Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Jimmy E. Addison and my business address is 220 Operation Way, Cayce, South Carolina. I am Executive Vice President and Chief Financial Officer (“CFO”) of South Carolina Electric & Gas Company (the “Company” or “SCE&G”) and hold a similar position at SCANA Corporation, which is the parent company of SCE&G.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate of the University of South Carolina with a Bachelor of Science Degree in Business Administration, majoring in accounting, and a Master of Accountancy Degree. Also, I am a Certified Public Accountant (“CPA”) in South Carolina. Prior to my employment by the Company in March 1991, I was employed for seven years by the public accounting firm of Deloitte & Touche, where I was designated an Audit Manager as a public
utility accounting and audit specialist. I was also a partner in the public accounting firm of Hughes, Boan and Addison immediately prior to joining the Company in 1991.

Q. WHAT ARE YOUR DUTIES WITH SCE&G?

A. As Executive Vice President and Chief Financial Officer of SCE&G, I have responsibility for monitoring the Company’s present and prospective financial condition; for formulating strategies to ensure that the Company can obtain capital at the lowest reasonable cost; and for managing all accounting and financial matters related to the Company. In that regard, I meet regularly with members of the financial community, including the Wall Street analysts and credit rating agency personnel who follow the electric utility industry in general and SCE&G specifically. In these meetings, we discuss their perceptions and concerns about the Company, its financial and business position, the capital markets and the utility industry generally. We also discuss the various risk factors that the Company faces as seen by investors. I am also regularly involved in discussions with underwriters and other experts regarding investors’ perspectives on the Company as such views pertain to the issuance or refinancing of debt and the issuance of new common stock.
Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”) BEFORE?

A. Yes. I have testified in a number of different proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony discusses the reaction of the financial markets to the October 27, 2015 Amendment (“Amendment”), SCE&G’s experience in financing the V.C. Summer Nuclear Units 2 and 3 (the “Units”) and how this proceeding fits within the structure of the Base Load Review Act (“BLRA”).

Q. WHERE DOES THE COMPANY’S FINANCIAL PLAN REGARDING THE UNITS STAND TODAY?

A. As of May 31, 2016, SCE&G had successfully raised the necessary capital to support approximately 50% of the total cost of the Units when completed. SCE&G has supported this investment through (a) issuance of debt in the form of SCE&G first mortgage bonds and (b) equity from SCE&G’s retained earnings, and c) sales of common stock by SCANA, retained earnings of SCANA and the sales of two other subsidiaries, the proceeds of which have been contributed to SCE&G.

Additionally, SCE&G has locked in reasonable interest rates for several future borrowings. As of July 1, 2016, interest rates on
approximately $700 million in anticipated 2016-2017 borrowings have been locked in at an estimated effective rate of 5.34%.

Q. **HOW HAS THE FINANCIAL COMMUNITY RESPONDED TO SCE&G’S BORROWING TO SUPPORT THE UNITS?**

A. As evidenced by SCE&G’s recent debt offerings, the financial community has been supportive of SCE&G’s plan to finance the construction of these Units. The financial community is comfortable with the careful and consistent approach to applying the BLRA that has been followed by the South Carolina Office of Regulatory Staff (“ORS”) and Commission since the BLRA’s adoption. Since 2009, SCE&G has issued approximately $2.5 billion in first mortgage bonds through eight separate issues that are directly related to the nuclear project. The weighted average interest rate of these bonds is 5.09%, which is 1.34% lower than the rate we projected when we began the project.

Q. **HOW HAVE THE FINANCIAL MARKETS REACTED TO THE AMENDMENT?**

A. The financial markets have reacted very positively to the Amendment. The analysts that follow SCANA see the Amendment as limiting project risk, which brings tremendous value to the project and, therefore, to SCE&G and its customers. Based on the financial analyses they have done, there has been a clear expectation that SCE&G will exercise the Fixed Price option and that the option will be supported by ORS and the Commission. In fact, we issued
$500 million of bonds in June 2016 and they were received well by the market. I believe the success of this offering was due in part to the market’s perception of the value of the Fixed Price option.

