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BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

COLUMBIA, SOUTH CAROLINA

HEARING # 10795

JULY 18, 2006

11:00 A.M.

SOUTH CAROLINA PIPELINE CORPORATION — *Allowable Ex Parte Briefing.*

BRIEFING BEFORE: G. O’Neal HAMILTON, CHAIRMAN, C. Robert MOSELEY, Vice CHAIRMAN; and COMMISSIONERS John E. “Butch” HOWARD, David A. WRIGHT, Randy MITCHELL, Elizabeth B. “Lib” FLEMING, and Mignon L. CLYBURN.

ADVISOR TO COMMISSION: Joseph M. Melchers, Esq.

STAFF: Charles L.A. Terreni, Chief Clerk/Administrator; and Jocelyn G. Boyd, Esq., Deputy Clerk; F. David Butler, Esq., Senior Counsel; James B. Spearman, PhD, and Philip Riley and Thom Ellison, Advisory Staff; MaryJane Cooper, Court Reporter, and Dale D. Davis, Hearing Room Assistant.

APPEARANCES:

Patricia Banks Morrison, Esq., representing SOUTH CAROLINA PIPELINE CORPORATION, **APPLICANT.**

Wendy B. Cartledge, Esq., and C. Lessie Hammonds, Esq., representing **THE OFFICE OF REGULATORY STAFF.**

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CHAIRMAN HAMILTON: Be seated, please. I

think we're ready to get started. As I understand it, today this is going to be an informal setting that you'll present your information for us, and I think if no objection at the end of your presentation, we'll open it for questions from ORS and the Commissioners and the Commission Staff.

If you want to go ahead, Patricia.

OPENING BY MS. MORRISON:

Mr. Chairman, Vice Chairman, Commissioners, great to see you today. I'm Patricia Morrison here on behalf of South Carolina Pipeline Corporation. I have with me today Mr. Paul Fant, President and Chief Operating Officer of South Carolina Pipeline Corporation; and also Mr. Sam Dozier who is the Vice President of Commercial and Field Operations for South Carolina Pipeline Corporation. They will actually be making the presentation today. And we had hoped to keep it informal and actually would encourage you to interrupt them with questions through the presentation if some questions should arise. We'd be happy to take those up any time.

CHAIRMAN HAMILTON: Thank you.

A And by way of just a brief summary of what we plan to talk about here today, as most of you know SCG Pipeline, Incorporated, is merging into South Carolina Pipeline Corporation. They filed a merger application with the Clerk and that merger is currently pending before the Federal Energy Regulatory Commission. The merged entity will then be known as Carolina Gas Transmission Corporation, and it will operate as an interstate pipeline providing

1 transportation and transportation related services only. That corporation will
2 actually be subject to the jurisdiction of the Federal Energy Regulatory Com-
3 mission. As no new SCANA subsidiary is actually being formed, we haven't
4 filed an application for approval with this Commission pursuant to the *Affiliate*
5 *Transactions Order* of 1989. And in addition, as the only assets that are being
6 transferred here are gas assets, there's no statutory requirement that we get
7 approval for the merger in advance. So, again, nothing has been filed with this
8 Commission. However, we understand the Commission's interest in the merger
9 and are happy to be here today to provide you with a status update of the pending
10 merger and to take any questions that you might have.

11 As you know, this briefing has been filed pursuant to the *Ex Parte*
12 *Statute*, and we have certain materials that have been prepared pursuant to
13 that statute that will be made part of the record. You have all of these materials in
14 front of you right now. We've got a PowerPoint presentation that the presenters
15 are going to go over with you. In addition, for some extra detail, we have an
16 information paper with lots of lengthy attachments; that's why this is so bulky.
17 And then finally, we've prepared a document that will talk about all of the
18 documents that we intend to reference today or that we think might be referenced
19 today. We've either provided you copies of those documents or electronic links for
20 those documents so that you can look to those.

21 Again, we'd like to keep this informal. Please ask questions at any time.
22 And without further adieu, I'll turn this over to Mr. Fant to begin.

23
24 MR. PAUL FANT: Thank you, Patricia.

PRESENTATION BY MR. FANT:

1 A Good morning, Mr. Chairman, Commissioners. If it's okay with you, we'd like
2 to remain seated during this presentation.
3

4 CHAIRMAN HAMILTON: That's fine.

5 [Mr. Fant] And we're actually going to just walk through the slides that you
6 have in front of you, hopefully. Again, it's our pleasure to have this opportunity
7 to come before the Commission and share this information about our Company
8 and what we're doing and planning to do.

9 On SLIDE 2, we have the six topics that we'll cover today, and we'll go
10 through them rather fast because it's pretty straightforward information. I'll
11 address the first three items, and Sam Dozier, our Vice President, will address the
12 latter three. And as Patricia said, if you have any questions, please stop us,
13 and we'll be glad to try to answer those questions during this informal presentation.

14 As you know, South Carolina Pipeline and SCE&G filed a SETTLED
15 MERGER APPLICATION before the FERC commission in February of this year,
16 February 27th. The purpose of the filing was to announce that we intend to take
17 our interstate company, SCG Pipeline, which started operation in November
18 of '03, the company that operates pipe, 31 miles of pipe, from Elba Island to
19 Jasper County, South Carolina, to merge that company into our state regulated
20 SCPC company, South Carolina Pipeline Corporation, as Patricia has already
21 covered, to change the name of that company after the merger to Carolina
22 Gas Transmission, and that will be a FERC regulated company, interstate gas
23 transportation company, and basically performing gas transportation services.

24 We have in that application requested that FERC provide a *Certificate*

1 by July 31st of this year. We're glad to say that our dockets are before FERC
2 this week; it's on the agenda for this week, as a matter of fact, the 20th. And
3 so, soon we expect to hear their ruling, their Order, relative to this filing. We
4 expect to fully be operational before the winter of '06-07, this year; that's our
5 expectation; that's what we're working towards.

