BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

COLUMBIA, SOUTH CAROLINA

PROCEEDING #15-11505 NOVEMBER 19, 2015 10:30 A.M.

ALLOWABLE EX PARTE BRIEFING - ND-2015-30-E

SOUTH CAROLINA ELECTRIC & GAS COMPANY - Request for Allowable Ex Parte Briefing Regarding Recent Activity Concerning the New Nuclear Units 2 and 3 at V.C. Summer Nuclear Station.

TRANSCRIPT OF ALLOWABLE PROCEEDINGS **EX PARTE BRIEFING**

COMMISSION MEMBERS PRESENT: Nikiya M. 'Nikki' HALL, *Chairman;* Swain E. WHITFIELD, *Vice Chairman;* and COMMISSIONERS John E. 'Butch' HOWARD, Elliott F. ELAM, JR., Comer H. 'Randy' RANDALL, and Elizabeth B. 'Lib' FLEMING, and G. O'Neal HAMILTON

ADVISOR TO COMMISSION: Joseph Melchers, Esq.
General Counsel

STAFF: F. David Butler, Senior Counsel; James Spearman, Ph.D., Executive Assistant to Commissioners; B. Randall Dong, Esq., Josh Minges, Esq., and David W. Stark, III, Esq., Legal Staff; Philip Riley, Doug Pratt, Tom Ellison, and Lynn Ballentine, Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM/M-GNSC, Court Reporter; and Hope Adams and Deborah Easterling, Hearing Room Assistants

APPEARANCES:

CHAD K. BURGESS, ESQUIRE, together with ***KEVIN B. MARSH*** *[Chairman/CEO, SCANA],* ***STEPHEN A. BYRNE*** *[Executive VP, SCANA; President/Generation & Transmission, SCE&G], and* ***JIMMY E. ADDISON*** [Executive VP/CFO, SCANA], representing and presenting for **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

SHANNON BOWYER HUDSON, ESQUIRE, representing **THE OFFICE OF REGULATORY STAFF**

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Note: For identification of additional referenced materials and/or links for same, please see Certification correspondence filed by the Office of Regulatory Staff.

Please note the following inclusions/attachments to the record:

- PowerPoint Presentation Slides (PDF)
- Third Quarterly Report of 9/30/15
- Article: "SCANA Corp. – Reducing Risk on All Fronts"
- Recent SEC 10-Q filing
- PSC Order No. 2015-661

1 P R O C E E D I N G S
2 **CHAIRMAN HALL**: Thank you. Be seated. Good
3 morning, everyone.
4 Gentlemen, we're glad to have you back again.
5 Mr. Melchers will read the docket for us,
6 please.
7 **MR. MELCHERS**: Thank you, Madam Chairman.
8 Commissioners, we're here pursuant to a Notice
9 of Request for Allowable Ex Parte Communication
10 Briefing requested by South Carolina Electric & Gas
11 Company, scheduled for today, Thursday, November
12 19th, here in the Commission hearing room, at
13 10:30.
14 The subject matter to be discussed at this
15 briefing is: Recent activity concerning the new
16 nuclear units at V.C. Summer Nuclear Station.
17 Thank you, Madam Chairman.
18 **CHAIRMAN HALL**: All right.
19 **MR. BURGESS**: Good morning, Madam Chair.
20 **CHAIRMAN HALL**: Good morning.
21 **MR. BURGESS**: Good morning, Vice-Chairman
22 Whitfield, and other members of the Commission. My
23 name is Chad Burgess; I'm corporate counsel for
24 SCE&G, and it is a pleasure to appear before you
25 today. Also, we appreciate this opportunity to

1 allow the company to bring senior management over
2 here to talk with you about some of the recent
3 activity that has happened in conjunction with the
4 V.C. Summer units in Jenkinsville.
5 We've got a presentation today, about 17
6 slides. It should take about 45 to 60 minutes to
7 get through the slides. And if it's okay with you,
8 Madam Chairman, we'd like for the Commissioners to
9 hold their questions to the end. The presentation,
10 as I've said earlier, is split into three sections,
11 so you may have a question that comes to your mind
12 in Section 1 and it may get answered by the time we
13 get to Section 3. So if we could hold those
14 questions, we'd appreciate that.
15 Without any further ado, I'd like to turn it
16 over to Kevin Marsh, the company's CEO and
17 chairman. He's going to handle part one; Steve
18 Byrne, who's our executive VP, and president of
19 Generation and Transmission for SCE&G, will handle
20 part two; and Mr. Addison, who is the company's
21 chief financial officer, will conclude with part
22 three.
23 So, unless you have any questions for me,
24 Madam Chairman, I'll turn it over to these
25 gentlemen and let them tell you what we've been up

1 to.
2 **CHAIRMAN HALL**: Okay. Thank you.
3 Go ahead, sir.
4 [Reference: PowerPoint Slide 1]
5 **MR. KEVIN B. MARSH [SCANA]**: Good morning
6 Madam Chairman and Commissioners. South Carolina
7 Electric & Gas Company was before you earlier this
8 year, in July, to present updated capital cost
9 schedules related to our new nuclear project, for
10 your approval. Included in those schedules was
11 approximately $482 million in costs from the
12 consortium that we were disputing. You may recall
13 our contract with the consortium required that we
14 pay 90 percent of disputed costs until an agreement
15 was reached on payment of the costs or the dispute
16 was otherwise resolved. While these disputed costs
17 were included in the capital cost schedules we
18 presented in July, we committed to you that we
19 would continue to negotiate with the consortium to
20 reduce these costs. It was clear in the hearing
21 and in your subsequent order that the Commission
22 strongly encouraged the company to pursue efforts
23 to reduce the disputed costs.
24 After the July hearing, we did continue our
25 efforts to negotiate a settlement with the

1 consortium that would have resulted in a reduction
2 to the disputed costs. As those discussions
3 continued, it was apparent there were disagreements
4 within the consortium between Westinghouse and
5 Chicago Bridge & Iron that were impeding our
6 attempts to negotiate a settlement. We sensed a
7 distinct lack of cooperation between the consortium
8 partners.
9 [Reference: PowerPoint Slide 2]
10 The first week of September, Westinghouse and
11 CB&I requested a meeting with us and Santee Cooper.
12 At the meeting, CB&I communicated to us a desire to
13 refocus their business. While their new direction
14 would continue to offer nuclear maintenance and
15 refueling services, they longer wanted to be in the
16 nuclear-power-plant construction business. CB&I
17 further stated it was their belief that our
18 negotiations had stalled and we were headed toward
19 a path of litigation. They reiterated that the
20 litigation process on Vogtle Plant had been very
21 expensive, time-consuming, and distracting. CB&I
22 expressed their belief that it would be in the best
23 interest of all parties if they were to exit the
24 project.
25 Westinghouse and CB&I disclosed to us that

1 they had tentatively resolved their internal
2 disputes, which would allow CB&I to exit the
3 consortium. As they explained further, in order to
4 exit the consortium, both SCANA Corporation, Santee
5 Cooper, and the owners of the Vogtle project would
6 need to release CB&I from its parental guarantees
7 to our project and the Vogtle project. As part of
8 their agreement, Toshiba, the parent company of
9 Westinghouse, would remain responsible for the full
10 parental guarantee for the project.
11 At that point in the meeting, CB&I was
12 excused, and SCANA and Santee continued the meeting
13 with Westinghouse. Westinghouse expressed their
14 need to successfully complete the new nuclear
15 plants under construction with us and the Vogtle
16 owners, in order to give them future opportunities
17 to market the AP1000 in the United States and
18 around the world. To that end, Westinghouse
19 represented to us that they had negotiated with
20 CB&I for the purchase of Stone & Webster and all of
21 its nuclear construction assets from CB&I. Stone &
22 Webster is a wholly-owned subsidiary of CB&I and is
23 a member of the consortium.
24 Westinghouse further explained that, once the
25 acquisition of Stone & Webster was complete, that

1 they planned to engage Fluor Corporation as a
2 subcontractor to Westinghouse to manage the
3 construction of the project. Fluor, which has
4 extensive large project and nuclear construction
5 experience, expressed an interest in a long-term
6 business relationship with Westinghouse.
7 As I described earlier, in order for
8 Westinghouse and CB&I to proceed with their plans,
9 it was necessary for SCANA and Santee Cooper to
10 provide a release of the CB&I parental guarantee to
11 the project. At this point, we realized we had a
12 unique, short-term opportunity to negotiate
13 significant improvements to the EPC contract,
14 rather than simply negotiating a settlement of our
15 previously identified disputes. In our opinion,
16 this would provide not only more value and
17 protection against further cost increases and
18 resolution of current disputes, but also improve
19 Westinghouse's focus on completing the new nuclear
20 units in time to qualify for federal production tax
21 credits for the benefit of our customers.
22 So while I, too, intended to bring you a
23 negotiation that was a lower number than we
24 requested and you recently approved, we instead
25 have a very different agreement and an option to

1 present to you. From the first week of September
2 until we announced our agreement to amend the EPC
3 contract on October 27th, we were involved in
4 lengthy and extensive negotiations with
5 Westinghouse. Our goal today is to present to you
6 the highlights of those negotiations and the
7 significant improvements to the terms and
8 conditions of the EPC agreement. We've got a
9 number of slides we will go through to cover that.
10 I think I've covered everything that's on this
11 first slide, in terms of how the deal came about,
12 in my opening comments. So I will move to the
13 second slide, in terms —
14 [Reference: PowerPoint Slide 3]
15 — of the goals of our negotiations with
16 Westinghouse as we sought to amend the existing EPC
17 agreement.
18 One of our first goals was to increase the
19 liquidated damages. Liquidated damages are those
20 amounts that the consortium, or Westinghouse, would
21 pay to us if they went beyond the guaranteed
22 substantial completion dates. These are monetary
23 amounts that begin to build over a two-year period,
24 up to the maximum. It's something that would help
25 offset any costs we might incur, such as owner's

1 costs, if they were to miss the original deadline.
2 So our goal was to increase that number
3 significantly, and you'll see in a chart a little
4 bit later that we have done that.
5 We wanted to focus Westinghouse very keenly on
6 meeting the deadlines for the production tax
7 credits. As you know, those tax credits expire at
8 the end of 2020. We have to have our plants on-
9 line at the end of 2020 to qualify for those. The
10 first plant is certainly more than a year ahead of
11 that; the second plant is a little bit less than
12 six months ahead of that, so we wanted to make sure
13 we kept them focused on trying to reach those goals
14 so we could secure those benefits for customers
15 that amount to about $2.3 billion on a pretax
16 basis.
17 It was necessary, in our opinion, to improve
18 construction leadership. We had a team on the
19 ground that it became clearer and clearer to us was
20 not functioning effectively because of a lot of the
21 internal commercial disputes between Westinghouse
22 and CB&I. We wanted a strong, experienced,
23 committed team on the ground that could provide
24 day-to-day leadership for this important project.
25 We also wanted to resolve the outstanding

1 claims and disputes that were on the board or
2 recognized at that point. We had done this several
3 times in the past with agreements we've reached
4 with the consortium in terms of a settlement to
5 make sure we could wipe the slate clean so we
6 didn't have those disputes going forward. We were
7 able to do that in this amendment to the agreement,
8 as well as clear some of the items or amend some of
9 the contract provisions that we think will solve
10 some of the new issues that may come in the future.
11 We wanted to put the working relationships on
12 a stable footing, going forward. On a project of
13 this size, it's essential for us to have
14 cooperation between the parties and have as much
15 communication as we can about what's going on with
16 the project, whether it's good or bad, needs to be
17 adjusted, things that require our attention. We
18 saw that deteriorating with the eroding consortium
19 relationship, and we needed a team on the ground
20 that was going to work together, and we believe
21 what we're going to present to you today gives us a
22 very good, strong opportunity to do that.
23 It was important for us to provide price
24 certainty. We've talked with you on many occasions
25 in the past about how we structured our contract

1 initially, where we could've gone with an all-
2 fixed-price contract. The premium to do that back
3 in 2008, we thought, was extremely excessive, and
4 we opted for a different type of contract that had
5 about 50 percent of the costs that were fixed or
6 firm, and then the balance of that would be in a
7 targeted category. We had an amendment several
8 years into the project where we were able to fix
9 additional costs along the way. It took us up to
10 about 66-2/3 in fixed costs on the project or firm
11 costs on the project.
12 So, with this opportunity in our negotiations
13 with Westinghouse, they did not initially present
14 us with a fixed option, but we asked them, "What
15 would it cost us to fix the remaining costs on the
16 project?" And they gave us a number; it was
17 significantly higher than what we negotiated at the
18 end of the day, but we negotiated a very attractive
19 fixed-price option that we have the ability to
20 exercise over the next 12 months. We wanted to
21 take some time to evaluate the overall status of
22 the project before we made that election, and also
23 present this information to you. We think that was
24 a very good option for us to negotiate into the
25 contract.

