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January 26, 2018

**VIA ELECTRONIC FILING**

The Honorable Jocelyn Boyd  
Chief Clerk/Administrator  
**Public Service Commission of South Carolina**  
101 Executive Center Drive  
Columbia, SC 29210

RE: Friends of the Earth and Sierra Club, v. South Carolina Electric & Gas Company; Docket No. 2017-207-E; and

Request of the Office of Regulatory Staff for Rate Relief to South Carolina Electric & Gas Company's Rates Pursuant to S.C. Code Ann. § 58-27-920; Docket No. 2017-305-E

Dear Ms. Boyd:

By letter dated January 22, 2018, South Carolina Electric & Gas Company ("SCE&G" or "Company") filed with the Public Service Commission of South Carolina ("Commission") the affidavit of Iris N. Griffin, Senior Vice President and Chief Financial Officer and Treasurer of SCANA and SCE&G, who explained the fundamental accounting error committed by the South Carolina Office of Regulatory ("ORS") in its unsigned, unverified, and unsworn document entitled, "ORS Examination of South Carolina Electric & Gas Revenue." As of the date of this letter, ORS has made no attempt to correct its mistake with the Commission. Instead, ORS has remained silent even after being informed of its accounting error.

As further support of SCE&G's position that ORS has erred, enclosed you will find the affidavit of Angela Nagy who is an Executive Director at Ernst & Young. Ernst & Young is a global leader in assurance, tax, transaction and advisory services. The global organization has over 240,000 people working in over 700 offices in more than 150 countries. Moreover, Ms. Nagy has worked with multiple electric and gas utilities over the last 20 years concerning accounting matters. Ms. Nagy, among other things, concurs with Ms. Griffin's accounting interpretations and agrees with Ms. Griffin that ORS has incorrectly interpreted and misapplied Generally Accepted Accounting Principles in reaching the conclusions expressed in ORS's document.

(Continued . . . )

Notwithstanding the foregoing, SCE&G specifically reserves its rights to continue to supplement the record with additional affidavits and information as the Company deems appropriate and necessary in the above-reference dockets.

If you have any questions, please advise.

Very truly yours,



K. Chad Burgess

KCB/kms  
Enclosures

cc: Dawn Hipp  
Jeffrey M. Nelson, Esquire  
Alexander G. Shissias, Esquire  
Christopher S. McDonald, Esquire  
Damon E. Xenopoulos, Esquire  
Derrick Price Williams, Esquire  
Dino Teppara, Esquire  
Elizabeth Jones, Esquire  
Frank Knapp, Jr.  
Frank R. Ellerbe III, Esquire  
J. Blanding Holman IV, Esquire  
Christopher R. Koon, Esquire  
J. Emory Smith, Jr., Esquire  
John B. Coffman, Esquire  
John H. Tiencken, Jr., Esquire  
Lara B. Brandfass, Esquire  
Robert D. Cook, Esquire  
Robert E. Tyson, Jr. Esquire  
Robert Guild, Esquire  
Scott Elliott, Esquire  
Shannon Bowyer Hudson, Esquire  
Stephanie U. Eaton, Esquire  
Stephen Suggs, Esquire  
Timothy F. Rogers, Esquire  
The Honorable Alan Wilson  
W. Andrew Gowder, Jr.  
Michael T. Rose, Esquire  
James R. Davis, Esquire  
Richard L. Whitt, Esquire  
Michael N. Couick, Esquire  
Lynn Teague  
(all via electronic mail and U.S. First Class Mail w/enclosure)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2017-305-E**

**IN RE:**

Request of South Carolina Office of )  
Regulatory Staff for Rate Relief to )  
SCE&G Rates Pursuant to )  
S.C. Code Ann. § 58-27-920 )  
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**AFFIDAVIT OF ANGELA NAGY**

Personally appeared before me, the undersigned, Angela Nagy, who being duly sworn states as follows:

1. I am Angela Nagy, an Executive Director at Ernst & Young. I have been a Certified Public Accountant (CPA) licensed in Georgia since 1998. My experience includes working with multiple electric and gas utilities over the last 20 years as it relates to accounting matters. I assist companies with complex accounting matters, have previously served as a public company controller in the utility industry and began my career as an auditor, with clients that included a large electric utility. In addition to undergraduate degrees in accounting and finance, I have a Master of Business Administration degree that includes a concentration in accounting.
2. For clarity of presentation, I have listed the principal points of my affidavit at the beginning of this document and my comments related to the specific accounting standards applicable to this matter follow those points.

