

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2016-373-E - ORDER NO. 2016-820

NOVEMBER 30, 2016

IN RE: Petition of South Carolina Electric & Gas        ) ORDER GRANTING  
Company for Authorization to Defer Certain        ) ACCOUNTING  
Income Tax and Related Costs Arising from        ) TREATMENT  
Claims for Deductions and Credits                )

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the petition of South Carolina Electric & Gas Company (“SCE&G” or “the Company”) pursuant to S.C. Code Ann. § 58-27-1540 (2015) and 10 S.C. Code Ann. Reg. 103-825 (2015), seeking an accounting order for regulatory and financial accounting purposes authorizing SCE&G to defer certain income tax and related costs arising from its claims on federal and state income tax returns for tax deductions and credits related to research and experimentation expenditures. SCE&G also seeks to hold outside of rate base the Accumulated Deferred Income Tax (“ADIT”) liability that will arise as the result of claiming these deductions until such time as the benefits arising from the ADIT liability are included in customer rates.

SCE&G is a wholly-owned subsidiary of SCANA Corporation (SCANA). SCANA files consolidated federal income tax returns and takes advantage of Section 199 deductions – a provision of the Internal Revenue Code that provides deductions for domestic production activities, including for the production of electricity. This provision results in a reduction in the Company’s effective tax rate, resulting in lower income tax expenses

being reflected in the cost of service applicable to base rate proceedings since 2005. Accordingly, rates currently being charged to SCE&G customers reflect the tax benefit of Section 199 deductions.

The Company now intends to utilize two different provisions in 26 U.S.C.A §§ 41 and 174 of the Internal Revenue Code to improve its financial position and provide benefits to ratepayers. Provided that the tax-advantageous decision by the Company is sustained, the ratepayers will receive two benefits: first, improvement or maintenance of SCE&G's credit and investment profile which ensures access to capital on favorable terms and second; a rate reduction to be proposed in the Company's 2017 Annual Review of Base Rates for Fuel Costs proceeding (Docket No. 2017-2-E).

In July of 2014, the U.S. Department of the Treasury issued regulations under Section 174 of the Code, which provide taxpayers the ability to claim deductions for research and experimentation expenditures ("R&E") related to the development of "pilot models," as defined in those regulations. Certain of those expenditures also qualify for tax credits under Section 41 of the Code. In the evaluation of these considerations, SCE&G engaged Ernst & Young, which issued a formal opinion on the matter, and Miller & Chevalier, a law firm with experience in utility tax matters. Based on the opinions of Ernst & Young and Miller & Chevalier, and its review of Sections 174 and 41 of the Code, SCE&G concluded that it was qualified to claim significant deductions under these provisions related to expenditures made in designing and constructing two new nuclear units at V.C. Summer Nuclear Station, beginning with tax returns filed for 2015 (filed in 2016). SCANA has claimed Section 174 deductions and Section 41 credits on its 2015

consolidated Federal income tax return, and SCANA plans to make similar claims in future years, as appropriate. Additionally, similar claims were made and are expected to continue to be made, as appropriate, on future state income tax returns. The cash saved through the lower current income tax payments will partially displace the need for SCE&G to raise additional capital by more debt and equity issuance, and would provide low or no-cost capital for use in funding construction activities and in maintaining the Company's credit ratings.

Benefits under these provisions would assist in limiting the amount of future rate adjustments under the Base Load Review Act during the remaining duration of the construction of the new nuclear units. These claims would also reduce non-Base Load Review Act related rate base, potentially to an extent that would cause SCE&G to exceed its authorized Return on Equity of 10.25%. In order to avoid such a scenario, SCE&G will seek authorization in its 2017 Annual Review of Base Rates for Fuel Costs proceeding (Docket No. 2017-2-E) to reduce the variable environmental and avoided capacity cost component of its total fuel cost factor and requests that the reduction be made contemporaneously with the implementation date of the Company's 2017 Base Load Review Act revised rates request and each revised rates request thereafter until such benefits are included in base rates. The request for relief would not involve a change to any of the Company's retail rates or prices at this time.

Though the benefits to the ratepayer of the utilization of Section 174 and Section 41 are evident, there is some risk involved in adopting this tax strategy. The Company expects the IRS to examine these claims, and the Company states that such examination

may result in negotiated settlement for amounts less than amounts filed on the returns, or it is possible that none of the claims will be allowed. Consequently, the claims will be considered uncertain tax positions under Generally Accepted Accounting Principles and the Company will be required to place valuation reserves against portions of its claims until their ultimate resolution. To the extent that the claims are disallowed, the resultant taxes plus interest will have to be paid. In the event that penalties associated with this claim arise, such penalties will be recorded as a “below-the-line” expense for which rate recovery will not be sought. Further, the Company believes that to the extent Section 199 deductions were foregone in favor of disallowed Section 174 and 41 deductions and credits, such Section 199 deductions would be restored.

IT IS THEREFORE ORDERED:

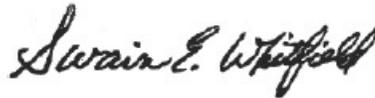
1. That SCE&G may defer, as a regulatory asset, the amount of foregone 199 deductions which result from R&E expenditures on the Units as a result of claiming 174 deductions.
2. That SCE&G may record, as an offset to the deferred 199 deductions, the Section 41 credits expected to be sustained related to the qualifying R&E expenditures.
3. That SCE&G may defer, as a regulatory asset, the estimated interest cost required to be recognized under Generally Accepted Accounting Principles related to this uncertain tax position.
4. That SCE&G may defer, as a regulatory asset, incremental costs incurred associated with implementing and defending these claims for R&E deductions and credits.

Upon ultimate resolution of the claims, an appropriate recovery or amortization period of the net remaining deferred regulatory asset may be sought.

5. That SCE&G may hold the net ADIT liability resulting from the Section 174 deduction claims outside of rate base until such time as the benefits of the ADIT liability are reflected in customer rates as a reduction to the Environmental Component of SCE&G's total fuel cost factor.

6. That this Order shall remain in full force and effect until further order of the Commission.

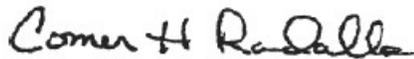
BY ORDER OF THE COMMISSION:



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Swain E. Whitfield, Chairman

ATTEST:



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Comer H. Randall, Vice Chairman