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April 1, 2015

VIA ELECTRONIC FILING

Jocelyn G. Boyd, Esquire
Chief Clerk & Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

RE: South Carolina Electric & Gas Company's 2015 Annual Update on Demand Side Management Programs and Petition for an Update to Rate Rider
Docket No.: 2015-45-E

Dear Ms. Boyd:

On January 30, 2015, South Carolina Electric & Gas Company ("SCE&G" or the "Company") filed its 2015 Annual Update on Demand Side Management Programs and Petition for an Update to Rate Rider ("Petition") with the Public Service Commission of South Carolina. Please find attached the South Carolina Office of Regulatory Staff's ("ORS") review of SCE&G's Petition. With the adjustments recommended by ORS, the average residential customer using 1,000 kWh per month would see an increase of $1.38 in the monthly bill. Without ORS's adjustments to the Company's request, the same customer's monthly bill would increase by approximately $1.51 per month. This, along with recommendations which do not impact the requested rate, are fully discussed in ORS's review. ORS recommends that the Company's request, with the adjustments made by ORS, be approved.

Sincerely,

Shannon Bowyer Hudson

Shannon Bowyer Hudson, Esquire

Enclosure

cc: K. Chad Burgess, Esquire
J. Blanding Holman, IV, Esquire

South Carolina Office of Regulatory Staff's
Review of South Carolina Electric & Gas Company's 2015 Annual Update on Demand Side Management Programs and Petition to Update Rate Rider Docket No. 2015-45-E

INTRODUCTION

South Carolina Electric & Gas Company ("SCE&G" or the "Company") filed a Request for Approval of its Demand Side Management ("DSM")[1] Plan Including a DSM Rate Rider and Portfolio of Energy Efficiency Programs with the Public Service Commission of South Carolina ("Commission") in Docket No. 2009-261-E on June 30, 2009. Nine (9) DSM programs were proposed by the Company – seven (7) targeting residential customers and two (2) for commercial and industrial customers. Two (2) settlement agreements – the General Settlement Agreement and the Opt-Out Settlement Agreement – were approved by the Commission in Order No. 2010-472 dated July 15, 2010.

On May 31, 2013, the Company filed an Application for Approval to Continue Demand Side Management Programs (Docket No. 2013-208-E) with no change to the DSM Rate Rider and with a revised portfolio of DSM programs. A Settlement Agreement was reached by the Company, the South Carolina Office of Regulatory Staff ("ORS"), the South Carolina Energy Users Committee and Wal-Mart Stores, East and Sam's East, Inc. The Settlement Agreement stated that:

- the Company's revised portfolio of DSM programs should be approved as filed;
- the Company should retain the authority and flexibility to modify, amend, terminate and/or add any measure or program without seeking prior Commission approval;
- the Company should continue to file annual reviews of the programs and program costs with the Commission and the ORS;
- the Company should review additional programs designed specifically for low-income participants;
- the Net Lost Revenue ("NLR") recovery should be limited to a rolling three (3) year period; and

[1] SCE&G refers to the programs as DSM programs, and ORS does the same, even though the programs are better described as energy efficiency programs.

- the amortization period for the recovery of Program Costs and Shared Savings Incentive ("SSI") should be five (5) years.

The Settlement Agreement also provided the option for certain non-residential customers having annual energy consumption of 1,000,000 kilowatt hours ("kWh") or more to opt-out of the DSM programs and required that non-residential customers who accepted a DSM rebate from the Company remain in the programs for five (5) years from the date of acceptance. Finally, the Settlement Agreement provided that any party could request a review and submit proposed changes after six (6) years. The Settlement Agreement was approved by the Commission in Order No. 2013-826.

