

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY & EXHIBITS

OF

M. ANTHONY JAMES, P.E.

SEPTEMBER 24, 2018



DOCKET NO. 2017-370-E

Joint Application and Petition of South Carolina Electric & Gas Company and Dominion Energy, Incorporated for Review and Approval of a Proposed Business Combination between SCANA Corporation and Dominion Energy, Incorporated, as May Be Required, and for a Prudency Determination Regarding the Abandonment of the V.C. Summer Units 2 & 3 Project and Associated Customer Benefits and Cost Recovery Plans

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M. ANTHONY JAMES, P.E.

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2017-370-E

**IN RE: JOINT APPLICATION AND PETITION OF SOUTH CAROLINA
ELECTRIC & GAS COMPANY AND DOMINION ENERGY,
INCORPORATED FOR REVIEW AND APPROVAL OF A PROPOSED
BUSINESS COMBINATION BETWEEN SCANA CORPORATION AND
DOMINION ENERGY, INCORPORATED, AS MAY BE REQUIRED, AND
FOR A PRUDENCY DETERMINATION REGARDING THE
ABANDONMENT OF THE V.C. SUMMER UNITS 2 & 3 PROJECT
AND ASSOCIATED CUSTOMER BENEFITS AND COST RECOVERY
PLANS**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony James. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Director of Energy Policy for the Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I hold a Bachelor’s Degree in Engineering and a Master’s Degree in Earth and Environmental Resources Management from the University of South Carolina. I am a Professional Engineer registered in the State of South Carolina. I am also a Certified Public

1 Manager. I have been employed as a Project Engineer at environmental engineering
2 consulting firms and at the South Carolina Department of Health and Environmental
3 Control (“DHEC”). I joined DHEC in 1991 and was ultimately responsible for
4 coordinating DHEC’s statewide wastewater compliance efforts. In 2004, I joined ORS
5 working in the Electric Department where I held various staff positions. I was promoted
6 to Deputy Director of the Electric and Natural Gas Division in 2012. As Deputy Director,
7 my duties grew to include providing general oversight of the Electric Department as well
8 as the Natural Gas Department. In 2014, I was promoted to Director of New Nuclear
9 Development to monitor the two (2) new nuclear construction projects in South Carolina –
10 the South Carolina Electric & Gas Company V.C. Summer project in Jenkinsville, S.C.
11 and the Duke Energy project in Cherokee, S.C. In 2015, I was promoted to Director of
12 Energy Policy. As Director of Energy Policy, I continue to be responsible for the
13 monitoring of new nuclear construction projects; however, I am now also responsible for
14 directing the activities of the State Energy Office. I have more than twenty-five years of
15 experience as an environmental engineer in regulatory compliance.

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE**
17 **COMMISSION OF SOUTH CAROLINA (“COMMISSION” OR “PSC”)?**

18 **A.** Yes. I have testified before the Commission in general base rate cases, several fuel
19 adjustment clause proceedings, and hearings to update the schedule and budget for the
20 construction of the new nuclear units in Jenkinsville, S.C. I have also been an ORS witness
21 in proceedings related to renewable energy resources, specifically, net metering programs
22 and smart grid standards. I have also provided updates to the PSC via allowable ex parte
23 briefings.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
2 **PROCEEDING?**

3 **A.** The purpose of my direct testimony is to introduce ORS witnesses that will testify
4 on various matters regarding the South Carolina Electric & Gas Company’s (“SCE&G” or
5 “Company”) decision to abandon the construction of V.C. Summer Nuclear Units 2 & 3
6 located in Jenkinsville, S.C. (“Units or “Project”); provide an overview of SCE&G’s and
7 Dominion Energy Incorporated’s (together “Joint Applicants”) Joint Application and
8 Petition (“Petition”); summarize ORS’s proposal; and, provide an overview of ORS’s
9 monitoring activities.

10 **Q. WHO ARE THE OTHER WITNESSES THAT WILL PROVIDE DIRECT**
11 **TESTIMONY FOR ORS?**

12 **A.** The other ORS witnesses are:

13 1. **Gary Jones**, President, Jones Partners, LTD. Mr. Jones’s testimony will focus
14 on ORS’s prudence determinations with regard to the abandonment costs and SCE&G’s
15 decision to abandon the Units. Mr. Jones will also address the following:

- 16 a) The prudence of SCE&G’s decision to monetize the Toshiba settlement in lieu
17 of accepting the originally proposed long-term payout;
18 b) Treatment of transmission assets not abandoned;
19 c) Treatment of the transfers of certain originally shared facilities to V.C. Summer
20 Unit 1; and
21 d) SCE&G’s management of the Project.

22 2. **Lane Kollen**, J. Kennedy and Associates, V.P. and Principal. Mr. Kollen will
23 provide a summary of the revenue requirement resulting from ORS ratemaking adjustments

1 and proposals for recovery of allowed Project costs, related regulatory liabilities, income
2 tax savings from the federal Tax Cuts and Jobs Act (“TCJA”), and savings related to the
3 proposed business combination. Mr. Kollen will provide a net present value comparison
4 of the ORS ratemaking proposals to the proposals offered by the Joint Applicants. In
5 addition, Mr. Kollen will address the Joint Applicants’ proposal to defer the revenue
6 requirement for transmission costs not included in present revised rates. Finally, Mr.
7 Kollen will address certain commitments and conditions that are necessary to ensure that
8 the proposed business combination does not harm SCE&G ratepayers.

9 3. **Norm Richardson**, Anchor Power Solutions, Owner. Mr. Richardson will
10 explain the results of his economic analysis that compares the cost, as of March 31, 2015,
11 of delaying the completion of the Units for two (2) years to the cost of abandoning the
12 Units and building two (2) combined cycle natural gas units of a similar size.

