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April 27, 2006

VIA E-FILING

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

**RE: Comments of South Carolina Electric and Gas Company, in response
to Rail Fuel Surcharges, Ex Parte No. 661 (STB served Mar. 14, 2006).**

Dear Secretary Williams:

Enclosed for filing in the above-referenced proceeding are the Comments of South Carolina Electric and Gas Company.

Yours very truly,



Sandra L. Brown
Counsel for South Carolina Electric and Gas
Company

SLB:kjm
Enclosure

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Ex Parte No. 661

REVIEW OF RAIL FUEL SURCHARGES

COMMENTS OF SOUTH CAROLINA ELECTRIC AND GAS COMPANY

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**BEFORE THE
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STB Ex Parte No. 661

RAIL FUEL SURCHARGES

COMMENTS OF SOUTH CAROLINA ELECTRIC AND GAS COMPANY

I. INTRODUCTION

The Surface Transportation Board's ("STB" or "Board") decision served March 14, 2006 in this proceeding provided notice of a public hearing to be held on May 11, 2006 and request for comments on railroad imposed fuel surcharges (hereinafter "Notice"). South Carolina Electric and Gas Company ("SCE&G"), hereby submits comments in response to the invitation in the Board's Notice requesting comments on fuel surcharges.

SCE&G is a regulated public utility engaged in generation, transmission, distribution and the sale of electricity to nearly 571,000 retail and wholesale electric customers in South Carolina. SCE&G is a subsidiary of SCANA Corporation, an energy-based holding company. SCE&G has six coal-fired generation facilities which can produce approximately 2,500+ megawatts and typically represent 70-percent of SCE&G's annual generation. Five of the coal-fired plants are serviced by CSX Transportation ("CSXT") and one is served by Norfolk Southern Railway Company ("NS") and CSXT.

II. THE STB SHOULD MAKE ADDITIONAL INQUIRIES INTO FUEL SURCHARGE METHODOLOGIES AND EXAMINE RAILROAD FUEL SURCHARGE REVENUE

SCE&G is concerned about the methodology used for rail fuel surcharges and believes that the Board should inquire into the manner in which these fuel surcharges are calculated.

SCE&G is significantly impacted by fuel surcharges advanced by NS. SCE&G anticipates that both NS and CSXT will apply fuel surcharges on all of their coal traffic in the near future, if circumstances allow.

SCE&G understands that the current practice of rail fuel surcharges appears contrary to Interstate Commerce Commission ("ICC") precedent. In accordance with the ICC precedent, SCE&G agrees that fuel surcharges should be used only to the extent necessary to recover actual fuel costs.

Rail transportation constitutes a large cost of business for SCE&G. As overall transportation costs increase, SCE&G is concerned about the impact the additional costs, from increased rates, fuel surcharge adders and poor service may have on SCE&G's retail customers. As a public utility, SCE&G recognizes the importance of cost recovery mechanisms and supports the railroads ability to cover actual costs of fuel. However, rail fuel surcharges have not been implemented to only recover actual costs. These surcharges are providing the railroads with additional avenues to increase overall transportation rates and increase revenue beyond cost reimbursement. In addition, new rail rates are set with a fuel component included that already factors in the current higher cost of fuel, so the additional imposition of a fuel surcharge tied to a fuel price that has no correlation to actual railroad fuel costs, such as the Retail On-highway Diesel Fuel Price or the West Texas Intermediate spot price for crude oil, is an improper and unrealistic estimation of actual fuel costs.

SCE&G is also concerned about rail service problems experienced at its coal-fired generation plants which can directly impact generation reliability. Rail service reliability is a growing frustration for SCE&G and the STB should take note of the service-related problems that exist for many coal-fired generation facilities throughout the country. The STB needs to

undertake whatever measures are necessary to assure that railroads are not using fuel surcharges to cover more than the actual cost of fuel for a particular movement, and, more importantly, to assure that railroads are working to alleviate existing capacity constraints with the intent to provide more reliable rail service.

III. CONCLUSION

SCE&G applauds the Board for taking action on the fuel surcharge issue by receiving comments and holding a public hearing. High fuel surcharges coupled with increasingly poor service has caused public confidence in the rail system to deteriorate. Coal shippers such as SCE&G have very limited options for receiving the required coal to fuel coal-burning generation facilities. The STB should take steps to increase the transparency of actual fuel costs and help restore public confidence in rail transportation service.

Respectfully submitted,



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