On January 31, 2014, the Company filed its Annual Update on Demand Side Management Programs and Petition to Update Rate Rider with the Commission in Docket No. 2014-44-E. After reviewing the Company's filing in this case, ORS made several recommendations that were subsequently approved by the Commission:

- the elimination of the Residential Energy Information Display Program and Home Performance with ENERGY STAR Program due to the programs' lack of cost-effectiveness;
- the reduction in the recovery of projected NLR by 25% to mitigate costs to ratepayers stemming from participation estimates; and
- the modifications to the Residential ENERGY STAR Lighting Program to ensure that incentives are available to SCE&G customers only, and to reflect changes occurring due to federal standards that are removing certain bulbs from the marketplace.

On January 30, 2015, the Company filed its Annual Update on Demand Side Management Programs and Petition to Update Rate Rider ("Filing") with the Commission and was assigned Docket No. 2015-45-E. The Company is requesting the updated DSM Rate Rider be effective for the twelve (12)-month period beginning with bills rendered on and after the first billing cycle for May 2015 and ending with the last billing cycle for April 2016 ("Recovery Period"). ORS, in accordance with the terms of the approved Settlement Agreements, conducted a review of SCE&G's Filing. ORS's review includes an evaluation of the three (3) major cost components associated with the Company's DSM programs—Program Costs, NLR, and a SSI.

The following table illustrates the Program Years since the inception of the programs:

Program Year	Beginning Date	Ending Date	
1	October 1, 2010	November 30, 2011	
2	December 1, 2011	November 30, 2012	
3	December 1, 2012	November 30, 2013	
4	December 1, 2013	November 30, 2014	"Review Period"
5	December 1, 2014	November 30, 2015	"Forecast Period"

The Company's actual costs were audited for the period December 1, 2013 through November 30, 2014 ("Review Period" or "Program Year 4"). ORS also reviewed the Company's cost projections for the period December 1, 2014 through November 30, 2015 ("Forecast Period" or "Program Year 5").

DSM PROGRAMS

The Company currently offers nine (9) DSM programs. The programs and the launch dates of each program are as follows:

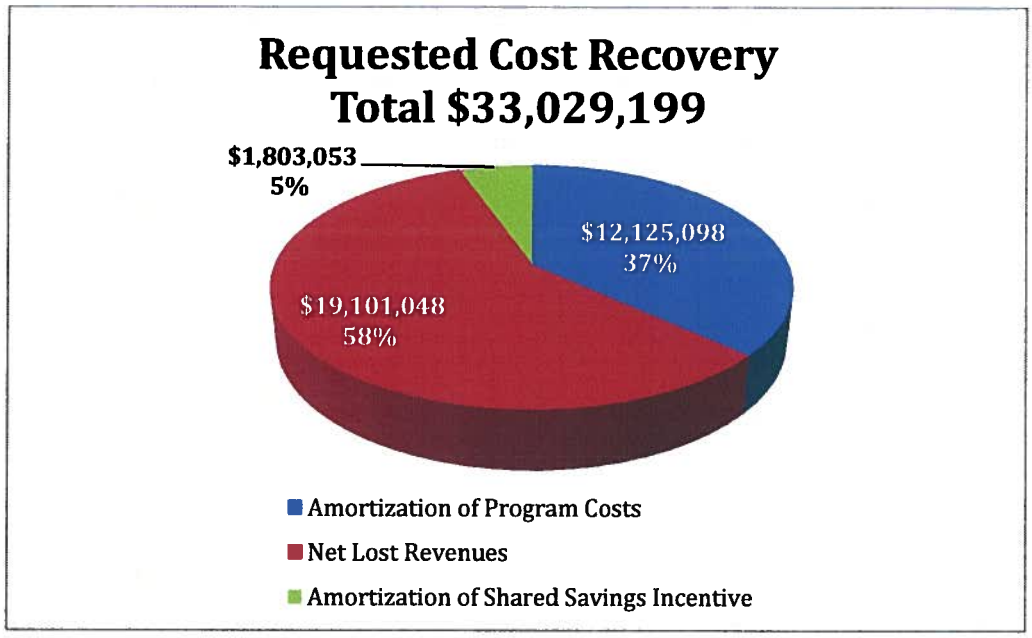
	Residential Programs	
i.	Home Energy Check-Up	10/01/2010
ii.	ENERGY STAR Lighting	02/14/2011
iii.	Heating & Cooling and Water Heating Equipment	03/01/2011
iv.	ENERGY STAR New Homes	04/01/2011
v.	Home Energy Reports	04/06/2011
vi.	Neighborhood Energy Efficiency Program (NEEP)	7/30/2013
vii.	Appliance Recycling	12/01/2013
	Commercial and Industrial Programs	
viii.	EnergyWise for Your Business	12/01/2013
ix.	Small Business Direct Install	12/01/2013