1 We also wanted to clarify the change-in-law
2 provisions. Many of the disputes that have come up
3 on this project over the past seven or eight years
4 have been due to different interpretations of what
5 is a change in law, what is a change in regulation.
6 And we strengthened that language — and Steve will
7 go through that a little bit later. But we
8 strengthened that language so we think it's very
9 clear what constitutes a change and what doesn't
10 constitute a change. Primarily, it has to be in
11 writing. It can't just be an interpretation of
12 somebody in the field, if it's not written down by
13 the NRC or passed by the federal government or some
14 regulatory body that has oversight over the
15 project. It actually has to be written.
16 So we believe these two options give us a lot
17 more price certainty and help us try to eliminate a
18 potential for future disputes and potential
19 arguments over cost increases on the project in the
20 future.
21 [Reference: PowerPoint Slide 4]
22 The next chart — and if you've got this, you
23 may want to follow this in your copy in front of
24 you, because it's a little bit hard to read on the
25 screen — is a summary of the settlement with the

1 consortium. A lot of information on here, but we
2 tried to summarize what we believe are the key
3 points, and Jimmy and Steve will go into these in a
4 little more detail later.
5 This is set up with three columns. The first
6 column is "Order No. 2015-661," which is the Order
7 you issued to us in September. Column two is the
8 "Amended EPC," the amendments we negotiated in this
9 settlement with Westinghouse. And column three
10 would be the impact on the project if we were to
11 elect a fixed-price option.
12 So, on line one, the guaranteed substantial
13 completion dates, those have moved from June of '19
14 and June of 2020 for Units 2 and 3 — under the
15 "EPC" and the "Fixed-Price Option" those have both
16 moved to August of '19 and August of 2020. A
17 couple of months' move there, but still we believe
18 in time to finish the units for the production tax
19 credit qualification.
20 The capital cost associated with these
21 different options is on line two. And consistent
22 with the Order we have today, the current Order,
23 it's $5.247 billion, and that's in 2007 dollars.
24 Under the "Amended EPC," it's $5.492 billion, also
25 in 2007 dollars. And then in the "Fixed-Price

1 Option" it's $6.757 billion in actual dollars, but
2 that's a little still not apples-to-apples with
3 some of the numbers because that includes inflation
4 that's already absorbed in that fixed-price option
5 which you can see on line three.
6 We would have future escalation to
7 Westinghouse under the existing Order of
8 approximately $794 million. That number goes to
9 $813 million under the "Amended EPC" and drops to
10 $19 million under the "Fixed-Price Option." There
11 is some anticipated escalation on some allowances
12 we kept and did not fix the price on, because we
13 believe we can have a better outcome if we manage
14 those costs, rather than just letting Westinghouse
15 absorb and pay them for the full allowance. So
16 there's some slight escalation in those numbers.
17 The line that is really apples-to-apples is on
18 line four, a "Total Expected Project Cost" which
19 takes the estimated cost plus inflation. The
20 current Order, we projected the $6.827 billion, and
21 that's consistent with the numbers you approved in
22 our recent Order in September. Under the "Amended
23 EPC" it would go up $286 million to $7.113 billion.
24 Then if we were to elect the fixed-price option, it
25 would go up another $188 million, to bring it to

1 $7.601 billion.
2 Line five, "Liquidated Damages." We felt like
3 these were very important. The consortium has
4 missed deadlines in the past. You recall, in the
5 Order — in the information we presented to you in
6 our last case, they had gone well beyond the
7 guaranteed substantial completion dates, to the
8 tune of about $86 million, and we actually
9 subtracted that number from what we felt like we
10 would have to pay, and we were confident we would
11 be able to recover those dollars due to their
12 missing the deadlines.
13 So we talked to Westinghouse — not just us,
14 but Santee Cooper, with information from their
15 board — and tried to send a strong message to them
16 that we wanted them to have more skin in the game,
17 as my partner Lonnie Carter would put it, from
18 Santee, to say, "You've got to pay a bigger price
19 if you don't meet these deadlines. You know, what
20 we had initially was sufficient for what we
21 anticipated could be impacted at that time, but
22 based on your experience to date, we need to
23 increase those amounts," so we've got a little
24 bigger stick to punish them with if they don't meet
25 the guaranteed substantial completion dates.

1 And you can see there on that line five,
2 they've gone from $155 million under the existing
3 Order, to the "Amended EPC" in that middle column,
4 that $926 million, or six times where they are
5 today. And our share of that would be $509
6 million. If we elect the fixed-price option, they
7 do drop slightly, because we had to give up some of
8 that penalty in order to lock in the fixed price in
9 our negotiations, but they would be at $676 million
10 — or, still, four times what they are today — or
11 $372 million for SCE&G's share.
12 Given our discussions about production tax
13 credits and your direction to us, and our concern
14 over achieving the deadlines to qualify for these
15 credits, we felt like it was appropriate to include
16 an incentive in the contract to help encourage
17 Westinghouse to make those deadlines. So what we
18 did was we eliminated, in the existing contract,
19 the capacity performance-related bonus they would
20 receive, and that was calculated off the number of
21 megawatts the plants would produce during their
22 testing, above the rated number of 1117 megawatts.
23 So if they exceeded that, there was a cost per
24 megawatt that they would have to pay — we would
25 have to pay them, which we estimated could be

1 somewhere around $150-$200 million at the end of
2 the day. We eliminated that category of bonus and
3 went to a bonus on delivering the units on time to
4 qualify for the production tax credits. Under that
5 scenario, SCE&G would be committed to a $303
6 million "Amended EPC" payment if both units came in
7 on time; and under the "Fixed-Price Option" it
8 would be $165 million, assuming both units came in
9 on time.
10 So we believe the combination of the stick
11 with the higher liquidated damages and the carrot
12 that's in place for them to earn some additional
13 dollars if they bring these units on time will
14 really incentivize them to focus very well on
15 trying to complete these units by the guaranteed
16 substantial completion dates or, at the later date,
17 the guaranteed dates for approval and achievement
18 of the production tax credits from the government.
19 Line seven I referred to earlier as the
20 change-in-law language that we believe was very
21 important. Some of the disputes — many of the
22 disputes we've had to date have been because they
23 interpreted a change in the field as a change in
24 regulation or a change in law, yet nothing was
25 changed in the written law or the written

1 regulation, and that gave rise to a lot of disputes
2 and a foundation for many of the disagreements we
3 had. It also gave grounds to disagreements I think
4 within the consortium on commercial issues between
5 Westinghouse and CB&I as to who was going to pay
6 for additional work that needed to be done to
7 comply with those interpretations that were being
8 applied in the field.
9 So we have now — instead of being generally
10 defined, it's very explicitly defined that we have
11 to have a formal written adoption of a new statute,
12 regulation, requirement, or code, or a new NRC
13 requirement, before they can do something with a
14 change order that might be the foundation for an
15 increase in costs for whichever option we might
16 select.
17 Line eight, "Design Control Document," you may
18 recall when we first signed our contract with
19 Westinghouse to build the AP1000s, they were on
20 Design Control Document Revision 16, and by the
21 time the license was approved they were on Design
22 Control Document Revision 19, so that's the
23 standard we are building the plant to. So we had
24 them agree that they would not charge us any
25 additional money to move from Design Control

1 Document 16 to 19, so that, again, should clarify
2 any disputes we'd potentially have in that arena.
3 So this is a summary of the major components
4 of the agreement. Mr. Byrne and Mr. Addison will
5 talk more about that as they go through, and
6 certainly we'll take your questions when we get
7 past the presentation.
8 The next slide I want to talk about is how do
9 we go forward from here.
10 [Reference: PowerPoint Slide 5]
11 We want to take time for Fluor to get on the
12 ground and have their people engaged in the process
13 and make their assessment of where we are, relative
14 to schedule, in the work to be done in order to
15 complete these projects in a timely fashion. So we
16 want to be informed by their information as they do
17 their analysis, which would give us a good feeling
18 for whether or not we want to continue under the
19 contract as it is today or if we might want to
20 consider electing the fixed-price option.
21 In that regard, we want to evaluate the value
22 of that risk premium associated with the fixed-
23 price option. It is additional cost. It does
24 provide a significant level of price certainty as
25 we go forward. We think it has significant value.

1 But we want to do some additional research before
2 we decide to elect that option.
3 As we go through this process, we certainly
4 plan to keep the Office of Regulatory Staff updated
5 on the status of our evaluation. We'll keep them
6 informed of the analysis we've done to determine
7 where we may be on the project, based on the work
8 by Fluor and their assessment once they're on the
9 ground.
10 And once we've done that, we anticipate filing
11 a petition in the first half of 2016 seeking to
12 update our Base Load Review Act schedules to
13 include the costs associated with the amended EPC.
14 That would be whether we go with the existing
15 contract, as amended, or if we felt like it was
16 more appropriate to elect the fixed-price option.
17 We'd be back with you, with a full hearing, to go
18 into all these details and more description of how
19 we made those decisions, and present that to you
20 for your review and approval.
21 [Reference: PowerPoint Slide 6]
22 At this point, I'll turn it over to Steve to
23 talk about more of the specifics of the settlement
24 and the EPC amendment.
25 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Thank

1 you, Kevin.
2 And good morning, Madam Chair and members of
3 the Commission.
4 [Reference: PowerPoint Slide 7]
5 There are three dates with this contract
6 amendment that are important: the amendment date,
7 the effective date, and the lapse date. The
8 amendment date was simply the date when all of the
9 parties signed the agreement, so we had to sign at
10 the same time that Santee Cooper, our partner,
11 signed it, then Westinghouse, and CB&I, and, as we
12 were informed by Westinghouse, that Southern would
13 have to do the same thing on their side and with
14 their co-owner. So that was the 27th of October.
15 The effective date will be when the deal
16 closes. That's when Westinghouse actually
17 completes the acquisition of the stock of Stone &
18 Webster. So the Stone & Webster subsidiary of CB&I
19 will now roll up under Westinghouse. We anticipate
20 that those federal approvals will take about 45
21 days. Maybe a little bit less than that, or maybe
22 a little bit more than that, but we're anticipating
23 about 45 days for that being able to close.
24 Then the lapse date is there, in case it
25 languishes in federal approvals. We think that's

1 highly unlikely. But that lapse date would be
2 March 31 of next year.
3 [Reference: PowerPoint Slide 8]
4 To talk a little bit about the two options, as
5 Kevin pointed out, we have an amended EPC and then
6 we have an option to fix the price, but under either
7 of those options we have reset the guaranteed
8 substantial completion dates to August 31, 2019, for
9 the first new unit, Unit 2; and August 31, 2020, for
10 the second new unit, or Unit 3.
11 We have significantly increased the liquidated
12 damages. As you see here, the liquidated damages
13 under the amended option go up about six times what
14 was in the original EPC contract. And if we opt
15 for the fixed-price option, it's in excess of four
16 times what was in the original EPC contract. So we
17 have significantly increased our liquidated
18 damages.
19 [Reference: PowerPoint Slide 9]
20 Kevin talked about the amendment to the
21 change-in-law provision when he was discussing this
22 on the chart on Slide 4. I don't want to go into
23 too much more detail. Just suffice it to say that
24 I got tired of hearing from the consortium that
25 things were regulatory driven changes. The change

1 in language that we now have should close that
2 loophole, if you will, on regulatory driven
3 changes, such that it has to be a written change in
4 the law in order for it to be considered a
5 regulatory driven change of the contract.
6 Westinghouse – we were in a position where we
7 had a contract that we signed back in 2008, and the
8 then-current revision of the Design Control
9 Document, or DCD, was Rev. 16. By the time we
10 applied for the license and we got the license
11 approved – of course, the license approval came
12 about four years later, in 2012 – that was DCD
13 Revision 19. So we contracted to Rev. 16, licensed
14 to Rev. 19, and that gave rise to commercial
15 disputes between us and the consortium. So under
16 this agreement, it's all re-baselined to Rev. 19,
17 so that should take away those commercial disputes.
18 We are now no longer dealing with two
19 distinctly different entities in the consortium.
20 As Kevin pointed out, it became obvious to us that
21 there were commercial disputes between those two
22 companies. They were literally butting heads over
23 commercial terms that we didn't see, because they
24 had a commercial agreement between the two, a
25 consortium agreement, that was confidential to us,

so we didn't see that, but it became obvious to us that there were commercial disputes between those two companies. This agreement now takes care of that issue.

