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ALLOWABLE EX PARTE BRIEFING
REQUESTED BY SOUTH CAROLINA COASTAL CONSERVATION LEAGUE, SOUTHERN ALLIANCE FOR CLEAN ENERGY, AND UPSTATE FOREVER – 2011 INTEGRATED RESOURCE PLAN [DOCKET NO. 2011-9-E]

TRANSCRIPT OF TESTIMONY AND PROCEEDINGS

COMMISSIONERS PRESENT: John E. 'Butch' HOWARD, *CHAIRMAN*, David A. WRIGHT, *VICE CHAIRMAN*; and COMMISSIONERS Randy MITCHELL, Swain E. WHITFIELD, and Nikiya 'Nikki' HALL
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APPEARANCES:

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JEFFREY M. NELSON, ESQUIRE, representing **THE OFFICE OF REGULATORY STAFF**

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P R O C E E D I N G S

CHAIRMAN HOWARD: Please be seated. We'll call this ex parte briefing to order, and I'll ask Attorney Melchers to read the docket.

MR. MELCHERS: Thank you, Mr. Chairman. Commissioners, pursuant to South Carolina Code 58-9-260(C) and this Commission's May 4, 2011, directive granting South Carolina Coastal Conservation League's, Southern Alliance for Clean Energy's, and Upstate Forever's request for an allowable ex parte briefing, those entities have filed a notice of request for such briefing scheduled for today, Wednesday, June 1, 2011, here in the Commission's hearing room, and the subject matter to be discussed at this briefing is South Carolina Electric & Gas Company's 2011 Integrated Resource Plan.

Thank you, Mr. Chairman.

CHAIRMAN HOWARD: Thank you. And I believe, Mr. Holman?

MR. HOLMAN: Thank you, Chairman Howard. Members of the Commission, I'm Bland Holman. I'm here representing the Coastal Conservation League, Southern Alliance for Clean Energy, and Upstate Forever. And we appreciate the opportunity to talk

1 to you today and have our ex parte hearing. We
2 also appreciate SCE&G's willingness to talk with us
3 through this process and answer some questions.
4 That's been very helpful.
5 I know that this is a little bit of a change
6 in gears from the moving trucks.
7 [Laughter]
8 Hopefully, it will be entertaining. Although,
9 I've got to say, when I saw that moving truck, I
10 thought about how nice it might be to get in that
11 moving truck today and go to Maine --
12 [Laughter]
13 -- at least for a month or two. But anyway,
14 we, as part of the integrated resource planning, we
15 look forward to the opportunity to share with the
16 Commission some of the ideas that we've had toward
17 the end of making this an open process that helps
18 the State and the public and the Commission move
19 along with planning energy production in South
20 Carolina in a way that is best for ratepayers and
21 the citizens. To that end, today I've got with me
22 John Wilson, who is the research director for the
23 Southern Alliance for Clean Energy. Mr. Wilson has
24 testified a number of times before this Commission,
25 he's testified before commissions throughout the

1 Southeast and to legislatures, and I think you'll
2 find that he's quite informed and informative on
3 this subject of SCE&G's planning.
4 So without further ado, I'll introduce him and
5 have him come up and give his presentation. I
6 think he's got a PowerPoint, and we can fire that
7 up.
8 **CHAIRMAN HOWARD**: Good to have you with us,
9 Mr. Wilson. Good to see you again.
10 **MR. WILSON**: Thank you, Mr. Chairman. And I
11 was told I'm to sit here [indicating] or the
12 podium. What is your preference, Mr. Chairman?
13 **CHAIRMAN HOWARD**: The chair'll be fine.
14 **MR. WILSON**: Thank you, sir.
15 [Reference: PowerPoint Slide 1]
16 Good morning, Mr. Chairman and members of the
17 Commission. And I'd also like to add my thanks for
18 you entertaining this opportunity to chat with you
19 a little bit about resource planning in South
20 Carolina, and particularly with SCE&G's resource
21 plan.
22 This presentation will primarily follow our
23 comments, but I did have the opportunity also to
24 review the ex parte briefing that SCE&G provided.
25 [Reference: PowerPoint Slide 2]

1 First I'd like to just sort of step back and
2 just kind of put their plan in context as to our
3 view of what an IRP is and should do, and of
4 course, just to mention that, you know, we have
5 been involved in resource planning proceedings
6 throughout the Southeast fairly intensively. My
7 organization, in particular, has been heavily
8 involved in TVA's recent resource plan and I'll
9 make some reference to that a little later in the
10 presentation.
11 So an IRP is basically -- it is a long-term
12 plan and it's looking at the economics and
13 reliability of meeting the needs of the customers
14 in the region. It should also look at the resource
15 alternatives, with a focus on cost-effectiveness,
16 and also looking at some of the ancillary impacts,
17 I would say, of those resource plans. And it
18 should consider all resources, both supply-side and
19 demand-side, on an equal basis. Those are kind of
20 the high-level principles that we look for in a
21 plan. And most of my presentation is going to sort
22 of focus on a review of their resource plan, sort
23 of from a best-practices point of view, what is
24 going on around the country and how does the SCE&G
25 plan measure up.

