Exhibit _ (ING-1A)

Originally Filed As Direct Testimony of
Iris N. Griffin
on Behalf of
South Carolina Electric & Gas Company in
Docket No. 2017-370-E

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DIRECT TESTIMONY
OF
IRIS N. GRIFFIN

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DIRECT TESTIMONY

OF

IRIS N. GRIFFIN

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2017-370-E

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

A. I am Iris N. Griffin, Senior Vice President, Chief Financial Officer ("CFO"), and Treasurer of SCANA Corporation ("SCANA") and South Carolina Electric & Gas Company ("SCE&G" or collectively the "Company"). My business address is 220 Operation Way, Cayce, South Carolina.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a Certified Public Accountant ("CPA") licensed in South Carolina, and I have a Master of Accountancy degree from the University of South Carolina. My undergraduate degree is also from the University of South Carolina. Prior to joining SCANA, I worked with the accounting firms of Ernst & Young LLP and Scott McElveen, LLP. I joined SCANA Corporation as an auditor in 2003. Since that time I have held various

positions with the company including Senior Accountant in the Rates and Regulatory Affairs Department; Manager of Investor Relations; and Audit Services, Privacy and Corporate Compliance Officer for SCANA. In 2016, I became Vice President of Finance and Treasurer. I assumed my current role in 2018.

Q. WHAT ARE YOUR DUTIES WITH SCE&G?

A. As Senior Vice President, CFO, and Treasurer of SCE&G, I am responsible for monitoring the Company's present and prospective financial condition, for formulating strategies to finance the Company's operations, and for managing all accounting and financial matters related to the Company. In the ordinary course of my work, I regularly receive feedback from members of the financial community, including the Wall Street analysts and credit rating agency personnel who follow the electric utility industry in general and SCE&G specifically. This feedback includes their perceptions and concerns about the Company, its financial and business position, the capital markets, and the utility industry overall. We also discuss the various risk factors that the Company faces, as seen by investors. I am also regularly involved in discussions with underwriters and other experts regarding investors' perspectives on the Company, particularly as those perspectives can influence the issuance or refinancing of debt and the issuance of new common stock.

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Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION") BEFORE?

A. No.

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

A. The purpose of my testimony is to provide an overview of the Company's finances and its financial position and to discuss certain tax matters associated with proposed accounting adjustments. I explain how the Company's finances are structured and the importance of maintaining the Company's access to capital markets, so that it can continue to do its jobs of providing reliable and efficient utility service to customers and supporting economic development in the State of South Carolina. My testimony explains why, as a standalone business, it would be unduly risky or financially impractical for the Company to offer benefits to customers equivalent to those offered by Dominion Energy, Inc. ("Dominion Energy").

There are three regulatory plans set forth in the Joint Petition. My testimony explains the financial results that would be achieved under each of those three plans. It also shows the results that would be achieved if Act No. 258 was implemented on a permanent basis.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

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A. My testimony is organized into the following sections:

I. Scana and SCE&G's Financial Structure

II. Meeting On-going Cash Needs

III. The Effect on SCE&G of Losing Access to Short-Term Markets

IV. The importance of Credit Ratings

V. The Effects of the Downgrade on Commercial Paper Markets and Trade Credit

VI. Current Ratings and the Outlook for Future Downgrades

VII. The Financial Impact of Proposed Plans

VIII. SCANA Dividend Payments in 2018

IX. Toshiba Monetization

X. Tax Matters

XI. Conclusion.

Q. PLEASE REVIEW THE EXHIBITS THAT YOU ARE SPONSORING WITH YOUR TESTIMONY.

A. Attached to my testimony are the following exhibits:

[Chart A begins on following page]

CHART A

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Exhibit No.	Joint Petition Exhibit No.	Description
Exhibit __ (ING-1)	Joint Petition Exhibit 14 updated to December 31, 2017	Financial Results for Retail Electric Operations Under the Customer Benefits Plan
Exhibit __ (ING-2)	Joint Petition Exhibit 15 updated to December 31, 2017	Financial Results for Retail Electric Operations Under the No Merger Benefits Plan
Exhibit __ (ING-3)	Joint Petition Exhibit 16 updated to December 31, 2017	Financial Results for Retail Electric Operations Under the Base Request
Exhibit __ (ING-4)	N/A	Financial Results for Retail Electric Operations Under the Act No. 258 Rate Reduction

I. SCANA AND SCE&G'S FINANCIAL STRUCTURE

Q. PLEASE EXPLAIN HOW SCE&G AND SCANA ARE STRUCTURED FROM A FINANCIAL STANDPOINT.

A. SCE&G typically issues its own short-term and long-term debt to support utility operations, and to pay for the natural gas it supplies to its gas distribution customers and uses for electric generation purposes. A separate SCANA subsidiary, South Carolina Fuel Company, Inc. ("FuelCo"), acquires and finances certain fossil fuels, nuclear fuel, emission allowances, and other environmental allowances used by SCE&G in generating electricity. FuelCo buys and finances these assets on SCE&G's behalf and sells them to SCE&G.

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Another SCANA subsidiary, South Carolina Generating Company, Inc. ("GENCO") owns and finances Williams Station, a coal fired generating station which is located in Bushy Park, South Carolina, near Charleston. SCE&G operates Williams Station for GENCO and GENCO's generation is sold solely to SCE&G under a Federal Energy Regulatory Commission ("FERC") approved tariff under the terms of a power purchase agreement.

Concerning equity financing, SCE&G has no publicly traded common stock. When additional equity is required at SCE&G, SCANA provides that equity in the form of cash infusions or through retained earnings.

II. MEETING ON-GOING CASH NEEDS

Q. HOW DOES SCE&G OBTAIN CASH TO SUPPORT ITS DAY-TO-DAY OPERATIONS?

A. To support its day-to-day cash needs, SCE&G and FuelCo issue short-term debt. That debt usually takes the form of commercial paper, which is typically sold in the market at maturities of 30 days or less. FuelCo repays its short-term debt using the cash it receives from SCE&G as fuel is consumed. Both SCE&G and FuelCo are regularly in the day-to-day commercial paper market to meet their need for cash and to refinance commercial paper as it comes due.

Q. WHAT CREDIT FACILITIES SUPPORT THE MARKETABILITY OF THIS COMMERCIAL PAPER?

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A. SCE&G maintains two short-term credit facilities, each of which is backed by a specific group of banks. One credit facility is for $200 million and terminates later this year. The other is for $700 million and terminates in 2020. FuelCo has a short-term credit facility of $500 million, which also terminates in 2020.

Q. WHAT CHANGES HAVE YOU SEEN IN THE INTEREST RATES ON THIS COMMERCIAL PAPER AND ON THESE CREDIT FACILITIES?

A. The interest rates on the commercial paper issued by SCE&G and FuelCo have both seen substantial increases as a result of Fitch, Standard & Poor's, and Moody's downgrading SCANA's and SCE&G's credit ratings. Prior to Moody's downgrade on February 5, 2018, SCE&G issued commercial paper at a 1.95% interest rate, and FuelCo issued commercial paper at a 2.03% interest rate. Immediately after that February 5 downgrade, those rates increased by 13% (to 2.20%) and 18% (to 2.40%), respectively. These increases in rates are indicative of the sorts of increases that could spread through the companies' finances if creditworthiness continues to deteriorate.

Q. WHAT IS THE FUNCTION OF THE CREDIT FACILITIES?

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A. The credit facilities allow SCE&G and FuelCo to borrow funds on short notice under revolving loans at rates indexed to Prime or LIBOR plus a premium, which varies according to the credit rating of SCE&G or FuelCo at the time. SCE&G and FuelCo can use their credit facilities to meet cash needs directly if credit developments at either company, or adverse conditions in the market, make it difficult or expensive for SCE&G and FuelCo to issue commercial paper. For example, these credit facilities were used to meet cash needs during the 2008 U.S. financial crisis when the markets for commercial paper were largely closed. In addition, these credit facilities support the marketability of commercial paper by assuring the buyers of that commercial paper that SCE&G or FuelCo will have access to cash to repay them when the commercial paper becomes due. Without such assurance, it would not be possible for SCE&G or FuelCo to market commercial paper as they do today because the risks to buyers would be too great.

Q. ARE THERE LIMITS TO THE AMOUNT OF DEBT SCE&G AND FUELCO CAN INCUR UNDER THEIR SHORT-TERM CREDIT FACILITIES?

A. As mentioned above, SCE&G's short-term credit facilities contain borrowing limits of $200 million for one and $700 million for the other. FuelCo's short-term credit facility contains a borrowing limit of $500

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million. In addition, both companies are only allowed to have six individual borrowings outstanding under each credit facility at any time. Furthermore, the short-term credit facilities have covenants which, if violated, prevent SCE&G and FuelCo from accessing those facilities. Covenants in the credit facilities allow SCE&G and FuelCo to have no more than 70% debt to total capitalization and require notice to lenders of any material adverse events affecting the borrowers. The lenders may declare default if they believe the material adverse event is sufficiently serious to justify doing so.

Q. WHAT HAPPENS WHEN SHORT-TERM BORROWING IS REFINANCED ON A LONGER-TERM BASIS?

A. FuelCo repays its short-term debt as SCE&G pays FuelCo for the fuel it purchases. When the amount of short-term borrowing issued by SCE&G is sufficient to support floating a new series of a long-term debt, or when the amount of short-term borrowing begins to reach the upper limits of what the credit facilities can support, SCE&G issues long-term debt, typically in the form of first mortgage bonds. These are bonds secured by SCE&G's electric utility property. The proceeds of these first mortgage bonds are then used to retire some or all of the short-term debt which had financed SCE&G's operations during the period since the last first mortgage bonds were issued.