SCE&G issued these first mortgage bonds in a two tranche offering. The $500 million issuance was announced as a benchmark sized 30-year issuance and a re-open of the first mortgage bonds previously issued and maturing in 2064 (50 year issuance). Designating the benchmark size communicated to the market that at least $250 million in bonds would be issued with the 30-year maturity. In the weeks leading up to the transaction there was substantial supply of utility bonds in the market. However, SCE&G’s issuance was well timed as there was no competing utility supply that day. When the underwriters completed their marketing efforts, the order book was oversubscribed by a factor of two. This allowed the Company to price each tranche of bonds on the tight end of the initial price guidance that the underwriters offered. Ultimately, the underwriters sold $425 million in the new 30-year tranche and $75 million in the re-opened 50-year tranche. The 30-year tranche was issued with a coupon of 4.10% and the 50-year tranche bears the previously issued rate of 4.50%.

Q. COULD YOU PROVIDE OTHER EXAMPLES OF SUCCESSFUL MARKETING OF BONDS IN RECENT YEARS?

A. SCE&G’s $250 million bond issue in February 2011 was oversubscribed by a factor of eight and was ultimately priced at the lowest
end of the indicated interest rate range of that offering. SCE&G’s $250 million bond issue in January 2012 was oversubscribed by a factor of six and, when issued, bore “one of the lowest 30-year coupons of all time,” as reported at the time by Credit Suisse. Nevertheless, the next issue, which was SCE&G’s $250 million issue in July 2012, bore a yield which “represent[ed] the lowest 30-year utility yield on record,” as reported at that time by Wells Fargo. SCE&G’s $300 million May 2014 bond issue represented the first 50-year bond issued in the utility and power sector and only the sixth such bond ever issued in the United States. It was oversubscribed by a factor of 13 and was issued at a rate estimated to be only 35 basis points higher than a 30-year bond would have borne.

In May 2015, while the last BLRA proceeding was underway, SCE&G issued $500 million in 50-year first mortgage bonds. We achieved a favorable coupon interest rate at 5.1%. However, on the day of the issuance the subscriptions were slow in coming. At one point, it appeared that the entire $500 million might not be sold. In the closing hours of the offering, a slight nudge upward in the interest rate was needed to bring the book of potential buyers from $400 million to the expected $500 million. We polled several investment banking firms involved in the transaction. They reported that an important factor for many potential buyers was their concern over regulatory risk related to the BLRA filing that was in process at that time.
Q. WHAT IS YOUR CONCLUSION FROM THESE FACTS?

A. Bond buyers have options. If bond buyers have concerns about SCE&G’s regulatory risk profile, it is often just as easy for them to buy bonds of companies that do not face such risks. As a point of reference, the corporate market as a whole absorbed $178 billion of bonds in May 2016, with $16 billion of that amount being issued in the utility sector. The market has become increasingly sensitive to SCE&G’s regulatory risk in the nuclear context. In the 2015 issuance, the ‘overhang’ of the 2015 BLRA proceeding brought that risk into focus for the market. We were able to complete the transaction successfully and at a reasonable interest rate, but what we learned is that the risk of losing market support for our financing plan is real. That could happen if the market loses confidence in the consistent application of the BLRA.

Q. WHAT IS THE FINANCIAL PLAN FOR COMPLETING THE UNITS GOING FORWARD?

A. We remain in a critical time in the execution of our financial plan. We anticipate spending approximately $950 million on the Units in 2016, approximately $1.3 billion in 2017, and approximately $980 million in 2018. During this three year period, SCE&G may not have the option of waiting out unfavorable conditions in the capital markets or postponing debt and equity issues during periods where it has achieved unfavorable financial or regulatory results as a company. It will be vitally important that SCE&G
maintain access to capital markets on reasonable terms. If SCE&G can maintain access on such terms, the Company may be able to continue to reduce debt costs and the costs to customers from financing the Units as compared to the 2008 projections. However, if access to capital markets on reasonable terms is lost, the reverse is true. Financing costs will go up, and in some circumstances, it could prove impossible to finance the completion of the Units.

