)	4.171820	(139,247)	(15,678)	4.171833	(65,406)	106	3.301887	350	0
Jan-17	(33,568)	4.189407	(140,630)	(416,635)	4.189410	(1,745,455)	0	0.000000	0	0
Feb-17	(29,908)	4.239334	(126,790)	(95,308)	4.239329	(404,042)	0	0.000000	0	0
Mar-17	(32,678)	4.243987	(138,685)	(40,324)	4.243999	(171,135)	0	0.000000	0	0
Apr-17	(37,660)	4.250664	(160,080)	0	0.000000	0	905	0.000000	0	(905)
May-17	(50,357)	4.263360	(214,690)	0	0.000000	0	205,733	3.059101	629,358	0
Jun-17	(47,479)	4.151625	(197,115)	0	0.000000	0	169,916	3.157001	536,425	0
Jul-17	(47,248)	4.234698	(200,081)	0	0.000000	0	191,135	2.982102	569,984	0
Totals	(469,867)	4.277683	(2,009,942)	(568,460)	4.201319	(2,388,282)	1,144,070	2.881998	3,297,207	(3,380)

	Gas Lost To Atmosphere			Volume Adjustment			Direct Costs Capitalized	Ending Balance		
	DT's	Rate	Amount	DT's	Rate	Amount	Amount	DT's	Rate	Amount
	#	$	$	#	$	$	$	#	$	$
Beg. Bal.								**1,485,785**	**4.422909**	**6,571,492**
Aug-16	0	0.000000	0	0	0.000000	0	235,226	1,546,738	4.453941	6,889,080
Sep-16	0	0.000000	0	0	0.000000	0	108,912	1,668,880	4.358224	7,273,353
Oct-16	0	0.000000	0	0	0.000000	0	124,756	1,738,091	4.338790	7,541,211
Nov-16	0	0.000000	0	0	0.000000	0	25,997	1,901,479	4.171808	7,932,605
Dec-16	(102)	4.176471	(426)	(18,995)	4.171835	(79,244)	32,355	1,833,432	4.189404	7,680,987
Jan-17	0	0.000000	0	0	0.000000	0	69,066	1,383,229	4.239333	5,863,968
Feb-17	0	0.000000	0	0	0.000000	0	5,866	1,258,013	4.243996	5,339,002
Mar-17	0	0.000000	0	0	0.000000	0	7,893	1,185,011	4.250657	5,037,075
Apr-17	0	0.000000	0	0	0.000000	0	14,577	1,147,351	4.263361	4,891,572
May-17	0	0.000000	0	0	0.000000	0	102,182	1,302,727	4.151616	5,408,422
Jun-17	0	0.000000	0	0	0.000000	0	287,400	1,425,164	4.234693	6,035,132
Jul-17	0	0.000000	0	0	0.000000	0	134,976	1,569,051	4.168132	6,540,011
Totals	(102)	4.176471	(426)	(18,995)	4.171835	(79,244)	1,149,206			

Total LNG Storage as of 7/31/17	**1,569,051**	**4.168132**	**6,540,011**

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