SOUTHERN ENVIRONMENTAL LAW CENTER

Telephone 843-720-5270 | 463 KING STREET, SUITE B CHARLESTON, SC 29403-7204 | Facsimile 843-414-7039

April 17, 2019

Via Electronic Filing

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, SC 29210

RE: Annual Review of Base Rates for Fuel Costs for South Carolina Electric & Gas Company, Docket Number 2019-2-E

Dear Ms. Boyd:

Please find enclosed for filing the *Proposed Order* for Docket No. 2019-2-E, on behalf of the South Carolina Coastal Conservation League and the Southern Alliance for Clean Energy.

Please contact me if you have any questions concerning this filing.

Sincerely,

s/ William C. Cleveland

William C. Cleveland (SC Bar No. 79051)
SOUTHERN ENVIRONMENTAL LAW CENTER
463 King Street, Suite B
Charleston, SC 29403
Telephone: (843) 720-5270
Fax: (843) 720-5240

Attorney for South Carolina Coastal Conservation League and Southern Alliance for Clean Energy

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CERTIFICATE OF SERVICE

I hereby certify that the parties listed below have been served via electronic mail with a copy of the *Proposed Order* on behalf of the South Carolina Coastal Conservation League and Southern Alliance for Clean Energy.

Alexander G. Shissias, Counsel
The Shissias Law Firm, LLC
1727 Hampton Street
Columbia, SC 29201
alex@shissiaslawfirm.com

Jeffrey M Nelson, Counsel
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201
jnelson@ors.sc.gov

Becky Dover, Counsel
SC Department of Consumer Affairs
bdover@scconsumer.gov

Jenny R. Pittman, Counsel
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201
jpittman@ors.sc.gov

Benjamin L. Snowden, Counsel
Kilpatrick Townsend & Stockton, LLP
4208 Six Forks Road, Suite 1400
Raleigh, NC 27609
bsnowden@kilpatricktownsend.com

K. Chad Burgess, Director & Deputy General Counsel
South Carolina Electric & Gas Company
220 Operation Way - MC C222
Cayce, SC 29033-3701
chad.burgess@scana.com

Carri Grube - Lybarker, Counsel
SC Department of Consumer Affairs
clybarker@scconsumer.gov

Matthew W. Gissendanner, Senior Counsel
South Carolina Electric & Gas Company/SCANA Corporation
220 Operation Way - MC C222
Cayce, SC 29033-3701
matthew.gissendanner@scana.com

Richard L. Whitt, Counsel
Austin & Rogers, P.A.
508 Hampton Street, Suite 300
Columbia, SC 29201
rlwhitt@austinrogerspa.com

Scott Elliott, Counsel
Elliott & Elliott, P.A.
1508 Lady Street
Columbia, SC 29201
selliott@elliottlaw.us

This 17th day of April, 2019.

s/ William Cleveland
William Cleveland

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STATE OF SOUTH CAROLINA

BEFORE THE PUBLIC SERVICE COMMISSION

DOCKET NO. 2019-2-E

In re:	)	
	)	**CCL AND SACE'S PROPOSED ORDER**
Annual Review of Base Rates for Fuel Costs for South Carolina Electric & Gas Company	)	

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina ("Commission") on the annual review of South Carolina Electric & Gas Company's ("SCE&G" or "Company") fuel purchasing practices and policies to determine whether any adjustment in the fuel cost recovery factors is necessary and reasonable. S.C. Code Ann. § 58-27-865 (2015) establishes the Commission's procedure in this proceeding. Additionally, and pursuant to S.C. Code Ann. § 58-39-140 (2015), the Commission must determine whether to grant an increase or decrease in the fuel cost component designed to recover the incremental and avoided costs incurred by the Company to implement the Distributed Energy Resource ("DER") program previously approved by the Commission. The period under review in this Docket is January I, 2018, through December 31, 2018 ("Review Period").

A. Notice and Intervention

On August 24, 2018, the Clerk's Office of the Commission, by letter, instructed Company to publish, on or before October 8, 2018, a Notice of Hearing and Prefile Testimony Deadlines ("Notice") in the newspapers of general circulation in the area affected by the Commission's annual review of the Company's fuel purchasing practices and policies. The letter also instructed the Company to send the Notice to its customers, on or before October 8, 2018,

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by U.S. Mail via bill inserts, or by electronic mail to customers who have agreed to receive notice by electronic mail. The Notice stated the nature of the proceeding and advised all interested parties wishing to participate in the scheduled proceeding how and when to file appropriate pleadings.

On October 3, 2018, the Company filed with the Commission affidavits confirming that the Company had duly published the Notice in newspapers of general circulation in accordance with the instructions set forth in the Clerk's Office's August 24, 2018 letter.

