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**SURREBUTTAL TESTIMONY OF**

**ELLEN LAPSON**

**ON BEHALF OF**

**SOUTH CAROLINA ELECTRIC & GAS COMPANY**

**DOCKET NO. 2017-305-E**

**DOCKET NO. 2017-207-E**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Ellen Lapson and my business address is 370 Riverside Drive, New York, New York, 10025.

**Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THESE PROCEEDINGS?**

A. Yes, I have. Most recently, I submitted pre-filed rebuttal testimony in Docket No. 2017-370-E, which has been consolidated with these dockets for hearing purposes. Because that testimony addressed many of the issues raised here, I have attached that pre-filed testimony as Exhibit No. __ (EL-1) to this testimony and incorporated by reference that testimony into my pre-filed surrebuttal testimony in these dockets.

**Q. DID YOUR TESTIMONY IN DOCKET NO. 2017-370-E CONTAIN EXHIBITS?**

A. Yes, and they are incorporated in Exhibit No. __ (EL-1).

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes, it does.

# Exhibit__(EL-1) to Surrebuttal Testimony

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**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF SOUTH CAROLINA**

# REBUTTAL TESTIMONY OF

# ELLEN LAPSON

**ON BEHALF OF**

**SOUTH CAROLINA ELECTRIC & GAS COMPANY**

**DOCKET NO. 2017-370-E**

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## EXHIBITS


EL-1 Standard & Poor's Ratings Direct, Summary, South Carolina Electric & Gas, August 23, 2018

EL-2 Moody's Investors Service, Credit Opinion, South Carolina Electric & Gas: Update Following Rating Confirmation, July 23, 2018

EL-3 Moody's Credit Scorecard

EL-4 Fitch Ratings, Press Release: Fitch Downgrades SCANA to 'BB'/SCE&G to 'BB+'; Maintains Rating Watch Evolving, August 8, 2018

EL-5 Fitch Ratings, South Carolina Electric & Gas Co., July 16, 2018

EL-6 Revising O'Donnell Table 1 and Exhibit KWO-1

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## I. INTRODUCTION

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Ellen Lapson and my business address is 370 Riverside Drive, New York, New York 10025.

**Q. ARE YOU THE SAME ELLEN LAPSON WHO HAS PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?**

A. Yes, I filed Direct Testimony on behalf of South Carolina Electric & Gas Company, referred to throughout my Rebuttal Testimony as "SCE&G" or the "Company."

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

A. The purpose of my rebuttal testimony is to respond to the Direct Testimonies of Mr. Richard Baudino and Mr. Lane Kollen on behalf of the South Carolina Office of Regulatory Staff ("ORS"). I also respond to the Direct Testimonies of Mr. Ronald Binz and Mr. Uday Varadarajan on behalf of the South Carolina Coastal Conservation League ("CCL") and the Southern Alliance for Clean Energy ("SACE"), to the Direct Testimony of Mr. Kevin O'Donnell on behalf of the South Carolina Energy Users Committee ("SCEUC"), and to the Direct Testimony of Mr. Scott Rubin on behalf of AARP.

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## II. EXECUTIVE SUMMARY

**Q. PLEASE PROVIDE A SUMMARY OF YOUR REBUTTAL TESTIMONY.**

A. The testimony of witnesses Baudino and Kollen, as well as witnesses O'Donnell and Rubin, contain recommendations that, if adopted by the Commission, would severely reduce SCE&G's ongoing cash flow and consequently place the Company in a weakened financial condition. This outcome would be inconsistent with customers' need for electric service from a financially sound and capable utility that has sufficient liquidity to maintain its system in good order at all times and to be able to attract capital as needed to make new investments for safe and reliable service and to respond to emergencies like large scale outages from hurricanes or ice storms.

Because the opposing witnesses have failed to give meaningful consideration to the need to maintain SCE&G in a sound and sustainable financial condition, there is a need for a systematic analysis of the consequences of the major proposals on the Company's future financial health and creditworthiness. Consequently, I have performed an evaluation of the impact of the various financial adjustments and recommendations proposed by ORS ("ORS Plan") through a careful study of the most recently published comments by the three credit rating agencies concerning SCE&G's expected credit ratios and the sensitivities for positive and negative ratings changes. My study concludes that implementation of the ORS Plan would most likely produce credit ratings for SCE&G in the speculative grade category, and at least three to four notches below the median or average credit ratings for electric

utilities in the United States. By contrast, the financial outcome of the Customer Benefit Plan and No Merger Benefit Plan (as proposed by SCE&G and Dominion Energy and described in the testimony of Iris Griffin) is consistent with credit ratings within the investment grade category and stabilizing the Company's financial condition in a manner that would better position SCE&G to serve its customers' future needs.

Witnesses Kollen, Binz, and Varadarajan also assert that customer rates could be further reduced by securitizing the regulatory asset representing the costs of the abandoned nuclear project that are approved for rate recovery. However, deciding on a plan to securitize a regulatory asset is simply not an available option at the present time. In order to carry out such a transaction, special legislation would have to be passed that does not now exist. Even if such legislation was ultimately proposed and passed by the South Carolina General Assembly, however, there are some serious factors that could delay or rule out a securitization transaction, including: (1) whether or not such special legislation and the resulting special tariff to recover the securitized investment would withstand a voter ballot initiative or referendum in South Carolina; (2) the possibility that an appellate court may invalidate the decision that gives rise to the securitized regulatory asset; and (3) insufficient confidence by investors in whether state public officials could be trusted to abide by the terms of the securitization transaction for the full term of 20 years, given the legislature's abandonment of the BLRA, which it enacted in 2007.



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Even if these issues are addressed, the required legislation passed, and securitization becomes a real possibility at some time in the future, it also would require a separate and distinct regulatory process to approve and implement the securitization transaction. Since none of the required conditions have been met or even proposed, it is entirely premature and inappropriate to contemplate, much less to make, financial decisions guided by the outline of a hypothetical securitization as a possible outcome of this proceeding.

**Q. HOW IS THE REMAINDER OF YOUR REBUTTAL TESTIMONY ORGANIZED?**

A. The remainder of my Rebuttal Testimony is organized as follows:

Section III – Response to the Direct Testimony of ORS Witness Richard Baudino;

Section IV – Response to the Direct Testimony of ORS Witness Lane Kollen;

Section V – Response to the Direct Testimony of SCEUC Witness Kevin O'Donnell;

Section VI – Response to the Direct Testimony of AARP Witness Scott Rubin;

Section VII – Issues Regarding Proposed Securitization Transaction; and

Section VIII – Conclusions.



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1 **III. RESPONSE TO THE DIRECT TESTIMONY OF MR. BAUDINO**

2 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF MR. BAUDINO'S DIRECT**
3 **TESTIMONY AND RECOMMENDATION.**

4 A. Mr. Baudino proposes making approval of the proposed business
5 combination of SCE&G and Dominion Energy subject to conditions regarding
6 service quality and "credit quality conditions," including that the Commission
7 should estimate a cost of capital for SCE&G based on the assumption that the
8 Company's credit is of strong investment grade quality, even if that is not the case.
9 Such a recommendation ignores how capital markets function and its adoption
10 would make capital more expensive for SCE&G

11 In addition, Mr. Baudino recommends that the Commission apply a return
12 on equity ("ROE") of 9.1% to the portion of New Nuclear Development ("NND")
13 costs that ORS proposes should be allowed for rate recovery. Mr. Baudino arrives
14 at his 9.1% ROE recommendation based on a Discounted Cash Flow ("DCF") study
15 of investment grade rated utility companies that are not of comparable risk to
16 SCE&G, without any ROE risk premium for SCE&G's current financial condition.
17 He also endorses ORS's capital structure recommendation of 52.81% equity to total
18 capital as September 30, 2017. Finally, he recommends modifying the cost of
19 SCE&G's long-term debt to incorporate the cost of debt issued by the Company in
20 August 2018.

21 **Q. MR. BAUDINO STATES THAT THE ALLOWED ROE IN THIS**
22 **PROCEEDING SHOULD BE BASED ON THE REQUIRED ROE FOR**

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**FINANCIALLY SOUND REGULATED UTILITY COMPANIES AND NOT A HIGHER ROE BASED ON SCE&G'S CURRENT CREDIT RATINGS.[1] HOW DO YOU RESPOND?**

A. This is not a reasonable proposal. A company's risk is an important determinant of the cost of capital for that company, and therefore, the cost of equity must be determined by comparison with companies of comparable risk. For SCE&G, it is inevitable that any reasonable proxy group will primarily consist of less risky and more highly-rated companies, since there are currently few if any utilities in the United States of comparably low ratings as SCE&G. Under these circumstances, the equity return determined based upon the less risky proxy group should be supplemented to reflect the greater financial risk. Failing to do so would deprive SCE&G of the opportunity to attract needed capital, because limited capital resources will be invested elsewhere to earn the same return at lower risk.

**Q. PLEASE RESPOND TO MR. BAUDINO'S TESTIMONY REGARDING THE REPORT ISSUED BY S&P AND THE UNCERTAINTY REGARDING THE RECOVERY OF COSTS RELATED TO THE NUCLEAR PROJECT?[2]**

A. It appears that Mr. Baudino seriously misunderstands and misconstrues the meaning of the credit rating agencies' reports. He incorrectly interprets that credit downgrades and negative rating outlooks or credit watch status by Moody's and

[1] Baudino Direct at 15-16.

[2] Baudino Direct at 16-17.

S&P are a product of "uncertainty" regarding the rate treatment of the nuclear project at the V.C. Summer Nuclear Station ("Project") and future revenues that would be remedied by the certainty provided by implementing the ORS Plan. Instead, the clear meaning of the rating analysts expressed in their reports is their concern that SCE&G will be subjected to a major permanent disallowance of recovery of its investment in the Project assets.

Mr. Baudino also asserts that the ORS Plan will create greater certainty which will cure the Company's credit problems. His assertion is not credible, however. Implementing the ORS Plan will not strengthen or improve the credit standing of SCE&G. In fact, the very same rating reports that Mr. Baudino mischaracterizes state that reduced cash flow and weaker financial ratios after implementing a plan as punitive as that proposed by ORS would result in credit downgrades.

For example, the S&P July 3, 2018 Research Update, cited by Mr. Baudino, makes it quite clear that their concern is focused on a rate decrease and weaker financial measures, and the certainty of high leverage and poor financial ratios will not improve SCE&G's financial strength:

> We could lower the ratings if the Court does not issue an injunction prohibiting the SCPSC from implementing the new law [House Bill 4375]. A rate decrease of the magnitude reflected in the law would weaken credit metrics significantly. We could also lower ratings even if the Court issues an injunction that is subsequently followed by a SCPSC order to reduce rates or an order to provide rate credits for



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> Summer-related costs that results in weaker financial measures.[3]

In a subsequent Research Update on August 9, 2018 (in which S&P announced that it had downgraded SCANA and SCE&G and that the ratings remained on credit watch with negative implications), S&P again uses the word "uncertainty" but the text explicitly states that further reduction in revenues and cash flows could result in a further downgrade of the credit rating.

> The CreditWatch with negative implications on SCANA and its subsidiaries reflects our view of ongoing uncertainty regarding cost recovery of the abandoned V.C. Summer nuclear construction project. We could lower ratings again if credit metrics weaken further beyond those in our base-case scenario, which assumes the temporary rate cut is made permanent. This could occur following the pending Summer abandonment proceeding if the PSC orders a permanent rate reduction or rate credits that lead to incrementally weaker financial measures than those resulting from the temporary 15% rate cut.[4]

**Q. MR. BAUDINO SEEKS TO DISMISS CONCERNS ABOUT THE COMPANY'S VERY LOW CREDIT RATINGS, STATING THAT SCE&G HAS BEEN ABLE TO ACCESS THE CAPITAL MARKETS THIS YEAR AND ON FAVORABLE TERMS.[5] DO YOU AGREE?**

A. Mr. Baudino acknowledges that SCE&G's ratings are currently very low (Baudino Direct at 4:7-8 and at 16:1-2), but he seeks to minimize the significance

[3] S&P Research Update, SCANA Corp. And Subsidiaries 'BBB' Ratings Remain On CreditWatch Negative On Passage Of South Carolina Bill, July 3, 2018, at 3.

[4] S&P Research Update, SCANA Corp. And Subsidiaries Downgraded To 'BBB-' After Court Rejects Company's Request; CreditWatch Negative Maintained, August 9, 2018, at 3.

[5] Baudino Direct at 18.

of the Company's low issuer credit ratings by pointing out that the Company successfully completed the offering of first mortgage bonds in August 2018.

Here, Mr. Baudino makes a faulty and misleading comparison between the pricing and coupon for the 10-year issuance with the August 2018 yield on what he asserts to be the yield on the average utility bond in the same month. Mr. Baudino asserts:

> The pricing and coupon for the 10-year 4.25% first mortgage issuance is consistent with the August 2018 yield on the average utility bond, which was 4.33%.[6]...Based on this information, it appears that SCE&G is well able to access the debt market at reasonable rates.[7]

First, it is important to note that SCE&G's bond issuance took place on August 15, 2018—six weeks before ORS filed its direct testimony in this proceeding. Therefore, the ability to issue these bonds does not provide evidence that investors are comfortable with the impacts of the ORS Plan or would make capital available on similar terms in the future, if the ORS Plan were adopted by the Commission.

Also, Mr. Baudino fails to note that SCE&G's issuance was split between $300 million of 3-year maturity bonds and $400 million of 10-year maturity bonds, for a blended average maturity profile of seven years. This represents a short maturity profile in the electric utility sector, with the typical issuance pattern of bonds issued by rate-regulated utility operating companies comprised of 30-year or

[6] Although Mr. Baudino does not cite the basis for the referenced yield on the "average utility bond," an examination of his exhibits and work papers indicates that his source is the Mergent Bond Record.

[7] Baudino Direct at 18:17-20.



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1 even 40-year maturities mixed with some 10-year maturities. In fact, the "average"
2 utility operating company mortgage bond is a 30-year bond.

3 **Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE RELATIVELY SHORT**
4 **TENOR OF THE COMPANY'S BOND ISSUANCE IN AUGUST 2018.**

5 A. The issuance of bonds with relatively short maturities of 3 and 10 years
6 indicate that bond underwriters and utility bond investors are uneasy about
7 SCE&G's future creditworthiness and credit ratings, meaning there was insufficient
8 demand at reasonable rates for bonds with the longer tenor of 30 years, which is the
9 more typical bond maturity issued by investment-grade rate-regulated utility
10 operating companies.

11 **Q. DO YOU AGREE WITH THE WAY THAT MR. BAUDINO INTERPRETS**
12 **THE INTEREST COST OF SCE&G'S AUGUST 2018 BOND ISSUANCE**
13 **RELATIVE TO THE "AVERAGE" UTILITY BOND ISSUANCE IN**
14 **AUGUST?**[8]

15 A. No, I do not. Mr. Baudino erroneously compares the interest cost of 4.25%
16 on SCE&G's 10-year issue with the rate of 4.33% reported by Mergent Bond
17 Record for the "average" utility bond. However, Mergent's "average" rate reflects
18 bonds of longer terms, including a high proportion of 30-year bond issues. A more
19 meaningful comparison would be the contemporary yield on new issue investment-
20 grade 10-year mortgage bonds of rate-regulated electric utilities.

[8] Baudino Direct at 18:17-20.

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1 For an appropriate comparison, we compared SCE&G's cost to issue bonds
2 in August 2018 on the only four secured, 10-year bond issued in August 2018 by
3 electric operating utilities. These were issued by Duke Energy Progress LLC ("Duke
4 Progress"), Oncor Electric Delivery Company LLC ("Oncor"), Commonwealth
5 Edison Company ("ComEd"), and Oklahoma Gas and Electric Company ("OG&E")
6 within approximately a week of the date of SCE&G's two issues.