1 [Reference: PowerPoint Slide 3]
2 And our review of this found that some of the
3 key plan components that we usually see in a
4 resource plan submission -- whether in the
5 Southeast or elsewhere in the country -- are not
6 included in the SCE&G proposal. They have a good
7 discussion of their conceptual approach to their
8 future resource mixes. It's very easy to read the
9 plan and understand kind of what they're hoping to
10 do and how they plan to do it. However, the major
11 flaw there that I think was kind of interesting is
12 the resource margin target that they themselves
13 have adopted and used for many years is exceeded in
14 the plan significantly for several years, and I'll
15 come back to that.
16 Second, sensitivity analyses. Typically,
17 we'll see fuel cost sensitivities. I'll get into
18 some details of some others later. There was not
19 any evaluation of that in their resource plan.
20 Alternative supply resource options, including
21 costs, that's not included in the plan.
22 Alternative demand resource options, including
23 costs, not included in the plan. And alternative
24 load growth scenarios, they had three, and that
25 would be fairly adequate but it's not as

1 comprehensive as some of the other utilities'
2 resource plans that we've reviewed.
3 [Reference: PowerPoint Slide 4]
4 So let's start with the reserve margin. So
5 according to SCE&G, their margin range is from 12
6 to 18 percent, and in the 2008, 2009, and 2010 plan
7 they were projecting -- and I picked 2020 as sort
8 of an even year, you know, kind of an every-five-
9 years that was included in all these different
10 plans just kind of as a benchmark. And you can see
11 that there's been a 3 to 4 percent increase in the
12 reserve margin over the past three plans with this
13 year, and that's driven by the economy, the fact
14 that we've had a slow-down and that future demand
15 projections are down from where they were. It's
16 also driven by the addition of efficiency resources
17 to the plan that were not present in some of the
18 earlier plans. So you've got some significant
19 changes that have driven up the reserve margin.
20 And that's important, because the utility, you
21 know, points to this high reserve margin as a way
22 to give customers -- themselves flexibility in
23 meeting customer needs over a different range of
24 futures. But we'll come back to sort of some of
25 the negative implications of that.

1 But one thing I would also mention at this
2 point just for comparative purposes is, also in
3 2008, contemporaneous with the 2009 plan, SCE&G
4 filed a much more detailed analysis than it
5 includes in its resource plans that looked at its
6 future generation needs, and of course, that was
7 the Summer Nuclear docket. And in that docket, the
8 reserve margin projected for 2020 was 14.6 percent,
9 I believe, so it was significantly lower than any
10 of these numbers. So the reserve margin is up
11 considerably since you all looked at it and
12 considered the need for new capacity in the coming
13 decade.
14 [Reference: PowerPoint Slide 5]
15 Now turning to sort of best practices on the
16 supply-side resource options, we identified three
17 general critiques of this plan, the first one being
18 the lack of evaluation of renewable resources in
19 any kind of a systematic way; second, some
20 technical characterization issues with respect to
21 some of the peak resources; and third, the
22 consideration of environmental compliance costs.
23 With respect to the renewable resources, I did
24 want to mention specifically that there are some
25 claims in there, some conclusory statements

1 regarding renewable energy as being uneconomic, but
2 those claims are really not substantiated with sort
3 of a comprehensive analysis such as what we've seen
4 in some other resource plans. So, for instance,
5 ancillary benefits, such as reductions in
6 congestion during peak periods, those sorts of
7 things -- they have real economic value to the
8 system -- those are not considered in that
9 discussion. Also, there's really just no economic
10 analysis of the renewables in the plan. There's no
11 information there to review to see if it's
12 accurate, if it's up to date. I presume that some
13 of that information would be available in the
14 nuclear docket, which was -- I believe the
15 application was prepared in 2007 and submitted in
16 2008, so it would be several years old at this
17 point, and there have been a lot of changes in
18 costs. The utilities are making much different
19 decisions about renewable energy resources in the
20 Southeast and across the country today than they
21 were even a year ago, because of cost changes in
22 the industry.
23 I also want to highlight the environmental
24 compliance costs. And I'm going to go into this in
25 some more detail, but there's a lot of necessary

1 environmental regulations that are coming into play
2 that are affecting plants and utilities that choose
3 to keep some of these older coal plants, in
4 particular, operating and facing very high costs.
5 One study by ICF, if you look at a 500 megawatt
6 coal plant, that will work out to about $450-$650
7 million in compliance costs. The higher end of the
8 range, according to ICF, is if there's some
9 significant issues with coal ash and with water
10 resource withdrawals from the -- whatever the
11 cooling -- for the cooling systems.
12 So there's a pretty wide range there. I've
13 seen other estimates that vary from this. I think
14 there's a lot of uncertainty about the costs, but
15 they're substantial and they're not inconsequential
16 for ratepayers.
17 [Reference: PowerPoint Slide 6]
18 As a result of this, a lot of utilities across
19 the country looking at these compliance costs are
20 looking at coal retirements. And according to the
21 IRP, there are some studies underway at SCE&G. We
22 don't happen to know the details of those studies,
23 but they are looking at that. And then, in the ex
24 parte briefing, it was discussed that Urquhart,
25 McMeekin, and Canadys were identified as potential

1 candidates for retirement because they're basically
2 not scrubbed units, so they have the choice of
3 either updating those plants or retiring them. And
4 it looks like those plants are sort of headed
5 toward retirement.
6 It's a little hard to tell exactly when or
7 which plants or sort of how this is structured,
8 because this detail isn't provided in the IRP; it's
9 just sort of a passing reference in the briefing.
10 In contrast, if you look at Duke, Progress, and
11 TVAs current resource plans, you'll see a high
12 degree of detail there about which plants they're
13 planning to retire. In some cases there are very
14 solid commitments. TVA just entered into a
15 settlement agreement with EPA. And it's important
16 to understand that these are economic-driven
17 retirements. This is not sort of soft-hearted,
18 okay-we'll-shut-these-plants-down kind of
19 retirements; these are we're-looking-at-the-cost-
20 to-operate-and-maintain-these-plants-in-a-safe-and-
21 reliable-manner-for-the-public. These plants just
22 simply aren't worth keeping on the books, and
23 they're looking at alternatives that are cleaner,
24 better for customers in the future.
25 [Reference: PowerPoint Slide 7]

