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Friends of the Earth

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July 16, 2009

Mr. Charles Terreni
Chief Clerk and Administrator
Public Service Commission of South Carolina,
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Articles on Financial Downgrading Due to SCE&G Nuclear Project (Docket 2008-196-E)

Dear Mr. Terreni,

I am writing to you on behalf of Friends of the Earth, which maintains an on-going interest in the matter of oversight of the S.C. Public Service Commission of the costly and risky nuclear reactor project by South Carolina Electric & Gas (SCE&G).

For the docket record, I request that the attached items be posted in docket 2008-196-E on the PSC website:

1. **Nuclear opponents, SCE&G debate costs**, The State, July 16, 2009
2. **SCANA feels rating bite on nuclear plant**, Charlotte Business Journal, July 15, 2009
3. **Fitch Downgrades SCANA & Subsidiaries**, Business Wire, June 25, 2009
4. Cover page of Moody's report **New Nuclear Generation: Ratings Pressure Increasing**, June 2009

It is important to formally maintain these items as part of the record, at least via what is posted on the docket website, as the nuclear project goes forward. In the event that scheduling slippage and cost increases are subject to PSC review, these and other articles and reports will be essential in establishing the progress of the project, in noting the context in which the project was pursued and in documenting any problems it encounters.

Respectfully Submitted –

Tom Clements

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BUSINESS

THURSDAY, JULY 16, 2009 • PAGE B6

Nuclear opponents, SCE&G debate costs

Utility says there are no overruns in estimates it made to get OK for 2 new Jenkinsville units

By CHUCK CRUMBO
ccrumbo@thestate.com

A review by state regulators of SCE&G's first quarterly report on the cost of the Jenkinsville nuclear project triggered debate Wednesday over whether the utility is facing hefty cost overruns.

While it appears in the report that SCE&G's costs for adding two reactor units had climbed $561.9 million to $6.875 billion, the Office of Regulatory Staff on Wednesday attributed the higher figure to how the price was calculated.

Project opponents charge South Carolina Electric & Gas Co. low-balled the estimate when it sought approval for the project from the state Public Service Commission.

The estimate was based on using a five-year average of commodity costs, including interest on construction loans, according to the SCE&G report. The lower price is figured on a 10-year average, it added.

SEE NUKE PAGE B7

SOUTH CAROLINA OFFICE OF REGULATORY STAFF'S
REVIEW OF THE SOUTH CAROLINA ELECTRIC & GAS COMPANY
MARCH 31, 2009 QUARTERLY REPORT
ON THE BUDGET AND SCHEDULE
OF V.C. SUMMER UNITS 2 & 3 CONSTRUCTION

July 14, 009

http://www.regulatorystaff.sc.gov/ORSReport33109.pdf

NUKE

FROM PAGE B6

"This is not a cost overrun," said Eric Boomhower, a spokesman for the Columbia-based utility.

In its report, the utility said the cost could be as much as $562 million over the initial estimate or $172 million under.

Current interest rates are lower and when the cost of money is spread out over the life of the project, SCE&G's share of the project should be closer to its initial estimate of $6.3 billion, regulators said.

The overall cost of the project, which SCE&G is sharing with state-operated Santee Cooper, is $9.8 billion.

Opponents of the plant, though, said SCE&G has underestimated the project's cost.

"I take this report as a warning of greater problems this project is going to run into," said Tom Clements with Friends of the Earth. "It's affirmation that we are getting into unknown and very risky territory."

Dukes Scott, Regulatory Staff executive director, said "construction is progressing in accordance with the approved schedule and allowed 18-month milestone deviation."

SCE&G is required by state regulators to file quarterly reports on the project's progress.

In February, state regulators approved the power company's plans to build two reactor units. SCE&G now needs the OK from the federal Nuclear Regulatory Commission to proceed.

The first unit is scheduled to begin commercial operation sometime in 2016; the second unit in 2019.

Charlotte Business Journal

http://charlotte.bizjournals.com/charlotte/blog/power_city/2009/07/scana_feels_rating_bite_on_nuclear_plant.html

SCANA feels rating bite on nuclear plant

John Downey
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Wednesday, July 15, 2009

Moody's Investor Services lowered SCANA Corp.'s bond rating this week and listed the outlook as negative because of the S.C. utility's joint ownership of a $12 billion nuclear project under construction.

Moody's warned investors two weeks ago that it was likely to take a negative view on nuclear development by power companies. Some in the nuclear industry have taken issue with that policy. But Moody's stood by it when explaining its decision on SCANA.

"We remain concerned with the ... risks associated with a project of this magnitude for a company of this size," said Moody's Senior Vice President Jim Hempstead.

SCANA subsidiary S.C. Electric & Gas is expanding the V.C. Summer Nuclear Station with Santee Cooper. The power companies are adding two AP100 nuclear reactors at the existing nuclear plant.

Schedule slips

Meanwhile, the S.C. Office of Regulatory Staff notes in a report filed Tuesday that several parts of the project have slipped off schedule. The staff points out that SCE&G says none of the delays are serious enough to affect the anticipated completion date for each unit.

"SCE&G indicates that this is a result of the creation of the first fully integrated project schedule by its contractors and is not a trend," the staff writes. "If these changes do indicate a pattern, then a trend of this sort this early in the project is cause for concern."

