Q WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION?

A. Brent L. Sires, 101 Executive Center Dr., Columbia, South Carolina. I am employed by The Public Service Commission of South Carolina, Utilities Department, as Chief of Gas.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree, Marketing and Management, from the University of South Carolina and have been employed by this Commission since 1980. I have attended various courses and seminars related to engineering, life analysis and accounting relationships and have testified before this Commission in proceedings involving purchased gas adjustments and rate cases of natural gas utilities. I am also recognized as a Certified Public Manager, a nationally accredited management development program for public managers in South Carolina.

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

A. The purpose of my testimony is to address the purchasing policies of South Carolina Pipeline Corporation (Pipeline or the Company), including the hedging program, the Purchased Gas Adjustment (PGA), and Industrial Sales Program Rider (ISPR) approved for the Company.

Q. PLEASE ADDRESS THE PRESENT PURCHASING POLICIES OF THE COMPANY.

A. Pipeline's supplies consist of purchases from independent suppliers for firm and interruptible service. The Company also operates two (2) liquefied natural gas (LNG) facilities and utilizes storage on the interstate systems. Because of Federal Energy Regulatory Commission (FERC) Order 636 the Company now contracts for capacity on the interstate pipelines. South Carolina Pipeline Corporation's peak-day design for the 2003-2004 winter period was based on a combination of direct firm and resale firm loads. This volume was 23,075 DTS/day for direct firm plus 346,482 DTS/day for resale customers totaling 369,557 DTS/day. To meet the contracted firm requirements of its Direct Firm and Sale-for-Resale customers, Pipeline has contracted for Capacity on the Southern Natural Gas Company (Southern) and Transcontinental Gas Pipe Line Corporation (Transco). The capacity on the Southern System is 191,948 dt's per day and the capacity on the Transco system is 108,676 dt's per day. Additionally, the Company owns and operates LNG facilities at Bushy Park near Moncks Corner and near the town of Salley. Shown in the chart below are the inventory levels of the two LNG facilities at October 31, 2003. These facilities are used primarily as a mechanism to help meet firm peak loads on the system as well as providing a backup supply of gas in emergency situations. There are limitations to the amount of Liquefied Natural gas (LNG) that can be vaporized from the LNG facilities. The output for the Bushy Park facility is 62,928 dt's per day and the output for the Salley facility is 48,051 dt's per day. Also, included as Exhibits BLS-1 through BLS-4 is, for the review period, an analysis of activity at the Bushy Park and Salley facilities along with the price of the gas in inventory.

LNG Facility	Capacity	Inventory	Percent of Capacity
	Mcf	Mcf	
Bushy Park	980,000	408,906	41.73%
Salley	900,000	818,544	90.94%
Total	1,880,000	1,227,450	65.29%

Q. WHAT IS THE REVIEW PERIOD FOR THIS PROCEEDING?

A. Staff's audit encompassed the twelve-month period January 2003 through December 2003.

Q. DO THE COMPANY'S PURCHASING POLICIES, DURING THE PERIOD UNDER EXAMINATION IN THIS PROCEEDING, CONTINUE TO SHOW THAT PRUDENT JUDGEMENTS ARE BEING MADE TO MEET THE NEEDS OF THE COMPANY'S CUSTOMERS?

A. **A**. It is my conclusion that Pipeline continues to demonstrate that it places a high level of importance on securing reliable gas supplies and on making prudent decisions in purchasing its gas supplies to balance its customer profile and system requirements with existing supply and capacity options. No supply problems were noted on the Company's system during the past winter period.

SCPC has contract storage with both Transco and Southern Natural. This storage allows SCPC to flow additional volumes into the system when needed and to balance flowing supply with system load requirements. Attached are exhibits identified as Exhibits BLS-5 through BLS-8. These exhibits identify for the twelve-month period ending December 31, 2003, SCPC's activity with regard to its

underground storage contracted for on the Transco and Southern interstate systems. These activities include Injections, withdrawals, capacity levels and the weighted price of gas in storage. One gauge that Staff uses in its determination of Prudence is that the Utility has adequate levels of natural gas in storage as it enters the winter months to meet the design day requirements of the system. From my review and analysis of the Company's levels of natural gas storage and specifically LNG storage levels as shown above and in Exhibits BLS-1 through BLS-4 attached, Staff is concerned that SCPC can meet its design day expectations with the storage levels it had of LNG entering the 2003-2004 winter period. It is Staff's recommendation that SCPC enter the winter months each year with LNG inventories at or above the 90% level.