1 Another best practice I'd like to highlight is
2 the use of sensitivity analysis. And in this
3 resource plan, and all the resource plans that I've
4 seen from SCE&G, the sensitivity is primarily
5 constrained to load, which is just one of the ten
6 factors that TVA studied in its recent IRP -- which
7 was a pretty exhaustive IRP. I mean, we had some
8 differences with it, but we, overall, were very
9 supportive of the process and the direction that
10 the plan came out with. So there's a lot of
11 analysis that goes into looking at all these
12 variables, and that has a real impact on what comes
13 out of it.
14 So, for example, in the TVA IRP, when we went
15 into that process, I think the utility was
16 particularly skeptical of energy efficiency
17 resources. When we came out, they had agreed to
18 analyze much higher levels of efficiency and they
19 adopted the highest levels of efficiency that they
20 analyzed as their recommended direction in that
21 plant. It wasn't because they came in with that
22 policy agenda; it's because that's where the
23 numbers led them. And they've done subsequent
24 analysis that we think also supports going even
25 beyond the highest level of analysis that they

1 considered in the formal plan itself. So, they, by
2 no means, exhausted the efficiency resource, even
3 in the course of that resource plan. I think that
4 was a really interesting outcome.
5 [Reference: PowerPoint Slide 8]
6 So when we looked at the demand-side resource
7 options in the SCE&G plan and sort of looked for
8 some of the best practices, we identified these
9 four issues. First, we didn't think that the plan
10 properly accounted for energy efficiency during
11 high-growth periods. Second, they increased the
12 scale of energy efficiency plans through 2020 -- I
13 mean, excuse me. We think they could increase the
14 scale. Third, we think they should include energy
15 efficiency impacts beyond 2020. And fourth, we
16 think they should improve the consideration of
17 load-shifting options.
18 [Reference: PowerPoint Slide 9]
19 So turning first to the issue related to the
20 high growth, this graph here shows the energy
21 efficiency impact, according to the plan, based on
22 the forecast total system loads. You can see there
23 on the left the low-growth scenario that SCE&G
24 adopted had the highest level of energy efficiency,
25 and then under the high-growth scenario, the lowest

1 level of efficiency. And this is kind of, to me,
2 counter to the standard practices. Certainly, it's
3 -- all of these are reasonable scenarios to
4 consider, if you're going to consider a very large
5 number of scenarios, but if you're only going to
6 pick three, in particular, this high-growth/low-
7 efficiency scenario is exceptionally unlikely, and
8 the reason for that is that you can imagine, for
9 instance, new construction programs, so when people
10 are building new businesses, building new homes,
11 that sort of thing, those kind of new construction
12 programs are really a gold mine for utilities to
13 incentivize energy efficiency, to help people go
14 beyond sort of just the basic building code and do
15 what's in their own economic interests and the
16 economic interests of all the customers on the
17 system. Those kind of programs operate very well
18 in a high-growth environment. Right now you can
19 look around the Southeast at the utilities that are
20 running efficiency programs, and you won't see a
21 lot of action in the new construction programs,
22 because we're in a low-growth environment right
23 now. And so, that's an example of a program whose
24 total impact is much higher under high growth than
25 low growth. And it's really true that many

1 programs -- not all, but many programs -- operate
2 better in a high-growth environment than in a low-
3 growth environment.
4 This is one of the practices that, you know,
5 if you're only going to do three scenarios, you
6 really should do a hybrid of high-efficiency
7 scenario. I understand that the company's sort of
8 approach to this was, "What's our worst-case
9 outcome? What's the -- if we want to really test
10 our resource plan and make sure that it's robust
11 under sort of worst-case scenario, it would be a
12 high-growth/low-efficiency scenario where customers
13 are just ignoring our programs." But, you know, I
14 would really say that if you can't operate good
15 energy efficiency programs in a high-growth
16 environment, you need to look at some management
17 alternatives, just in the same way that if you
18 can't operate a power system in a high-growth
19 environment, you need to invest in some new
20 transmission or new power generation. I mean, if
21 you are coming after these -- if you're facing a
22 high-growth environment, you should invest in and
23 run the resources, whether they're demand-side or
24 supply-side, in the most aggressive, cost-effective
25 manner possible. And this is simply just not a

1 really best-case approach to planning resources.
2 [Reference: PowerPoint Slide 10]
3 Now looking at what they're considering here,
4 under the low-growth scenario, which is, I think,
5 their highest efficiency plan, they're at about 5
6 percent energy savings by 2020. That's their peak
7 effort. What's the efficiency potential on the
8 Southeast? There's a lot of uncertainty about
9 this, because a lot of the resource potential
10 studies are either dated or incomplete, that sort
11 of thing. But the best available resource is a
12 study by Georgia Tech that was cited in our
13 comments, and -- Duke University and Georgia Tech
14 -- which estimated that across the Southeast the
15 efficiency potential over the next decade, or so,
16 is about 7 to 14 percent, depending on how
17 aggressive the programs are, depending on the
18 particular mix of customers and opportunities.
19 So the SCE&G plan is really not even reaching
20 the low end of that range. If you achieve just 7
21 percent by 2020, you'd reduce your capacity needs
22 by 175 megawatts in 2020 -- rough estimate, but it
23 seems reasonable. And then if you could go to 10
24 percent by 2025, that would be 375 megawatts of
25 capacity need addressed. And I'd like you to kind