Q. AS A PRACTICAL MATTER, WHAT IS THE MINIMUM SIZE FOR ISSUING A NEW SERIES OF LONG-TERM DEBT?

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A. SCE&G typically issues bonds in amounts of at least $300 million so that they are index eligible and, therefore, are more marketable to investors.

Q. IS THERE A LIMIT TO HOW MUCH LONG-TERM DEBT SCE&G CAN SUSTAIN?

A. To maintain its creditworthiness, SCE&G must balance the long-term debt that it issues with equity. SCE&G targets a capital structure that is between 50% and 55% equity. Furthermore, throughout the course of the new nuclear development project ("NND Project"), SCE&G has endeavored to finance its new nuclear construction investment using approximately 50% debt and 50% equity.

SCE&G is also limited in the total amount of long-term debt that it can issue by the amount of collateral available to secure that debt. The abandonment of the NND Project has reduced the amount of collateral considerably because the NND investment no longer can be counted as collateral.

Q. HOW DOES SCE&G MAINTAIN AN APPROPRIATE DEBT TO EQUITY BALANCE?

A. If additional equity is needed at SCE&G, SCANA provides it, either in the form of equity infusions or retained earnings. The funds for these equity infusions are typically generated by SCANA issuing new shares and investing their proceeds in SCE&G. SCANA may also sell assets and

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reinvest the cash proceeds in SCE&G. This occurred when SCANA sold Carolina Gas Transmission Company and SCANA Communications in 2015 and invested approximately $200 million of those proceeds as new equity in SCE&G to support the NND Project.

Q. PLEASE EXPLAIN WHY SCE&G REQUIRES ONGOING ACCESS TO CAPITAL MARKETS TO SUPPORT ITS DAY-TO-DAY OPERATIONS.

A. SCE&G serves a growing service territory in a capital-intensive business. To meet the needs of its customers, SCE&G typically invests approximately $500 million of new capital in its utility businesses in South Carolina each year. This is the amount of ordinary capital investment that SCE&G makes in its utility systems to support routine operations. It does not include investments in major projects like the NND Project or other new generation projects.

SCE&G must go into the short-term corporate debt markets to obtain the necessary cash to support this level of investment. Without access to these short-term markets, SCE&G cannot finance its day-to-day utility operations.

Q. IN PRACTICAL TERMS, WHAT DO YOU MEAN WHEN YOU SAY THAT SCE&G MUST HAVE ACCESS TO SHORT-TERM MARKETS TO FINANCE ITS UTILITY OPERATIONS?

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A. SCE&G uses cash it obtains from short-term markets to make payroll, to pay for ordinary operating and maintenance expenses, to purchase equipment, supplies, and materials, and to pay for the natural gas that SCE&G provides to its gas distribution customers and for electric generation purposes. FuelCo uses cash from short-term markets to pay for the fuel and emission allowances that it supplies SCE&G to generate electricity.

Q. WHY DO REVENUES FROM EXISTING RATES NOT COVER THE COST OF THESE ITEMS?

A. When SCE&G purchases or builds capital assets, the required cash leaves the Company immediately. Utility rates, however, only allow SCE&G to recover that cash over the useful lives of the assets that it has purchased or built through depreciation. Those useful lives are often measured in decades. In the meantime, investors must finance all or part of the money that SCE&G spends on capital assets between the date of purchase and the date the assets are fully depreciated. From a cash standpoint, this means that only a fraction of the cost of SCE&G's cash expenditures on its utility system is recovered through rates in any given year. The balance must be financed either by lenders who provide debt financing or by investors who invest in the Company's equity.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THIS WORKS?

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A. Yes. Take the case of an asset with a 20-year useful life. SCE&G pays 100% of the cash price for that asset when it is acquired, but ratemaking only allows SCE&G to recover 1/20 (5%) of the cost of that asset through depreciation each year. The balance must be financed either through debt or equity until the asset is fully depreciated.

Q. CAN SCE&G OPERATE ITS SYSTEM IN A WAY THAT AVOIDS INCURRING CAPITAL COSTS?

A. SCE&G can avoid or delay only a portion of its on-going capital expenses and only for a limited time, until the lack of investment begins to cause operational problems.

For example, SCE&G makes a capital investment in its utility systems whenever it:

- Designs and constructs facilities to serve new customers;
- Repairs or replaces equipment that is failing at a plant or in the field;
- Upgrades facilities to meet increasingly stringent environmental requirements or to improve reliability;
- Upgrades computer systems and cyber security defenses;
- Replaces vehicles and equipment; and
- Rebuilds lines after storms.

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The costs of these activities are capital costs, and they are not optional if SCE&G is to provide reliable and efficient service to customers. As a result, a large percentage of SCE&G's capital spending is embedded in SCE&G's day-to-day utility operations. This spending cannot be easily turned on and off at will, as we have an obligation to serve our customers.

Q. ARE SCE&G'S LABOR COSTS FULLY RECOVERED IN THE YEAR THEY ARE PAID?

A. No. Approximately 30% of SCE&G's labor costs are for work done on capital projects that must be recovered over the useful lives of the assets acquired. For that reason, investors must finance a significant portion of SCE&G's monthly payroll costs just as they do other capital expenditures.

Q. ON AVERAGE, WHAT AMOUNTS OF CASH DO SCE&G AND FUELCO NEED TO GENERATE FROM SHORT-TERM BORROWING TO SUPPORT ONGOING OPERATIONS?

A. That amount varies from week-to-week, but on average, SCE&G and FuelCo historically use the short-term capital markets to issue or refinance several hundred million dollars of debt per month.

Q. WHAT HAS BEEN SCE&G'S LEVEL OF SHORT TERM BORROWING IN RECENT MONTHS?

A. SCE&G was able to retire its outstanding short-term debt during the fourth quarter of 2017 and avoid issuance of new short-term debt in early

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2018, following its receipt of the proceeds from the Toshiba Corporate Guarantee Settlement Payment and the proceeds of certain interest rate swaps, which had been entered into in anticipation of further borrowing and have since been liquidated. Receipt of the resulting cash reduced SCE&G's exposure to the short-term debt market for a time, and allowed SCE&G to avoid the need to issue long-term debt or equity under current conditions. At present, SCE&G and FuelCo are collectively issuing or refinancing approximately $200 million to $300 million per month in short-term debt. That amount is expected to grow over time as new capital expenditures are made.

Q. IS SCE&G CURRENTLY PLANNING TO ISSUE ANY LONG-TERM BONDS?

A. In November 2018, $550 million of SCE&G's first mortgage bonds will become due for repayment and will need to be refinanced.

III. THE EFFECT ON SCE&G OF LOSING ACCESS TO SHORT-TERM MARKETS

Q. WHAT WOULD BE THE RESULT IF SCE&G LOST ACCESS TO SHORT-TERM CAPITAL MARKETS AND ITS CREDIT FACILITIES?

A. As mentioned above, without access to short-term borrowing, SCE&G would not have the cash needed to meet its ongoing expenses, including payroll, fuel costs, and the other expenses. An acute liquidity crisis

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would result. Existing suppliers and contractors could withdraw trade credit from SCE&G. They could decide to sell to SCE&G and FuelCo only against cash, cash collateral, or other "adequate assurances" of payment. This would itself create an additional need for cash that SCE&G might be unable to meet. A number of SCE&G's contracts with suppliers of coal and natural gas allow them to demand cash collateral or other adequate assurances of payments if SCE&G's credit ratings drop.

Q. WHAT OPTIONS WOULD SCE&G HAVE TO DEAL WITH A LIQUIDITY CRISIS?

A. In the event of a liquidity crisis, SCE&G might be able to obtain credit through private equity markets or other crisis lenders. These lenders typically charge rates that include a high interest rate to compensate them for the risks being assumed. Borrowing at such high interest rates would put further pressure on SCE&G's cash resources to make the higher interest payments. The cost of serving customers could also increase because SCE&G's cost of capital could increase dramatically.

Alternatively, a liquidity crisis could be resolved by filing bankruptcy and using the protection of the bankruptcy code to obtain new credit to support ongoing operations. This too would involve borrowing at increased rates. It would also involve large legal, accounting, and consulting expenses. In addition, bankruptcy would disrupt SCE&G's finances and its ability to

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invest in its system, possibly for an extended period of time, as Ms. Lapson testifies. In any case, the increased capital costs would become embedded in SCE&G's cost structure and would be passed on to customers in the form of increased rates for many years going forward.

IV. THE IMPORTANCE OF CREDIT RATINGS

Q. WHAT ARE THE PRINCIPAL INDICATORS TO INVESTORS AND LENDERS OF SCE&G'S CREDITWORTHINESS?

A. The principal indicators of SCE&G's creditworthiness to investors and lenders are the ratings issued by the ratings agencies Moody's, Standard & Poor's, and Fitch.

