BEFORE

THE PUBLIC SERVICE COMMISSION

OF

SOUTH CAROLINA

DOCKET NO. 2009-489-E

In the Matter of:
Application of South Carolina Electric & Gas Company For Adjustments in the Company’s Electric Rate Schedules and Tariffs

PROPOSED ORDER APPROVING STIPULATION AND INCREASE IN RATES AND CHARGES

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the Application of South Carolina Electric & Gas Company (“SCE&G” or the “Company”) for adjustments in its rates, charges, and tariffs for retail electric service in South Carolina (the “Application”). The Application was filed on January 15, 2010 and was made pursuant to S.C. Code Ann. §§ 58-27-820 and 58-27-870 (1976, as amended), and 26 S.C. Code Ann. Regs. § 103-823 (1976, as amended).

SCE&G is an electric utility engaged in the business of generating, transmitting, distributing, and selling electric power to the public and, as discussed in more detail below, its retail electric operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §§ 58-3-140(A); 58-27-140(1); 58-27-810; and other statutes. The Company’s electric rates and tariffs were last approved by the Commission in Order No. 2007-855, dated December 14, 2007, Docket No. 2007-229-E. That Order provided for an increase in
annual retail revenues of $76.9 million for the Company with an authorized Return on Common Equity ("ROE") of 11%; however, rates were set on a ROE of 10.7%. The rates and tariffs as requested in the Application in this docket would produce an increase in annual retail revenues of $197,575,000 million and provide a ROE of 11.6%.

The Commission’s Docketing Department instructed the Company to publish a Notice of Filing and Hearing ("Notice") in newspapers of general circulation in the area affected by the Company’s Application by February 9, 2010. The Notice indicated the nature of the Company’s Application and advised the public that evidentiary hearings on the Application were scheduled to begin May 24, 2010. It also advised those desiring to participate in the hearings of the manner and time in which to file appropriate pleadings. The Docketing Department further required the Company to (i) publish the Notice in newspapers of general circulation in the affected areas, and (ii) furnish the Notice directly to all customers affected by the proposed rates and charges by March 8, 2010. On February 25, 2010, the Company filed with the Commission affidavits demonstrating that the Notice was duly published in accordance with the Docketing Department’s instructions. On March 9, 2010, the Company filed an affidavit certifying that a copy of the Notice was furnished to each affected customer.

During the course of these proceedings, the Commission also received numerous requests from members of the public that public hearings be held in this docket at various locations throughout SCE&G’s service territory. In response to these requests, the Commission ordered that four local public hearings be held. In accordance with the Docketing Department’s instructions, the Company filed affidavits of proof of providing Notices of the ordered local public hearings to its customers on April 1, 2010 and April 27, 2010.
Timely petitions to intervene in this docket were received from CMC Steel South Carolina ("CMC Steel"); Pamela Greenlaw, pro se ("Ms. Greenlaw"); the South Carolina Energy Users Committee ("SCEUC"); the United States Department of the Navy on behalf of the Federal Executive Agencies ("Navy"); Tom Clements, pro se ("Mr. Clements"); Frank Knapp, Jr., pro se ("Mr. Knapp"); the Women’s Shelter; Wal-Mart Stores East, LP ("Wal-Mart"); and Sam’s East Incorporated ("Sam’s"). The South Carolina Office of Regulatory Staff ("ORS") is a party to the proceedings in this docket as a matter of law pursuant to S.C. Code Ann. §§ 58-4-10(B) (Supp. 2009) and 58-33-140(l)(b) (Supp. 2009).

In response to the Application, ORS made on-site investigations of the Company’s facilities, audited the Company’s books and records, and gathered extensive information concerning the Company’s electric operations.

On March 23, 2010, the Company filed the direct testimony and exhibits of ten witnesses: Kevin B. Marsh, President and Chief Operating Officer of SCE&G; Jimmy E. Addison, Senior Vice President and Chief Financial Officer ("CFO") of SCE&G; Stephen A. Byrne, Executive Vice President of Generation for SCE&G; James E. Swan, IV, Controller of SCANA Corporation; John R. Hendrix, Manager of Electric Pricing and Rate Administration with SCANA Services, Inc.; Tami S. Haselden, Manager of Financial Services for SCANA Services, Inc.; Robert B. Hevert, President of Concentric Energy Advisors, Inc.; Julie M. Cannell, President of J.M. Cannell, Inc.; Dr. Joseph M. Lynch, Manager of Resource Planning for SCANA Services, Inc.; and John J. Spanos, Vice President of the Valuation and Rate Division of Gannett Fleming, Inc.

On May 3, 2010, ORS filed the direct testimony and exhibits of five witnesses: Sharon G. Scott, Audit Senior Manager for Rate Cases; Leigh C. Ford, Electric Specialist in the Electric
Department; M. Anthony James, Associate Program Manager in the Electric Department; Daniel F. Sullivan, Auditor; and A. Randy Watts, Program Manager in the Electric Department. Also on May 3, 2010, SCEUC filed the direct testimony and exhibits of Kevin W. O'Donnell, President of Nova Energy Consultants, Inc. The Navy filed the direct testimony and exhibits of Nicolas Phillips, Jr. of Brubaker & Associates, Inc. Wal-Mart and Sam’s filed the direct testimony and exhibits of Steve W. Chriss, Manager, State Rate Proceedings for Wal-Mart. The Women’s Shelter filed the direct testimony of Kathy Riley, Director of the Women’s Shelter.

On May 3, 2010, ORS filed with the Commission a Stipulation on Certain Matters (“First Stipulation”) made between ORS, the Company, Mr. Knapp and Ms. Greenlaw. In support of the First Stipulation, ORS filed the testimony of David C. Parcell, President and Senior Economist of Technical Associates, Inc. On May 17, 2010, ORS filed a Second Stipulation on Certain Matters (“Second Stipulation”) made between ORS, the Company, and Mr. Knapp. Concurrent with the filing of the Second Stipulation, SCE&G filed the testimony of Dr. Lynch in support of the Second Stipulation and the rebuttal testimony of Mr. Hevert, Mr. Addison, and Mr. Swan.

On May 24, 2010, SCE&G filed a Third Stipulation on Certain Matters (“Third Stipulation”) made between ORS, the Company, Mr. Knapp, Wal-Mart, Sam’s, the Navy, SCEUC and the Women’s Shelter. At the close of the hearing, Ms. Greenlaw also signed the Third Stipulation and her signature was subsequently filed with the Commission. The Third Stipulation and its attachments are attached hereto as Order Exhibit No. 1 and are incorporated herein by reference. The First and Second Stipulations are included as attachments to the Third Stipulation and are accordingly also incorporated herein by reference. These three Stipulations are referred to collectively as the “Stipulations.”
Of the 11 parties to this proceeding, only two, CMC Steel and Mr. Clements did not join in the Third Stipulation. CMC Steel did not participate in the hearing in this matter, and Mr. Clements indicated during the hearing that he did not object to the Stipulations.

As directed by the Commission, local public hearings were held on April 26, 2010, in Summerville, South Carolina; on April 27, 2010, in Charleston, South Carolina; on May 6, 2010 in Graniteville, South Carolina; and on May 24, 2010 in Columbia, South Carolina. During the course of these public hearings, the Commission heard statements presented by 131 members of the public and various elected officials.