1 of keep an eye on that 375 number, because I'm
2 going to show you how that plays out in just a
3 moment.
4 [Reference: PowerPoint Slide 11]
5 So just to put that those numbers in context
6 -- that 5, 7, 10 percent number -- here are some of
7 the plans that have been adopted around the
8 Southeast. So the SCE&G plan is the one in red
9 there, and you can see that it reaches about 5
10 percent by 2020. Duke Energy Carolinas modeled two
11 different DSM plans in their resource plan, which
12 has been before you, I believe. They've got a base
13 case and a high case. And you can see that even
14 their base case is a little bit higher. They're
15 currently, I think, on track to be well above their
16 base case. For example, this year they were
17 projecting to do about .2, .25 percent energy
18 savings, and they basically got about three to four
19 times that savings level. So they've gone well
20 above what they expected just in their first year.
21 Now, I don't know that they can sustain that, or
22 not. We're hopeful that they can. But it's --
23 there's a lot of potential out there and there's a
24 lot of customer interest in these programs. TVA's,
25 you can see the range there that they adopted is

also higher than Duke's base case: up to 5 percent just by 2015. I've also spoken with their management on this, and they're feeling optimistic about reaching more towards the high end of that range by 2015. So, and then I've put on there sort of a, quote, "leading utility," and what this is, is this is just simply sort of a simplified composite of many of the leading utilities around the country. I didn't want to put sort of the number one utility out there, which were some of the northeastern utilities that operate in a rate and, frankly, weather climate that is quite different than the Southeast. The other thing is, I sort of wanted to start it from 0 percent, so I reviewed probably a dozen energy efficiency startups that were very aggressive, such as Arizona Public Service, Excel Colorado, some of the Iowa utilities. I've looked at these different utilities and basically said, "What is their sort of trajectory to reach a very strong level of efficiency? What's the typical one?" And this is sort of a very simplified representation of that curve, based on those data. It's not sort of a really highly sophisticated analysis, but it's -- I think would stand up, if you compared it to any of

1 those utilities, as being reasonably close to what
2 they've been able to achieve.
3 So while, you know, we're certainly very happy
4 that SCE&G has got really meaningful programs out
5 there for the first time ever, and that they are
6 achieving energy savings and that they're
7 delivering a product to customers that I think
8 they're going to be interested in, you know, it's
9 by no means an aggressive plan.
10 The other thing I did want to clarify here
11 real quick is just the legend there on the left,
12 the cumulative energy savings. It's sort of a
13 little tricky to talk about efficiency programs
14 because they're not like a power plant, in that
15 sort of you build them for several years and then
16 they come on-line and they deliver 100 megawatts or
17 100,000 megawatt-hours or whatever. They're a
18 cumulative resource. You start the program up, you
19 find out what works in terms of the marketing maybe
20 during the first year, or the measure delivery, or
21 whatever the mechanism is to encourage customers to
22 save energy. And then, after the first -- you
23 know, after you get that in place, the resource is
24 developed, and it may take -- for some programs, it
25 may go on forever; for other programs, it may be

1 sort of a three-to-five-year trajectory before the
2 resource is sort of fully built out. So what I've
3 graphed here is sort of starting from zero, if you
4 started the plan at nothing in 2010, what would be
5 the cumulative impact by 2020 -- or 2025, in the
6 case of a few of these projections that go out
7 further -- of these resource plans -- I mean,
8 excuse me -- of their energy efficiency plans on
9 their resource plans. And so that's what that
10 cumulative concept represents.
11 [Reference: PowerPoint Slide 12]
12 Now, looking beyond 2020, SCE&G's efficiency
13 plan shows no efficiency impact past 2020. And
14 according to the company, they've leveled off the
15 efficiency to address uncertainty in programs and
16 customer behavior. Their baseline forecast
17 basically contains these contingencies that really
18 would be more appropriate to consider in a
19 sensitivity case. So what you would normally see
20 in an aggressive energy efficiency plan is a sense
21 of confidence that, "We can build this resource and
22 deliver it. But we have also done some checking to
23 make sure that, if these resources are not coming
24 in on the schedule that we would expect, or there's
25 an economic downturn or some other kind of

1 transformative change that makes it more difficult,
2 what would be the impact of that on the resource
3 plan." So you would start with what you hope to
4 deliver and then back off of that in a sensitivity
5 analysis, similar to what they would do on the
6 supply side where you would say, "We're going to
7 get this resource built on time and on schedule,
8 but what if there's cost overruns? What if there
9 are schedule delays?" So putting those what-ifs
10 into the baseline and saying, "Hang on, we're not
11 sure we can deliver that," is just -- it's not the
12 same approach; it's not putting supply-side and
13 demand-side resources on an equal footing. If
14 you're putting your what-ifs into your baseline
15 scenario for demand-side, but not for supply-side,
16 it's kind of an unequal treatment.
17 [Reference: PowerPoint Slide 13]
18 And as an example here, here's PacifiCorp, a
19 utility that has a nice graphic that shows how
20 their energy efficiency growth continues all the
21 way out to 2030. You'll notice they've got kind of
22 an inflection point -- and the efficiency resource
23 is that green resource there with the horizontal
24 lines on it, and there's an inflection point there
25 where the efficiency plan drops a little bit around

