DIRECT TESTIMONY

OF

KEVIN B. MARSH

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2009-489-E

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

A. My name is Kevin Marsh and my business address is 220 Operation Way, Cayce, South Carolina. I am President and Chief Operating Officer of South Carolina Electric & Gas Company (“SCE&G” or the “Company”).

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate, magna cum laude, of the University of Georgia, with a Bachelor of Business Administration degree. Prior to joining SCE&G, I was employed by the public accounting firm of Deloitte, Haskins & Sells, now known as Deloitte & Touche, L.L.P. I joined SCE&G in 1984 and have served as Controller, Vice President of Corporate Planning, Vice President of Finance, and Treasurer. From 1996 to 2006, I served as Senior Vice President and Chief Financial Officer of SCE&G and SCANA. From 2001-2003, while serving as CFO of SCE&G and SCANA, I also served as President and Chief Operating
Officer of PSNC Energy in North Carolina. In May of 2006, I was named President and Chief Operating Officer of SCE&G.

Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION IN THE PAST?

A. Yes. I have testified in a number of different proceedings.

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

A. The purpose of my testimony is to report on the state of the Company from an operating standpoint and to provide an introduction to the rate request before the Commission. In my testimony, I also discuss several of the primary reasons why the Company has filed for this rate increase and the major strategic initiatives undertaken to meet the federal and state environmental and safety related mandates and the future energy needs of our customers.

Q. WHAT OTHER WITNESSES WILL THE COMPANY PRESENT?

A. The Company will present the following additional witnesses in this case:

Mr. Stephen A. Byrne, Executive Vice President of Generation and Chief Nuclear Officer, who will testify concerning the Company’s generation operations, environmental upgrades to the Company’s generating plants, and plans to add new generating capacity.

Mr. Robert B. Hevert, President of Concentric Energy Advisors, Inc., who will testify concerning current conditions in capital markets, the reasonableness
of the Company’s capital structure and an appropriate cost of capital for the
Company.

Ms. Julie M. Cannell, President of J. M. Cannell, Inc., who will testify
concerning financial markets, SCE&G’s position in them, and cost of
capital.

Mr. Jimmy E. Addison, Senior Vice President and Chief Financial Officer of
SCE&G, who will testify concerning the financial posture of SCE&G, the
Company’s cost of capital and the current need for rate adjustments.

Mr. John J. Spanos, Vice President of the Valuation and Rate Division of
Gannett Fleming, Inc., who will testify concerning the Company’s new
depreciation study.

Ms. Tami S. Haselden, Manager of Tax Compliance and Accounting for SCANA
Corporation and its subsidiaries, who will testify concerning the
Company’s proposal to reduce its revenue requirements through the use of
the Economic Impact Zone Investment Tax Credit (“EIZ Tax Credit”).

Dr. Joseph M. Lynch, SCE&G Manager of Resource Planning, who will testify
concerning issues related to Rate 21A.

Mr. James E. Swan, IV, Controller of SCE&G, who will testify concerning
accounting matters and pro-forma adjustments.

Mr. John R. Hendrix, SCE&G’s Manager of Electric Pricing and Rate
Administration, who will testify concerning cost of service and rate design.

Q. PLEASE DESCRIBE SCE&G’S ELECTRIC SYSTEM.
A. SCE&G is engaged in the generation, transmission, distribution and sale of
electricity to 654,825 customers (as of December 31, 2009). SCE&G’s electric
service territory extends into 24 counties covering nearly 17,000 square miles in
the central, southern and southwestern portions of South Carolina. SCE&G’s
service territory includes the metropolitan areas of Charleston, Columbia,
Beaufort, and Aiken and many other smaller cities and towns, and rural areas.
SCE&G’s 654,825 customers are divided into three principal customer
classes, which comprise 562,071 residential customers, 88,380 commercial
customers, and 744 industrial customers. In 2009, residential customers
represented 35% of SCE&G’s territorial electric sales. Commercial customers
consumed 33% of that amount, and industrials 24%. The balance is represented
by sales-for-resale customers and miscellaneous customer classes.

Q. **PLEASE DESCRIBE SCE&G’S GENERATION OPERATIONS DURING 2009.**

A. During 2009, SCE&G’s generation facilities produced 24,871,750
megawatt hours ("MWH") of electricity. Of this amount, the coal plants generated
50%, the combined cycle units generated 26%, the gas peaking turbines and hydro
facilities generated 4%, the nuclear plant generated 19%, and a biomass generation
facility produced 1%. As Mr. Byrne will testify, our generation fleet performed
well during the test year ended September 30, 2009 and experienced forced outage
rates and heat rates that were superior to national averages.
CUSTOMER ISSUES

Q. HOW IS SCE&G HELPING CUSTOMERS WHO ARE FACING DIFFICULTIES IN THESE CHALLENGING ECONOMIC TIMES?

A. The Company is keenly aware of the fact that a significant number of its customers have been impacted by the loss of jobs and other dislocations caused by the severe recession of 2008-2009. This situation has been worsened by the sustained cold temperatures that South Carolina experienced in the December 2009 through the February 2010 time period resulting in abnormally high customer bills. For example, in Columbia during the months of January and February 2010 there were 33 days when the temperature was under 30 degrees, compared to just 19 days in January and February of 2009. The standard measure of the impact of cold weather on energy consumption is heating degree days, which measures the difference between the average daily temperature and a 65 degree temperature base. During January 2010, heating degree days were 28% higher than the 15-year average, and 19% higher than the same period in 2009. Heating degree days in February 2010 were 46% higher than the 15-year average and 33% higher than February 2009. The cumulative heating degree days for 2010, through February, were 36% higher than the 15-year average. The National Weather Service has determined that December 2009 through February 2010 was one of the coldest winters on record in South Carolina.
During this time, the system set an all-time winter peak and cold weather drove electric usage to record levels for a non-summer period. The result was a real hardship for our customers. For example, January 2010 residential electric bills were 34% higher than the bills issued last year. This weather-driven spike in consumption resulted in a similar spike in bill inquiry calls to SCE&G’s customer service centers. Such calls increased by 29% in January, compared to December 2009. Customer assistance requests increased by 57% during this period.