**Table EL-1**

**August 2018 10-Year Secured Bond Issues by Rate-Regulated Electric Utilities**

| | | | | | | | Secured bond ratings | | |
|---|---|---|---|---|---|---|---|---|---|
| Issuer | Issue Date | Years | Coupon | Amt. $ million | Spread to UST* | Premium Charged to SCE&G* | Moody's | S&P | Fitch |
| South Carolina Electric & Gas | 8/15/18 | 10 | 4.25% | $400 | 143 | | Baa1 | BBB+ | BBB |
| Duke Energy Progress LLC | 8/6/18 | 10 | 3.70% | $500 | 77 | +66 | Aa3 | A | -- |
| Oncor Electric Delivery LLC | 8/7/18 | 10 | 3.70% | $350 | 73 | +70 | A2 | A+ | A |
| Commonwealth Edison Co. | 8/7/18 | 10 | 3.70% | $550 | 75 | +68 | A1 | A- | A |
| Oklahoma Gas and Electric | 8/14/18 | 10 | 3.80% | $400 | 93 | +50 | A2 | BBB+ | A |
| Average Differential | | | | | | +63.5 | | | |

* Spread to the yield on 10-year US Treasury notes on the date of issue, in basis points, i.e., 1/100 of 1%

Source: CIBC Debt Capital Markets, "US Utilities Weekly for the week ending August 31, 2018".

7 The table above compares the credit spreads on each bond issue relative to
8 the 10-year U.S. Treasury bond yield on the same date. SCE&G had to pay a spread
9 to U.S. Treasuries of 143 basis points. That yield spread was 66 to 70 basis points

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1 greater than the yield required by the market for issuance of 10-year secured
2 mortgage bonds by Duke Progress, Oncor, and ComEd and 50 basis points greater
3 than the required yield for secured bonds of OG&E. The credit quality these four
4 utilities is consistent with that of the "average utility," which is approximately three
5 notches higher than SCE&G's current rating. This difference clearly reflects that
6 the investment community requires higher compensation to accept the greater risk
7 that they perceive in SCE&G, thus resulting in additional financing costs to the
8 Company and its customers. Furthermore, the differential cost of financing for
9 SCE&G relative to the "average utility" would likely be greater if the final outcome
10 of this proceeding results in a revenue reduction equivalent to that in the ORS Plan.

11 **Q. DOES MR. BAUDINO PROVIDE EVIDENCE REGARDING SCE&G'S**
12 **FUTURE FINANCIAL CONDITION IN THE EVENT THAT THE ORS**
13 **PLAN IS IMPLEMENTED?**

14 A. No, he does not, other than the assertion that SCE&G was able to sell
15 collateralized first mortgage bonds in August 2018, which I have discussed above.
16 Of course, the ability to issue secured mortgage bonds in August 2018, albeit at
17 yield spreads higher than those paid by utilities with higher ratings, completely
18 ignores the future effects upon the Company's financial integrity or
19 creditworthiness in the event that the ORS Plan is implemented.

20 Further, Mr. Baudino does not acknowledge that SCE&G has already
21 experienced constrained access to the commercial paper market to fund short-term
22 needs. Investors buy smaller amounts of SCE&G's notes at the current ratings, and

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1 only make funds available at higher cost and for very few days. Access to the
2 commercial paper market would be completely eliminated if SCE&G's credit
3 ratings were further reduced.

4 Furthermore, Mr. Baudino fails to address the difficulties that SCE&G would
5 face with credit ratings substantially below the norm for the United States utility
6 industry during any future period of credit market distress or constrained capital
7 market conditions. The median issuer credit ratings for electric utility operating
8 companies is A- (by S&P and Fitch) and A3 by Moody's, versus SCE&G's current
9 issuer credit rating of BBB- (S&P), Baa3 (Moody's) and BB+ (Fitch). SCE&G's
10 ratings by Moody's and S&P are three rating notches below the median for rate-
11 regulated electric utilities and its Fitch rating is four notches below the sector
12 median. The experience from past market cycles indicates that during any future
13 period capital market or credit market distress, credit ratings materially below the
14 norm for the sector (and potentially even lower in the event of another round of
15 downgrades for SCE&G depending on the outcome of this proceeding), would
16 seriously constrain SCE&G's access to capital and sources of liquidity.

17 **Q. HOW DO YOU RESPOND TO MR. BAUDINO'S TESTIMONY THAT**
18 **SCE&G SHOULD BE REQUIRED TO INCLUDE ITS TWO NEW DEBT**
19 **ISSUANCES IN ITS COST OF LONG-TERM DEBT?**[9]

[9] Baudino Direct at 36: 3-9.

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1 A. It is not reasonable to make such an adjustment to long-term debt costs after
2 the end of the test period. This change would immediately reduce SCE&G's cash
3 flow, while also delaying or deferring many other changes that would aid SCE&G's
4 cash flow recovery of cost until the conclusion of its next base rate case.

5 ORS's position as explained in Mr. Kollen's Direct Testimony is that the
6 Company should be directed to defer recovery of the transmission revenue
7 requirement and associated non-nuclear investments made by SCE&G subsequent
8 to its last base rate case for consideration in the next base rate case. It is neither
9 reasonable nor equitable to recognize a change in interest expense relating to bonds
10 redeemed after the test period while deferring the recovery of and return on a
11 substantial investment in non-nuclear assets.

12 **Q. DO YOU AGREE WITH MR. BAUDINO'S RECOMMENDATION THAT,**
13 **AS A CONDITION OF THE BUSINESS COMBINATION, THE ROE**
14 **SHOULD BE DETERMINED USING A PROXY GROUP OF INVESTMENT**
15 **GRADE UTILITIES AND THE COST OF NEW LONG-TERM DEBT**
16 **SHOULD BE BASED ON THE LOWER OF THE PREVAILING COST OF**
17 **DEBT FOR AN AVERAGE INVESTMENT GRADE REGULATED**
18 **UTILITY?**[10]

19 A. I disagree. It is not reasonable to determine the cost of equity for SCE&G
20 based upon the cost determined for a group of companies of materially lower risk.

[10] Baudino Direct at 62-64.

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1 The cost of equity for SCE&G should be determined by comparison with companies
2 of comparable risk. If there are not a sufficient number of like utilities of risk
3 comparable to that of SCE&G to comprise an adequate peer group, as would be the
4 case in the current proceeding, then the cost of equity determined for the lower risk
5 peer group should be supplemented to reflect SCE&G's higher risk. The logic is
6 clear. If an investor can get the same return by investing in a portfolio of companies
7 of lower risk than SCE&G, it would be illogical to invest any capital whatsoever in
8 SCE&G at much greater risk.

9 Likewise, the cost of debt used in the future for determining rates should be
10 consistent with the actual cost of issuing debt, which will be increased by the weak
11 credit condition imposed on the Company under the ORS Plan.

12 **IV. RESPONSE TO THE DIRECT TESTIMONY OF MR. KOLLEN**

13 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF MR. KOLLEN'S DIRECT**
14 **TESTIMONY AND RECOMMENDATION.**

15 A. Mr. Kollen recommends a revenue reduction of $560 million for 2019 and
16 $527 million for 2020. In comparison with the Experimental Rate currently in effect,
17 the proposed 2019 reduction is $193 million greater, and for 2020 $160 million
18 greater. Those figures include a $35 million revenue reduction in 2019 and $70
19 million in 2020 applicable only if the business combination is consummated.

20 Components in the ORS Plan include: (1) termination of the $445 million
21 annually recovered in rates consistent with the Base Load Review Act ("BLRA"),
22 partially offset by a revenue requirement of $86.2 million in 2019 for the levelized

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1 recovery of and return on a net regulatory asset (net of regulatory liabilities) for an
2 allowed portion of the nuclear abandonment cost;[11] (2) a reduction of $98.7 million
3 in each year relating to a Capital Cost Recovery ("CCR") Rider reduction for Tax
4 Cut and Jobs Act ("TCJA"); and (3) a one-time refund in 2019 of $68.2 million for
5 TCJA Regulatory Liability.

6 Mr. Kollen also recommends that the Commission order the Company to
7 defer the BLRA transmission revenue requirement (accruing a long-term debt rate
8 of return on the deferred amounts), pending a future base rate proceeding. As I
9 discuss further in Section VII of my testimony, he also recommends that the
10 Company sell its rights to collect a special tariff in a transaction funded with secured
11 debt ("Securitization Transaction") in order to fund at a lower cost the net regulatory
12 asset (net of regulatory liabilities) for the allowed portion of nuclear abandonment
13 costs. Finally, he presents a list of business combination conditions and
14 commitments.

15 **Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDATION THAT**
16 **SCE&G DEFER A RATE OF RETURN USING THE COST OF LONG-**
17 **TERM DEBT, DEPRECIATION, INCREMENTAL OPERATION AND**
18 **MAINTENANCE ("O&M") EXPENSES, OTHER INCREMENTAL TAXES**
19 **EXPENSES (PAYROLL AND PROPERTY TAX EXPENSES), AND OTHER**

[11] Mr. Kollen recommends that the costs to be recovered through a new Capital Cost Recovery Rider be the allowed abandonment costs incurred through March 12, 2015, less related regulatory liabilities and a return on these costs, net of the related liability ADIT and asset NOL ADIT.

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1 **INCREMENTAL OPERATING EXPENSES, E.G., INSURANCE EXPENSE,**
2 **UNTIL THE EFFECTIVE DATE WHEN RATES ARE RESET TO**
3 **INCLUDE THE ALLOWED AMOUNT OF THESE COSTS IN A FUTURE**
4 **BASE RATE PROCEEDING?**[12]

5 A. No, I do not agree. This proposal will result in severe regulatory lag and will
6 further weaken cash flows that would already be greatly weakened by the other
7 aspects of the ORS Plan. Mr. Kollen's recommendation to further deprive SCE&G
8 of recovery of investment that is in-service and defer the recovery of other costs and
9 expenses for several years while recommending that the Company flow through
10 immediately all benefits of the TCJA is unjust and inequitable and would deprive
11 SCE&G of needed cash flow.

12 **IV.A Implications of Proposals for SCE&G's Future Financial Strength**

13 **Q. DOES MR. KOLLEN PROVIDE ANY TESTIMONY REGARDING**
14 **SCE&G'S FUTURE FINANCIAL CONDITION AND**
15 **CREDITWORTHINESS IN THE EVENT THAT HIS**
16 **RECOMMENDATIONS ARE IMPLEMENTED?**

17 A. No, I do not find any evidence in Mr. Kollen's testimony regarding the
18 outlook for SCE&G's creditworthiness or access to capital if the Commission
19 adopts the ORS Plan, nor any comparison with the Company's future
20 creditworthiness pursuant to the SCE&G proposals. In sum, he recommends the

[12] Kollen Direct at 11.

ORS Plan without regard or consideration for the financial harm it would cause to SCE&G and its utility operations in the future.

**Q. IS THERE A SOUND BASIS FOR PREDICTING THE RESPONSES OF CREDIT RATING AGENCIES IN THE EVENT THAT THE COMMISSION ADOPTS THE ORS PLAN?**

A. Yes. The three credit rating agencies have published commentaries on the credit guidelines that they apply when rating SCE&G, and they have given indications of their likely rating rationales upon the conclusion of this proceeding. The rating agencies strive to make their expectations for each company they rate clear to the investing public. Interpreting the rating agencies' most recently published comments and each agency's financial ratio benchmarks provides a reasonable outline of the credit rating actions that would result from the imposition of the ORS Plan. Since each agency has different rating criteria and financial ratio guidelines, I review the credit agencies one at a time and begin with S&P.

**Q. PLEASE EXPLAIN YOUR VIEW OF THE LIKELY IMPACT ON S&P'S RATING OF SCE&G IF THE COMMISSION ADOPTS THE ORS PLAN.**

A. S&P's current credit rating of SCE&G was downgraded to BBB- (the lowest rating within the investment grade category) on July 3, 2018, and the rating is on Credit Watch with negative implications. S&P states very clearly in its report published August 23, 2018:

> We could lower ratings again if credit metrics weaken further beyond those in our base-case scenario, in which we assume the temporary rate cut is permanent. This could occur following the pending Summer



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> abandonment proceeding if the PSC orders a permanent rate reduction or rate credits that lead to incrementally weaker financial measures than those resulting from the temporary 15% rate cut. Conversely, we could affirm ratings if the PSC does not require further rate credits or rate reductions beyond the 15% rate reduction already assumed in our base-case scenario.[13]

The S&P report predicts that if the outcome of this case is equivalent to the 15% revenue reduction effective under the Experimental Rate, the Company's core financial ratios will weaken.[14] S&P forecasts that the ratio of FFO-to-Debt will decline to 14%, while the ratio of Debt-to-EBITDA will increase to the range of 4.5 to 5.5 times. These numbers are meaningful, because S&P's predicted FFO-to-Debt ratio of 14% is very close to the borderline of 13% between Significant Financial Risk and Aggressive Financial Risk; the predicted Debt-to-EBITDA ratio of 4.5 to 5.5 times is consistent with Aggressive Financial Risk. Consequently, if the revenue reduction is limited to 15% or less, SCE&G's predicted core leverage ratios would hover near the borderline between financial risk assessments of Significant and Aggressive, with one ratio just above the border and one below. That would imply a rating of either BBB- or BB+.

[13] Standard & Poor's Ratings Direct, Summary, South Carolina Electric & Gas, August 23, 2018, at 2. (Exhibit No.___ (EL- 1).

[14] S&P's two most important financial ratios are: Funds From Operation ("FFO") to Debt; and Debt to Earnings Before Interest, Income Tax, Depreciation and Amortization ("EBITDA"). A decline in FFO-to-Debt indicates higher debt leverage and greater financial risk. An increase in Debt-to-EBITDA is another indicator of higher debt leverage and greater financial risk. S&P refers to these two financial ratios as its "core" ratios.



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However, the ORS Plan targets a revenue reduction of 20%, a steeper reduction than the 15% revenue reduction modeled by S&P. The implication is that FFO-to-Debt will fall below 13% and Debt-to-EBITDA will certainly be greater than 4.5 times, signifying that both core ratios will be in the Aggressive category under the ORS Plan. If S&P maintains its current business risk assessment of "Strong," the predicted credit rating would be BB+. If S&P determines at the same time that an unfavorable regulatory environment for the Company warrants lowering its business risk assessment from "Strong" to "Satisfactory," the resulting credit rating combining Aggressive financial risk with Satisfactory business risk would be BB. These results can be tracked on the grid that appears on page 6 of the report. Thus, my analysis leads me to conclude that if the Commission adopts the ORS Plan and the Dominion Energy business combination plan terminates, S&P would lower the SCE&G's issuer credit rating to BB+ or possibly BB.

**Q. WHAT WOULD BE THE LIKELY S&P CREDIT RATING OF SCE&G IF THE COMMISSION APPROVES THE CUSTOMER BENEFIT PLAN AND THE BUSINESS COMBINATION WITH DOMINION ENERGY?**

A. The August 23, 2018 S&P report contains no comment about the Dominion Energy business combination, but based on S&P's well-established consolidated rating methodology, it is certain that the resulting issuer credit rating of SCE&G would be equalized with the issuer credit rating of Dominion Energy at the time of the business combination. Currently Dominion Energy's issuer credit rating is BBB+ with a negative outlook. S&P may lower Dominion Energy's rating to BBB

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to reflect the consolidation of SCE&G with Dominion Energy. In that case, SCE&G's issuer credit rating would be upgraded by one notch from the current BBB- to BBB; if S&P retains Dominion Energy's BBB+ rating, SCE&G's issuer credit rating would rise by two notches to BBB+.

**Q. NOW LET'S TURN TO MOODY'S. WHAT IS YOUR VIEW OF THE LIKELY IMPACT ON MOODY'S RATING OF SCE&G IF THE COMMISSION ADOPTS THE ORS PLAN?**

A. Moody's rating of SCE&G is currently Baa3 (the lowest rating within the investment grade category), with a negative rating outlook. The most recent commentary published by Moody's was a Credit Opinion that appeared on July 23, 2018. In that report, Moody's commented on its negative outlook as follows:

> The rating outlook is negative, reflecting the contentious political and regulatory environment in which the company is operating. The ratings could move downward if there is a further deterioration of the legislative and regulatory compact, or if the impact on SCE&G's credit profile is more severe than we anticipate. For example if we expect the utility would not be able to maintain a ratio of CFO pre-WC to debt that is at least around 13%.[15]

Also, Moody's states that it expects that the Commission will not impose a rate reduction on SCE&G that is any greater than the 14.8% revenue reduction under the Experimental Rate.[16] In the same report, Moody's forecasts that with a revenue reduction of approximately 14.8%, SCE&G's ratio of Cash Flow from Operation

[15] Moody's Investors Service, Credit Opinion, South Carolina Electric & Gas: Update Following Rating Confirmation, July 23, 2018, at 3. (Exhibit No.___ (EL-2))

[16] S&P rounds the percentage to15%; Moody's and Fitch cite a reduction of 14.8% for the Experimental Rate.