An evidentiary hearing was held in the hearing room of the Commission from May 24, 2010 through May 26, 2010. The Honorable Elizabeth B. “Lib” Fleming, Chairman of the Commission, presided. SCE&G was represented by K. Chad Burgess, Esq.; Mitchell M. Willoughby, Esq.; Matthew W. Gissendanner, Esq.; and Belton T. Zeigler, Esq. ORS was represented by Nanette S. Edwards, Esq. and Shannon Bowyer Hudson, Esq. SCEUC was represented by Scott Elliott, Esq. Wal-Mart and Sam’s were represented by Thomas L. Moses, Esq. and Alan R. Jenkins, Esq. The Navy was represented by Audrey Van Dyke, Esq. The Women’s Shelter was represented by Stephen R. Suggs, Esq. CMC Steel did not appear at the hearing. Ms. Greenlaw, Mr. Clements, and Mr. Knapp each appeared pro se.

II. THE COMMISSION’S JURISDICTION AND PROCEDURAL ISSUES RELATED TO THE STIPULATIONS

As set forth in the Application, SCE&G is an electric utility engaged in the business of generating, transmitting, distributing, and selling electric power to more than 650,000 customers in 24 counties in central and southern South Carolina. SCE&G’s retail electric operations in
South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. § 58-3-140(A). "The commission is vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State and to fix just and reasonable standards, classifications, regulations, practices, and measurements of service to be furnished, imposed, or observed, and followed by every public utility in this State." S.C. Code Ann. § 58-3-140 (A).

Under S.C. Code Ann. § 58-27-810, "[e]very rate made, demanded or received by any electrical utility . . . shall be just and reasonable." Under S.C. Code Ann. § 58-27-860, any electric utility that proposes to change its rates must first receive approval to do so from the Commission. Chapter 27, Article 7 of Title 58 sets forth the standards that govern the notice, hearings and other procedures related to the Commission’s consideration of the Application. As indicated by the procedural history set forth above, the proceedings in this docket are in compliance with these requirements.

The Stipulations submitted in the record of this proceeding cover all issues raised here and present the Commission with a proposed, comprehensive resolution of this proceeding that has been endorsed by nine of the eleven parties to the proceeding. The nine stipulating parties ("stipulating parties") include the full spectrum of interests represented here, including the Company; ORS, which represents the public interest; the SCEUC, which represents large industrial customers; three large general service/medium general service customers who intervened in the proceedings individually, i.e., the Navy, Wal-Mart and Sam’s; Mr. Frank Knapp, who is president of the South Carolina Small Business Chamber of Commerce; the Women’s Shelter, which advocates for its clients who are low income residential customers; and one individual residential customer, Ms. Greenlaw. Of the two remaining parties Mr. Clements did not object to the Stipulations and CMC Steel did not participate in the hearing.
The Commission convened and conducted a full evidentiary hearing in this matter and considered all issues raised resulting from the Application in light of the evidence presented. The Commission considered the Stipulations and examined the question of whether approval of the Stipulations would be just, fair and reasonable, in the public interest and otherwise in accord with law and regulatory policy. For the reasons set forth below, the Commission finds that approval of the Stipulations will result in rates that are just and reasonable, in the public interest, and in accordance with applicable law and regulatory policy.

III. THE TERMS OF THE STIPULATIONS

The Stipulations, along with a chart showing the resulting rate increases by customer class, rate schedules and tariff sheets, were accepted into the record of the hearing as Hearing Exhibits Nos. 15 and 16. The Stipulations reduce the requested 11.6% ROE to 10.7%. In total, the Stipulations reduce the revenue increase requested by SCE&G from $197,575,000 to $101,248,000 before two decrement riders that further reduce the revenue requirements during the first two years that new rates are in effect. Specifically, during the first year in which rates are effective, the revenue requirement is reduced by a $25 million credit as the result of the First Stipulation creating a pilot weather normalization adjustment ("WNA") mechanism for residential and small general service commercial customers in recognition of the weather sensitivity of these customer classes. In addition, during the first and second years in which rates are effective, the revenue requirement is further reduced by $48,725,000 (approximately $24,362,500 per year) as the result of accelerated flow back of Economic Impact Zone ("EIZ") Investment Tax Credits. The resulting net revenue increase is approximately $51.8 million (a 2.5% revenue increase) for the first twelve months rates are effective, approximately $77 million.
(an additional 1.2% revenue increase) for the second twelve months rates are effective and approximately $101.2 million thereafter (an additional 1.18% revenue increase). After the decrements expire, the resulting overall revenue increase is 4.88%. See Hearing Exhibit No. 16. The Stipulations also reflect acceptance of all ORS accounting and pro forma adjustments set forth in ORS Audit Exhibit SGS-2. See Hearing Exhibit No. 40 (SGS-2).

The Stipulations also contain several other relevant provisions that provide for (a) suspension of the collection of the storm damage rider of approximately $6.4 million until further order of the Commission; (b) continued withdrawal of storm damage insurance policy premiums from the Storm Damage Reserve Fund that currently amounts to $3,060,000; (c) continuation of Rate 21A, an experimental time-of-use rate for medium general service customers; (d) agreement to remove the additional tree trimming expenses requested by the Company; and (e) utilization of an eight-year cycle over which to calculate its major maintenance accrual. SCE&G also agreed not to seek an increase in its retail electric rates and charges to be effective prior to June 2012, with the exception of those increases sought pursuant to S.C. Code Ann. § 58-27-865 and § 58-33-280, or as part of SCE&G’s Demand Side Management/Energy Efficiency (“DSM/EE”) programs, or where necessary due to unforeseen economic or financial conditions.

IV. THE HEARING

At the hearing in this matter, SCE&G presented the direct and rebuttal testimony of each of its ten witnesses, except for Dr. Lynch. The Company’s President, Mr. Marsh, testified concerning the Company’s electric operations, recent infrastructure improvements, customer

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1 Due to rounding, the numbers do not total.
service efforts and achievements, response to the current economic problems, efforts to assist customers in financial difficulties, and efforts to reduce costs to delay or minimize the requested rate increase. The Company’s Executive Vice President for Generation, Mr. Byrne, testified concerning the Company’s generation operations and the recent capital improvements made to the Company’s generation system, including major safety and environmental improvements. The Company’s CFO, Mr. Addison, testified concerning the financial drivers of the rate increase, the current financial posture of the Company, the Company’s future financial needs and plans, conditions in current capital markets and the ability of the Company to operate within the ROE and revenues provided for in the Stipulations. The Company’s Controller, Mr. Swan, testified concerning various accounting matters and the pro forma adjustments proposed to the Company’s test year financial results. Mr. Hendrix testified concerning the Company’s cost of service, rate design and tariffs. Ms. Cannell testified concerning the investment community’s perception of the risks of investing in electric utilities generally and the Company specifically. Ms. Haselden testified concerning the Company’s proposed treatment of the EIZ Tax Credit. Mr. Hevert testified concerning a reasonable ROE for the Company and an appropriate capital structure for the Company. Mr. Spanos testified as to the Company’s depreciation study. Witnesses Marsh, Byrne, Addison, Swan, Hendrix, Cannell, Hevert and Lynch specifically testified in support of the Stipulations or relevant aspects of them.

ORS witnesses Ms. Scott and Mr. Sullivan testified as to ORS’s audit of the information supporting SCE&G’s Application and certain proposed adjustments that were adopted as a part of the Stipulations. ORS witness Ms. Ford testified regarding wages, benefits, payroll taxes, the storm reserve fund, storm insurance premiums and other adjustments, all of which were incorporated in the Stipulations. ORS witness Mr. James testified regarding ORS’s review of the
Company’s cost of service studies and other matters which also were affirmed as part of the Stipulations. ORS witness Mr. Watts testified regarding rate design, depreciation, and certain other proposed adjustments included in the Stipulations. ORS witness Mr. Parcell testified in support of the Stipulations and the ROE it contained. SCEUC witness Mr. O’Donnell presented testimony concerning ROE and other matters and in support of the Stipulations. The Women’s Shelter’s Director, Ms. Riley, testified concerning the impact of electricity prices on the women that her organization serves and also spoke in support of the Stipulations.