Q. WHAT ROLE DOES THIS PROCEEDING PLAY IN SCE&G EXECUTING ITS FINANCIAL PLAN?

A. Nothing is more important to SCE&G’s financial plan than that we sustain the market’s understanding that ORS and the Commission will continue to apply the BLRA in a fair and consistent way. The financial markets understand that the Commission and ORS may come under pressure as challenges appear in the construction project. The decision here will provide the financial markets with an important signal concerning how the markets should expect that the BLRA will be applied over the remainder of the project. That will greatly impact how the financial community assesses the financial and regulatory risks of the project and the rates and terms on which SCE&G will be able to finance approximately $3.5 billion of capital remaining to be invested.
Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT THE BLRA IS SO IMPORTANT TO THE FINANCING PLAN FOR THE UNITS.

A. The BLRA was adopted to make it possible for electric utilities like SCE&G to consider building new nuclear units. Before the BLRA was adopted, building a new nuclear plant was not a viable option for SCE&G. For SCE&G to seriously consider adding new nuclear capacity, legislative action was needed to overcome two major challenges. The BLRA sought to address these two challenges, which are as follows:

The Financing Challenge. Recovering the financing costs of a project during construction was the first challenge. During construction of a base load plant, a company must raise hundreds of millions of dollars of new capital each year to finance construction costs. Each time bonds are issued to pay for construction, debt service increases. Unless there is a corresponding increase in revenues, debt service coverage ratios decline as do other financial ratios. Bond ratings are based on these ratios. As these ratios decline, the creditworthiness of the company suffers. In time, bond ratings are downgraded. At that point, raising capital on favorable terms can be extremely difficult or potentially impossible. Capital to complete the plant may not be available.

On the equity side, each time additional common stock is issued to support construction, there are more shares outstanding. Additional dividends must be paid. Without new revenues, earnings are diluted. As
earnings are diluted, the attractiveness of the stock and its value decline. To finance the next round of construction, a higher number of lower-priced shares must be issued to generate the same amount of capital. This causes yet more dilution and further weakens the value of the stock going into the next financing cycle.

The only solution is for the company to generate revenues sufficient to pay debt service, meet coverage ratios and provide reasonable levels of earnings per share as the new plant is built. Some years ago the Commission recognized this fact and began to authorize utilities to include the financing costs of plants in rates before they were completed. This was done in general rate cases by recognizing the financing costs associated with construction work in progress (“CWIP”) as a revenue requirement for ratemaking purposes. The Commission has historically allowed a company to apply its weighted average cost of capital to its CWIP to determine the amount of revenue needed to support the common stock and bonds issued to finance construction. The weighted average cost of capital is the amount of revenue that the Commission has determined to be necessary to support investment of capital in the utility, specifically, to pay debt service on bonds and allow a reasonable level of earnings to support common stock.

This CWIP based method of recovering financing costs required the utility to file general rate cases stair stepped in one or two-year intervals during plant construction. SCE&G successfully used this approach when
building its last coal plant, Cope Station (1995), and its most recent combined
cycle natural gas plant, Jasper Station (2004). During construction, there
were a total of six separate rate adjustments which placed some part of the
financial costs of the capital spent on those plants into rates.

Cope and Jasper, however, took three to five years to build, not
thirteen as is the case for nuclear. Outlays for those plants were in the
hundreds of millions of dollars, not billions. If this approach were to be used
to support a nuclear construction project, it would require SCE&G to litigate
full electric rate cases every year or two for approximately 12 years. Neither
SCE&G nor its investors considered this to be practical.

**Disallowances.** The second challenge utilities like SCE&G face in
base load construction is the threat of construction cost disallowances.
Investors are sensitive to very small changes in returns. Even ‘minor’
construction cost disallowances can hit investor returns with crippling force.
Furthermore, and maybe even more significant, is the fact that even a small
disallowance today indicates the potential for future disallowances as
construction progresses. Therefore, even small disallowances can drive
investors away and make it impossible for a utility to complete a construction
project due to lack of or inability to obtain financing at reasonable terms.