We were also in a position where we had equipment at the site that would come from vendors that had warranties; those warranties had expired long before the equipment would go in service. So also, with this agreement, we've extended all of those warranties to two years after the guaranteed substantial completion dates. So while that may be transparent to a lot of people, it was very important to me.

And then we now think we've got the team on site that are focused on obtaining the production tax credits. Not only do we have the carrot and the stick that Kevin talked about, in the form of the incentives and the liquidated damages, but we've moved the commercial distractions away from the on-site team until at least after the guaranteed substantial completion dates. So any disputes are moved away until after the plants are constructed.

[Reference: PowerPoint Slide 10]

The parties under this agreement can't sue

1 each other until after the guaranteed substantial
2 completion dates. So that is a huge help in
3 removing distractions both from our team and from
4 the on-site team, as well as the leadership, for
5 both entities.
6 We have resolved substantially all of the
7 disputes in the change orders that are pending
8 between the two entities.
9 We are going to change, going forward, to a
10 strictly milestone-based payment schedule. So,
11 heretofore, we have paid them if they achieved
12 milestones, but we also had what we call progress
13 payments. "Progress payments" is a little bit of a
14 misnomer; it doesn't actually indicate progress.
15 It is really a time-based payment schedule. So we
16 did not like the time-based payment schedule, as
17 they kept falling further and further behind. So,
18 going forward, we are changing that to a strictly
19 milestone-driven payment schedule, so we'll do away
20 with the progress payments.
21 We are establishing a dispute resolution
22 board. This will be a three-person panel that will
23 hear any kind of a dispute between the entities.
24 So, as you are aware of, previously, if we had a
25 dispute with an invoice, the contract would call

1 for us to pay for 90 percent of the invoice. We
2 have removed our obligation to make those payments,
3 so we would dispute the invoice and the invoice
4 then would go to this dispute resolution board, and
5 they would give a rendering, and if it was for
6 under $5 million, it's binding; if it's in excess
7 of $5 million, it's binding until the guaranteed
8 substantial completion dates for both units has
9 passed, and then we could, if we wanted to, as
10 could Westinghouse, sue or arbitrate to get that
11 decision reversed. But this takes all of the
12 disputes off the table and moves them — at best,
13 moves them all the way out to the end of the
14 guaranteed substantial completion dates for both
15 units.
16 [Reference: PowerPoint Slide 11]
17 The differences: The big differences in the
18 options are the amount of liquidated damages that
19 you can see here. Kevin covered those, and I've
20 covered those previously.
21 The total project cost: Under the amended,
22 it's estimated to be $7.113 billion; and under the
23 fixed-price, it will be $7.601 billion. So the
24 increases over the 2015 Order are: $286 million
25 under the amended option, and $774 million under

1 the fixed-price option.
2 [Reference: PowerPoint Slide 12]
3 We've said that, with Chicago Bridge & Iron no
4 longer being a consortium partner, they're not
5 going to be responsible for construction, but
6 somebody has to be. So, Fluor Corporation is going
7 to take over that construction. We think that is a
8 good thing. They're going to do construction
9 management and they're going to do procurement.
10 And the craft will work for Fluor.
11 You know, Fluor Corporation is a Fortune 200
12 Company. They've got 40,000 employees worldwide.
13 They've been in business over 100 years, started
14 off in South Carolina. They are rated as one of
15 the most ethical companies to do business with, for
16 eight years running, which we found very enticing.
17 They have self-performed nuclear builds for eight
18 different plants, including our V.C. Summer Unit 1,
19 and they have been involved with the construction
20 of 10 other nuclear plants. So they've got a lot
21 of nuclear experience. They have fully designed
22 three nuclear plants — not only have done
23 construction, but they've done the design. They
24 are currently doing decommissioning at nuclear
25 sites in the UK and five Department of Energy

1 nuclear facilities, including the Savannah River
2 Site. They are involved in the construction —
3 active construction — of a nuclear facility in the
4 United Arab Emirates, and they own a small modular-
5 reactor company called NuScale, where they actually
6 are designing and developing and marketing a small
7 modular reactor. And on the nonnuclear side,
8 they've been involved since 2011 — so, in the last
9 five years — in over a dozen what we would call
10 megaprojects. I think the largest one is about an
11 $8 billion project that they're responsible for.
12 So they've got megaproject experience and a long
13 nuclear pedigree.
14 You can see on this list the generating
15 stations and the assets that they have helped us to
16 construct. So, they've constructed nuclear, coal,
17 gas plants for us. And the last one on that list,
18 their last involvement under an EPC contract with
19 us was the scrubbers at Wateree and Williams
20 Stations.
21 So we have, for the last two weeks, been
22 involved in meetings with Fluor, Westinghouse,
23 SCE&G, and Southern Company all together, at both
24 sites, here in Columbia and at the corporate
25 headquarters in — Westinghouse corporate

1 headquarters in Cranberry, Pennsylvania, doing on-
2 ramping where we're looking at a number of
3 different work streams and ensuring that Fluor can
4 hit the ground running on day one, as soon as the
5 deal closes, again, which we anticipate to be
6 before the end of the year.
7 And Fluor is not going to be a consortium
8 partner, so there's no head-butting between
9 consortium partners. They're going to be a
10 subcontractor to Westinghouse. So we are dealing
11 with Westinghouse, and Fluor will be a
12 subcontractor to Westinghouse.
13 [Reference: PowerPoint Slide 13]
14 And I'll turn it over to Jimmy for the
15 financial.
16 **MR. JIMMY E. ADDISON [SCANA]**: Thank you,
17 Steve.
18 And good morning, Commissioners. So my goal
19 today is to help bridge the difference between the
20 agreement that you had approved, or the amounts
21 that you had approved, earlier this year, and these
22 two options that we have here today. You may find
23 it helpful to refer back to page four, the chart
24 that Kevin introduced in his comments. In fact,
25 you may just want to pull that out of your slide

1 deck and keep it on the side as we look at Slides
2 14 and 15.
3 [Reference: PowerPoint Slide 14]
4 So Slide 14 helps bridge the gap as to the
5 large components, between the Order approved
6 earlier this year and the amended EPC that's in
7 effect today. There's $286 million, in total, the
8 increase that's estimated, as Steve mentioned a few
9 minutes ago, and I want to show you the major
10 components of that.
11 So the first is $223 million of EPC costs that
12 we estimate would be due to Westinghouse now, under
13 this agreement. Actually, when we proposed the
14 settlement to you earlier this year that you
15 approved, we had $86 million of liquidated damages
16 that it was very clear we were going to qualify
17 for, that they were going to have to pay us back,
18 so we reduced our ask of you for your approval
19 earlier this year by those liquidated damages,
20 since they clearly were not going to meet the
21 original guaranteed substantial completion dates.
22 Well, by agreeing to new dates in August '19 and
23 August of '20, if you will, those damages are freed
24 up or uncovered, so we have to add those back in
25 the request. So the real addition to this

1 agreement here from this settlement is $137
2 million, but because we've agreed to move those
3 guaranteed substantial completion dates along with
4 the higher liquidated damages, we, if you will,
5 uncover those liquidated damages that we had netted
6 out in our earlier request to you. So the total
7 increase associated with the contractor itself is
8 $223 million. And then we also have additional
9 owner's costs. Those are our costs for our
10 employees that are on site helping build the units,
11 get operators certified, et cetera, to operate the
12 units. And because we expect two more months, now,
13 for each of the units to be part of this
14 capitalized cost, we've got two more months for
15 Unit 2 and two more months for Unit 3 that would
16 have to go into the capital costs.
17 Now, these were costs that were already going
18 to be incurred. It was just our expectation that,
19 had they gone on-line in June of '19 and '20,
20 respectively, they would have been charged to
21 operating costs because the plants would be
22 operating at the time and being depreciated, but
23 now they have to be charged to the cost of the
24 capitalized work order.
25 And then we have escalation and capitalized

1 interest, or AFUDC, on each of the above amounts,
2 the 223 to the contractor, as well as the $22
3 million in owner's costs.
4 So those total the 286 increment, and that
5 will reconcile line four on the chart on page four,
6 from the 6.827 to the 7.113 billion
7 [Reference: PowerPoint Slide 15]
8 Then on page 15, I'll do a similar exercise in
9 the same format to take you from the prior approval
10 that you made earlier this year, the 6.827, down to
11 the fixed-price option if we were to elect it,
12 which would be $7.601 million.
13 So the additional cost to the contractor — if
14 you will, the risk premium, and I'll talk more
15 about that on the final page in a moment — would be
16 $633 million. Again, there's an additional $86
17 million that would be uncovered in the liquidated
18 damages, because we're not going to qualify for
19 those under this agreement, so we have to add those
20 in, for a total of $719 million. And then we have
21 the same owner's costs for the additional two
22 months on each unit, and we have the capitalized
23 interest, AFUDC, on both the owner's costs and the
24 EPC cost.
25 So the total other charges there are $55

1 million, and the total just under $775 million, in
2 total, bringing the 6.827 up to the $7.6 billion
3 [Reference: PowerPoint Slide 16]
4 Then finally, on page 16, I'd like to make a
5 few observations about considerations, if we were
6 to elect the fixed-price option, which, as Steve
7 and Kevin have said, we're not here recommending
8 that today; we'll be back to you next year to
9 discuss that.
10 That option is a unilateral option. It's our
11 option. It's not Westinghouse's option. We can
12 decide whether we think it's beneficial for the
13 customers and come back and recommend to you if we
14 believe that option is the best course of action.
15 We have one year to do that, from the approximate
16 date of the agreement, which will take us through
17 November 1st of 2016.
18 In our evaluation of that fixed-price option,
19 some purported considerations are: limitation of
20 capital cost increases. If we have a fixed-price
21 contract and if the law doesn't change, we feel
22 pretty good about limiting any future cost
23 increases. We can have more dialogue about that
24 later.
25 Another consideration is we eliminate