As recommended by ORS, the Company terminated two residential programs – Energy Information Displays and Home Performance with Energy Star. In addition, the Company is currently re-launching the residential ENERGY STAR Lighting Program to ensure that payments of incentives are made only to SCE&G customers.

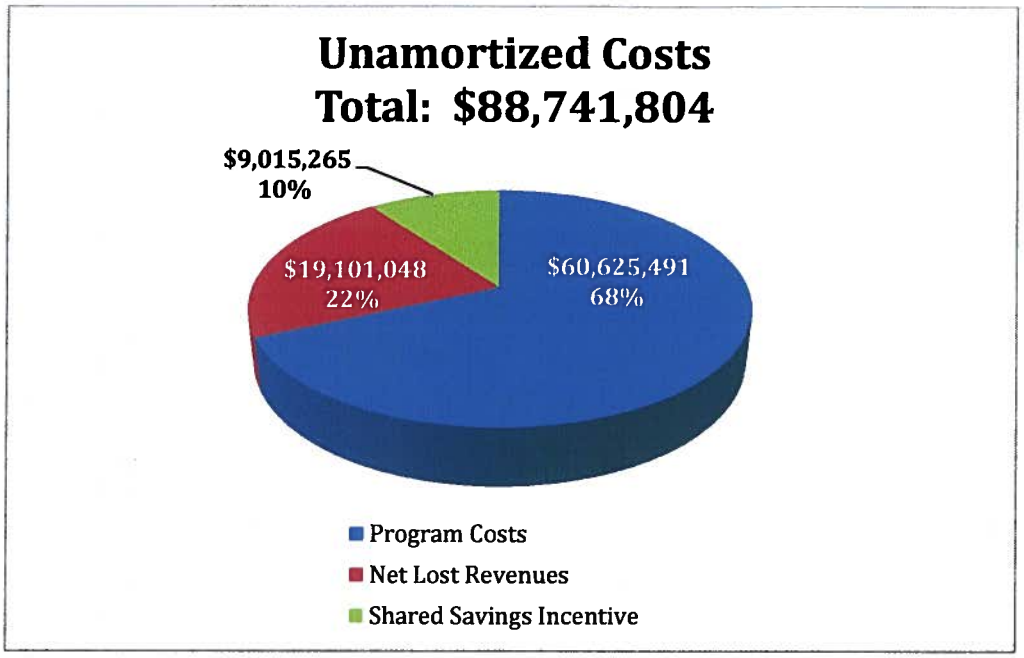
DSM Cost Evaluation

The total cost the Company is seeking to recover in this filing is $33,029,199. For the programs currently in place, the Company estimates that average lifetime costs are 2.40 cents/kWh-saved.

SCE&G's amortized Program Costs, with carrying costs, results in a request of $12,125,098, or 37% of the total requested amount. The Company is requesting $19,101,048 for NLR, or 58% of the total requested amount. SCE&G does not amortize its NLR. Total NLR are recouped during the Recovery Period. Finally, SCE&G is requesting $1,803,053, 5% of the total requested amount, as a SSI. SCE&G amortizes SSI over five (5) years without carrying costs.



The total unamortized cost for SCE&G's Filing is $88,741,804. This amount includes Program Costs of $60,625,491 (68% of the total unamortized cost); NLR of $19,101,048 (22% of the total unamortized cost); and a SSI of $9,015,265 (10% of the total unamortized cost). The following chart illustrates the proportions of the unamortized cost attributable to the various components.