1 2019-2020, so, I mean, it's not as if you say
2 there's a straight-line growth in energy efficiency
3 all the way out through 2020. There are planning
4 techniques for looking at those longer-term
5 resource impacts, even if you're not entirely
6 certain exactly what programs you're going to
7 operate, what kind of measures are going to be
8 installed, what is going to create energy savings.
9 [Reference: PowerPoint Slide 14]
10 So bottom line on this, we would suggest that
11 SCE&G could consider reducing its net capacity
12 additions, if it adopted a stronger energy
13 efficiency plan and if it adopted some of the other
14 planning practices that we identified of somewhere
15 between 375 and 875 megawatts. The 375 megawatts
16 is due to the efficiency; the higher number is if
17 they targeted a lower planning margin.
18 And, you know, this is basically excess
19 capacity in their plan, in our opinion, which it
20 gives the company flexibility but that comes at a
21 significant cost to customers. And, you know, that
22 22 percent approximate reserve margin is outside
23 the range that SCE&G itself says is the range
24 they'd like to be within. And, in fact, I was
25 reviewing some testimony recently by a company

1 witness, and I'll quote from it: "SCE&G attempts
2 to run the system at the low end of its reserve
3 margin range, 12 percent, in order to keep its
4 rates as low as possible." That approach, which
5 has been the company's position in the past, is
6 simply not reflected in the current resource plan.
7 [Reference: PowerPoint Slide 15]
8 And here's what that looks like in terms of a
9 visual. This is from the allowable ex parte
10 briefing. You've seen this slide before. It's
11 just a reproduction of the company's graph, here.
12 And you can see where the nuclear is added, the
13 first unit, it goes briefly outside of their target
14 ceiling of 18 percent, ducks slightly back below
15 it, and then the next unit is added, and it's not
16 until 2022-2024 where the reserve margin -- where
17 they're back within their range, and in fact, they
18 don't get back down to that 12 percent zone that
19 they say they'd like to keep at to keep rates low
20 until as late as 2024.
21 Now, if we put in a more aggressive assumption
22 about efficiency -- this is not the most aggressive
23 assumption possible, but certainly a potential
24 impact -- you can see that the second unit, the
25 reserve margin, when they add the second unit,

they're always outside the 18 percent range. And this is a rough estimate, I would acknowledge, but it's just to kind of give you a sense of the kind of analysis, the kind of deliberation that we would expect to see in a resource plan if it was done consistent with a lot of the practices we see at other utilities. And I think that there would be, then, a reconsideration, and this is where we come up with this range, sort of, of 375 to -- I apologize, I've forgotten the number [indicating] -- 875 megawatts, is that there is a potential here; you could drop that capacity down pretty substantially from 6,600, 6,700, down to around, you know, as low as 6,000 and still remain above the reserve margin, the 12 percent reserve margin, through 2022-2023, at which point you could look at a capacity addition, but it wouldn't need to be nearly as large or significant as the one that the company is currently planning on.

[Reference: PowerPoint Slide 17]

So I'd like to thank you for an opportunity to share these thoughts with you, and certainly hope I can answer any questions that I may have created by lack of clarity or anything else during the presentation.

1 **CHAIRMAN HOWARD**: I doubt it's lack of
2 clarity. Commissioner Wright.
3 **VICE CHAIRMAN WRIGHT**: Good morning. It was
4 very good. I had a question. Your numbers
5 intrigue me, the 375 to 875. In your chart you
6 showed at the end, I think -- you were showing the
7 375 drop as it related –
8 [Reference: PowerPoint Slide 16]
9 Yeah, that one right there. I did not hear
10 you say anything about what I think you quoted as
11 what SCE&G said was potential candidates for
12 retirement of Urquhart, McMeekin, and Canadys. How
13 much would that take off? Because that would be a
14 reduction in megawatts, and how does that play into
15 your 375 to 875 range?
16 **MR. WILSON**: Well, I'm somewhat uncertain. I
17 believe -- but I'm not certain because I was not
18 provided any direct information by the company on
19 this -- that those units are what they're
20 representing in their resource plan already as
21 being retirement candidates. They've got an amount
22 of capacity they're proposing to retire --
23 **VICE CHAIRMAN WRIGHT**: Okay.
24 **MR. WILSON**: -- in the current resource plan,
25 and so that would be accounted for in that green

1 line that was presented by the company in their
2 briefing, already. So additional retirements
3 beyond those three units, which is certainly
4 something that the company could have looked at --
5 and in fact, many utilities are looking at retiring
6 units that do have scrubbers on them already, some
7 of the coal units, elsewhere in the country. You
8 know, some of the newer plants, I don't think
9 there's anyone looking at retiring those, but some
10 of the plants that just had the very basic scrubber
11 technology on it are also, because of some other
12 regulations, being looked at for retirement. So I
13 think if the company went beyond those retirements,
14 that would be another alternative path to reducing
15 the total system capacity, and it may be more
16 economically advantageous to look at that, versus
17 some other options.
18 **VICE CHAIRMAN WRIGHT**: Thank you.
19 **CHAIRMAN HOWARD**: Commissioner Mitchell.
20 **COMMISSIONER MITCHELL**: Thank you, Mr. Wilson.
21 Very good report. You continue to talk about the
22 375 and the -- how does that rank with other
23 companies, as far as the size of SCE&G and their
24 ability to meet these numbers? How does SCE&G rank
25 now with other facilities --