6 I want to spend just a few seconds talking about the reasons for the
7 merger. We've been at this for a couple of years now working through the
8 details associated with the merger. But, during the process of operating and
9 starting our interstate company in November of '03 and subsequent to that,
10 we are now dealing with an Order that FERC issued, which is called *Order*
11 *2004*. It's referred to as STANDARDS OF CONDUCT FOR TRANSMISSION PROVIDERS.
12 SCG Pipeline is a transmission provider, only transportation, no commodity.
13 We just transport gas for others. Technically, SCPC is considered an energy
14 affiliate of that interstate company and there are definite rules relating to the
15 relationship between employees of those companies.

16 At the onset, we had intended to utilize the employees of SCPC, our
17 intrastate, state regulated company, to operate both companies. Technically,
18 I'm the only employee of SCG. There's a prohibition in the FERC Regulation
19 against sharing certain transmission function employees. And so, we have to deal
20 with that issue, and we have requested during this interim period a waiver for
21 our current company, SCPC, to also operate the interstate company, SCG;
22 and we were granted that partial waiver to operate both companies or to have
23 our company operated by SCPC employees. And again, I'm the only employee
24 of SCG and I use all of the employees of SCPC to operate both companies.

1 Okay, I know that can be kind of confusing, but —

2 COMMISSIONER CLYBURN: Mr. Chairman, can
3 we interrupt and ask questions?

4 CHAIRMAN HAMILTON: Yes, ma'am.

5 **EXAMINATION BY COMMISSIONER CLYBURN:**

6 Q Okay. Before I get to the confusing part, let me ask you — you mentioned, I
7 think it was on page — you mentioned that, of course, you made the request
8 back in February to have this decision, you know, respectfully I'm sure, asking
9 for them to make a decision by the end of this month, and you said that they're
10 going to hear possibly on Thursday?

11 A Thursday, it's on the agenda.

12 Q Do you know traditionally how long it usually takes from hearing date to decision
13 date? You've got three of the five new folk up there now so I don't know if that
14 will be a factor, but traditionally under normal sets of circumstances, which this is
15 not, do you know how long it usually takes for a decision to be handed?

16 A Well, we expect to hear something — it could be as soon as Thursday. We fully
17 expect to hear something during the following week.

18 Q Okay.

19 A Yes, so the FERC staff and our staff, we've been talking, answering questions,
20 providing answers to the questions that they have had as a result of our filing
21 the application.

22 MS. MORRISON: And those new Commissioners
23 are not going to participate in the agenda meeting on the
24 20th. I just read something about that. They're going to

1 possibly be present, but they won't officially go on the
2 payroll until after that meeting and then the last Com-
3 missioner that is retiring, that will be her last meeting. So,
4 the transition shouldn't impact what's on the agenda for
5 Thursday.

6 Q [Commissioner Clyburn] Okay, on page four, which is the, you know, verbally
7 complex issue — did you say you were already granted a partial waiver?

8 A A partial waiver to continue to operate.

9 Q So, you have been granted that by the FERC?

10 A Yes, ma'am, by FERC. We have a partial waiver currently, and in that request, or
11 in that Order, they basically — we said, until we merge the companies,

12 Q Okay.

13 A Grant us the opportunity to use the same people to operate both companies
14 until the merger.

15 Q Okay. I just wanted the clarity. Thank you.

16 A [Mr. Fant] Sure. So, needless to say, the economic efficiencies associated
17 with, or inefficiencies associated with having to staff-up, if you will, to operate
18 31 miles of pipe and operate the SCPC, we logically concluded that we should
19 merge these two companies into one company which, again, will give us the
20 efficiencies that we're looking for. Not only that but just the overall strategic
21 nature of one pipeline company, interstate company, for planning purposes
22 and from infrastructure control purpose was a good reason for us to move
23 towards the merger.

24 On page 5, the clear objectives are the same, will be the same as they

1 currently exist. You know, our company in general across the board is always
2 focused on safety. Safety is hallmark, and this new company will be no different,
3 and provide the reliable service, interstate transportation service, and related
4 transportation services to our customers that we're providing currently in the
5 state; the difference being it's transportation only. We continue to focus on
6 customer service being very, very important. Mr. Dozier will spend some time
7 talking about a process that we went through which, again, will highlight the
8 fact that we are focused on customer service, making sure that we are working
9 with customers and keeping customers informed and involved so they can feel
10 comfortable moving forward. We need to always make sure that our operation
11 performance is where it needs to be. We're very proud of our record of operations,
12 and we will continue that going forward.

13 The fact that we will now have — will have once the merger is completed —
14 we'll have an open access natural gas pipeline and the ability to bring the entire
15 450 miles of infrastructure that's currently existing in South Carolina into an
16 interstate environment which will allow us to bring gas from the two upstream
17 pipelines to Transcontinental Pipeline, through the Southern Natural Gas
18 Pipeline, as well as our connection to Elba Island. So, it definitely will bring in
19 more diversity into the State of South Carolina, the ability for customers to
20 utilize this new system for bringing gas in for South Carolina and the surrounding
21 states over time, we fully expect.

22 On SLIDE 6, the economic development in the region — we'll continue
23 to work with our current customers, and we expect fully to have new customers as
24 a result of this merger where we'll have the opportunity to expand our services

1 under the FERC's jurisdiction as an interstate pipeline, interstate operation.
2 Again, the improved access to the interstate markets; it's just nothing but a
3 plus. It will foster supply diversity and competitiveness in the region. We think
4 it's going to be all good, the bottom line, to the customers and the State of
5 South Carolina as well as the surrounding states and areas.

6 Now Sam Dozier will spend some time going through a presentation
7 where he'll drive down into some details and also be available to answer any
8 questions you might have.