A breakdown of the major cost components of this Filing and the development of the billing factors are shown in Exhibit 1. The requested revenues from residential customers are recovered from all residential ratepayers, while the non-residential revenues are recovered from non-residential ratepayers that have not opted out of the programs.

ADVISORY GROUP

The SCE&G DSM Advisory Group ("Advisory Group")[2] continues to meet to discuss the status of each program, including preliminary participation statistics, Evaluation, Measurement and Verification ("EM&V") plans and preliminary EM&V data. The Advisory Group met on May 8, 2014, and December 7, 2014.[3] During the meetings, SCE&G provided a preview of EM&V data and described program proposals. The Advisory Group offered insight regarding how the proposals could impact participation from various sectors and how the Company could utilize the Advisory Group more effectively in advance of a program launch.

[2] The Advisory Group was formed in accordance with Order No. 2010-472 and includes one representative each from the industrial sector, commercial sector, environmental sector, State Low Income Home Energy Assistance Program (LIHEAP) and ORS.

[3] The second Advisory Group meeting was delayed from its original scheduled date in October due to transitions in the leadership of the Company's DSM/EE department.

EVALUATION, MEASUREMENT & VERIFICATION

The Company filed its EM&V Report for Program Year 3. The EM&V Report is the basis for the latest true-ups of NLR and the SSI included in the Filing. To date, the Company has utilized EM&V results to true-up NLR and the SSI for Program Years 1, 2 and 3. The EM&V Report for Program Year 4 should be available in May 2015, providing data for true-ups of Program Year 4 in the January 2016 filing.

According to the Program Year 3 EM&V Report, the Company spent 74% of projected Program Costs and achieved 74% of projected energy savings in Program Year 3. However, the energy savings were primarily the result of higher than anticipated participation in the ENERGY STAR Lighting Program. Excluding the ENERGY STAR Lighting Program, the energy savings in Program Year 3 are less than half (45%) of the projected energy savings.

The Company terminated the Energy Information Display Program, which achieved only 16% of its projected energy savings in Program Year 3. The Company also terminated the Home Performance with ENERGY STAR Program, which achieved only 8% of its projected energy savings in Program Year 3, although the Company expended 35% of the program's projected costs.

ESTIMATES USED IN THE FILING

For Program Years 4 and 5, all program avoided energy amounts, avoided capacity amounts, NLR, and SSI are projections that were developed using the ICF International ("ICF") DSM Planning Model. Thus, all the dollar amounts in the Filing, with the exception of the program costs in the Review Period and trued-up amounts in Program Year 3, are estimates. These values and dollar amounts are to be trued-up in future filings based on EM&V results. ORS has reviewed the data and assumptions used in the ICF DSM Planning Model and tested certain changes in the data and assumptions. ORS finds the ICF DSM Planning Model to have produced reasonable estimates for the SCE&G DSM programs.

FORECASTED RETAIL SALES

The Company utilized its most recent short-term sales forecast to compute the DSM Rate Rider in this Filing. This forecast is the same forecast SCE&G used during its 2015 Annual Fuel Filing. As such, ORS is familiar with the methodology used to generate the sales forecast and finds it to be a reasonable approach to establish rates.

ENERGY AND PEAK DEMAND SAVINGS

The Company projects that during the Forecast Period the DSM programs will reduce annual electric usage by 71,307 MWh. These are noteworthy savings and may provide

SCE&G the ability to avoid or defer outright power purchases or the construction of a portion of required new generating facilities.

Unfortunately, the Company has struggled to achieve targeted energy savings and net benefits in Program Years 1, 2 and 3, largely due to low participation in the programs. In Program Year 3, with the exception of the ENERGY STAR Lighting Program, actual participation and achieved energy savings fell short of expectations with total energy savings reaching less than 50% of the projections of the original portfolio in Docket No. 2009-261-E. Program Year 4 projections have been revised based on results in Program Years 1-3, and preliminary data suggests that the revised projections will be more accurate going forward.