**The BLRA.** In response, the South Carolina General Assembly
adopted the BLRA. It allows for annual rate adjustments through revised
rates filings to cover the financing costs of approved nuclear construction
projects pending their completion. Financing costs are based on the same weighted average cost of capital that applies under the CWIP method. As with the CWIP method, before a plant goes into service, only financing costs may be recovered under the BLRA, not the cost of the plant itself. The BLRA carries forward the key concepts of the CWIP method but does so without requiring full rate cases each year. Under ORS direction, the benefits of the BLRA for customers were independently verified by a CPA firm in January 2016.

As to disallowances, the BLRA provides an opportunity for the Commission to review the prudence of constructing the plant in detail before construction begins. Once the prudence decision is made, disallowances are permitted if (a) the construction does not proceed within the originally approved cost and construction schedules and (b) schedule amendments such as the updates that are requested here are not made. As to the second point, the BLRA states that the Commission will grant requests for amendment as long as “the evidence of record justifies a finding that the changes are not the result of imprudence on the part of the utility.” S.C. Code Ann. § 58-33-270(E)(1).

Under the BLRA, prudence reviews are made based on plans and forecasts before construction begins. The Commission determines whether or not it is prudent to proceed with the project under the construction plan and with the contractors and the Engineering, Procurement, and Construction
(“EPC”) contract proposed by the Company. The initial plans and forecasts can then be updated so long as the updates are not the result of imprudence by the utility. This assures the financial community that disallowances based on after-the-fact prudence challenges will not impair their ability to recover the capital they invest in the project unless there is imprudence by the utility in administering the project.

Q. WHAT DO YOU BELIEVE TO BE THE POLICY BEHIND LIMITING THE PRUDENCY REVIEW IN UPDATE DOCKETS TO THE PRUDENCY OF THE OWNER IN MANAGING THE PROJECT?

A. In considering disallowances, the BLRA properly focuses on the utility as owner of the project and those cases where the utility has caused additional cost to be incurred through imprudence in its role as owner. More specifically, in this project, the Commission properly looks to SCE&G as owner for prudence in

- construction oversight;
- obtaining licenses and permits for the Units including Nuclear Regulatory Commission licenses, and complying with those licenses and permits;
- administering the EPC Contract and enforcing its terms;
- resolving disputes with the EPC contractors;
- constructing transmission facilities to support the Units;
• recruiting, hiring and training of operating staff for the Units;
• deploying information technology ("IT") systems to support the Units;
• drafting and obtaining approval of the operating, maintenance and safety plans for the Units; and
• performing all the tasks that fall under the heading of operational readiness for the Units.

The BLRA provisions as to cost and construction schedule updates properly focus on those aspects of the project that the Company can control, specifically its own prudence as owner in administering the EPC Contract, overseeing the contractor’s work and performing the work that is the owner’s direct responsibility. Other risks related to construction are reviewed in the initial BLRA proceeding when the EPC contract, EPC contractor, and other aspects of the project are being reviewed. The decision to approve a project under the BLRA is a decision that it is reasonable and prudent to assume the risks of proceeding given the terms of the EPC contract, the review of the EPC contractor, and the other matters considered.

Q. IS THIS POSITION CONSISTENT WITH THE COMMISSION’S PRIOR RULINGS UNDER THE BLRA?

A. Yes. In the 2008 proceedings, the Commission and the parties reviewed the risk factors associated with this project and concluded that the
project should proceed under the terms of the BLRA in spite of those risks.

Based on its review of that information, the Commission ruled as follows:

The Commission’s approval of the reasonableness and prudence of the Company’s decision to proceed with construction of the Units rests on a thorough record and detailed investigation of the information known to the Company and the parties at this time. Once an order is issued, the Base Load Review Act provides that the Company may adjust the approved construction schedule and schedules of capital cost if circumstances require, so long as the adjustments are not necessitated by the imprudence of the Company. S.C. Code Ann. § 58-27-270(E). The statute does not allow the Commission to shift risks back to the Company. ... In addition, risk shifting could jeopardize investors’ willingness to provide capital for the project on reasonable terms which, in turn, could result in higher costs to customers.


