SURREBUTTAL TESTIMONY

OF

KEVIN R. KOCHEMS

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2017-207-E

DOCKET NO. 2017-305-E

Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.
A. My name is Kevin R. Kochems. My business address is 220 Operation Way, Cayce, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
A. I am employed by SCANA Services, Inc. as Manager of Regulatory Accounting. I was previously employed as Director of Nuclear Financial Administration with the New Nuclear Development Project (the “Project” or the “NND Project”). I am testifying on behalf of South Carolina Electric & Gas Company (“SCE&G” or the “Company”).

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.
A. I am a 1998 graduate of Canisius College, with a Bachelor of Science Degree in Accounting. In 2002, I joined SCANA’s Internal Audit Department. In 2006, I accepted an accounting position with SCE&G’s NND Project. In 2011, I was promoted to Manager of Nuclear Financial
Administration. Following the Company’s decision to abandon the NND Project, I became Manager for Regulatory Accounting in the Rate Department at SCANA Services.

Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION IN THE PAST?
A. Yes, I have testified in this docket and prior docket before the South Carolina Public Service Commission (the “Commission”) including pre-filed testimony in Docket No. 2017-370-E, which has been consolidated for purposes with these docket. Because this testimony addressed many of the issues raised here, that pre-filed testimony is attached as Exhibit (KRK-1) to this testimony and incorporated by reference into my pre-filed rebuttal testimony in these docket.

Q. WERE THERE EXHIBITS ATTACHED TO YOUR PRE-FILED REBUTTAL TESTIMONY IN DOCKET NUMBER 2017-370-E?
A. No.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?
A. Yes it does.
Exhibit__(KRK-1) to Surrebuttal Testimony
REBUTTAL TESTIMONY

OF

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ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

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Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION IN THE PAST?

A. Yes, I have testified in this docket and one prior docket before the South Carolina Public Service Commission (the "Commission").

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

A. My testimony responds to certain assertions made by the Office of Regulatory Staff (ORS) related to accounting and commercial matters.

Q. HOW DO YOU RESPOND TO KELVIN MAJOR'S CONTENTION THAT, IN ADDITION TO THE $12,000 THAT YOU STATE WERE DISALLOWED BY ORS, ORS ALSO DISALLOWED $198,000 IN CONSULTING FEES TO THE FORMER CHAIRMAN AND CEO OF SCANA?

A. In fact, my prior testimony and that of Mr. Major are fully consistent. In my prior testimony, I excluded from the $12,000 that I referenced as being disallowed any amounts "that had been deferred for future consideration." The consulting payments to SCANA's former CEO
were part of the amounts that were deferred by SCE&G for future
consideration by the Commission. Specifically, Appendix A of the Revised
Rates Report issued by ORS in 2016 states that "$198,000 is related to an
SCE&G consultant contract for which the Company has agreed not to seek
recovery of financing costs in this revised rates docket." (emphasis
supplied.) It was SCE&G’s understanding, as my direct testimony
reflected, and as we had discussed with ORS at the time (2016), that this
amount had been deferred for future consideration but was not disallowed.

Q. HOW DO YOU RESPOND TO THE ASSERTION THAT SCE&G
HAS AGREED NOT TO SEEK RECOVERY OF AMOUNTS FOR
ADJUSTMENTS TO EXPENSES INCURRED PRIOR TO
SEPTEMBER 30, 2017?

A. That is not correct. It has always been SCE&G’s position that while
it would expense new cost items incurred in connection with the wind-
down and demobilization of the NND Project after September 30, 2017 it
would continue to recognize adjustments to costs incurred prior to that date.
As indicated in my prior testimony, the “costs that will be charged to the
project” include “costs incurred for work done on this Project before
September 30, 2017 and finalized after this date.” (emphasis supplied.)
There was never any intent to indicate that SCE&G will not make
adjustments to prior incurred costs. I believe that is clear in the language
we have used in our filing and in the financial exhibits attached to that
filing, which clearly record adjustments after September 30, 2017 related to
costs incurred prior to that date.

Q. **IS THIS AN IMPORTANT POINT?**

A. Yes. This is a matter of specific importance because the South Carolina Department of Revenue has asserted a claim for sales taxes associated with purchases that were made prior to September 30, 2017. While we are strongly contesting the assertion, if those claims are upheld, the resulting cost will be deemed to have been incurred prior to September 30, 2017 when the purchases at issue occurred. If the taxes are assessed and collected, they would constitute a governmentally imposed tax, and would constitute valid capital costs of the NND Project which should be subject to recovery through rates.