9 Sam?

10 **PRESENTATION BY MR. DOZIER:**

11 A Thank you. By the way, thanks for allowing us to sit down. I'm not any taller
12 standing up, so I much prefer to keep my seat.

13 [Laughter]

14 A [Mr. Dozier] And also, a comment Mr. Fant made — please do ask questions
15 as Commissioner Clyburn did. It's much more — I certainly appreciate as we
16 go through if you ask a question. So, please feel free to do that. Stop me at
17 any time.

18 Some of the key dates of the process — and Mr. Fant did hit on a couple
19 of these — we did file a SETTLED MERGER APPLICATION with the FERC on
20 February 27th of this year. That process was quite extensive prior to filing. We
21 began confidential settlement discussions with our customers on November 9th
22 of last year, 2005, formally. However, we started communications well before
23 then. We announced the merger of the two companies back in June of 2004,
24 and we started many customer discussions at that time and got to the official

1 confidential settlement negotiations in November.

2 The FERC, as I know you are aware, does encourage settlement of such
3 cases prior to filing, and they also — the FERC Rules do provide for con-
4 fidentiality of those settlement discussions, so that's what went down on that
5 process.

6 After the November 9th meeting, we had several additional follow-up
7 meetings as well as telephone conferences with our customer group, and all
8 of our firm customers agreed to the settlement supporting the merger, which
9 we were very proud of. The only customer who did not agree to the settlement
10 was Columbia Energy Center, or Calpine. But, just so you know, they did
11 execute confidentiality, and they did participate in the process and told us
12 early on that because of the issues surrounding a bankruptcy proceeding,
13 they could not agree to the settlement. So, I would not take away that they did
14 not support the settlement, but they could not agree to the settlement. So, you
15 know, they did participate in that process and just to reiterate, no customers
16 objected to our merger.

17 The requested date again, as Mr. Fant did reference, is July 31. We
18 are on the agenda for this week, on the consent agenda, which does mean
19 that, you know, a show of hands, so to speak, as far as the vote. We do expect an
20 Order shortly thereafter, and we will review that. Once we receive that *Certificate*,
21 we're allowed a reasonable amount of time to review and to subsequently
22 accept that Order from the FERC.

23 We started detailed customer training actually in 2005. As you think
24 through this, I'm going to talk a little about it in a second — how our business

1 is changing. Certainly a lot of the responsibilities, and we've shared this with
2 you before in PGA proceedings, why our responsibilities that we currently
3 have will be handed to our customer, so to speak. As Mr. Fant said, we'll be
4 transporting gas; the actual procurement of gas, and how to manage that will
5 be the responsibility of our customers. So, we started the education process,
6 if you will, with our customers back in 2005, with different discussions. Our most
7 recent training session was the end of June of this year. We will have detailed
8 customer training on our *Electronic Bulletin Board* mid-August to mid-September,
9 and let me talk a little about the *Electronic Bulletin Board*.

10 The EBB, *Electronic Bulletin Board* as we refer to it, is an Internet website
11 that all interstate pipelines in America utilize to conduct business. Each of them
12 are different because of the differences in the pipelines, but it's a means of
13 conducting business, and it is literally an Internet website. On that site customers
14 nominate gas supply to our system. We will post informational notices there.
15 Any operational or maintenance issues on the system are posted there. Any
16 announcements that we may want to make are posted there. Any curtailments of
17 interruptible loads would be posted there. Anything you could think of that a
18 customer would need to know on a day-to-day basis is posted on the Internet
19 website. Certainly, they'll have access to that. Some of them will be on that
20 site a couple of times a day. Some of them will probably be on that site a few
21 times a week. So, it's just going to be dependent upon their business. But,
22 that *Electronic Bulletin Board* is the way we will conduct business as we go
23 forward, and the training, needless to say, is, you really want that type of
24 training to be a "just in time" type training; that's why it's the mid-August, mid-

1 September, right before the merger is finalized.

2 The last day of business under our current model, certainly subject to
3 FERC approval, will be the end of September, September 30th, and then the
4 first day of operations as the new entity, Carolina Gas Transmission, would
5 be October 1.

6 **EXAMINATION BY CHAIRMAN HAMILTON:**

7 Q Mr. Dozier, for the individual customers procedure process, give us a little more
8 detail about the training, how these customers are going to seek out the gas
9 that they need for their supply now.

10 A Yes, sir. We expect, Chairman Hamilton, for many of the customers — well, let me
11 back up. Many of them are already in that market. I mean, as an example, the
12 City of Orangeburg, they have a service that this Commission approved called
13 Resale Firm Transportation, or RFT which allows them, again, through a con-
14 tract that we presented to you for approval, allows them to purchase their own
15 gas. So, many of our customers are already purchasing a portion of their own
16 gas, and then we provide the balance of that.

17 When we started this process — there are many energy managers in
18 the market, gas suppliers, marketers, if you will, we, I guess you'd say, posted
19 an announcement on the SCG website, because when we started this process we
20 told our customers — you know, Carolina Gas doesn't have an Internet website or
21 EBB, and so we posted things on the SCG website given that it's one of the
22 merging parties. We asked, I'm going to say, asked the world, so to speak — I
23 mean, we posted it, of any party that might be interested in selling gas to our
24 customers or managing their business — I'll talk in a couple of slides, I think

1 maybe the next slide, about an agent or an energy manager — we asked for
2 any party who may be interested in working with our customers to be their
3 broker, if you will, provide their gas, manage their business — that we would
4 post the name and a number of those parties that were interested. We were
5 not suggesting that any of these parties were or were not capable of doing
6 that, but it was almost a free posting that we were interested in doing. We
7 know that as a result of that, many of our customers have retained, if you will,
8 an energy manager who may help them with this process of buying gas.