Q. WHAT WERE SCE&G'S BOND RATINGS IN LATE SEPTEMBER OF 2017?

A. In late September of 2017, SCE&G's and SCANA's issuer ratings were:

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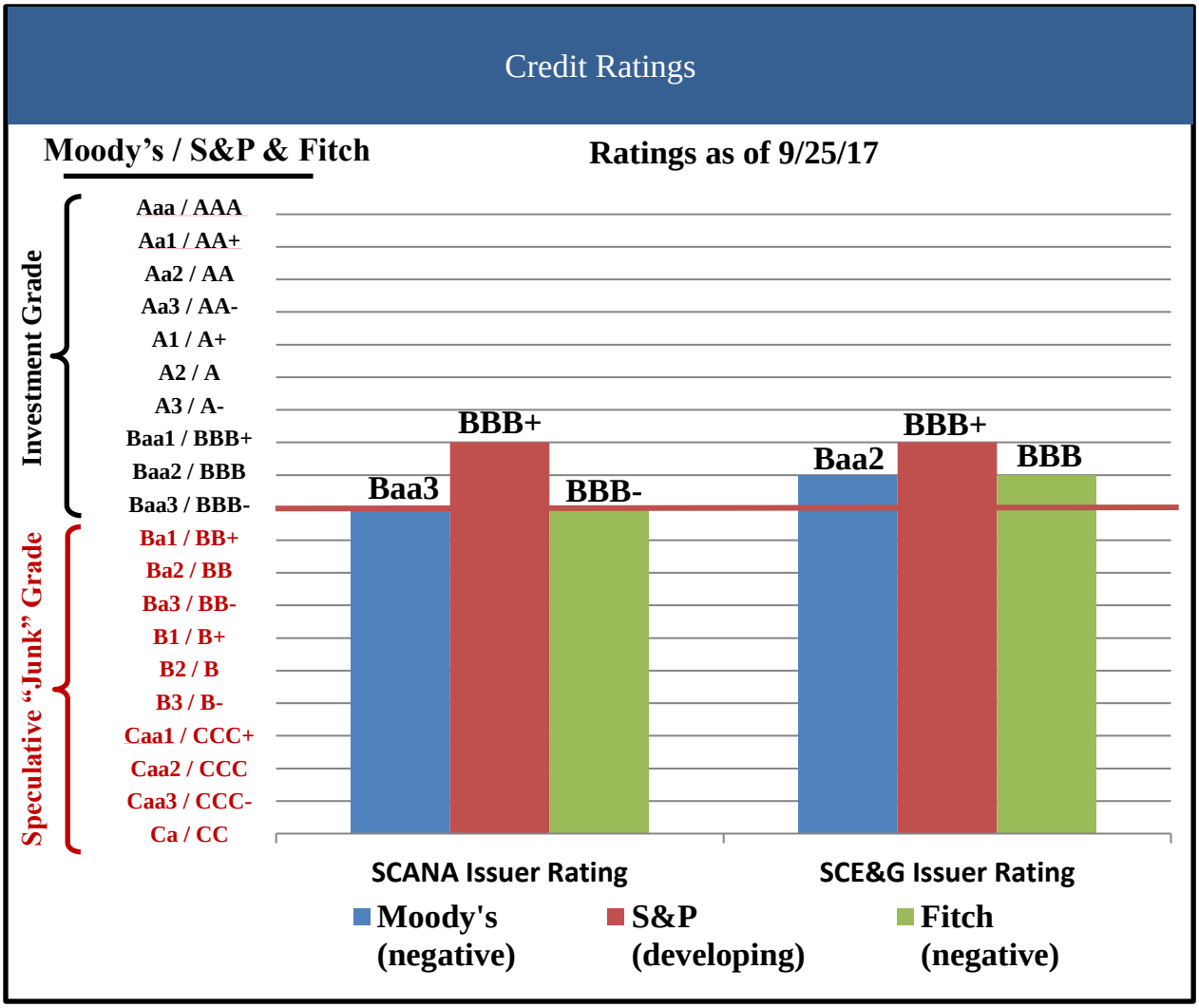
Chart B



Q. WHERE DO THESE RATINGS FALL WITHIN THE SCALE OF RATINGS?

A. Each of the three rating agencies uses a scale that rates investment-grade credit in various ratings or "notches." Those investment grade ratings begin at Aaa for Moody's and AAA for Standard & Poor's and Fitch. They end at Baa3 for Moody's and BBB- for Standard & Poor's and Fitch. To fall

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below investment grade means that the rating agency has determined that there is an increased likelihood of an investor not being paid the interest and principal due on the issuer's obligations. The issuer rating is the most indicative and commonly referenced rating for a company and is often used in the covenants of commercial contracts. As Chart B shows, all of SCANA's and SCE&G's credit ratings were investment grade as of September 25, 2017.

Q. WHAT DID THESE RATINGS MEAN TO FINANCIAL MARKETS?

A. These ratings indicated to the financial markets that, although SCE&G and SCANA were not rated at the top of the rating scale for investment grade credits, neither were rated as speculative.

Q. WHY IS AN INVESTMENT GRADE RATING IMPORTANT?

A. A broad group of funds and institutional investors cannot invest in the debt or equity of companies that are not rated as investment-grade credits because those investments are considered to be too risky. Investment policies or organizational documents prohibit such investments. Some investment policies may trigger a prohibition in ownership if one rating is below investment grade. Some policies may trigger the prohibition if two or more ratings fall below investment grade. In any case, if credit downgrades trigger an investment prohibition, the investors subject to it must begin to

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divest themselves of the commercial paper, stocks and bonds of that company.

As a result, a downgrade to junk status can trigger a prolonged selloff of a company's stocks, bonds, and other obligations as existing investors liquidate their positions. That company's cost of capital is likely to increase. In times when the market is constrained, as it was in late 2008 and early 2009, it can be difficult for non-investment-grade companies to obtain financing in short-term capital markets on any terms.

Q. HOW DID THE RATING AGENCIES AND OTHER MARKET PARTICIPANTS REACT TO THE DECISION BY SCE&G TO CANCEL THE NND PROJECT?

A. The rating agencies and financial markets largely viewed SCE&G's decision to cease construction of the NND Project as an appropriate decision. Moody's, for example, issued a statement on August 1, 2017, reaffirming SCE&G's credit rating, saying that the suspension of work on the NND Project was a credit positive because it would reduce SCE&G's ongoing construction risk. However, Moody's also noted that the abandonment posed potential risks to SCE&G's regulatory relationships, and noted concerns that Toshiba Corporation's weak financial position could jeopardize the value of the Toshiba corporate guarantee.

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Fitch also issued a statement on August 1, 2017, reaffirming SCE&G's credit rating and continuing an existing credit watch with negative implications. Fitch expressed concern that "an adverse regulatory order on the abandonment petition" could "constrain credit metrics for a prolonged period," and noted that it expected to resolve the ratings watch once the Commission set the terms of cost recovery.

Q. WHAT HAPPENED NEXT?

A. On September 26, 2017, ORS filed its request in Docket No. 2017-305-E, asking the Commission to immediately reduce SCE&G's revenues by approximately $445 million. This was a matter of concern to the markets, as was the nature of the political response in South Carolina to the abandonment of the NND Project and SCE&G's decision to withdraw its petition in Docket No. 2017-244-E. Three days after ORS made its filing; Fitch downgraded SCE&G's and SCANA's issuer ratings to 'BBB-' and 'BB+,' respectively, and maintained the ratings on negative outlooks. This caused SCANA's rating to fall below investment grade. Fitch did so because of "the intense legislative and regulatory scrutiny of the abandoned units 2 and 3 of the V.C. Summer nuclear plant and recent comments by the South Carolina Attorney General that question the constitutionality of the [Base Load Review Act]." More specifically, Fitch expressed significant concern about "the sharp deterioration in the legislative and regulatory environment in South

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Carolina" and the fact that multiple legal battles are expected, "which will lead to a protracted period of uncertainty."

Also on September 29, 2017, Standard & Poor's lowered SCE&G's and SCANA's issuer ratings from 'BBB+' to 'BBB,' and moved the two companies' ratings to CreditWatch with negative implications "due to adverse regulatory developments in South Carolina that have weakened the consolidated business risk profile."

On November 1, 2017, Moody's placed SCE&G and SCANA on review for downgrade, stating that "the review for downgrade recognizes the potential deterioration in credit quality that could occur if some of the more punitive positions that have been put forth by lawmakers, and the South Carolina Office of Regulatory Staff (ORS) were to be implemented." Moody's further stated that:

> implementation of the ORS recommendation could lead to a substantial credit asset impairment, which in some downside scenarios, could result in a covenant violation under the companies' credit facilities, restricting their access to liquidity. In light of the increased regulatory and political uncertainty, the resulting metrics would likely no longer be appropriate for the companies' credit ratings.

Q. WHAT DOES THIS STATEMENT ABOUT CREDIT METRICS MEAN?

A. For a regulated utility, the numbers-driven credit metric is only one factor that rating agencies use in determining ratings. For Moody's, two

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other heavily weighted factors are the quality of the regulatory environment and the likelihood that a full recovery will be granted on utility costs. In the November 1, 2017 statement, Moody's was indicating that non-numerical factors, such as SCE&G's regulatory environment and the likelihood that regulation will allow recovery of costs and investment, could be sufficient in themselves to support a future credit downgrade.

Q. HOW DOES MOODY'S WEIGH THESE DIFFERENT FACTORS IN SETTING CREDIT RATINGS FOR REGULATED UTILITIES?

A. Chart C shows the factors that Moody's considers when issuing credit ratings for regulated utilities, and the relative weighting of those factors. In Moody's evaluation, regulatory framework and the likelihood of recovering costs and investments are weighted 50%, while credit metrics are weighted only 40%. The remaining 10% involves diversification of risk.

[The chart appears on the following page.]