Q. HOW HAS SCE&G RESPONDED TO THESE CONDITIONS?

A. During these difficult periods, SCE&G has aggressively expanded the assistance available to its customers and has actively promoted awareness of the availability of that assistance. In December of 2009, we launched the “Helping Hands” campaign to better educate our employees and customers about available assistance for high bills, payment problems, weatherization and conservation. SCE&G communicated the available assistance programs through its customer service centers, local media, postings on our website, and brochures distributed in our business offices. SCE&G’s employees throughout our service territory also play an important role in identifying customers in need. We made information about assistance programs available to employees throughout the Company and encouraged them to refer any customers in need that they come into contact with to our customer assistance specialists. We also brought local media into our customer call centers and sent them out with our energy efficiency auditors and weatherization experts for live feeds highlighting our customer assistance
opportunities. These incentives have been very successful in raising the profile of our available assistance offerings.

**Q. WHAT TYPES OF ASSISTANCE CAN CUSTOMERS RECEIVE FROM SCE&G?**

**A.** For customers having immediate difficulty paying a bill, customer service representatives can offer short-term arrangements to extend past due dates to allow the customers time to make their payments. Where more time is required, the Company offers customers the ability to pay an outstanding balance through a deferred payment plan with the balance paid down over a period of up to 12 months. Where customers have medical conditions requiring uninterrupted electric service, the Company offers a medical certificate program ensuring continued service even when there are payment defaults.

In addition, in response to the current economic crisis and the high bills this past winter, the Company has relaxed the standards for Budget Billing which allows customers to levelize bill payments over an entire year with annual true-ups. This program was originally structured to require customers to pay all outstanding bills before they could be placed on Budget Billing. In response to current conditions, we now allow customers to roll outstanding bills into future payment streams, in effect, allowing the customer to spread the payment of outstanding bills over twelve months. There is no financing cost charged to the customer for this service. This service has been particularly helpful for customers whose resources are stressed by high bills during the recent winter.
Q. WHAT OTHER STEPS HAS THE COMPANY TAKEN TO PROVIDE ASSISTANCE TO RESIDENTIAL CUSTOMERS IN NEED?

A. In light of the economic conditions in 2009, the Company temporarily relaxed credit policies as related to residential customer deposits. Ordinarily, the Company can hold deposits for up to 24 months until new or credit challenged customers have established a stable payment history. In light of current conditions, and the critical needs many of our residential customers had for the funds these deposits represent, the Company accelerated the refunds of deposits to customers. In 2009, some 7,099 residential customers received over $1 million in accelerated refunds. We have received positive feedback from numerous customers who received these unanticipated refund credits.

Q. HAVE THESE OTHER EFFORTS TO WORK WITH CUSTOMERS BEEN SUCCESSFUL?

A. Yes they have. In the month of January 2010 alone, the Company extended special assistance to a total of 52,278 customers. In that month, 86,121 customers were receiving assistance in managing their energy bills through the Budget Billing Program. This means that we provided assistance in one way or another to approximately one out of every five of our residential customers. The following is a breakdown of the types of assistance received by our customers:

<table>
<thead>
<tr>
<th>Type of Assistance</th>
<th>Jan. 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Arrangements</td>
<td>45,241</td>
</tr>
<tr>
<td>Medical Certificates</td>
<td>737</td>
</tr>
<tr>
<td>Deferred Payment Plan/Arrangement</td>
<td>6,300</td>
</tr>
</tbody>
</table>
Total customers receiving special assistance: 52,278
Budget Billing 86,121

Total customers assisted: 138,399

Q. PLEASE DESCRIBE WHAT OTHER RESOURCES YOU HAVE AVAILABLE TO CUSTOMERS.

A. SCE&G has a strong Customer Assistance Program, administered through the customer service department that is specifically dedicated to working with those customers who are experiencing financial difficulties. The program is led by a manager who has 31 years of experience in this area and who is supported by a team of employees who are specialists in this area. They assist our much larger cadre of customer service representatives and field personnel in identifying customers in need, in providing direct assistance to customers and in coordinating the assistance available from state and local governments, community action agencies, churches, charities and other sources.

The customer service representatives who work in our contact centers and business offices are trained to identify customers who need special assistance and to encourage them to come in and speak with one of our specially trained customer assistance representatives. These customer assistance specialists work with these customers and with local churches, charities, community action agencies, governmental entities and other bodies to coordinate assistance and match customers with appropriate sources of help. Our customer assistance specialists have an excellent track record of locating the kind of assistance needed to keep
people in their homes and receiving electric service. In 2009, through the combined efforts of SCE&G’s Customer Assistance Program and its more than 140 agency partners, SCE&G’s customers received approximately $11.1 million in direct energy assistance.

Q. WHAT SORT OF AID IS AVAILABLE THROUGH THESE SOURCES?

A. The assistance that SCE&G administers, coordinates or assists in securing includes: the Good Neighbor Fund, Project Share, LIHEAP, and Energy Assistance.