9 Also, a lot of the industrial customers have facilities in other states. As
10 an example, they may have a facility on the Southern Natural Pipeline or on
11 the TRANSCO pipeline who are already buying their gas at a corporate level,
12 so what they would do is roll the facility here into that process and purchase it
13 that way.

14 Q Thank you, sir.

15 A Yes, sir.

16 [Resumes presentation] On SLIDE 8 — some of the key differences between how
17 we operate today and how the company will operate in the future. Carolina
18 Gas, as Mr. Fant said, would only provide, will only provide gas transportation
19 and transportation related services. Today, Pipeline, SC Pipeline, bundles our
20 upstream capacity on Southern and TRANSCO. We have gas supply that we
21 procure in the Gulf and bundle that, bundle those two parts of the puzzle with
22 transportation on our system. So, gas shows up in a meter at an industrial site
23 or at the town border for a resale customer. They use gas and at the end of
24 the month, we bill them for it. So, it's a bundled product today. In the future,

1 there will be a dis-aggregation, if you will, of those different services. So, you
2 know, our services and our rates will be based solely upon what happens from the
3 border of the state to the facility and then, you know, you'll have the gas supply
4 piece, Chairman Hamilton as you mentioned, as well as the Southern Natural
5 and TRANSCO fees.

6 Customers, and I touched on this briefly, will be free to manage their own
7 energy supply to meet their individual needs. I think — it's always dangerous
8 to try to remember what I may have said in a past proceeding — but I think
9 we've talked about this a little bit that today we have to look at the aggregate
10 needs of our system. I mean, we can't say, you know, industrial customer "x"
11 — we can't manage their needs. We have to look at the aggregate needs of
12 our system, all of the resale customers, you know, the big LDCs, and the
13 municipalities, the large industrials, small industrials, and make decisions to
14 the best of our ability as it relates to gas purchasing; and certainly we like to
15 think we've done a good job with that.

16 With an open access pipe, each of those entities can manage their own gas
17 supply based on their individual needs. You'll have some industrial customers
18 who will be very aggressive as to how they may buy gas. Some of them will go out
19 and buy long term contracts. Some of them, because of the percentage of their
20 costs that natural gas is, they may go short into a particular month. They will
21 have all, you know, any combination of opportunities you can think of, they will
22 have those at their disposal because they will be able to manage that directly
23 on their behalf as opposed to us managing that for the aggregate of the system.

24 They'll be able to purchase gas, as we've said, on the TRANSCO pipe,

1 on the Southern Natural pipe, as well as from the Elba Island facility, and to just
2 manage their own purchasing need. And If they choose to hedge, they can
3 certainly do that. If they choose to buy on a multi-month basis, if they choose
4 to buy on a day-to-day basis, they can do that, dependent upon their needs.

5 CHAIRMAN HAMILTON: Dr. Spearman, did you
6 have a question?

7 JAMES E. SPEARMAN.: Yes, sir.

8 **EXAMINATION BY MR. SPEARMAN:**

9 Q Sam, when you're talking about — what are you including in transportation
10 related services?

11 A We have a 300-plus page tariff that we will certainly provide you a hard copy,
12 but it's on the Internet website. But, there are several services that we offer.
13 Primarily, it's going to be firm transportation. I mean, the majority of the rate-
14 making, the rate design, is based upon firm transportation and that is, if you
15 want gas from Southern Natural at Aiken to Columbia, South Carolina, and you
16 want it delivered on a firm basis, it's FT or firm transportation. We'll also offer
17 interruptible transportation.

18 We will also offer a parking-and-lending service and kind of simply, because
19 this is the only way I can understand it, If you think about it, if a customer has
20 extra gas on a daily basis, we allow them to park that on our system, and as
21 well as if you're a little short one day, we allow you to borrow from the system,
22 "park and lend". And that's an interruptible service. I mean, in other words, if
23 we're on a day that we could not afford, the system could not afford to serve,
24 to provide that service, we don't have to do it; it's an interruptible service.

1 We also offer different services and different agreements for, you know, if
2 you want an agent to manage on your behalf, I mean, that's not a service as
3 in we charge for it, but, you know, an agent can manage. For the benefit of a
4 customer, you know, we have a pooling service which allows an aggregation,
5 if you think of — I hate using an example, but the City of Orangeburg may be
6 a reasonable example — they've got two delivery points on our system, so
7 we're not concerned if they're 10 dekatherms short at one and 10 dekatherms
8 long at the other. We will aggregate those deliveries, pool those deliveries, and
9 look at their end balance based on a "pooling" arrangement. Generally, that's
10 the type of services that we're referring to there.

11 Q Thank you.

12 A Yes, sir.

13 **EXAMINATION BY COMMISSIONER CLYBURN:**

14 Q More of an elementary question, if you would. You speak of the website – in
15 terms of access, you know, who would have access to that? Would it just be
16 the, what I would call the members, so to speak, the people you deal with, or
17 is it really worldwide?

18 A It's really worldwide. You can get on the SCG website today.

19 Q Right.

20 A There are public postings and public information on that website, and the
21 Carolina Gas website will be the same once it's in operation. So, the short
22 answer is, it's literally worldwide. You can get access to it now. Unless you're
23 a customer scheduling on the pipe, you can't get to the screens where you
24 schedule gas.

1 Q Okay, okay. So, those, what I would call an exchange, that these exchanges
2 would be restricted.

3 A Yes, ma'am. You know, any announcement that we make: as an example, if
4 we want to announce our intentions to expand the system, we are obligated,
5 it's not considered public unless we post it on that site. I mean, we could put it
6 in every newspaper in America, but unless it's on that website, it's not considered
7 public. So, we will use that website for a lot of our postings of information. And,
8 you know, you guys could certainly, do have access to the SCG website today.