13 4. **Richard A. Baudino**, J. Kennedy and Associates, Consultant. Mr. Baudino will
14 present his recommendation for the allowed return on equity to be applied to the allowed
15 costs related to the Project.

16 5. **Daniel Sullivan**, ORS Deputy Director of Auditing. Mr. Sullivan will describe
17 ORS’s procedures used by the Audit Department to perform an examination of the Petition
18 and SCE&G’s September 30, 2017 Quarterly Report. Mr. Sullivan will also discuss the
19 findings and recommendations resulting from the Audit Department’s examination.

20 6. **Kelvin Major**, ORS Audit Manager. Mr. Major will describe the procedure used
21 to determine the allowable incremental construction work-in-progress (“CWIP”) in each
22 revised rates proceeding as well as the procedures used by ORS to calculate the allowed
23 CWIP balance.

1 7. **Michael Seaman-Huynh**, ORS Sr. Regulatory Manager. Mr. Seaman-Huynh’s
2 testimony will address SCE&G’s natural gas operations; the Petition’s rates and riders; and
3 ORS’s recommendations regarding its base rate reduction, capital cost recovery rider, tax
4 savings rider, and merger savings rider under ORS’s proposal. Mr. Seaman-Huynh will
5 also address ORS’s recommendation regarding the Joint Applicants’ proposed rate credit
6 to customers and provide a comparison of the three (3) plans proposed by the Joint
7 Applicants to ORS’s proposal.

8 8. **Elizabeth Warner**, South Carolina Public Service Authority (“Santee Cooper”),
9 V.P. Legal Services and Corporate Secretary. Ms. Warner will certify that certain
10 documents referenced in ORS testimony are Santee Cooper records.

11 **Q. WHAT ARE THE JOINT APPLICANTS REQUESTING IN THEIR PETITION?**

12 **A.** The Joint Applicants are seeking: (1) approval of a proposed business merger
13 between Dominion Energy, Inc. and SCE&G’s parent company, SCANA (“Merger”); (2)
14 a prudence determination regarding SCE&G’s decision to abandon the Units; and (3)
15 approval to recover Project costs associated with the Units from SCE&G ratepayers.

16 **Q. PLEASE ELABORATE.**

17 **A.** The Petition seeks Commission approval of the Merger or alternatively, a finding
18 that the proposed Merger is in the public interest and that there is an absence of harm to
19 SCE&G ratepayers. As part of the Merger, the Joint Applicants offer a Customer Benefits
20 Plan (“CBP”) which includes proposed ratepayer benefits, prudence determinations, and
21 accounting and ratemaking treatments to recover Project costs. The Joint Applicants state
22 that the CBP must be approved without any material change to successfully preserve the
23 Merger. According to Joint Applicants, the Merger must close on or before January 2,

1 2019. However, the termination date may be extended beyond January 2, 2019 until April
2 2, 2019 under certain circumstances.

3 The CBP includes a request to recover Project costs of \$3.3 billion over 20 years at
4 a return on equity of 10.25%, and other accounting and ratemaking treatments. The CBP
5 also includes the following: (1) a one-time rate credit to SCE&G customers of \$1.3 billion
6 (which includes approximately \$1.1 billion SCE&G recovered in the Toshiba settlement);
7 (2) forgoing the recovery of approximately \$1.7 billion in Project costs; (3) an estimated
8 5% rate reduction resulting from a \$575 million refund of amounts previously collected
9 from SCE&G ratepayers and rate reductions related to the federal TCJA; (4) a \$180 million
10 shareholder purchase of a 540 MW combined cycle, natural gas fired generating station
11 located in Gaston, S.C.; (5) freezing retail electric base rate increases until January 1, 2021;
12 and (6) a commitment to provide funding for \$1 million per year in increased charitable
13 contributions in SCANA communities for five (5) years.

14 **Q. DOES THE PETITION PRESENT OTHER PROPOSALS?**

15 **A.** Yes. The Petition presents two “disfavored” alternative proposals in the event the
16 Merger does not close. They are the No Merger Benefits Plan and the Base Request.

17 **Q. PLEASE DISCUSS THE NO MERGER BENEFITS PLAN.**

18 **A.** If the Merger does not close, SCE&G requests the PSC approve the No Merger
19 Benefits Plan which includes a request to recover approximately \$3.1 billion in Project
20 costs over 50 years at a return on equity of 10.25%, prudence determinations, and other
21 accounting and ratemaking treatments.

22 The No Merger Benefits Plan also includes the following: (1) SCE&G will not seek
23 further revised rates increases under the Base Load Review Act (“BLRA”); (2) a 3.5%

1 retail electric rate reduction as compared to the May 2017 retail electric rates; (3) a \$180
2 million shareholder purchase of a 540 MW combined cycle, natural gas fired generating
3 station located in Gaston, S.C.; (4) SCE&G will issue a request for proposal for 100 MWs
4 of new solar capacity with back-up battery storage; (5) return of approximately \$1.1 billion
5 to ratepayers recovered in the Toshiba settlement; and (6) rate reductions related to the
6 federal TCJA.

7 **Q. PLEASE DISCUSS THE BASE REQUEST.**

8 **A.** If the Merger does not close and the PSC does not approve the No Merger Benefits
9 Plan, the Company requests the Commission approve the Base Request. The Base Request
10 includes a request to recover approximately \$3.6 billion in Project costs (which reflects no
11 rate reduction offers by SCE&G) over 50 years at a return on equity of 10.25%, prudence
12 determinations, and other accounting and ratemaking treatments. The Base Request also
13 includes the return of approximately \$1.1 billion to ratepayers recovered in the Toshiba
14 settlement.