• **LIHEAP** – The Low Income Home Energy Assistance Program (“LIHEAP”) is a U.S. Department of Energy (“DOE”) program that assists low income households in meeting immediate home energy needs. SCE&G’s field personnel and customer service representatives identify eligible customers and Customer Assistance advisors help those customers fill out applications and follow up on applications as needed. Local community action agencies distribute LIHEAP funds and, as discussed below, SCE&G coordinates with these agencies to have the funds credited to customers. LIHEAP is one of the major forms of energy assistance provided by the community action agencies.

• **Energy Assistance** – As mentioned above, SCE&G works in close coordination with the many churches and other faith-based organizations, charitable organizations, and government entities that provide assistance to people in need. Examples of such agencies are: Salvation Army chapters and Catholic charities throughout our service territory; Bibleway Baptist Church,
First Baptist Church and Cooperative Ministries in Columbia; Citadel Square Baptist Church in Charleston; and the community action agencies that operate throughout our area. In fact, some 140 such charitable organizations have entered into direct agency and vendor agreements with SCE&G that allow these organizations to pledge assistance directly to an eligible customer’s SCE&G account. Nearly half of the assistance received from the agencies is received through WebPledge, which allows participating agencies, with appropriate confidentiality agreements and password protection, to access customer account information directly through the web, and make pledges of assistance which are automatically recorded as payments to customers’ accounts. Other agencies can do much the same using automated phone in services, where after entering a password, they can check account information and make payment pledges that are automatically credited to customers’ accounts. In 2009, 37,866 SCE&G customer households received approximately $11.1 million in assistance, including LIHEAP funds, through these agencies.

- **Project Share** – Project Share provides assistance to low-income customers with winter heating bills and, in health-related cases, summer bills. Project Share is funded entirely by SCE&G customers, employees, and retirees. Local community action agencies distribute Project Share grants to families and individuals so that 100% of the money goes to people in need. In addition, Project Share provides an additional avenue of assistance for customers who
have exhausted or are otherwise ineligible for LIHEAP funds. Since the program began in 1986, contributions of more than $7 million have helped more than 43,000 low-income customers in towns and communities served by SCE&G. In 2009, the total amount raised to assist low income customers was over $252,000.

- **Good Neighbor Fund** – The Good Neighbor Fund is a non-profit organization established by SCANA employees that is funded entirely by contributions from employees and retirees. The Good Neighbor Fund assists individuals and families in meeting the cost of essentials such as food, medicine, doctor bills, and rent or mortgage payments. Since its inception in 1982, the Good Neighbor Fund has provided assistance to over 9,700 households and distributed over $3 million in aid. In 2009 alone, this program helped 344 households and distributed over $150,000 in contributions.

**CUSTOMER SERVICE**

Q. **CAN YOU PROVIDE INFORMATION ABOUT SCE&G’S GENERAL CUSTOMER SERVICE OFFERINGS?**

A. Yes. Contact centers, business offices and websites are the key to effective customer service in today’s economy since most of SCE&G’s customers interact with the Company through one or more of these media. Over the past several years, the Company has put a great deal of effort into improving its contact center systems and making its web site more functional and accessible to its customers. Business office customers now have the convenience of using credit and debit
cards to make payments. SCE&G’s interactive voice response system (IVR) and web site were recently evaluated by E Source, which is an independent research advisory and information firm that provides service to utilities, major energy users, and other key players in the retail energy marketplace internationally. E Source ranked 95 utility IVR systems in the United States and Canada based upon the ease of use and functionality of the 13 tasks and functions that a 2008 E Source market research study found were the options residential customers most strongly value. Among the 95 utilities in the United States and Canada that were reviewed, SCE&G’s IVR ranked fifth. The following is a chart showing the increase in the number of customers’ calls being serviced by IVR between 2005 and 2009:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total All Calls</strong></td>
<td>2,436,024</td>
<td>2,797,975</td>
</tr>
<tr>
<td><strong>Total IVR</strong></td>
<td>425,538</td>
<td>992,781</td>
</tr>
<tr>
<td><strong>% IVR</strong></td>
<td>17.5%</td>
<td>35.5%</td>
</tr>
<tr>
<td><strong>% Increase in IVR serviced calls 2005-2009</strong></td>
<td>133%</td>
<td></td>
</tr>
</tbody>
</table>

E Source conducted a similar evaluation of the utility web sites based on the 31 web and mobile features (both content information and self-service tasks) identified by E Source as the features residential customers most want to see on their utility’s web site. SCE&G’s web site was ranked third among 100 North American utility websites reviewed. Through its website, the residential and commercial customers can create an online account to access their SCE&G account information and utilize the many services offered there. These customers
also have the option of setting up a “paperless” account where all billing and other
transactions are handled electronically. The value of the Company’s website and
these services is evident from the increased usage shown below.

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Jan 2005</th>
<th></th>
<th>Jan 2010</th>
<th></th>
<th>5-Year Stats</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># Count</td>
<td>% of Total</td>
<td># Count</td>
<td>% of Total</td>
<td># Growth</td>
<td>% Growth</td>
</tr>
<tr>
<td>Residential Online</td>
<td>103,333</td>
<td>18.3%</td>
<td>251,816</td>
<td>39.9%</td>
<td>148,483</td>
<td>143.7%</td>
</tr>
<tr>
<td>Residential Paperless</td>
<td>26,291</td>
<td>4.6%</td>
<td>125,022</td>
<td>19.8%</td>
<td>98,731</td>
<td>375.5%</td>
</tr>
<tr>
<td>Commercial Online</td>
<td>7,150</td>
<td>7.4%</td>
<td>23,220</td>
<td>22.5%</td>
<td>16,070</td>
<td>224.8%</td>
</tr>
<tr>
<td>Commercial Paperless</td>
<td>2,817</td>
<td>2.9%</td>
<td>10,565</td>
<td>10.3%</td>
<td>7,748</td>
<td>275.0%</td>
</tr>
</tbody>
</table>

This chart shows that the number of residential online accounts has grown
by 144% since 2005 and that almost 40% of residential accounts are now on-line.
The number of residential customer accounts choosing to participate in the
Company’s paperless billing and account service has nearly quadrupled in that
period. In fact, almost 20% of the Company’s residential accounts are now
paperless accounts, a total which is more than double the national average of 8%
participation in such programs.

