REBUTTAL TESTIMONY OF

JAMES E. SWAN, IV

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 James E. Swan, IV. My business address is 220 Operation Way, Cayce, South Carolina. I am employed by SCANA Services, Inc. and serve as the Controller of SCANA Corporation and its subsidiaries ("SCANA"), including South Carolina Electric & Gas Company (the "Company" or "SCE&G").

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. I have.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond to issues raised by Mr. Kevin O'Donnell as witness for the South Carolina Energy Users Committee ("SCEUC") related to pension income and Construction Work in Progress related to the Wateree scrubber.

1 **Q. HOW DO YOU RESPOND TO SCEUC WITNESS O'DONNELL'S**
2 **DISCUSSION OF THE PENSION EXPENSE ADJUSTMENT?**
3 A. Mr. O'Donnell seems to have made a mistaken reference concerning
4 the adjustment in question. It appears that the adjustment of $0.5 million
5 that Mr. O'Donnell references on page 17 line 2 of his testimony was a
6 component of the wage annualization proposed by the Company to adjust
7 test period salary expenses to levels in effect at the end of the test period.
8 As part of this annualization adjustment, and in accordance with past
9 practice, the Company also computed a related increase in certain employee
10 benefits and payroll taxes associated with the salary adjustment in the
11 amount of $0.5 million. This $0.5 million benefit adjustment did not
12 include pension related expense but rather adjusted for other employee
13 benefits; specifically 401K, long term disability, short term disability, and
14 payroll taxes. Therefore, the adjustment was not in any way related to
15 funding requirements or market returns of the Company's pension plan, and
16 the conclusions reached by Mr. O'Donnell on this matter were incorrect.
17 **Q. HAS SCE&G MADE A PENSION EXPENSE OR INCOME**
18 **ADJUSTMENT?**
19 A. Yes, as mentioned in my direct testimony, SCE&G has made an
20 adjustment related to pension income. In past test periods, SCE&G
21 generated a negative pension expense, also referred to as pension income,
22 because the performance of its pension investments exceeded its annual

pension expense. That changed in 2008 with the sudden decline in the performance of the investment market. Pursuant to Order No. 2009-81, SCE&G is deferring the difference between its current pension expense and the pension income that had previously been embedded in base rates. The adjustment we made removes from the test year approximately $3 million of pension income that was recognized pursuant to Order No. 2009-81 and therefore is currently imbedded in test year operating results. In this proceeding, we are simply asking that this prior pension benefit – which is no longer being realized by the company – be removed from rate consideration. To be clear, we are not seeking recovery of any pension expense at all in this proceeding. Instead, we are seeking the continuation of the deferral mechanism initially granted in Order 2009-81, but with zero being the amount of pension cost reflected in rates. The costs being deferred would be addressed in future proceedings. No party has filed testimony disagreeing with this approach.

Q. ON PAGE 32 OF HIS TESTIMONY, MR. O'DONNELL STATES THAT THE WATEREE PLANT SCRUBBER SHOULD BE EXCLUDED FROM THE CONSTRUCTION WORK IN PROGRESS THAT THE COMMISSION ALLOWS TO BE REFLECTED IN THE COMPANY'S RATE BASE. DO YOU AGREE WITH THIS CONTENTION?

A. No, I do not. At page 32 lines 6-7 of Mr. O'Donnell's testimony he states that the reason the Company's investment in the Wateree Scrubber should be excluded from rate base is that it is not yet in service and operational so is therefore not used and useful equipment. This Commission has a long standing practice of allowing prudently incurred construction work in progress ("CWIP") to be included as a component of rate base. In Order No. 2003-38, issued in Docket No. 2002-223-E, the Commission specifically addressed this matter as it relates to the inclusion of CWIP for the Company's Jasper Generating Station in rate base. Specifically, the Commission order cited:

> Under South Carolina law, property that is prudently acquired for future utility use is properly included in rate base. See Southern Bell Tel. & Tel. Co. v. Public Serv. Comm'n, 244 S.E.2d 278, 282 (S.C., 1978). In addition, the Commission has consistently held that CWIP related to projects prudently undertaken and managed to provide utility service is indeed used and useful and properly included in rate base. Such is the case with the Jasper Project. The issue is well settled in South Carolina that CWIP is properly included in rate base.

In his testimony on page 33, lines 1-2 Mr. O'Donnell states "it is important to reaffirm that I am not recommending the Commission deny SCE&G recovery of its investment in the Wateree scrubbers." As such, he recognized that the Company's investment in the Wateree scrubber is a prudently incurred utility asset necessary to serve customers and is properly being recorded as CWIP. Finally, it should be noted that the Wateree Scrubber was placed in operation in late April and is undergoing final

acceptance testing at this time. It is serving customers now and is expected to remain in continuous operation going forward.

The Commission has a well-established policy of allowing utilities to include in rates the financial cost of carrying CWIP on their books.[1] The policy reasons that the Commission has cited in past cases for including the recovery of the cost of CWIP in rates apply fully in this proceeding. This is particularly true in light of the size of the investment in question, the size of the construction program that SCE&G is otherwise undertaking, the fact that the Wateree scrubber is a mandatory environmental improvement, and the fact that it is presently in full operation and so is providing benefits to customers through the reduction in SO_2 emissions and in the consumption of SO_2 allowances. Mr. O'Donnell provides no basis for distinguishing the Wateree scrubber CWIP from the other CWIP that is being allowed rate base treatment without objection by any party in this proceeding. For all these reasons, the Commission should reject Mr. O'Donnell's suggestion that it ignore over 20 years of unbroken precedent and disallow the CWIP associated with the Wateree scrubber from rate base.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

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[1] See, e.g., Order No. 89-588, p. 38; Order No. 93-465, pp. 39-41; Order No. 96-15, pp. 20-21; Order No. 2003-38, pp. 28-30. See also Mid-Tex Electric Corp. v. F.E.R.C, 773 F.2d 327, 334 (D.C. Cir. 1985) (reviewing the benefits of allowing CWIP to be included in rate base).