15 **Q. DO THE JOINT APPLICANTS IDENTIFY ASSETS THAT WILL NOT BE**
16 **ABANDONED?**

17 **A.** Yes. The Joint Applicants do not intend to abandon the transmission assets
18 associated with the Units. The Joint Applicants state that these transmission assets are
19 beneficial to SCE&G's system and have been or will be placed into service before the end
20 of 2018. Accordingly, the Joint Applicants removed approximately \$322 million in
21 transmission costs from the Project costs. The Joint Applicants are not seeking rate
22 recovery of these assets in this docket but request the Commission allow SCE&G to retain

1 approximately \$32 million per year currently being collected in revised rates and to defer
2 certain operating costs until a future base rate proceeding.

3 The Joint Applicants also propose to remove approximately \$86 million of Project
4 costs associated with the transfer of certain assets to V.C. Summer Unit 1. The Joint
5 Applicants state that these assets are beneficial to Unit 1 and are now included in SCE&G's
6 plant in service.

7 ORS witness Mr. Kollen will discuss ORS's recommended accounting treatment
8 of these assets.

9 **Q. DOES ORS HAVE AN ALTERNATE PROPOSAL?**

10 **A.** Yes, the Optimal Rate Payer Benefits Plan (the "Optimal Plan"). However, it is
11 important to note that ORS fully reserves the right to revise its proposal via supplemental
12 testimony should new information that is relevant to the prudence of abandonment costs
13 become available.

14 **Q. PLEASE DISCUSS THE OPTIMAL PLAN.**

15 **A.** The Optimal Plan provides a net rate reduction of \$193.3 million and \$160.1 million
16 in 2019 and 2020, respectively. These rate reductions reflect the following actions: (1)
17 termination of the \$445 million SCE&G currently recovers in revised rates; (2) termination
18 of the \$367.4 million experimental rate credit put into effect under Commission Order No.
19 2018-460; (3) implementation of a rate recovery rider to collect \$86.2 million in allowable
20 Project costs; (4) implementation of a tax savings rider to capture \$98.7 million in savings
21 related to the TCJA; (5) implementation of a merger savings rider to capture Merger
22 savings of \$35 million in 2019 and increasing to \$70 million in 2020; and (6)
23 implementation of a one-time refund of \$68.2 million for the base rate and revised rate

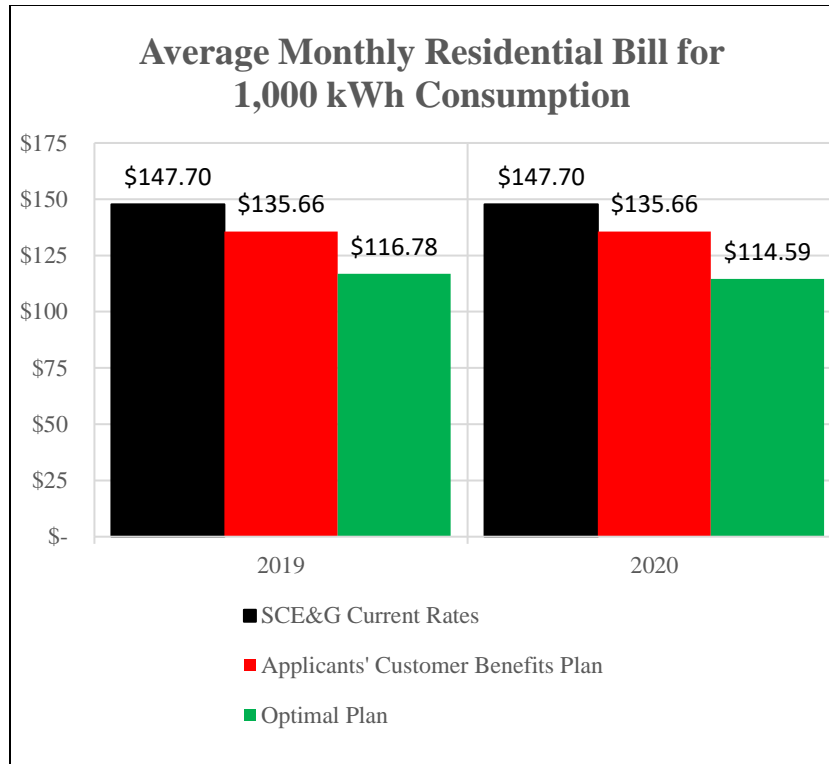
1 income tax savings in 2018 due to the TCJA. The following table summarizes the above
2 actions.

SUMMARY OF ORS RATE RECOMMENDATIONS FOR 2019 AND 2020 \$ MILLION		
	<u>2019</u>	<u>2020</u>
Termination of Revised Rates	(445.0)	(445.0)
Termination of Experimental Rates	367.4	367.4
Increase to Recover Project Costs	86.2	86.2
Reduction for TCJA Tax Savings (Base Rates) - Tax Savings Rider	(98.7)	(98.7)
Reduction for Merger Savings - Merger Savings Rider	(35.0)	(70.0)
One-Time Refund of TCJA Regulatory Liability	<u>(68.2)</u>	<u>0.0</u>
Net Reduction in Electric Rates	<u>(193.3)</u>	<u>(160.1)</u>

13 ORS witness Mr. Kollen's testimony discusses the details of the Optimal Plan and
14 compares it to the proposals presented by the Joint Applicants.

15 **Q. WHAT IS THE NET IMPACT OF THE OPTIMAL PLAN ON THE SCE&G**
16 **AVERAGE MONTHLY BILL FOR A TYPICAL RESIDENTIAL CUSTOMER?**

17 **A.** As shown below, under the Optimal Plan the average monthly bill for a residential
18 customer will decrease by approximately \$30.92, from \$147.70 to \$116.78 in the first year.
19 In the second year, a residential customer's bill will be further reduced to \$114.59.