Q. IN YOUR OPINION, IS THE COMPANY CONTINUING TO DEMONSTRATE THAT IT IS OBTAINING GAS SUPPLIES AT JUST AND REASONABLE COSTS?

A. Yes. The Utilities Department is responsible for monitoring the accuracy of capacity and gas costs that are recovered through the Company's purchased gas adjustment clause. In order to fulfill this responsibility, it is necessary to scrutinize hundreds of supplier invoices annually. It is Staff's observation that Pipeline continues to exhibit its capabilities to secure gas supplies in a prudent manner and at reasonable costs. My observation is that Pipeline puts forth substantial efforts in shopping around for the lowest cost reliable supplies which are available to its system. The Company

exercises the following options to obtain a reliable supply of natural gas at reasonable costs:

? Purchases of natural gas under term contracts that guarantee the total delivery of supply.

? Purchases of natural gas on the spot market.

I state on page two of my testimony, "Because of Federal Energy Regulatory Commission (FERC) Order 636 the Company now contracts for capacity on the interstate pipelines." Additionally, the purchase of natural gas in the interstate markets has evolved into a transparent open market model with the pricing of supply contracts based on published indices of market prices. This is not to suggest that all purchases are made in a transparent open market model, in fact if it were the case there would be little if any decision making in the purchase of the commodity. We reference FERC Order 636 and its predecessor Order 436 as the first major steps towards deregulation of the interstate natural gas system. This unbundling of the commodity sales function from transportation and storage services resulted in removing interstate pipelines from monopolistic sales activity, and allowed LDC's to choose their sales, transportation and storage providers. This action provided for the emergence of unregulated marketing of sales by producers as well as trading companies participating in natural gas sales. This unregulated market is the arena that SCPC and other LDC's are functioning in today. I would describe this market as both tremendously flexible and dynamic. South Carolina Pipelines'

purchasing practices have evolved throughout this period to adapt to this environment. During the period of the mid-eighties through 1996, SCPC was before this Commission under the applicable PGA dockets seeking modifications to their PGA to recognize this new, and it seemed, ever changing environment. Even today this Commission has continued to recognize the flexibility our LDC's have sought to meet the supply requirements of its system and the natural gas consumers of this state.

Q. DOES THE COMPANY HAVE IN PLACE A PROGRAM WHERE THEY PURCHASE GAS FINANCIAL INSTRUMENTS?

A. Yes. South Carolina Pipeline Corp. was granted approval to implement a hedging program on a trial basis in a pilot program. The pilot program allowed the Company to hedge on the futures market for a period of one year beginning June 19, 1995 and limited hedging to no more than 30% of Pipeline's system supply gas. Additionally, during this time, hedging activities were to be reported to the Commission monthly and the Commission Staff was to report to the Commission monthly on Pipeline's hedging activity.

Q. HAS THE COMPANY COMPLIED WITH COMMISSION ORDER NO. 97-477 WHICH SETS FORTH THE CRITERIA FOR THE COMPANY'S CURRENT OPERATION OF THEIR HEDGING PROGRAM?

A. Yes. Since the inception of the Hedging Program, SCPC has achieved the objective of improving cost predictability and to reduce price risks by avoiding unexpected, radical cost changes that may occur over short time periods in the gas spot market.

The result of this program for the period under review is a net decrease to cost of gas in the amount of $14,669,999. This includes trading gains/losses as well as expenses incurred in administering the program including Commissions, Software, Subscriptions and Data Feed. The impact to the weighted average cost of gas resulting from Futures Transactions during the review period is identified on Audit Exhibit A. Since inception of the program in August 1995 through December 2003, the Hedging Program has resulted in a cumulative increase in the weighted average cost of gas in the amount of $4,237,198. However, based on filings made by the Company reporting hedging activity through March 2004, the cumulative increase in the weighted average cost of gas is an increased from $4,237,198 to $6,309,756. Staff does not have any objections to the Company's proposal for continuation of the pilot program for another twelve-month period and to continue operation of the program at the presently approved level of 75% of system supply volumes.