Q. HAS SCE&G’S CUSTOMER SERVICE RECEIVED ANY OTHER
RECOGNITIONS?
A. Yes. In its 2010 customer’s satisfaction survey for electric business
customers, J.D. Power and Associates ranked SCE&G in second place out of 19
large utilities in customer service for the south region. SCE&G has been listed in first or second place in three of the past four years in this survey.

Q. HOW RELIABLE WAS SCE&G’S SERVICE TO ITS ELECTRIC CUSTOMERS DURING 2009?

A. The best measure of reliability for distribution customers is the Company’s System Average Interruption Duration Index (“SAIDI”), which represents the average number of minutes of interruption per customer per year. In 2009, SCE&G’s SAIDI score was 96.71. In terms of system reliability, this score means that on average throughout 2009 SCE&G’s system was available to meet the electric needs of its customers 99.98% of the time. Below is a chart showing the Company’s SAIDI score since 2003.
As shown in this chart, the Company’s 2009 SAIDI score was a 23% improvement from the SAIDI score for 2008, and a 21% improvement over the SAIDI score for 2007. Much of the improvement in these results is attributable to SCE&G’s expanded tree trimming and vegetation management program.

Q. HOW HAS SCE&G SOUGHT TO CREATE JOBS AND ECONOMIC OPPORTUNITY THROUGH ECONOMIC DEVELOPMENT?

A. SCE&G has a team of economic development and local government professionals that played an integral role in industries locating 13 new or
expanding investments in our service area during 2009, often in the face of fierce
competition from other states and other countries. As funding in the public sector
has diminished due to budget constraints, SCE&G’s role has become more
important in successful industrial recruiting in its service area. SCE&G’s
industrial recruitment professionals coordinate with state and local government
economic development officials to carry out marketing missions, industrial
recruitment and other development activities.

The single most important project SCE&G assisted in bringing to South
Carolina in recent years was the Boeing project. In 2009, the Boeing Corporation
announced its decision to locate a major commercial aircraft assembly plant in
North Charleston. The total investment in this project is approximately $750
million and the project will generate over 3,800 direct new jobs. In awarding its
2009 Economic Development Deal of the Year Gold Award to the South Carolina
Department of Commerce, Business Facilities magazine stated that “[t]he choice
of North Charleston as a manufacturing site for Boeing’s best-selling commercial
jet will have a seismic impact on South Carolina’s economic development.”¹

SCE&G will provide the new Boeing plant with electric service and played
an important role in South Carolina’s success in becoming an emerging center for
aircraft manufacturing. SCE&G worked with the Department of Commerce and
the Charleston Regional Development Alliance beginning in 2003 to bring this
project and its predecessor Vought to South Carolina. It is important to note that

South Carolina remains a viable option for economic development projects, like the Boeing project, because among other factors we are seen as having reliable supplies of electrical energy to meet the needs of companies looking to expand or locate here, both now and in the future.

Another beneficial project SCE&G assisted in securing in the last several years is the expansion of Dixie-Narco’s Barnwell County vending machine manufacturing plant which will include the consolidation of Dixie-Narco’s nationwide operations in the Town of Williston. This decision is expected to lead to the creation of approximately 1,000 jobs in an economically-challenged rural area. Dixie-Narco’s total investment for this project is approximately $20 million.

In aggregate, the 13 new or expansion projects in SCE&G’s service territory in 2009 represent a total investment in South Carolina of approximately $934 million and the potential for a total of 5,600 new jobs for South Carolinians. In addition, the construction of SCE&G’s new nuclear units has created over 620 new jobs with contractors and subcontractors in Jenkinsville, South Carolina. The largest single group of jobs on the site is craft laborers employed by the construction contractor, the Shaw Group. More than 60% of these craft laborers are South Carolinians. Of the 85 prime and second tier contractors that have been hired by the Shaw Group, more than 50% are South Carolina based businesses.

**COST CONTROL AND THE CURRENT RATE REQUEST**

Q. **WHY IS SCE&G SEEKING AN ELECTRIC RATE INCREASE AT THIS TIME?**
SCE&G continually seeks to contain costs and increase the efficiency of its operations consistent with its obligation to provide safe and reliable electric service to meet the demands of its service territory. However, in spite of its cost containment efforts, SCE&G’s current return on equity (“ROE”), after accounting and pro forma adjustments, has fallen to 6.82% compared to an allowed return of 11.0%. To allow the Company to pay for the cost of continuing to provide reliable and efficient electric service and to allow it to continue to invest in the facilities needed to provide such service, a rate adjustment of $197.6 million is required. Access to reasonably-priced capital is critical for SCE&G to continue to maintain a reliable, efficient and safe electrical system. Without a rate adjustment, SCE&G’s returns will continue to deteriorate and would make it difficult for the Company to access capital on reasonable terms going forward.