V. FINDINGS OF FACT AND CONCLUSIONS OF LAW

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

1. The Commission has jurisdiction over SCE&G retail electric rates, charges and terms and conditions of service as generally provided in S.C. Code Ann. § Ann. §§58-27-10, et seq.


3. The twelve-month period ending September 30, 2009 is an appropriate historical test period for the purposes of setting rates in this proceeding.

4. The original cost rate base for SCE&G’s retail operations as of the close of the test year, including appropriate pro forma adjustments, was $4,759,342,000 and consists of the components set forth in Table B of this Order.
5. An eight-year cycle of major maintenance costs from 2010 to 2017 is appropriate for calculating the adjustment for the major maintenance accrual. Interest on the major maintenance account shall be based upon the 3-Year U.S. Government Treasury Notes, as reported by the Wall Street Journal, either in print edition or its website, plus an all-in spread of 65 basis points (0.65 percentage points).

6. The Storm Damage Reserve Rider is suspended subject to future reinstatement by the Commission.

7. SCE&G is not allowed additional tree trimming expenses.

8. The storm damage insurance premium may continue to be withdrawn from the Storm Damage Reserve Fund.

9. In its Application, the Company sought an increase in annual revenues of $197,575,000; however, as a result of the Stipulations, the net increase in operating revenues is $101,248,000, excluding the decrement riders.

10. The capital structure for the determination of the fair overall rate of return for SCE&G in this proceeding is its capital structure as of September 30, 2009. This consists of 47.04% long-term debt and 52.96% common equity including known and measurable adjustments.

11. The rate of return on common equity which SCE&G should be allowed the opportunity to earn is 10.70%.

12. The capital structure and cost of capital produce an overall rate of return of 8.56% for SCE&G retail electric operations as depicted in the following table:
TABLE A
CAPITAL STRUCTURE

<table>
<thead>
<tr>
<th>Component Of Capital Structure</th>
<th>Embedded Ratio</th>
<th>Embedded Cost/Rate</th>
<th>Overall Cost/Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Debt</td>
<td>47.04%</td>
<td>6.14%</td>
<td>2.89%</td>
</tr>
<tr>
<td>Common Equity</td>
<td>52.96%</td>
<td>10.70%</td>
<td>5.67%</td>
</tr>
<tr>
<td>100.00%</td>
<td></td>
<td></td>
<td>8.56%</td>
</tr>
</tbody>
</table>

13. The rate designs and rate schedules set forth in the Stipulations and the attachments thereto are just and reasonable and supported by the evidence of record.

14. The depreciation rates contained in the depreciation study are appropriate for use by the Company in determining depreciation expense related to its electric and common plant.

15. The agreement set forth in the Third Stipulation that SCE&G not seek an increase in its non-fuel base rates and charges to be effective prior to June 2012, except those increases requested pursuant to S.C. Code Ann. § 58-27-865 and § 58-33-280, or as part of SCE&G’s DSM/EE programs or where necessary due to unforeseen economic or financial conditions, is just and reasonable.

16. The decrement rider proposed for adjusting rates to reflect the amortization over two years of the $48,725,000 balance of EIZ Tax Credits to all retail classes of SCE&G’s customers on a kilowatt-hour (“kWh”) basis in the amount of $0.00114/kWh is just and reasonable and supported by the substantial evidence contained in the record of this docket.

17. The implementation of a twelve-month pilot WNA mechanism for residential and commercial customers receiving electric service under rate schedules 1, 6, 8, and 9 is just and reasonable and is supported by the substantial evidence contained in the record of this docket.
18. The decrement rider to reduce rates to residential and small general service customers by a total of $25 million over twelve months is just and reasonable and is supported by the substantial evidence contained in the record of this docket.

VI. EVIDENCE AND CONCLUSIONS

The evidence and conclusions supporting the findings of the Commission in this matter are as follows:

A. EVIDENCE AND CONCLUSIONS CONCERNING JURISDICTION

(FINDINGS OF FACT NOS. 1 - 2)

SCE&G is an electric utility subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. § 58-3-140(A) (Supp. 2009). Evidence concerning SCE&G retail customers, service and service territory is contained in the Application in this proceeding and the testimony of the Company’s President Mr. Marsh. Tr. p. 439.

B. EVIDENCE AND CONCLUSIONS CONCERNING THE TEST PERIOD

(FINDING OF FACT NO. 3)

In setting utility rates, South Carolina uses a historical twelve-month test period. 26 S.C. Code Ann. Regs. 103-823(A)(3). The historic test year is based upon actual results for the twelve-month period; however, the Commission has recognized adjustments to the actual results for known and measurable changes occurring after the close of the test period data or to adjust for abnormal or non-recurring items in test period data. Evidence concerning the appropriate test-year for setting rates in this proceeding was provided by Company Witness Addison (Tr. p. 804) and ORS Witness Scott (Tr. p. 1483). The twelve months ending September 30, 2009,
encompass the most recent year for which accounting information was available at the time that the Application in this matter was filed. The Commission finds it to be a reasonable period upon which to base its ratemaking determinations in this proceeding.

C. EVIDENCE AND CONCLUSIONS CONCERNING THE RETAIL ELECTRIC RATE BASE

(FINDING OF FACT NO. 4)

The South Carolina Supreme Court has defined rate base as “the amount of investment on which a regulated public utility is entitled to an opportunity to earn a fair and reasonable return; and represents the total investment in, or the fair value of, the used and useful property which it necessarily devotes to rendering the regulated services.” Hamm v. Public Service Commission, 422 S.E. 2d 110, 112 (S.C.1992). “Rate base should reflect the actual investment by investors in the Company’s property and value upon which stockholders will receive a return on their investment.” Parker v. S.C. Public Service Commission, 313 S.E. 2d 290, 292 (S.C. 1984).

The Commission has the statutory authority, after hearing, to “ascertain and fix the value of the whole or any part” of SCE&G’s rate base, and may “ascertain the value of all new construction, extensions and additions” to such property. S.C. Code Ann. § 58-27-180. ORS conducted an examination of SCE&G’s books and verified the operating experience and rate base reported by SCE&G in its Application were supported by the Company’s accounting books and records. Tr. p. 1482. The results of ORS’s examination were agreed to by the stipulating parties for purposes of this proceeding. Hearing Exhibit No. 15. Neither of the two non-stipulating parties challenged ORS’s conclusions regarding this matter or presented testimony in opposition. On the basis of ORS’s examination, hearing exhibits, and testimony contained in the record of the hearing, the Commission can determine and find the proper components of
SCE&G's rate base as well as the related accounting adjustments. The Commission hereby adopts the following as the Company's rate base for the test period ended September 30, 2009:

### TABLE B

**RATE BASE**
**RETAIL ELECTRIC**
**FOR THE TEST YEAR ENDING SEPTEMBER 30, 2009**

<table>
<thead>
<tr>
<th>Rate Base $5 in (000)'s</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Plant in Service</td>
<td>$7,623,109</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>$(2,836,327)</td>
</tr>
<tr>
<td>Net Plant</td>
<td>$4,786,782</td>
</tr>
<tr>
<td>CWIP</td>
<td>$429,742</td>
</tr>
<tr>
<td>Deferred Debits/Credits</td>
<td>$(112,248)</td>
</tr>
<tr>
<td>Total Working Capital</td>
<td>$54,632</td>
</tr>
<tr>
<td>Materials &amp; Supplies</td>
<td>$273,080</td>
</tr>
<tr>
<td>Accumulated Deferred Income Taxes</td>
<td>$(672,646)</td>
</tr>
<tr>
<td><strong>Total Original Cost Rate Base</strong></td>
<td><strong>$4,759,342</strong></td>
</tr>
</tbody>
</table>

D. EVIDENCE AND CONCLUSIONS CONCERNING REVENUES, EXPENSES AND INCOME

**(FINDINGS OF FACT NOS. 5-9)**

The Company sought an increase in annual revenues of $197,575,000; however, as a result of the adjustments agreed to in the Stipulations, the net increase in operating revenues is $101,248,000, excluding the decrement riders. The South Carolina Supreme Court has
concluded that adjustments to the test year should be made for known and measurable out-of-period changes in expenses, revenues and investments that would materially alter the rate base. Parker v. S.C. Public Service Commission, 313 S.E.2d at 292. The Commission's findings regarding the adjustments to the test year data are set forth below.

1. ADJUSTMENTS TO REVENUE

New Nuclear Revenue and Construction Work in Progress ("CWIP") – SCE&G’s construction of V.C. Summer Station Units 2 & 3 ("Units") is proceeding under the terms of the Base Load Review Act, S.C. Code Ann. §58-33-210 et seq. See Order No. 2009-104(A). SCE&G is recovering the cost of capital associated with CWIP on the Units through revised rates authorized under that Act. By statute, revised rates are intended to function independently of base rates. Therefore, $4,771,235 in revenue associated with revised rates was removed from the test period. In addition, investment in new nuclear CWIP as of the close of the test period was removed from rate base. These adjustments have been audited and verified by ORS and form part of the package of adjustments approved for rate making purposes in this matter by the stipulating parties. See Hearing Exhibit No. 40 (SGS-2). For these reasons, these revenues and rate base adjustments are approved and adopted by this Commission for rate making purposes in this proceeding.

Wholesale Revenue Adjustment – The City of Greenwood is a municipal customer located outside of SCE&G’s control area that SCE&G served for a number of years. In 2009, Greenwood elected not to renew its service contract with SCE&G. In response, SCE&G reduced test year total electric revenues and expenses to reflect the expiration of SCE&G’s wholesale contract with the City of Greenwood. ORS concurred with this adjustment and it has been
accepted by all the stipulating parties. See Tr. p. 1485; Hearing Exhibit No. 15. The Commission finds this adjustment to be reasonable and appropriate as a means to adjust test period revenues for a change that is known and measurable.

**Storm Damage Rider** – As part of the Stipulations, the stipulating parties agreed that collection from the storm damage rider shall be suspended, subject to future reinstatement by the Commission. At present, the Fund has a balance of over $45 million with $6,399,812 having been collected under the rider during the test year. The Commission finds and concludes that in the present economic circumstances, the suspension of the storm damage rider is in the public interest, is just and reasonable and is supported by substantial evidence in the record.

2. **ADJUSTMENTS TO EXPENSE RELATED TO WAGES, BENEFITS, INCENTIVE PAY AND HEALTH CARE COSTS**

**Salary Increases for Non-Exempt Workers** – The annualization of wage and benefit expense levels as measured at the end of a test period is a standard adjustment for rate making purposes and Company salaries were reflected in the pro forma adjustment for wage and benefit annualization. However, in light of the current economic situation, ORS recommended only annualizing those salaries associated with union employees. As part of the Stipulations, the stipulating parties agreed to the adjustments proposed by ORS to reduce the Company’s pro forma adjustment by $3,379,370. ORS also made corresponding adjustments on payroll taxes and other related items. Based on the Company’s agreement with this adjustment as reflected in the Stipulations, and the agreement of the other stipulating parties, the Commission adopts the ORS proposed adjustments for purposes of this proceeding only.

**Incentive Pay** – In its Application, the Company included a pro forma adjustment of $8,205,121 which would reduce test period expenses for one-half of the incentive pay accrued
during the test period. ORS proposed to reduce test year expenses for incentive pay by $16,410,241. This has the effect of entirely eliminating incentive pay from test period expenses. The Commission adopts the ORS proposed adjustment for purposes of this proceeding only and eliminates incentive pay from test period expenses by adopting a pro forma adjustment of $16,410,241. A corresponding adjustment was made for related benefits and payroll taxes.

**Health Care Costs** – In the Application, SCE&G proposed a pro forma adjustment to increase test period health care expenses by $1,010,843. This adjustment was based on the annualization of health care claims experienced during the last quarter of the test period. ORS recalculated this adjustment using data for the twelve-month period ending February 2010. Tr. p. 1486. Based on this more recent data, ORS recommended an alternative pro forma adjustment reducing test period health care costs by approximately $107,818. The stipulating parties agreed to this adjustment as part of the Stipulations. Based on that agreement, the Commission accepts it as an appropriate adjustment to test period expenses.

3. **ADJUSTMENTS TO EXPENSE RELATED TO WATEREE AND WILLIAMS STATION ENVIRONMENTAL OPERATING COSTS**

**Williams Station Purchased Power Costs** – Williams Station is owned by South Carolina Generating Company ("GENCO"), a wholly owned SCANA subsidiary, and is operated by SCE&G. All of the output of Williams Station is purchased by SCE&G under a FERC-approved formula rate. Increases in the cost of generating power at Williams Station are recognized by SCE&G as increases in purchased power costs under the formula-rate contract with GENCO.

SCE&G proposed a pro forma adjustment to include in test period expenses the increase in GENCO purchased power costs associated with the construction and operation of the new
scrubber at Williams Station. As the Company’s Witness Mr. Byrne testified, the Williams scrubber was placed in commercial service in February 2010 and has been operating successfully since that time. Tr. p. 726. In the Application, SCE&G proposed a pro forma adjustment of $28,993,585 to reflect the additional purchased power cost associated with the new scrubber. ORS Witness Mr. Sullivan testified that he had recalculated the additional purchased power cost based on more current information and proposed to reduce the amount of the pro forma adjustment to $26,980,874 on a total electric basis, or a reduction in the pro forma test year expense of $2,012,711. Tr. p. 1473.

The Commission finds that the change in purchased power expense due to the installation of the scrubber at Williams Station is appropriately recognized in those expenses through a pro forma adjustment. As part of the Stipulations, the stipulating parties agreed to the amount of the pro forma adjustment as proposed by the ORS. The Commission adopts that adjustment as just and reasonable.

**Wateree Scrubber Expenses** – Company Witness Mr. Byrne testified the Wateree scrubber was substantially completed in early 2009, but its start-up had been delayed due to permitting appeals related to facilities for the disposal of scrubber waste. Tr. p. 726. ORS Witness Mr. Sullivan testified that Wateree-related operating and maintenance ("O&M") expense and depreciation expense should be disallowed because the Wateree scrubber was not in service. Tr. p. 1472 and 1477. As part of the Stipulations, O&M expenses and depreciation expenses related to the Wateree scrubber are removed reducing pro forma test year expenses by $15,141,495.