9 Q I don't want to get you off course, but I've got another question that popped in
10 my mind. In terms of the change in classification, meaning you're becoming
11 an interstate regulated entity — is there any tax or financial implications as it
12 relates to South Carolina collections, you know, in terms of that classification?
13 Are you aware of any positive or negative input or export in terms of that, you
14 know, I was just kind of curious — that popped into my mind.

15 A I am personally not aware of, you know, positive or negative. I apologize for
16 that.

17 Q I was just kind of curious, you know, with that classification whether or not that
18 changed the landscape.

19 **EXAMINATION BY COMMISSIONER HOWARD:**

20 Q Mr. Dozier, it may be premature, but have you had a chance by customer class to
21 do a customer study whether they are saving money under this operation,
22 where they purchase their own gas, they can shop for their own gas and hire
23 an energy manager, by customer class, do you have any experience or
24 knowledge of that?

1 A Commissioner Howard, I would say that's premature, but let me just kind of
2 make a few comments on that. In my mind, I like to put it simply, it's truly an
3 apples to oranges comparison. It's a different service. I mean, gas is going to
4 be delivered to our customer group that they're going to be managing on their
5 behalf. Some of them, I think, at the end of the day will save money. Some of
6 them, because of how they manage it, may not. I will tell you that if you just
7 look at our transportation rates, the rates from, you know, from our state
8 border to the facilities, as a general matter those rates are less than they are
9 today. If not for that, I can't imagine that every customer on the system, every
10 firm customer on the system, would have supported the application. I don't
11 want you to take away that the industrial — I'm sorry, the interruptible customers —
12 didn't support it, but we weren't asking them to make a definitive, take a
13 definitive position because we aren't asking them for — they're not a part of
14 your fixed rates. All of the interruptible customers were invited to all meetings.
15 Many of them came to the meetings. Quite frankly, one came to me and said,
16 *Sam, you mean to tell me that my rate today is "x" and in the future, it's going*
17 *to be a third of that?* I said, *That's pretty close.* He said, *Okay, thanks. I don't*
18 *plan to come back.* I mean, literally that was the dialogue we had.

19 I do think that most folks — well, let me back up. Let me also say that
20 the ORS, as you're aware, did support the application and in their comments
21 to the FERC they said generally it was their view that rates for customers, most all
22 customer classes, would go down as well.

23 But because it's a different business, that's why I don't want to sit here
24 today and say everybody will be able to save money because it's just a different

1 business. I hope that's helpful.

2 A [Mr. Fant] Let me add — this may not be necessary, but just quickly, your
3 question about access to the web. One of the federal requirements is that we
4 provide contemporaneous information to all shippers; and so by definition, a
5 website operation is not optional, it's required for all interstate pipelines, which
6 means that the information has to be made available so that you don't
7 advantage one shipper over another.

8 Q [Commissioner Clyburn] Of course, that's real time.

9 A That's real time. That's right. So, that's what that's all about. It's making sure
10 that it's open access and everyone has equal access to that information.

11 CHAIRMAN HAMILTON: Excuse me – Mr. Butler?

12 **EXAMINATION BY F. DAVID BUTER:**

13 Q [Mr. Dozier] Yes, sir, Sam, let me ask you a question about the managers that
14 you mentioned that the company's making available for the customers upon
15 request. Do you develop a pool of these managers from different companies,
16 or just where do those managers come from?

17 A We do not develop a pool, Mr. Butler, and the reason for that is we don't want
18 to represent the quality of work any of them may or may not be able to do.
19 What we did, as I said earlier, was early on in the process we announced, if
20 you will, that any energy marketer who would like to — well, first of all let me
21 back up once again and say, some of the energy managers said *give us a list*
22 *of all your customers and a contact name*, and we said *we're not doing that. If*
23 *you want to talk to our customers, we will post your name and number on our*
24 *Internet website, and we will tell all of our customers that if they need an*

1 *energy manager, there is a list posted of energy managers who would like to*
2 *talk to our customers.* And so, subsequent to that many of our customers, to
3 the best of our knowledge, contacted those energy managers. But, we don't
4 want to represent how good or not so good some of them are because quite
5 frankly we wouldn't know. I mean, you know, we manage that business today
6 on our own so we wouldn't know how good some of these energy managers
7 are.

8 Q Okay. So, basically you furnished a list to the customers that wanted it?

9 A We provided a list of those who said they were interested. Now, let me also go on
10 to say that it's very possible, and I would say probable, that some of our customers
11 are using energy managers who were not listed on that site, because it's no
12 requirement by us that they be listed there.

13 Some of our customers — if I didn't make this clear earlier, I apologize —
14 will manage this on their own behalf. They won't need an energy manager.
15 But, some of the smaller customers aren't going to be interested in doing it,
16 but a lot of them do have a corporate procurement staff, some of the industrial
17 customers, and they will manage it on their on behalf, is our expectations.

18 Not very long from now as this process moves forward over the next
19 few weeks, we will be asking customers, I mean, it's really closer to the in-service
20 date, we will ask customers to execute an agency agreement and that agreement
21 is the official recognition of who is representing you on our system. You know,
22 do you have an agent or will you nominate gas every day on your behalf.
23 Because, you know, if an energy marketer were to contact us and say, *I'm*
24 *scheduling gas for ABC Company*, that's not going to work. We've got to know from

1 that customer who's representing them. So, at that point, we would know exactly
2 who is representing our customers. But, as I sit here today, I don't know
3 officially who's representing each one of them.

4 Some of the settlement discussions we had, the confidential settlement
5 discussions, we did allow customers to bring any representative that they so
6 chose. So, during some of those meetings some energy managers were present
7 representing various industrial customers or resale customers, for that matter.

8 Q Thank you for that clarification.

9 A Yes, sir.

10 **EXAMINATION BY COMMISSIONER MITCHELL:**

11 Q Let me ask a question. What about volume into this whole mathematical —
12 you're talking about interruptible customers — can you speak on volume and
13 is that going to be a part of what these individuals will pay and how fast is that
14 shifted from maybe lower users to upper-end users? Can you speak on that at
15 all?