3. I have read the affidavit of Iris N. Griffin, Senior Vice President and Chief Financial Officer and Treasurer of SCANA Corporation (“SCANA”) and South Carolina Electric and Gas Company (“SCE&G”) which was filed in this docket on January 22, 2018.
4. In her affidavit, Mrs. Griffin stated that a regulated utility must “recognize an impairment unless the regulatorily-approved revenue streams supporting the investment in the abandoned plant are sufficient to allow the utility to recover *the value of* the investment, and to provide *a return on* that investment.”<sup>1</sup> She stated that “recording an impairment can be avoided only if the revenue stream will support both a recovery of the investment and a reasonable return on the investment.”<sup>2</sup>
5. I concur with Mrs. Griffin’s interpretation of the applicable accounting guidance and note it is consistent with published accounting interpretations for the power and utilities industry with which I am familiar.
6. Mrs. Griffin further stated that “recognizing an impairment is mandatory unless there exists an objective basis on which to conclude that the Commission is likely to authorize a sufficient revenue stream in a future proceeding.”<sup>3</sup>
7. I also concur with this aspect of Mrs. Griffin’s interpretation of the applicable accounting guidance and note that it, too, is consistent with published accounting interpretations for the power and utilities industry.
8. I have read the Office of Regulatory Staff (“ORS”) Examination Report filed on January 19, 2018, and information provided by SCANA and SCE&G (collectively, “the

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<sup>1</sup> Affidavit of Iris N. Griffin before the Public Service Commission of South Carolina Docket No. 2017-305-E.

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

Company”) in their public filings, and the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) relevant to this matter.

9. I did not audit or review the underlying accounting information.
10. In its Examination Report, the ORS states, “a decision on an impairment is a management decision of SCANA and SCE&G.” Very much to the contrary, if the Commission were to change the rate structure as the ORS has requested, it would not be a management decision but a requirement under generally accepted accounting principles (“GAAP”) for SCANA and SCE&G to analyze recoverability of the recorded regulatory asset, following the accounting guidance I discuss below.
11. The FASB has issued the Accounting Standards Codification as the source of authoritative GAAP. Due to unique matters and operating issues with various industries, the ASC includes industry-specific guidance in addition to general accounting guidance.
12. ASC 980 is the guidance specific to Regulated Operations, and within ASC 980, ASC 980-360 addresses abandonments of plant by regulated utilities.
13. ASC 980-360-35 relates to Subsequent Measurements to Property, Plant, and Equipment, Accounting for Abandonments. The codification states “when it becomes probable (likely to occur) that an operating asset or an asset under construction will be abandoned, the cost of that asset shall be removed from construction work-in-process or plant-in-service.”<sup>4</sup>
14. Per the Company’s Form 10-Q for the quarter ended September 30, 2017, filed with the United States Securities and Exchange Commission, SCANA and SCE&G removed the costs associated with the abandoned nuclear units at issue here from CWIP and included them in Regulatory Assets at September 30, 2017.

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<sup>4</sup> ASC 980-360-35-1.

15. According to the ORS Examination Report “future cash flows related to the CWIP are uncertain and unknown, but no decision has been made to deny them.”<sup>5</sup> Should the Commission suspend the revised rates, GAAP, specifically ASC 980, would require that the Company consider the recoverability of its regulatory asset.
16. Per ASC 980-360, SCANA and SCE&G must determine whether it is likely that recovery of the costs in that regulatory asset will be provided by its regulator.
17. The ORS Examination Report stated “Based on the ORS’s understanding, an impairment may occur when future cash flows are insufficient to cover the current costs.”<sup>6</sup> This is not correct because, as described below, GAAP requires that a loss be recognized unless the expected revenues are sufficient to cover the costs and a return on those costs that is at least equal to the company’s incremental borrowing rate.
18. ASC 980-360 states that any disallowance of all or part of the cost of the abandoned plant that is both probable and reasonably estimable shall be recognized as a loss. The present value of the future revenues expected to be provided to recover the allowable cost of that abandoned plant and return on investment, if any, shall be reported as a separate new asset. Any excess of the remainder of the cost of the abandoned plant over that present value also shall be recognized as a loss. The discount rate used to compute the present value shall be the entity's incremental borrowing rate, that is, the rate that the entity would have to pay to borrow an equivalent amount for a period equal to the expected recovery period.<sup>7</sup>

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<sup>5</sup> ORS Examination of South Carolina Electric and Gas Revenue, pursuant to Public Service Commission of South Carolina Order Nos. 2017-770 and 2017-769 filed on January 19, 2018.

<sup>6</sup> ORS Examination, *supra*.

<sup>7</sup> ASC 980-360-35-3.




19. ASC 980-360 further states that if the regulator is likely to provide a full return on the recoverable costs, a separate asset should be established equal to the original carrying value less any disallowed costs. If the regulator is likely to provide partial or no return, the new asset should equal the present value of future revenues expected to recover the allowable costs of the abandoned asset. Thus, the company, under GAAP, must recognize a loss unless it can support the assertion that it is likely that the SCPSC will provide for revenues that cover both the costs and a return on those costs at least equal to the company's borrowing rate.

20. If the BLRA revised rates are suspended, this would require SCANA to perform an analysis of the recoverability of the related regulatory asset in accordance with GAAP. If, as Mrs. Griffin states, the BLRA rates are the only revenue source associated with this regulatory asset, the Company would be required to recognize a loss for the full amount of the unrecovered project costs unless management can otherwise reasonably support the assertion that the Commission is likely to provide for recovery of and return on a portion of those costs.

FURTHER AFFIANT SAITH NOT.

  
ANGELA NAGY

SWORN to BEFORE me the 26<sup>th</sup> day of January, 2018.

  
Notary Public for Georgia  
My Commission Expires: 05/15/2020