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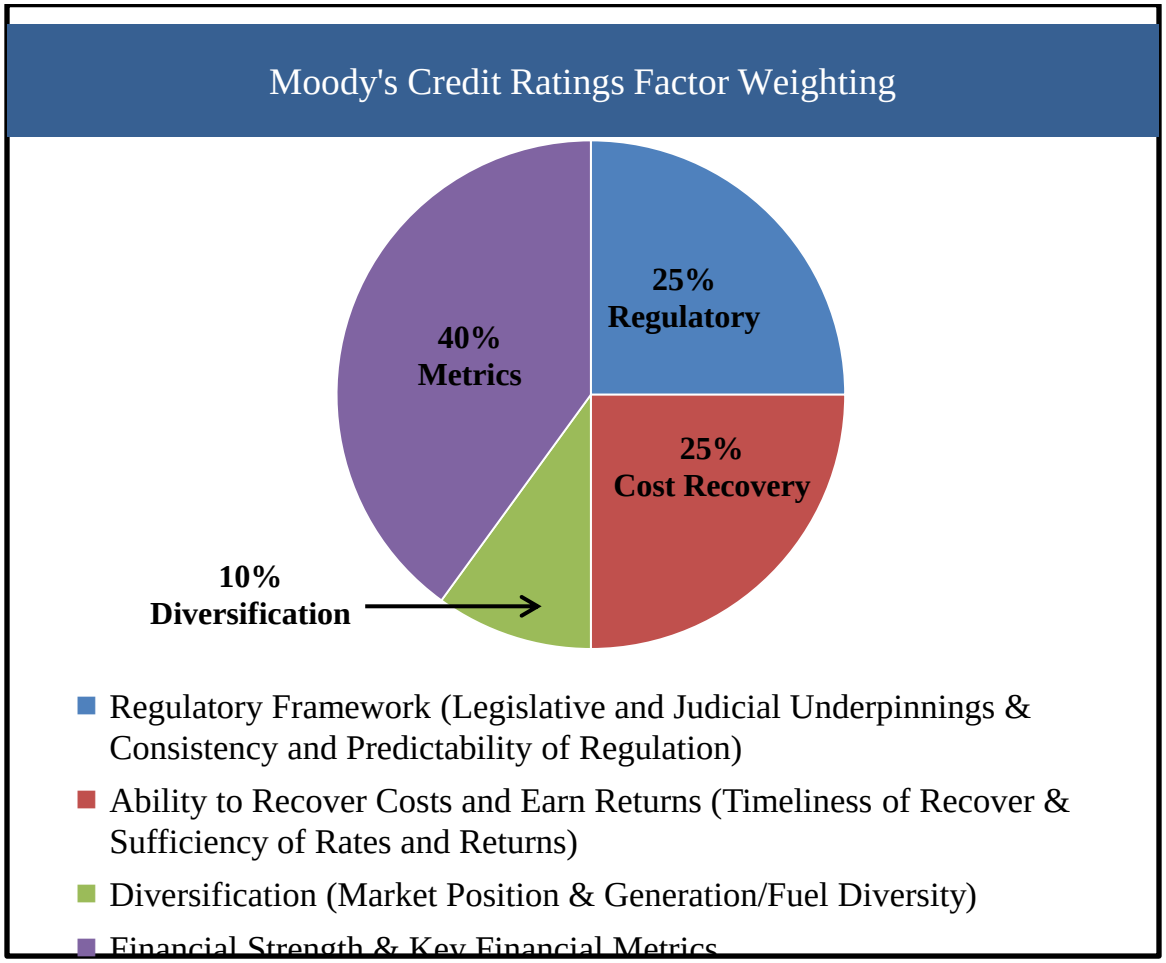
Chart C

FACTORS CONSIDERED BY MOODY'S IN RATING UTILITY CREDITS



Q. WHAT DID MOODY'S DO ON FEBRUARY 5, 2018?

A. On February 5, 2018, Moody's downgraded SCE&G's rating from Baa2 to Baa3 and SCANA's rating from Baa3 to Ba1. When coupled with Standard & Poor's and Fitch's contemporaneous downgrades, this put SCANA's rating below investment grade at two of the three rating agencies. In announcing the downgrade, Moody's pointed to a "political and regulatory environment that has become exceedingly contentious and uncertain."

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Q. WHAT WAS THE BASIS FOR MOODY'S DOWNGRADE?

A. Moody's stated:

> Events over the past few months have led us to conclude the regulatory environment for SCE&G has deteriorated markedly and is now considerably below average. The rating action also considers the negative legislative reaction to recent credit neutral proposals by SCANA, and by SCANA and Dominion Energy, Inc. (Dominion Energy, Baa2 negative) in conjunction with their proposed merger, that would better balance the cost of nuclear abandonment between ratepayers, creditors and shareholders.

Moody's further indicated that it was continuing its review of SCE&G and SCANA for downgrade that it began in November, signaling that further downgrades were possible, depending on legislative and regulatory developments:

> To the extent there is evidence of additional financial stress or adverse political or regulatory developments, ratings could be affected. For example if the legislature were to move to replace members of the SCPSC; if SCE&G is ordered to refund amounts previously collected under the BLRA, particularly without the benefit of a larger, better capitalized partner; or if rates established by the SCPSC do not provide an opportunity for SCE&G to maintain a ratio of [cash flow] to debt that is at least in the low-teens, ratings could be revised downward. Furthermore, if the company is unable to draw on its credit lines, or issue additional debt, due to covenant violations or an inability to represent that it has not experienced a material adverse change, there could also be downward movement in the ratings.

Moody's Public Statement of February 5, 2018.

Q. WHAT ARE THE CURRENT CREDIT RATINGS FOR SCE&G AND SCANA?

A. Moody's credit rating left SCE&G at the threshold of speculative or junk bond status at Moody's and Fitch, and one notch above that threshold

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at Standard and Poor's. Chart D shows the ratings as of August 1, 2018, as compared to those on September 25, 2017, before the downgrades by Moody's, Standard and Poor's, and Fitch occurred.

Chart D –SCE&G Before and after Downgrades

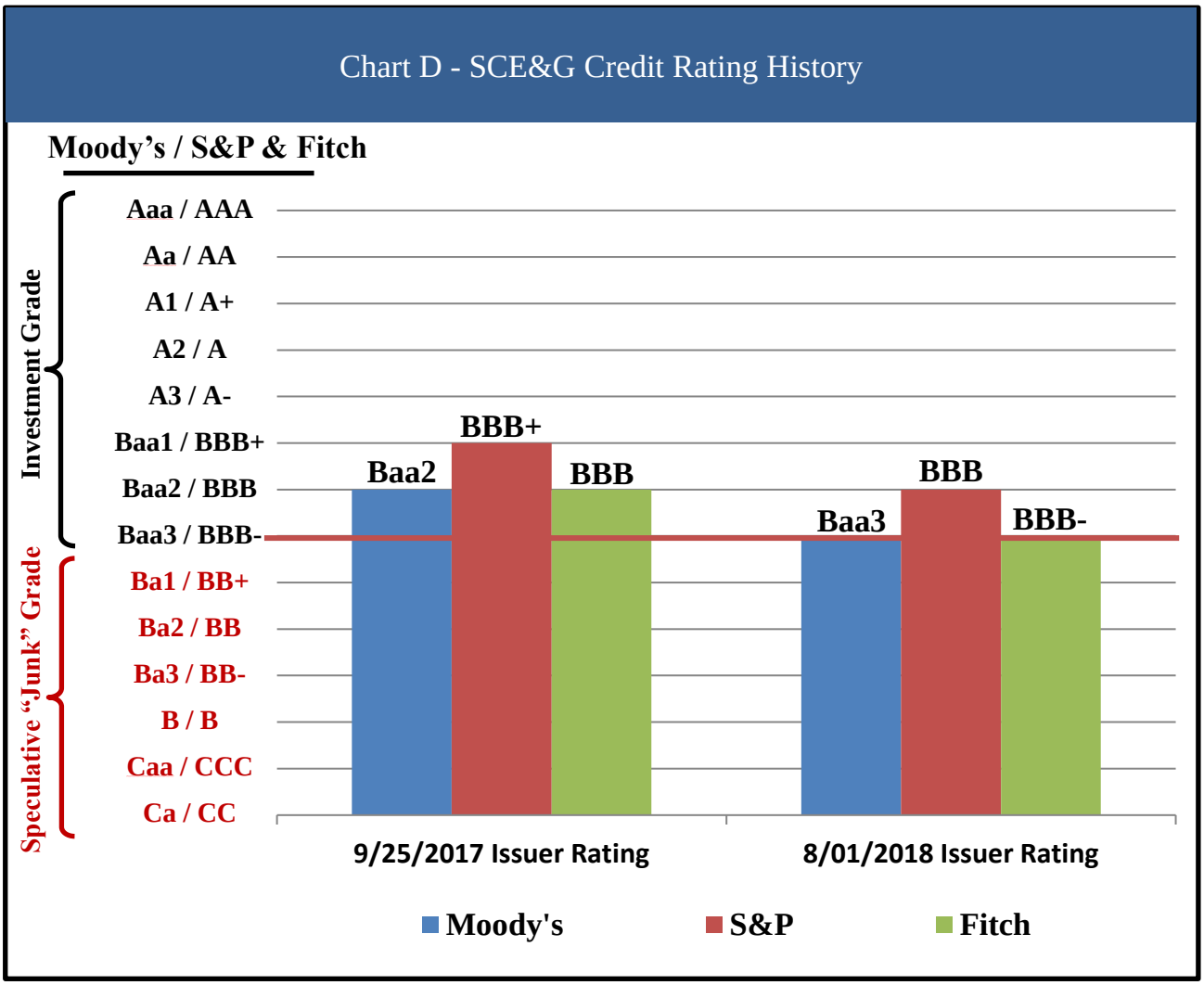

Chart E shows the ratings for SCANA as they changed between late September 2017 and August 2018.