1 potential inflation risks. So, while we have
2 escalation — inflation, if you will — as a part of
3 the original EPC and as a part of the amendment
4 that we've adopted today, that escalation would go
5 away under this arrangement. So whatever were to
6 occur with interest rates — which it finally
7 appears that the Fed may be about to raise those at
8 their December meeting next month, and we are at
9 the lowest interest rates of any of our lifetimes
10 in this room, so it is highly likely that interest
11 rates are going to go up during the completion of
12 this project — we would not be subject to any
13 escalation because of inflationary risk associated
14 with the construction itself.
15 We would reduce the likelihood of future
16 commercial disputes. Our staff spend a lot of
17 time, both SCE&G staff as well as the Westinghouse
18 staff, debating which buckets some of the billings
19 may go into today, whether it's the fixed price —
20 as Kevin said, about two-thirds of the contract is
21 in that component — or whether it's the target
22 bucket or whether it's the T&M bucket. That may
23 sound fairly simple to you, but on a project of
24 this size there's a lot of discussion around that,
25 and this would eliminate that. If it's fixed, it's

1 fixed. The bucket doesn't matter anymore. It's
2 one bucket; it's fixed cost, without inflation
3 risk.
4 And then, finally, we want to have the benefit
5 of Fluor's review of this work plan over the next
6 several months. We think that's very important. I
7 started off this by saying it's a unilateral
8 option. We think all we can do is gain insight by
9 being at the table and learning, if you will, what
10 they learn over these next several months that
11 might make it more obvious which of these options
12 is the best option for our customers, as well as
13 monitoring what's going on with interest rates and
14 potential inflation during that time period.
15 [Reference: PowerPoint Slide 17]
16 So that's all of our planned comments and
17 everything on the slides. And we'll now be glad to
18 open it up to any questions you might have.
19 **CHAIRMAN HALL**: Okay. Thank you, so much,
20 gentlemen.
21 Commissioners, questions? Commissioner
22 Randall.
23 **COMMISSIONER RANDALL**: Thank you, ma'am.
24 Thank you, gentlemen. I appreciate your
25 presentation. I just had a couple of questions

1 just from looking through the quarterly report, and
2 the first one is, if you look on page one,
3 paragraph I(B)(1) of the quarterly report, what is
4 the value of the EPC contract disputes not resolved
5 in the settlement? You talked about that a little
6 bit. Is that –
7 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Yeah, I'm
8 not sure that we would fully understand what the
9 total amount of the things that are either resolved
10 or not resolved under the contract are.
11 Westinghouse would throw out numbers, we would
12 counter with we think they're different numbers.
13 We ended up negotiating them, which is much, much
14 lower than what they had originally given to us.
15 The amount that's not settled under the
16 contract, which I think is the question you asked –
17 **COMMISSIONER RANDALL:** Uh-huh?
18 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** – I would
19 probably estimate those to be in the order of
20 $20-$30 million. But a lot of the issues that are
21 yet to be resolved, because we've got those
22 segregated, we're not sure that they would
23 necessarily have to be resolved. As an example, we
24 have a dispute on the auxiliary boiler. So this is
25 a boiler that makes steam when the plant is not up

1 and running. And a lot of facilities have
2 auxiliary boilers. They had originally intended to
3 provide a fuel-oil-fired boiler. We're converting
4 that to an electric boiler. So there's some
5 question about do we have the appropriate power
6 supplies for that. And we're now thinking that we
7 might be able to get away without an auxiliary
8 boiler. We've done away with it at our operating
9 unit, Unit 1, so we're thinking now that we may not
10 even need a boiler. So that dispute, essentially,
11 would go away if we make that decision, so that's
12 one reason why we put that in that bucket is
13 because we're not sure there's necessarily a value
14 in resolving that dispute. But, you know, the
15 amount of disputes that are not resolved, I would
16 have to guess right now, but I'd say they'd be in
17 the $20-$30 million range.
18 **COMMISSIONER RANDALL**: Thank you. One other
19 question that I had that's — I think it's on page
20 nine — in the settlement; it's about the shield
21 building. You're talking about that's going to be
22 a principal focus area, and talking about the
23 remediation that's required. What is the degree of
24 remediation that's going to be required in the
25 shield building panel production schedule to meet

1 the substantial completion dates?
2 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Yeah, so
3 the shield building is really two-faceted. The
4 critical path for both units runs through the
5 shield building —
6 **COMMISSIONER RANDALL**: Right.
7 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** — so it's
8 obviously very important to us. It's first-of-a-
9 kind construction. This can be very difficult to
10 do. So, one, we need the panels delivered to the
11 site; and then we need to erect the panels. They
12 need to fit up well, the welds need to go well, and
13 then we need to pour concrete in between them. We
14 have to stack them up and go up, as a unit.
15 The panel delivery has been going well, but,
16 specifically for the second unit, we need to
17 accelerate some of that panel delivery. As you're
18 aware, we had authorized the facility in Virginia
19 to expand, in order to expedite panel delivery.
20 That appears to have been caught up in this
21 commercial dispute that we discussed between
22 Westinghouse and CB&I, and with CB&I out of the
23 picture now, all of those contracts with all of
24 those sub-suppliers that, heretofore, would have
25 been between that supplier and CB&I, are all going

1 to roll over to Westinghouse. And so, in reality,
2 we are now getting to the point where we'll have
3 Westinghouse discussing that mitigation plan with
4 NNI — and other vendors for other components, but
5 specifically talking about the shield building,
6 that's Newport News Industries, in Virginia. So
7 what we need is we need them to increase their
8 production capability, so what they're looking at
9 doing is either increasing at NNI or splitting off
10 some of the later panels and moving them to other
11 facilities. One of the things under consideration
12 is Toshiba facilities.
13 **COMMISSIONER RANDALL**: So I'm assuming, with
14 all of this, with this change, you're anticipating
15 positive results from this.
16 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Yeah,
17 anticipating positive results, and actually, we've
18 seen positive results. So I said there's two
19 phases: one, we've got to have the panels there;
20 and two, the erection has to go well. We have
21 placed the first course of these panels — the first
22 ring, if you will, of those panels — and we've
23 poured concrete in, and we actually have placed the
24 second course of panels on Unit 2. And that work
25 is — so they've placed them, they're fitting them

1 up, and they're going to start the welding on them
2 shortly, and then they'll eventually be filled with
3 concrete. That work is going probably better than
4 we had anticipated, on site. I just need to make
5 sure I get all the panels to the site, so we can do
6 that erection.
7 **COMMISSIONER RANDALL**: So, on the other side
8 of that, just if — just a question — if it gets
9 behind or it's unsuccessful to start with, what do
10 you think will be the effects on the guaranteed
11 completion dates, substantial completion dates?
12 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: If
13 there's a significant delay in the modules — and
14 when I say "modules," these are shield building
15 modules, shield building panels — there will be a
16 corresponding delay in the guaranteed substantial
17 completion date, to the extent that we can't
18 mitigate it. Now when I say "mitigated it" we're
19 looking at other plans. One of the options we're
20 looking at is, if a panel may have been produced
21 for the Vogtle unit but they're not going to use it
22 before we would, we're looking at the possibility
23 of swapping those kind of things. So we're still
24 working on other mitigating strategies, but to the
25 extent that the panel delivery slips, there's a

1 high likelihood that the guaranteed substantial
2 completion date would slip.
3 **COMMISSIONER RANDALL**: Thank you.
4 Thank you, Madam Chair.
5 **CHAIRMAN HALL**: Commissioner Fleming.
6 **COMMISSIONER FLEMING**: Good morning.
7 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Good
8 morning.
9 **COMMISSIONER FLEMING**: Well, at least you're
10 smiling now. You had me worried for a while,
11 because you were still looking pretty dire-looking
12 here. But it sounds like you are pleased that
13 things are moving in a more constructive direction,
14 pun not intended I guess. Would that be the case?
15 **MR. KEVIN B. MARSH [SCANA]**: I would
16 definitely say so. We were a little surprised when
17 Westinghouse came to us to talk about CB&I exiting
18 the project. I don't think we were totally
19 surprised; that's something that could happen, just
20 based on their poor relationship. I see the
21 addition of Fluor as a huge benefit to the team and
22 the project going forward. Steve mentioned they've
23 got tremendous large-project experience, they've
24 got nuclear experience. We've already been working
25 with them on work streams trying to identify how we

1 can quickly keep work going at a rapid pace.
2 The attitude on the ground is better. I think
3 the whole team is feeling better about our ability
4 to work as a team, and that's what was really
5 suffering, from my perspective, not just between
6 the consortium partners but, because they were
7 having so many disputes, it was difficult for them
8 to work closely with us to try to resolve issues.
9 And I see that changing. It certainly hasn't
10 changed completely, because we've got to get
11 Westinghouse – we've got to get Fluor on the
12 ground, on the project, and we can't do that
13 completely until this agreement is fully effective
14 in the 45 days Steve talked about. But I think
15 it's a great turn.
16 I'm very pleased with the terms we were able
17 to negotiate. I believe it gives the company and
18 the customers a lot more protection today than they
19 had six months ago. I think that's a good thing.
20 We took your thoughts on the production tax
21 credits to heart, and as we negotiated, we tried to
22 do the best we could to reiterate to Westinghouse
23 the need to complete the plants on time so we could
24 qualify for the credits, and changed the provisions
25 in the contract to do that.

1 I was pleased when Westinghouse approached us
2 with their understanding and belief that they have
3 got to complete our plants and the Vogtle Plant
4 successfully, in order to be able to market these
5 plants around the United States and other places in
6 the world. They are actively trying to do that. I
7 can only assume, but I'm pretty sure people are
8 watching their track record in China and also here,
9 to make sure these plants can be completed in a
10 reasonable timeframe. My personal belief is
11 they've learned a lot on the China projects and
12 this project, and they're well-positioned to market
13 these plants, but they do have to complete these
14 first. I see the right attitude; the team members
15 we've been working with appear to be very positive.
16 If we can translate that into results at the
17 construction site, I think this will have been a
18 good negotiation.
19 **COMMISSIONER FLEMING**: And when you talked
20 about Fluor working both for Vogtle and for V.C.
21 Summer, you feel that they won't be stretched too
22 thin; you feel like you'll get the top-quality work
23 that you certainly —
24 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Yeah,
25 they are a large multinational company. We

1 actually think it's a good thing that they're also
2 going to take part in the construction oversight in
3 China, so they're going to be replacing what CB&I
4 has been doing in China, which is not a huge amount
5 of people but oversight advice to their project
6 management organization over there. So they'll
7 bring back those lessons, as well, so they'll
8 continue to learn those.
9 Fluor actually had ramped up for anticipated
10 construction at North Anna Unit 3, which is in
11 Virginia, and a South Texas project in Texas, so
12 they had increased their nuclear staff a few years
13 ago in order to bring those construction projects
14 to conclusion. They got slowed down in the
15 licensing process. I don't know that they're going
16 to go forward in the short term — we think that at
17 least the North Anna unit will go forward in the
18 long term — but those resources can now be
19 redirected towards our projects.
20 So, you know, for those of you in the upstate,
21 you know that Fluor runs their nuclear group out of
22 Greenville. So we think that that's a good thing.
23 Their CEO is a USC graduate, and the guy that runs
24 the nuclear group for them is a Citadel graduate.
25 So they have significant ties to this State that

1 the other entities didn't have.
2 **COMMISSIONER FLEMING**: Now, you've gone into
3 great detail – and I really appreciate your detail
4 – of the settlement or amendment, whichever you
5 call it. But will you be providing a copy of that
6 to the Public Service Commission, with our
7 certainly understanding the confidential nature of
8 a lot of that?
9 **MR. JIMMY E. ADDISON [SCANA]**: Yeah, it's
10 interesting, one of the provisions in the – and the
11 answer is yes.
12 **COMMISSIONER FLEMING**: Okay.
13 **MR. JIMMY E. ADDISON [SCANA]**: One of the
14 provisions in the agreement – one very late night
15 we were going through things that were very
16 important to us, we said, "We really need the
17 ability to disclose to our regulators and our
18 investors all the details of anything that we think
19 is critical that you know," and they acquiesced to
20 that right off the bat. So there's a provision in
21 that agreement, Item No. 26, that says we can share
22 with you anything that we think is important that
23 you see, as well as the investors, those that buy
24 our bonds or those that buy stock to provide the
25 funds to build the plants. All we have to do is