1

2

ORS witness Mr. Seaman-Huynh will address the details regarding the monthly bill

3

impact for residential customers under the Optimal Plan.

4

Q. DOES THE OPTIMAL PLAN ALLOW FOR THE RECOVERY OF EMPLOYEE BONUSES?

5

6

A. No. The Optimal Plan removes all employee bonuses related to the Project.

7

Q. WHY IS ORS PROPOSING TO REMOVE ALL EMPLOYEE BONUSES?

8

A. Based on the abandonment of the Project and SCE&G's performance that preceded the abandonment (as set forth in ORS witnesses Mr. Jones's and Ms. Warner's direct testimony and accompanying exhibits), SCANA/SCE&G shareholders should be responsible for bonuses paid-out for the abandoned Units.

9

10

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Q. DOES ORS HAVE A RECOMMENDATION?

1 **A.** Yes, ORS recommends the Commission approve the Optimal Plan, if securitization
2 is not available (as discussed by ORS witness Mr. Kollen), which provides superior
3 benefits for SCE&G ratepayers over the 20-year recovery period.

4 ORS witness Mr. Kollen will address the details of ORS’s recommendations.

5 **Q. WHAT LAWS SUPPORT ORS’S PROPOSAL?**

6 **A.** ORS is guided by S.C. Code of Laws Section 58-33-280(K) of the BLRA which
7 states, “[w]here a plant is abandoned after a base load review order approving rate recovery
8 has been issued, the capital costs and AFUDC related to the plant shall nonetheless be
9 recoverable under this article provided that the utility shall bear the burden of proving by
10 a preponderance of the evidence that the decision to abandon construction of the plant was
11 prudent. Without limiting the effect of Section 58-33-275(A), recovery of capital costs and
12 the utility's cost of capital associated with them may be disallowed only to the extent that
13 the failure by the utility to anticipate or avoid the allegedly imprudent costs, or to minimize
14 the magnitude of the costs, was imprudent considering the information available at the time
15 that the utility could have acted to avoid or minimize the costs. The commission shall order
16 the amortization and recovery through rates of the investment in the abandoned plant as
17 part of an order adjusting rates under this article.”

18 Also, ORS’s proposal reflects the public interest as defined in Section 58-4-10
19 (Supp. 2017 as amended by 2018 S.C. Acts 258) which states, “public interest means the
20 concerns of the using and consuming public with respect to public utility services,
21 regardless of the class of customer and preservation of continued investment in and
22 maintenance of utility facilities so as to provide reliable and high quality utility services.”

23 **Q. WHAT OTHER LAWS SUPPORT ORS’S PROPOSAL?**

1 **A.** ORS’s proposal also considers the definitions of imprudent and prudent as defined
2 in Section 58-33-220 (Supp. 2017 as amended by 2018 S.C. Acts 258) which states,
3 “[i]mprudent or imprudence includes, but is not limited to, lack of caution, care, or
4 diligence as determined by the commission in regard to any action or decision taken by the
5 utility or one acting on its behalf including, but not limited to, its officers, board, agents,
6 employees, contractors, subcontractors, consultants affecting the project, or any other
7 person acting on behalf of or for the utility affecting the project. Imprudent or imprudence
8 includes, but does not require, a finding of negligence, carelessness, or recklessness.
9 Imprudence on behalf of any contractor, subcontractor, agent, or person hired to construct
10 a plant or perform any action or service on behalf of the utility shall be attributed to the
11 utility.”

12 “Prudent, prudence, or prudence means a high standard of caution, care, and
13 diligence in regard to any action or decision taken by the utility or one acting on its behalf
14 including, but not limited to, its officers, board, agents, employees, contractors,
15 subcontractors, consultants affecting the project, or any other person acting on behalf of or
16 for the utility affecting the project. To the extent a utility enters a contract with a third
17 party that delegates some or all decision-making authority related to the project, the utility
18 retains the burden of establishing the prudence of specific items of cost or specific
19 third-party decisions. Prudent, prudence, or prudence also requires that any action or
20 decision be made in a timely manner.”

21 Section 58-33-220 also provides guidance to consider when evaluating imprudent
22 and prudent decisions by a utility. It states, “[i]n determining whether any action or
23 decision was prudent, the commission shall consider, including, but not limited to:

1 (a) whether the utility acts in a timely manner, with any passage of time which
2 results in increased costs or expense prior to the utility acting or making the decision
3 weighing against a finding of prudence;

4 (b) whether prior actions or decisions by the utility were imprudent and such
5 imprudent actions led to a decision by the utility that could otherwise be prudent. Such
6 circumstances weigh against a finding of prudence; and

7 (c) any other relevant factors, including commission of a fraudulent act, which are
8 deemed not to be prudent.

9 As used in item (c), ‘fraud’ includes, in addition to its normal legal connotation,
10 concealment, omission, misrepresentation, or nondisclosure of a material fact in any
11 proceeding or filing before the commission or Office of Regulatory Staff. Proceedings and
12 filings to which the provisions of this paragraph apply include, but are not limited to, rate
13 or revised rate filings, responsive filings, motions, pleadings, briefs, memoranda, document
14 requests, and other communications before the commission or Office of Regulatory Staff.”

15 **Q. ARE YOU AWARE OF THE REPORTS PREPARED BY THE BECHTEL POWER**
16 **CORPORATION (“BECHTEL”)?**

17 **A.** Yes, I am. I have also reviewed the October 22, 2015 Bechtel presentation to the
18 leadership of SCE&G and Santee Cooper which contains the preliminary results of
19 Bechtel’s findings, including a schedule analysis with revised substantial completion dates
20 (“SCDs”) for the Units. I have also reviewed the November 9, 2015 and November 12,
21 2015 draft Bechtel reports, which also include a schedule analysis. Lastly, I have reviewed
22 the February 5, 2016 final Bechtel report which does not include Bechtel’s schedule
23 analysis, and the separate Bechtel schedule report also dated February 5, 2016 (collectively,

1 the “Bechtel Reports”). SCE&G’s records show that \$1 million was paid to Bechtel for
2 the Bechtel Reports.

