SETTLEMENT TESTIMONY
OF
KEVIN B. MARSH
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2016-223-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.
A. My name is Kevin Marsh and my business address is 220 Operation Way, Cayce, South Carolina. I am the Chairman and Chief Executive Officer of SCANA Corporation and South Carolina Electric & Gas Company (“SCE&G” or the “Company”).

Q. ARE YOU THE SAME KEVIN MARSH WHO HAS PROVIDED DIRECT TESTIMONY IN THIS DOCKET?
A. I am.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?
A. The purpose of my settlement testimony is to support the adoption by the Public Service Commission of South Carolina (“Commission”) of the Settlement Agreement (“Settlement”) dated September 6, 2016, which was entered into between the South Carolina Office of Regulatory Staff (“ORS”), SCE&G, Frank Knapp, Jr., the South Carolina Energy Users Committee,
Central Electric Power Cooperative, Inc., and the Electric Cooperatives of South Carolina, Inc. (the “Settling Parties”). I also discuss the origins of the Settlement, its benefits to customers and the State of South Carolina, and certain terms it contains.

Q. PLEASE EXPLAIN THE ORIGINS OF THE SETTLEMENT.

A. The Settlement is the result of persistent and very effective work by ORS and its Executive Director, C. Dukes Scott. Under Director Scott’s leadership, ORS brought a diverse group of parties into agreement around a consensus approach for resolving this matter. Given the magnitude of the issues in this case and the diverse interests of the parties, accomplishing this Settlement was a very difficult task.

While the achievement of consensus in this proceeding was unusually challenging, the fact that ORS and Director Scott were able to do so is no anomaly, but is a continuation of the success achieved by ORS in reaching settlements in prior BLRA proceedings and other proceedings. The settlement negotiated in this proceeding is a testament to the leadership of ORS as negotiators and consensus builders and the credibility and trust developed by Mr. Scott with all the key players involved in these matters. The Settlement achieved here supports the best interests of customers and of the State and benefits all interested parties.
Q. WHY ARE SETTLEMENTS IN MATTERS LIKE THESE BENEFICIAL FOR CUSTOMERS AND THE STATE?

A. As the Commission is aware, capital costs are a major component of operating a utility system. A significant portion of funding for large capital projects comes from the financial markets. Financial markets value certainty and predictability when making capital investments. Conversely, where they perceive risk and uncertainty, they charge higher rates for capital which ultimately results in higher costs to the utility and to customers. Settlements in matters such as these that reasonably balance the interest of major parties signal to markets that regulation is fair and predictable and that discord and animosity are not part of the regulatory culture in a jurisdiction. Markets reward those jurisdictions by making capital available on more reasonable terms. Reasonable capital costs reduce pressure on rates for consumers.

Q. PLEASE EXPLAIN SCE&G’S REASONS FOR ENTERING INTO THE SETTLEMENT.

A. In the filing, SCE&G proposed specific adjustments to the construction schedules and capital cost schedules for the V.C. Summer Units 2 & 3 (the “Units”). Through our pre-filed direct testimony, we presented evidence that the proposed adjustments were reasonable, were amply justified by the evidence and were in no way the result of imprudence on the Company’s part, which is the legal standard in these matters. We specifically showed that the 2015 Amendment to the EPC Contract (the “Amendment”)
and the exercise of the fixed price option agreement contained in the Amendment (the “Option”) create tremendous value for our customers and the State and will reduce the cost of the Units significantly compared to what they would have been without the Amendment or Option. Nonetheless, there were differences in opinion on some matters. Director Scott came to us and asked if we would participate in a settlement process with ORS and other parties. The answer was yes.

Q. PLEASE DESCRIBE THE CONCESSIONS CONTAINED IN THE SETTLEMENT THAT RELATE TO THE INCLUSION OF COSTS NOT REFLECTED IN THIS DOCKET IN FUTURE BLRA DOCKETS.

A. There were three groups of concessions that are related to the timing or inclusion in future BLRA proceedings of costs not reflected in this docket:

  - **The Moratorium** – In the Settlement, SCE&G agreed not to file new petitions to update the BLRA capital cost schedules for the Units until January 28, 2019. SCE&G also agreed that until January 28, 2019, it will not include in its revised rates filings any capital costs greater than those approved in this docket (both points collectively constitute the “Moratorium”). The January 28, 2019 end date for the Moratorium corresponds to the date on which SCE&G would expect to make its final revised rates filing prior to Unit 2 going into service.
Accordingly, the Moratorium means that SCE&G will not include any future increases in costs for the project in revised rates until Unit 2 is entering service. In fact, the Settlement also provides that the end date for the Moratorium will track the completion date for Unit 2 and will be extended if the completion date is extended. This provision encourages SCE&G to limit cost increases going forward since the financing costs associated with future cost increases will not be recoverable under the BLRA until Unit 2 is nearing completion.