1 **MR. WILSON**: Well, I don't want --
2 **COMMISSIONER MITCHELL**: -- or is there
3 anything out there like that, can you tell me?
4 **MR. WILSON**: Well, Commissioner Mitchell, I
5 appreciate the question, and it's difficult to give
6 an apples-to-apples answer to that, because every
7 utility has its own customer mix and that sort of
8 thing. This graph that I showed earlier --
9 [Reference: PowerPoint Slide 11]
10 -- *Energy Efficiency in Context,* basically
11 shows sort of SCE&G compared to some of the
12 southeastern peers. Many of the national peers are
13 at that leading utility level or greater. And this
14 is in energy units and not in capacity units, but
15 it would be very similar from a capacity point of
16 view. And the level of effort that would be needed
17 to achieve the kind of -- the 375 additional, I
18 think, first of all, a lot of that is post-2020;
19 it's just simply not represented in the plan. They
20 basically said, "We're not sure if we can keep
21 achieving energy savings after 2020," and I just
22 don't accept that premise. I think the second
23 level is a little bit more aggressive programs,
24 particularly once they get the current offerings
25 out and they get comfortable operating them; you

1 sort of step up to the next level, and you find new
2 ways to deliver savings. This is a trajectory that
3 has been, you know, claimed in advance and
4 delivered all across the country in all kinds of
5 circumstances: Iowa, Arizona, Colorado, and then
6 some of sort of the states that I know you all
7 don't like to hear, like California and the
8 Northeast.
9 But it's just -- this is not -- I mean, it's
10 not easy work. I don't want to understate that
11 this is not a challenge to make these programs
12 work, and that there won't be times when the
13 company rolls out something that looks like it's
14 going to be great, and it's a flop.
15 But the good thing about energy efficiency is
16 you kind of -- because it's delivered over several
17 years, if you have a flop, you know it pretty
18 quick. If the customers aren't responding to a
19 marketing message, you're going to know it in a
20 month or two months, you know, maybe if it's a
21 fairly complicated program involving trade allies,
22 it might take six months, but you're going to know.
23 And you come back to the drawing board and by the
24 next year you're ready to rebuild it. You can't do
25 that with a power plant. You build a power plant

1 and it's a flop, you got a real problem on your
2 hands.
3 **COMMISSIONER MITCHELL**: And you did mention
4 cost there, occasionally.
5 **MR. WILSON**: Yeah, absolutely.
6 **COMMISSIONER MITCHELL**: And where is that --
7 with the situation with Congress now, and looking
8 at maybe some less demands out of Congress, could
9 you just touch on that? Do you see any change --
10 any changes coming from Congress? Is it going to
11 be more demand? Less demand? What's your gut
12 feeling on that?
13 **MR. WILSON**: Well, I might need a little
14 clarification on the question, but let me take a
15 stab at costs and efficiency and other resources.
16 Energy efficiency is much cheaper than any other
17 resource that's out there. We reviewed the Duke --
18 the current Duke resource plan, and they ran a base
19 case and a high case. And under the more
20 aggressive case, it was -- you know, unfortunately,
21 the exact data are confidential, but it was
22 billions of dollars cheaper than any plan without
23 the high level of efficiency. And that's the total
24 system cost, the rates were lower for every single
25 model run with high levels of efficiency than with

1 their base level of efficiency. And it's just all
2 the other things they tested -- two nuclear units,
3 one nuclear unit, advanced nuclear units, delayed
4 nuclear units. The difference among those choices
5 was much smaller than just the simple addition,
6 with whatever resource plan you pick in addition to
7 the efficiency, of adding the efficiency. It saves
8 customers money.
9 Even if you double the cost of the efficiency
10 assumed in that plan, it still saves customers
11 money. And of course, with a sensitivity analysis
12 for, say, a nuclear plant, you'll typically see
13 them run sort of a construction cost plus 20
14 percent or 30 percent? If you've got a resource
15 out there where you can run a high estimate of cost
16 -- and they ran a high estimate of cost -- and then
17 say, "And let's just double that," and it's still
18 cost-effective, you'd better go buy that resource.
19 **COMMISSIONER MITCHELL**: Thank you.
20 **CHAIRMAN HOWARD**: Commissioner Wright.
21 **VICE CHAIRMAN WRIGHT**: Let's see if I can word
22 this right. You've laid out some questions, all
23 right? Maybe, I guess, deficiencies in what you
24 see in the plan. What do you think about -- or
25 tell me what your solutions would be, okay? You

1 understand what I'm trying to -- where I'm trying
2 to go?
3 **MR. WILSON**: Well, I'm cautioned by my counsel
4 as to the rules of a briefing here, so let me couch
5 it in terms of sort of what would be the -- I mean,
6 we've laid out sort of the best practices, and I
7 think it's up to the Commission what it wants to
8 see in a resource plan. Certainly a lot more of
9 this information is made available by the company
10 in a need certification proceeding when you're
11 looking at an actual power plant, but I think the
12 opportunity here is that, for example -- and
13 particularly in the Pacific Northwest where they
14 have really robust resource planning practices, and
15 these are places where the electric rates are
16 comparable to here, one of the things they're
17 always looking for is, "Can we delay? Can we
18 postpone? Even after we've made a need
19 certification, are we still doing the right things
20 for customers?" And they actually have in their
21 modeling, in that region, a provision for, you
22 know, even a plant that's under construction, if
23 they can find a way to save money for customers by
24 slowing down the construction schedule or by
25 canceling the construction schedule for a