In light of the agreement by stipulating parties, the Commission accepts the proposal not to include the Company’s proposed pro forma adjustments related to the O&M expense and
depreciation expense of the Wateree scrubber in calculating the Company’s expenses for the purposes of setting rates in this proceeding.

4. ADJUSTMENTS TO EXPENSE RELATED TO AMORTIZATION PERIODS FOR CERTAIN ACCRUED EXPENSES

In the Application, SCE&G proposed to amortize into rates amounts deferred for certain purchased capacity charges, amounts associated with certain preliminary survey and investigation ("PSI") costs related to proposed new groundwater quality standards, and amounts associated with certain “up-flow modifications” made at V.C. Summer Station Unit No. 1. Tr. p. 1245.

The deferral of costs incurred as a result of purchasing power to meet customer and system needs during the 2008-2018 time period was approved by the Commission in Order No. 2008-530. The deferred costs related to “up-flow” modification at V.C. Summer Station Unit No. 1 for future amortization into rates was approved in Order No. 2007-644. The deferral and amortization of PSI costs is being requested initially in this case.

As to the PSI costs, Mr. Swan testified that this expenditure resulted from National Pollution Discharge Elimination Standards related to groundwater quality that were proposed by the South Carolina Department of Health and Environmental Control ("DHEC"). Tr. p. 1245. According to Mr. Swan, they were later withdrawn by DHEC, but only after the Company had spent $947,829 in planning and investigation costs in preparation for projects that would be required to comply with these standards. Tr. p. 1245. ORS audited these expenditures and found the costs, and their deferral and amortization, to be appropriate. Tr. p. 1530.

The Company proposed that the purchased capacity charges and PSI costs be amortized over three years, and the up-flow modification costs be amortized over 10 years. ORS Witnesses
proposed that purchased capacity charges costs and PSI costs be amortized over ten years, and
the up-flow modification costs be amortized over the 32 years remaining on the V.C. Summer
Station Unit 1 Nuclear Operating License. The result of extending these amortization periods as
proposed by ORS reduces the annual amortization expense. The stipulating parties agreed to
extend the amortization periods as proposed by the ORS. Based on the Company's agreement,
and that of the other stipulating parties, the Commission accepts the extended amortization
periods as proposed by the ORS.

5.  ADJUSTMENTS TO EXPENSE RELATED TO THE V.C. SUMMER NUCLEAR
STATION OUTAGE ACCRUAL

Refueling outages at V.C. Summer Station Unit 1 occur on an 18-month cycle. Consistent with established precedent in past cases, the Company establishes an accrual, based on the estimated cost for each outage cycle, and recognizes that cost in equal monthly amounts over the 18-month cycle. In the Application and its testimony, SCE&G proposed a pro forma adjustment to test period expenses to reflect the annualized monthly outage accrual recognized as of the end of the test period. This amount was based on the actual cost of the Company's most recent refueling outage, which was refueling outage number 18.

ORS Witness Mr. Watts testified that the most recent refueling outage involved certain non-recurring maintenance projects and proposed that accrual rates be set based on the costs of refueling outage number 17, which took place in April of 2008. Tr. P. 1574. This reduced the annual accrual amount by $2,037,037 annually. The stipulating parties agreed to the pro forma adjustment as proposed by the ORS's Witness Mr. Watts. Based on the terms of the Stipulations, the Commission adopts this adjustment for purposes of this proceeding.

6.  ADJUSTMENTS TO EXPENSE RELATED TO THE TURBINE MAINTENANCE
EXPENSE ACCRUAL
In Order 2005-2, the Commission allowed SCE&G to set a levelized annual amount for turbine maintenance expense and record in a regulatory asset or liability account the differences between the levelized amount and the actual amount of turbine O&M expenses incurred. The goal of annualizing the turbine O&M expenses was to properly match maintenance expenses with the year-by-year use of the plants that caused such expense to be incurred. As the testimony in this proceeding indicates, this approach to turbine maintenance accrual has worked well and there has been a close match between the expense incurred and the amount of the accrual during the initial five-year period that the accrual has been in place. Tr. p. 730.

In its Application, SCE&G requested an increase in the annual turbine maintenance expense accrual by $10,789,611. The Company also requested that the length of the cycle over which maintenance costs would be measured be increased from eight years, as was the basis for the accrual approved in Order No. 2005-2, to nine years. ORS Witness Mr. Watts supported the appropriateness of the major maintenance accrual, but proposed leaving the measurement cycle at eight years. Tr. p. 1575. Mr. Watts further testified that an increase in annual accrual of $9,971,870 would be appropriate. Tr. p. 1571. This results in a reduction of the requested annual turbine maintenance expense of $817,741. As part of the Stipulation, the stipulating parties accepted Mr. Watts’ testimony and agreed to the annual accrual amount proposed by ORS. In addition, the stipulating parties have agreed that, as proposed in the testimony of Mr. Watts, either over-collections or under-collections held in the accrual account should bear interest based upon the 3-year U.S. Government Treasury Notes, as reported in the Wall Street Journal, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points.) In light of the agreement of the stipulating parties, the Commission finds that
the major maintenance accrual for steam turbines as set forth in the Stipulations is just and reasonable and should be approved.

7. **ADJUSTMENTS TO TREE TRIMMING EXPENSE**

Under new federal reliability standards, it is now mandatory that utilities adopt and carry out a documented vegetation management plan. Tr. p. 463. Failure to execute the plan as adopted subjects the utility to self-reporting requirements and potential monetary penalties. Tr. 463.

SCE&G determined that a five-year tree trimming cycle is the optimal cycle for tree trimming given the climate and rapid growth rates in this area. Tr. 465. Since 2008, SCE&G has been making significant investments to achieve that cycle. The amount of expense for tree trimming reflected in current rates is approximately $13.2 million. In Order Nos. 2009-87 and 2009-845, the Commission permitted the Company to spend an additional $9,000,000 in 2008-2009 and an additional $6,800,000 in 2010 for tree trimming and vegetation management work beyond the $13.2 million in current rates. These Orders allowed the Company to charge the additional expense against the Storm Damage Reserve Fund.

In its Application, the Company proposed a pro forma adjustment of $6,612,809 to increase test year tree trimming expenses. This pro forma adjustment was proposed in light of the additional cost the Company projects to be incurred in achieving a five-year cycle in 2011 and the additional cost of maintaining that cycle after the funds provided for in Order Nos. 2009-87 and 2009-845 have been spent. As an alternative to the pro forma adjustment proposed by the Company, ORS proposed an adjustment that would reduce test year expense by $2,739,980, which would return test year expenses to their 2007 level. As part of the Stipulations, and for purposes of this proceeding only, the Company and other stipulating parties stipulated to the pro
forma adjustment proposed by ORS. In light of the Stipulations, the Commission finds that the current amount in rates of $13.2 million is just and reasonable.

8. **ADJUSTMENTS TO THE STORM INSURANCE PREMIUMS**

SCE&G proposed ceasing to charge storm insurance premiums against the Storm Damage Reserve Fund, and instead proposed a pro forma adjustment to reflect the cost of these premiums in rates. In the Stipulations, and in light of current economic conditions, the stipulating parties have agreed that these premiums will continue to be charged against the Storm Damage Reserve Fund. The effect of this agreement is to reduce pro forma test year expenses. Based on the Stipulations and the agreements reflected there, the Commission finds that continuing to charge these premiums against the reserve is in the public interest at the present time and is supported by substantial evidence in the record.