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1 excluding Changes in Working Capital ("CFO pre-WC") to Debt would weaken "to
2 the mid-teens" but would be consistent with the current rating of Baa3. However,
3 Moody's states that if that ratio falls below 13%, the rating would be downgraded
4 to Ba1 (a speculative grade rating). Therefore, I conclude that if the Commission
5 adopts the ORS Plan and a revenue reduction of 20%, the resulting ratio of CFO
6 pre-WC to Debt would decline to 13% or lower. Based on this erosion of the key
7 leverage metric, Moody's would be inclined to downgrade the issuer rating to Ba1,
8 a rating decision that would be further supported if Moody's deems that the
9 Commission's decision to impose such a severe rate reduction indicates an
10 inequitable regulatory and political environment.

11 When evaluating the credit of a rate-regulated utility, Moody's methodology
12 bases 50% of the rating on a qualitative assessment of the regulatory environment
13 and ability to recover costs and investments and 40% on the financial credit metrics;
14 the remaining 10% of the rating is based on Moody's assessment of the company's
15 diversification of risks. The regulatory factors that Moody's analysts assess along
16 with Moody's current assessments of those factors relating to SCE&G appear in
17 Exhibit No.___ (EL-3).

18 Moody's currently assesses SCE&G's regulatory environment to be midway
19 between the Baa and the Ba levels. Similarly, SCE&G's score for the diversification
20 factor is midway between Baa and Ba. Adoption of the ORS Plan would erode the
21 scores for Financial Strength, and the combination of weaker financial metrics that
22 fall short of the Baa category along with current scores for regulatory factors and

diversification factors straddling Baa and Ba categories would justify a credit rating reduction to the sub-investment grade rating of Ba1.

**Q. WHAT RATINGS ACTION WOULD MOODY'S TAKE IF THE COMMISSION APPROVES THE CUSTOMER BENEFIT PLAN AND THE BUSINESS COMBINATION WITH DOMINION ENERGY?**

A. Unlike S&P, Moody's issuer rating of SCE&G would not necessarily be identical with Moody's Baa2 issuer rating of Dominion Energy. Moody's rating of SCE&G as a subsidiary of Dominion Energy would reflect the standalone credit profile of the Company, but would also take into consideration the benefit of the combination with a larger and financially capable parent company. In the July 23, 2018 Credit Opinion, Moody's states with regards to factors that could lead to an upgrade:

> The rating outlook is negative; as such, the ratings are not likely to move upward over the next 12-18 months. The outlook could be returned to stable if the open docket at the SCPSC results in a rate plan that will support stable and predictable cash flow metrics, including a ratio of CFO pre-WC to debt of at least 13%. Completion of the proposed merger with Dominion Energy could also cause the outlook to be revised to stable.[17]

I interpret that as very strong guidance that the approval of the Customer Benefit Plan and the business combination with Dominion Energy would lead Moody's to affirm the current rating of Baa3 and change the rating outlook to Stable.

[17] Ibid. at 3.



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**Q. WHAT IS YOUR ANALYSIS OF THE LIKELY IMPACT ON FITCH'S RATING OF SCE&G IF THE COMMISSION DECIDES TO ADOPT THE ORS PLAN?**

A. Fitch published its most recent comment on SCE&G on August 8, 2018 when it downgraded SCE&G's issuer rating to BB+ (a speculative grade rating) from BBB-. Fitch currently has the lowest rating of SCE&G, and the rating is on an Evolving Watch status, which indicates that the rating could either be upgraded or downgraded depending on the Commission's decision in the pending regulatory dockets. The August 8 press release commented on the imposition of the Experimental Rate, a revenue reduction it cited as approximately 14.8%. The release refers to the prospects for both SCE&G and SCANA ("SCG"), as follows:

> Fitch considers the magnitude of the cut to be detrimental to SCE&G's and SCG's credit metrics, even after consideration of SCG's 80% reduction of the common dividend. Despite the legislature's characterization of the new rate as "temporary," Fitch is concerned that the expected December order could be of the same magnitude. If the PSC issues an order in December 2018 with a permanent cut of a similar magnitude, additional downgrades may be warranted. If the 14.8% rate cut were to be permanent, Fitch expects SCG's Total Adjusted Debt/EBITDAR to average around 6x over the next three years and SCE&G's to average around 5.7x, both above Fitch's previously stated downgrade thresholds of 5.5x and 5.0x, respectively.[18]

Adjusted Debt to Earnings before Interest, Income Tax, Depreciation and Amortization and Rent ("EBITDAR") is Fitch's key financial measure. A greater

[18] Fitch Ratings, Press Release: Fitch Downgrades SCANA to 'BB'/SCE&G to 'BB+'; Maintains Rating Watch Evolving, August 8, 2018, at 1 (Exhibit No.___ (EL- 4)). *See also* Fitch Ratings, South Carolina Electric & Gas Co., July 16, 2018 (Exhibit No.___(EL-5)).

ratio of Adjusted Debt to EBITDAR signifies higher debt leverage and greater financial risk. If a 14.8% revenue reduction would cause SCE&G's debt leverage to exceed Fitch's guidelines for the current rating of BB+, then the 20% revenue reduction pursuant to the ORS Plan would violate Fitch's guideline ratio by an even greater extent. Thus, implementation of the ORS Plan would likely lead to a further ratings downgrade for SCE&G to BB from BB+.

**Q. WHAT ACTION DO YOU EXPECT THAT FITCH WOULD TAKE IF THE COMMISSION APPROVES THE CUSTOMER BENEFIT PLAN AND THE BUSINESS COMBINATION WITH DOMINION ENERGY?**

A. Fitch stated in the August 8, 2018, press release:

> Developments that May, Individually or Collectively, Lead to Positive Rating Action. The ratings could be upgraded if the merger into DEI and resolution of new nuclear issues result in SCE&G's adjusted debt/EBITDAR stabilizing around 3.5x-4.0x.[19]

That is consistent with the Evolving Watch that Fitch has maintained for SCE&G since the Company announced a business combination agreement with Dominion Energy. That watch status signals that either a downgrade or upgrade could occur depending on a binary outcome. It appears likely that the business combination with Dominion Energy in the context of the Customer Benefit Plan or a variant thereof would lead Fitch to upgrade SCE&G's issuer rating to BBB-.

[19] Ibid. at 2.



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**Q. PLEASE SUMMARIZE THE RESULTS OF YOUR REVIEW OF THE RESULTING CREDIT RATINGS IF THE COMMISSION ADOPTS A DECISION SIMILAR TO THE ORS PLAN, OR ON THE OTHER HAND, IF THE COMMISSION APPROVES THE BUSINESS COMBINATION AND ADOPTS THE CUSTOMER BENEFIT PLAN.**

A. I summarized the rating outcomes that were explained above in Table EL-2. The rationales explained in the rating agencies' most recent reports leads me to expect that the business combination with Dominion Energy and a plan equivalent to the Customer Benefit Plan, if approved, would result in the restoration or retention of low investment grade ratings by all three agencies, while a plan equivalent to the ORS Plan, if approved, would lead to sub-investment grade ratings in the BB/Ba category at all three agencies.

**Table EL-2**

**Predicted Credit Rating Impacts**

| | Current Issuer Credit Rating | Current Outlook | Outcome Equivalent to ORS Plan | Approval of Business combination & Customer Benefit Plan |
|---|---|---|---|---|
| Fitch | BB+ | Evolving | BB | BBB- |
| Moody's | Baa3 | Negative | Ba1 | Baa3 |
| S&P | BBB- | CreditWatch, Negative | BB+ or BB | BBB |

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## V. RESPONSE TO THE DIRECT TESTIMONY OF MR. KEVIN O'DONNELL

**Q. PLEASE PROVIDE A BRIEF SUMMARY OF MR. O'DONNELL'S DIRECT TESTIMONY AND RECOMMENDATION.**

A. On behalf of the SCEUC, Mr. O'Donnell supports implementation of an 18% reduction in electric rates proposed by ORS. He also suggests that SCANA can activate potential mitigants to SCE&G's credit problems. Specifically, Mr. O'Donnell suggests that SCANA could eliminate its remaining dividend and sell its ownership of Public Service Co. of North Carolina ("PSNC"), to which O'Donnell attributes a potential value of $2.2 billion. Mr. O'Donnell further asserts that although SCE&G will experience higher costs of long-term debt over time as a consequence of Moody's one-notch downgrade of SCE&G's credit rating from Baa2 to Baa3 on February 5, 2018, that cost is small relative to the savings to customers of the reductions in revenue requirements under the ORS Plan.

**Q. MR. O'DONNELL STATES THAT YOU DID NOT ANTICIPATE DIVIDEND CUTS BUT, INSTEAD, FOCUSED ON THE CONSEQUENCES INVOLVING CREDIT DOWNGRADES AND POSSIBLE BANKRUPTCY.[20] HOW DO YOU RESPOND?**

A. I did not address a dividend cut by SCANA because it cannot be considered as a remedy for SCE&G's ongoing credit problem. Facing the implementation of Act 258, SCANA's decision to reduce its dividend on June 29, 2018 was a

[20] O'Donnell Direct at 7:11-15.

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1 reasonable and prudent decision to enable the parent holding company SCANA to
2 conserve cash and avoid the insolvency, but dividend cuts will not resolve SCE&G's
3 credit dilemma relating to weak operating cash flow resulting from the
4 implementation of the ORS Plan. A utility must have sustainable operating cash
5 flow and a sound capital structure in order to provide optimal service to customers.

6 **Q. MR. O'DONNELL ASSERTS THAT CUTTING SCANA'S DIVIDEND IS AN**
7 **EFFECTIVE STEP THAT WILL IMPROVE SCE&G'S CREDIT**
8 **STABILITY AND A WAY TO "DIG ITS WAY OUT OF A HOLE."[21] DO**
9 **YOU AGREE?**

10 A. Based on his testimony, Mr. O'Donnell is aware of only one rating
11 downgrade in 2018: a downgrade by Moody's in February 2018.[22] Mr. O'Donnell
12 appears to be unaware that two rating agencies (S&P and Fitch) lowered SCE&G's
13 ratings in August 2018, <u>after</u> the announcement of the 80% dividend cut. Fitch's
14 downgrade lowered SCE&G's issuer credit rating below investment grade into the
15 speculative grade category. The two subsequent ratings downgrades on August 8
16 and 9 were after SCANA's announcement of the dividend cut; both of these rating
17 agencies noted in their commentaries that the dividend cut by SCANA was helpful
18 to preserve parent company liquidity, but would not remedy the underlying credit
19 problem at SCE&G. Contrary to Mr. O'Donnell's assertion, the 80% dividend cut

[21] O'Donnell Direct at 7: 13-15

[22] O'Donnell Direct at 10: 7-8.

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1 did not produce credit stability, so it is foolish to suggest that eliminating a $70
2 million per annum dividend would have any greater effect.

3 **Q. HOW DO YOU RESPOND TO MR. O'DONNELL'S TESTIMONY**
4 **REGARDING THE POSSIBLE SALE OF PSNC AS A MEANS TO**
5 **MITIGATE THE NEGATIVE CREDIT CONSEQUENCES YOU MENTION**
6 **IN YOUR TESTIMONY?**[23]

7 A. My response is similar to my response regarding cutting the dividend:
8 SCANA's sale of PSNC, a sister subsidiary to SCE&G, would not improve the
9 credit status of SCE&G and would not address the problem of inadequate ongoing
10 cash flow relative to the operating utility debt. The company that is regulated by the
11 Commission is SCE&G, and the Commission should determine rates for SCE&G
12 that are adequate, fair, and reasonable to support the ongoing solvency and financial
13 strength of the regulated utility company.

14 If Mr. O'Donnell's concern is that SCANA would be unable to issue equity
15 at the parent company level to fund future required equity investment in SCE&G,
16 then the sale of a subsidiary would be a potential way to avoid a public issuance of
17 shares. However, that does not appear to be Mr. O'Donnell's intent. Mr. O'Donnell
18 appears to suggest that SCANA should subsidize the operations of SCE&G with the
19 proceeds of the sale of a sister subsidiary, a clear admission that his proposal is
20 unfair and reasonable to SCE&G and amounts to a taking of SCE&G's property that

[23] O'Donnell Direct at 9.

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1 he suggests be remedied by confiscating $2.2 billion of other assets of SCANA.
2 However, the sale of a SCANA subsidiary will not remedy weak operating cash
3 flow at SCE&G or boost SCE&G's individual credit quality. The rate structure at
4 SCE&G should be set in a manner that provides the utility company an opportunity
5 to satisfy future customers' needs for service and attract the capital necessary to do
6 so.

7 **Q. DOES MR. O'DONNELL RECOMMEND THAT A FURTHER DIVIDEND**
8 **CUT FOR SCANA WILL SOLVE THE CREDIT PROBLEMS THAT HIS**
9 **RECOMMENDED REVENUE REDUCTIONS WOULD CREATE AT**
10 **SCE&G?**

11 A. Mr. O'Donnell is inconsistent regarding cutting the remaining SCANA
12 common stock dividend. He states that he is "not recommending that SCANA take
13 that action, but again, that option is available to the Company. Elimination of the
14 dividend would save SCANA an additional $70 million per year."[24] But in his
15 conclusion, he jumps on board with the following assertion:

16 In addition, the sale of PSNC and the entire elimination of the SCANA
17 dividend can provide even more credit stability to SCANA. [25]

18 In fact, eliminating the dividend entirely is a short-sighted approach that would
19 impede SCANA and indirectly SCE&G from attracting equity capital in the future.
20 Some investment accounts are limited by policy or charter from owning stocks that

[24] O'Donnell Direct at 9:26-10:1.

[25] O'Donnell Direct at 14:8-9.

pay no dividends; thus, the costs of such a decision would outweigh the amount of cash saved, unless the action is necessary to avert bankruptcy.

**Q. MR. O'DONNELL ESTIMATES THE COST OF A CREDIT DOWNGRADE TO SCE&G AND ITS CUSTOMERS.[26] DO YOU AGREE WITH HIS ESTIMATES?**

A. No, I do not. In fact, the real impact is at least seven to fourteen times greater than Mr. O'Donnell's estimate. He underestimates the incremental cost in several ways: (1) arithmetic errors in calculating the amount of new funding; (2) omitting the principal amount of maturing bonds to be refinanced over the years in question; (3) estimating a differential interest rate that is considerably lower than the current market conditions, as illustrated by the August 2018 bond issues; and (4) failing to consider the incremental interest costs if two more rating agencies lower SCE&G's issuer credit ratings into the speculative category. I correct these errors and revise the estimated incremental interest costs as summarized in Table EL-3 below, with details shown in my Exhibit No.___ (EL-6).

[26] O'Donnell Direct at 10:10-12:14.



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**Table EL-3**
**Estimated Incremental Interest Cost Due to Downgrades**

| **Revising O'Donnell's Table 1**<br>**$ Millions** | As in KWO Table 1 page 12 | Current actual incremental interest spread | Incremental Interest Cost Assuming 1- notch downgrades into Ba, BB, BB categories | |
|---|---|---|---|---|
| Interest Rate Differential | 16.67 BP | 55 BP | 75 BP | 95 BP |
| 10 years 2018-2027 | 12.2 | 100.0 | 134.6 | 169.1 |
| 20 years 2018-2037 | 47.1 | 338.5 | 459.8 | 581.0 |
| 30 years 2018-2047 | 110.3 | 793.1 | 1,079.8 | 1,366.4 |
| Multiple of KWO estimate | | | | |
| 10 years | | 8.2 | 11.0 | 13.9 |
| 20 years | | 7.2 | 9.8 | 12.3 |
| 30 years | | 7.2 | 9.8 | 12.4 |

Interest Rate Differential - Incremental cost for SCE&G versus funding cost of the average U.S. electric utility

BP - Basis points.