Q. PLEASE DESCRIBE SOME OF THE THINGS THAT SCE&G HAS DONE RECENTLY TO MITIGATE COST INCREASES TO CUSTOMERS.

A. Our management team and employees constantly seek to mitigate costs in ways that are consistent with the long-term interest of our customers in a reliable, and efficient electric system. The following are some of the steps we have taken to manage costs to customers in recent years.

**Operation and Maintenance (“O&M”) Expenses** – SCE&G has successfully reduced overall O&M spending in 2009 compared to test period in the last rate case. Some of the steps that the Company has taken to hold down O&M expenses include:
• The Company has focused on managing health care costs. For example, the Company’s newly implemented high deductible plan option has reduced health care claims approximately $650,000 annually. Additionally, increasing employees’ contributions to their health care coverage has saved approximately $300,000 annually. The recent decision to eliminate stop loss insurance for health care claims has reduced costs by approximately $800,000 annually.

Due to these and other efforts by SCE&G to manage health care costs, SCE&G’s health care claims decreased approximately 1.5% from 2008 to 2009. This compares favorably to the national health care trends which increased 7.5% over the same time period. Had SCE&G’s costs increased at the same rate as the national average, the estimated additional revenue requirement in this proceeding would have been $1.53 million.

• Corporate officers and exempt employees, excluding working craft supervisors, have not received a general pay increase since February 2008.

• Hiring restraints are in place across the Company. Positions are being filled only when necessary, with emphasis on hiring only when additional or replacement personnel are needed for safety, reliability or maintaining excellent customer service.

• For a number of years, SCE&G has sought to maintain flexibility in staffing by keeping a core of experienced employees in its operational areas, and supplementing those areas with contractors who respond to labor needs as
circumstances require. Since the summer of 2008, SCE&G has cut back on its
non-nuclear contractor services and has eliminated the full time equivalent of
234 contractor personnel working on its system in non-nuclear capacities. This
reduction in work force has resulted in savings to the Company and its
customers of over $13 million in capital spending.

- The Fossil Hydro Team has identified annual O&M Materials and Supplies
  savings from projects implemented beginning in 2008 that have resulted in
  savings of $1.7 million.

**Synthetic Fuels Tax Credit** – As the Commission is aware, SCE&G is the
only regulated electric utility which used the Federal Synthetic Fuels Tax Credit it
earned from non-utility operations to defray costs that would otherwise have been
paid by regulated customers. Other utilities used this credit to generate earnings
for stockholders. Through its Synthetic Fuels Tax Credit, SCE&G successfully
defrayed 77% of the capital cost of the Saluda Dam Remediation Project, or a total
of $254.4 million. Had the entire cost of this project been included in rates, the
cost to customers in the test year would have increased by $40.4 million.

**Plant Efficiencies** – As indicated above, SCE&G’s plants continue to
operate at high levels of efficiency and the combined heat rate of all SCE&G’s
coal plants was significantly lower than the average heat rate of coal plants
nationally. Had SCE&G’s coal plants operated at the national average heat rate,
the increased fuel cost to customers would have been $33 million in 2009.
SCE&G set a winter peak of 4,718 megawatts (“MW”) on January 11, 2010. During this period of high energy demand throughout the southeast region, SCE&G’s generation fleet was able to supply 100% of SCE&G’s energy requirements without purchasing any MWs from other utilities. In addition, SCE&G’s V.C Summer plant set a plant record of 475 days of continuous operation during the 18-month period between Refueling 17 which occurred in the Spring of 2008 and Refueling 18 which occurred in the Fall of 2009.

**Personnel and Efficiency Improvements** – Both our generation and transmission/distribution business units have taken steps to reduce costs through combining operations and reducing staff. Several organizations within SCE&G overhauled their work schedules in an effort to ensure that essential services were being addressed with the minimum labor required. As a result of this work, SCE&G’s Fossil Hydro group saved $1.3 million in combined labor and overtime in 2009. Overtime labor costs in our Transmission and Distribution areas have also been reduced by approximately $600,000 in the test period primarily due to enhancements of the SCADA system and additional tree trimming and vegetation control work.

Another example of personnel related cost reduction is seen in the staffing for the new Williams and Wateree scrubbers. When the Fossil Hydro Scrubber Team reviewed the standard staffing for such scrubbers, it found that SCE&G should expect to add a total of 28 new employees to operate the Wateree and Williams scrubbers. That was the initial staffing recommendation. After carefully
reviewing the functions involved, the team determined that both scrubbers could be operated safely and efficiently with 18 employees. During the design and construction period, the Fossil Hydro team put in place a strategy to review all job vacancies at the Williams and Wateree plants for possible reassignment of those positions to scrubber staffing needs. This review resulted in six existing positions being re-allocated to scrubber operations. As a result, the addition of the scrubbers to these plants resulted in a net gain to total headcount of only 12 rather than the original 28 originally anticipated. This resulted in a $1.6 million reduction in the labor cost increase associated with these new scrubbers.

An additional example of reducing personnel costs relates to remote start/stop capability that Fossil Hydro has installed for its 249 MW of gas and oil fired internal combustion turbines which are located at multiple locations around the system. Prior to the completion of this work, if dispatch models indicated that these units might need to be started after hours to meet system needs, personnel were called out to be ready to start the units if required. The units can now be started remotely reducing overtime and making the units available more quickly to meet unanticipated needs of the system.

Capital Spending – In light of current economic conditions, major capital replacements and other capital expenses are receiving careful scrutiny. Where possible, the use of existing equipment is being extended as long as safety and reliability is not compromised. Other investments are being delayed or deferred. As a result, non-new nuclear, non-scrubber related capital spending in 2009 was
$154.9 million less than in 2008. This reduction in capital spending lowered the rate requirement in this proceeding by $19.2 million.