3 ORS witness Mr. Jones provides detailed testimony regarding the Bechtel Reports.

4 **Q. HOW DID YOU BECOME AWARE OF THE BECHTEL REPORTS?**

5 **A.** I became aware of the Bechtel Reports through SCE&G’s testimony before special
6 committees of the S.C. General Assembly and associated discovery requests of the General
7 Assembly, Governor McMaster’s release of the February 5, 2016 final Bechtel report on
8 or about September 5, 2017, and ORS’s subsequent discovery requests.

9 **Q. PRIOR TO GOVERNOR MCMASTER’S RELEASE OF THE FEBRUARY 5, 2016**
10 **FINAL BECHTEL REPORT, DID SCE&G PROVIDE THE BECHTEL REPORTS**
11 **TO THE COMMISSION OR ORS?**

12 **A.** No, they did not.

13 **Q. HAS SCE&G ADMITTED THAT THEY DID NOT PROVIDE THE BECHTEL**
14 **REPORTS OR THE EXTENDED SCHEDULE DATES TO THE PSC OR THE**
15 **PUBLIC?**

16 **A.** Yes, they have.

17 **Q. DID SCE&G’S CONCEALMENT OF THE BECHTEL ASSESSMENT**
18 **INFLUENCE ORS’S PRUDENCY FINDINGS?**

19 **A.** Yes. ORS believes that SCE&G’s decision to conceal the Bechtel assessment
20 which included revised SCDs for the Units meets the definition of fraud as defined in
21 Section 58-33-220(c), where fraud includes, “concealment, omission, misrepresentation,
22 or nondisclosure of a material fact in any proceeding or filing before the commission or
23 Office of Regulatory Staff.”

1 Specifically, ORS believes that the Company’s failure to inform the Commission
2 or ORS of Bechtel’s work, while SCE&G requested updates to the Project’s schedule and
3 budget as well as revised rates revenue increases during 2015 and 2016, constitutes a
4 fraudulent act, as defined in Section 58-33-220(c). Accordingly, ORS established March
5 12, 2015, the date the Company filed its 2015 request in Docket No. 2015-103-E as the
6 date SCE&G began reporting its schedule and budget in a fraudulent manner.

7 **Q. MR. JAMES, ARE YOU FAMILIAR WITH THE FEDERAL PRODUCTION TAX**
8 **CREDITS (“PTCs”) ASSOCIATED WITH THE UNITS?**

9 **A.** Yes. According to SCE&G, the PTCs were worth approximately \$1.1 billion per
10 unit or \$2.2 billion in total. Although there were other criteria to qualify for the PTCs, the
11 most pivotal was the requirement that the Units must be placed into service before January
12 1, 2021.

13 **Q. WHAT ARE THE SCDs FOR THE UNITS PROVIDED BY BECHTEL?**

14 **A.** The SCE&G reported SCD for Unit 2 was June 19, 2019. However, Bechtel’s
15 schedule analysis adjusts the Unit 2 date by 18 to 26 months later resulting in a revised
16 SCD of December 2020 to August 2021. The SCE&G reported SCD for Unit 3 was June
17 16, 2020. However, Bechtel’s schedule analysis adjusts the Unit 3 date by 24 to 36 months
18 later resulting in a revised SCD of June 2022 to June 2023. Exhibit MAJ-1 lists the SCDs
19 for the Units, corresponding Project delays in months, and the SCDs provided by Bechtel.¹

20 The Bechtel revised SCDs for the Units demonstrate that neither unit would likely
21 qualify for the PTCs and thereby force the Company to forego \$2.2 billion in ratepayer

¹ SCDs as used by SCE&G is synonymous with the term Commercial Operation Dates (“CODs”) as used by Bechtel in its schedule analysis.

1 benefits and re-evaluate the economic viability of the Project. The Bechtel SCDs were of
2 great monetary significance and provided strong motivation for SCE&G to delete Bechtel’s
3 schedule analysis from the final Bechtel report and conceal this fact from the Commission
4 and ORS.

5 ORS witness Mr. Jones provides more detail on this matter in his direct testimony.

6 **Q. DID ORS’S INVESTIGATION REVEAL OTHER IMPRUDENT DECISIONS BY**
7 **SCE&G RELATED TO THE BECHTEL REPORTS?**

8 **A.** Yes. The Company’s decision to omit Bechtel’s on-site activities from its quarterly
9 reports and its November 19, 2015 presentation to the PSC were imprudent, per Section
10 58-33-220.

11 Section 58-33-77(A) of the BLRA requires SCE&G to file quarterly reports to
12 update the Commission and ORS on the status of the Project. These reports are key to
13 informing regulatory bodies of the many details impacting the Project’s schedule and
14 budget.

15 Additionally, in the initial Commission order approving the construction of the
16 Units (Order No. 2009-104(A)), the Company is required to provide quarterly reports (per
17 Section 58-33-77(A)) to the PSC and provide a yearly status report. Regarding the yearly
18 status report, Order No. 2009-104(A) states, “[i]n order that the public and the Commission
19 remain informed about the project, the Company will provide the Commission with a
20 yearly status report on its progress and other significant developments...” (emphasis
21 added). In April 2015, SCE&G determined that the Bechtel assessment would benefit the
22 Project and agreed to seek board approval. Yet, during the July 2015 hearing to modify
23 the Project’s schedule and budget (Docket No. 2015-103-E), while the Company provided

1 its annual project status update to the Commission, SCE&G did not mention the decision
2 to engage Bechtel to perform a comprehensive assessment of the Project. Certainly, the
3 decision to engage Bechtel was a “significant development.”