Chart E – SCANA Before and after Downgrades

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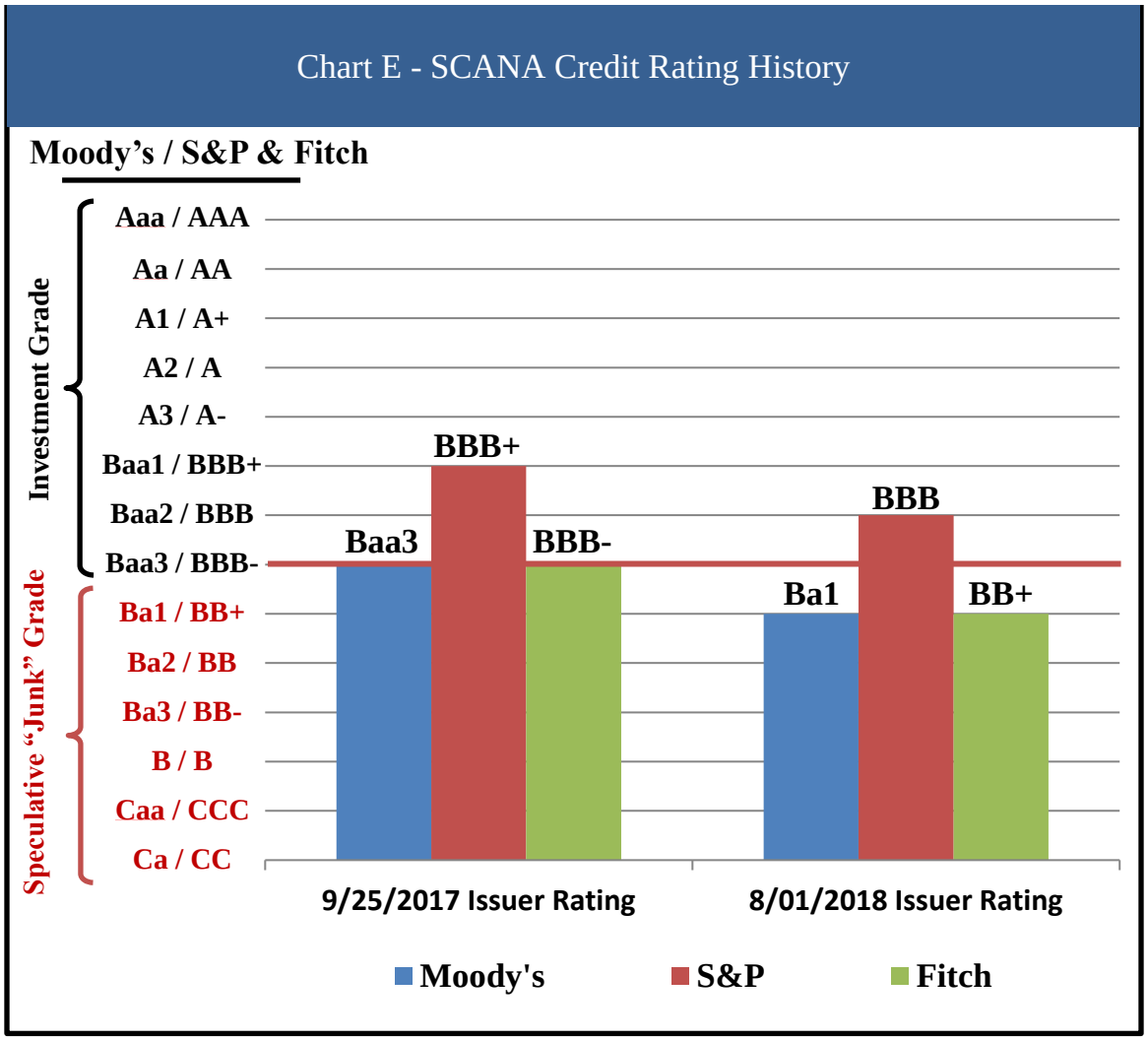

Q. HOW HAVE THE CREDIT RATING AGENCIES RESPONDED TO THE GENERAL ASSEMBLY PASSING ACT NO. 258?

A. All three of the major credit rating agencies – Fitch, Moody's, and Standard & Poor's – have been closely watching the political climate in South Carolina with respect to Act No. 258, and all three have expressed concern over the impact that it could have on SCE&G's and SCANA's creditworthiness. For example, in its July 3, 2018 public statement, Fitch stated that it "considers the magnitude of the cut [mandated pursuant to Act

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No. 258] to be detrimental to SCE&G's and [SCANA's] credit metrics, even after consideration of [SCANA's] 80% reduction of the common dividend." *See* Fitch Public Statement of July 3, 2018. Fitch also recognized the likelihood of a further credit downgrade – pushing SCANA and SCE&G to junk status – if application of Act No. 258 is not stayed pending litigation:

> [SCANA] has filed a federal court challenge to the legislation and requested an injunction to stay. Absent prompt favorable legal intervention, Fitch is likely to downgrade the ratings of [SCANA], SCE&G, and PSNC by one notch. If the PSC issues an order in December 2018 with a permanent cut of a similar magnitude, additional downgrades may be warranted. Fitch also notes important changes to South Carolina utility regulation contained in HB4375 that, in Fitch's view, are likely to result in the continuation of [SCANA's] adversarial regulatory relationship.

Fitch Public Statement of July 3, 2018.

Fitch reiterated these positions again in its July 16, 2018 public statement. S&P issued a similar statement on July 3, 2018:

> We believe the enactment of House Bill 4375, which will temporarily reduce customer rates by approximately 15% or about $31 million per month, will weaken the company's financial measures, despite its recent decision to reduce its dividend by about 80%. Absent the Court issuing an injunction, prohibiting the SCPSC from implementing the new law, we could lower ratings to reflect our expectation of materially weaker financial measures.

S&P Research Update of July 3, 2018. Moody's also acknowledged that Act No. 258 will likely push SCANA and SCE&G's cash flow from operations excluding changes in working capital (CFO pre-WC) to debt into the low teens, and that there could be renewed downward pressure on SCANA's and SCE&G's credit ratings if "rates established by the SCPSC

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later this year do not provide an opportunity for SCE&G to maintain a ratio of CFO pre-WC to debt that is at least in the low-teens on a sustained basis." Moody's Public Statement of July 2, 2018.

V. THE EFFECTS OF THE FEBRUARY 5, 2018 DOWNGRADE ON THE COMMERCIAL PAPER MARKETS AND TRADE CREDIT

Q. WHY WOULD MOODY'S REFERENCE A CONCERN ABOUT COVENANT VIOLATIONS AND MATERIAL ADVERSE CHANGES?

A. Adverse regulatory action reducing SCE&G's revenues could result in SCE&G or SCANA violating the covenants contained in the credit facilities that support their commercial paper programs, such as the requirement that the companies cannot have more than 70% debt in their capital structures. Moody's is also aware that SCE&G's credit instruments require SCE&G to certify to its lenders that there have been no material adverse events. If SCE&G cannot do this because of actions taken by the Commission or the legislature, then SCE&G could lose its ability to access its credit facilities resulting in a liquidity crisis of the type discussed above.

Q. HOW HAVE THE CREDIT DOWNGRADES AFFECTED SCE&G'S AND FUELCO'S ABILITY TO BORROW FUNDS IN THE SHORT-TERM COMMERCIAL PAPER MARKETS?

A. SCE&G and FuelCo sell commercial paper through three dealers with whom the companies have long-standing relationships. Before the recent

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credit downgrades, SCE&G and FuelCo would call the three dealers requesting competing bids. SCE&G and FuelCo would set an amount of funds they wished to borrow and a maturity date for repayment. In most cases, the maturities would be set in a 30 to 35-day range so they could be synchronized with upcoming cash flows to minimize borrowings. The dealers would then quote the interest rate they would charge for those maturities, and SCE&G or FuelCo would typically accept the lowest bid. Funding would be immediate.

Since the downgrade, SCE&G and FuelCo's dealers no longer bid on commercial paper that they issue. Instead, the dealers post a statement of the companies' needs in the market and provide indicative rates that they believe will be attractive to potential investors. Investors in the market then respond, specifying how much of the solicitation they will accommodate, if any, and what maturities and interest rates they require.

Previously, SCE&G and FuelCo could place borrowings of $50 million with individual buyers. After the downgrade, when trades were placed, they are able to place trades that are typically less than $10 million. FuelCo was even more restricted and had difficulty selling commercial paper after the downgrade. For example, in April 2018, FuelCo was successful in placing only 7.6% of the amount of commercial paper it sought to issue. Historically, our success rate has been 100%. To make up the short fall,

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FuelCo accessed SCANA's FERC-approved utility money pool. Please see Chart F below:

Chart F

COMMERCIAL PAPER SOLICITATION BY FUELCO

Date	Amount Solicited	Amount Placed	Percent Placed
4/2/2018	$ 150,000,000	$ 2,500,000	2%
4/3/2018	$ 150,000,000	$ -	0%
4/4/2018	$ 150,000,000	$ 11,000,000	7%
4/5/2018	$ 120,000,000	$ 2,000,000	2%
4/6/2018	$ 120,000,000	$ -	0%
4/9/2018	$ 120,000,000	$ 4,200,000	4%
4/10/2018	$ 120,000,000	$ 16,500,000	14%
4/11/2018	$ 120,000,000	$ 14,000,000	12%
4/12/2018	$ 120,000,000	$ 15,000,000	13%
4/13/2018	$ 120,000,000	$ 9,500,000	8%
4/16/2018	$ 120,000,000	$ 4,800,000	4%
4/17/2018	$ 120,000,000	$ 11,000,000	9%
4/18/2018	$ 120,000,000	$ 17,110,000	14%
4/19/2018	$ 120,000,000	$ 11,300,000	9%
4/20/2018	$ 120,000,000	$ 10,000,000	8%
4/23/2018	$ 120,000,000	$ 30,100,000	25%
4/24/2018	$ 120,000,000	$ -	0%
4/25/2018	$ 120,000,000	$ 8,500,000	7%
4/26/2018	$ 120,000,000	$ 27,000,000	23%
4/27/2018	$ 120,000,000	$ 3,000,000	3%
4/30/2018	$ 120,000,000	$ -	0%
Total	**$ 2,610,000,000**	**$ 197,510,000**	**7.6%**

FuelCo's inability to place commercial paper during this period is indicative of the short-term financing issues that can arise as creditworthiness erodes.

Q. HAVE THESE CREDIT ISSUES AFFECTED BORROWING RATES?

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A. Yes. Before the downgrade, SCE&G issued commercial paper with a 1.95% interest rate, and FuelCo issued commercial paper with a 2.03% interest rate. Immediately following the February 5 downgrade, SCE&G issued commercial paper with a 2.20% interest rate, and FuelCo issued commercial paper with a 2.40% interest rate, constituting 13% and 18% increases, respectively. Because of the relatively low volume of commercial paper that SCE&G and FuelCo have issued recently, the increases in these interest rates do not translate into a material increase of SCE&G's costs in absolute dollars. However, these increases in rates are indicative of the sort of increases that could spread through the companies' finances if creditworthiness continues to deteriorate.

