C. Dukes Scott
Executive Director

STATE OF SOUTH CAROLINA
OFFICE OF REGULATORY STAFF

1401 Main Street
Suite 850
Columbia, SC 29201

January 30, 2016

Ms. Holly G. Pisarik
1205 Pendleton Street
Columbia, SC 29201

Dear Holly,

We began the New Year with a winter-weather EMD activation on January 22nd and 23rd. At the height of winter storm Jonas, 31,000 outages existed, mostly in the service areas of Duke Energy and Blue Ridge Electric Cooperatives. The ORS EMD team put in a total of 71 man-hours while activated. During this event we found that changes we implemented after the October flood event, such as a reduction in EMD shifts from 12 to 8 hours, work well for us. In a related matter, the electric cooperatives and EMD are attempting to integrate their outage-reporting systems; we are helping to facilitate this process. We continue to participate in a recovery task force for the October flooding event.

The ORS continues to receive contacts from consumers and members of the General Assembly concerned that broadband is not readily available. Broadband service, rates, and availability are not regulated by a federal or state agency. Nevertheless, the ORS is monitoring the contacts received related to broadband availability in an effort to provide information to you.

Westinghouse Electric Company, LLC (Westinghouse) completed its acquisition of CB&I Stone & Webster, Inc. (Stone & Webster), the nuclear construction and integrated services business of Chicago Bridge & Iron N.V. (CB&I). Stone & Webster will now reside within a newly created Westinghouse subsidiary called WECTEC. This acquisition means Westinghouse and its subsidiaries are responsible for the design and construction of SCE&G's Units 2 & 3 (the Units) at its V.C. Summer plant in Jenkinsville, SC. Westinghouse has engaged Fluor Corporation (Fluor) as a subcontracted construction manager.

We are concerned that Fluor is functioning only as a subcontracted construction manager and has not assumed full responsibility for the craft labor on the site. If the productivity and efficiency gains required to complete this project in a timely manner and within budget are to be realized, Fluor will need to leverage its vast experience in this area through utilizing specific work processes and management controls, which will be difficult if it is not granted direct responsibility for the craft labor.

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Inventory storage and control present one of the major challenges to successful completion of the Units. ORS understands that a complete site inventory and re-verification of the site warehouses and lay-down areas will be performed. This effort will assist the project in properly staging equipment and commodities to support ongoing construction activities.

We believe SCE&G intends to take a more active role in ensuring that construction work packages are properly prepared and complete, which includes the proper staging of the required equipment and commodities. One of the most significant drains on project construction productivity has been the inability to maintain the craft focused on a work activity due to incomplete or inadequate work packages and material availability. Ensuring accurate and complete preparation of construction work packages should be a top priority that is continually monitored.

We received the results of an independent analysis conducted by the firm of Elliott Davis Decosimo, LLC with regard to the Units. The analysis was conducted to determine whether the revised rates provision under the Base Load Review Act (BLRA) utilized by SCE&G (the Company) for construction of the Units is cost beneficial.

The results of the Elliott Davis Decosimo analysis confirm that the revised rates methodology under the BLRA is cost beneficial to customers. In addition to being in the customers' financial interest, the BLRA is in the State's public interest. The cost savings, as confirmed by the Elliott Davis Decosimo analysis, and the coverage of cost of capital under the BLRA allow for the construction of a reliable, greenhouse-gas free source of generation for decades to come.

The analysis confirmed that, in accordance with the BLRA, allowing the Company to establish annual revised rates and collect additional revenue during the construction of the Units will reduce the total costs to construct the Units by approximately $1 billion, compared to accumulating the financing cost over the life of the construction of the Units. In addition, the aforementioned reduction in total construction costs will reduce future depreciation and cost of capital of the Units by approximately $4 billion over the Units' estimated 60-year life.

