

Dominion Energy South Carolina, Inc.
Docket No. 2020-125-E
Dominion Energy South Carolina Electric Rate Increase Request

Background

Effective January 1, 2019, Dominion Energy completed its acquisition of SCANA Corporation, parent company of South Carolina Electric & Gas Company (SCE&G), after SCE&G abandoned its investment in the V.C. Summer new nuclear project. Dominion Energy renamed the company to Dominion Energy South Carolina, Inc. (DESC).

Rate Increase Request

On August 14, 2020, DESC applied for a general rate increase for its electricity costs for its retail electric customers. In its application for an electric rate increase, DESC states that none of the costs attributed to the V.C. Summer Units 2 & 3 abandonment are included in its request for an increase in revenue. Those costs already are included in customers' rates; customers' bills include a charge of \$7.55 per month through 2039 to pay for the abandoned plant.

Key Facts

Number of customers served: Approximately 753,000

DESC states that, as a result of the merger, the utility has reduced net annual operating expenses by \$45 million. In other words, the company has experienced some operating efficiencies as a result of the merger.

DESC's application proposes that the rate increase take effect on or after the first billing cycle in March 2021.

- **Requested Increase.** In its application, DESC is requesting a total revenue increase of \$178.234 million, which represents a new rate increase of 7.75 percent (after a Demand Side Management Rider reduction), for its retail customers over current rates. The new rate translates into an increase for the typical residential customer of \$9.68 per month. The following table shows current and proposed rates:

Typical Residential Customer Monthly Bill

	Current (before tax rider)	Current (after tax rider)	Proposed	Difference
1000 kWh per month	\$126.18	\$122.31	\$131.99	\$9.68

DESC notes that the company's last general rate increase occurred in January 2013. In the years since that increase took effect, inflation in the U.S. economy has increased prices at the producer level by approximately 14 percent, according to the Consumer Price Index.

- **Return on Equity.** DESC is requesting a return on equity (ROE) of 10.25 percent. Return on equity is a financial ratio that measures a company's profitability by dividing its net income (i.e., profit) by its shareholders' equity, which is the difference between its assets (everything the company owns) and its liabilities (everything the company owes). ROE reflects the company's profitability on its shareholders' (owners') equity.
- **Capital Structure.** When Dominion Energy and SCANA merged, DESC agreed to abide by the Commission's order No. 2018-804, which, in part, required the company to maintain a capital structure that includes an equity portion of 50 to 55 percent. In its application, DESC states that the equity ratio for its test year is 53.35 percent, which is within the appropriate range.

In its pre-filed testimony, the Company estimates a fair return on its equity capital to be 10.40 percent but is requesting its currently approved return on equity of 10.25 percent. DESC reports that the required increases in necessary investment and expenses have resulted in a projected return on equity in its test year of 5.90 percent, which it says "is financially unreasonable for an electric utility" and that "its current rates and charges are not sufficient to allow the Company a reasonable opportunity to recover its actual cost of providing electric service to customers, including the cost of the debt and equity capital invested in the electric system."

- **Drivers of the Requested Increase.** In its rate increase application, DESC cites several factors that drive its application for a rate increase, including the following investments in its electricity assets to improve safety, reliability, and efficiency and to ensure environmental compliance for serving an expanding customer base that has grown by 12 percent since 2012:
 - \$2.1 billion in its transmission and distribution systems.
 - \$878 million in its generation plants.
 - \$198 million in information technology, software, and fleet maintenance

The Company also cites increases in other costs, including the following:

- Increased property taxes of \$75 million.
- Annual depreciation expense on its asset base of \$34 million.
- Increased healthcare costs of \$10 million.
- Costs, such as complying with federal regulations concerning nuclear safety and protecting against cyberattacks, that DESC has already incurred but has deferred to this rate case, totaling \$100 million.
- Vegetation management expenses of \$27.62 million. Vegetation management is an essential part of minimizing power outages during storms.
- Turbine maintenance expenses of \$10.6 million, which includes the Columbia Energy Center.
- The company's request also includes deferred storm response and recovery costs which total \$43.9 million, and the reinstatement of a storm reserve fund based on a five-year average of \$9.8 million per year.

- **Other Proposals.** In its application, DESC also proposes the following items:
 - Creating a vegetation management accrual account to fund necessary vegetation control practices to improve the resiliency of the grid, especially in storms.
 - Restoring the Storm Damage Reserve component to rates.
 - Discontinuing an experimental commercial rate (Rate 21A, Experimental Program), a general service time-of-use demand rate.
 - Revising the qualification requirements for Residential Rate 6, Energy Saver/Conservation Rate.
 - Reducing the rate collected from residential customers under the Demand Side Management rider from the current rate of \$0.00220 per kWh to \$0.00158 per kWh.

Tax considerations. DESC proposes to discontinue the tax rider by which it returned to customers the tax savings under the Tax Cuts and Jobs Act of 2017 and replace it with a procedure that returns those savings to customers through base rates in the future after taking into account the tax rider.