Application of South Carolina Electric & Gas Company for Increases and Adjustments in Electric Rate Schedules and Tariffs
DIRECT TESTIMONY OF LEIGH C. FORD

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2009-489-E

IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY
FOR INCREASES AND ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND TARIFFS

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

A. My name is Leigh Ford. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Electric Specialist in the Electric Department for the Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor’s Degree in Communications from Lenoir-Rhyne University in 2002. Prior to my employment with ORS I was a Field Service Representative with the South Carolina Budget and Control Board. I joined ORS in November 2007.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?

A. Yes, I have. I testified before this Commission in a fuel proceeding, and I also presented an allowable ex-parte briefing regarding renewable resources and their role in South Carolina’s electric generation portfolio.
Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to summarize the Electric Department’s examination of certain accounting and pro forma adjustments in South Carolina Electric & Gas Company’s (“Company” or “SCE&G”) Application for a general increase in its electric rates and charges.

Q. PLEASE EXPLAIN THE ADJUSTMENTS YOUR TESTIMONY WILL ADDRESS.

A. My testimony will address the Company’s proposed adjustments pertaining to Wages, Benefits and Payroll Taxes; Storm Insurance Premiums; Tree Trimming; Fuel Inventory; Williams Station deferred expenses; Preliminary Survey and Investigation (“PSI”) costs and ORS’s adjustment of the Storm Reserve Fund. My testimony will also address the proposed pilot Weather Normalization Adjustment (“WNA”) program and extreme weather adjustment.

These adjustments, more fully discussed below, were provided by the ORS Electric Department to the ORS Audit Department and can be seen in Audit Exhibit SGS-2 of ORS witness Sharon Scott.

Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO WAGES, BENEFITS AND PAYROLL TAXES.

A. The Company’s Adjustment #1 adjusts wages, benefits and payroll taxes to current levels as of the end of the test year. The effect of this adjustment is to increase total O&M expenses by $7,126,236 and other taxes (payroll taxes) by $505,805 for the test year. Due to the Company stating on numerous occasions
that there have been no general pay increases since 2008, ORS proposes to eliminate the Company's proposed increases to non-union employees' wages, benefits and payroll taxes and proposes to allow only those pay increases associated with contract union wages. This is reflected in ORS witness Scott's Adjustments #4 and #37, which decrease the total O&M adjustment to expenses to $3,379,370 and other taxes to $239,860.

Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO STORM INSURANCE PREMIUMS.

A. In the Company's Adjustment #21, SCE&G proposes increasing total O&M expenses by $3,210,000 for the test year to recognize a storm insurance policy premium. ORS proposes removing the $3,210,000 adjustment from O&M expenses and recommends the Company continue to withdraw the policy premiums from the Storm Reserve Fund.

Q. PLEASE EXPLAIN THE STORM INSURANCE AND ITS PREMIUMS.

A. SCE&G was previously granted permission to withdraw insurance premiums of $2.72 million per year from the Storm Reserve Fund as a means of reducing the Company's exposure to storm damage to its transmission and distribution ("T&D") systems. See Docket No. 2007-335-E and Order No. 2007-680. In that request to the Commission, the Company stated that in 2007 it located underwriters willing to provide insurance coverage for T&D losses between $95 million and $155 million (meaning the coverage originally had a $95 million deductible and a $60 million maximum payout). This policy, which originally had an annual premium of $2.72 million, was based on model calculations of damage...
expected from hurricanes if landfall occurred in SCE&G’s service territory. In
Order No. 2007-680, the Commission allowed the storm damage T&D premium
to be withdrawn from the Storm Reserve Fund until the next retail rate case after
Docket No. 2007-229-E.

Since the policy’s inception in 2007, the premium and policy fees have
increased by almost 15% and the deductible has increased by $5 million. The
current policy, which expires July 1, 2010, has a $3,060,000 annual premium and
SCE&G was charged an additional $60,000 for a management fee and a study.
The policy deductible increased to $100 million per storm and the maximum
payout is $70 million per year regardless of how many storms affect SCE&G’s
service area in that year.

ORS recommends the Company be approved to withdraw the current
actual amount of the policy premium from the Storm Reserve Fund excluding any
fees or study costs. Because the premiums for future policies are unknown, ORS
proposes the Company be approved to withdraw annual premiums not to exceed
the current premium of $3,060,000. ORS also proposes that SCE&G file an
annual report with the Commission, with a copy to be provided to ORS, when the
storm insurance policy is renewed. This annual report should address policy
changes and detail the premium, deductible, and coverage amounts.

