BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2001-2-E - ORDER NO. 2001-397

APRIL 27, 2001

IN RE: Annual Review of Base Rates for Fuel Costs of South Carolina Electric & Gas Company.	)))	ORDER APPROVING BASE RATES FOR FUEL COSTS

On April 19, 2001, the Public Service Commission of South Carolina ("the Commission") held a public hearing on the issue of the recovery of the costs of fuel used in the sale of electricity by South Carolina Electric & Gas Company ("SCE&G" or "the Company") to provide service to its South Carolina retail electric customers. The procedure followed by the Commission is set forth in S.C. Code Ann. §58-27-865 (Supp. 2000). The review of this case is from March 2000 through April 2001.

At the public hearing, Francis P. Mood, Esquire, and Catherine D. Taylor, Esquire, represented SCE&G; Hana Pokorna-Williamson, Esquire, represented the Intervenor, the Consumer Advocate for the State of South Carolina ("the Consumer Advocate"); and F. David Butler, General Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of Neville O. Lorick, Stephen A. Byrne, Gene G. Soult, John W. Flitter, and John R. Hendrix on behalf of SCE&G; the testimony of Jacqueline R. Cherry and A. R. Watts on behalf of the Commission Staff; and eight (8) hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from March 2000 through February 2001, SCE&G's total fuel costs for its electric operations amounted to $347,601,695. Hearing Exhibit No. 7, Audit Exhibit E.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for SCE&G's fossil, nuclear, and hydroelectric plants for March 2000 through February 2001. The fossil generation ranged from a high of 96% in November 2000, January 2001, and February 2001 to a low of 68% in April 2000. The nuclear generation ranged from a high of 28% in April 2000 to a low of 0% in November 2000, December 2000, January 2001, and February 2001. The percentage of generation by hydro ranged from a high of 8% in December 2000 to a low of 4% in March 2000 - September 2000, November 2000, and January and February 2001. Hearing Exhibit No. 8, Utilities Department Exhibit No. 3.

3. During the March 2000 through February 2001 period, coal suppliers delivered 6,454,237 tons of coal. The Commission Staff's audit of SCE&G's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from $36.91 per ton in December 2000 to $38.64 per ton in January 2001. Hearing Exhibit No. 7, Audit Department Exhibits A and C.

4. Staff collected and reviewed certain generation statistics of SCE&G's major plants for the twelve months ending February 28, 2001. The nuclear fueled Summer Plant had the lowest average fuel cost at 0.47 cents per kilowatt-hour. The highest amount of generation was 4,554,570 megawatt-hours produced at the Williams Plant. Hearing Exhibit No. 8, Utilities Department Exhibit 4.

5. The Commission Staff conducted an extensive review and audit of SCE&G's fuel purchasing practices and procedures for the subject period. Based on its audit, Staff adjusted the cumulative under-recovery as of April 2001 by $59,630. This adjustment reflects various corrections made by Staff in various Company fuel costs, such as Fossil Fuel Burned Costs, Nuclear Fuel Costs, Purchase and Interchange Power Fuel Costs, and Intersystem Sales. The Company will true-up the cumulative difference of $59,630, on a per book basis, by the next fuel review period. The Staff's accounting witness, Jacqueline R. Cherry, testified that SCE&G's fuel costs, as adjusted, were supported by the Company's books and records. Testimony of Cherry; Hearing Exhibit No. 7, Audit Department Exhibits.

6. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected cost of fuel would occur during the period and would likely exist at the conclusion of the period. S.C. Code Ann. §58-27-865 (Supp. 2000) establishes a procedure whereby the

difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

7. The record of this proceeding indicates that the comparison of SCE&G's fuel revenues and expenses for the period March 2000 through February 2001 produces an under-recovery of $60,454,498. Staff added the projected under-recovery of $1,215,810 for the month of March 2001, and the projected "break even" recovery of $0 for the month of April 2001, to arrive at a cumulative under-recovery of $61,670,308 as of April 2001[1]. Testimony of Cherry at 4. The Company is voluntarily writing off $8 million in uncollected fuel costs, also. Testimony of Lorick at 6.

8. The Company proposes to set the fuel rate at a level which would permit the under-recovery to be collected over a two year period. To accomplish this, the under-collection is divided by two years of projected retail sales. Based on this proposal, for the twelve months May 2001 through April 2002, the total cost is 1.579 cents per KWH. Testimony of Hendrix at 4.

9. Company witness Hendrix proposed that the Commission approve a change in the fuel factor to 1.579 cents per kilowatt-hour for the next twelve-month period. Testimony of Hendrix at 5.