Q. ARE YOU RECOMMENDING THAT THE COMPANY CONTINUE TO INTRODUCE A MINIMUM AMOUNT OF THE LOW COST GAS INTO THE WEIGHTED AVERAGE COST OF GAS IN ACCORDANCE WITH COMMISSION ORDER NO. 91-1138?

A. Yes. Commission Order No. 91-1138 requires the Company to introduce into the weighted average cost of gas (WACOG) an equivalent of 20,000 dekatherms per day on an annual basis of the lowest cost gas entering the Company's system. The Commission approved in its Order No. 91-1138 in Docket Nos. 90-452-G, 91-011-G and 91-563-G dated December 20, 1991, that South Carolina Pipeline Corporation

(SCPC) should introduce a specified minimum level of the lower cost gas into the Company's weighted average cost of gas (WACOG). The Commission in each of the subsequent annual reviews of SCPC's Purchased Gas Adjustment (PGA) and Purchasing Practices proceedings has ordered this requirement. Staff's recommendation that the Company introduce into the WACOG an equivalent of 20,000 dekatherms per day on an annual basis continues today to attempt to balance the interest of firm customers (local distribution systems that serve primarily residential and commercial customers) and industrial customers who purchase under the provisions of the Industrial Sales program Rider (ISPR). The objective of Staff's recommendation is to ensure that firm customers, whose rates reflect the WACOG, receive a reasonable level of benefits from the lower cost gas entering SCPC's system. The Company, after the initial one-year trial period of the assignment of the lowest cost gas, testified to maintaining the introduction of 20,000 dekatherms into the WACOG as a reasonable compromise of all parties as testified to by Staff.

Q. MR. SIRES, PLEASE TELL THE COMMISSION WHY AND WHEN THE INDUSTRIAL SALES PROGRAM (ISP-R) FOR SOUTH CAROLINA PIPELINE CORPORATION (SCPC), WAS ESTABLISHED.

A. Beginning in the Fall of 1982, natural gas utilities in South Carolina were faced with a combination of rising natural gas prices from Southern Natural and Transco and the declining price of alternative fuels. This combination of rising natural gas prices and declining alternative fuel prices resulted in SCPC experiencing the loss of natural gas sales to industrial customers equipped with the capability to consume

fuels that are alternative to natural gas. Because sales to interruptible customers of a natural gas utility play an important role in the recovery of fixed cost, the concern that the continued loss of natural gas consumption because of the combination of rising natural gas prices and the declining prices of alternative fuels became an immediate concern to the present and long-term detriment to the remaining natural gas customers of SCPC. This concern resulted in SCPC filing a petition with this Commission for revision in its cost of gas adjustment calculations. These revisions were filed with the Commission in April of 1983. SCPC petitioned the Commission for approval to revise its cost of gas adjustment calculations to enable them to compete with alternative fuels and abate the detrimental affects on residential, commercial, and firm industrial customers caused by the present loss of natural gas consumption to alternative fuels. This Commission in 1983 granted approval to these costs of gas adjustment calculations petitioned by SCPC. These revised cost of gas calculations that are today referred to as the Industrial Sales Program Rider (ISP-R) have been approved by this Commission and remain in effect until modified, extended, or eliminated by Order of this Commission**.**

Q. IN YOUR OPINION, SHOULD THE OPERATION OF THE COMPANY'S INDUSTRIAL SALES PROGRAM RIDER (ISP-R) CONTINUE?

A. Yes. It is my opinion that some program or mechanism is required for a natural gas utility to effectively compete with alternate fuels in the industrial market. The prices of alternate fuels used by the industrial customers are very volatile, and I could not give the Commission any assurances as to the chance of retaining the industrial load

without the assistance of a mechanism, which allows for the competitive pricing procedure. My past observations of industrial customers indicate that most customers prefer to use natural gas, because its use results in less maintenance to their equipment. Also, the emissions from natural gas fired equipment result in considerably fewer pollutants flowing into the environment in comparison to other fuels such as fuel oils. In this regard, I would not expect that the industrial customers would favor termination of a procedure designed to retain the industrial gas load. The current ISP-R program has provided South Carolina Pipeline Corporation the opportunity to do this.

Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

A. Yes, it does.