Q. HAS SCE&G BEEN REQUIRED TO POST CASH COLLATERAL UNDER ANY OF ITS CONTRACTS?

A. Yes. Dominion Energy Carolina Gas Transmission, LLC, ("DECGT") is the interstate gas transmission pipeline that supplies SCE&G with the firm gas capacity it uses to deliver natural gas to SCE&G's gas distribution system and customers. SCE&G's agreement with DECGT, which dates back to 2015, was initially secured by a corporate guarantee from SCANA. The agreement included a provision that required SCE&G to post credit assurance with DECGT if SCANA's credit was downgraded below investment grade status. As indicated above, the downgrade from Moody's

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occurred in February of 2018. As a result, SCE&G has been required to post a cash deposit of approximately $100 million with DECGT. SCE&G financed that cash deposit through its credit facilities. As a FERC-regulated pipeline, DECGT is under regulatory scrutiny to guard against any favoritism it may show in the administration of pipeline contracts.

VI. CURRENT RATINGS AND THE OUTLOOK FOR FUTURE DOWNGRADES

Q. WHAT CONSIDERATIONS HAVE THE RATING AGENCIES GIVEN TO POTENTIAL RATE CONCESSIONS BY SCE&G?

A. In November, SCE&G indicated that it would take steps to mitigate impacts on customers. Those steps formed the basis and principal terms of the No Merger Benefits Plan, which involves SCE&G writing down new nuclear assets, expensing the $180 million purchase of replacement generation, lowering retail electric rates approximately by 3.5%, and SCE&G absorbing the financing costs and depreciation on the net balance of its NND investment through those lower rates. SCE&G is aware that the rating agencies have factored concessions of this magnitude into their evaluations. In their most recent pronouncements, the rating agencies are saying that if the rate concessions imposed on SCE&G go beyond concessions of the magnitude already proposed, this could lead to further downgrades.

Q. WHAT WOULD FURTHER DOWNGRADES MEAN FOR SCE&G?

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A. If SCE&G were downgraded one notch by Moody's or Fitch, or two notches by Standard & Poor's, this would cause SCE&G's issuer rating to fall to speculative or junk status for that rating agency. This could virtually eliminate SCE&G's access to the commercial paper market and cause many investors to consider the company to be too risky an investment to buy or hold.

In addition, falling to junk bond status could result in an impairment of SCE&G's trade credit, as discussed above, which would put further pressure on cash requirements. Under the terms of its existing contracts with vendors and suppliers, SCE&G could be forced to post cash collateral or provide other assurances of payment which would place additional stress on SCE&G's cash resources.

Any significant reduction in SCE&G's retail electric revenue, would directly reduce the cash available to SCE&G from operations, placing additional stress on SCE&G's liquidity and cash position. At the same time, depending on the amount and duration of the reduction, it could trigger the credit downgrades as indicated by the rating agencies in their public statements. These events would be mutually reinforcing and, if allowed to proceed unchecked, could cascade into an acute liquidity crisis. Such a crisis could lead to results which might seriously impair service to customers,

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increase retail electric and gas rates long term, and set back the state's economic development activities for an extended period of time.

VII. THE FINANCIAL IMPACT OF PROPOSED PLANS

Q. ARE YOU SPONSORING ANY EXHIBITS IN CONJUNCTION WITH YOUR TESTIMONY TODAY?

A. Yes. I am sponsoring Exhibit __(ING-1) – Financial Results for Electric Retail Operations Under the Customer Benefits Plan; Exhibit __(ING-2) – Financial Results for Electric Retail Operations Under the No Merger Benefits Plan; Exhibit __(ING-3) – Financial Results for Electric Retail Operations Under the Base Request; and Exhibit __(ING-4) – Financial Results for Electric Retail Operations Under the Act No. 258 Rate Reduction.

Q. WHAT DO THESE EXHIBITS SHOW?

A. These exhibits quantify the results that could be expected under the different regulatory plans and the results that could be expected if rates under Act No. 258 become permanent. Each of the exhibits has been prepared starting from the same financial data, pro forma adjustments, and methodologies that we use in preparing the exhibits routinely filed in electric rate proceedings, and that we use in computing SCE&G's financial results, as filed with the Commission and ORS each quarter. In addition to the pro forma adjustments that are routinely made in preparing the reports that are

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filed with ORS and the Commission, these exhibits also include pro forma adjustments to quantify the financial impacts of the specific regulatory plan or proposal that it addresses. The results shown are based on the 12 months ending on December 31, 2017. These calculations are based on SCE&G's debt to equity ratios and capital structure prior to impairments. The resulting ROEs and NND Project capital cost impairments, are provided on Chart G, below:

CHART G

Summary of ROEs and NND Project Capital Cost Impairments

Item	Customer Benefits Plan	No Merger Benefits Plan	Base Request	Permanent Act No. 258 Rates
RESULTING ROE[1]	**8.83%**	**8.53%**	**9.19%**	**6.67%**
CAPITAL COST IMPAIRMENTS ($millions)	**$1,400**	**$490**	**$0**	**$2,400**

The resulting returns on rate base overstate the actual returns that would be earned on the capital invested in SCE&G's electric utility business. They do so because the impairments that SCE&G has recorded, or would record, under generally accepted accounting principles for financial accounting purposes reduce rate base without any change in income. The

[1] These calculations are based on SCE&G's debt to equity ratios and capital structure prior to impairments.

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same income earned on a smaller rate base results in the calculation of a higher return on equity, even though investors see no additional returns.

Q. PLEASE EXPLAIN.

A. Therefore, returns computed net of these impairments are inflated because they are based only on a portion of the capital investors have invested in SCE&G's electric utility system. There is no return on the impaired amount. If recognized for rate-making purposes, the impairments entail a full loss of invested capital equal to the amount of the impairment. SCE&G has recognized these impairments because, under generally accepted accounting principles, it cannot assure its creditors, investors, or the public that it is likely to receive a full and timely return on this amount of investment going forward, even though the investments in question were lawfully and prudently made, were thoroughly reviewed and approved by the Commission and ORS both before and after they were made. Nonetheless, because of the current regulatory and political climate in which SCE&G is operating, accounting rules require SCE&G to recognize an impairment of these amounts for financial reporting purposes. That does not mean that the investment is not a valid and recoverable investment for regulatory purposes. It is SCE&G's legal and regulatory position that this investment should be recognized.

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Therefore, returns computed net of these impairments are inflated because they are returns based only on the portion of the capital investors who have invested in SCE&G's electric utility system. If recognized for rate-making purposes, the impairments entail a full loss of invested capital equal to the amount of the impairment. This loss translates into a one-time loss of earnings in the amount of the impairment in the year of the write off, and a permanent ROE of 0.0% on that amount going forward. If imposed involuntary on prudently invested capital—which the capital reflected in these impairments is—the result constitutes unlawful confiscation of private property in its starkest form.

Let me give you a practical example, simply removing the revenue targeted by Act No. 258 results in an ROE of 5.16%. But after impairing rate base, the ROE increases to 6.67% but there is no additional revenue driving this increase in ROE, and no additional earnings to provide a return to investors. The increase is caused entirely by the reduction in rate base recognized for accounting or regulatory purposes.

SCE&G has computed the returns under each of the regulatory plans or proposals that reflect earnings on an impaired capital investment under those plans or proposals, but does not adjust the capital structure to reflect the amounts written off for accounting purposes through impairments.

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Q. PLEASE DESCRIBE EXHIBIT __ (ING-1)—CUSTOMER BENEFITS PLAN.

A. Exhibit __ (ING-1) demonstrates that had the Customer Benefits Plan been in effect during an adjusted test period reflecting the 12 months ended December 31, 2017, SCE&G would have earned a return on equity of 8.83%, which is 142 basis points lower than its allowed return of 10.25%, as established in Order No. 2012-951. It would require approximately $79 million in additional annual retail electric revenue to raise SCE&G's return from 8.83% to the Commission-approved 10.25%.

But this 8.83% return is achieved only after SCE&G writes off approximately $2.8 billion in assets, which includes the cumulative capital cost impairment of $1.4 billion as noted in Chart G above, as well as additional impairments that are discussed more fully later in my testimony and in the testimony of Mr. Kochems. This means that in addition to the 8.83% return on remaining assets, SCE&G's investors will not earn a return on or receive recovery of this $2.8 billion in assets going forward.

Q. WHAT DO THE RESULTS OF THIS ANALYSIS INDICATE FROM A REGULATORY STANDPOINT?

A. This analysis shows that in agreeing to the Customer Benefits Plan, Dominion Energy's investors are agreeing to a return on SCE&G's operations which, if standing alone, would be far less than what would

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objectively be considered a fair and reasonable return under generally applicable constitutional and rate making principles and if imposed involuntarily would constitute confiscation of private property for public use.

Q. PLEASE DESCRIBE EXHIBIT NO. __ (ING-2)—THE NO MERGER BENEFITS PLAN.

A. Exhibit __ (ING-2) provides the financial results that would be expected to be realized under the No Merger Benefits Plan, which is presented as a disfavored alternative to the Customer Benefits Plan presented above. This exhibit shows that, had the No Merger Benefits Plan been in effect during an adjusted test period reflecting the 12 months ended December 31, 2017, SCE&G would have earned a return on equity of 8.53%, which is 172 basis points lower than its allowed return of 10.25%, as established in Order No. 2012-951. It would require approximately $95 million in additional annual retail electric revenue to raise SCE&G's return from 8.53% to the Commission-approved 10.25%.