10. Applying the Company's recommended fuel factor of 1.579 cents per kilowatt-hour would produce an estimated under-recovery of $58,473 after a one-year

[1] Staff's cumulative under-recovery of $61,670,308 at April 2001 includes the Staff adjustment of $59,630 described in Finding of Fact No. 5.

period when spreading the under recovery amount over a two-year period. Testimony of Watts at 4.

11. With regard to the nuclear unit, a crack in the nozzle-to-pipe weld in the Alpha Loop hot leg pipe was discovered during the refueling outage. The NRC's special inspection report concluded that the leak caused by the crack in the weld "involved equipment failure not avoidable by reasonable quality assurance measures or management controls and is considered to have resulted from matters not within your control." Testimony of Byrne at 10; Hearing Exhibit 3; Testimony of Watts at 2. With regard to the Cope coal-fired plant, the plant generator tripped on January 3, 2001 during the morning peak. It was determined that the generator tripped because of a ground fault relay actuation. After investigation, it was determined that end winding support blocks should have been installed by the manufacturer. Testimony of Watts at 3 and testimony of Soult at 6. Accordingly, Staff determined that there were no unreasonable Company actions which required SCE&G's customers to incur higher fuel costs. The testimony showed that the Company took reasonable steps to safeguard against the events resulting in plant outages at V.C. Summer and the Cope Station. Therefore, no disallowances of any fuel costs during the review period were recommended. Testimony of Watts at 2.

12. SCE&G calculated the net capacity factor of its nuclear plant, excluding planned refueling outage activities, planned power reductions, and other reasonable reduced power operations activities, to be 100.08%. Testimony of Byrne, p. 4.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann., §58-27-865(B)(Supp. 2000), each electrical utility must submit to the Commission its estimates of fuel costs for the next twelve (12) months. Following an investigation of these estimates and after a public hearing, the Commission directs each electrical utility "to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period." Id.

2. S.C. Code Ann., Section 58-27-865(G) (Supp. 2000) requires the Commission to allow electrical utilities to recover "all their prudently incurred fuel costs... in a manner that tends to assure public confidence and minimize abrupt changes in charges to consumers."

3. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(F) requires the Commission "to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its consumers." "[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error." Id. at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

4. The Commission recognizes that Section 58-27-865(F) provides it with the authority to consider the electrical utility's reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

5. Further, S.C. Code Ann. §58-27-865 (F)(Supp. 2000) provides that:

> [T]here shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system ...if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to the unreasonable acts of the utility; outages found by the [C]ommission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility's nuclear generation system. If the net capacity factor is below ninety-two and one-half percent after reflecting the above specified outage time, then the utility shall have the burden of demonstrating the reasonableness of its nuclear operations during the period under review.

6. Upon consideration of the evidence of record, the Commission concludes that SCE&G's generating facilities were operated efficiently during the period under review and that the corresponding fuel costs were prudently incurred. This conclusion is based upon the opinion and report of the Staff which indicated that there were no

Company actions which required SCE&G's customers to incur higher fuel costs. This conclusion is further supported by the evidence presented by SCE&G that the nuclear unit achieved a net capacity factor of 100.08%. Additionally, SCE&G's steam fossil units operated efficiently and dependably achieving an availability of 87.27% and a forced outage rate of 4.22% for the review period. By comparison, the NERC five year average of availability of similar sized units from 1995-1999 is 85.53% and the 1999 NERC average forced outage rate is 5.27%.

7. After considering the directives of §58-27-865 (B) and (F) which require the Commission to place in effect a base fuel cost which allows the Company to recover its fuel costs for the next twelve months adjusted for the over-recovery or under-recovery from the preceding twelve month period, the Commission has determined that the appropriate base fuel factor for May 2001 through April 2002 is 1.579 cents per kilowatt-hour. The Commission finds that a 1.579 cents per kilowatt-hour fuel component will allow SCE&G to recover its projected fuel costs and, at the same time, prevent abrupt changes in charges to SCE&G's customers. Staff shall monitor the cumulative recovery account to assure a proper level of reasonableness. We approve the Staff's adjustments. We also approve the Company's request to write off $8 million in under-recovered fuel costs, and the spreading of the under-recovered balance over a two-year period in an effort to minimize the financial impact on the ratepayers.

IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period May 2001 through April 2002 is set at 1.579 cents per kilowatt-hour.

2. SCE&G shall file an original and ten (10) copies of the South Carolina Retail Tariffs within ten (10) days of receipt of this Order.

3. SCE&G shall comply with the notice requirements set forth in S.C. Code Ann., §58-27-865 (B) (Supp. 2000).

4. SCE&G shall continue to file the monthly reports as previously required.

5. SCE&G shall account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit. Staff shall monitor the cumulative recovery account.

6. SCE&G shall submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

7. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Chairman

ATTEST:

Executive Director
(SEAL)