4 Notwithstanding the above, on November 19, 2015, the PSC held an allowable ex
5 parte communication briefing where SCE&G provided testimony regarding its EPC
6 Contract amendment. The Company informed the Commission of a specific provision that
7 SCE&G suggested WEC incorporate into the October 2015 EPC Amendment.² This
8 provision recognized the importance of quickly disclosing critical information to federal
9 and state regulators.

10 About a month prior to the briefing (on October 22, 2015), Bechtel presented to the
11 leadership of SCE&G and Santee Cooper the preliminary results of Bechtel’s findings to
12 include a schedule analysis with revised SCDs for the Units. The November 19, 2015
13 briefing – held at SCE&G’s request – provided yet another opportunity for the Company
14 to inform the PSC of the Bechtel assessment; however, SCE&G failed to make this
15 disclosure.

16 **Q. DID SCE&G PROPERLY MANAGE THE PROJECT?**

17 **A.** No. In accordance with Section 58-33-220, SCE&G’s decision to take a “hands-
18 off” approach to managing the Project proved to be unsuccessful and may have contributed
19 to the Project’s failure. The Company’s “hands-off” strategy delayed the implementation
20 of corrective measures.

² “While the Parties acknowledge the existence of various confidentiality agreements between themselves, they also recognize that certain disclosures must be made to satisfy various securities laws and for regulatory purposes. Each Party is free to make such disclosures as it deems prudent, but the disclosing Party must provide a copy of any intended written disclosure to the other Parties before such disclosure is made.”

1 ORS witness Mr. Jones provides direct testimony regarding this matter. Also, he
2 specifically addresses ORS's concern that the Project often proceeded without an adequate
3 construction schedule.

4 **Q. PLEASE PROVIDE A SUMMARY OF ORS'S ONGOING MONITORING**
5 **ACTIVITIES ASSOCIATED WITH THE PROJECT.**

6 **A.** The BLRA establishes ORS's on-going monitoring responsibilities. Specifically,
7 Section 58-33-277(B) states: "The Office of Regulatory Staff shall conduct on going
8 monitoring of the construction of the plant and expenditure of capital through review and
9 audit of the quarterly reports under this article, and shall have the right to inspect the books
10 and records regarding the plant and the physical progress of construction upon reasonable
11 notice to the utility."

12 ORS's monitoring duties were a priority and ORS dedicated staff to evaluate the
13 Project. Specifically, ORS's activities included:

- 14 • Auditing capital cost expenditures and CWIP
- 15 • Reviewing invoices associated with the Milestone Schedule
- 16 • Performing weekly on-site review of construction documents
- 17 • Attending on-site Plan of the Day meetings with Project Managers
- 18 • Attending on-site planning and scheduling meetings with Area Managers
- 19 • Participating in monthly on-site observations of construction activities and progress
- 20 • Holding monthly update meetings with SCE&G
- 21 • Meeting quarterly with representatives of the Consortium
- 22 • Attending Nuclear Regulatory Commission Public Meetings
- 23 • Visiting vendor fabrication facilities
- 24 • Providing written reports in response to SCE&G's required quarterly reports
- 25 • Monitoring AP-1000 projects in the United States and China

1 After SCE&G’s decision to abandon the Units, ORS altered its monitoring duties.
2 Section 58-33-275 of the BLRA proposes that prudent construction costs are recoverable
3 so long as the Units are being constructed in accordance with the approved schedule and
4 budget. Accordingly, ORS’s monitoring focused on SCE&G’s ability to adhere to the
5 approved construction schedule and the approved capital cost estimates (or budget). To
6 track SCE&G’s compliance with the construction schedule, ORS used the BLRA
7 milestones. The following exhibits provide a historical account of the Project. Exhibit
8 MAJ-2 charts the historical capital costs of the Units. Exhibit MAJ-3 identifies the
9 cumulative rate increases associated with the Project. Exhibit MAJ-4 presents a timeline
10 of various data tied to PSC hearings. Exhibit MAJ-5 documents the result of SCE&G’s
11 annual request for revised rates and ORS’s examination.

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 **A.** Yes, it does.

V.C. Summer Units 2 & 3 Substantial Completion Dates

SCE&G Order No. 2009-104(A)

SCE&G Order No. 2012-884

Unit 2	
April 1, 2016	
March 15, 2017	
+ 11 MONTHS	

Unit 3	
January 1, 2019	
May 15, 2018	
- 7 MONTHS	

SCE&G Order No. 2012-884

SCE&G Order No. 2015-661

March 15, 2017	
June 19, 2019	
+ 27 MONTHS	

May 15, 2018	
June 16, 2020	
+ 25 MONTHS	

SCE&G Order No. 2015-661

SCE&G Order No. 2016-794

June 19, 2019	
August 31, 2019	
+ 2 MONTHS	

June 16, 2020	
August 31, 2020	
+ 2 MONTHS	

SCE&G Order No. 2009-104(A)