1 just tell them about it in advance and show it to
2 them. We don't have to have their approval, like
3 we had in the past.
4 So it is already in the public domain. It was
5 filed as part of our SEC filing two Fridays ago,
6 our quarterly document for the SEC, the 10Q, and we
7 can certainly make it available to you.
8 **COMMISSIONER FLEMING**: Okay. Well, we would
9 appreciate that.
10 I wanted to ask a question, too, about the
11 fixed-price option. In the quarterly report under
12 Section, I think it's I(B)(14), it says — about the
13 middle of the first paragraph, it says, "This fixed
14 amount excludes a limited amount of work within the
15 time-and-materials component of the contract
16 price." Could you tell me what the exclusions are?
17 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Yeah,
18 there are a handful of items that we think we can
19 probably effect better than Westinghouse can, and
20 that if we just gave them the entire allowance that
21 they would spend that entire allowance, but that if
22 we managed it, we might be able to save some money
23 on some of those things. So they are things like
24 taxes, in-court duties, spare parts. And in the
25 spare parts one, you know, we'll —

1 **CHAIRMAN HALL**: Mr. Byrne, can you move your
2 mic a little bit closer, please?
3 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Sorry
4 [indicating].
5 **CHAIRMAN HALL**: Thank you.
6 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: There are
7 just a handful of items that were in the T&M bucket
8 under the non-fixed-price option, but under either
9 option we wanted to carve those out because either
10 we can — we think we will be able to save money
11 over what the consortium will spend on those, or we
12 didn't want to shortchange ourselves. So one
13 example is spare parts, and what we didn't want is
14 to give the consortium the entire pot of money
15 under spare parts, and have them shortchange us on
16 spare parts. So I would rather that we got all of
17 the spare parts that we are due, as opposed to
18 giving them control over that spare parts pot. So
19 we kept that amount aside for ourselves. We still
20 intend to buy the spare parts; it's just that we
21 want to manage that for ourselves.
22 **COMMISSIONER FLEMING**: Okay. And that leads
23 me, I guess, to my next question. Is there any
24 concern about having a fixed-price option, about
25 the quality of the project at the end, if you go

1 fixed-price as opposed to – because you never know,
2 as we've seen already, the challenges that can
3 occur.
4 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Yeah,
5 even with the delays, we don't have an issue with
6 quality. Now, quality has slowed down some of the
7 subcomponents coming in from places like CB&I/Lake
8 Charles, but they have not been the only vendor
9 that has had quality issues. In fact, we've had
10 stop-work orders at a number of vendors. In fact,
11 I would say probably most vendors have had stop-
12 work orders, and those are largely over quality
13 issues or their quality control plans and
14 mitigation strategies. So we would intend to
15 continue to inspect for components coming in from
16 the module suppliers – we've actually done
17 augmented inspections, which means that it goes
18 above and beyond the normal inspection plan – until
19 we can satisfy ourselves that they have got their
20 act together at their facility while we are
21 receiving them. So we continue to do receipt
22 inspection and we continue to do in-the-field
23 inspection. So we don't have any issues with
24 quality.
25 In addition to that, the Nuclear Regulatory

1 Commission has four or five inspectors permanently
2 assigned to our site now, and we anticipate that
3 that number will increase to probably seven. And
4 then whenever we do a specific activity, they will
5 send in a team. And they run their construction
6 inspection branch out of Region II, which is our
7 region, in Atlanta, so they're pretty close and
8 it's easy for them to come over.
9 So, no, we don't anticipate, whether it's
10 under the old contract that we had or the fixed-
11 price contract, that there will be any change or
12 any degradation of quality.
13 **COMMISSIONER FLEMING**: What was your biggest
14 challenge?
15 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: In the
16 negotiation?
17 **COMMISSIONER FLEMING**: In the negotiation.
18 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: We wanted
19 to get the liquidated-damages number higher, and
20 our partner, Santee Cooper, was very concerned
21 about that. And getting them to increase the
22 liquidated-damages number was a big challenge. We
23 spent 54 days in this negotiation, and it was just
24 about 54 days straight, including, you know, nights
25 and weekends. And I would say that we probably

1 argued over the liquidated-damages number
2 significantly.
3 **COMMISSIONER FLEMING**: It paid off.
4 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: We think
5 it paid off.
6 **COMMISSIONER FLEMING**: Okay.
7 **MR. JIMMY E. ADDISON [SCANA]**: I might just
8 add, we hope it's something we never use.
9 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Right.
10 **COMMISSIONER FLEMING**: Yeah. And I know you
11 can't predict the future, but what do you see as
12 your biggest challenge, going forward? Is it the
13 time, the completion date, or — I know you're
14 already a couple of months behind the last —
15 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Right. I
16 think it depends on the option that we choose. So
17 we've got an integration challenge before us in the
18 short term. We've got to bring on the Fluor group.
19 We anticipate that a majority of the craft will
20 stay, so their hardhats will change from CB&I to
21 Fluor, sort of similar to what happened when Shaw
22 sold the company to CB&I. Most of the craft
23 stayed; they just changed hardhats. I think that
24 with the non-craft personnel that are assigned to
25 the project, Fluor is obviously going to want to

1 bring in their folks and put their stamp on it,
2 which we think is a good thing. So there will be a
3 little bit of turmoil with that move, when Fluor is
4 fully introduced into the leadership and the
5 project management. So that will be a short-term
6 challenge.
7 Then, going forward, I think execution – the
8 parts issues are sorting themselves out. Even the
9 CB&I/Lake Charles module shop seems to be
10 delivering quality products now. We just wish they
11 would've gotten there three or four years ago. So
12 the quality issues at those suppliers, they seem to
13 be working themselves out.
14 When I look at the major parts and pieces,
15 most of them are on site. So we haven't slowed
16 down the receipt of components coming from various
17 suppliers around the world. That has caused us
18 some on-site storage issues. You know, it was
19 really intended that it would be just-in-time
20 delivery and then when you delivered a component to
21 the site, it would then go in the plant. If the
22 plant's not ready, those components still show up;
23 then we have storage issues. So we're storing a
24 lot of things at the site. In fact, you can see a
25 lot of the tents up in that picture [indicating],

1 and in those tents we're storing stuff. So in
2 addition to the warehouses, which are off the
3 picture, we are having to store there and we're
4 also having to get more storage space in Blythewood
5 and near the airport. So we're storing a lot of
6 things that we hadn't anticipated storing, so
7 that's been a challenge for us.
8 But going forward, I think the regulatory
9 interface is going pretty well. So if we get the
10 commercial disputes between our consortium partners
11 to sort themselves out, I think that the cost – we
12 will either determine that we can effect the costs
13 better under the amended contract with the old
14 style, or we'll go with the fixed-price option. So
15 the price issue, I think, will get worked out, so
16 then it's just a delivery issue. So bringing the
17 units in on time is going to be a big challenge for
18 us.
19 **MR. KEVIN B. MARSH [SCANA]**: I think another
20 part that will be important to us – and Steve
21 alluded to this earlier – was the new payment
22 construction milestone schedule. In the past,
23 we've had a combination of progress payments and
24 milestone payments that were very confusing at
25 times. So we spent a good bit of time negotiating

1 how that process would work, and we've given
2 ourselves five months – up to five months – to come
3 up with this new milestone payment schedule, which
4 will lay out very clear expertise and exact as to
5 how we will actually pay them based on work
6 completed.
7 But as Steve said earlier, if the work's not
8 done, they won't get paid, so we won't have any
9 issues with cash going out and not feeling like
10 we've gotten some material benefit from the
11 construction moving forward. We spent a good bit
12 of time talking about that in the negotiations. I
13 think that was a sticking point for everybody,
14 because, as you know, we withheld payments on a lot
15 of the work that had not been done in the past they
16 felt like they were entitled to. That's what gave
17 rise to a number of our disputes. So that's all
18 been eliminated. I think it will take a good bit
19 of work, once we get Fluor on the ground, to help
20 us come up with this new schedule, but once we
21 agree to that, that should eliminate those issues,
22 but I think that will be very important as we get
23 started up.
24 **COMMISSIONER FLEMING**: What about – one other
25 question – personnel to operate? How is that

1 coming along? Are you pleased with that progress?
2 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Yeah, I'd
3 say the hiring — we had anticipated we would hire a
4 staff for both units at somewhere just under 800
5 people. We've got 600-plus of those hired now. We
6 actually slowed that down a little bit, with the
7 slowdown in the guaranteed substantial completion
8 dates. So we're not anticipating a problem hiring
9 the staff that we need. We identified, I think it
10 was 35 critical hires for this year. We'll hire
11 more than that, but 35 that were critical. And I
12 think we've got 31 or 32 of those hired. So the
13 hiring is actually going pretty well.
14 **COMMISSIONER FLEMING**: So the quality is —
15 you're pleased with that?
16 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Yeah, I
17 would say — you know, if I look back on when I
18 started in this business, they're better people
19 than I was.
20 **COMMISSIONER FLEMING**: Okay. Well, we think
21 highly of you, so that speaks well. Thank you.
22 **CHAIRMAN HALL**: Thank you. Commissioner Elam.
23 **COMMISSIONER ELAM**: Good morning. You were
24 discussing a little bit with Commissioner Randall
25 about the shield panels — shield building panels.

1 And on page 16 of the quarterly report, there's
2 also discussion of the air inlet for the shield
3 building, and tension rings. Does the settlement
4 agreement have any impact on the reassignment of
5 fabrication of the components for the shield
6 building air inlet and tension ring panels?
7 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** I would
8 say that the short answer is, no, that in either
9 the amendment or fixed options the shield building
10 air inlet and tension rings have been designed and
11 the contract has been let. CB&I, while they're not
12 a consortium partner any longer, will still be
13 involved in two areas: One, while CB&I, as Kevin
14 pointed out, doesn't necessarily have a desire to
15 be a long-term nuclear constructor, they do do some
16 things well in nuclear, and one of them is build
17 big tanks. So our containment vessel is a big
18 tank. And so they're going to stay on site as a
19 subcontractor to Westinghouse to build the
20 containment vessel. They're also going to be the
21 ones that are fabricating the shield building.
22 They have a specialty welding group that is very
23 good at complex welds, and the shield building is
24 complex welds. So they've had great success so
25 far, so we're going to retain them on site to do

1 that welding on the shield building. And then the
2 CB&I facilities don't come to Westinghouse with
3 this purchase, so those facilities, like CB&I/Lake
4 Charles, will stay with CB&I, but that facility
5 will still be producing parts for us for probably
6 the next couple of years.
7 Specific to what you asked about, with the
8 tension ring and the air inlet, the contract was
9 let to CB&I/Lake Charles. There was at least one
10 or two other vendors that were interested in that
11 work. I think Westinghouse is going to reevaluate
12 it, so while the work hasn't actually started at
13 Lake Charles, Westinghouse is going to reevaluate
14 that work and we may see a change in where that
15 work goes.
16 **COMMISSIONER ELAM**: What say do you have in
17 that?
18 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: We would
19 have a say – one of the things that we have warned
20 them about is, understanding their desire to get
21 away from Lake Charles and away from CB&I –
22 **COMMISSIONER ELAM**: I was going to ask you if
23 any of the professional welders came from Lake
24 Charles, but –
25 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: No,

they've had the specialty welding group long before the Lake Charles facility was constructed, so they're not Lake Charles folks.

COMMISSIONER ELAM: Okay.