**Q. WHAT ARE THE ERRORS IN MR. O'DONNELL'S TABLE 1 AND EXHIBIT KWO-1 RELATING TO THE PRINCIPAL AMOUNT OF DEBT ISSUANCE THAT YOU CORRECT IN YOUR EXHIBIT NO.___ (EL-5)?**

A. Mr. O'Donnell omitted the funding of transmission investments that he showed in his exhibit KWO-1 when he added the cumulative amount of new debt funding. This error understated the amount of debt issuance by $344 million but had a far greater effect over time in the cumulative amount of interest cost. In addition to that computational error, he made a conceptual error by omitting the principal amount of bond maturities to be refinanced. That omission contributed to

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1 understating the amount of debt issuance by $4,800 million ($4.8 billion) over the
2 time period of his analysis.[27]

3 **Q. WHAT OTHER REVISIONS HAVE YOU MADE IN YOUR TABLE EL-3**
4 **AND EXHIBIT NO.___ (EL-5)?**

5 A. Mr. O'Donnell greatly underestimated the cost impact to SCE&G of credit
6 downgrades by limiting his analysis to a one-notch downgrade made by Moody's
7 in February 2018 from Baa2 to Baa3 and failing to consider that SCE&G's ratings
8 over the past 13 months since ORS's Request on September 26, 2017 have declined
9 by more than one notch. Both S&P and Fitch downgraded SCE&G's credit ratings
10 by two notches since that date, while Moody's downgraded the rating by one notch.
11 Furthermore, the credit watch in effect at S&P and Fitch and negative rating outlook
12 at Moody's cast a further cloud over the ratings by those two agencies, causing a
13 more negative impact on the debt capital market view of SCE&G's
14 creditworthiness.

15 Mr. O'Donnell claims to be "conservative" by using generic data rather than
16 actual market data to estimate a hypothetical impact of a single-notch downgrade
17 within the three-notch range of A to Baa at 16.67 basis points (that is, 50 basis points
18 divided by 3). However, we have real data from the bond market; wider yield
19 spreads on SCE&G's long-term bonds have already far exceeded Mr. O'Donnell's

[27] My review was limited to the information in O'Donnell's exhibit KWO-1 and did not seek to verify Mr. O'Donnell's basic forecasts of the amount of capital expenditures nor the amount that would be externally financed with debt. Mr. O'Donnell's estimates of those amounts may incorporate other errors that I was not able to audit.

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1 estimate. SCE&G actually issued ten-year maturity bonds in August 2018 and
2 incurred a yield spread that was 50 to 70 basis points higher than that for ten-year
3 bonds issued by electric utilities whose credit was not similarly burdened (as shown
4 in Table EL-1). Mr. O'Donnell also fails to consider further adverse movement in
5 credit spreads if SCE&G experiences further downgrades by S&P or Moody's
6 below investment grade into speculative grade ratings in the BB and Ba category. If
7 SCE&G is subjected to a revenue reduction of 18% (as Mr. O'Donnell recommends)
8 or 20%, the full effect of the ORS Plan, the ratings transition to the BB and Ba
9 speculative grade category would widen the required yield spread by a greater step
10 function, probably adding another 25-40 basis points to the current yield spread.

11 Mr. O'Donnell's calculation of a 16.67 basis point increase in interest
12 expense is misleading. A more accurate depiction of the incremental cost of the
13 credit downgrades that have already resulted from ORS's Request and Act 258 is
14 approximately 50 to 60 basis points; in my Table EL-3 above, I estimated the current
15 cost to SCE&G at 55 basis points higher as a result of its credit downgrades (a
16 somewhat lower spread than the 63.5 basis point differential noted in Table EL-1.)
17 Also, if the credit ratings are downgraded below investment grade into the
18 speculative grade category, the differential spread for SCE&G long-term interest
19 costs is likely to widen to an aggregate of 75 to 95 points (or more) as shown in
20 Table EL-3 above.

21 Mr. O'Donnell has further underestimated the costs of credit downgrades to
22 SCE&G by limiting his table only to incremental costs of debt. Mr. O'Donnell

acknowledges that the cost of equity capital will also increase as a result of credit downgrades,[28] but he omits any calculation of that cost since "setting the cost of equity is a subjective process seen through many filters."

In summary, Mr. O'Donnell's estimation of the incremental capital cost of credit downgrades is based on faulty assumptions and computational errors, and he fails to consider real market data that is readily available. His estimate is unreliable, and the true cost is substantially in excess of his estimate.

## VI. RESPONSE TO THE DIRECT TESTIMONY OF MR. RUBIN

**Q. PLEASE PROVIDE A BRIEF SUMMARY OF MR. RUBIN'S DIRECT TESTIMONY AND RECOMMENDATION.**

A. On behalf of AARP, Mr. Rubin asserts that SCE&G's decision to continue construction of the nuclear units after June 2014 was imprudent. Consequently, he suggests that investments made after that time, which totaled approximately $2.5 billion, should be excluded from recovery from customers. He also recommends that the Commission should order the Company to continue the BLRA surcharge at the reduced level of the Experimental Rate through December 31, 2018. Under his proposal, the surcharge would end after that date, and customers would not pay anything further to support the Project investment. He further recommends that SCE&G should not be required to refund any amounts previously paid under the

[28] O'Donnell Direct at 10:13-21.



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1 BLRA, thus resulting in customers paying approximately $2.2 billion to support the
2 Project.

3 **Q. MR. RUBIN RECOMMENDS THAT THE COMMISSION SHOULD END**
4 **THE BLRA SURCHARGE ON DECEMBER 31, 2018 AND THAT THERE**
5 **SHOULD BE NO FURTHER RECOVERY OF NND PROJECT COSTS**
6 **FROM THE CUSTOMERS. DO YOU AGREE?**

7 A. This is a radical recommendation. It is extremely punitive, and its effect upon
8 SCE&G's financial health would be staggering. It would have disastrous impact on
9 SCE&G's ability to sustain itself and meet customers' needs for high quality of
10 utility service, consequences that Mr. Rubin fails to consider.

11 **Q. HOW DO YOU RESPOND TO MR. RUBIN'S TESTIMONY THAT**
12 **SCANA'S STOCKHOLDERS CAN ABSORB A $2 BILLION WRITEDOWN**
13 **TO COMMON EQUITY?[29]**

14 A. Mr. Rubin appears far more interested in inflicting pain on shareholders of
15 SCANA than in setting SCE&G on a path toward a financially sound and viable
16 status. He has lost sight of the fact that SCE&G delivers vital services to its
17 customers, and putting the utility in a financially distressed condition will not serve
18 the future needs of customers nor promote a strong economy in South Carolina.

19 Mr. Rubin asserts:

20 If the common equity balance were written down by $2.0 billion to
21 $3.3 billion (as an example) that would result in a common equity

[29] Rubin Direct at 28-29.

ratio of approximately 35%. According to Company witness Lapson, the Company's debt covenants require at least a 30% equity ratio. [30]

Despite Mr. Rubin's dismissive tone, the situation he describes would have grave consequences. Even if the Company were not forced to default on its debt covenants by a write-down of the common equity, the impact of a ratio of 35% book equity to capital would be that SCE&G would be treated as a highly leveraged entity, and its ratings would most likely be in the speculative grade (below investment grade). As a result, the Company would be in peril of loss of liquidity and loss of access to capital markets during a future cyclical downturn in credit financial market conditions.

## VII. RESPONSE REGARDING A POTENTIAL SECURITIZATION TRANSACTION

**Q. SEVERAL WITNESSES, INCLUDING MESSRS. KOLLEN, BINZ, AND VARADARAJAN SUGGEST THAT SCE&G SHOULD FUND THE REGULATORY ASSET REPRESENTING COSTS OF THE NUCLEAR PROJECT THAT ARE APPROVED FOR RECOVERY VIA A SECURITIZATION TRANSACTION. PLEASE BRIEFLY SUMMARIZE MR. KOLLEN'S TESTIMONY ON THIS TOPIC.**

A. Mr. Kollen proposes a securitization transaction in an amount exceeding $2.6 billion to fund the recovery of a regulatory asset comprising the portion of the investment in the Project that ORS proposes for regulatory recovery.[31]

[30] Rubin Direct at 29:4-9.

[31] Kollen Direct at 10:18-11:19.



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**Q. PLEASE SUMMARIZE THE DIRECT TESTIMONY AND RECOMMENDATIONS OF CCL AND SACE WITNESSES BINZ AND VARADARAJAN REGARDING A SECURITIZATION TRANSACTION.**

A. Mr. Binz suggests that it is feasible to fund the recovery of stranded costs (such as the allowed portion of the Project cost) at low costs using utility rate securitization bonds; and second, he proposes the potential use of the proceeds of the securitization transaction to fund the acquisition by SCE&G of solar or wind-powered energy production equipment.[32]

Mr. Varadarajan testifies regarding six financial scenarios that he modeled to test the financial aspects of each scenario under three financing assumptions. The three forms of financing he tested were traditional utility funding regulatory assets with a mix of debt and equity; an alternative form of corporate bond issuance;[33] and funding through a special purpose entity using utility securitization bonds. He compared these financing mechanisms under two assumptions: with or without an upfront payment to customers. He concludes that the use of securitization bonds provides the lowest cost financing in several different scenarios. He also suggests that a combination of securitization bonds and no up-front payment to customers provides lower costs and a favorable spread of benefits among time periods.[34]

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[32] Binz Direct at 15-22.

[33] Mr. Varadarajan does not provide any evidence or precedents for the alternate type of corporate bonds that make up his second form of financing. I am unaware of any precedents or examples for this funding mechanism, thus suggesting this proposal is a "straw man."

[34] Varadarajan Direct at 4-22.

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1 **Q. WHAT IS YOUR RESPONSE TO THE RECOMMENDATIONS BY THESE**
2 **THREE WITNESSES REGARDING THE ADVANTAGES OF A**
3 **SECURITIZATION TRANSACTION?**

4 A. First, the large securitization transaction that the witnesses posit is
5 inconsistent with the conditions for a merger with Dominion Energy, a business
6 combination that provides a very viable prospect for SCE&G's future financial
7 stability and strength. The Dominion Energy business combination along with the
8 Customer Benefit Plan offer real benefits, and there is no doubt or question about
9 Dominion Energy's financial capability to carry out the proposed business
10 combination terms or the other features of the Customer Benefit Plan. I have a high
11 degree of confidence that the Dominion Energy business combination and Customer
12 Benefit Plan would result in improved creditworthiness and investment grade credit
13 ratings for SCE&G.

14 On the other hand, it is not at all clear that securitization is a viable option at
15 the present time. As I discussed previously, the law does not exist to permit the
16 supposed securitization transaction and there are numerous legal hurdles to be
17 cleared before a transaction could take place.

18 **Q. WHAT SORT OF LEGAL HURDLES ARE YOU REFERRING TO?**

19 A. For example, some legal research is essential to determine if a voter
20 referendum or ballot initiative in South Carolina could invalidate or overturn the
21 State Pledge, an essential component in a utility tariff securitization. If that
22 possibility exists, a transaction would not be feasible. None of the witnesses has

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1 presented evidence on that point, and indeed, they may not even be aware of this
2 potential constraint.

3 If that potential problem can be ruled out, then in order to issue bonds in the
4 financial markets, the form of the enabling law and all related documentation must
5 conform to a strict financial market standard for utility securitization bonds. The
6 legislation cannot include any material exceptions that allow customers or classes
7 of customers to avoid paying the special charges, and there is no leeway for the
8 legislators to add any bells or flourishes.

9 The Commission would be required to pass through periodic (semi-annual or
10 annual) adjustments to readjust customer charges in the light of changes in sales
11 volumes in order to assure that the collections match the debt service requirements
12 on the bonds. The Commission's review would be limited to checking the accuracy
13 of the calculations, and intervenors would not have any rights to intervene.

14 Finally, if the Commission's order in this proceeding (the order that gives
15 rise to the regulatory asset that would be the asset to be securitized) is subject to
16 judicial appeal because of constitutional challenges or other procedural challenges,
17 it would be very difficult if at all possible to carry out a securitization transaction in
18 the principal proposed amount of $2.6 billion until that challenge has been resolved.

19 **Q. ARE THERE ANY NEGATIVES IN THE SECURITIZATION PROCESS**
20 **THAT THE OPPOSING WITNESSES HAVE FAILED TO POINT OUT?**

21 A. Yes, there are a number of potential negatives. First, a securitization of the
22 regulatory asset would provide no cash flow to SCE&G, and it would eliminate

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1 approximately $86 million in annual operating cash flow to SCE&G relative to the
2 ORS Plan absent a securitization transaction. Thus, the transaction would
3 exacerbate the condition of weak operating cash flows in the event of the
4 implementation of all the other parts of the ORS Plan.

5 Second, this debt would appear on the balance sheet of SCE&G and would
6 remain in place for many years, without corresponding equity to balance the capital
7 structure. Thus, it would burden SCE&G with high balance sheet debt leverage for
8 one to two decades.

9 Third, the security transaction is an extremely inflexible financial structure
10 due to its long tenor, large size, and inflexible terms. As such, it would eliminate
11 some future options both for the policy makers (the legislature and Commission)
12 and for SCE&G's customers. If new forms of energy or distributed energy become
13 feasible in the future, the State's Pledge regarding the securitization bond
14 transaction may prevent state officials or the Commission from embracing such
15 options. Also, if in the future, electric sales enter a trend of decline due to technology
16 changes, the Commission would be required to pass through ever greater increases
17 in the special tariff rate to allocate the debt service revenue requirement to the
18 remaining sales volume and thus sustain the total level of collections, a process that
19 could be politically unpopular.

20 **Q. IS THERE AN ASSURED INVESTMENT MARKET FOR THE BONDS**
21 **THAT WOULD NEED TO BE SOLD IN THIS TRANSACTION?**

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1 A. That is not entirely clear. First, debt market participants may not give
2 credence to the willingness and ability of South Carolina public officials to stick
3 with the terms of the securitization for a term of up to twenty years in the future if
4 conditions change, given that the Base Load Review Act passed by the legislature
5 was set aside eight years after its enactment. Second, if the regulatory asset to be
6 securitized is created through a litigated proceeding and the securitization
7 transaction is ordered over the objections of the Company, it might temper
8 investors' enthusiasm for the transaction. There is no precedent transaction in the
9 utility sector of a utility tariff securitization that took place over the objections of
10 the utility company. In fact, in all precedent transactions, the utility company was a
11 willing and cooperative sponsor of the transaction. If both of these points materialize
12 as negatives in the investment market, then the yields offered on the bonds would
13 have to be greater than those estimated by Mr. Kollen in his testimony and relevant
14 exhibits.

15 **Q. WHAT ARE THE CONDITIONS OR STEPS NECESSARY FOR THE**
16 **ISSUANCE OF SECURITIZATION BONDS IN THIS CIRCUMSTANCE?**

17 A. This is a brief summary of steps in the process:

18 1) As I mentioned already, legal research is needed to assure that there is no
19 basis under South Carolina law for a change by a subsequent legislative vote,
20 administrative action, or a voter referendum or ballot initiative in South
21 Carolina that could invalidate the bonds, interfere with the collection or
22 adjustments of the rates, or overturn the State Pledge.

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2) If the results of step 1 are favorable, enabling legislation would be necessary to permit a securitization transaction; the standards for the form of the statute and state pledge are very strict.

3) The State of South Carolina must pledge not to take any actions that would interfere with the transaction and recovery of the pledged assets. Terms of the State Pledge include that the state will not pass laws or regulations or make any policies that encourage or permit customers to disconnect from the grid or to avoid paying the special charges as long as any of the transaction bonds are outstanding.

4) The Commission would be required to hold a proceeding to authorize the issuance of the bonds. In that proceeding, the Commission would also establish the mechanism for periodically passing through adjustments to the unit costs through an administrative process to maintain stable collections and meet the entire revenue requirement of the securitization bonds.

**Q. IS THERE A DOWNSIDE TO THE CONSIDERATION OF A SECURITIZATION TRANSACTION WITHIN THE CONTEXT OF THIS PROCEEDING?**

A. The suggestion that the invested amounts in the Project can be securitized and thus result in lower costs, at first glance, seems appealing. Given that none of the necessary conditions have been fulfilled, however, this proposal is simply a premature and infeasible "red herring" that only serves to distract or divert attention away from the very real and serious issues that must be considered in this

proceeding. A focus of this proceeding must be to reestablish the financial strength of SCE&G that is entirely necessary for customers to continue to receive safe and reliable electric services.