ORS’s recommendation to eliminate the Company’s Adjustment #21 for
storm insurance premiums from base rates is reflected in ORS Audit witness
Scott’s Adjustment #13.
Q. PLEASE EXPLAIN ORS’S ADDITIONAL ADJUSTMENT RELATING TO STORM INSURANCE PREMIUMS DRAWN FROM THE STORM RESERVE FUND.

A. ORS recommends an adjustment to the Storm Reserve Fund to replenish the over-withdrawal of premiums. In Order No. 2007-680, the Commission allowed SCE&G to withdraw the annual storm insurance premium of $2.72 million from the Company’s Storm Reserve Fund. However, ORS’s review shows that the Company has withdrawn premiums in excess of the approved $2.72 million. ORS recommends SCE&G increase the Storm Reserve Fund balance by $407,000 to account for the over-withdrawal of premiums. This adjustment is addressed by ORS Audit witness Scott and is reflected in Audit exhibit SGS-4.

Q. PLEASE EXPLAIN ORS’S ADJUSTMENT TO THE STORM RESERVE FUND.

A. ORS Audit witness Scott’s Adjustment #3 reflects ORS’s recommendation to suspend the collection of the Storm Reserve Fund thereby decreasing the Company’s revenue requirement by $6,399,812.

In Docket No. 1995-1000-E, the Company proposed a Storm Reserve Fund which would help offset the potential financial impact of a major hurricane or other catastrophic occurrence. This reserve can be applied to offset incremental storm damage costs in excess of $2.5 million in a calendar year. The fund was originally capped at $50 million but was increased to $100 million in Order No. 2007-680. During the test year ratepayers contributed $6,399,812 to the fund and as of March 31, 2010, the reserve had a balance of more than $45 million.
In the past few years the fund has been used to not only pay for storm restoration costs, but also for tree trimming and storm insurance premiums. Exhibit LCF-1 details the amounts contributed to and withdrawn from the Storm Reserve Fund since its inception in 1996.

As shown in Exhibit LCF-1, the historical withdrawal of storm restoration costs – for which this reserve was designed – illustrates that such withdrawals have had minimal impact on the reserve balance.

ORS reviewed the Company’s Hurricane and Ice Storm Loss and Reserve Solvency Analysis, which estimates annual damage to SCE&G’s T&D assets from hurricanes to be $7.8 million per year. It should be noted that this is an average of all storm damage over many years and is not expected to occur every year. If damages were $7.8 million a year, the reserve fund is sufficient to cover more than three years of these costs based on the estimated year-end balance, approved withdrawals and the Company’s self-imposed deductible. However, historically the Company withdrew an average of less than $1.3 million a year in storm restoration costs. In this scenario the reserve fund is sufficient to cover more than eight years of these costs.

Taking into consideration, the current reserve balance of more than $45 million and the Company’s yearly average withdrawal related to storm restoration costs, ORS submits that suspending Storm Reserve Fund collections will assist ratepayers while minimally impacting the reserve. Therefore, ORS recommends decreasing the revenue requirement by $6,399,812, which is reflected in ORS
Auditor witness Scott’s Adjustment #3. This adjustment is in addition to the replenishment of the reserve for the over-withdrawal of premiums.

Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO TREE TRIMMING.

A. Company Adjustment #24 proposes increasing total test year O&M expenses by $6,612,809 for tree trimming and vegetation management ("tree trimming"). The Company currently has almost $13.2 million in O&M expenses in base rates for tree trimming and proposes increasing that amount to almost $20 million per year.

ORS recommends removing the adjustment to increase tree trimming expenses because the Company has provided sufficient data stating it will be on the desired tree trimming cycle next year using funds previously approved by the Commission. Additionally, SCE&G stated that due to accelerated efforts, the Company expects reductions in future maintenance costs and extended tree trimming cycles.