MR. STEPHEN A. BYRNE [SCANA/SCE&G]: And as I said before, the Lake Charles facility does seem to finally be getting their act together, so I don't want to — one of the things we warned Westinghouse about is don't throw the baby out with the bathwater: If the facility is working and they are now accustomed to producing modules for us, let's reevaluate that, and if it makes sense to leave it in Lake Charles, let's leave it in Lake Charles. So don't move it for the sake of moving it.

COMMISSIONER ELAM: Okay. It occurred to me a moment ago when you were discussing one of Commissioner Fleming's questions: Is Fluor getting any involvement in any construction of the AP1000 anywhere?

MR. STEPHEN A. BYRNE [SCANA/SCE&G]: The only AP1000s under construction are the two at Vogtle and the two here and the four that are going on in China —

COMMISSIONER ELAM: Right.

MR. STEPHEN A. BYRNE [SCANA/SCE&G]: — so they

have not had involvement there. They did have some involvement in some design aspects of the AP1000. And their involvement in these projects isn't just to help us and Vogtle out; they have a desire to be involved more long term with AP1000 construction. And as Westinghouse is trying to sell their product around the world, they are looking for a long-term construction partner. It was obvious that CB&I was not going to be that long-term construction partner, so they've decided on Fluor. And they are, for example, involved in a joint venture in the UK to build three AP1000s there. I'm not sure what the timeframe is on that, but Fluor should be the construction partner in the UK under an entity they call NuGen.

COMMISSIONER ELAM: Okay. Go back to looking at the quarterly report, and on the first page over to the second page, under the "October 2015 Settlement," (B)(1) is talking about the true-up in the monthly installments. What's involved in the true-up in the 12 installments to be paid by SCE&G to Westinghouse, and what's the possible magnitude of that true-up?

MR. JIMMY E. ADDISON [SCANA]: Which section is that?

1 **COMMISSIONER ELAM**: (B)(1) and I'm over on
2 page two.
3 **MR. JIMMY E. ADDISON [SCANA]**: Right.
4 **COMMISSIONER ELAM**: "SCE&G will make payment
5 to Westinghouse in twelve equal monthly
6 installments." Do you have that?
7 **MR. JIMMY E. ADDISON [SCANA]**: I do.
8 **COMMISSIONER ELAM**: Okay. And what's involved
9 in the possible true-up?
10 **MR. KEVIN B. MARSH [SCANA]**: I think I can
11 address that. What we were trying to do was take
12 the amounts we had negotiated as an increase in the
13 price on page one there at the bottom, where it
14 talks about an increase of $165 million in the
15 fixed component and a credit of $27 million in the
16 target component. We were trying to develop a way
17 to pay them, and we did not want to make a lump-sum
18 payment of that amount; we wanted to stretch it out
19 for a period of time. So that's where the 12 equal
20 monthly installments begin, starting in October.
21 It will not add to any of the amounts below. If
22 there's a true-up, we simply get credit for that,
23 for whatever we pay.
24 So if we decide to go with the existing
25 option, not the fixed-price option, we would pay

1 that amount over the monthly installments. If we
2 elect the fixed-price option, we get credit for
3 that off the fixed price. As Jimmy said, that
4 fixed price amount has been set; it doesn't go up
5 or down over the 12-month period. And there are
6 provisions in the contract, as we move forward,
7 they will continue to bill us as they have under
8 the existing contract: for fixed-price work, firm
9 work, and targeted dollars. So whenever we decide
10 which option we're going with, assuming we go with
11 the fixed-price option, we get credit for all of
12 those payments. It may be higher or lower than
13 what we would've paid otherwise, but there's a
14 true-up for that amount, and that true-up is really
15 focused on the fixed-price option, to make sure we
16 get credit for anything we pay after June 30th.
17 That's the date that was put into place to start
18 measuring the payments.
19 **COMMISSIONER ELAM**: Okay. Do you have any
20 idea what the magnitude of that true-up may be?
21 **MR. KEVIN B. MARSH [SCANA]**: Well, it would
22 depend on what the actual dollars expended on the
23 project would be. They would be based on the
24 estimated targeted amount, just like they bill us
25 now, but we're probably spending $70-$100 million

1 on a monthly basis now, and so it wouldn't be more
2 than that. Probably would be less than that,
3 because you wouldn't be off on your estimated
4 payments.
5 Once we come up with this construction payment
6 milestone schedule I referred to earlier, that
7 would determine how far ahead or behind that
8 schedule we might be at the time the true-up would
9 come. I wouldn't think it would be a significant
10 amount. I mean, it may be 20 to 25 percent of the
11 monthly amounts we are paying. Personally, I would
12 like to see that monthly amount go up, because that
13 tells me there's more work being performed and
14 there's more activity on the project. I believe in
15 our negotiations Westinghouse estimated that could
16 go to $125-$130 million over the next six months,
17 but if that's work that's actually being done, when
18 you get ready to do your true-up it's not going to
19 be a significant portion of that amount.
20 But I think the comfort is, at the end of the
21 day, we're not going to lose any money; we're not
22 going to overpay and not get credit for that. So
23 if we pay a lot of money up front – when I say a
24 lot of money, we pay a certain amount up front, as
25 we are paying now under the existing contract – and

then we switch to the fixed-price option, and we would have paid less, once we come up with that construction milestone payment schedule, we get full credit for anything we've paid over and above that schedule. So it's a timing question; it's not a matter of losing the money, at the end of the day.

COMMISSIONER ELAM: Also there on page two, talking about the federal production tax credit completion bonuses, it looks like it says, essentially, $137.5 million per unit. I guess that's – if my early math is okay – about $275 million, potentially?

MR. STEPHEN A. BYRNE [SCANA/SCE&G]: [Nodding head.]

COMMISSIONER ELAM: How does that number compare to the value of the tax credits.

MR. KEVIN B. MARSH [SCANA]: The tax credits are estimated be about $2.3 billion for our share of the project.

COMMISSIONER ELAM: All right. So if you don't get $2.3 billion, you get $275 million from Westinghouse?

MR. KEVIN B. MARSH [SCANA]: Yes.

MR. STEPHEN A. BYRNE [SCANA/SCE&G]: That's a

1 taxed advantage number. The real value of the
2 production tax credits, the raw value of the
3 production tax credits, is much lower than that.
4 **COMMISSIONER ELAM**: Okay.
5 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: It's
6 going to be more like – it will be in excess of
7 $1 billion, but closer to $1 billion.
8 **MR. JIMMY E. ADDISON [SCANA]**: And if I could
9 just add one point on that, if you could look back
10 at that schedule four, that page four, in the
11 presentation –
12 **COMMISSIONER ELAM**: Uh-huh?
13 **MR. JIMMY E. ADDISON [SCANA]**: – one of the
14 reasons that we put the 100 percent numbers on
15 here, or added in Santee Cooper's portion, is so
16 you can see the magnitude of this and how it
17 appears to Westinghouse. If you take the
18 combination under the amended EPC of the liquidated
19 damages, which are there around the ETC dates,
20 as well as the incentives, you've got almost
21 $1½ billion that they have exposure for.
22 **COMMISSIONER ELAM**: Okay.
23 **MR. JIMMY E. ADDISON [SCANA]**: And if we do
24 the fixed option, you've got almost $1 billion. So
25 while one component of it might seem small in

1 relation to the value of $2 billion to our
2 customers, they've got a lot of skin in the game.
3 **COMMISSIONER ELAM**: Okay. Page three, the "No
4 Interim Lawsuits," that's for anything? Or is it
5 somehow – does the agreement more fully define what
6 you can't sue for?
7 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Yes, so
8 it's for the kind of disputes that we have been
9 talking about to date, where we might dispute
10 invoices or those kind of things. If there were a
11 breach of the contract, obviously you could sue
12 over that kind of thing.
13 **COMMISSIONER ELAM**: Right.
14 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: But the
15 intent here was that we tried to remove all of the
16 potential distractions by moving all of these
17 disputes till after the guaranteed substantial
18 completion date of the second unit.
19 **COMMISSIONER ELAM**: Okay. I just – you had
20 talked about trying to be more specific in the
21 change-of-law, and I didn't know how specific –
22 just the "no interim lawsuits" seemed a little
23 vague.
24 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Yeah, so
25 if there was – if they made a claim for a change-

in-law that would go to our dispute resolution board and the dispute resolution board were to side with us, and let's say it was a $20 million item, then that's off the table until the Unit 3 comes on-line. Then if Westinghouse should choose at that point in time, they could attempt to come back after us if they didn't agree with that dispute resolution board, for that amount of money. So it just kind of moves that dispute until after the projects are over.

COMMISSIONER ELAM: Extends whatever statute of limitations would be, or are – maybe there isn't any, but okay.

MR. JIMMY E. ADDISON [SCANA]: And if the item under dispute were under $5 million, it is settled by the resolution board. Those cannot be brought up again.

COMMISSIONER ELAM: Okay.

MR. JIMMY E. ADDISON [SCANA]: And if it's over $5 million, if either party wants to challenge it, they have to notice it in a timely manner. So we'll have awareness of that as we move through the project. It's not that we won't be able to keep you informed.

COMMISSIONER ELAM: Okay. Thank you.

1 **CHAIRMAN HALL**: Commissioner Hamilton.
2 **COMMISSIONER HAMILTON**: Thank you, Madam
3 Chair.
4 It's a pleasure to have such a distinguished
5 panel appear before us today. And looking around
6 the room, I hope somebody's home taking care of the
7 shop.
8 [Laughter]
9 I have a few questions. You know, in
10 communication, it's kind of a tough thing. And I
11 think the most important part of communication is
12 for the one listening to be able to understand what
13 the message was, and that's what I'm going to try
14 to find out and make sure I'm on-line with you
15 gentlemen this morning. As I understand it, where
16 we stand right today with the Base Load Review Act,
17 we're looking at $6,827,000,000 total cost of the
18 project?
19 **MR. JIMMY E. ADDISON [SCANA]**: That's correct.
20 **COMMISSIONER HAMILTON**: Okay. And if we move
21 forward to the amended version, we're talking about
22 $7,113,000?
23 **MR. JIMMY E. ADDISON [SCANA]**: That's correct.
24 **COMMISSIONER HAMILTON**: That's right. And
25 then when you come back, possibly, we'll talk about

1 the $7,601,000.
2 **MR. JIMMY E. ADDISON [SCANA]**: That's correct.
3 **COMMISSIONER HAMILTON**: All right. Did
4 Chicago Bridge & Iron and Shaw, that we talked
5 about in the past, did they walk away without
6 paying any damages? Was part of the settlement
7 that they got to get out the door?
8 **MR. KEVIN B. MARSH [SCANA]**: Well, it was
9 their desire to exit the project. Of course, when
10 Shaw sold to CB&I, they fully exited the project,
11 because CB&I assumed their full obligations under
12 the contract. CB&I, when they separated from the
13 consortium, it gave us the opportunity to negotiate
14 the new terms that we've got, in return for
15 releasing them from their parental guarantee. So
16 they did not pay us anything for that, but we
17 negotiated these terms with Westinghouse in order
18 for Westinghouse to get our approval to release
19 them from the contract.
20 Now, from a CB&I perspective, if I've read
21 their Form 10-Q properly, at the time they exited
22 the contract, they took about a $1.2 billion after-
23 tax loss, so that did have an impact, but that was
24 not paid to us. So the losses, I'm assuming, were
25 negotiated in their settlement with Westinghouse.