1 particular resource -- and that would typically
2 happen more for like a gas turbine or something --
3 you know, they will do so, and that's the level of
4 sophistication in the planning process.
5 I think in your order approving that plant --
6 let's see if I've got this -- one of the points you
7 all made in your order was basically that, in the
8 resource planning process, we can come back and
9 look at renewable energy resources. They may
10 become more cost-effective, and there's room in
11 this resource plan for those. Now, I think at this
12 point that might be a little debatable whether
13 there's still sort of opportunity for renewable
14 energy to meet what's evidently a pretty high level
15 of capacity for the demand that's being forecast.
16 But if there was that need, there's not really
17 any process in place in this resource plan to bring
18 that information forward, because they're not
19 continually revisiting their assumptions about the
20 cost of renewable energy resources, checking to see
21 what's going on with peer utilities. We're hearing
22 very promising things about solar prices dropping
23 very dramatically in this region, utilities that
24 you all regulate being more interested in going
25 beyond sort of some of their requirements to meet

1 regulatory demands in those areas, potentially --
2 maybe not this year, but in the near future. We're
3 seeing economic, not regulatory driven, power
4 purchase agreements for bio-power in certain states
5 in the Southeast. These plants are being developed
6 and delivered as resources to the utilities, and
7 there's no sort of process in this plan to, on an
8 annual or biannual or whatever basis you wanted to
9 request, kind of a re-look, "Are we doing the right
10 thing? Do we need a midcourse correction? Do we
11 need to change the scheduling here? What's in the
12 best interests of customers?" It's really more of
13 a steady-as-she-goes kind of approach, and, you
14 know, that may be what everybody is comfortable
15 with, but I think the analysis that we're showing
16 suggests that there might be some better
17 alternatives.
18 Does that answer your question, Commissioner?
19 **VICE CHAIRMAN WRIGHT**: I think it keeps us
20 legal.
21 [Laughter]
22 **MR. WILSON**: Thank you.
23 **COMMISSIONER WHITFIELD**: Mr. Chairman.
24 **CHAIRMAN HOWARD**: Commissioner Whitfield.
25 **COMMISSIONER WHITFIELD**: Thank you, Mr.

1 Chairman. Mr. Wilson, you were talking about
2 retirements of DOE, where you mentioned the three
3 SCE&G plants, and you, I guess, then a minute ago,
4 talking to Commissioner Wright, were talking about
5 retirements of some of the other utilities that
6 were retiring coal plants that already had
7 scrubbers on them. How common are you seeing that,
8 or how -- could you maybe get into the where and
9 who or how often you're seeing that, people
10 retiring units that already have scrubbers on them?
11 And second question is, how long have those
12 scrubbers been on there?
13 **MR. WILSON**: Yes, thank you, Commissioner.
14 I'm glad you asked that question, because I may
15 have slightly misstated, then, if that's what I
16 said. What I'm seeing is that the announced
17 retirements are for unscrubbed plants.
18 **COMMISSIONER WHITFIELD**: Right.
19 **MR. WILSON**: I'm also seeing consideration,
20 but not any announced retirements, of some of the
21 coal plants that have scrubbers on them, and these
22 are typically -- I don't want to say that I know
23 for sure, because I haven't carefully looked at the
24 data -- I would believe these are typically or all
25 the earliest scrubbers. So some of the very first

1 scrubbers that were put on, that had some of the
2 simplest technology, those scrubbers are not
3 necessarily as effective as some of the later ones
4 in dealing with, for instance, mercury and other
5 kinds of pollution that are coming under increased
6 -- and in my opinion, justified -- scrutiny from
7 air-pollution regulations.
8 So those are the scrubbers that I think we're
9 starting to see some utilities taking a look at.
10 There can also be other factors at those plants.
11 Sometimes those scrubbers were put on early, onto
12 plants that didn't have a long lifetime, because
13 they were sort of in a technology development
14 phase, and so they wanted to test them out on a
15 plant that wasn't maybe one of their main assets.
16 So those plants also can sometimes be uneconomic
17 for other reasons, but they do happen to have the
18 scrubbers. So the main point of my comment was
19 just that this sort of scrubber/no scrubber line is
20 not as sharp a line as it might have first seemed.
21 **COMMISSIONER WHITFIELD**: Okay, thank you.
22 Also, you were talking about the addition -- the
23 net capacity additions in your range at 375 to 875,
24 but you focused in on the 375, the minimum part.
25 What do you think these reductions of net capacity

1 would do to the industrial sector? We've had some,
2 as you may be aware, some pretty spirited debates
3 lately on economic development in this State. What
4 do you think -- how do you think that might impact
5 the industrial sector?
6 **MR. WILSON**: Well, first of all, just to
7 clarify, the higher end of the range basically
8 would reflect also heading back down towards that
9 12 percent margin, as opposed to the 18 percent end
10 of the spectrum. So the 375 sort of is targeted at
11 being more in the range of the 18 percent. Again,
12 those are very rough numbers. I think a full
13 analysis would need to be done to really identify
14 what would make sense.
15 With respect to the industrial sector, I
16 think, you know, that presumably is built into
17 their demand forecasts, you know, the latest
18 information on what they're seeing in terms of
19 industrial development and how that's going to
20 affect sales. That was one area of the plan where
21 we didn't identify too much in the way of issues,
22 was with their demand forecasting methods. They
23 have pretty detailed explanation of how they
24 forecast demand, and, you know, I imagine that a
25 demand forecasting expert or a conference of demand