9. **OTHER PRO FORMA ADJUSTMENTS TO TEST PERIOD REVENUE, EXPENSES AND RATE BASE ITEMS**

In total, ORS sponsored over 70 pro forma adjustments to individual revenue, expense and rate base items. See Hearing Exhibit 40 (Exhibit SGS-2). Under the terms of the Stipulations, and for purposes of setting rates in this proceeding only, the stipulating parties accepted the pro forma adjustments as proposed by ORS and the revenue requirement they produce. The non-stipulating parties did not oppose the ORS pro forma adjustments or provide evidence to refute their reasonableness. Accordingly, the Commission finds that the evidence of record supports ORS’s conclusion that the appropriate operating expenses for the Company’s retail operations for the test year under its present rates and after accounting and pro forma adjustments is $1,701,087,000, which reflects the effect of the pro forma adjustments as proposed by ORS and as discussed above.
E. EVIDENCE AND CONCLUSIONS REGARDING RATE OF RETURN AND CAPITAL STRUCTURE

(FINDINGS OF FACT NOS. 10 - 12)

In setting rates, the Commission must determine a fair rate of return that the utility should be allowed the opportunity to earn after recovery of its expenses of utility operations. The applicable legal standards are set forth in Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 602-03 (1944) and Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679, 692-73 (1923) and were adopted by the South Carolina Supreme Court in Southern Bell Telephone & Telegraph Co. v. S.C. Public Service Commission, 270 S.C. 590, 595-96, 244 S.E.2d 278,281 (1978).

Specifically, Bluefield holds that:

What annual rate will constitute just compensation depends upon many circumstances, and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting the opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-73, as quoted in Southern Bell Telephone, 244 S.E.2d at 281. These cases also establish that the process of determining rates of return requires the exercise of informed judgment by the Commission. As the South Carolina Supreme Court has held,

the Commission was not bound to the use of any single formula or combination of formulae in determining rates. Its ratemaking function, moreover, involves the
making of ‘pragmatic adjustments’ .... Under the statutory standard of ‘just and reasonable’ it is the result reached not the method employed which is controlling .... The ratemaking process under the Act, i.e., the fixing of ‘just and reasonable’ rates, involves the balancing of the investor and the consumer interests.

Southern Bell Telephone, 244 S.E.2d at 281.

From these authorities, the Commission has derived the following four points to guide it in these matters:

1) The rate of return should be sufficient to allow SCE&G the opportunity to earn a return equal to firms facing similar risks;
2) The rate of return should be adequate to assure investors of the financial soundness of the utility and to support the utility's credit and ability to raise capital needed for ongoing utility operations at reasonable cost;
3) The rate of return should be determined with due regard for the present business and capital market conditions facing the utility;
4) The rate of return is not formula-based, but requires an informed expert judgment by the Commission balancing the interests of shareholders and customers.


At the hearing in this matter, five witnesses testified in support of a ROE of 10.7%, which is the ROE agreed to by the stipulating parties. It is also the same ROE on which the Commission established rates for the Company in 2007. See Order No. 2007-855.

SCE&G witness Mr. Hevert determined that a reasonable expectation of the return for equity investors in companies comparable to SCE&G would be between 10.7% and 11.9%. Tr. p. 1070. In support of the stipulated ROE of 10.7%, Mr. Hevert noted that this ROE was at the very low end of his range but within the range of reasonableness. He supported the ROE at this
level given the determination by the Company’s management that it could successfully operate the Company within the revenues resulting from the Stipulations as a whole. Tr. p. 1149.

SCE&G witness Mr. Addison added that based upon the present state of the economy and the steps that SCE&G has taken to reach an agreement with the stipulating parties in this case, he believes that the 10.7% ROE agreed upon in the Stipulations would be acceptable to the investment community and would appropriately balance the interests of SCE&G, its customers, and the investment community. Tr. pp. 834-35.

Ms. Julie M. Cannell, President of J.M. Cannell, Inc., testified on conditions in capital markets and investor expectations and concerns related specifically to SCANA and to this proceeding. Ms. Cannell is a former utility fund manager with extensive Wall Street experience. As Ms. Cannell testified, the investment community continues to regard utility investment as primarily defensive investments focusing on stable performance and regular dividends. Tr. p. 930. At the hearing Ms. Cannell testified she believed that the markets would support to a 10.7% ROE based on the fact that the Company agreed to it in the context of the Stipulations with ORS and other parties. Tr. p. 964.

ORS Witness Parcell also testified in support of the stipulated 10.7% ROE. According to Mr. Parcell, at the time the Stipulations were entered, he had reviewed and evaluated SCE&G’s financial data and had prepared a preliminary analysis of SCE&G’s cost of common equity. Based upon his review and analysis of this information and the Stipulations, and in light of the ROE’s being granted by other Commissions, Mr. Parcell testified that a 10.7% ROE for SCE&G lay within the range of reasonableness of equity returns for electric utilities at this time. Tr. p. 1466.
Mr. Kevin W. O’Donnell, President of Nova Energy Consultants, Inc., testified on behalf of SCEUC. Mr. O’Donnell was the only witness whose initial ROE recommendation for SCE&G was lower than 10.7%; however, in light of the Stipulations, Mr. O’Donnell testified in support of a 10.7% ROE.

The Commission carefully considered all of the evidence set forth above. All stipulating parties supported a ROE for the Company of 10.7%. No witness or party has controverted the conclusion that, within the context of the Stipulations, 10.7% is the appropriate ROE for SCE&G. In addition, this 10.7% ROE is the same as the ROE on which rates have been set for the Company in the past two rate proceedings. Based on the substantial evidence available in the record, and considering the evidence and testimony given in support of the 10.7% ROE proposed in the Stipulations, the Commission concludes that a ROE of 10.7% for SCE&G is just and reasonable and will support the interest of all parties by allowing the Company continued access to capital at reasonable rates.

With respect to the Company’s capital structure, Company Witness Mr. Swan sponsored Exhibit No. 32 (JES-7) which sets forth the Company’s capital structure as of September 30, 2009 including debt issuances and equity sales occurring after the close of the test period. This information was audited by ORS and presented by ORS Witness Ms. Scott in Exhibit No. 40, (SGS-6). These exhibits show that SCE&G’s capital structure as of September 30, 2009 consisted of 47.04% long-term debt and 52.96% common equity. SCE&G’s embedded costs for long-term debt was 6.14%. Id. The resulting overall rate of return is 8.56%.

F. EVIDENCE AND CONCLUSIONS CONCERNING RATE DESIGN

(FINDINGS OF FACT NO. 13)
1. GENERAL PRINCIPLES

An electric utility’s rate structure should enable it to generate its revenue requirement without unduly burdening one class of customer to the benefit of another. Accordingly, rates for customer classes should reflect the cost incurred to serve each customer class and also should serve to encourage the efficient utilization of the electric system such that costs for all customer classes are minimized.

2. THE COMPANY’S COST OF SERVICE STUDY

A cost of service study allocates a company’s rate base, revenues and expenses between its various customer classes and services. The Company’s Fully Allocated Cost of Service Study, showing the allocation of customer costs, demand costs and energy costs among customer classes, was sponsored by SCE&G’s Witness Mr. Hendrix and entered into evidence as Exhibit No. 36 (JRH-2). ORS reviewed this study and audited the data on which it was based. ORS Witness Mr. James testified that the methodology applied in performing the cost study was appropriate and the study provides a reasonable assessment and allocation of the Company’s revenues, operating expenses and rate base items. Tr. p. 1557. SCEUC Witness Mr. O’Donnell also testified in support of the study and specifically supported the use of the summer coincident peak methodology as appropriate to allocate generation investment. Tr. p. 1444. Based on this testimony and the terms of the Stipulations, the Commission adopts the cost of service study presented by SCE&G as the appropriate basis on which to allocate cost for the purposes of establishing and evaluating rates in this proceeding. See Hearing Ex. No. 36 (JRH-3).