Q. **HOW DO YOU RESPOND TO THE ASSERTION THAT $42,873 IN FRAUDULENT ACTIVITY SHOULD BE DEDUCTED FROM NND PROJECT INVESTMENT?**

A. This adjustment arises out of a bid rigging scheme that SCE&G discovered with respect to certain purchases of office furniture for which SCE&G was invoiced by CB&I. Specifically, in 2015, an SCE&G employee audited competitive bidding documents related to an invoice for office furniture submitted by CB&I and noticed that certain competitive bids seem to be in the same handwriting as the winning bid. SCANA investigated and determined that the winning bidder had improperly
submitted the competitive bids which allowed that bidder to bid prices that were above market. Based on that investigation, SCE&G disputed certain payments to the vendor in question, as well as the salary cost of the CB&I employee who oversaw the purchase.

Those disputes were outstanding at the time of the 2015 Amendment to the EPC Contract and were specifically referenced as one of the claims that were resolved as part of the 2015 Amendment to the EPC Contract. The claims in question and their resolution were reviewed and audited by ORS and ORS endorsed the settlement of the claims, recommending that the 2015 Amendment to the EPC Contract (including its modified cost schedules) “should be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues.” Order No. 2016-794, at 9. Because this $42,873 claim was resolved as part of the 2015 Amendment, no further adjustments regarding it are warranted.

Q. **HOW DO YOU RESPOND TO THE ASSERTION THAT OUTSTANDING LIENS AGAINST THE PROJECT SHOULD NOT BE PAID OUT OF THE TOSHIBA CORPORATE GUARANTEE SETTLEMENT PAYMENT?**

A. As the Commission is aware, the Toshiba Corporation has made a corporate guarantee settlement payment to SCE&G to compensate SCE&G for damages arising out of Westinghouse’s breach and rejection of the EPC Contract. When SCE&G negotiated the amount of the guaranty settlement,
one major component of the calculation of the claim was the value of the
liens which were specifically excluded from the calculation of the liability
limitation associated with the guaranty and are one part of the reason that
the guarantee payment significantly exceeded the contractual limitation on
liability. For that reason, SCE&G has consistently asserted that the
proceeds received from Toshiba should be used for repaying the liens. That
was the intent and purpose behind excluding the lien payment obligations
from the limitation of liability in the Toshiba guaranty.

9 Q. WHAT IS THE CURRENT STATUS OF THESE LIENS?
10 A. SCE&G continues to contest these liens and expects that some of
them may be settled by the bankruptcy estate of Westinghouse as part of its
emergence from bankruptcy. In addition, as part of the monetization of the
Toshiba Settlement, SCE&G also succeeded in negotiating limits on its
remaining exposure to certain of these liens. Even so, some lien payments
may be required before the matter is entirely settled.

16 Q. WHAT DOES SCE&G PROPOSE?
17 A. SCE&G believes that it is entirely appropriate that any lien
payments be applied against the Toshiba settlement proceeds in
determining the net value of those proceeds to be provided to customers.
To treat lien payments otherwise would be contrary to the nature and basis
of the corporate guarantee payment. It would not be appropriate to refuse
to allow the proceeds of that payment to be used to liquidate obligations it
was specifically intended to cover. It is also important to note that these
liens relate to work which was performed by vendors prior to the
September 30, 2017 and any future payments would, under accrual
accounting, be included in costs recognized in that period. As such, if they
are not applied to the Toshiba settlement proceeds, they should be included
in the capital costs of the project and therefore recoverable.

Q. IN CONCLUSION, IN YOUR REBUTTAL TESTIMONY WHAT
ARE YOU ASKING THE COMMISSION TO DO?

A. I respectfully ask the Commission to recognize that SCE&G has not
stated that it will forego recovery of adjustments to costs incurred prior to
September 30, 2017 as such adjustments are entirely appropriate. SCE&G
also asks the Commission to recognize that it is appropriate for SCE&G to
pay outstanding liens associated with the NND Project out of the proceeds
of the Toshiba corporate guarantee payment since a portion of those funds
were specifically received and intended to cover those liens. In addition, for
reasons stated above, SCE&G would ask the Commission to forgo making
the adjustments to costs proposed by ORS which my testimony shows not
to be justified.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes it does.