## VIII. CONCLUSION

**Q. WHAT ARE YOUR OVERALL CONCLUSIONS AND RECOMMENDATIONS?**

A. In their Direct Testimony, the witnesses Baudino, Kollen, O'Donnell, and Rubin recommend steep and punitive reductions in SCE&G's ongoing operating cash flow without giving adequate consideration to the resulting adverse impacts on the Company's financial condition and ability to serve customers' future needs. While customers have an interest in lowering the cost of electricity in the short run, customers rely on their electric utility for maintaining and extending reliable and safe service to satisfy not only their current needs but also their future needs. A financially weak or failing electric utility cannot assure customers a predictable and high quality of service, which is a necessary foundation for the economic and employment climate in its service territory. The Customer Benefit Plan and the proposed Dominion Energy business combination provide a strong prospect of restoring SCE&G's creditworthiness while also providing benefits to current and future customers. On the other hand, the ORS Plan and proposals by Rubin and O'Donnell are likely to drive SCE&G's issuer credit into the sub-investment grade (speculative grade), with attendant risk of losing access to capital during cyclical periods of constrained financial markets.



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1 Proposals for the securitization of any regulatory assets that result from the
2 decision reached as a result of this proceeding are not germane to this proceeding.
3 A separate regulatory process would be devoted to consideration and authorization
4 of a securitization transaction, if in fact such a transaction becomes feasible at some
5 time in the future. At present, it is a distraction from the need to determine the
6 financial future of SCE&G on a healthy and sustainable basis.

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 A. Yes, it does.



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S&P Global
Ratings

# RatingsDirect®

Summary:

# South Carolina Electric & Gas Co.

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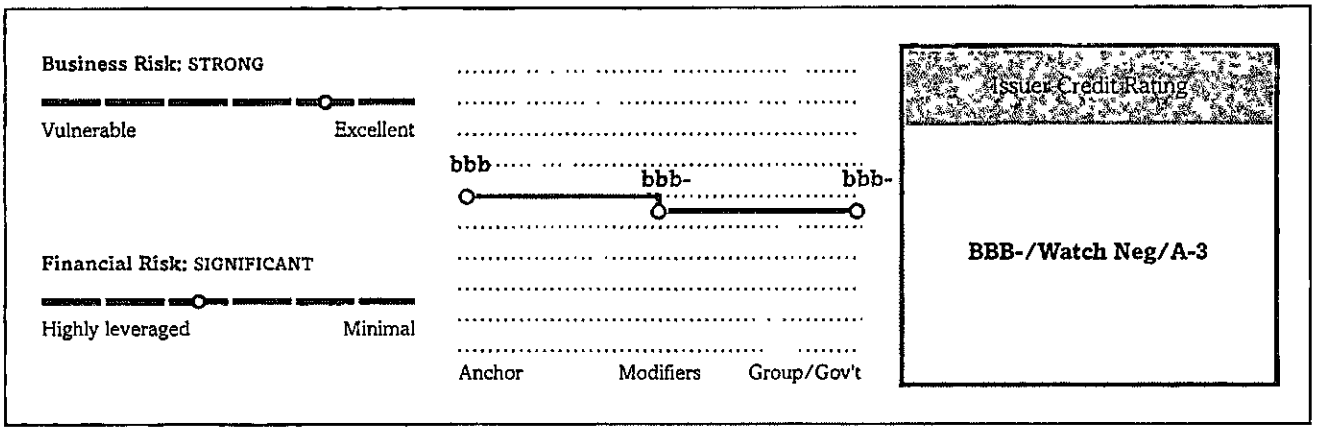
## Summary:

# South Carolina Electric & Gas Co.




## Rationale

| Business Risk: Strong | Financial Risk: Significant |
|---|---|
| • Political and regulatory fallout from cancelled V.C. Summer nuclear construction project threatens further rate recovery of incurred costs;<br>• Moderately large customer base and robust local economy with slightly above-average growth in customer accounts; and<br>• Acquisition by Dominion Energy Inc. would stabilize or improve ratings. | • Weakening financial measures after temporary rate cut related to the cancelled nuclear construction project;<br>• Stand-alone financial risk would be stressed by Dominion's plan to gain regulatory approval to acquire SCANA Corp.; and<br>• Liquidity is adequate to meet projected needs, but also depends on a reasonable solution to nuclear cost recovery. |

### CreditWatch

Our ratings on parent SCANA Corp. and its subsidiaries, including South Carolina Electric & Gas Co. (SCE&G) are on CreditWatch with negative implications. This reflects our view of ongoing uncertainty regarding cost recovery of the abandoned V.C. Summer nuclear construction project. We could lower ratings again if credit metrics weaken further beyond those in our base-case scenario, in which we assume the temporary rate cut is permanent. This could occur following the pending Summer abandonment proceeding if the PSC orders a permanent rate reduction or rate credits that lead to incrementally weaker financial measures than those resulting from the temporary 15% rate cut. Conversely, we could affirm ratings if the PSC does not require further rate credits or rate reductions beyond the 15% rate reduction already assumed in our base-case scenario.

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## Our Base-Case Scenario

**Assumptions**

- Lower gross margins due base rate reduction;
- EBITDA margins in the 40%-45% range;
- Annual capital spending averaging about $720 million;
- All debt maturities refinanced; and
- Negative discretionary cash flow.

**Key Metrics**

| | 2017A | 2018E | 2019E |
|---|---|---|---|
| Adjusted FFO to debt (%) | 27.3 | 18-19 | 14-15 |
| Adjusted debt to EBITDA (x) | 3.9 | 4-5 | 4-5 |
| Adjusted FFO interest coverage (x) | 6.6 | 4-5 | 3-4 |

*A—Actual. E—Estimate. FFO—Funds from operations.

## Company Description

SCE&G is a subsidiary of SCANA that operates as a vertically integrated electric utility and as a natural gas distribution utility in South Carolina.

## Business Risk: Strong

SCE&G has low-risk, fully regulated, vertically integrated, electric and natural gas distribution operations in South Carolina. Although SCE&G's service territory lacks geographic and operating diversity and demonstrates modest customer growth, the company benefits from a medium-sized customer base of 720,000 electric and 370,000 gas customers in central, southern, and southwestern South Carolina. Economic growth in the service area is robust, and the utility benefits from consistent customer additions. Our assessment of SCE&G's business risk profile incorporates a much less supportive regulatory environment in South Carolina than before the cancellation of the nuclear plants.

SCE&G's effectiveness in managing regulatory risk has eroded following a decision to cancel the construction of two new nuclear units. SCE&G recently implemented a 15% experimental (temporary) rate reduction of about $31 million per month to comply with a recently passed South Carolina General Assembly law and a South Carolina Public Service Commission (PSC) order requiring the rate reduction The reduction is related to financing costs that were being recovered in rates that were authorized under the Base Load Review Act, which the General Assembly recently repealed. The rate reduction is temporary until the PSC rules on SCE&G's permanent rate recovery of the abandoned project.

## Financial Risk: Significant

For SCE&G, we incorporate a base-case scenario that includes adjusted funds from operations (FFO) to debt of about 18% for 2018, in the middle of the benchmark range of the significant category. Afterward, however, we expect

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adjusted FFO to debt to remain in the 14%-15% range. This weakening of credit measures reflects our base-case assumptions that the temporary 15% reduction and SCANA's announced cut to its dividend payments are permanent. We expect the supplemental ratio of FFO cash interest coverage to be about 4.5x at year-end 2018 and further decline to the 3.5x-4x range thereafter. These levels support the financial risk assessment of SCE&G. After reflecting the lower capital spending now that the Summer project has been cancelled and the utility's dividend reduction, discretionary cash flow is expected to be positive over the next few years. We expect debt leverage to grow as indicated by debt to EBITDA in the 4.5x-5x range over the next few years. We base our risk assessment on more relaxed benchmarks when compared with the typical corporate issuer, reflecting the company's steady cash flow and rate-regulated utility operations.

## Liquidity: Adequate

We assess SCE&G's stand-alone liquidity as adequate because the company's liquidity sources are likely to cover uses by more than 1.1x over the next 12 months, and the company could meet cash outflows even with a 10% decline in EBITDA. We think that SCE&G has the ability to absorb high-impact, low-probability events without refinancing, and that it has well-established and solid relationships with banks, a generally high standing in credit markets, and prudent risk management.

| Principal Liquidity Sources | Principal Liquidity Uses |
|---|---|
| • Available cash of about $220 million;<br>• Estimated cash FFO of about $850 million; and<br>• Estimated revolving credit facility availability of $1.2 billion. | • Capital spending of roughly $670 million; and<br>• Debt maturities, including outstanding commercial paper, of about $1.1 billion. |

## Other Credit Considerations

We apply a negative comparable ratings analysis modifier to reflect less credit supportive financial metrics after the 15% rate reduction.

## Group Influence

SCE&G is subject to our group rating methodology criteria. We assess SCE&G as a core subsidiary of parent SCANA because it is highly unlikely to be sold, is integral to the group's overall strategy, possesses significant management commitment, is a significant contributor to the group, and is closely linked to the parent's reputation. Moreover, there are no meaningful insulation measures in place that protect SCE&G from its parent. As a result, the issuer credit rating on SCE&G is 'BBB-', in line with the group credit profile of 'bbb-'.

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## Ratings Score Snapshot

### Issuer Credit Rating

BBB-/Watch Neg/A-3

### Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

### Financial risk: Significant

- **Cash flow/Leverage:** Significant

### Anchor: bbb

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

### Stand-alone credit profile : bbb-

- **Group credit profile:** bbb-
- **Entity status within group:** Core (no impact)

## Issue Ratings

- We rate the preferred stock at SCE&G two notches below the issuer credit rating to reflect the discretionary nature of the dividend and the deeply subordinated claim if a bankruptcy occurs.
- The short-term rating of SCE&G is 'A-3' based on the issuer credit rating on the company.

## Issue Ratings--Recovery Analysis

Secured debt at SCE&G benefits from a first-priority lien on substantially all of the utility's real property, owned or subsequently acquired. Collateral provides coverage of more than 1.5x, supporting a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.

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## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

**Business And Financial Risk Matrix**

| | Financial Risk Profile | | | | | |
|---|---|---|---|---|---|---|
| **Business Risk Profile** | Minimal | Modest | Intermediate | **Significant** | Aggressive | Highly leveraged |
| Excellent | aaa/aa+ | aa | a+/a | a- | bbb | bbb-/bb+ |
| **Strong** | aa/aa- | a+/a | a-/bbb+ | **bbb** | bb+ | bb |
| Satisfactory | a/a- | bbb+ | bbb/bbb- | bbb-/bb+ | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |

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CREDIT OPINION
23 July 2018

Update

Rate this Research

RATINGS

South Carolina Electric & Gas Company

| | |
|---|---|
| Domicile | Columbia, South Carolina, United States |
| Long Term Rating | Baa3 |
| Type | LT Issuer Rating |
| Outlook | Negative |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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# South Carolina Electric & Gas Company

## Update following rating confirmation

## Summary

The negative outlook for South Carolina Electric & Gas Company (SCE&G) reflects the contentious political and regulatory environment in which the company is operating, and the uncertainty surrounding the Public Service Commission of South Carolina's (SCPSC) upcoming December 2018 determination of a permanent electric rate plan for the company following its decision to abandon construction of the V.C. Summer new nuclear units. SCE&G's credit profile reflects our expectation that the implementation of legislation ordering a temporary reduction of SCE&G's electric rates will cause the utility's ratio of cash flow from operations excluding working capital changes (CFO pre-WC) to debt to move to the low teens. Our view also recognizes that the decision of SCE&G's parent, SCANA Corporation (SCANA), to cut its dividend by 80% will conserve cash and support a ratio of CFO pre-WC less dividends to debt that we expect to be maintained at a similar level. Our opinion recognizes that the revenue reduction is temporary, however the magnitude is consistent with our belief that the political pressure on SCPSC could cause it to ultimately establish rates at unusually low levels. We also think it is unlikely the SCPSC would set permanent rates at levels that are lower than the temporary ones.

## Recent Developments

### New Legislation and Dividend Reduction

During the first week of July, two pieces of South Carolina legislation, H 4375 and S 954, became law. The legislation included, 1) a prospective repeal of the credit supportive Base Load Review Act (BLRA); 2) a requirement that the Public Service Commission of South Carolina (SCPSC) establish temporary rates for SCE&G that eliminate the increases the company received under the BLRA since 2011 (approximately 14.8% of its electric revenue), 3) definitions of the terms prudent and imprudent that are intended to make it more difficult for the SCPSC to determine SCE&G's decision to abandon nuclear construction was prudent; and 4) a requirement that the SCPSC delay a hearing in its open docket concerning SCE&G's rates and the potential merger with Dominion Energy, Inc. (Dominion, Baa2 negative) until November 1, 2018, with a decision no later than December 21, 2018. The SCPSC subsequently ordered the implementation of the temporary rates to begin in August. SCE&G has filed for an injunction, and a hearing date has been set at for the end of July.

In the meantime, to conserve cash and preserve its options, SCE&G's parent, SCANA (Ba1 negative) announced at the end of June that it would cut its dividend by 80%. The reduction corresponds to the portion of the dividend attributable to the electric operations of SCE&G. We view the action as supportive of credit quality.

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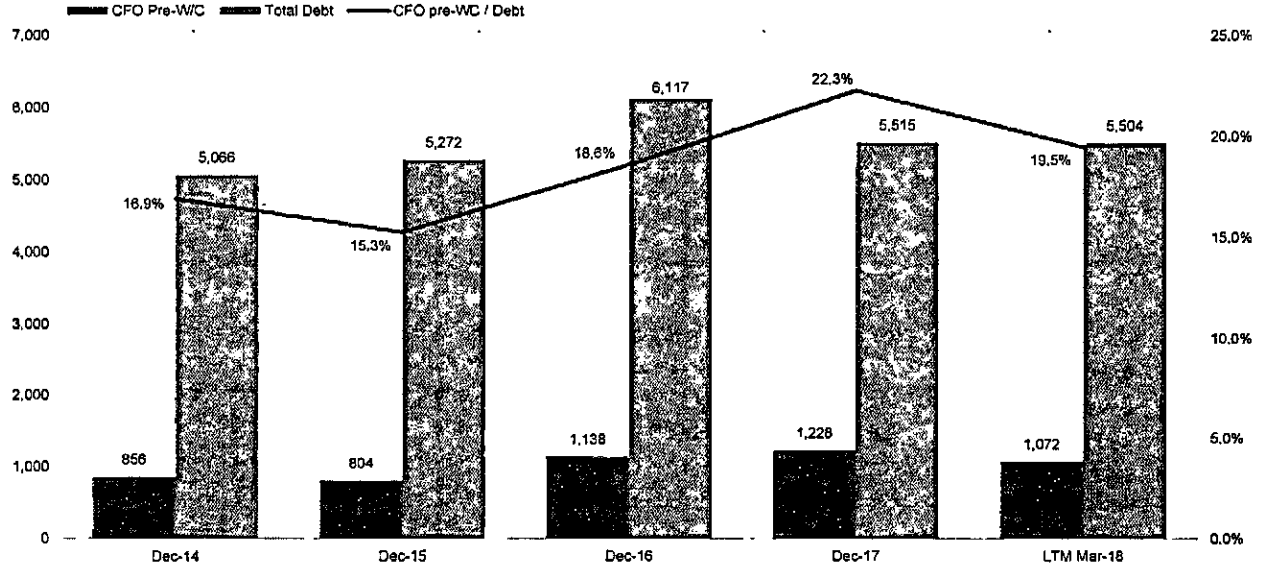
### Potential Merger with Dominion

On January 3, 2018, SCE&G's parent company, SCANA, and Dominion announced plans for Dominion to acquire SCANA in an all-stock transaction that valued SCANA at about $14.6 billion, including the assumption of about $6.7 billion of debt. The proposed combination would provide specific benefits to SCE&G rate payers, including a $1.3 billion cash payment within 90 days of closing, an estimated 5% reduction in rates (3.5% via credits for about eight years, plus a flow through of savings from federal tax reform legislation) and a 540 MW natural gas fired generating facility. The plan envisions a pre-tax write down of about $1.7 billion relating to the nuclear investment, with the remaining $3.3 billion to be amortized over 20 years. In addition to SCANA shareholder approval and other customary closing requirements, the merger is conditioned upon approval by the SCPSC of a joint petition filed by SCE&G and Dominion. The petition requests approval of terms for recovery of new nuclear development costs (including necessary prudence determinations). The deal is also conditioned on the absence of laws, or changes in laws (including the BLRA), that would result in a material change in terms or economic value of the proposed merger.