Q. PLEASE PROVIDE A HISTORY OF EXPENDITURES RELATED TO TREE TRIMMING.

A. SCE&G requested an Accounting Order authorizing the Company to withdraw from the Storm Reserve Fund a maximum of $9 million between 2008 and 2009 to offset incremental tree trimming expenses. See Docket No. 2008-416-E. In its request, the Company stated that these additional funds would allow for the expansion of its Distribution Vegetation Management Program ("DVMP") and to maintain its Transmission Vegetation Management Program ("TVMP").
both of which were implemented in 2006. ORS did not object to this request, and
the Commission approved this Accounting Order in February 2009. According to
the Company’s updated report as of September 30, 2009, SCE&G had completed
89% of the planned tree trimming and vegetation management along its T&D
lines.

In October 2009, the Company requested that the Commission issue a
second Accounting Order authorizing the withdrawal of an additional $6.8 million
from the Storm Reserve Fund during the calendar year 2010 to accelerate tree
trimming programs. ORS did not object to this request and the Commission
approved this Accounting Order in December 2009 in Order No. 2009-845. This
second Accounting Order allowed SCE&G to spend – through 2010 – $15.8
million above the almost $13.2 million already in base rates for tree trimming.

Q. PLEASE EXPLAIN ORS’S RECOMMENDATION TO ELIMINATE THE
COMPANY’S ADJUSTMENT FOR TREE TRIMMING.

A. According to SCE&G, the Company should be on its planned five-year
tree trimming cycle within a year. In this proceeding, the Company states it
previously dropped to a seven-to-eight year tree trimming cycle partially due to
the number of times that SCE&G and contract crews were diverted to assist with
hurricane and winter storm recovery efforts throughout the Southeastern United
States. However, Company witness Marsh states in direct testimony that because
of the recent Accounting Orders, the “additional funding has allowed the
Company to make significant progress in restoring its tree trimming cycle to the
five-year goal.”
In the Company’s second request for an Accounting Order in Docket No. 2008-416-E, the application states that “SCE&G anticipates that the increased funding for its TVMP and DVMP will provide the Company with an opportunity to reach its goal of placing all its transmission and distribution circuits on the optimal five-year vegetation management cycle by 2011....” Additionally, SCE&G stated that it expects “the application of foliar herbicide will reduce future maintenance costs and extend tree trimming cycles.” See Docket No. 2008-416-E.

Therefore, ORS recommends eliminating the Company’s Adjustment #24 for tree trimming which is reflected in ORS Audit witness Scott’s Adjustment #16. Removing this adjustment has no impact on the $13.2 million already in base rates for tree trimming. ORS Audit witness Scott made an additional adjustment to reduce test year expenses to the $13.2 million level included in base rates.

Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO FUEL INVENTORY.

A. In Company Adjustment #27, SCE&G proposes increasing the rate base for fuel inventory by $26,615,328 for the test year to reflect an increase of the value of the coal inventory and to reflect average forecasted coal inventories for the period October 2009 to November 2011.

ORS disagrees with this adjustment and proposes reducing the rate base for coal inventory in this proceeding to reflect normal inventory levels. ORS’s adjustment is consistent with prior Commission decisions regarding coal
inventory balances. In Order No. 2005-2, the Commission recognized SCE&G’s low coal inventory, and approved a rate base increase to reflect normal inventory levels during the test year and stated that:

Sound regulatory policy allows for the normalization of expenditure items that do not reflect typical test year activity. As explained by the South Carolina Supreme Court, the Commission must adjust test year data when an unusual situation exists that shows the test year expenditures are not typical. *Parker v. S.C. Public Serv. Comm’n*, 313 S.E.2d 290, 292 (S.C. 1984).

ORS recommends reducing the Company’s coal inventory to reflect normal inventory levels because the test year inventory is not typical. Company witness Byrne stated in his direct testimony that SCE&G strives to maintain a yearly average coal inventory of 708,333 tons.

However, due in part to the effect of low natural gas prices on SCE&G’s use of coal generation, the Company had an average inventory of 944,191 tons during the test period, which exceeds the target annual average by 235,858 tons. ORS proposes reducing rate base by $25,887,815 to reflect the Company’s yearly average coal inventory, which is set forth in ORS Audit witness Scott’s Adjustment #69.