16 A Commissioner Mitchell, kind of the way I look at it, you know, a change in our
17 structure, a change in the tariff, doesn't produce more load. So, you know,
18 day one, one would have to expect the same amount of gas is going to the
19 same places. The difference will be that the quality of service — it may be the
20 wrong word — but as opposed to today's, you know, we've got firm service and
21 we've got categories of service on the interruptible side. In the future, we've
22 effectively got two services — firm and interruptible. So, if a firm customer —
23 I'm sorry, if an industrial customer — who may be interruptible today chooses
24 firm service in the future, he would get priority over an interruptible, industrial

1 customer that today may have a different category of service or a higher priority
2 category of service. So, the dynamics will change in that we will look at services
3 as either firm or interruptible. On a long-term basis, we hope, that we will see
4 expansions, and therefore would add additional load, whether that be in South
5 Carolina or quite frankly it could be in Georgia, it could be in North Carolina,
6 you know, in theory I guess it could be anywhere in the country that we can
7 get a pipeline to.

8 The billing determinants that rates are based on are very different than
9 Pipeline today because of the combination with SCG Pipeline, which brought
10 billing determinants to the table, so to speak, as well as the fact that some of
11 our existing interruptible, industrial customers are converting to firm service. If
12 you look at the firm billing determinants, it's different than SC Pipeline's today.

13 Q So, you see that trend occurring, more firm development mainly between most of
14 your customers or is that a trend?

15 A I would say a good number of the industrial customers have expressed an
16 interest in converting to firm service through this process. The reasons would
17 probably vary by customer. I think some of them view it as, *I need gas every*
18 *day and so, you know, and I'm a pretty high load factor, so where do I sign.* I
19 think some of them view it as, you know, *I'm in the business of making whatever I*
20 *may make; I'm not interested in dealing with interruptible gas.* Then some of
21 them, just as they are today, have a boiler operation that can burn, whether it
22 be oil or wood chips at a paper mill or whatever it might be, and they will
23 maintain interruptible service. One thing an interruptible customer will be able
24 to do in the future is purchase capacity release on our system, and what that

1 is, if an entity that does have firm transportation on our system — if they are
2 not using it, they can sell it to an industrial customer. I shouldn't use the term
3 *industrial* — to an interruptible customer — and that interruptible customer
4 because of that capacity release will effectively have firm service as a result
5 of that sale.

6 A [Mr. Fant] That transaction occurs on that *Bulletin Board*. That's why it has to
7 be contemporaneous so everybody can have access to that information. If
8 that customer wants to sell it, his firm transportation for a period, he would
9 post that, and anybody who needed and wanted it could purchase it for that
10 period.

11 **FURTHER EXAMINATION BY CHAIRMAN HAMILTON:**

12 Q What capacity of your pipeline is being used now?

13 A When you say — are you asking —

14 Q The amount of gas that you can deliver on your pipeline.

15 A That's a difficult question to answer, and let me — then I will give you a fairly
16 reasonable answer, I hope. How much a pipeline can deliver is dependent
17 upon from where-to-where, and I genuinely mean that. As an example, we
18 could probably deliver quite a bit of gas from Aiken to North Aiken, but we
19 couldn't deliver the same amount of gas from Aiken to Myrtle Beach, and so it
20 is a difficult question to answer. The combined companies, Chairman Hamilton,
21 will have a billing determinant — and I don't have the number right in front of
22 me — it's like 660,000 a day, dekatherms a day, of firm capacity that, again,
23 the combined entity will sell. But, could we deliver more than that, it depends
24 upon, you know, to what point. If we were delivering all of that gas to Columbia, it

1 probably wouldn't be 600,000 plus; it'd be substantially less than that.

2 So, today and post-conversion, I would say the pipe is generally full as
3 it relates to contract obligation. Now, sure, today as well as in the future, there
4 will be days that we may could deliver slightly more than that firm demand,
5 but as we go forward and it's the same as it is today, you know, we're sitting
6 before you and we have sat before you in the past and said we're obligated to
7 deliver to the firm customers, and so we have to design based on that firm
8 obligation; and that will be the case going forward. There will be occasions
9 where you could deliver a little more dependent upon weather, dependent
10 upon circumstances. But, for the most part you wouldn't obligate yourself to
11 deliver it on a firm basis. I hope that's helpful.

12 Q It is. Does this put an additional pressure on your interruptible customers,
13 those that have the joint boiler use? Past customers — they won't be your
14 customers in the future.

15 A For some of them — I want to make sure I understood the question. To potentially
16 consider firm service? I don't think so. If they are genuinely interruptible and
17 they can't interrupt, and they've got alternative fuels, then they should view
18 that, you know, as which service would I prefer to have. What we found is, and
19 really if you'll recall, and I recall because I remember Commissioner Howard
20 sitting here in his South Carolina football shirt when we called him back from
21 Williams-Brice for that impromptu hearing on emergency gas. But, if you
22 remember, when we went through that process, we had interruptible load off
23 for two months, three months if I'm not mistaken. And a lot of our customers, I
24 think, truly learned how interruptible they were. You know, it's one thing for us

1 to interrupt you three days a year, but when gas is not available for three months,
2 it tells you a lot about your facility. And I don't think they were trying to mislead us,
3 but it's just a fact of life. So, as a result of that, and I think some of them have
4 viewed this as an opportunity to firm up, if you will, their needs. And I don't think
5 they looked at it and said, *oh my goodness, I've never been curtailed, now I'm*
6 *going to be curtailed every day*, because that's not correct. In a day like today, you
7 know, the firm LDC load or the R&C, residential and commercial load's not on
8 today. We had some generation running today, but there's still a substantial
9 amount of gas capacity today that's not being used, we would serve interruptible
10 load. I mean, we're obligated to serve interruptible load if the capacity is available.
11 We have to make that assessment on a daily basis. But, just because we're
12 converting doesn't mean that we won't have interruptible service; we will. We
13 will just give a priority to the firm service, which quite frankly, we do that today.