### SCE&G's Previously Proposed Solution to Nuclear Abandonment

Prior to SCANA's planned merger with Dominion, SCE&G in November 2017 proposed its own comprehensive solution to the nuclear abandonment issue. SCE&G's solution included an annual revenue reduction of $90 million (about 3.5% of total electric revenue, or about 20% of the amounts being collected under the BLRA) for five years, and the addition of 640 MW of generating capacity. SCE&G's proposal included a pre-tax write down of $810 million and an absorption by shareholders of the remaining $2.9 billion (after application of the Toshiba guarantee) over 50 years at a reduced earnings rate. The plan was not well received, but it has been included as an alternate proposal for SCPSC consideration, and it is the primary driver of the $1.118 billion (pre-tax) impairment SCE&G recorded in 2017

Exhibit 1
**Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt[1][2]**




[1] CFO Pre-W/C is defined as cash flow from operations excluding changes in working capital
[2] LTM Mar-2018 CFO Pre-WC has been reduced by approximately $100 million of cash used for collateral posting, and does not include approximately $115 million of proceeds from interest rate hedges being used to offset fuel costs. Absent these impacts, the ratio of CFO pre-WC to debt would be above 20%.
*Source: Moody's Financial Metrics*

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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## Credit strengths

» Decision to abandon new nuclear project eliminates open ended construction and execution risk

» Toshiba guarantee funds and tax deductions help to lower the cost of abandonment

» Financial metrics are currently strong

## Credit challenges

» Elevated political and regulatory risk is outweighing the benefits from eliminating construction risk

» Temporary rate reduction will materially weaken financial metrics

» Uncertainty surrounding permanent rates and potential merger with Dominion

## Rating outlook

The rating outlook is negative, reflecting the contentious and uncertain political and regulatory environment in which the company is operating. The ratings could move downward if there is a further deterioration of the legislative and regulatory compact, or if the impact on SCE&G's credit profile is more severe than we anticipate For example if we expect the utility would not be able to maintain a ratio of CFO pre-WC to debt that is at least around 13%.

## Factors that could lead to an upgrade

» The rating outlook is negative, as such, the ratings are not likely to move upward over the next 12-18 months

» The outlook could be returned to stable if the open docket at the SCPSC results in a rate plan that will support stable and predictable cash flow metrics, including a ratio of CFO pre-WC to debt of at least 13%

» Completion of the proposed merger with Dominion could also cause the outlook to be revised to stable

## Factors that could lead to a downgrade

» If there were to be additional legislative efforts to dictate the SCPSC's actions or interfere with its ability to ultimately establish electric rates that are fair and reasonable

» If SCE&G is ordered to refund amounts collected under the BLRA prior to April 1, 2018, particularly without the benefit of a larger, better capitalized partner

» If rates established by the SCPSC do not permit SCE&G to maintain a ratio of CFO pre-WC to debt that is at least around 13%

» If the company's liquidity becomes constrained due for example to an inability to draw on its credit lines, or issue additional debt, there could be downward movement in the ratings

## Key indicators

Exhibit 2
**South Carolina Electric & Gas Company Indicators[1][2]**

| | Dec-14 | Dec-15 | Dec-16 | Dec-17 | LTM Mar-18 |
|---|---|---|---|---|---|
| CFO pre-WC + Interest / Interest | 4.5x | 4.0x | 4.9x | 5.2x | 4.6x |
| CFO pre-WC / Debt | 16.9% | 15.3% | 18.6% | 22.3% | 19.5% |
| CFO pre-WC – Dividends / Debt | 11.8% | 9.9% | 13.7% | 16.5% | 13.6% |
| Debt / Capitalization | 44.0% | 43.5% | 45.4% | 47.4% | 47.0% |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] LTM Mar-2018 CFO Pre-WC has been reduced by approximately $100 million of cash used for collateral posting, and does not include approximately $115 million of proceeds from interest rate hedges being used to offset fuel costs.
*Source: Moody's Financial Metrics*

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## Profile

South Carolina Electric & Gas Company (SCE&G, Baa3 negative), the largest operating company of SCANA Corporation (SCANA, Ba1 negative), is a vertically integrated electric and gas distribution utility operating within South Carolina, and regulated by the South Carolina Public Service Commission (SCPSC). South Carolina Fuel Company (SCFC, not rated) is a SCE&G subsidiary that buys nuclear and fossil fuel as well as emission credits for SCE&G.

SCE&G jointly owns Unit 1 of the nearly 1,000 MW operating V.C. Summer nuclear plant with the South Carolina Public Service Authority (Santee Cooper, A1 review for downgrade), a state owned utility. The companies also partnered on the construction of the now abandoned Units 2 and 3, with SCE&G having a 55% stake in the attempted 2,200 MW new nuclear development.

## Detailed credit considerations

**The decision to abandon nuclear construction resulted in extreme political and regulatory risk**

SCE&G's July 2017 decision to cease construction of V.C. Summer Units 2 and 3, and to seek recovery of its nuclear development costs in accordance with the state's BLRA, evoked outrage and activism on the part of consumers, lawmakers and major intervenors throughout the state of South Carolina. As a result, what we historically viewed as one of the most credit supportive political and regulatory environments in the country, became one of the most challenged and uncertain

The new nuclear units were being constructed in accordance with the state's credit supportive BLRA, which included an up-front determination of prudence of budgeted costs and annual adjustments to rates that provided a return on invested capital. The BLRA also clearly established the utility's right to recover its prudently incurred nuclear development costs in the event of abandonment. The abandonment decision, however, as well as the parameters for recovery, are subject to a determination of prudence by the SCPSC. In response to initial concerns raised by law makers last summer, the company withdrew its initial request for a determination of prudence and recovery (which by law would have been required to be decided in six months) to allow all interested parties time to understand the decision to abandon and to potentially agree upon a means to move forward.

In the months that followed, the political and regulatory risks to the project intensified dramatically Committees were formed in both the SC House and Senate, with each proposing various pieces of legislation that essentially sought to undo the recovery provisions of the BLRA, and to potentially reconstitute the SCPSC. The law makers proposals were generally intended to stop SCE&G from collecting any revenue associated with the failed nuclear project, and to potentially refund past collections. The Office of Regulatory Staff (ORS), also requested the SCPSC order an immediate suspension of all rates SCE&G is collecting under the BLRA.

The legislative efforts were not stemmed by the more credit supportive proposals put forth first by SCE&G, and then by SCE&G and Dominion Energy, Inc. (Dominion) in conjunction with the proposed merger. Both the SCE&G and SCE&G/Dominion plans would reduce rates to customers and provide alternative generation at no additional cost. The Dominion proposal would also provide refunds; however both plans continue to rely on the credit positive recovery provisions provided in the BLRA.

In January 2018, SCE&G refiled with the SCPSC for a determination of prudence of its abandonment decision and the approval of rates to be established in conjunction with the potential merger with Dominion, or an alternative plan if the merger does not go through. The SCPSC combined this request with the request of the ORS for an immediate suspension of BLRA rates, which should allow for a normal rate proceeding with testimony and hearings to determine appropriate rate treatment for the nuclear investment. We viewed this development as credit positive.

The 2018 South Carolina legislative session concluded in May without a consensus among the House and Senate on conflicting bills seeking to reduce electric rates in the range of 13-18% However, a conference committee was able to conform two pieces of legislation, H4375 and S954, that were passed during a special session of the General Assembly at the end of June. Among other things, the bills call for a temporary approximate 14.8% reduction in SCE&G's electric revenue The H4375 also seeks to define the terms prudence and imprudence in ways that are intended to make it more difficult for the SPSC to determine SCE&G's decision to abandon nuclear construction was prudent. The bills became law in early July, with the General Assembly overriding the Governor's promised veto of the House bill (due to its inclusion of a rate reduction that was less than a full 18% rollback of BLRA rates) Passage of these laws are the most recent examples of an environment that is markedly different from the supportive treatment historically given the utility through the normal regulatory process, and previously under the BLRA.

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Importantly, the new laws clearly acknowledge permanent rate making authority remains with the SCPSC, a credit positive. In addition, although the time for a decision has been extended from the normal statutory requirement of six months post filing, the law now requires a decision in the current proceeding by December 21, 2018; this should allow for a rational process and limits the time for additional uncertainty. However, we believe the politically charged environment that mandated the temporary rate cuts will weigh heavily on the SCPSC as it looks to implement permanent that are fair and reasonable.

**Tax deductions have been supporting credit metrics – but significant declines are expected**

SCE&G initially estimated its abandonment decision would provide an approximate $1.5 billion (now likely closer to $1.3 billion) of tax deductions on top of the amounts currently taken (about $0.5 billion) for the research and experimentation deduction discussed below This will continue to enhance cash flow over the next few years, providing some offset to likely rate declines.

In September 2016, SCE&G filed with the Internal Revenue Service for an allowed deduction for research and experimentation costs relating to its new nuclear development project. The utility received a tax refund in 2016, and was going to pay lower taxes in 2017 and 2018 even prior to the abandonment deduction. As a result of the abandonment, SCE&G is receiving additional near term tax refunds, and will not likely be required to pay taxes until about 2021

Due in part to these tax benefits, the utility has been generating strong credit metrics, and absent a rate reduction, would be able to continue to generate CFO pre-WC to debt metrics in the high teens. A rate reduction along the lines of the newly legislated 14.8%, if upheld and made permanent, would move this metric to the low teens. In the current political environment, we think the SCPSC will be pressured to set rates as low as possible and may look to delay or deny recovery of abandonment costs. However, we believe it is unlikely revenues would be authorized at a level that is lower than those produced by the temporary rates

The abandonment solution proposed by SCE&G in November would enable the company to maintain CFO pre-WC to debt metrics above 15%. Similarly, we estimate the proposed Dominion merger rate plan would enable the utility to generate CFO pre-WC to debt ratios in the mid-teens Rate plans along the lines of these alternatives seem less likely in the current environment, but if implemented, could stabilize or even potentially put upward pressure on the ratings

SCE&G's credit quality is also supported by SCANA's decision to cut its dividend by 80%, representing the portion associated with its electric operations The reduction will conserve liquidity that could potentially be used for debt reduction, and is expected to allow the utility to maintain a ratio of CFO pre-WC less dividends to debt above 10%.

**Decision to abandon nuclear construction eliminated open ended construction and execution risk**

On July 31, 2017 SCE&G and its 45% state owned utility partner, the South Carolina Public Service Authority (Santee Cooper), announced their decision to end the construction of two new nuclear units at the V.C. Summer station. We initially viewed the decision as credit positive as the companies would no longer be subject to the construction and execution risk of building a disproportionately large and complex project without the benefit of a fixed price contract

The decision to abandon followed months of detailed analysis to determine a realistic timeframe and cost for completing the project in the wake of the March 2017 bankruptcy filing of its contractor, Westinghouse Electric Company, LLC (Westinghouse, unrated). The partners concluded the plants would not be able to be completed before the then existing January 1, 2021 deadline for the receipt of production tax credits, and that the cost to complete was prohibitive. The analysis also considered changes in the utilities load forecasts and alternative lower cost options.

The announcement came on the heels of SCE&G's agreement with Westinghouse's parent, Toshiba Corporation, regarding the amount and terms under which it would make payments due under its construction guarantee. Under the agreement, the V.C. Summer partners were promised approximately $2.2 billion from Toshiba (about $1.2 billion for SCE&G's 55% share) over a maximum of five years, with the potential for earlier payments in conjunction with the planned liquidation of Westinghouse. The agreement clarified the amounts owed to the project partners, and provided certainty with respect to Toshiba's obligation to pay. In September 2017, SCE&G removed all remaining risk of payment by monetizing the value of the future payments via a sale to Citibank, N.A for about 92% of its value.

The financial impact of the abandonment was offset to some degree by the Toshiba guarantee funds and SCE&G's ability to take a tax deduction for the full basis of its nuclear investment. Assuming the Toshiba guarantee is applied toward reducing rate base, SCE&G originally estimated the combination of the guarantee and tax deductions could essentially reduce the net amount of abandoned rate

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base to be recovered to about $2.2 billion (this net amount will now be somewhat higher as a result of federal tax reform and the resulting lower corporate tax rate). Through December 2017, SCE&G has taken impairment charges of $490 million, representing $1.5 billion of capital costs not in rates reduced by $1.01 billion of proceeds from the Toshiba guarantee (around $302 million after tax), against this investment. The company has also taken an additional $628 million (about $388 million after tax) of impairments relating to previously deducted expenses and planned generation purchases. These write-downs are consistent with the rate solution SCE&G proposed in November 2017. In January 2018, the company requested the SCPSC authorize this plan as an alternative in the event the proposed merger with Dominion does not go forward.

## Liquidity analysis

Due to the large spend for its nuclear program, SCE&G's liquidity has historically been below average. For the twelve months ended March 31, 2018 , SCE&G generated approximately $746 million of cash from operations (CFO), invested about $805 million in capital expenditures and up streamed $322 million in dividend payments, resulting in negative free cash flow (FCF) of about $380 million. For FY 2017, SCE&G generated approximately $1.0 billion of CFO, invested approximately $928 million in capital expenditures and up streamed $319 million in dividend payments to parent SCANA, resulting in negative FCF of approximately $240 million. Shortfalls have been funded via a combination of long and short term debt proceeds along with equity contributions from SCANA. Going forward, we expect capital expenditures to be reduced to about $500 million per year, and that dividends will be significantly lower. As a result, we anticipate the utility will become free cash flow positive.

As of March 31, 2018, the utility had $1.4 billion of borrowing capacity under its consolidated lines of credit including $500 million at South Carolina Fuel Company (guaranteed by SCE&G) that can only be utilized for fuel, and $900 million at SCE&G. As of March 31, 2018, on a consolidated basis SCE&G and South Carolina Fuel Company had about $146 million of commercial paper outstanding and a $100 million drawn on its revolving credit facility for collateral posting with a natural gas supplier.

The credit facility has a single financial covenant requiring that SCE&G maintain a consolidated debt to capitalization ratio of no more than 70%. As of March 31, 2018, SCE&G was in compliance with its financial covenant and we estimate the debt to capitalization ratio to be about 53%. The facility also requires a representation that there has not been a material adverse change (MAC) for new borrowings. During the first quarter of 2018, SCE&G was able to draw on its credit facility for collateral posting which would have required representing to its banks that its nuclear project abandonment is not a material adverse change. The MAC requirement is negative for credit as it may preclude borrowing under the facility when it is needed most. SCE&G's next long term debt maturity is $550 million of first mortgage bonds due in November of 2018.

## Rating methodology and scorecard factors

The scores for Factor 1 and Factor 2 have each been revised downward to reflect a more uncertain, less credit supportive, political and regulatory environment.