Q. **PLEASE EXPLAIN THE ADJUSTMENT RELATED TO WILLIAMS STATION DEFERRED EXPENSES.**

A. In Adjustment #18, SCE&G proposes to defer the increase in purchased power associated with the Williams Environmental project until recovery is provided for in Phase 2 of their request.
SCE&G, pursuant to Order No. 2008-741, is currently deferring the incremental purchased power expense associated with the scrubber at Williams Station. This deferral began in November 2009 when the Flue Gas Desulfurization pond was placed in service and increased in February 2010 when the scrubber was placed in service. Based on information SCE&G provided to ORS, through July 2010, the estimated deferral balance is $8,479,753. ORS is not proposing a phase-in of rates but recommends amortizing these expenses over the 30 year life of the scrubber, rather than 10 years as requested by the Company, resulting in an increase in purchased power of $282,658. This is reflected in ORS Audit witness Scott’s Adjustment #11.

Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO PSI COSTS.

A. In Company Adjustment #33, SCE&G proposes amortizing $947,829 in PSI costs over three years, resulting in an O&M increase of $315,943. These costs were incurred as the Company researched means to comply with proposed regulations that were never implemented. ORS reviewed these costs and found them appropriate. However, to provide consistency in amortization periods, ORS recommends amortizing these costs over ten years instead of three. This decreases O&M expenses to $94,783, which is reflected in ORS Adjustment #23.

Q. PLEASE EXPLAIN THE PROPOSED WEATHER NORMALIZATION PROGRAM.

A. In the Stipulation between ORS and SCE&G, the parties agree that the Company may implement a pilot weather normalization adjustment (“WNA”) mechanism for a twelve-month period to mitigate extreme weather related...
fluctuations in customer’s monthly bills. The WNA pilot program, if approved, will apply only to residential and small general service customers receiving electric service under rate schedules 1, 6, 8 and 9 as these rates are the most weather sensitive on SCE&G’s system.

Q. HOW WILL THE WNA BE CALCULATED?

A. Under the WNA, certain residential and small general service customers’ energy rates may be adjusted downward or upward monthly to reflect normal weather conditions. Normal weather conditions is defined as the average temperature over the most recent fifteen years for which data is available, and SCE&G will use the historical temperature record for the Columbia and Charleston airports to calculate normal weather conditions for each location.

Q. HOW WILL THE EFFECT OF THE WNA BE MONITORED?

A. So long as the pilot program is in operation, SCE&G will file monthly reports to the Commission, with copies to be provided to ORS, which show the current month and cumulative effect of the WNA. At the conclusion of the twelve-month WNA pilot program, the Company will file a comprehensive report with the Commission, with a copy to be provided to ORS, showing the aggregate impact and conclusions for the future of the program. The Company will maintain its books and records in sufficient detail to enable the Commission and ORS to determine the revenue impact of the WNA mechanism by rate schedule.

After the comprehensive report is filed, either Party may petition the Commission to modify or terminate the WNA. The WNA shall remain in effect until the Commission acts on these petitions.
Q. PLEASE EXPLAIN THE PROPOSED CREDIT ADDRESSED IN THE STIPULATION.

A. In consideration for ORS agreeing to a stipulation of a 10.7% return on common equity and a pilot WNA program, the Company has agreed to provide a one-time credit of $25 million. If the pilot WNA program is approved, the credit will be applied via a decrement rider that will remain in place for a twelve-month period or until all credits have been exhausted. The decrement rider automatically terminates when the credits are exhausted. ORS witness Watts’ testimony addresses the amount of this decrement.

Q. DO YOU HAVE ANY CLOSING COMMENTS REGARDING SCE&G’S EXPENSES?

A. Yes, I do. ORS is not proposing that this Commission set rates or expense levels on the basis of information filed by the various utilities in the FERC Form 1. However, a comparison between SCE&G and other utilities of the O&M expenses in FERC Form 1, that is, all expenses excluding fuel and production expenses, causes a heightened concern by ORS. In light of the expense comparisons, ORS will monitor future filings and expense levels of SCE&G.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.
# Storm Reserve Fund
From Inception (1996) to Current

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<th>Year</th>
<th>Beginning Balance</th>
<th>Collections</th>
<th>Storm Charges</th>
<th>Insurance Premiums</th>
<th>Tree Trimming</th>
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**Total Since 1996**

- $79,985,923
- $17,907,397
- $7,897,395
- $8,948,614

**Test Year Total**

- $6,399,812
- $865,735
- $2,977,394
- $1,953,239

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1 Does not include the $6.8 million approved to be withdrawn in 2010.