But this 8.53% return is achieved only after SCE&G writes off approximately $1.1 billion in assets, which includes the cumulative capital cost impairment of $490 million as noted in Chart G above. This means that, in addition to the 8.53% return on remaining assets, SCE&G's investors will not earn a return on or receive recovery of this $1.1 billion in assets going forward.

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Q. WHAT DO THE RESULTS OF THIS ANALYSIS INDICATE FROM A REGULATORY STANDPOINT?

A. SCE&G is proposing the No Merger Benefits Plan as a voluntary, but disfavored, resolution of the regulatory matters presented in this proceeding. In proposing this plan, SCE&G is agreeing to a return which, standing alone, is far less than what would objectively be considered a fair and reasonable return under generally applicable constitutional and rate making principles, and which would constitute an unlawful confiscation of investors' capital, if ordered involuntarily. But it should be borne in mind that the Customer Benefits Plan provides far more value to SCE&G's customers than SCE&G can provide standing alone, and is thus the preferred alternative. While the rates of return on equity are relatively comparable between the Customer Benefits Plan and the No Merger Benefits Plan, the Customer Benefits Plan nevertheless provides substantially more benefits to customers. Because the costs of these customer benefits are written off, the difference in customer benefits is not reflected in the return on equity calculations provided here.

Q. PLEASE DESCRIBE EXHIBIT __ (ING-3).

A. Exhibit __(ING-3) indicates that if the most disfavored alternative, the Base Request, had been in effect during an adjusted test period reflecting the 12 months ended December 31, 2017, SCE&G would have earned a return on equity of 9.19% which is 106 basis points lower than its allowed return of

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10.25%, as established in Order No. 2012-951. It would require approximately $61 million in additional annual retail electric revenue to raise SCE&G's return to the Commission-approved 10.25%. The analysis shows that implementing the Base Request would in no way result in SCE&G earning more than the legally required and permissible return on its investment in its utility systems.

Q. PLEASE DESCRIBE EXHIBIT __ (ING-4).

A. Exhibit __(ING-4) provides financial and related information consistent with the exhibits routinely filed in rate proceedings to demonstrate the financial results that would be expected to be realized assuming that the rate reduction provisions of Act No. 258 were made permanent, specifically a $367 million reduction in SCE&G's annual retail electric revenue. This exhibit indicates that, had Act No. 258 been in effect during an adjusted test period reflecting the 12 months ended December 31, 2017, SCE&G would have earned a return on equity of 6.67%, which is 358 basis points lower than its allowed return of 10.25%, as established in Order No. 2012-951. For financial accounting purposes, if the rates contemplated by Act No. 258 were permanent rates, SCE&G would be required to record a total impairment of approximately $2.9 billion which includes the cumulative capital cost impairment of $2.4 billion as noted in Chart G above. It would require approximately $162 million in additional annual retail electric revenue to

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raise SCE&G's return to the Commission-approved 10.25%. A return at this level would be financially unreasonable.

Q. WHAT DO THE RESULTS OF THIS ANALYSIS INDICATE FROM A REGULATORY STANDPOINT?

A. Under this proposal, SCE&G would be in a significantly weakened financial condition, possibly speculative grade credit ratings, and limited access to capital at market rates. There would be a regulatory confiscation of more than $2.4 billion in lawful private investments in SCE&G's electric utility system.

VIII. SCANA DIVIDEND PAYMENTS IN 2018

Q. PLEASE DESCRIBE THE FINANCIAL RESULTS FOR 2017 AS REPORTED BY SCANA ON FEBRUARY 22, 2018.

A. On February 22, 2018, SCANA Corporation reported its financial results for the fourth quarter of 2017, a loss of $445 million or $3.11 per share. For the year ended December 31, 2017, SCANA reported a loss of $119 million or $0.83 per share. During the prior year, SCANA had earned $595 million and $4.16 per share. The losses in 2017 principally resulted from non-cash impairments related to NND Project.

Q. WHAT DIVIDEND DID SCANA PAY FOR THE FIRST QUARTER OF 2018?

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A. For the quarter ending March 31, 2018, SCANA's Board of Directors decided, after careful consideration, to declare a regular corporate dividend of 61.25 cents per share payable on April 1, 2018. Historically SCANA has provided dividend guidance for the upcoming fiscal year at the time it reported its prior year's earnings. The dividend of 61.25 cents was in keeping with the dividend policy that the board had previously declared. However, in announcing the February 22, 2018 dividend, the Board indicated that decisions about future dividends would be evaluated quarterly.

Q. WHAT DECISION DID THE BOARD MAKE WITH RESPECT TO THE COMPANY'S MOST RECENT DIVIDEND?

A. For the quarter ending June 30, 2018, SCANA's Board of Directors decided to reduce its quarterly dividends to 12.37 cents per share, payable on July 18, 2018. This constituted an 80% reduction from the 61.25 cents per share dividend that it declared for the first quarter of 2018, and corresponds to the portion of SCANA's regular dividend that is attributable to the electric portion of SCE&G's business. The Board of Directors still paid a dividend so that those investors who required the payment of dividends to remain invested in the stock are not required to withdraw their investments.

IX. TOSHIBA MONETIZATION

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Q. PLEASE EXPLAIN THE TRANSACTION THROUGH WHICH SCE&G MONETIZED THE TOSHIBA CORPORATE GUARANTEE SETTLEMENT PAYMENTS.

A. The Engineering, Procurement, and Construction ("EPC") Contract with Westinghouse was secured by a parental guaranty issued by Westinghouse's parent company, Toshiba. In July 2017, SCE&G and Santee Cooper entered into a settlement agreement with Toshiba pursuant to which Toshiba agreed to pay SCE&G and Santee Cooper approximately $2.2 billion in monthly installments between October 2017 and September 2022. This amount was approximately $495 million in excess of the amount that Toshiba would have owed under a strict application of the terms of the parental guarantee document. To achieve that result, SCE&G's and Santee Cooper's teams worked extremely hard over several months to maximize recovery for customers and the companies, and SCE&G and Santee Cooper were successful in negotiating a higher amount.

Under the terms of the parental guaranty, the guarantee amount was to be paid in installments over five years with no interest. The first payment on the guarantee, which was $150 million, was made in October 2017, and was excluded from the monetization transaction.

Q. HOW DID SCE&G GO ABOUT SOLICITING PROPOSALS FOR THE MONETIZATION TRANSACTION?

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A. After the settlement with Toshiba was publicly announced, SCE&G received a number of unsolicited proposals to monetize the future stream of payments. SCE&G did not accept any of these proposals but instead retained an independent advisor to assist it and Santee Cooper in determining what terms might be available for monetizing the settlement claim. With the help of that advisor, over 100 sophisticated, accredited institutional broker-dealers and credit investors were contacted during the marketing process. To maintain flexibility and maximize market participation, the solicitation was structured to accommodate bids to monetize the settlement claim either partially or entirely. The entire monetization process was designed to maximize value and provide certainty of an expedited closing. In the end, the selected bidder provided a proposal for a quick settlement and a discount of approximately 8.5% of the total due from Toshiba. In total, between the monetization and the direct payment from Toshiba, SCE&G and Santee Cooper received approximately $2.0 billion out of the approximately $2.2 billion to which they were entitled under the terms of the agreement, a discount of 7.9%. The total amount received by SCE&G as 55% owner of the Project was approximately $1.1 billion.

Q. WHAT WERE THE BENEFITS OF THIS TRANSACTION TO SCE&G AND ITS CUSTOMERS?

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A. There were multiple benefits to SCE&G's customers from this transaction. First, monetizing the claim eliminated any credit risk associated with Toshiba. At the time, Toshiba had not fully resolved its accounting irregularities. In Toshiba's November 9, 2017 earnings release, it disclosed that there was "substantial doubt about the Company's ability to continue as a going concern." SCE&G and Santee Cooper wanted to mitigate the risk that the guarantee payments would be tied up in a bankruptcy proceeding in Japan.

In addition, monetizing the claim provided the receipt of cash more quickly than Toshiba was required to pay it. Factoring in the time value of money, the net present value of receiving the payments in 2017, versus over a five-year period, yields an implied discount rate of only 3.45%, which is lower than SCE&G's cost of capital.

Customers also benefited because the cash proceeds of the settlement allowed SCE&G to avoid having to issue long-term debt in the then-current financial circumstances. The cost of that debt would have been part of SCE&G's cost structure for a decade or more.

For all these reasons, monetization was beneficial to SCE&G's customers. It is also important to bear in mind that under all regulatory proposals related to the new nuclear investment, the full value of the Toshiba

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settlement payments, net of amounts used to settle outstanding contractor liens, will be used for the benefit of customers.

X. TAX MATTERS

Q. ARE YOU ALSO TESTIFYING CONCERNING CERTAIN TAX MATTERS ASSOCIATED WITH THE REGULATORY PLANS PRESENTED HERE?

A. Yes. I am also testifying concerning tax matters associated with the regulatory plans presented here, including issues related to excess deferred taxes and related matters, as well as the proposal for passing through to customers the appropriate benefits from the Tax Cuts and Jobs Act ("TCJA").

Q. AS OTHER WITNESSES TESTIFY, THE CUSTOMER BENEFITS PLAN INCLUDES A CAPITAL COST RIDER COMPONENT FOR RECOVERY OF NND PROJECT INVESTMENT. IN CALCULATING THE REVENUE REQUIREMENTS UNDER THE CAPITAL COST RIDER COMPONENT, HOW WILL YOU ACCOUNT FOR TAX MATTERS ASSOCIATED WITH THE NND PROJECT ABANDONMENT?