Q. WHAT INFORMATION ABOUT RISKS DID SCE&G PLACE BEFORE THE COMMISSION IN 2008?

A. When SCE&G filed for BLRA approval in 2008, it placed before the Commission an extensive assessment of the risks and uncertainties of this project. SCE&G also placed before the Commission its choice of EPC contractors, its plan for construction of the Units, and the terms of the EPC Contract under which subcontractors would be selected and the Units would be constructed. SCE&G explained:
SCE&G has reviewed the risks related to constructing the Units carefully and over an extended period of time. It has compared those risks to the risks of the other alternatives that are available to meet the energy needs of its customers and the State of South Carolina. . . . SCE&G has concluded that constructing the Units is the most prudent and responsible course it can take at this time to meet the base-load generation needs of its Customers. . . .

…In the end, this project’s ability to meet its current schedule and cost projections will depend on the cumulative effect of those risk events that do occur on the schedule and cost projections contained in this Application.


SCE&G’s 2008 BLRA application acknowledged that, “[f]or a project of the scope and complexity of the licensing and constructing of the Units, any list of potential risk factors compiled at this stage of the process will not be exhaustive.” Petition, Docket No. 2008-196-E, Exhibit J, p. 12. With that caveat, SCE&G listed the specific risks that seemed most important at the time. Among the risks specifically enumerated at that time were many, if not all, of the risks that have resulted in the subsequent update filings:

• Module production: “It is possible that manufacturers of unique components (e.g., steam generators and pump assemblies or other large components or modules used in the Units) and manufacturers of other sensitive components may encounter problems with their manufacturing processes or in meeting quality control standards. . . . Any difficulties that these foundries or other facilities encounter
in meeting fabrication schedules or quality standards may cause schedule or price issues for the Units.”

- Construction Efficiencies: “The project schedule and costs are based on efficiencies and economies anticipated from the use of [standardized designed and advanced modular construction processes]. . . . However, standardized design and advanced modular construction has not been used to build a nuclear facility in the United States to date. The construction process and schedule is subject to the risk that the benefits from standardized design and advanced modular construction may not prove as great as anticipated.”

- Rework: “[N]o AP1000 units have yet been built. Accordingly, problems may arise during construction that are not anticipated at this time. These problems may require repairs and rework to be corrected. Repairs and rework pose schedule and cost risks resulting both from the repairs and the rework itself, and from the time and expense required to diagnose the cause of the problem, and to plan, review and approve the work plan before implementation.”

- Scope Changes: “[S]cope increases can result from changes in regulation, design changes, changes in the design and characteristics of components of equipment, and other similar
factors. . . . Scope changes represent an important category of risk to which the project is susceptible.”

- Design Finalization: “[T]here is engineering work related to the Units that will not be completed until after the COL [Combined Operating License] is issued. Any engineering or design changes that arise out of that work . . . could impact cost schedules or construction schedules for the Units.”


In light of these risks, SCE&G expressly acknowledged in 2008 that cost and schedule updates might be required. The Commission agreed that under the BLRA these updates would be allowed so long as they were not due to the imprudence of the utility.

Q. WHAT DO THE PRIOR COMMISSION ORDERS SAY ABOUT THE EPC CONTRACT?

A. In Order No. 2009-104(A), the Commission ruled that “[a] key component of the prudence review envisioned by the Base Load Review Act is a review of the reasonableness and prudence of the contract under which the new units will be built.” Order No. 2009-104(A) at p. 70. The Commission pointed out that in the 2008 proceedings “[a] number of intervenors have raised questions concerning the degree of price certainty provided by the EPC Contract.” Id. at p. 73. However, the Commission noted that this issue has been addressed in the testimony of the Company’s
witnesses who “testified that in the EPC Contract the Company sought to obtain the greatest degree of price assurance possible, with due consideration to the cost that [the Consortium] would charge for accepting additional price risk.” *Id.* The Commission concluded that “the EPC Contract contains reasonable and prudent pricing provisions, as well as reasonable assurances of price certainty for a project of this scope.” *Id.* at 74.

During the negotiations that preceded the signing of the EPC Contract, SCE&G gave serious consideration to obtaining fixed or firm pricing for the Target Price category and Time and Materials category.