On October 15, 2018, the Company filed with the Commission an affidavit verifying that the Company had properly furnished the Notice to each affected customer.

The Commission received timely Petitions to Intervene from the South Carolina Energy Users Committee ("SCEUC"), the South Carolina Solar Business Alliance, Inc. ("SBA"), and CMC Steel South Carolina ("CMC Steel").

The Commission also received a Petition to Intervene Out of Time from the South Carolina Coastal Conservation League ("CCL") and the Southern Alliance for Clean Energy ("'SACE").

SCE&G did not oppose any Petitions to Intervene, and no other parties sought to intervene in this proceeding.

The South Carolina Office of Regulatory Staff ("ORS") is automatically a party pursuant to S.C. Code Ann.§ 58-4-lO(B) (2015).

B. Bifurcation

On March 13, 2019, SBA Moved to Bifurcate the Proceeding, asking the Commission to delay issues related to (i) any updates to SCE&G's avoided cost rates and (ii) SCE&G's request to impose a Variable Integration Charge ("VIC") on solar Qualifying Facilities ("QFs") until a

subsequent hearing, either in this Docket or another Docket. On March 27, 2019, pursuant to Order No. 2019-229, the Commission granted the SBA's Motion to Bifurcate Proceeding to provide for consideration of variable integration charges and the updates to SCE&G's avoided costs reflected in Rates PR-1 and PR-2 and the NEM Methodology in a later proceeding.

II. STATUTORY STANDARDS

S.C. Code Ann. § 58-3-140(A) vests the Commission with the "power and jurisdiction to supervise and regulate the rates and service of every public utility in this State . . ." Every rate "made, demanded or received by any electrical utility … shall be just and reasonable . . ." S.C. Code Ann. § 58-27-810 (Supp. 2015).

A. Fuel Cost Recovery under S.C. Code Ann. § 58-27-865

S.C. Code Ann. § 58-27-865 establishes the Commission's procedures in this Proceeding, and S.C. Code Ann. § 58-27-865(B) states in pertinent part that, "[u]pon conducting public hearings in accordance with law, the [C]ommission shall direct each company to place in effect in its base rate an amount designated to recover, during the succeeding twelve months, the fuel costs determined by the [C]ommission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period."

S.C. Code Ann. § 58-27-865(F) further states that "[t]he commission shall disallow recovery of any fuel costs that it finds without just cause to be the result of failure of the utility to make every reasonable effort to minimize fuel costs or any decision of the utility resulting in unreasonable fuel costs, giving due regard to reliability of service, economical generation mix, generating experience of comparable facilities, and minimization of the total cost of providing service."

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III. HEARING

On April 3, 2019, the Commission convened a hearing on this matter with the Honorable Comer H. "Randy" Randall presiding.

SCE&G was represented by K. Chad Burgess, Esquire; Matthew W. Gissendanner, Esquire; and Mitchell Willoughby, Esquire. SCEUC was represented by Scott Elliott, Esquire. CCL and SACE were represented by William C. Cleveland, IV, Esquire, and Lauren Joy Bowen, Esquire. SBA was represented by Richard L. Whitt, Esquire. CMC Steel and its counsel of record did not appear at the hearing. Jeffrey M. Nelson, Esquire represented ORS.

In this Order, ORS, SCEUC, CCL, SACE, SBA, CMC Steel, and SCE&G are collectively referred to as the "Parties" or sometimes individually as a "Party."

SCE&G presented the direct testimonies of George A. Lippard, III and John H. Raftery and the direct testimonies and exhibits of Henry E. Delk, Jr.; Michael D. Shinn; J. Darrin Kahl; and Allen W. Rooks, each of whom appeared personally. ORS presented the direct testimonies and exhibits of Anthony D. Briseno, Anthony M. Sandonato, and Robert A. Lawyer, each of whom appeared personally. CCL and SACE presented the direct testimony and exhibits of Witness Gregory M. Lander were stipulated into the record by all Parties present at the hearing.[1] SBA, SCEUC, and CMC Steel did not present witnesses at the hearing.

SCE&G presented the rebuttal testimony and exhibit of Witness Kahl, who appeared personally, in response to the direct testimony of CCL and SACE Witness Lander. CCL and SACE submitted Witness Lander's surrebuttal testimony in response to SCE&G's rebuttal testimony by stipulated into the record by all Parties present at the hearing.

[1] On March 25, 2019, SCE&G moved to Strike portions of Mr. Lander's testimony. At the hearing, by agreement, SCE&G withdrew the motion.