A. The rate base for determining SCE&G's revenue requirements under the Capital Cost Rider Component will include the net operating loss carryforward deferred tax asset and the deferred tax liability which is

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measured against the book basis of the NND regulatory asset. To illustrate, the initial rate base would be approximately $3.3 billion plus the estimated deferred income tax asset of approximately $0.8 billion less the deferred tax liability of approximately $1.3 billion (approximately $3.3 billion rate base less tax basis of $0, assuming abandonment and research and experimentation deductions are sustained, at an incremental tax rate of 38.25%), for a net NND rate base of approximately $2.8 billion prior to the impact of the annual amortization. The deferred tax balances reflected above will be adjusted annually or if these deductions are not sustained for tax purposes at any point.

In addition, under the Customer Benefits Plan, to ensure that the appropriate benefits associated with the TCJA, as applied to the NND Project investment, are passed to customers in a timely fashion, those benefits will be reflected within the NND Tax Rider. The benefits included in calculating the amount of the NND Tax Rider will include (a) the reduction of the tax gross-up factor used in connection with the recovery of capital costs to account for lower federal income taxes on the associated income, (b) the effect of the amortization over 20 years of the excess deferred income tax liability arising out of the abandonment and research and experimentation expenditures, and (c) the recovery of the excess deferred income tax asset. As noted above, the deferred tax asset for the net operating loss carryforward

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is an estimate, and will be adjusted in the next annual filing as tax information becomes available or if these deductions are not sustained for tax purposes at any point. Under the Customer Benefits Plan, reductions in the deferred tax asset, and the associated excess deferred income taxes resulting from the TCJA, will be subject to Dominion Energy's ability to use the SCANA net operating loss carryforward to reduce its consolidated income tax liability computed on a consolidated basis, rather than on a separate company basis.

Furthermore, the net operating loss carryforward is subject to a calculated limitation under the Internal Revenue Code that is dependent upon external factors that must be assessed after the closing. Under the Customer Benefits Plan, the NND Tax Rider will be adjusted annually or if the associated deductions are not sustained for tax purposes at any point.

Q. HOW DOES SCE&G PROPOSE TO ACCOUNT FOR THE TAX BENEFITS ASSOCIATED WITH THE ABANDONMENT OF THE NND PROJECT UNDER THE NO MERGER BENEFITS PLAN AND THE BASE REQUEST?

A. Under the No Merger Benefits Plan and the Base Request, there will be no Capital Cost Rider Component or NND Tax Rider. As such, the deferred tax benefits associated with the abandonment of the NND Project and with prior research and experimentation deductions are included within the derivation of the rate base under those regulatory plans.

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Q. THE JOINT APPLICATION INCLUDES A TAX RIDER THAT APPLIES UNDER ALL THREE REGULATORY PLANS. HOW DOES THE CUSTOMER BENEFITS PLAN PROPOSE TO USE THAT TAX RIDER TO RETURN TO CUSTOMERS TAX BENEFITS THAT ARISE UNDER THE TCJA?

A. Under all three regulatory plans, a separate rate rider, the Tax Rider, will reduce customers' rates for certain impacts of the TCJA. As noted above, under the Customer Benefits Plan, the impacts of the TCJA which relate to the NND Project investment will be handled through the NND Tax Rider. However, under the No Merger Benefits Plan and the Base Request, all appropriate tax benefits associated with TCJA will flow through the Tax Rider.

Under all three plans, the amount of the tax savings arising from the TCJA may vary from year to year based on multiple tax-related factors including the varying effects of the new tax rate on the computation of amortization of excess deferred income taxes using the Average Rate Assumption Method ("ARAM"), the use of which is necessary to comply with Internal Revenue Code normalization requirements. The tax benefits would also vary with SCE&G's earnings and would be lower than anticipated if rate reductions are greater than are contemplated under the applicable regulatory plan.

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SCE&G has used the twelve months ended December 31, 2017 to quantify the benefits of the TCJA. In the interest of rate stability, and subject to tax normalization requirements, under all three regulatory proposals SCE&G proposes to fix the tax savings passed on to customers under the Tax Rider for the years 2019 and 2020. These years correspond to the rate moratorium proposed under the Customer Benefits Plan. For the Tax Rider, SCE&G proposes to make the appropriate calculation of the average estimated tax savings arising from the TCJA over the tax years 2019 and 2020 for each regulatory plan and to levelize the reductions for that plan over those two years. It should be noted, however, that the IRS may issue guidelines on tax normalization issues associated with implementation of the TCJA. The tax calculations and approaches set forth here are subject to compliance with those IRS guidelines, and may have to be modified to conform to future guidance that the IRS may issue.

Q. HOW WILL THE THREE PLANS DEAL WITH TAX BENEFITS ACCRUED UNDER THE TCJA SINCE JANUARY 1, 2018?

A. SCE&G is currently deferring as revenues subject to refund the benefits to tax expense that it has received under the TCJA since January 1, 2018 (the "2018 TCJA Benefits"). Although the final amount will depend on customer usage, weather and other factors, under the Customer Benefits Plan the 2018 TCJA Benefits amounts will be provided to customers as part

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of the one-time cash payment along with the $1.3 billion. Under the No Merger Benefits Plan and Base Request, the 2018 TCJA Benefits amounts will be provided to customers in a one-time bill credit.

Q. WHAT ARE THE RESULTING CALCULATIONS OF BILL CREDITS ASSOCIATED WITH THE TAX RIDERS UNDER THE THREE PLANS?

A. Under the Customer Benefits Plan and under the assumptions set forth above, the 2019 tax savings has been calculated to be approximately $112 million. This $112 million reduction in annual revenue requirement generates a 4.6% reduction in retail electric rates, of which a bill credit of 2.7% will be provided by means of the Tax Rider, and a bill credit of 1.9% will be included in the NND Tax Rider.

Under the No Merger Benefits Plan and under the assumptions set forth above, the average annual amount of SCE&G's tax savings over the two years 2019-2020 has been calculated to be approximately $106 million. This results in a total Tax Rider bill credit, as presently calculated, of approximately 4.3% under the No Merger Benefits Plan.

Under the Base Request and under the assumptions set forth above, the average annual amount of SCE&G's tax savings over the two years 2019-2020 has been calculated to be approximately $120 million. This results in

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a total Tax Rider bill credit, as presently calculated, of approximately 4.8% under the Base Request.

Q. WHAT WILL BECOME OF THE TAX RIDER AFTER 2020?

A. SCE&G will calculate and file with the Commission a new rate for the Tax Rider to be effective on or after January 1, 2021. Alternatively, if new base rates were approved to take effect in January of 2021, those rates would – in the ordinary course of ratemaking – be calculated to take into account the effects of the TCJA and therefore there would be no need for the Tax Rider to continue after those rates took effect. In any event, the Tax Rider would be superseded by new base rates whenever they might be approved.

Q. PLEASE DISCUSS THE TAX RELATED REGULATORY ASSETS THAT ARE BEING WRITTEN OFF UNDER THE CUSTOMER BENEFITS AND NO MERGER BENEFITS PLANS

A. As Mr. Kochems testifies, under the Customer Benefits Plan and No Merger Benefits Plan, SCE&G will not seek recovery of certain regulatory assets which are associated with the NND Project. Three of them are tax related:

1) The accumulated deferred income taxes arising from the NND Project allowance for equity funds used during construction which

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had been properly deferred based on customary prior ratemaking actions with respect to recovery of taxes.

2) The financing costs on deferred tax assets related to nuclear construction which had been properly deferred under Order No. 2013-803.

3) The foregone Domestic Production Activity Deductions ("DPAD") which had been properly deferred under Order No. 2016-373. This amount is net of the research and experimentation-related tax credits, as well as accrued interest expense and other costs related to the uncertain tax position arising from the tax treatment of research and experimentation expenditures.

The Joint Petition contains further details concerning the structure and accounting of these other regulatory assets. Additionally, following the filing of a 2017 tax return, SCANA carried back a portion of its 2017 net operating loss to 2015, which resulted in the elimination of approximately $38 million of DPAD which had been claimed in that year. Therefore, this 2015 DPAD was also written off in addition to the other regulatory assets mentioned above. As a result, a cumulative total of approximately $187 million of tax related deferrals were written off in December 2017. Under the Customer Benefits Plan and under the No Merger Benefits Plan,

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these amounts will be excluded when setting rates for SCE&G's retail electric customers going forward.

XI. CONCLUSION

Q. IN CLOSING, CAN YOU SUMMARIZE THE KEY POINTS OF YOUR TESTIMONY?

A. A key point in my testimony is that SCE&G stands at a very critical point financially. The rating agencies have factored into their ratings for SCE&G the rate concessions that have been proposed to date, and these concessions are substantial. On that basis, and in light of the uncertain regulatory and legislative climate in South Carolina, they have downgraded SCE&G's credit ratings to the bottom of the investment grade category or close to it. The rating agencies have clearly stated that further adverse regulatory or legislative actions will result in SCE&G losing its investment grade rating and becoming a junk credit. The danger of this happening is real and it could set in motion a series of events which could be difficult to control, and which could be financially detrimental to SCE&G and its service to customers. The leadership team will do all we can to prevent this from happening, but if it were to happen, the consequences would be disruptive and expensive for SCE&G's customers and the State of South Carolina. It is not a risk that anyone involved in this process should be willing to take.

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The second point of my testimony is that the Customer Benefits Plan proposed by Dominion Energy is a more desirable customer alternative than the proposal offered by SCE&G. By contrast, the application of Act No. 258 is likely to lead to a significant impairment of SCE&G's creditworthiness and if the rates imposed by that act are mandated permanently, could lead to even more negative consequences for customers and investors.

Third, the transaction that monetized the Toshiba Corporate Guarantee Settlement Payment benefited customers by removing credit risks associated with an uncertain future stream and resulted in receipt of funds that exceeded the net present value to SCE&G of the payment stream that was otherwise expected.

My request to the Commission is that it approve the Customer Benefits Plan and the business combination with Dominion Energy which makes it possible. This is a reasonable, safe and beneficial resolution to the current difficulties and we respectfully request that the Commission approve it.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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