Exhibit 3

| Rating Factors | | | | |
|---|---|---|---|---|
| South Carolina Electric & Gas Company | | | | |
| Regulated Electric and Gas Utilities Industry Grid [1][2] | Current LTM 3/31/2018 | | Moody's 12-18 Month Forward View As of Date Published [3] | |
| **Factor 1 : Regulatory Framework (25%)** | **Measure** | **Score** | **Measure** | **Score** |
| a) Legislative and Judicial Underpinnings of the Regulatory Framework | Baa | Baa | Baa | Baa |
| b) Consistency and Predictability of Regulation | Ba | Ba | Ba | Ba |
| **Factor 2 : Ability to Recover Costs and Earn Returns (25%)** | | | | |
| a) Timeliness of Recovery of Operating and Capital Costs | Baa | Baa | Baa | Baa |
| b) Sufficiency of Rates and Returns | Ba | Ba | Ba | Ba |
| **Factor 3 : Diversification (10%)** | | | | |
| a) Market Position | Baa | Baa | Baa | Baa |
| b) Generation and Fuel Diversity | Ba | Ba | Ba | Ba |
| **Factor 4 : Financial Strength (40%)** | | | | |
| a) CFO pre-WC + Interest / Interest (3 Year Avg) | 4.6x | A | 3.4x - 3.8x | Baa |
| b) CFO pre-WC / Debt (3 Year Avg) | 18.0% | Baa | 11% - 15% | Baa |
| c) CFO pre-WC – Dividends / Debt (3 Year Avg) | 12.7% | Baa | 7% - 11% | Baa |
| d) Debt / Capitalization (3 Year Avg) | 45.7% | Baa | 56% - 60% | Ba |
| **Rating:** | | | | |
| Grid-Indicated Rating Before Notching Adjustment | | Baa3 | | Baa3 |
| HoldCo Structural Subordination Notching | | 0 | 0 | 0 |
| a) Indicated Rating from Grid | | Baa3 | | Baa3 |
| b) Actual Rating Assigned | | Baa3 | | Baa3 |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2018
[3] This represents Moody's forward view, not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
*Source: Moody's Financial Metrics*



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## Appendix

Exhibit 4
**Peer comparison table**

| | South Carolina Electric & Gas Company | | | Duke Energy Carolinas, LLC | | | Georgia Power Company | | | Mississippi Power Company | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Baa3 Negative | | | A1 Stable | | | A3 Negative | | | Ba1 Positive | | |
| | FYE | FYE | LTM | FYE | FYE | LTM | FYE | FYE | LTM | FYE | FYE | LTM |
| (in US millions) | Dec-16 | Dec-17 | Mar-18 | Dec-16 | Dec-17 | Mar-18 | Dec-16 | Dec-17 | Mar-18 | Dec-16 | Dec-17 | Mar-18 |
| Revenue | 2,986 | 3,070 | 3,053 | 7,322 | 7,302 | 7,349 | 8,383 | 8,310 | 8,439 | 2,163 | 1,187 | 1,217 |
| CFO Pre-W/C | 1,425 | 1,442 | 1,459 | 3,630 | 3,703 | 3,719 | 3,544 | 3,723 | 3,762 | 74 | -2,889 | -2,857 |
| Total Debt | 5,117 | 5,515 | 5,504 | 9,862 | 10,463 | 10,995 | 11,500 | 12,334 | 11,808 | 3,142 | 2,163 | 2,153 |
| CFO pre-WC / Debt | 18.6% | 22.3% | 19.5% | 26.6% | 24.6% | 23.4% | 21.1% | 20.0% | 21.5% | 7.1% | -5.2% | 4.1% |
| CFO pre-WC – Dividends / Debt | 13.7% | 16.5% | 13.6% | 6.4% | 18.6% | 17.0% | 9.8% | 9.6% | 10.5% | 7.1% | -5.1% | 4.1% |
| Debt / Capitalization | 45.4% | 47.4% | 47.0% | 36.4% | 41.6% | 42.6% | 39.7% | 45.0% | 41.7% | 46.2% | 61.6% | 61.6% |

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
*Source: Moody's Financial Metrics*

Exhibit 5
**Cash flow and credit metrics**

| CF Metrics | Dec-14 | Dec-15 | Dec-16 | Dec-17 | LTM Mar-18 |
|---|---|---|---|---|---|
| As Adjusted | | | | | |
| **FFO** | **972** | **787** | **1,048** | **492** | **553** |
| +/- Other | (116) | 17 | 90 | 736 | 519 |
| **CFO Pre-WC** | 856 | 804 | 1,138 | 1,228 | 1,072 |
| +/- ΔWC | (219) | 270 | (225) | (214) | (318) |
| **CFO** | **637** | **1,074** | **913** | **1,014** | **754** |
| - Div | 260 | 285 | 301 | 319 | 322 |
| - Capex | 930 | 1,004 | 1,390 | 936 | 813 |
| **FCF** | **(553)** | **(215)** | **(778)** | **(241)** | **(381)** |
| | | | | | |
| (CFO Pre-W/C) / Debt | 16.9% | 15.3% | 18.6% | 22.3% | 19.5% |
| (CFO Pre-W/C - Dividends) / Debt | 11.8% | 9.9% | 13.7% | 16.5% | 13.6% |
| FFO / Debt | 19.2% | 14.9% | 17.1% | 8.9% | 10.0% |
| RCF / Debt | 14.1% | 9.5% | 12.2% | 3.1% | 4.2% |

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated.
*Source: Moody's Financial Metrics*



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## Ratings

Exhibit 6

| Category | Moody's Rating |
|---|---|
| **SOUTH CAROLINA ELECTRIC & GAS COMPANY** | |
| Outlook | Negative |
| Issuer Rating | Baa3 |
| Senior Secured Shelf | (P)Baa1 |
| Sr Unsec Bank Credit Facility | Baa3 |
| Commercial Paper | P-3 |
| **PARENT: SCANA CORPORATION** | |
| Outlook | Negative |
| Issuer Rating | Ba1 |
| Sr Unsec Bank Credit Facility | Ba1 |
| Senior Unsecured | Ba1 |
| Commercial Paper | NP |
| **SOUTH CAROLINA FUEL COMPANY INC.** | |
| Bkd Sr Unsec Bank Credit Facility | Baa3 |
| Bkd Commercial Paper | P-3 |

*Source: Moody's Investors Service*



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Moody's Rating Methodology and Scorecard Factors*

| | Weighting | SCE&G Score | |
|---|---|---|---|
| Factor 1: Regulatory Framework | 25% | | |
| a. Legislative and Judicial Underpinnings of the Regulatory Framework | | Baa | |
| b. Consistency and Predictability of Regulation | | Ba | |
| Factor 2: Ability to Recover Costs and Earn Returns | 25% | | |
| a. Timeliness of Recovery of Operating and Capital Costs | | Baa | |
| b. Sufficiency of Rates and Returns | | Ba | |
| Factor 3: Diversification | 10% | | |
| a. Market Position | | Baa | |
| b. Generation and Fuel Diversity | | Ba | |
| | | LTM 3/31/18 | Moody's Forecast Case |
| Factor 4: Financial Strength | 40% | | |
| a. CFO pre-WC/ Interest | | A | Baa |
| b. CFO pre-WC/Debt | | Baa | Baa |
| c. (CFO pre-WC less Dividends) / Debt | | Baa | Baa |
| d. Debt % of Total Capital | | Baa | Ba |

* Source: Moody's Credit Opinion, South Carolina Electric & Gas, July 23, 2018
LTM - Latest twelve months

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FitchRatings

# Fitch Downgrades SCANA to 'BB'/SCE&G to 'BB+', Maintains Rating Watch Evolving

Fitch Ratings-New York-08 August 2018: Fitch Ratings has downgraded the long-term Issuer Default Ratings (IDRs) of South Carolina Electric and Gas Co (SCE&G) and its parent SCANA Corp. (SCANA) by one notch to 'BB+' and 'BB', respectively. Fitch also downgraded the ratings of Public Service Company of North Carolina (PSNC) by one notch, to 'BB+', given the rating linkage with its parent, SCANA. Concurrently, the short-term IDRs of SCE&G and PSNC were downgraded to 'B' from 'F3' while the short-term IDR of SCANA was maintained at 'B'. The downgrades follow the absence of injunctive relief blocking the recently enacted 14.8% electric rate cut. While the company is likely to appeal the Aug. 6, 2018 order from the U.S District Court, the rate cut will be implemented with SCE&G's August billing cycle which began on Aug. 7, 2018 As such, SCE&G will collect 14.8% less electric revenue on an ongoing basis until the South Carolina Public Service Commission (PSC) issues an order in a multi-docketed proceeding, which is expected by Dec. 21, 2018 Additionally, SCE&G will credit customers on the August bills for the rate cut retroactive to April 1, 2018. The rate cut was ordered by the PSC to comply with Act 258, which resulted from the passage of HB4375. As per the legislation, the new rate is considered an "experimental rate" until the PSC issues a final order

If allowed to stand, Fitch considers the magnitude of the cut to be detrimental to SCE&G's and SCG's credit metrics, even after consideration of SCG's 80% reduction of the common dividend. Despite the legislature's characterization of the new rate as "temporary," Fitch is concerned that the expected December order could be of the same magnitude. If the PSC issues an order in December 2018 with a permanent cut of a similar magnitude, additional downgrades may be warranted. If the 14.8% rate cut were to be permanent, Fitch expects SCG's Total Adjusted Debt/EBITDAR to average around 6x over the next three years and SCE&G's to average around 5.7x, both above Fitch's previously stated downgrade thresholds of 5 5x and 5.0x, respectively.

Fitch also notes important changes to South Carolina utility regulation contained in HB4375 that could result in the continuation of SCG's adversarial regulatory relationship. Fitch acknowledges the existence of additional state and federal investigations into various aspects of the terminated nuclear project, but believes that at this time none have reached a level to have rating implications.

Fitch's Rating Watch Evolving also considers the potential positive implications of the proposed merger between SCG and Dominion Energy (DEI, BBB+/Stable). If the merger were to be consummated as originally envisioned, Fitch expects a stabilization of SCG's and SCE&G's credit metrics, albeit at a lower level, if the 14.8% rate cut is upheld. Given the animosity exhibited by the interventionist state legislature, it is not clear if there will be support of DEI's proposed regulatory solution. An order is expected in DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding SCG shareholders approved the merger on the DEI merger on July 31, 2018.

KEY RATING DRIVERS

Adverse Regulatory Environment: The ratings reflect the sharp deterioration in the legislative and regulatory environment in South Carolina since abandonment of the new nuclear project in July 2016 In addition to HB4375's legislatively mandated 14.8% rate cut, changes to definitions and statutory components of the state's utility regulation are likely to result in diminished regulatory support, in Fitch's opinion. Among such items are an expansive definition of prudence, removal of the mandate that the Office or Regulatory Staff (ORS) must consider preservation of a utility's financial integrity, and granting the ORS subpoena powers. A second bill (SB954) passed by the Legislature orders the PSC to deviate from the statutory six-month limit on rate proceedings and prohibits an order in the multi-docketed proceeding before Nov. 1, 2018. SCG has filed a lawsuit in federal court alleging that HB4375 and SB954 constitute an unlawful taking of private property and violate due process, among other issues. The company failed to garner injunctive relief to stay the immediate implementation of the two laws and the

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accompanying rate cut.

Financial Policy and Capital Structure. Management's financial policy, including targeted leverage and allocation of capital, will be key rating drivers going forward. The company recently cut its dividend by 80%, preserving approximately $275 million in cash annually. Nonetheless, if the recently ordered 14 8% rate reduction where to be made permanent, there would be a significant effect on SCG and SCE&G's credit metrics Fitch expects SCG's total adjusted debt/EBITDAR to average around 6.0x over the next three years and SCE&G's to average around 5.7x, both above Fitch's previously stated downgrade thresholds of 5.5x and 5.0x, respectively.
Acquisition by DEI: The acquisition by DEI, as currently proposed, would enhance SCG's credit quality as it would bring SCG into the fold of a larger and better capitalized entity. If the merger were to be consummated as originally envisioned, Fitch expects a stabilization of SCG's and SCE&G's credit metrics and would consider an upgrade. An order is expected in DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding. SCG shareholders approved the merger with the DEI on July 31, 2018.

Parent/Subsidiary Rating Linkage. Fitch focuses on operational ties between SCG, SCE&G and PSNC in assessing the rating linkage between them, in accordance with its criteria for subsidiaries with stronger credit profiles than their parents. Fitch assesses the operational ties as strong given the shared management and centralized treasury operations. In addition, SCE&G generates the majority of SCG's earnings while PSNC relies on equity infusions from SCG to implement its expansion program. As a result, Fitch currently rates SCE&G and PSNC one-notch above SCG.

DERIVATION SUMMARY

SCG, as a stand-alone entity with the current nuclear recovery uncertainty, is weakly positioned compared with IPALCO Enterprises, Inc.'s (BB+/Positive), given the more constructive and predictable regulatory environment of IPALCO's subsidiary, Indianapolis Power and Light Company (BBB-/Positive). IPALCO's greater earnings and cash flow visibility more than offset its higher proportion of parent-level debt. Historically, SCG has had a slightly more favorable business profile as compared to DPL, Inc. (BB/Positive) given SCG's predominant regulated operations. However, DPL is in the process of divesting the generation assets owned by AES Ohio Generation LLC, a non-regulated subsidiary. Additionally, Ohio's regulatory construct, while still in transition, is more constructive than what is playing out in South Carolina. In addition, Ohio regulators continue to demonstrate a willingness to take actions to protect the financial integrity of its utilities.

SCE&G is a vertically integrated regulated utility company operating exclusively in South Carolina. SCE&G's credit profile is constrained by the heightened regulatory and legislative risk related to the abandonment of its nuclear expansion project. SCE&G has a smaller scale and balance sheet than Georgia Power Company (A-/Negative), which undertook similar new nuclear construction risk. SCE&G and Dayton Power & Light Company (DP&L) (BBB-/Positive) both operate regulated assets with evolving regulatory constructs

KEY ASSUMPTIONS

SCG and SCE&G
--14.8% rate reduction through the forecast period attributable to costs currently being collected for VC Summer Nuclear;
--Additional new nuclear development (NND) impairment of $1.67 billion;
--Columbia Energy Center recovered through rates in 2021;
--Reduction of the $2.45 annual dividend by 80% ($344 million to $70 million)

PSNC
--Volume growth around 2 0% in the intermediate term;
--Approximately $700 million of capex through 2020,
--Equity advances to maintain 40/60 debt/equity capital structure

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RATING SENSITIVITIES

SCG
Developments that May, Individually or Collectively, Lead to Positive Rating Action
The ratings could be upgraded if the merger into DEI closes as proposed and the issues surrounding the abandoned nuclear plants are resolved in a credit supportive manner. Ratings could be upgraded if recovery mechanisms for the stranded nuclear assets and management's financial policy result in SCG's adjusted debt/EBITDAR stabilizing at/or below 4.5x.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
--The merger with DEI fails to close;
--Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12 months-18 months;
--Unfavorable terms for the recovery of stranded costs and/or material unrecoverable costs,
--Adjusted debt/EBITDAR consistently and materially exceeding 5 5x;
--Ring-fencing provisions that restrict cash inflows from SCE&G to SCG.

SCE&G
Developments that May, Individually or Collectively, Lead to Positive Rating Action
The ratings could be upgraded if the merger into DEI and resolution of new nuclear issues result in SCE&G's adjusted debt/EBITDAR stabilizing around 3.5x-4.0x.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
Future developments that may, individually or collectively, lead to a negative rating action include:
--The merger with DEI fails to close;
--Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12 months-18 months.
--Unfavorable terms for the recovery of stranded costs, and/or material unrecoverable costs;
--Continued deterioration in the regulatory and legislative environment in South Carolina;
--Adjusted debt/EBITDAR consistently and materially exceeding 5.0x

PSNC
Developments that May, Individually or Collectively, Lead to Positive Rating Action
Positive rating action is predicated upon a rating upgrade of SCG given PSNC's rating linkage with its parent. Fitch could widen the rating differential between the IDRs of PSNC and SCG if strong ring-fencing provisions were enacted.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
--Given the strength of the credit metrics for the current ratings, a downgrade of parent SCG below the current 'BB+' represents the greatest likelihood of a PSNC downgrade. While less likely given the headroom, a downgrade could also occur if adjusted debt/EBITDAR exceeds 5.5x on a sustained basis.

LIQUIDITY

As of June 30, 2018, SCG had about $337.6 million available under its $400 million five-year credit agreement (expiring in December 2020) while SCE&G (inclusive of South Carolina Fuel Co 's facilities) had $842.2 million available under $1.4 billion of consolidated committed credit agreements ($1.2 billion maturing in December 2020 and $200 million maturing in December 2018). PSNC had about $169 1 million available under its $200 million credit agreement. Additionally, SCG held $238 million cash and cash equivalents as of June 30, 2018, of which $222 million was at SCE&G. As of June 30, 2018, outstanding CP balances are as follows: SCG--$29 million, SCE&G--$457.5 million, and PSNC--$30 9 million SCE&G has two first mortgage bond maturities in November 2018 totalling $550 million Not giving effect to potential refinancing or retirement of the November maturities as of Dec. 31, 2017, the company has the ability to issue approximately $1 billion in additional mortgage debt. If SCE&G is not able to refinance the bonds in the corporate market, Fitch expects the company to be able to access its credit

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lines.

FULL LIST OF RATING ACTIONS

Fitch has downgraded the following ratings and maintained the Rating Watch Evolving:
SCANA Corporation
--Long-term IDR to 'BB' from 'BB+';
--Senior unsecured debt to 'BB'/'RR4' from 'BB+';

South Carolina Electric & Gas Co.
--Long-term IDR to 'BB+' from 'BBB-';
--First mortgage bonds to 'BBB'/'RR1' from 'BBB+';
--Senior unsecured debt to 'BBB-'/'RR2' from 'BBB';
--Short-term IDR to 'B' from 'F3';
--Commercial paper to 'B' from 'F3'.