**EIZ Tax Credit** – SCE&G earned an EIZ Tax Credit in 1996 based on qualified property additions. The EIZ Tax Credit exceeded the Company’s state tax liability for the 1996 tax year by $15.3 million. The Company’s attempt to carry forward the unused credit to tax years 1997 and 1998 was contested by the South Carolina Department of Revenue (DOR). In 2008, the South Carolina Supreme Court ruled in favor of the DOR. The Company requested reconsideration, and in September 2009, the Supreme Court reversed itself and decided the matter in the Company’s favor. As a result, the Company’s customers will receive the benefit of the $15.3 million credit. This tax credit and the acceleration of the recognition of other EIZ Tax Credit amounts are reducing the request in this proceeding by $11.5 million.

**Q. WHAT IS THE OVERALL ESTIMATED IMPACT OF THESE ENUMERATED COST REDUCTIONS AND SAVINGS?**

**A.** The following is a chart showing, in part, the revenue requirement and fuel cost savings represented by the above cost reductions:

<table>
<thead>
<tr>
<th>Description of Savings/Reduction</th>
<th>Savings</th>
</tr>
</thead>
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<tr>
<td>Health care costs</td>
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<td>Fossil Hydro O&amp;M and Supplies</td>
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<td>Saluda Dam Remediation</td>
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<td>Plant efficiencies</td>
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<td>Fossil Hydro overtime</td>
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<td>Overtime labor costs</td>
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<td>Williams/Wateree staffing</td>
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<tr>
<td>Capital budget reduction</td>
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Q. WHY THEN IS A RATE CASE NEEDED?

A. In spite of the Company’s effective cost control, a number of offsetting items in the Company’s operations and finances have made it necessary for the Company to seek rate relief at this time. These increases are discussed in more detail later in my testimony and in Mr. Addison’s testimony. In summary, the major items making this rate request necessary are as follows:

- **Mandatory Environmental and Safety Investments in Generating Plants** – During the period since the last rate case, the Company has made significant investments in environmental and safety upgrades to its generating plants that were mandated by federal and state laws and regulations. As Mr. Byrne will testify in more detail, included in these investments are: (1) the installation of new flue gas desulphurization units and related facilities (“scrubbers”) to reduce emissions of sulfur dioxide (SO₂) at the Williams and Wateree stations; (2) the installation of a selective catalytic reactor (“SCR”) at Cope Station in order to reduce emissions of nitrogen oxides (NOₓ); and (3) the completion of the construction of a federally mandated back-up dam at the site of the Saluda Hydro Project at Lake Murray in Lexington County. These projects represent a total unrecovered investment by the Company in federally mandated environmental and safety improvements of over $700 million. The revenue requirements associated with these environmental and safety investments
represent 54% of the additional revenue requirement in this case. In addition, as Mr. Byrne will testify, the Company has made investments in peaking units to replace older units that were retired due to safety concerns. These new units will support the Company’s provision of reliable service in the Charleston area. The costs associated with these turbines are approximately $45 million. They represent approximately 3.8% of the increase.

- **Investment in Transmission, Distribution and Other Electric Infrastructure**

  **Infrastructure** – To provide continued safe, reliable and efficient service and to serve new customers, the Company has made significant investments in its transmission and distribution system and other electric infrastructure. Since the last rate proceeding, the net investment in such assets is approximately $270 million, representing 18% of the increased revenue requirement.

- **Critical Reliability Expenditures** – The Company has increased spending on other critical O&M items that have a direct impact on the reliability of our system to provide for and meet the energy needs of our customers. As I discuss in more detail below, the Company has undertaken a comprehensive vegetation management plan that is designed to improve reliable utility operations and the rapid restoration of electric utility service after storms or other events. In order to ensure that the Company can meet the goals of its vegetation management plan, SCE&G is proposing to increase its annual vegetation management and tree-trimming expenditure by $6.6 million above the amounts included in the test period.
In addition, as Mr. Byrne will testify, the more intense usage of the Company’s combined cycle plants, the aging of its generating fleet, and the inclusion of Williams Station turbine maintenance expenses in the annual turbine maintenance expense calculation have increased the amount of the annual accrual necessary to levelize SCE&G’s turbine maintenance expense. An increase of approximately $10.3 million is being requested to properly match maintenance expense with the year-by-year use of the plants that cause such expenses to be incurred. Vegetation management and turbine maintenance represent investments in the continued reliability of the Company’s electric system and in the protection of system assets from failure and damage. They represent 9% of the additional revenue requirement in this case.

For these and other reasons, without a rate adjustment at this time, the Company will not have the funds necessary to continue to operate its electric system safely, efficiently and reliably over the long term. The Company also must be able to maintain access to capital needed to invest in its system.

**Q. WHAT IMPACTS HAVE FERC ELECTRIC RELIABILITY MANDATES HAD ON YOUR COSTS?**

**A.** The Company has experienced an increase in expenses associated with complying with electric reliability standards. Following the Northeast Blackout of 2003, Congress enacted the Energy Policy Act of 2005 which gave the Federal Energy Regulatory Commission (“FERC”) authority to issue mandatory electric
reliability standards and empowered the North American Electric Reliability Council (“NERC”), as the electric reliability organization (“ERO”), to enforce those standards with penalties for non-compliance of up to $1 million per day per event. FERC has imposed fines on utilities as high as $25 million for non-compliance with operating standards.