14 Q And I believe in your earlier statements you said the opportunity existed for
15 future expansion and growth on the line?

16 A That's correct, yes, sir. We certainly hope so, and probably for clarity I should
17 say that that would most likely require additional facilities, additional pipe,
18 additional compression, whatever it may be.

19 Q Thank you.

20 A Yes, sir.

21 **FURTHER EXAMINATION BY COMMISSIONER MITCHELL:**

22 Q I had just one little point of clarification. Elba Island, is that near Savannah?

23 A Yes, sir. It's in the mouth of the Savannah River.

24 Q Okay.

FURTHER EXAMINATION BY COMMISSIONER HOWARD:

1 Q Mr. Dozier, one other question. Do you have storage capacity on your lines,
2 and if so, how much?
3

4 A When you say *storage*, are you referring to LNG storage or physical line pack
5 in the —

6 Q Physical line pack storage.

7 A We do have line pack, and the way we look at line pack is not unlike other
8 pipeline companies. You look at that as usable operations. If you didn't have
9 any line pack, every day a customer would have to bring to your system and
10 take from your system exactly how much they need, which is not possible. If
11 you've got an industrial customer, like a Nucor-Steel, a big steel mill, who may use
12 15,000 or 20,000 dekatherms a day, there's no way that they know down to
13 the dekatherm how much they're going to use. They know pretty close, but if
14 they bring 20,000 a day to the system, they might use 19,500 and they might
15 use 20,500. There's no way to get it exact, and if you think of an industrial
16 customer, it's even more difficult for the City of Orangeburg, Winnsboro, Bamberg,
17 someone like that.

18 So, every pipeline's got usable line pack and that is so that, you know,
19 if a customer uses 10 less dekatherms than they bring in or use 10 more than
20 they bring in, that's the use for line pack. With that said, how much usable line
21 pack do we have? It's probably a couple hundred thousand a day, but needless to
22 say, on a winter day that can be used up in a hurry. Our gas control, because
23 of our direction to them, we do not sacrifice that usable line pack so that
24 someone can — in other words, someone's got to manage their business and

1 bring in sufficient gas. A day like today is not a problem. When you get into
2 winter time, what we will do is issue system orders, system operational flow
3 orders, where we say, *Okay, today it's going to be cold and you can't be short,*
4 *bring enough gas to the system so that you can provide your needs.* And we
5 won't issue those orders unless it is a really hot day or a really cold day.

6 Q Thank you.

7 A [*Resumes presentation*] I'll continue walking through the slides. I might have
8 hit everything on this one [*indicating*]. On page 9, a continuation of the key
9 differences — I think we've hit most all of these about the management of
10 upstream assets, and we've already talked about the *Bulletin Board*. One point
11 I'll make on SLIDE 9 — it's the second bullet where customers request service
12 at specific receipt and delivery points. Needless to say, today when we serve
13 a customer, they have to tell us where they want it delivered. I mean, you
14 know, we've got to assume Bamberg wants it delivered to the Bamberg town
15 border. But, if you think about it, they don't choose where the gas comes in;
16 we choose it. It's bundled gas, as we talked about earlier. We bundle gas with
17 upstream capacity and with our capacity, and we deliver it to, as in this example,
18 the City of Bamberg. In the future, customers will be able to choose which
19 receipt point they want, certainly subject to the capacity on our system. But, if
20 they for whatever reason want to bring gas in on TRANSCO versus Southern
21 Natural, they will be able to do that. If they want to bring it in, Commissioner
22 Mitchell, from Elba Island as opposed to Southern Natural, they will be able to
23 do that. So, that's just another means of flexibility that our customers will have
24 in the future.

1 On PAGE 10, winding down and contract termination and final bills – in
2 other words, how are we going to take the existing South Carolina Pipeline and
3 wind down that business. We will send out termination notices to our customers
4 as a formality. That should not concern them, and we don't expect that it will.
5 All of our firm customers, as we've said earlier, through the settlement process
6 have executed firm transportation service agreements for Carolina Gas
7 Transmission. That was a part of the settlement process. The interruptible
8 customers will also execute interruptible transportation service agreements
9 with Carolina Gas. They haven't executed those yet. Quite frankly, there's no
10 need for them to yet. So, that process will begin soon. But, we will be issuing
11 the cancellation notices for existing contracts.

12 As I said earlier, just to reiterate, we expect September to be the final
13 month of operations under our current structure and then final billing and other
14 issues will be resolved over the next several weeks or post-September 30.
15 That's similar to the way we do it today. Today we base a lot of our billing on
16 estimated volumes, estimated costs, and they're trued-up in subsequent billing
17 periods. It will take us a few months to close out business under our current
18 structure. So, it's not – we had a customer ask us a very fair question. They
19 said, *Sam, on October 5th, will I get my final bill.* The answer to that is *no*
20 because it takes a few months for us to get all the pertinent invoices. We also
21 told them, and I would tell you, that it's possible – there's a possibility that
22 some of those final invoices would be credits. Again, that's no different than it
23 is today.

24 On PAGE 11, which I think is the last of our –

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CHAIRMAN HAMILTON: Excuse me. I'm sorry I

didn't see — Jocelyn, did you have a question?

EXAMINATION BY JOCELYN G. BOYD:

Q Will any of your employees be affected by the merger? Will you have to lay off any employees?

A I'm hoping Mr. Fant's going to give me a big raise, but he hasn't said anything about that yet.

[Laughter]

A But, to answer the question of negatively impacted — no, ma'am, they will not be. We assured our employees from day one that there would be no negative impact on our employee group. There are several employees, including folks in my area, whose responsibilities are changing, but they will all have a job. Quite frankly, we'll probably have to add a few positions at the end of the process.