SCE&G Order No. 2016-794

April 1, 2016	
August 31, 2019	
+ 40 MONTHS	

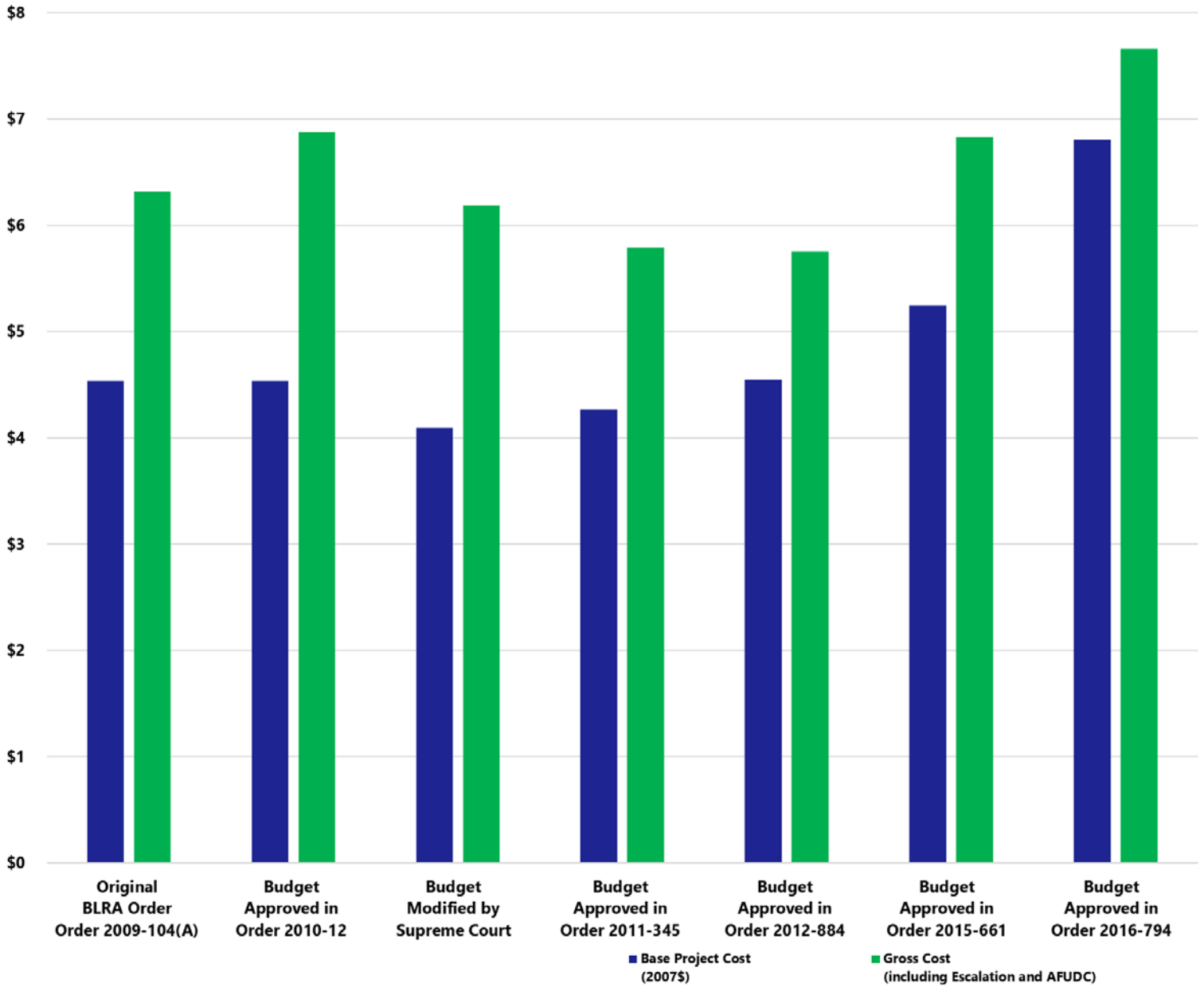
January 1, 2019	
August 31, 2020	
+ 20 MONTHS	

**SCE&G Order No. 2015-661
 Bechtel Report**

Unit 2	
June 19, 2019	
12/2020 - 8/2021	
+ 18 to 26 MONTHS	

Unit 3	
June 16, 2020	
6/2022 - 6/2023	
+ 24 to 36 MONTHS	

HISTORICAL BUDGET CHANGES



	Original BLRA Order Order 2009-104(A)	Budget Approved in Order 2010-12	Budget Modified by Supreme Court	Budget Approved in Order 2011-345	Budget Approved in Order 2012-884	Budget Approved in Order 2015-661	Budget Approved in Order 2016-794
Base Project Cost (2007\$)	\$4.53B	\$4.53B	\$4.10B	\$4.27B	\$4.55B	\$5.25B	\$6.81B
Gross Cost (including Escalation and AFUDC)	\$6.31B	\$6.88B	\$6.19B	\$5.79B	\$5.75B	\$6.83B	\$7.66B

Office of Regulatory Staff
SCE&G V.C. Summer Units 2 & 3
Docket No. 2017-370-E

SCE&G Cumulative Rate Increases Approved Under the Base Load Review Act													
Docket	Year	Approved Increase	Estimated Cumulative Impact										
			2009	2010	2011	2012	2013	2014	2015	2016	2017		
2008-196-E	2009	7,802,491	5,851,868	7,802,491	7,802,491	7,802,491	7,802,491	7,802,491	7,802,491	7,802,491	7,802,491	7,802,491	7,802,491
2009-696-E	2009	22,533,000	3,755,500	22,533,000	22,533,000	22,533,000	22,533,000	22,533,000	22,533,000	22,533,000	22,533,000	22,533,000	22,533,000
2010-157-E	2010	47,301,000	7,883,500	47,301,000	47,301,000	47,301,000	47,301,000	47,301,000	47,301,000	47,301,000	47,301,000	47,301,000	47,301,000
2011-207-E	2011	52,783,342		8,797,224	52,783,342	52,783,342	52,783,342	52,783,342	52,783,342	52,783,342	52,783,342	52,783,342	52,783,342
2012-186-E	2012	52,148,913			8,691,486	52,148,913	52,148,913	52,148,913	52,148,913	52,148,913	52,148,913	52,148,913	52,148,913
2013-150-E	2013	67,240,232				11,206,705	67,240,232	67,240,232	67,240,232	67,240,232	67,240,232	67,240,232	67,240,232
2014-187-E	2014	66,238,000					11,039,667	66,238,000	66,238,000	66,238,000	66,238,000	66,238,000	66,238,000
2015-160-E	2015	64,526,000						10,754,333	64,526,000	64,526,000	64,526,000	64,526,000	64,526,000
2016-224-E	2016	64,428,000							5,369,000	64,428,000	64,428,000	64,428,000	64,428,000
Total			9,607,368	38,218,991	86,433,715	139,111,319	193,775,451	260,848,645	326,801,311	385,943,994	445,000,978	1,885,741,772	