These standards apply to all aspects of planning, operating and maintaining the transmission grid, including tree trimming and vegetation control, operations standards and training of personnel, and inspection and repair of facilities. Because of the potential for the electric transmission grid to be sabotaged through the internet by outside forces, including foreign governments or terrorist organizations, FERC has formulated extensive cyber security standards. These cyber security standards have mandated major investments by SCE&G in staffing, computer systems and tools, and in physical and cyber security to protect the integrity of its electric transmission grid. Cyber security is an increasing concern for FERC and more and more sophisticated cyber security is being required.

Over the past 3½ years the Company has incurred approximately $4 million in ERO related expenses. In October 2008, NERC conducted an ERO Audit of SCE&G’s compliance. NERC found the Company to be in full compliance and the Company was told in the exit interview that SCE&G’s program was one of the best programs the auditing team had seen.

In a similar vein, the Nuclear Regulatory Commission recently issued the mandatory nuclear safety-related “fatigue rule,” which limits the number of hours
that personnel can work without rest. This new rule required the Company to hire
and train additional security personnel at the V.C. Summer nuclear facility. The
cost of compliance to SCE&G is approximately $700,000 in hiring and training
costs.

Q. PLEASE EXPLAIN THE PRO FORMA FOR TREE TRIMMING AND
VEGETATION MANAGEMENT EXPENSE?

A. Tree trimming and vegetation management programs are maintenance
activities that are critical to reliable utility operations and the rapid restoration of
electric utility service after storms or other events. Post-storm reviews and
investigations regarding system outages caused by heavy winds, snow,
thunderstorms, tornados, hurricanes, and especially, ice, have consistently
resulted in recommendations to develop more comprehensive and focused
vegetation management plans to improve reliability and customer service. As
mentioned above, it is now mandatory under the ERO standards that utilities adopt
and carry out a documented vegetation management plan. Failure to execute the
plan as adopted subjects the utility to self-reporting requirements and the
potentially severe monetary penalties discussed above.

Q. PLEASE EXPLAIN THE COMPANY’S TREE TRIMMING AND
VEGETATION MANAGEMENT PLAN.

A. The Company’s comprehensive tree trimming and vegetation management
plan prioritizes the individual circuits on our system based upon a strict criteria,
including: a) time elapsed since the last trim cycle for the circuit; b) recent SAIDI
results for the circuit (annual average minutes of outage duration per customer); c) recent vegetation-related SAIDI events; d) the presence of critical and priority customers on the circuit; and e) operational management input concerning field conditions on the circuit. Tree-trimming contractors bid on circuit work by units of cost per mile or cost per circuit. As discussed below, SCE&G’s expanded efforts in tree trimming and vegetation management have provided tremendous reliability improvements for our customers and they reduce the damage done to our system by storms.

Q. WHAT RESULTS HAVE YOU ACHIEVED?

A. Industry standards consistently reference a five-year cycle as being the preferred cycle for tree trimming in our area. Until recently, however, the Company had dropped to a seven to eight-year cycle. This was due in part to the number of times that Company crews and contract crews were diverted to assist with hurricane recovery efforts in Louisiana, Mississippi, and Florida, and to assist with winter storm recovery throughout the Eastern United States. In an effort to restore tree trimming and vegetation management to a five-year cycle, the Company requested authorization to charge certain incremental tree trimming and vegetation management costs against the Storm Damage Reserve. The Company requested authorization to spend an additional $9,000,000 in 2008-2009 and $6,800,000 in 2010 for tree trimming and vegetation management beyond the level provided for in its current rates. In Order Nos. 2009-87 and 2009-845, the Commission granted that request.
This additional funding has allowed the Company to make significant progress in restoring its tree trimming cycle to the five-year goal. As this additional tree trimming and vegetation management is completed, and a consistently shorter cycle is achieved, the Company’s system is better able to withstand hurricanes, ice storms, and the other sorts of events that the Storm Damage Reserve was intended to secure against. In fact, in the recent record snow fall in February 2010, circuits that had been trimmed under this program showed few if any problems. More generally, the success of the plan is demonstrated by the fact that reliability results have improved by approximately eighty percent (80%) for vegetation related outages on recently completed circuits.

To complete this program, and to ensure that the Company can remain on a five-year vegetation management cycle going forward, SCE&G is proposing to increase its annual vegetation control and tree trimming expenditures by $6.6 million above the amounts included in the test period. These expenditures will allow the benefits from the current, heightened level of tree trimming work to be sustained and extended.

Tree trimming and vegetation management costs are investments SCE&G is making in its continued ability to meet the demands of its customers and to operate its system in a safe, efficient and reliable manner and, in certain situations, are mandatory under ERO rules. SCE&G is asking the Commission to approve this pro forma adjustment so that the benefits from this program can continue.
PLANNING FOR FUTURE DEMANDS

Q. WHAT IS THE ANTICIPATED IMPACT OF THE RECESSION ON THE COMPANY’S FORECASTED GROWTH?
A. The current recession began in December of 2007. While many economists believe this recession ended in the third quarter of 2009, data that will determine the official date is not yet available. Regardless of the specific timing, the recession has had an effect on system growth.

Q. WHAT DO PAST RECESSIONS SHOW ABOUT THE EFFECT OF ECONOMIC DOWNTURNS ON ELECTRIC UTILITY GROWTH?
A. Overall SCE&G has seen consistent growth on its system, with a few years of minimal decline. The key driver of retail sales typically is weather. There are a number of years where recessions have driven modest declines in sales. An exception to this is 2009, in which the system experienced a significant sales decline as a result of the severe recession. Following all past recessions, SCE&G has seen growth in sales rebound.