As indicated in Order No. 2009-104(A), we determined that the price SCE&G and SCE&G’s customers would have paid for price certainty for these items was prohibitive. In 2008, we did negotiate fixed or firm pricing for more than 50% of the EPC Contract. Thereafter, we extended price assurance to approximately two-thirds of the contract through subsequent negotiations. The Company’s conclusion in 2008 was that the premium to fix the prices for the remaining EPC Contract cost categories was too high. The Commission expressly approved that decision as reasonable and prudent in Order No. 2009-104(A).

In spite of the increased costs we are considering today, we still believe that the decision to forego price certainty in 2008 was the correct decision.
Q. SHOULD THE COMPANY POSTPONE UPDATES TO THE SCHEDULES BECAUSE COST AND CONSTRUCTION SCHEDULES CONTINUE TO BE REVIEWED?

A. No. It would not be prudent for the Company to defer updating its cost and construction schedules.

1. This is a dynamic project. Cost and schedule reviews are on-going.

2. The most important years for financing the Units will now be 2016-2018. Delaying a decision on these costs will inject significant uncertainty in the financing plan at a critical time for the project.

3. If SCE&G foregoes adjusting its cost and construction schedules, it foregoes including these costs in revised rates filings. Without revised rates, earnings and cash will not be available to support debt interest payments and common stock dividends. Our financial plan for completing these Units is based on regular, annual revised rates filings. Without the revenue from revised rates, our debt service ratios and other financial ratios immediately begin to erode. Deterioration of these ratios could result in the inability to obtain financing at reasonable terms resulting in a substantial increase in project costs.

4. The financial community expects us to update our schedules and proceed with revised rates as we have every year since 2009. If we are not able to proceed consistently with past practice and current expectations, the financial community will swiftly reassess its support
for this project and the confidence it has in the Company’s financial
plan. This is the most important point of all. The consequences of the
Company not proceeding with updates and revised rates filings as the
BLRA envisions could result in an immediate withdrawal of financial
support for this project.

5. Not to proceed with updates would also be contrary to our long-
standing commitment to this Commission and the public to come
forward publicly for approval of changes in our cost and construction
schedules as we identify them.

Without approval of the cost and construction schedules proposed here, the
Company’s ability to finance the completion of the Units on reasonable
financial terms may be placed in great jeopardy.

In each update case since 2009, the Company has come before the
Commission with the best information available concerning the anticipated
construction schedule for completing the Units and the anticipated costs
associated with that schedule. In every case, both the cost and the
construction schedules presented and approved have been anticipated
schedules for completing the Units. As anticipated schedules they are subject
to risks, uncertainties, potential changes and possible revisions. That is true
of the cost schedule here just as it has been true of all cost schedules the
Commission has approved to date.
The current schedules reflect the best information available about the anticipated costs and construction timetables for completing the project. The anticipated capital costs presented here are not speculative. As Mr. Byrne testifies, they are based on a careful review of construction plans and the expected costs of the tasks required to complete them. No speculative or unitemized costs are included in this cost schedule. It is appropriate that this cost schedule be approved under the BLRA as the updated schedule for the project.

Q. HOW WILL REGULATORS ENSURE THAT IMPROPER CHARGES ARE NOT INCLUDED IN REVISED RATES?

A. ORS audits costs, invoices and payment for the project on a continuous basis. They update these audits whenever the Company files for revised rates. As is always the case under the BLRA, revised rates are based on actual payments only, not projections. Rates never reflect costs that have not been paid. When SCE&G files for revised rates, the Company presents ORS with the actual invoices and other cost data justifying those costs. ORS has full audit authority over this data. ORS carefully audits all amounts SCE&G seeks to include in revised rates recovery.

SCE&G is committed to excluding any improper amounts in revised rates requests. However, under the new Fixed Price provisions of the EPC Contract as amended, there will be little chance for any confusion as to amounts billed by Westinghouse Electric Company, LLC. Substantially all
amounts that can be billed will be established in the milestone payment schedule and paid when the appropriate milestone has been reached.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. It does.