1 forecasters would find things to argue about in
2 there. We were looking for sort of things that
3 were at a very high level, very broad-brush,
4 missing from the plan.
5 I think, you know, you absolutely want to make
6 sure that the industrial sector, which is a key
7 engine for economic growth, has the resources it
8 needs to come in and expand or add new facilities,
9 but I think also it's maybe a little bit of an
10 undervalued asset to have a really strong
11 efficiency program on commercial and industrial
12 programs -- large commercial and industrial --
13 because there are -- I've heard companies complain
14 about poor efficiency program offerings when making
15 decisions about siting. I could give you some
16 examples, if you're interested, but it is an
17 economic development asset, I think, to have a
18 really good program that meets the customer's needs
19 and works with them to help them be efficient,
20 because they want their energy costs low however
21 they can get them low.
22 **COMMISSIONER WHITFIELD**: Thank you. Thank
23 you. That's all I have, Mr. Chairman.
24 **CHAIRMAN HOWARD**: Any other questions?
25 **COMMISSIONER MITCHELL**: I have a question.

1 **CHAIRMAN HOWARD**: Commissioner Mitchell.
2 **COMMISSIONER MITCHELL**: Mr. Wilson, you were
3 also talking about your best practices. Do you see
4 Congress with greater incentives -- do you see
5 greater incentives coming from Congress for better
6 practices, or better energy efficiency, or do you
7 see less in the future?
8 **MR. WILSON**: Well, you know, my personal
9 opinion? I don't speak for --
10 **COMMISSIONER MITCHELL**: Yeah, I know it's an
11 opinion.
12 **MR. WILSON**: Yeah, I don't speak for the other
13 groups that are here, but I don't personally see
14 Congress tweaking them, one way or the other too
15 much. The legislation -- I mean, I see some
16 incentive programs that have been funded and may be
17 enhanced. There's some bipartisan legislation
18 actually getting a hearing this week, I believe,
19 that would focus on industrial customers, in
20 particular, to provide some incentives and programs
21 in that area.
22 You know, the issue with those industrial
23 programs is really sort of the quality and
24 responsiveness of those programs to the customers'
25 needs, and it takes a lot of work on both parties

1 to get those programs operating effectively, is my
2 understanding, talking to colleagues elsewhere in
3 the country. You know, there are some great
4 programs out there and there are some not so good,
5 and I think industrial customers probably have a
6 degree of skepticism that any given utility is
7 going to come forward with a great program, because
8 there are some out there that are just not that
9 customer-friendly.
10 So I think what Congress does with
11 appropriations on some of those programs where
12 they're funding the basic research and the
13 industrial assessment centers, those kind of
14 things, is going to have an effect. It's not going
15 to be a dramatic effect like an energy efficiency
16 resource standard or renewable energy standard
17 would have on sort of the energy sphere, but it
18 could be very effective, and actually has been in
19 many parts of the country very effective in getting
20 the programs improved and getting energy customers
21 more aware and getting them better resources to
22 manage their energy use wisely. I think one of the
23 key areas in this is sort of in your smaller, your
24 growth oriented manufacturing and large commercial
25 companies, because a lot of those companies are not

1 yet at the scale where they have an in-house energy
2 management team, and so a utility that provides
3 direct assistance or funding for consulting
4 assistance to help a company that is maturing do so
5 in a way that's energy efficient is making an
6 investment not just in saving energy but in jobs
7 and in the economic development prospects for that
8 part of the community, and that, I think, is a
9 really huge opportunity. Some of those programs
10 are being looked at in Washington, in both
11 directions -- expansion, and some other people are
12 talking about eliminating them altogether -- and I
13 think, you know, you need to look at them and find
14 the ones that are delivering and promote those.
15 **COMMISSIONER MITCHELL**: But I guess, in
16 specific to my question, you're saying -- I gather
17 from what you say, it's pretty much a washout.
18 **MR. WILSON**: It could go either direction on
19 the funding. I'm not seeing any regulatory or
20 statutory demands that are going to really direct
21 or force people to do one thing or another. I
22 think there's a lot of regulations in the works and
23 there's a lot of programs that are being funded
24 that are very important and, I think, effective.
25 And how quickly or slowly those proceed with, I

1 think is what's at stake.
2 **COMMISSIONER MITCHELL**: Thank you, Mr.
3 Chairman.
4 **CHAIRMAN HOWARD**: Commissioners, any other
5 questions?
6 [No response]
7 Mr. Holman, you have anything to add?
8 **MR. HOLMAN**: No, sir, Chairman. Thank you,
9 very much.
10 **CHAIRMAN HOWARD**: Mr. Wilson, thank you very
11 much. Thank you, Mr. Holman. Appreciate your
12 presentation. Hearing adjourned.
13 [WHEREUPON, at 12:05 p.m., the
14 proceedings in the above-entitled matter
15 were adjourned.]
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C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of all the proceedings had in an Allowable Ex Parte Briefing held in the above-captioned matter before the Public Service Commission of South Carolina.

Given under my hand, this the 2nd day of June, 2011.

Jo Elizabeth M. Wheat, CVR-CM-GNSC

ATTEST:

Jocelyn G. Boyd,
CHIEF CLERK/ADMINISTRATOR