CHAIRMAN HAMILTON: Excuse me — Dr.

Spearman?

FURTHER EXAMINATION BY MR. SPEARMAN:

Q Just going back a little bit to the delivery and receipt points. I know that you can only put so much gas in any one point. So, does that part of the *Bulletin Board* tell where there's space available to bring gas onto the system?

A Every contract on our system, every firm transportation contract will have a primary receipt point and a primary delivery point. Primary receipt being, on that peak day, do you primarily want to bring in your gas at Southern Natural, at TRANSCO, or at Elba Island, thus named primary receipt point. The tariff allows a secondary receipt point, and quite frankly, a secondary delivery point.

1 So, you are correct, Dr. Spearman, in that from a design standpoint and
2 from the perspective of meeting firm obligation on a peak day, there will be a
3 contracted primary receipt point. And you're right, we can't bring in but so much at
4 Southern, so much at TRANSCO, so much at Elba. But, we will allow customers
5 on a daily basis to utilize secondary receipts into our system within available
6 capacity, and that capacity would be posted, yes, sir.

7 [Resumes presentation] On SLIDE 11, we've titled that last slide contingency
8 planning. I hope you can tell from our comments so far that we are very confident
9 that we will receive a *Certificate* from the FERC, accept that *Certificate* and
10 begin operations October 1. But, certainly from the perspective of prudent
11 business operations, we feel like we have to also have a plan, if you will, on
12 what happens if we do not receive and accept that *Certificate*. So, we've got a
13 contingency plan that we've thought through in the event we don't have that
14 *Certificate* and be ready to operate.

15 Again, just to repeat, as I think I said earlier, our customers are currently
16 aware that they are responsible for procuring their own supply on a going
17 forward basis. We've had many discussions, so they are very aware of what
18 their obligation is there. If for some reason we did not become commercially
19 operational as Carolina Gas on October 1, we would not release the upstream
20 contracts, the Southern Natural and TRANSCO contracts to our customers.
21 We would keep those in our name. We would procure gas for the winter season
22 and continue conducting business as we are today. Quite frankly, I'm not
23 personally overly concerned about that. We certainly will be able to do that.
24 As I said earlier, many of our resale customers have firm transportation agree-

1 ments today. They would be able to bring the gas they may have procured in
2 on their behalf. And so, we would continue business as normal.

3 Again, I think that's a low probability, but we certainly have thought
4 through that. We've told our customers that we're obligated to have that plan,
5 and we would be prepared to do that. So, I wouldn't want you or any of our
6 customers to be concerned about how we may manage that if that event were
7 to happen.

8 CHAIRMAN HAMILTON: Thank you, sir.

9 MR. FANT: Now, if we have any additional
10 questions, we'll be glad to answer any other questions
11 you might have.

12 CHAIRMAN HAMILTON: Thank you. Ms. Hammonds,
13 does ORS have any questions or comments?

14 C. LESSIE HAMMONDS: None, Mr. Chairman.
15 Thank you.

16 CHAIRMAN HAMILTON: Any other Commissioners?

17 **FURTHER EXAMINATION BY COMMISSIONER CLYBURN:**

18 Q A quick wrap-up. I'm guess I'm wondering, and I don't know by just thinking
19 back a bit since my former Chairman made it real clear a few days ago that
20 I'd been here for awhile — that whether or not the, if I were to go by what the
21 former Consumer Advocate had been asking way back when in terms of the
22 setup, I would conclude that how you had been operating was kind of an
23 anomaly, I guess I'm wondering if what you're doing now, the direction you're
24 headed, is either the trend or the norm in other markets.

1 A [Mr. Fant] Well, I'll start, and Sam, you can certainly add. We are currently, as
2 I stated, we're operating two companies now. Regulation has kind of forced
3 us to make some decisions, and the decisions that we're making, we believe,
4 are in the best interest of our customers as well as our company. We had an
5 option of either staffing-up to operate 31 miles of pipe, which didn't make a lot
6 of sense, and it did not meet our business model. Will there be opportunities
7 going forward for our customers? Absolutely. For the State of South Carolina,
8 we believe strongly that this is the right thing to do, given the circumstances.
9 So, whether it was an anomaly or not, I don't think it is a trend. I think we're
10 clearly looking at the business environment and making prudent decisions, as
11 we have always tried to do.

12 Sam, would you—

13 A [Mr. Dozier] Well, I couldn't say it any better. I think the catalyst as to why now
14 was *Order 2004* at the FERC. It's not very efficient to fully staff because you
15 couldn't do it with one employee. There's no way. You've got to have 24 hour
16 of operation — that is the reason for the timing right now.

17 CHAIRMAN HAMILTON: Do we have any other
18 questions?

19 [No Response]

20 CHAIRMAN HAMILTON: If not, on behalf of the
21 Commission, I'd like to thank you for the informal briefing
22 that we've had today. I think it's been helpful and educational
23 for each of us, and we thank you and wish you well in
24 your Order at FERC.

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MR. FANT: Mr. Chairman and Commissioners,
thank you so much again for this opportunity to operate
under your jurisdiction. We certainly appreciate it. We're
convinced, we're certain that the new company will continue
to serve the public convenience and necessity of our
customers in this state and surrounding states. It will be
beneficial, we believe, to our customers, to the state, and
to our economic development, you know, for our region,
and it certainly will give our customers opportunity to have
improved access. So, we are excited about where we are
headed, and we certainly have appreciated the relationship
that we have enjoyed with this Commission.

Thank you very much.

CHAIRMAN HAMILTON: Thank you, Mr. Fant.
And we'll deem this Commission Meeting closed.

*WHEREUPON, at approximately 12:00 P.M., on
July 18, 2006, the Briefing was adjourned]*

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