3. ALLOCATION OF REVENUE

Retail electric rates should produce rates of return among classes that bear a reasonable relationship to the Company’s overall rate of return. The Commission has accepted the principle
that a customer class' rate of return bears a reasonable relationship to the overall rate of return so long as the rate of return for each customer class falls within plus 10% or minus 10% of the theoretical 100% level for the overall rate of return. See Order No. 2005-2, p. 109. At times, changing conditions may cause some customer classes to fall outside the 10% band that the Commission uses as its guide. Nonetheless, as the Commission has stated in past orders, ordinarily there should be movement towards more equal rates of return among the classes even where the 10% band cannot be reached immediately. See Order 1996-15, p. 72. As explained by SCE&G witness Mr. Hendrix, the Company uses the plus or minus 10% standard as a guide, but it believes that it is important to take measured steps when adjusting rates among classes of customers. Based on the testimony of Mr. Hendrix and the terms of the Stipulations, the Commission adopts the allocation of revenue as set forth in the Stipulations.

4. BASIC FACILITIES CHARGE

In its Application, the Company proposed to increase the Basic Facilities Charge ("BFC") for all customer classes. The Company's proposed increase was $1.50 for residential and small general service rates. Hearing Exhibit No. 36 (JRH-4). The Company proposed an increase to its monthly BFC in its medium general service class of $30.00 and an increase of $225.00 in the BFC for its large general service class. Id. Mr. Hendrix testified that, even after the proposed increase, the amount of the BFC charge will still be significantly less than the actual expenditures necessary to provide customers with the ability to use electricity. Tr. p. 1318. In his testimony, ORS Witness Mr. Watts supported the proposed BFC charges for non-residential customers, but recommended that the Commission limit any increase to the BFC for the standard residential rates to $0.50 or less. Tr. p. 1577. As reflected in the tariff sheets attached to the Stipulations, the Company has agreed to limit the increase in BFC for standard
residential service to $0.50, and to reduce the increases to the BFC for other rates. The Commission finds the BFC charges, as modified in the Stipulations, are just and reasonable.

G. EVIDENCE AND CONCLUSIONS REGARDING THE NEW DEPRECIATION STUDY

(FINDING OF FACT NO. 14)

The current depreciation rates for the Company’s electric and common plant assets were approved by this Commission in Order No. 2005-2. Prior to filing the Application in this proceeding, the Company commissioned John J. Spanos, Vice President of the Valuation and Rate Division of Gannett Fleming, Inc. to perform a new study to ascertain the appropriate rates to be used currently in depreciating the Company’s electric and common plant. Mr. Spanos appeared as a witness in this proceeding to present his study for review and approval by this Commission. See Hearing Exhibit No. 28 (JJS-1). Based on the results of this study, ORS proposed a pro forma adjustment to reduce test period depreciation expense in an amount as verified by ORS of $13,474,534.

The Commission finds that the depreciation rates contained in the study are appropriate for use by the Company in determining depreciation expense related to its electric and common plant. The Commission instructs the Company to use the new depreciation rates presented in this study for recognition of depreciation expense for all purposes, both regulatory and accounting, until further order by this Commission.

H. EVIDENCE AND CONCLUSIONS REGARDING SUBSEQUENT RATE INCREASE REQUESTS

(FINDING OF FACT NO. 15)

The Stipulations provide that SCE&G shall not seek an increase in its non-fuel base rates and charges to be effective prior to June 2012, except those increases requested pursuant to S.C.
Code Ann. § 58-27-865 and § 58-33-280, or as part of SCE&G’s DSM/EE programs or where necessary due to unforeseen economic or financial conditions. The Commission finds that South Carolina law allows electric utilities to file for rate relief every 12 months. Nonetheless, the current proposal is made voluntarily by the Company pursuant to the Stipulations, and includes provisions that ensure that the Company can seek rate relief as required due to unforeseen conditions. As such, the Commission finds that this proposal by the Company is just and reasonable to all parties and is in the public interest.

I. EVIDENCE AND CONCLUSIONS REGARDING EIZ TAX CREDITS

(FINDING OF FACT NO. 16)

As Company Witness Ms. Haselden testified, EIZ Tax Credits were established under the Economic Impact Zone Community Development Act of 1995 (the “Act”), S.C. Code Ann. §§ 12-14-10 to 12-14-70, as amended, to provide incentives for investment in areas identified by the South Carolina Department of Revenue as having been negatively affected by federal base closures or areas adjacent to the Savannah River Site. Tr. p. 1203-04. Under the Act, the Company earns EIZ Tax Credits for any tangible property placed in service within a designated economic impact zone that is used as an integral part of furnishing electrical energy within that zone. Tr. p. 1205.

Prior to this proceeding, SCE&G deferred the net benefit to income tax expense resulting from the EIZ Tax Credits and amortized it over thirty years, which reflects the useful life of the assets generating the credits. Tr. p. 1210. This treatment is consistent with the treatment federal law requires for certain federal tax credits and incentives. In its Application, SCE&G requested authorization to a) begin to flow through to its customers the full amount of the EIZ Tax Credit actually taken on any given year’s income tax return, and b) accelerate the recognition of the
deferred credit as recorded at December 31, 2009 so that it would be amortized over five years. Ms. Haselden testified that going forward, this treatment will allow the Company’s customers to receive the full benefit of these credits as they are earned and will provide for the flow through of past credits to customers more rapidly. Tr. p. 1211. Recognizing the full amount of the EIZ Tax Credits in the year generated would reduce the total annual tax expense by $1,138,198, on a total electric basis, compared to the amount recognized through amortization during the test year.

The retail portion of the amount of past credit remaining to be amortized into rates was verified by ORS to be $48,725,000. ORS Witness Watts testified that, in light of the current state of the economy, these credits should be flowed through to ratepayers in two years, rather than the five years proposed in the Application. Tr. p. 1576. Mr. Watts testified that this would generate a credit of $24,362,500 on an annual basis or a rate decrement rider of $0.00114/kWh which would expire after a two-year period and should be credited to all of SCE&G’s customers and allocated across all retail classes on a kWh basis in the amount of $0.00114/kWh. Tr. p. 1576. The stipulating parties acknowledged there is a possibility that more or less than $48,725,000 may be credited to customers. If the customers are over-credited or under-credited, then the difference between the actual credit and $48,725,000 will be placed in a deferred account with interest at the 3-year U.S. Government Treasury Notes, as reported by the Wall Street Journal, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points) not to exceed 6% to be recovered or returned in a future general rate case proceeding. The stipulating parties agreed to this proposal and further agreed to allocate this amount across all customer classes in the manner recommended by Mr. Watts. No party to this proceeding has contested this proposal.
The Commission, having reviewed the Stipulations and the evidence of record in this case, finds and concludes that the provisions of the Stipulations and related testimony regarding the flow through of EIZ Tax Credits are just and reasonable and are supported by the substantial evidence contained in the record of this docket. A decrement rider will be established to flow deferred EIZ Tax Credits to retail ratepayers. Under the terms of the Stipulations, this decrement rider will remain in place until the credits are exhausted which is estimated to require two years.