OPT-OUTS

The Opt-Out Settlement Agreement allows all industrial customers to opt-out of the DSM programs (and not pay the DSM Rate Rider) by notifying the Company in writing that the customer does not wish to participate in the Company's programs and has or will implement alternative DSM programs at its own expense. Beginning with Program Year 4, large commercial customers also have the ability to opt-out of the DSM programs in accordance with the terms of the Settlement Agreement approved in Commission Order No. 2013-826. At the end of Program Year 4 (November 30, 2014), 440 large commercial and industrial accounts had opted-out of SCE&G's DSM programs, representing 24% of the Company's retail electric load.

DSM RATE RIDER

The following table compares previous DSM Rate Riders to those currently requested by SCE&G:

DSM Rider Class	Approved 2013 Rate (cents/kWh)	Approved 2014 Rate (cents/kWh)	Requested 2015 Rate (cents/kWh)	*Percent Change in 2015 over 2014 Rate*
Residential	0.146	0.146	0.297	*103%*
Small General Service	0.060	0.041	0.149	*263%*
Medium General Service	0.088	0.088	0.132	*50%*
Large General Service	0.036	0.036	0.099	*175%*

In this Docket, the Company is requesting that the following accounting adjustments be applied to this Filing only:

- Modify the interest rate utilized to accrue carrying cost on the unrecovered balance of DSM costs to be the rate of interest for the 10-year U.S. Government Treasury Note plus 65 basis points rather than the Company's weighted average cost of capital; and
- Apply gains that SCE&G anticipates realizing from the sale of property located in Columbia, South Carolina to reduce the NLR to be recovered from residential customers under the proposed new rider.[4]

ORS has no objection to either of these special provisions requested by the Company. Without these provisions, the requested residential DSM Rate Rider would increase by more than 250%, from 0.146 cents per kWh to 0.376 cents per kWh.

CONCLUSION AND RECOMMENDATIONS

ORS has several recommendations to the Company's Filing which will affect the requested rates in the current Rate Rider. ORS recommends that two adjustments be made to the residential programs. First, ORS recommends that the Company limit enrollment in the Home Energy Report Program to one year. Currently, once customers elect to receive the Home Energy Report, they remain on the program indefinitely. Requiring customers to re-enroll annually ensures that the customers are engaged in the program and cognizant of the report's value. Second, ORS recommends that the NLR associated with the Home Energy Report Program be collected for the period in which the customer is enrolled. Reducing the enrollment period to one year is estimated to save ratepayers approximately $1 million in NLR.

The Federal Regional Standards for Heating and Cooling Products prohibits manufacturing air conditioners with an energy efficiency rating of 14 SEER or below in the Southeast as of January 1, 2015. In light of this change in federal standards, ORS recommends that the company discontinue the rebate currently offered in the Heating & Cooling and Water Heating Equipment Program for these units. Incentivizing only the sale of higher efficiency units will save ratepayers an estimated $24,000 in NLR and $229,000 in future program costs.

ORS encourages the Company to explore cost effective methods of increasing its energy efficiency efforts and to use the Advisory Group as a resource for program growth and design. Particularly, ORS is concerned about the delayed execution of changes to the

[4] Gains on the sale of this property on Huger Street in Columbia, South Carolina must be used to benefit the ratepayer per Commission Order No. 2009-913(A) issued in Docket No. 2009-489-E.

ENERGY STAR Lighting Program. The Company's willingness to adopt suggestions made by intervenors in comments filed as part of last year's docket is admirable. However, the lighting program was suspended at the end of Program Year 4 and remains so at the time of the filing of this report, effectively eliminating the source of most of the Company's energy savings. While ORS acknowledges that in this instance some of the delay could be attributed to the Company's internal reorganization, ORS believes that better communication with stakeholders in the future may prevent the Company from deciding to suspend programs in advance of replacement savings being identified.

Additionally, ORS recommends that the Company seek to reduce administrative costs associated with the DSM programs. Although SCE&G's programs are well beyond their ramp-up period, the Company continues to struggle with rising costs and falling savings placing programs in jeopardy of failing basic cost effectiveness tests.