- **Caps on Exhibit C Costs** – SCE&G has agreed to place a $20 million cap on any BLRA recovery for amounts associated with the items listed as unresolved matters on Exhibit C to the Amendment. These are the scopes of work which the parties were not in a position to resolve at the time the Amendment was concluded. Not included in this $20 million cap is the cost of two change orders that were listed on Exhibit C but have been resolved as indicated in the Settlement, specifically the change orders related to Plant Security Systems Integration and Plant Layout Security, Phase 3. This $20 million cap applies to BLRA filings both before and after the Moratorium expires and provides the Settling Parties assurance that the additional
costs of the Exhibit C items will not exceed a reasonable and quantified amount.

- **Transfers of Fixed EPC Cost Items to Owner’s Cost** –

  SCE&G has agreed that it will not seek BLRA recovery for any increase in Owner’s costs associated with transfer of scopes of work from Fixed Cost Categories under the EPC Contract to Owner’s costs categories. However, this prohibition will not apply if the scope of work transferred is to be completed under a fixed price agreement which is less than or equal to the credit (reduction) to the fixed EPC Contract price provided by Westinghouse as a result of the transfer. This provision provides the Settling Parties assurance that transfers of EPC Costs to Owner’s costs will not result in cost increases in categories that are now subject to fixed prices under the Option.

Q. **PLEASE DESCRIBE THE CONCESSIONS RELATED TO THE RETURN ON EQUITY USED IN COMPUTING FUTURE REVISED RATES FILINGS.**

A. Director Scott asked the Company if it would be willing --in support of a settlement-- to voluntarily agree to use a lower return on equity (“ROE”) to compute future revised rates requests. The initial BLRA order for the Units, Order No. 2009-104(A), set an ROE for the life of the project at
11.0%. To support a settlement in Docket No. 2015-103-E, SCE&G voluntarily agreed to compute revised rates after 2015 using an ROE of 10.5%. As a part of the Settlement in this proceeding, the Company has agreed --if the Settlement is adopted-- to use a 10.25% ROE in computing revised rates filed after January 1, 2017. Based on the Company’s contacts with the financial community, the reduction in ROE to this 10.25% level for future revised rates filings would not be justified outside of a Settlement and the benefits it provides as discussed above, but is feasible in the context of a Settlement.

Q. PLEASE DESCRIBE THE PROVISIONS OF THE SETTLEMENT RELATED TO FURTHER SECURING THE COST PROTECTIONS PROVIDED UNDER THE TERMS OF THE OPTION WITH WESTINGHOUSE.

A. One of Director Scott’s key objectives in negotiating the Settlement was to create additional assurances that the cost protections established through the Option would be preserved for the benefit of customers. In response, SCE&G agreed to provisions to fix the price to consumers of the EPC Contract costs according to the terms of the Settlement.

Q. PLEASE EXPLAIN HOW THIS WORKS.

A. Under the Option, project costs can increase due to signed change orders allowable under the terms of the EPC Contract, changes in Transmission costs, changes in certain Time and Materials costs as listed in
the Amendment, costs associated with decisions of the Dispute Resolution Board that is established under the Amendment, certain changes in Owner’s costs and changes in Exhibit C costs. (For BLRA purposes, changes in the latter two cost items are subject to the limitations imposed by the Settlement, as described above.) The Settlement recognizes that cost increases outside of these categories could violate the terms of the Option.

Q. **WHAT IS THE REASON FOR INCLUDING THIS PROVISION IN THE SETTLEMENT?**

A. We understand that this provision, much like the limitation on certain changes in Owner’s costs and Exhibit C costs, is intended to give assurance to customers and the public that the Option will be enforced as written. I would note, however, that the Settlement does not authorize or approve any future costs or cost increases. All additional future costs that are proposed for BLRA approval or revised rates recovery, including those that may be included in future BLRA filings under the terms of the Settlement, must be reviewed by ORS and approved by the Commission under the terms of the BLRA before they can be considered in setting revised rates.

Q. **ARE THE CONCESSIONS SCE&G IS MAKING IN THE SETTLEMENT CONSISTENT WITH THE TERMS OF THE BLRA?**

A. Yes, they are. The timing of update dockets under S.C. Code Ann. § 58-33-270(E) and the amount of capital costs included in any revised rates filings under S.C. Code Ann. § 58-33-280 are discretionary with the utility.
In agreeing to use a lower ROE in computing revised rates, SCE&G is forgoing its statutory right to compute revised rates using the ROE previously approved by the Commission. Allowable capital costs of the Units not included in revised rates filings will continue to accrue allowance for funds used during construction, otherwise known as “AFUDC”. However, SCE&G will not have cash earnings to support the financing cost associated with these amounts while they are outside of revised rates.

Q. WHAT ARE YOU ASKING THE COMMISSION TO DO?
A. SCE&G is asking the Commission to approve the Settlement and the relief requested in the petition in the proceeding as modified by the Settlement.

Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?
A. Yes. It does.