J. EVIDENCE AND CONCLUSIONS REGARDING THE WEATHER NORMALIZATION ADJUSTMENT

(FINDING OF FACT NO. 17)

The Stipulations provide for the implementation of a pilot WNA mechanism for a twelve-month period to mitigate fluctuations in customers’ monthly bills. Company Witness Dr. Lynch testified the purpose of this mechanism is to mitigate the effects of abnormal weather on the margin component of customers’ bills. Tr. p. 1270. The proposed pilot program would apply to residential and commercial customers receiving electric service under rate schedules 1, 6, 8, and 9. Dr. Lynch testified that typically, more than 90% of the abnormal weather effect on margin is seen in these four rates and almost 95% of the customers on the Company’s system are served under these four rate schedules. Tr. p. 1271. Industrial customers are excluded because industrial customers’ loads are not particularly weather sensitive. The proposal will not apply to customers on time of use rates or rates with demand charges because of the difficulty in isolating the weather effect on each rate component. Tr. p. 1271.

Under this pilot program, energy rates for customers on these schedules would be adjusted downward or upward to reflect normal weather conditions, determined using the average temperature over the most recent fifteen (15) year period for which data is available.
As described by Dr. Lynch, the Company will calculate a rate adjustment for each residential and commercial class of customer under rate schedules 1, 6, 8 and 9 for each revenue month and meter reading cycle. After the meters are read for a particular cycle, the Company will accumulate the weather for that cycle and calculate the deviation of this weather from normal. Based on that data, a factor will be determined to adjust the impact of above or below average weather on the margin component of the bill. Tr. p. 1272-73.

Dr. Lynch testified SCE&G customers will benefit from this mechanism because their bills will be more predictable and abnormally high bills during periods of extreme heat or cold weather will be reduced. Tr. p. 1274. The Company will benefit since generating the margin revenues needed to operate its system will not be weather dependent.

The Commission finds and concludes that the proposed pilot WNA adjustment, as set forth in the Stipulations and related testimony, is just and reasonable to all parties and is supported by the substantial evidence contained in the record of this docket. The Commission orders, as set forth in the Stipulations, that SCE&G shall implement the WNA no later than the first billing cycle for October 2010 and that the Company shall provide notice to its customers, through a bill insert, to advise its customers of the WNA and its operation. The Commission further orders, as set forth in the Stipulations, that SCE&G shall, provide monthly reports to the Commission and ORS showing the current month and cumulative effect of the WNA. Additionally, upon the conclusion of the twelve-month pilot period, SCE&G shall file a comprehensive report with the Commission and ORS showing the aggregate impact and conclusions for the future of the program. After this comprehensive report is filed, either SCE&G or ORS may petition the Commission to modify or terminate the WNA. The WNA shall remain in effect until the Commission acts on any such petition.
K. EVIDENCE AND CONCLUSIONS REGARDING THE $25 MILLION ONE-TIME CREDIT

(FINDING OF FACT NO. 18)

The Stipulations provide for a one-time credit of approximately $25 million to customers’ bills through a decrement rider which will apply to residential and small general service customers and will remain in place until all credits have been exhausted. As Dr. Lynch testified, the $25 million amount was calculated as the approximate amount that the proposed WNA program might have saved SCE&G customers in the first quarter of 2010. Tr. p. 1271. No party contested this provision. As agreed to in the Stipulations, in the event customers are overcredited, then the difference between the actual credit and the $25 million offer will be placed in a deferred account with carrying charges at the 3-year U.S. Government Treasury Notes, as reported by the Wall Street Journal, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points) to be recovered in a future general rate case proceeding.

CONCLUSION AND ORDER

After having heard the testimony of the witnesses and based on the Commission's review of the Application, the Stipulations, and the testimony and exhibits submitted during the hearing, the Commission adopts as just and reasonable and in the public interest all terms and provisions of the Stipulations as a comprehensive compromise resolution of all issues. This includes the accounting adjustments, the increase of the Company’s retail revenues in the amount of $101,234,000 and the ROE of 10.7%. The Commission also specifically adopts as just and reasonable the rates, rate schedules, and terms and conditions set forth in Attachment No. 4 to Order Exhibit No. 1 (Hearing Exhibit No. 15).
IT IS THEREFORE ORDERED THAT:

1. The Third Stipulation, including all attachments, entered into by the stipulating parties to this docket and incorporated as Order Exhibit No. 1, is adopted and approved as just and reasonable.

2. The stipulating parties shall abide by all terms of the Stipulations.

3. SCE&G shall implement the rates, charges, terms and conditions referenced in Attachment No. 4 to Order Exhibit No. 1 for service rendered after the effective date of this Order.

4. The ROE of 10.7% is adopted as just and reasonable and in the public interest.

5. The net increase in SCE&G’s retail electric revenues on a pro-forma test-year basis of $101,248,003 is adopted as just and reasonable and in the public interest.

6. SCE&G shall not seek an increase to its non-fuel base rates and charges to be effective prior to June 2012, except as to those increases requested pursuant to S.C. Code Ann. § 58-27-865 and § 58-33-280, or as part of SCE&G’s DSM/EE programs or where necessary due to unforeseen economic or financial conditions.

7. The rate design and rate changes reflected in the tariffs attached to the Stipulations are approved as just and reasonable and in the public interest.

8. The depreciation rates contained in SCE&G’s depreciation study are approved for use by the Company in determining depreciation expense related to its assets.

9. The Company shall implement a decrement rider for adjusting rates to reflect the amortization over two years of the $48,725,000 balance of EIZ Tax Credits. This decrement rider shall be applicable to all retail classes of SCE&G’s customers on a
kWh basis in the amount of $0.00114/kWh and shall remain in place for two years or until the credits are exhausted. In the event that customers are over-credited or under-credited, then the difference between the actual credit and $48,725,000 will be placed in a deferred account with interest at the 3-year U.S. Government Treasury Notes, as reported by the Wall Street Journal, plus an all-in spread of 65 basis points (0.65 percentage points) not to exceed 6% to be recovered or returned in a future general rate proceeding.

10. The Company shall implement a twelve-month pilot WNA mechanism for residential and commercial customers receiving electric service under rate schedules 1, 6, 8, and 9. The pilot WNA shall be implemented no later than the first billing cycle for October 2010. SCE&G shall provide notice to its customers, through a bill insert, to advise its customers of the WNA and its operation. During the initial twelve-month pilot WNA period, SCE&G shall provide monthly reports to the Commission and ORS showing the current month and cumulative effect of the WNA. SCE&G shall, upon the conclusion of the twelve-month pilot period, file a comprehensive report with the Commission and ORS showing the aggregate impact and conclusions for the future of the program. After this comprehensive report is filed, either SCE&G or ORS may petition the Commission to modify or terminate the WNA. The WNA shall remain in effect until the Commission acts on any such petition.

11. The Company shall implement a decrement rider to reduce rates to residential and small general service customers by a total of $25 million over twelve months. The rider shall be allocated to SCE&G’s residential and small general service customers as set for the in Attachment No. 3 to Order Exhibit No. 1 and shall remain in place for
the same twelve month period as the WNA mechanism and shall expire when the $25 million credit is exhausted. In the event that customers are over-credited, then the difference between the actual amounts credited and $25 million will be placed in a deferred account with interest at the 3-year U.S. Government Treasury Notes, as reported by the *Wall Street Journal*, plus an all-in spread of 65 basis points (0.65 percentage points) to be recovered or returned in a future general rate proceeding.

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

BY ORDER OF THE COMMISSION:

Elizabeth B. Fleming, Chairman

ATTEST:

John E. Howard, Vice-Chairman

(SEAL)