ORS is also monitoring the Company's inability to garner substantial non-residential savings. ORS is concerned that programs are not meeting the needs of large commercial and industrial customers which continue to opt out at high rates, currently greater than 65% of the Company's industrial load. ORS recommends that the Company investigate the cause of these opt outs and, in future filings, address the issues that are discouraging larger customers with greater market potential for energy efficiency from participating.

ORS finds the updated DSM Rate Rider to be developed in accordance with the terms and conditions set forth in Commission Order Nos. 2010-472 and 2013-826. The following table compares the Company's requested rates with rates reflecting ORS's adjustments:

DSM Rider Class	Approved 2014 Rate (cents/kWh)	Company's Requested Rate (cents/kWh)	*Company's Requested Percent Change*	2015 Rate With ORS Adjustments (cents/kWh)	*Percent Change with ORS Adjustments*
Residential	0.146	0.297	*103%*	0.284	*95%*
Small General Service	0.041	0.149	*263%*	0.149	*263%*
Medium General Service	0.088	0.132	*50%*	0.132	*50%*
Large General Service	0.036	0.099	*175%*	0.099	*175%*

With the adjustments recommended by ORS, the average residential customer using 1,000 kWh per month would see an increase of $1.38 in the monthly bill. Without ORS's adjustments to the Company's request, the same customer's monthly bill would increase by approximately $1.51 per month. ORS recommends that the Company's request, with the adjustments made by ORS, be approved.

Exhibit 1

SCE&G Revenue Request for Demand Side Management Programs

Docket No. 2015-45-E

For the Recovery Period of May 2015 - April 2016

	Residential	Small General Service	Medium General Service	Large General Service	Total
Program Costs:					
Actual Balance of Program Costs as of November 30, 2014	$36,769,660	$9,533,072	$6,894,230	$7,428,529	$60,625,491
One Year Amortization	$7,353,932	$1,906,614	$1,378,846	$1,485,706	$12,125,098
Net Lost Revenues for December 1, 2012 through November 30, 2015					
Cumulative Energy Savings (kWh)	168,031,000	37,656,872	27,513,264	28,110,864	261,312,000
Net Lost Revenue Factors ($/kWh)	$0.10971	$0.09969	$0.07294	$0.04411	
Estimated Net Lost Revenues	$18,434,681	$3,754,014	$2,006,817	$1,239,970	$25,435,482
True-up for PY 3	$1,435,233	($882,129)	($782,957)	($104,581)	($334,434)
Net Lost Revenues for Recovery	$19,869,914	$2,871,885	$1,223,860	$1,135,389	$25,101,048
Application of Gain from Property Sale	($6,000,000)	$0	$0	$0	($6,000,000)
ORS Adjustments	($984,075)	$0	$0	$0	($984,075)
Net Lost Revenues for Rate Calculation	$12,885,839	$2,871,885	$1,223,860	$1,135,389	$18,116,973
Shared Savings Incentive:					
Cumulative Shared Savings Amortization though PY4	$1,153,379	$176,151	$143,512	$149,135	$1,622,177
True-up for PY 3	$252,736	($49,313)	($59,285)	$36,738	$180,876
Shared Savings Amortization for Rate Calculation	$1,406,115	$126,838	$84,227	$185,873	$1,803,053
DSM Rate Rider					
Amortization of Program Costs	$7,353,932	$1,906,614	$1,378,846	$1,485,706	$12,125,098
Net Lost Revenues	$12,885,839	$2,871,885	$1,223,860	$1,135,389	$18,116,973
Amortization of Shared Savings Incentive	$1,406,115	$126,838	$84,227	$185,873	$1,803,053
Total Requested Recovery	**$21,645,886**	**$4,905,337**	**$2,686,933**	**$2,806,968**	**$32,045,124**
Projected Sales (GWH)	7,614.9	3,297.5	2,033.6	2,829.9	
DSM Rate Rider (Cents/kWh)	**0.284**	**0.149**	**0.132**	**0.099**	