1 And Westinghouse, likewise, took about a $1 billion
2 charge through their financial statements, as a
3 result of settling their agreements between the
4 consortium. So looking at the size of those
5 dollars, I think it was pretty clear that they had
6 some very wide gaps that they could not fill in
7 their relationship, which is probably what led to
8 this.
9 So while CB&I didn't give us any money, it did
10 put us in a position where we felt like we could
11 negotiate some more favorable terms in order to
12 give Westinghouse our permission to release CB&I,
13 even though Toshiba picked up the full value of the
14 parental guarantee.
15 **COMMISSIONER HAMILTON**: Okay. So where we
16 stand today is a clean slate.
17 **MR. KEVIN B. MARSH [SCANA]**: Yes.
18 **COMMISSIONER HAMILTON**: And we've started —
19 basically, are starting over with any damages that
20 might occur from either side.
21 **MR. KEVIN B. MARSH [SCANA]**: Right.
22 **COMMISSIONER HAMILTON**: Okay. I believe I
23 heard you. Thank you, very much.
24 **MR. KEVIN B. MARSH [SCANA]**: Yes.
25 **CHAIRMAN HALL**: Commissioner Howard.

1 **COMMISSIONER HOWARD**: I notice y'all are in
2 alphabetical order, so I'll just work down in
3 alphabetical order. Mr. Addison, are you familiar
4 with an article that talks about UBS, and SCANA
5 Corporation reducing risk on all fronts?
6 **MR. JIMMY E. ADDISON [SCANA]**: What was the
7 last part of that?
8 **COMMISSIONER HOWARD**: "Reducing risk on all
9 fronts."
10 **MR. JIMMY E. ADDISON [SCANA]**: There have been
11 probably 20 or 30 pieces published on us, in the
12 last two and a half weeks. I'm sure I've reviewed
13 it, but I don't remember it specifically.
14 **COMMISSIONER HOWARD**: Well, what was
15 interesting to me is, at one time, I had a meeting
16 with Wall Street — probably in the last year — and,
17 apparently, your stock offerings had been oversold
18 up until the point of this meeting — now, whether
19 you had any after that — and at that point in time,
20 they weren't oversold but I believe you sold them
21 all. What is the situation, considering this
22 article — or any of the 20 articles — of Wall
23 Street's situation or thought of the new contracts?
24 **MR. JIMMY E. ADDISON [SCANA]**: Yeah, it's a
25 really interesting question. I think the markets —

1 and, of course, you know this, but for everybody's
2 benefit, the customers aren't providing the costs
3 to pay the contractor; the bondholders and
4 shareholders are. They put the costs up and the
5 customers pay the carrying costs.
6 The investors do not like uncertainty. So
7 when there is uncertainty, they can dream up
8 scenarios that are much worse than maybe they are.
9 And I think the fact, number one, that we've come
10 out with some certainty around this, around the
11 $7.1 billion in the already amended agreement, the
12 settlement, as well as this option — and not just
13 that they think we should go to the option, but the
14 fact that we have a unilateral option so that if
15 things progress in the next several months that
16 make it more obvious we should choose that, I think
17 they value that a great deal.
18 So I think the short answer to it is, they
19 really like the better view into what might happen,
20 because they had scenarios in some of their minds
21 that were much more severe than what we've
22 presented in these two options today.
23 **COMMISSIONER HOWARD**: In the article I have,
24 there was a statement that I know I've heard. I
25 don't know I've ever heard a date on it, but the

statement says y'all would not come in for a rate increase until 2018. Is that still the case?

MR. JIMMY E. ADDISON [SCANA]: That's our intention. So, last time I was before you, maybe a couple —

COMMISSIONER HOWARD: And that's a date — that's not regarding any other case; that's just the base rate. Regular —

MR. JIMMY E. ADDISON [SCANA]: Just regular rates. So we realize the impact of Base Load Review Act increases each year. And I told you a couple of years ago when I was here before you, and I'll tell you again today, we're very committed to doing everything we can to stay away from any increases outside of the Base Load Review Act. It doesn't mean we can absolutely keep that from happening. A law could get passed from Washington that we have to comply with, et cetera, but what we see today in our headlights, we'll be able to accomplish that.

COMMISSIONER HOWARD: Okay. Mr. Byrne, how are we in step with Vogtle? I mean, what is their completion date under their new contract?

MR. STEPHEN A. BYRNE [SCANA/SCE&G]: From the perspective of construction, we're at the same

place as Vogtle is. So there are some things that we're ahead of them on – for example, I talked about the shield building panels that we've placed; they haven't placed as many shield building panels as we have – and there are a couple of things that we are behind them on – the Annex Building, for example. But the two projects are going to kind of stair-step each other until the end, but we're forecasted to be completed at the same time. The guaranteed substantial completion dates in their contract, I believe, are still the June and June dates.

COMMISSIONER HOWARD: Another question. Are there any more overseas fabrication that has to be done, or is all of the fabrication done pretty well on site or within the United States?

MR. STEPHEN A. BYRNE [SCANA/SCE&G]: There is some overseas fabrication to be done. We actually had some heat exchangers that were fabricated in Italy, one of which came to the US. They decided they would need a stiffener for the tubes and that they could best do that back in Italy, so we actually had to send it back to Italy. That is nearing completion; that should come probably by the end of the year.

1 We do have some turbine components for the
2 second unit that would yet need to come from
3 Toshiba. And, again, for the second unit, Unit 3,
4 we do have — I think there are some things that yet
5 need to come from Korea, but I can't think of them
6 off the top of my head what those would be, because
7 I'm running through the list in my head and most of
8 the stuff is here. We do have some things
9 domestically sourced — we have the coolant pumps,
10 for example, that are not yet on site, but those
11 are coming from the US.
12 **COMMISSIONER HOWARD**: There was something I
13 was just curious about. NNI has some panels they
14 have to construct, and they've done 86 out of 167?
15 Is that — is that normal or is that behind in
16 construction?
17 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Yeah, the
18 Newport News Industrial is providing shield
19 building panels, so that was the discussion that we
20 had a little while ago. The numbers that were in
21 the quarterly report were the then-accurate
22 numbers. I think you're looking at the Unit 2
23 numbers that were in the quarterly report.
24 **COMMISSIONER HOWARD**: Right.
25 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: That's

1 over 90 now. So they continue to deliver. Their
2 delivery schedule yet needs to be improved for us
3 to be able to meet our guaranteed substantial
4 completion dates, so we are working on improving
5 the delivery schedule of those shield building
6 panels.
7 **COMMISSIONER HOWARD**: Mr. Marsh, I guess I've
8 had some conversation, and I assume you have, but
9 with the completion of these two units, where do
10 you see the, quote, "nuclear renaissance"? Is that
11 back on stage or is that something that's still
12 sort of dormant?
13 **MR. KEVIN B. MARSH [SCANA]**: I would tell you
14 it's very active. Unfortunately, it's not active
15 in the United States the way I think it should be.
16 There are probably some 60 to 65 plants under
17 construction or planned across the world, as we sit
18 here today. I believe that's why Westinghouse
19 wants to finish these units successfully, so they
20 can begin to continue marketing that plant
21 elsewhere. I think England came out this week or
22 either last week and said they see nuclear as one
23 of their primary focuses, to make sure they meet
24 their carbon requirements that they are trying to
25 focus on very keenly. So other nations are looking

at nuclear. I believe the nuclear renaissance is very active today.

COMMISSIONER HOWARD: I was just trying to read something Mr. Clement was saying while you answered that question.

[Laughter]

When will Fluor take over? Are they going to take over immediately, or they've got to wait for the contract to be signed?

MR. STEPHEN A. BYRNE [SCANA/SCE&G]: Yeah, for them to take over on the construction site, they'll have to wait till the deal closes, so that's the 45 days from October 27th. They are here with us today, in Columbia, evaluating the project, looking over the documentation, and seeing how they can hit the ground running on day one.

COMMISSIONER HOWARD: Just my simple arithmetic, which leaves a lot to be desired, from what we have paid into the project so far, to what is left, to me it looks like it's about halfway. Is that pretty well correct?

MR. JIMMY E. ADDISON [SCANA]: That's correct.

COMMISSIONER HOWARD: Then I guess Mr. Marsh, or either one of you, ORS is doing an independent audit, I guess, for the effect of the Base Load

1 Review Act on customer rates? Do you know anything
2 about when that will be finished?
3 **MR. KEVIN B. MARSH [SCANA]**: They have
4 selected a firm to come in and do that review work.
5 My understanding is they are on site; they started
6 their work. We provided them with the information.
7 I believe, specifically, what they are looking at
8 is, the company has made statements over the years
9 that the Base Load Review Act is a clear benefit to
10 customers and, by following the Base Load Review
11 Act, we're going to save about $1 billion during
12 the construction period by avoiding capitalizing
13 interest to the project while it's being
14 constructed, and then by doing that, customers will
15 save another $4 billion over the life of the plant
16 by not having to finance those costs and pay the
17 carrying costs over the effective life of the
18 plant. That's the calculation that is under
19 review. The firm has been selected — I believe
20 it's Elliott Davis — by the Audit staff and by the
21 Office of Regulatory Staff, and they've engaged
22 them and they are actively doing that calculation,
23 or verifying those calculations today.
24 **COMMISSIONER HOWARD**: Of the 146 milestones,
25 you've completed 109 according to this report. I

1 don't know if that's still the situation, or not.
2 Am I trying to read in here something — so that
3 leaves like, what, 37 milestones you haven't
4 completed. How will that payment work out? I know
5 you talked about the $65 million times five, and
6 all that, but do you look at that as 39 more
7 milestones we've got to pay for?
8 **MR. KEVIN B. MARSH [SCANA]**: You want to get
9 that?
10 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: These
11 construction milestones are going to be different
12 than the milestones that we use for payment. So we
13 would anticipate that there will be a significant
14 number of milestones, hundreds of milestones, for
15 the payment. Westinghouse obviously wants to make
16 sure they get paid; we want to make sure that
17 there's real progress before they get paid. And
18 so, we'll be negotiating those milestones over the
19 next couple of months. And getting the milestones
20 I don't think is going to be the difficult part. I
21 think the difficult part is going to be valuing
22 those milestones to say how much each one of those
23 is worth. So these milestones are not the same
24 milestones we're talking about —
25 **COMMISSIONER HOWARD**: Well, that's what's

1 confusing me, because I'm thinking only 39 more
2 milestones?
3 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** We'll
4 have many hundreds of milestones before —
5 **COMMISSIONER HOWARD**: Okay. I think that's
6 all my questions. Thank you, very much.
7 **CHAIRMAN HALL**: Commissioner Whitfield.
8 **VICE CHAIRMAN WHITFIELD**: Thank you, Madam
9 Chairman.
10 Good to have you with us today, and thank you
11 for that report. I think you've answered a lot of
12 our questions that maybe corrected some of our
13 notions or ideas after reading the report. You
14 certainly have, mine, on a couple of occasions
15 here.
16 I guess to say that this is a big fork in the
17 road is the understatement of the day. Major fork
18 in the road, right?
19 **MR. KEVIN B. MARSH [SCANA]**: We think it's
20 significant. We think it's a great benefit to the
21 project for the remainder of work that has to be
22 done, and it should put us on sound footing to go
23 forward. It was interesting, lengthy, and a very
24 difficult negotiation, and probably one of the most
25 difficult I've been through. I think there was a

1 short period of time to try to get these terms
2 worked out, as it was clear that Westinghouse and
3 CB&I were on their way to a separation. So we had
4 a short window to get this done, but I'm pleased
5 with where we ended up. I think we provided some
6 protections we didn't have before, and some real
7 incentives for everybody to keep moving forward
8 effectively.
9 **VICE CHAIRMAN WHITFIELD**: Well, along those
10 lines, Mr. Marsh, I think you said early on in your
11 presentation that you got the message from us in
12 our Order 2015-661 that we wanted you to move ahead
13 quickly and try to protect the deadlines on the
14 federal tax production credits, and also to — we
15 wanted you to be very aggressive in your
16 negotiations with the consortium. So, I guess —
17 and I was going to ask you, you know, since that
18 was just one and a half or two months ago, why did
19 you maybe not hold off and come to us now, but I
20 guess in answering that question, the big,
21 significant thing — I guess the biggest significant
22 thing that you would point to, or any of you for
23 that matter, is CB&I coming to you and — or you all
24 somehow figuring out that there was some
25 disagreement or not all of one accord in the