Q. WHAT IS SCE&G’S CURRENT LOAD FORECAST?
A. The current forecast shows a modest rebound after the current recession and then continued growth at a moderate rate compared to past experience. This is due largely to energy efficiency improvements as discussed below. SCE&G’s current forecast anticipates that the Company’s total territorial energy sales on its system will grow at an average rate of 1.5% per year over the next 15 years, while firm
territorial summer peak demand and winter peak demand will increase at 1.8% and 1.6% per year, respectively, over this forecast horizon.

Q. EXPLAIN HOW ENERGY EFFICIENCY COULD IMPACT YOUR FORECAST.

A. Several adjustments were made to the baseline projections to incorporate significant energy efficiency impacts that are not reflected in historical experience. These impacts include: increased air-conditioning and heat pump efficiency standards; improved lighting efficiencies, both of which are mandated by federal law; and the addition of SCE&G’s proposed energy efficiency programs. Baseline sales are projected to grow at the rate of 2.2% per year. The impact of energy efficiency causes the ultimate territorial sales growth to fall to 1.5% per year.

Q. HOW DOES THE COMPANY PLAN TO MEET THE LOADS SET FORTH IN THIS FORECAST?

A. As the Commission is aware, the Company has added only one new base load generating station to its system, Cope Station, since 1983. In 2006, after extensive review and assessment of the risks, feasibility and cost of all alternatives, the Company decided that the most prudent and responsible option for meeting future energy needs of its customers was to add new nuclear generation to its resource mix. As a part of this evaluation, the Company determined that the greatest risks that it and its customers faced were the risks of volatile and uncertain fossil fuel markets, and the risk of increasing stringent regulations of fossil fuel plant emissions. New nuclear capacity will help the
Company moderate those risks. While SCE&G expects alternative energy sources to play an increasing role in its portfolio, alternative energy sources were either too expensive, too unreliable, or too limited in scope for the Company to prudently rely on them at this time as a substitute for base load resources.

In May of 2008, the Company signed an Engineering, Procurement and Construction Agreement (“EPC Contract”) with Westinghouse Electric Company, LLC and the Shaw Group for construction of two AP-1000 advanced passive pressurized water nuclear reactors (the “Units”) which the Company will build in partnership with the South Carolina Public Service Authority (“Santee Cooper”). The new Units will be located at the site where SCE&G has successfully operated Summer Station Unit 1 in partnership with Santee Cooper since 1982. When these Units come on line, SCE&G’s carbon emissions will be lowered to their 1997 levels, despite many years of intervening load growth. Over 60 years, the Units will reduce CO₂ emissions by 510 million tons compared to gas generation and 1 billion tons compared to coal. They will result in similar reductions for sulfur dioxide, mercury and nitrogen oxides.

Q. WHAT BEARING DOES THE CURRENT CASE HAVE ON THESE PROJECTS?

A. As discussed by Company witnesses Addison and Cannell, the Company will be required to invest nearly $3 billion in capital in its electric system over the next three years. New nuclear construction will be a large part of this investment, but necessary investment in other electric system infrastructure will also require
over $1 billion of new capital. If the economy rebounds faster than anticipated, and if residential growth in South Carolina resumes at pre-recession rates, then our capital needs could be much greater.

Continued access to capital on terms that are favorable to the Company and its customers depends on the Company maintaining the debt service coverage ratios sufficient to support its bond ratings. It depends also on the Company generating the revenues sufficient to pay reasonable dividends and to produce reasonable levels of earnings to support the valuation of SCANA’s stock. As Mr. Addison, Mrs. Cannell, and Mr. Hevert are testifying, the order issued in this proceeding will largely determine the degree to which doing those things will be possible in the near term. It will also determine the degree to which the investment community sees the Company as being able to count on constructive and balanced regulation going forward.

Q. WHY IS THE COMPANY MAKING THIS REQUEST AT THIS TIME?

A. The Company is very aware of how current economic conditions are impacting its customers. The Company has delayed making its request for rate adjustments as long as possible and has implemented policies to control costs where it has been possible to do so without impairing the safety, reliability and long-term efficiency of its system. In addition, as Mr. Addison will testify, the Company has tailored its request in this proceeding so as to mitigate the impact of this increase on its customers in light of the unique nature of the current economic
environment. If implemented as proposed, customers would save approximately $100 million because of the deferral of rate adjustments.

The Company is committed to meeting the energy needs of its customers efficiently, economically and reliably. It can only do so if it can afford to continue to meet its reliability and safety mandates and to invest in new generation resources, in transmission and distribution systems, and in other aspects of its energy infrastructure. Without reasonable revenues to meet expenses and without access to capital on reasonable terms, SCE&G will find it very difficult to meet the needs of its customers for reliable, efficient electric service in future years.

Q. DO YOU HAVE ANY CONCLUDING COMMENTS?

A. The Company, of course, recognizes that this proceeding takes place during trying economic times. As a result of the current economic conditions, the Company has made every effort to delay the need for rate relief and to cut costs where possible without adversely impacting the safety, reliability and service of its system. In addition, the Company has endeavored to spread out the implementation of the requested rate adjustment so as to minimize its impact on its customers. Rate relief cannot be delayed indefinitely. However, this electric rate proceeding comes at a critical turning point in the history of SCE&G’s electric business. The costs that underlie this rate application reflect investments in the assets and the people that are necessary for SCE&G to operate a reliable and efficient electric system today and into the future. In addition, SCE&G must continue to invest in its system and service in order to meet the current and future
needs of its customers. For these reasons, the Company respectfully requests that
the Commission grant the rate relief requested and affirm its support for the
investments that the Company is making to meet its electric utility obligations and
the needs of its customers now and in the future.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. It does.