Estimated Cumulative Impact of Approved Increases 2009-2017

1,885,741,772

Note: This spreadsheet is an estimate constructed from publicly available data. Increases are pro-rated in the year of approval based on the earliest date that revised rates could have been implemented by the company. It does not represent actual revenues, which will vary over time based on monthly margins, billing determinants and other factors.

Prepared by the South Carolina Office of Regulatory Staff.
7/20/2018

Docket # Earliest Date at which company could implement Revised Rates

2008-196-E	From April 1, 2009
2009-696-E	From October 30, 2009
2010-157-E	From October 30, 2010
2011-207-E	From October 30, 2011
2012-186-E	From October 30, 2012
2013-150-E	From October 30, 2013
2014-187-E	From October 30, 2014
2015-160-E	From October 30, 2015
2016-224-E	From November 27, 2016

V.C. Summer Units 2 & 3 PSC Hearings

Application Filed
05/30/2008

Application Filed
07/20/2009

Application Filed
11/15/2010

Application Filed
05/15/2012

Application Filed
03/12/2015

Application Filed
05/26/2016

Docket
2008-196-E

Docket
2009-293-E

Docket
2010-376-E

Docket
2012-203-E

Docket
2015-103-E

Docket
2016-223-E

Hearing
12/1 - 12/17/2008

Hearing
11/04/2009

Hearing
04/11/2011

Hearing
10/2 - 10/03/2012

Hearing
07/21 - 07/22/2015

Hearing
10/04/2016

Order No
2009-104(A)

Order No
2010-12

Order No
2011-345

Order No
2012-884

Order No
2015-661

Order No
2016-794

Order Date
03/02/2009

Order Date
01/21/2010

Order Date
05/16/2011

Order Date
11/15/2012

Order Date
09/10/2015

Order Date
11/28/2016

2008

2009

2010

2011

2012

2013

2014

2015

2016

2017

TOTAL: \$123M

TOTAL: \$463M

TOTAL: \$861M

TOTAL: \$1.2B

TOTAL: \$1.8B

TOTAL: \$2.3B

TOTAL: \$2.8B

TOTAL: \$3.5B

TOTAL: \$4.3B

TOTAL: \$4.9B
AS OF 09/2017

INCREASE:

\$174M

INCREASE:

\$278M

INCREASE:

\$698M

INCREASE:

\$831M

INCREASE:

\$7.658B (gross)

U2 04/01/2016
U3 01/01/2019

UPDATED SCHEDULE
NO CHANGE IN BUDGET

NO CHANGE IN SCHEDULE
Removed \$438M
Added \$174M

CHANGE IN SCHEDULE
AND BUDGET
U2 03/15/2017
U3 05/15/2018

CHANGE IN SCHEDULE
AND BUDGET
U2 06/19/2019
U3 06/16/2020

CHANGE IN SCHEDULE
AND BUDGET
U2 08/31/2019
U3 08/31/2020

CHANGE IN SCHEDULE
AND BUDGET

CHANGE IN SCHEDULE
AND BUDGET

CHANGE IN SCHEDULE
AND BUDGET

ABANDONED
07/31/2017

\$4.5B (2007)
\$6.3B (gross)

\$4.27B (2007)
\$5.787B (gross)

4.548B (2007)
5.754B (gross)

\$5.247B (2007)
\$6.827B (gross)

\$5.247B (2007)
\$6.827B (gross)

\$5.247B (2007)
\$6.827B (gross)

\$5.247B (2007)
\$6.827B (gross)

\$5.247B (2007)
\$6.827B (gross)

\$5.247B (2007)
\$6.827B (gross)

\$5.247B (2007)
\$6.827B (gross)

SCE&G Revised Rates History

Docket No.	Order No.	Requested Increase	ORS Examination	Approved Increase	Retail Increase	Approved Residential Increase
2008-196-E	2009-104(A)	\$8,986,000	(\$1,183,509)	\$7,802,491	0.43%	\$0.48
2009-211-E	2009-696	\$22,533,000	\$0	\$22,533,000	1.10%	\$1.31
2010-157-E	2010-625	\$54,561,000	(\$7,260,000)	\$47,301,000	2.31%	\$2.87
2011-207-E	2011-738	\$58,537,000	(\$5,753,658)	\$52,783,342	2.43%	\$3.23
2012-186-E	2012-761	\$56,747,000	(\$4,598,087)	\$52,148,913	2.33%	\$3.28
2013-150-E	2013-680(A)	\$69,671,000	(\$2,430,768)	\$67,240,232	2.87%	\$4.18
2014-187-E	2014-785	\$70,038,000	(\$3,800,000)	\$66,238,000	2.82%	\$4.11
2015- 160-E	2015-712	\$69,648,000	(\$5,122,000)	\$64,526,000	2.57%	\$3.71
2016-224-E	2016-758	\$74,161,000	(\$9,733,000)	\$64,428,000	2.66%	\$3.86
		\$484,882,000	(\$39,881,022)	\$445,000,978		\$27.03