1 consortium, but also CB&I coming to you and somehow
2 telling you, or somehow you learned, that they
3 wanted to exit the nuclear construction business.
4 **MR. KEVIN B. MARSH [SCANA]**: We knew from our
5 negotiations, which we continued in earnest after
6 we left the Commission in July, were not
7 progressing as we would like. We sensed there was
8 a building gap between the partners because of the
9 apparent commercial issues they had, between them.
10 But when we came to you in July, we did not know of
11 this option. We didn't know anything about it
12 until Westinghouse and CB&I called and said, "We
13 want to meet with you and Santee Cooper," in that
14 first week of September, was the first we knew
15 about this separation.
16 **VICE CHAIRMAN WHITFIELD**: So, major
17 development.
18 **MR. KEVIN B. MARSH [SCANA]**: Major
19 development, yes, sir.
20 **VICE CHAIRMAN WHITFIELD**: A couple more
21 questions, and this may be to you, Mr. Byrne.
22 What's the duration between the guaranteed
23 substantial completion dates and the commercial
24 operation dates of Units 2 and 3?
25 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: They

1 should be very similar. So they will have turned
2 them over to us and the plants will be up and
3 operating by the guaranteed substantial completion
4 dates, and they should correspond pretty well to
5 the commercial dates.
6 **VICE CHAIRMAN WHITFIELD**: Should be almost the
7 same?
8 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: They
9 should be about the same. We have about six
10 months' worth of testing, once the units are
11 actually physically complete, before they're deemed
12 as the guaranteed substantial completion date. So
13 those dates should be roughly the same.
14 **VICE CHAIRMAN WHITFIELD**: Thank you. And I'm
15 going to go back, I guess, to tell you one of the
16 things that you've corrected here today. I was a
17 little bit — didn't understand or maybe a little
18 confused about the $86 million in liquidated
19 damages versus the portion that SCE&G might receive
20 under the new agreement of $509 million. You've
21 got that thing, as you said, five times higher.
22 But I think between your explanation and
23 Commissioner Hamilton's question, we've gotten that
24 answer. Instead of that being rolled into the $509
25 million — I kind of was of that thinking prior to

1 today – that we would start with a max, SCE&G's
2 portion, not the whole – I mean, the whole portion
3 is 926, but SCE&G's portion of 509, I was kind of
4 under the impression that that 86 was still in
5 there, but what you told Commissioner Hamilton,
6 you're kind of wiping the slate clean and going
7 forward from here. Is that the way we understand
8 it now?
9 **MR. JIMMY E. ADDISON [SCANA]**: That's correct.
10 **VICE CHAIRMAN WHITFIELD**: Okay. Also, we've
11 had several other construction-related questions,
12 and I don't know that this one got covered. If it
13 did, forgive me. But the Unit 3 submodules – this
14 would be, I guess, obviously for you, Mr. Byrne –
15 in your report you've got the production schedule
16 today of Unit 3, the CA01 and CA20 modules by
17 Toshiba and Oregon Iron Works, does not support the
18 construction schedule for the units, and you go on
19 to say that Westinghouse is formulating plans with
20 these vendors to mitigate these potential delays.
21 What can you share about that or what's your
22 concern about that?
23 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Yeah, we
24 make relatively frequent visits to the facilities
25 around the Tokyo area, which is Toshiba and IHI, so

they're kind of splitting the duty on fabricating those modules, those 47 or so modules for the CA01 unit. Believe it or not, we did discover in our visits over there that there were commercial disputes between CB&I and Toshiba. Now Toshiba is the parent company for Westinghouse. And that was actually getting in the way of Toshiba completing some of these modules. So what we've done — effectively, done with this agreement is we've removed CB&I from that equation, and now any disagreement would be between the parent company and the daughter company. So we think we've wiped the slate clean of those commercial disputes, as well, and that Toshiba and IHI will be back at work full force. We think that IHI has actually picked up the pace, and we anticipate Toshiba will similarly pick up the pace. There's certainly no question about their capabilities, and their quality has been very good.

VICE CHAIRMAN WHITFIELD: So another benefit of this new —

MR. STEPHEN A. BYRNE [SCANA/SCE&G]: Absolutely.

VICE CHAIRMAN WHITFIELD: Yes, sir. Well that's encouraging to hear. In the discussion we

1 had about the federal production tax credits — and
2 I think in Mr. Marsh's original presentation, this
3 number wasn't on the chart, but I kind of made a
4 mental note of it here — he mentioned that y'all
5 were doing away with the bonus for megawatts in
6 excess of the contractual amount, the original
7 contractual amount, and I think that Mr. Marsh said
8 that there was up to $150 million, if I got that
9 number right, that that number is now gone and
10 that's all been put into the carrot, if you will,
11 of them finishing early or before the federal
12 production tax credits expire.
13 **MR. KEVIN B. MARSH [SCANA]**: That's correct.
14 **VICE CHAIRMAN WHITFIELD**: And what was the — I
15 know that's a lot you had in there, but had that
16 come to that, what would the actual — how would
17 that have worked? I mean, would you have ended up
18 with extra megawatts that we didn't think? Or how
19 would that —
20 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]**: Yeah, the
21 EPC contract had in it a provision that if they
22 were to produce in excess of 1117 megawatts, for
23 each unit, that they would get paid a $5 million
24 bonus per megawatt.
25 **VICE CHAIRMAN WHITFIELD**: Per megawatt.

1 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Per
2 megawatt.
3 **VICE CHAIRMAN WHITFIELD:** Up to a $150 million
4 cap?
5 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Well,
6 there wasn't actually a cap. So what we were
7 looking at was we were estimating — based on the
8 information Westinghouse had given to us, we were
9 estimating what the value of that number was. And
10 I think we actually came up with a number of $160
11 million. So we think that they're going to,
12 through efficiencies particularly on the turbine
13 side, that they're going to be able to produce more
14 than 1117 megawatts, so we were vulnerable for
15 that, but it wasn't capped previously, which is one
16 reason we never really liked that provision, so —
17 **VICE CHAIRMAN WHITFIELD:** And so now it's
18 gone.
19 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** It's
20 gone.
21 **VICE CHAIRMAN WHITFIELD:** It's gone. Well,
22 that's a good thing, too. I guess, lastly, y'all
23 did a great job with your presentation showing
24 Fluor's history, and we certainly know what they've
25 done with Unit 1 and other generation projects

1 you've had here, scrubbers and so forth. We also
2 know that a lot of that craft that did Unit 1 has
3 stayed around either on these projects or gone to
4 paper mill projects or other large projects here in
5 South Carolina. So you certainly have a known
6 entity you're dealing with here, and you, Mr.
7 Byrne, cited a couple of other reasons for local
8 ties, if you will, to the company. But I guess my
9 question to you is, now, you're in this transition
10 period, which hopefully you think is going to close
11 by the end of the year. And, anyway, I guess what
12 I'm trying to say now in this kind of crucial time
13 period, how do you deal with losing any further
14 ground right now while you are in this critical
15 period when you've got a manager on CB&I on the
16 ground, which they know they're not going to be
17 there anymore, and you, Mr. Byrne, mentioned there
18 might be a little – you're concerned about some
19 possible turmoil when Fluor comes in, between their
20 engineers or the management and the craft people.
21 How do you keep from slipping right here where we
22 are, present day, right now?
23 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Yeah,
24 obviously, that's a concern. And, you know, we
25 would've anticipated actually losing some time and

1 some efficiency with people that now thought their
2 futures were up in the air. I thought we did a
3 fairly effective job, or that the consortium did a
4 fairly effective job at communicating with their
5 folks as to what their status was going to be,
6 going forward. Most of the craft personnel, we
7 would desire to retain. We probably have 3500
8 contractors at the site now; we'll probably ramp up
9 to somewhere between 4000 and 4500 sometime next
10 year, so we're actually going to increase that
11 staff. So we really don't want to lose ground on
12 craft. So I do think we'll be able to maintain
13 that craft. It may sound funny to say this, but
14 those kind of folks, they're used to working on the
15 same project for different companies. So the fact
16 that they change companies and their checks come
17 from somewhere else is not unusual.
18 Westinghouse and Fluor did share with us that
19 they were going to ensure that they kept the
20 benefits and the pay whole for those craft folks,
21 until they came up with a new benefits package for
22 them that would be Fluor driven. So there's going
23 to be no change for them in that respect, so that
24 pacifies some of the fears. And for the folks that
25 may or may not stay, the field non-manual personnel

1 or management leadership, this is their opportunity
2 to demonstrate to Fluor that they have value. And
3 actually, what we have seen on the project is there
4 have been a couple of good milestones that have
5 taken place just in the last couple of weeks.
6 So, we're spending a lot more time at the
7 site. I was out there last week, and I witnessed
8 them placing some of these shield building panels,
9 so that's a very important part. The critical path
10 runs through the shield building, and they were
11 actively placing shield building panels while I was
12 there last week. So they're not stopping
13 production while they're worrying about their
14 futures. They're still working.
15 **VICE CHAIRMAN WHITFIELD**: Well, that's
16 encouraging to hear, because a lot of times when
17 you have someone on their way out — or even with a
18 coach — they get out of there abruptly. So that's
19 encouraging to hear that they're trying to prove
20 themselves, and that's encouraging, Mr. Byrne.
21 Thank all three of you for being here today.
22 That's all I've got.
23 **CHAIRMAN HALL**: Thank you. I just have two
24 brief questions. You seem pretty confident that
25 the Westinghouse/Stone & Webster deal will go

1 through. But what happens if it doesn't, by that
2 March 31st deadline?
3 **MR. KEVIN B. MARSH [SCANA]**: If it doesn't
4 complete by that March 31 deadline, everything we
5 negotiated would be null and void. We'd be back to
6 the existing contract. CB&I would not be released.
7 And we'd have to look for a different way to go
8 forward.
9 We're pretty confident this will get approved.
10 They're fairly routine filings with the federal
11 government, just a Hart-Scott-Rodino filing. And
12 because Westinghouse is owned by Toshiba, there are
13 a couple of foreign-ownership filings they have to
14 go through, but we've got a high level of
15 confidence that that's not going to be an issue.
16 That was more for protection in the contract so it
17 just wouldn't languish forever if they never got
18 the approvals. We're moving forward as if it's
19 going to be approved.
20 **CHAIRMAN HALL**: Okay, that's excellent. The
21 only other question I had was about the dispute
22 resolution board. You say the composition of the
23 board is to be determined. Is that on the mutual
24 agreement of the parties, or how is that going to
25 be determined?

1 **MR. STEPHEN A. BYRNE [SCANA/SCE&G]:** Yeah,
2 mutual agreement of the parties for a three-person
3 panel, at least one of whom has to be an attorney.
4 **CHAIRMAN HALL**: Okay. All right. Excellent.
5 Any other questions from Commissioners before I
6 close?
7 [No response]
8 Okay. Gentlemen, thank you so much. I think
9 your thorough slides and presentation answered many
10 questions that we had.
11 I want to acknowledge, since I didn't at the
12 opening, that Ms. Bowyer Hudson is here
13 representing ORS. So we appreciate that.
14 And if there's nothing else, then we are
15 adjourned. Thank you.
16 [WHEREUPON, at 12:15 p.m., the
17 proceedings in the above-entitled matter
18 were adjourned.]
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C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of all the proceedings had in an Allowable Ex Parte Proceeding held before THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA in Columbia, South Carolina, according to my verbatim record of same.

IN WITNESS WHEREOF, I have hereunto set my hand, on this the 22nd day of November, 2015.

Jo Elizabeth M. Wheat, CVR-CM/M-GNSC
Hearings Reporter, PSC/SC
My Commission Expires: January 27, 2021.