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IV. REVIEW OF EVIDENCE AND EVIDENTIARY CONCLUSIONS

After hearing the evidence and testimonies of the witnesses, the Commission reaches the following factual and legal conclusions:

A. Natural Gas Pipeline Capacity Contracts

a. CCL and SACE Testimony

i. Elba Express, Mountain Valley Pipeline & Southeastern Trail Agreements

CCL and SACE Witness Lander reviewed three precedent agreements that SCE&G has executed with three different pipelines: (i) Elba Express, (ii) Mountain Valley, and (iii) Southeastern Trail. Specifically, Mr. Lander considered the "all in cost" of the contracts, taking into consideration both the firm costs of using the various pipelines and the likely natural gas commodity costs of gas available on those pipelines. After conducting this analysis, Mr. Lander concludes that only the Elba Express Contract is likely to provide value to SCE&G's customers.

Mr. Lander further concludes that the Mountain Valley and Southeastern Trail contracts would increase customer costs without providing a corresponding increase in reliability or value. As such, Mr. Lander recommends that the Commission either completely disallow recovery of these contract costs or the Commission cap recovery to ensure that SCE&G customers are financially no worse off than they would have been had SCE&G not executed these two contracts.

ii. SEMI Agreement

Mr. Lander also reviews a contract SCE&G currently has with SEMI and concludes that SCE&G paid the contract costs as if the contract were "firm," even though the contract terms allow SEMI to ultimately determine how much capacity SCE&G could use at any given time. Mr. Lander states that such a contract is not actually "firm," and the Commission should

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disallow cost recovery for the fixed contract cost and instead allow SCE&G to recover an incremental cost above defined cost amounts. Mr. Lander also recommends that the Commission require SCE&G to procure certain fuel delivery service through open RFPs.

b. SCE&G's Rebuttal Testimony

In rebuttal, SCE&G presented Mr. Kahl, who disagreed with all of Mr. Lander's conclusions. With respect to the Mountain Valley and Southeastern Trail contracts, Mr. Kahl stated that these contracts are not currently before the Commission and that any consideration of those costs is beyond the scope of this Proceeding. Mr. Kahl also identifies what he claims are errors in Mr. Lander's calculations that he claims further support his position that the Commission should disregard Mr. Lander's testimony. With respect to the SEMI contract, Mr. Kahl claims the contract actually is "firm" and that the Commission should disregard Mr. Lander's conclusions and recommendations.

c. CCL and SACE Surrebuttal Testimony

In his surrebuttal, Mr. Lander first addresses the calculation error Mr. Kahl identified. Mr. Lander states that his calculations were based on information he had at the time concerning locations where SCE&G purchased gas. He then states that, to the extent SCE&G has new information that the locations were different, the ultimate conclusion is the same: "the Company has adequate capacity between Transco and Sonat ***right now***, and, based upon the evidence in this case, it does not need more."[2] Mr. Lander further states that the calculation error related only to 0.0199% of SCE&G's total gas supply and that this error does not change either his propositions or conclusions regarding the prudence of either the Mountain Valley or Southeastern Trial contracts. Has SCE&G used either the Mountain Valley or Southeastern Trail

[2] Lander Surrebuttal at 2:19-20 (emphasis in original).

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contracts in 2017 or 2018 to displace use of its existing Transco or Sonat contracts, customer costs would have been higher.

With respect to the SEMI contract, Mr. Lander observes that while Mr. Kahl claims that SCE&G had a high utilization of the contract, use of the contract does not equate to control. As Mr. Lander states, "[j]ust because [SEMI] didn't limit SCE&G's use does not mean they couldn't. Mr. Kahl's Testimony makes clear that SCE&G did not attempt to fully utilize the capacity it had on SEMI. Had SCE&G attempted to use more, SEMI could have denied that request."[3] Mr. Lander continues to assert the contract, though "firm" in title, is not actually "firm."

V. FINDINGS OF FACT CONCLUSIONS OF LAW

1. After giving due regard to reliability of service, economical generation mix, generating experience of comparable facilities, and minimization of the total cost of providing service, SCE&G has not made every reasonable effort to minimize fuel costs. SCE&G has not proven that it needs additional pipeline capacity, and the Mountain Valley and Southeastern Trail contracts will – under current conditions – impose unreasonable fuel costs on SCE&G's customers.
2. The SEMI contract is, by its terms, not "firm."

IT IS THEREFORE ORDERED THAT:

1. To the extent SCE&G seeks, in a future proceeding, to pass the Mountain Valley and Southeastern Trail contract costs onto customers, absent compelling new evidence of cost-effectiveness and reliability benefits to justify full recovery, this Commission will

[3] Lander Surrebuttal at 12:13-15.

hold SCE&G customers harmless for these contracts costs and may – if necessary – completely disallow recovery of those costs.

2. SCE&G shall not be allowed to recover the costs of the SEMI contract.

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

BY ORDER OF THE COMMISSION:

_____
Comer H. Randall, Chairman

ATTEST:

_____
Justin T. Williams, Vice Chairman

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