Overall, the staff says, the project appears to be on budget and on time. SCE&G now estimates its share of the project may cost more than originally projected — $6.8 billion rather than $6.3 billion. But that is not the result of any cost overruns. The company updates its calculations of future prices and financing charges every quarter, and those new calculations account for the higher costs.

Cost recovery concerns

But uncertainties surrounding nuclear construction are clearly having an impact in the capital markets. And those issues are reflected in Moody's downgrade.

The rating agency reduced SCANA's senior unsecured debt rating one notch to Baa2 from Baa1.

The report cites a weakened balance sheet for SCANA and its subsidiary. It notes South Carolina's Baseload Act, passed in 2007, creates a supportive regulatory environment for construction of the nuclear plant. But it warns that it does not believe SCANA is guaranteed to recover all of its construction costs.

Two weeks ago, Fitch Ratings also downgraded SCANA to BBB+ from A-. Fitch also cited "financial pressure and increased business risk from SCE&G's plans to construct and finance two nuclear generating units."

June 25, 2009

Business Wire

Fitch Downgrades SCANA & Subsidiaries' IDRs to BBB+

NEW YORK--(BUSINESS WIRE)--Fitch Ratings has downgraded the Issuer Default Ratings (IDRs) of SCANA Corp. (SCANA) and its subsidiaries South Carolina Electric & Gas Co. (SCE&G) and Public Service Co. of North Carolina (PSNC) to 'BBB+' from 'A-'. Fitch also downgraded the individual issue ratings one notch as shown in the list of rating actions at the end of this release. The short-term IDRs of SCANA, SCE&G and PSNC and commercial paper ratings of SCE&G, PSNC and South Carolina Fuel Company are affirmed at 'F2'. The Rating Outlook for each entity is Stable.

The downgrades are driven by the financial pressure and increased business risk from SCE&G's plans to construct and finance two nuclear generating units for service in 2016 and 2019, respectively, and a decline in credit quality measures over the past 18 months. SCE&G will own 55% of the two units at an estimated cost of $6.3 billion. The nuclear investment, together with maintenance capital expenditures of approximately $500 million annually, will more than double SCE&G's existing net investment in property plant and equipment. Expenditures are expected to peak in the years 2012 to 2014. Management expects to fund approximately 50% of the expenditures with new debt.

The credit impact of the incremental debt burden is softened by legislation in South Carolina, the Base Load Review Act (BLRA), which permits utilities to recover capital costs, including a return on equity, during construction. Other risk mitigants include an EPC contract that fixes a portion of the plant cost and a substantial equity commitment. Although the credit quality of subsidiary PSNC is not directly affected by the events at SCE&G, the weakening consolidated credit quality of SCANA accounts for the lower rating for PSNC.

Fitch has downgraded SCANA and its subsidiaries' ratings as follows:

SCANA Corporation
--IDR to 'BBB+' from 'A-';
--Senior Unsecured debt to 'BBB+' from 'A-'.
SCE&G
--IDR to 'BBB+' from 'A-';
--First Mortgage bonds to 'A' from 'A+';
--Senior Unsecured debt to 'A-' from 'A';
--Preferred Stock to 'BBB+' from 'A-'.
PSNC
--IDR to 'BBB+' from 'A-';
--Senior Unsecured debt to 'A-' from 'A'.

Fitch has affirmed SCANA and its subsidiaries' ratings as follows:

SCANA Corporation
--Short-term IDR at 'F2'.
SCE&G
--Short-term IDR at 'F2';
--Commercial Paper at 'F2'.
PSNC
--Short-term IDR at 'F2';
--Commercial Paper at 'F2'.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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http://www.businesswire.com/portal/site/google/?ndmViewId=news_view&newsId=20090625006060&newsLang=en

www.moodys.com

Special Comment

Moody's Global
Infrastructure Finance

June 2009

New Nuclear Generation: Ratings Pressure Increasing

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Summary

- Moody's is considering taking a more negative view for those issuers seeking to build new nuclear power plants
- Rationale is premised on a material increase in business and operating risk
- Longer-term value proposition appears intact, and, once operating, nuclear plants are viewed favorably due to their economics and no-carbon emission footprint
- Historically, most nuclear-building utilities suffered ratings downgrades—and sometimes several—while building these facilities
- Political and policy conditions are spurring applications for new nuclear power generation for the first time in years
- Nevertheless, most utilities now seeking to build nuclear generation do not appear to be adjusting their financial policies, a credit negative
- First federal approvals are at least two years away, and economic, political and policy equations could easily change before then
- Progress continues slowly on Federal Loan Guarantees, which will provide a lower-cost source of funding but will only modestly mitigate increasing business and operating risk profile
- Partnerships, balance sheet strengthening, bolstering liquidity reserves and "back-to-basics" approaches to core operations could help would-be nuclear utilities maintain their ratings

This Special Comment is an addendum to our prior research reports associated with the credit implications of building new nuclear generation in the U.S. These prior reports, entitled "New Nuclear Generating Capacity: Potential Credit Implications for U.S. Investor Owned Utilities" published in May 2008 and "New Nuclear Generation in the United States: Keeping Options Open vs Addressing An Inevitable Necessity" published in October 2007 are referenced in the back under the section Moody's Related Research.

Moody's Investors Service