Further, representatives of Elliott Davis Decosimo told us in conversation that, by their analysis, the benefits may be even greater than what is stated in the report. Specifically, allowing the Company to establish annual revised rates and collect additional revenue during the construction of the Units (in accordance with the BLRA) will reduce the total costs to construct the Units by approximately $1.682 billion. Also, the aforementioned reduction in total construction costs will reduce future depreciation and cost of capital of the Units by approximately $5.8 billion over the Units' estimated 60-year life.

We continue to work on the State Energy Plan. In order to facilitate its development, we have formed an advisory committee made of those with diverse interests. Working subgroups will be formed to address different aspects, and ultimately we intend to receive public input. I am pleased with the positive response from those involved and their willingness to serve.

As noted in the October and November letters, Palmetto Clean Energy (PaCE) was seeking to distribute approximately $1.4 million in grants to multi-family shelters/transitional homes or K-12 educational institutions. To date, the PaCE board of directors has approved the awarding of 24 grants representing approximately 500 kilowatts of new solar capacity and totaling $1.4 million. The awards benefit a variety of low-income and/or at-risk populations as well as several schools across the State.

Staff continues to work with stakeholders in planning for the EPA's 111(d) State Implementation Plan, or SIP. The ORS filed comments on January 21st with the EPA and continues to work with stakeholders in identifying how energy efficiency can be used to comply with 111(d) and how to best quantify the savings that may result.

We are working with stakeholders on Duke Energy Carolina's (DEC) and Duke Energy Progress' (DEP) avoided-cost tariff filing. In January, the ORS hosted a stakeholder meeting that was attended by representatives of the companies, solar developers, and conservationists. All interested parties will file comments with the ORS regarding their positions on the issue. A negotiation meeting is scheduled for March 9th at the ORS office.

Act 236 mandates that interconnection standards be developed for the electric investor-owned utilities. Toward this end, we continue to have discussions with stakeholders regarding these standards and hope to have a recommendation in the coming weeks.

Solar leasing via Act 236 is well underway. ORS representatives met with SCE&G to better understand the process by which consumers and leasing companies can receive Distributed Energy Resource (DER) incentives. The ORS issued a certificate to a solar leasing company in January, thus bringing the total to six. We are currently reviewing two other applicants.

In rail safety, staff participated in a passenger train emergency response exercise with the City of Columbia fire department. Routine inspections occurred around the State.

In Pipeline Safety, our newest inspector attended training in Oklahoma City from January 4-8 as he works toward his federal certification by the Pipeline and Hazardous Materials Safety Administration. Staff attended Utility Coordinating Committee meetings in several locations and conducted transmission-comprehensive inspections (currently the topic of focused inspections) in Anderson, Greenville and Spartanburg (for Piedmont Natural Gas) and in Aiken, Columbia, Abbeville, Myrtle Beach, Beaufort, Charleston, and Sumter for SCE&G.

The S.C. Equipment Distribution Program continued its outreach around the State including visits to several conferences and expositions such as the S.C. Academy of Audiology's annual conference.

Telecommunications staff began the 2016 annual resize process for the Interim LEC Fund by sending a kick-off letter to fund contributors.

Transportation staff continues to conduct both routine site visits and focused inspections around the State. In the past month, site visits for household goods (HHG) carriers were conducted in Rock Hill, Columbia, Myrtle Beach, and Charleston. Because the number of HHG carriers seeking authority to operate continues to increase, we have taken steps to ensure uniformity in our audits across the State, including training for our inspectors that was conducted this month.

Willie Morgan, our longtime manager of Water/Wastewater, has taken on a new role as Deputy Director of Consumer Services and Water/Wastewater. We look forward to Willie's continued excellent work in this expanded leadership role.

Our Consumer Services Department recovered approximately $8,569 for consumers during the past month. The majority of the recovery amount comes from three large recoveries for two electric customers and a telecommunications customer.

If you have any questions or concerns, please feel free to contact me. Thank you for your ongoing support of the Office of Regulatory Staff.

Sincerely,

C. Dukes Scott
Executive Director