Public Service Company of North Carolina, Inc.
--Long-term IDR to 'BB+' from 'BBB-';
--Senior unsecured debt to 'BBB-'/'RR2' from 'BBB';
--Short-term IDR to 'B' from 'F3';
--Commercial paper to 'B' from 'F3'.

South Carolina Fuel Company
--Commercial paper to 'B' from 'F3'.

Fitch has maintained the following ratings on Rating Watch Evolving:
SCANA Corporation
--Short-term IDR of 'B';
--Commercial paper of 'B'.

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Summary of Financial Statement Adjustments - No financial statement adjustments were made that were material to the rating rationale outlined above

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Additional information is available on www fitchratings com
Applicable Criteria
Corporate Rating Criteria (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10023785)
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10024585)
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UNSOLICITED ISSUERS

| Entity/Security | ISIN/CUSIP/COUPON RATE | Rating Type | Solicitation Status |
|---|---|---|---|
| South Carolina Fuel Company USCP 4(2)/ 144A D | - | Short Term Rating | Unsolicited |

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# South Carolina Electric & Gas Co.

Subsidiary of SCANA Corporation

| Rating Type | Rating | Outlook | Last Rating Action |
|---|---|---|---|
| Long-Term IDR | BBB– | Rating Watch Evolving | Rating Watch Maintained 03 July 2018 |
| Short-Term IDR | F3 | | Rating Watch Maintained 03 July 2018 |
| Senior Secured | BBB+ | | Rating Watch Maintained 03 July 2018 |
| Senior Unsecured | BBB | | Rating Watch Maintained 03 July 2018 |
| CP | F3 | | Rating Watch Maintained 03 July 2018 |

Click here for full list of ratings

## Financial Summary

| (USDm) | Dec 2014 | Dec 2015 | Dec 2016 | Dec 2017 |
|---|---|---|---|---|
| Gross Revenue | 3,091 | 2,930 | 2,986 | 3,070 |
| FFO Fixed-Charge Coverage (x) | 4.9 | 4.5 | 5.0 | 4.4 |
| FFO-Adjusted Leverage (x) | 4.7 | 4.9 | 4.6 | 4.0 |
| Operating EBITDAR | 1,205 | 1,286 | 1,392 | 1,406 |
| Cash Flow from Operations | 641 | 1,078 | 922 | 1,006 |
| Capital Intensity (Capex/Revenue) (%) | 30.2 | 34.4 | 46.9 | 30.2 |
| Total Adjusted Debt/Operating EBITDAR (x) | 4.2 | 4.1 | 4.4 | 3.9 |
| Total Adjusted Debt with Equity Credit | 5,038 | 5,285 | 6,101 | 5,540 |

Source: Fitch Solutions.

Fitch Ratings maintained the Issuer Default Rating (IDR) of South Carolina Electric and Gas Co. (SCE&G) on Rating Watch Evolving on July 3, 2018, following South Carolina Legislature's enactment of HB 4375. Among other provisions, the highly debated legislation orders the South Carolina Public Service Commission (PSC) to cut SCE&G's electric rates by 14.8% retroactive to April 1, 2018. The legislative action was taken in response to SCE&G's decision on July 31, 2017 to halt construction of two new units at V.C. Summer Nuclear Station (Summer). Under HB 4375, the rate cut is considered an "experimental rate" until the PSC issues an order in a multi-docketed proceeding by Dec. 21, 2018. If allowed to stand, Fitch considers the magnitude of the cut to be detrimental to SCE&G's credit metrics, even after consideration of parent company, SCANA Corporation's (SCG), 80% reduction of the common dividend.

Fitch is concerned that the expected December order could be of the same magnitude, despite the Legislature's characterization of the new rate as "temporary." If so, we expect SCE&G's total adjusted debt/EBITDAR to average around 5.7x over the next three years, above Fitch's previously stated downgrade threshold of 5.0x. SCE&G has filed a federal court challenge to the legislation and requested an injunction to stay. Absent prompt favorable legal intervention, Fitch is likely to downgrade the ratings of SCE&G by one notch. If the PSC issues an order in December 2018 with a permanent cut of a similar magnitude, additional downgrades may be warranted.

## Key Rating Drivers

**Adverse Regulatory Environment:** The ratings reflect the sharp deterioration in the legislative and regulatory environment in South Carolina since the abandonment of the new nuclear project in July 2016. In addition to HB 4375's



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legislatively mandated 14 8% rate cut, changes to definitions and statutory components of the state's utility regulation are likely to result in diminished regulatory support, in Fitch's opinion. Among such items are an expansive definition of prudence, removal of the mandate that the Office of Regulatory Staff (ORS) must consider preservation of a utility's financial integrity, and granting the ORS subpoena powers. A second bill (SB 954) passed by the Legislature orders the PSC to deviate from the statutory six-month limit on rate proceedings and prohibits an order in the multi-docketed proceeding before Nov 1, 2018. SCE&G has filed a lawsuit in federal court alleging that HB 4375 and SB 954 constitute an unlawful taking of private property and violate due process, among other issues. The company has also requested an injunction to stay the immediate implementation of the two laws. A hearing is schedule on the injunction request for July 30–31, 2018.

**Financial Policy and Capital Structure:** Management's financial policy, including targeted leverage and allocation of capital, will be key rating drivers. Parent SCG recently cut its dividend by 80%, preserving approximately $275 million in cash annually. Nonetheless, if the recently ordered 14 8% rate reduction were to be made permanent there will be a significant effect on SCE&G's credit metrics. Fitch expects SCE&G to average around 5.7x, above Fitch's previously stated downgrade threshold of 5.0x.

**SCG Merger with DEI:** The merger between Dominion Energy, Inc. (DEI) and SCE&G's parent, SCG, as currently proposed, would enhance SCG's credit quality, as it would bring SCG and its two utility subsidiaries into the fold of a larger and better capitalized entity. If the merger were to be consummated as originally envisioned, Fitch expects a stabilization of SCE&G's credit metrics and would consider an upgrade. An order is expected in DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding. Absent any new developments, SCG shareholders are scheduled to vote on the DEI merger on July 31, 2018.

**Parent/Subsidiary Rating Linkage:** Fitch focuses on operational ties between SCG, SCE&G and Public Service Company of North Carolina (PSNC: BBB–/Watch Evolving) in assessing the rating linkage between them, in accordance with its criteria for subsidiaries with stronger credit profiles than their parents. Fitch assesses the operational ties as strong given the shared management and centralized treasury operations. In addition, SCE&G generates the majority of SCG's earnings, while PSNC relies on equity infusions from SCG to implement its expansion program. As a result, Fitch currently rates SCE&G and PSNC one notch above SCG.

## Rating Derivation Relative to Peers

| Rating Derivation Versus Peers | |
|---|---|
| Peer Comparison | SCE&G is a vertically integrated regulated utility company operating exclusively in South Carolina. SCE&G's credit profile is constrained by the heightened regulatory and legislative risk related to the abandonment of its nuclear expansion project. SCE&G has a smaller scale and balance sheet than Georgia Power Company (A/Negative), who undertook similar new nuclear construction risk. SCE&G and Dayton Power & Light Company (DP&L, BBB–/Positive) both operate regulated assets with evolving regulatory constructs. |
| Parent/Subsidiary Linkage | Fitch focuses on operational ties between SCANA, SCE&G and PSNC in assessing the rating linkage between them, in accordance with its criteria for subsidiaries with stronger credit profiles than their parents. Fitch assesses the operational ties as strong given the shared management and centralized treasury operations. In addition, SCE&G generates the majority of SCANA's earnings, while PSNC relies on equity infusions from SCANA to implement its expansion program. As a result, Fitch currently rates SCE&G and PSNC one notch above SCANA. The short-term IDR of South Carolina Fuel Company, Inc. (Fuel Co; F3) is equal to that of SCE&G, as SCE&G is a guarantor to the credit facility acting as a backstop to Fuel Co's CP program. |
| Country Ceiling | No Country Ceiling constraint was in effect for these ratings. |
| Operating Environment | No operating environment influence was in effect for these ratings. |
| Other Factors | Not applicable. |

Source: Fitch Solutions.

## Rating Sensitivities

**Future Developments That May, Individually or Collectively, Lead to Positive Rating Action**

- The ratings could be upgraded if the merger into DEI and resolution of new nuclear issues result in SCE&G's adjusted debt/EBITDAR stabilizing around 3.5x–4.0x

**Future Developments That May, Individually or Collectively, Lead to Negative Rating Action**

- The merger with DEI fails to close;
- Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12 months–18 months;
- Unfavorable terms for the recovery of stranded costs, and/or material unrecoverable costs;
- Continued deterioration in the regulatory and legislative environment in South Carolina;
- Adjusted debt/EBITDAR consistently and materially exceeding 5 0x.

## Liquidity and Debt Structure

**Adequate Liquidity:** SCE&G (inclusive of South Carolina Fuel Co 's facilities) had $1 154 billion available under $1.4 billion of consolidated committed credit agreements as of March 31, 2018 ($1.2 billion maturing in December 2020 and $200 million maturing in December 2018). Additionally, SCE&G held $190 million cash and cash equivalents as of March 31, 2018. SCE&G has two first mortgage bond maturities in November 2018 totaling $550 million. Not giving effect to potential refinancing or retirement of the November maturities, as of Dec. 31, 2017, the company has the ability to issue approximately $1 billion in additional mortgage debt. If SCE&G is not able to refinance the bonds in the corporate market, Fitch expects the company to be able to access its credit lines.



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## Debt Maturities and Liquidity at FYE17

| Liquidity Summary | Original 12/31/2017 | Original 3/31/2018 |
|---|---|---|
| (USD Mil.) | | |
| Total Cash & Cash Equivalents | 395 | 190 |
| Short-Term Investments | 0 | 0 |
| Less. Not Readily Available Cash and Cash Equivalents | 0 | 0 |
| **Fitch-defined Readily Available Cash and Cash Equivalents** | 395 | 190 |
| Availability under Committed Lines of Credit | 1,148 | 1,154 |
| **Total Liquidity** | 1,543 | 1,344 |
| **LTM EBITDA** | 1,395 | 1,302 |
| **LTM FCF** | -241 | -381 |

Source: Fitch Solutions, company filings.

| Scheduled Debt Maturities[a] | Original |
|---|---|
| (USD Mil.) | |
| December 31, 2018 | 723 |
| December 31, 2019 | 12 |
| December 31, 2020 | 12 |
| December 31, 2021 | 40 |
| December 31, 2022 | 9 |
| Thereafter | 4,501 |
| **Total Debt Maturities** | 5,297 |

[a]As of March 31, 2018.

Source: Fitch Solutions, company filings.



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## Key Rating Issues

**V C. Summer 2 and 3 Abandonment**

| | | | |
|---|---|---|---|
| The Issue | Abandonment decision | | |
| Our View | SCE&G announced on July 31, 2017 that it would cease construction of the two new nuclear units at Summer The ability to complete the project was impenled by the March 29, 2017 bankruptcy filing of Westinghouse Electric Co LLC (WEC) and that company's subsequent rejection of the fixed-price engineering, procurement and construction (EPC) contract for Summer Units 2 and 3. Ultimately, SCE&G made the decision after 45% project partner, South Carolina Public Service Authority (Santee Cooper), decided to halt its participation SCE&G's abandonment decision has resulted in significant uncertainty regarding the recovery of $4 9 billion of expenditures. At the time construction ceased, SCE&G was collecting revised rates based upon $3 8 billion of expenditures under the Base Load Review Act (BLRA). The BLRA, which was passed in 2007, was expected to alleviate financial risk resulting from the large construction project by providing for a mechanism for the timely recovery of and on prudently deployed capital. While Fitch initially viewed the BLRA as supportive, it has noted that in the case of abandonment, the BRLA does not specify the rate mechanism or the time period of such recovery. An additional concern has arisen from the ambiguity as to the definition of "prudence " Owing to the uncertain recovery of part, or all, of the new nuclear expenditures, SCE&G has recognized an impairment of $1.118 billion ($690 million after tax) Fitch expects additional impairments are likely. | | |
| Timeline: | Near term | Rating Impact | Negative |

| | | | |
|---|---|---|---|
| The Issue | Toshiba settlement and monetization | | |
| Our View | SCE&G and Santee Cooper reached an agreement on July 27, 2017 with the Toshiba Corporation, pre-bankruptcy parent of WEC, to settle claims arising out of the EPC contract for the two abandoned units. SCE&G's 55% portion of settlement agreement was $1.192 billion, with the amount to be paid out over five years. The settlement amount has been booked as a regulatory liability, and as such, is to be used ultimately to benefit SCE&G customers SCE&G monetized the Toshiba settlement on Sept. 27, 2017 and received $1 016 billion for its portion. Fitch views the monetization as favorable given the mitigation of future credit risk and the boost to SCE&G's liquidity resulting from the use of proceeds to repay short-term debt. The ORS has asked the PSC to review the most prudent way for SCE&G customers realize the value of the Toshiba settlement. The request is part of the multi-docketed proceeding that is to be decided on Dec. 21, 2018. | | |
| Timeline: | Near term | Rating Impact: | Positive |

| | | | |
|---|---|---|---|
| The Issue | Legislative response | | |
| Our View | SCE&G's abandonment decision set the stage for a contentious legal and regulatory battle over SCE&G's recovery of $4.9 billion in stranded costs. Fitch views the uncertainty surrounding the regulatory construct for the recovery of stranded costs in the abandoned nuclear project as the primary concern for SCE&G's credit profile. Shortly after abandonment, challenges to the constitutionality of the BLRA and accompanying rate mechanisms cast doubt on the recovery of the nuclear expansion expenditures. After numerous committee meetings, proposed legislation, and spirited floor debates, the Legislature passed HB 4375 and SB 954 on June 28, 2018.<br><br>HB 4375 mandated that the PSC institute a 14 8% rate cut Under the legislation, the rate cut is considered an "experimental rate" until the PSC issues an order in a multi-docketed proceeding by Dec. 21, 2018. If allowed to stand, Fitch considers the magnitude of the cut to be detrimental to SCE&G's credit metrics. In addition to the rate cut, HB 4375 made changes to definitions and statutory components of the state's utility regulation Among such items are an expansive definition of prudence, removal of the mandate that the ORS must consider preservation of a utility's financial integrity, and granting the ORS subpoena powers A second bill (SB 954) passed by the Legislature orders the PSC to deviate from the statutory six-month limit on rate proceedings and prohibits an order in the multi-docketed proceeding before Nov. 1, 2018. If allowed to stand, the new legislation is likely to result in diminished regulatory support, in Fitch's opinion SCE&G has filed a lawsuit in federal court alleging that HB 4375 and SB 954 constitute an unlawful taking of private property and violate due process, among other issues. The company has also requested an injunction to stay the immediate implementation of the two laws It is not known how quickly the court will rule on the issue. | | |
| Timeline: | Near term | Rating Impact: | Negative |

| | | | |
|---|---|---|---|
| The Issue | Regulatory proceedings | | |
| Our View | Two environmental groups filed a complaint with the PSC in June 2017 requesting a formal proceeding to investigate the expenditures and rate recovery related to the new Summer units. In response to SCE&G's July 31 2017 decision to abandon the new nuclear units, the ORS filed a petition with PSC on Sept. 26. 2017 requesting immediate suspension of all revenue collections linked to the nuclear expansion program until the legality of the BLRA is adjudicated by the South Carolina Supreme Court, and to refund all revenues collected to date if the law is ruled unconstitutional The ORS subsequently amended its petition to request a determination of the most prudent allocation of the Toshiba guarantee proceeds. The environmental groups' and the ORS complaints are part of a multi-docketed proceeding that includes SCG's proposed combination with DEI Under SB 954, the Legislature ordered the PSC to deviate from the statutory six-month limit on rate proceedings and prohibits the PSC to hold hearings on the merits in the multi-docketed proceeding before Nov 1, 2018 and specifies that an order must be issued no later than Dec 21, 2018. Fitch is concerned that the expected December order could include a rate cut of the same magnitude as the temporary rate specified in HB 4375. Additionally Fitch is concerned that the deviation from the six-month statutory timeframe establishes a precedent that could expose the state's utilities to regulatory lag in the future<br><br>Consistent with HB 4375, the PSC issued orders on July 2 and July 3, 2018 implementing the 14 8% rate cut effective April 1, 2018. The rate reduction will be implemented beginning with the first billing cycle in August 2018 and will consist of a decrement rider for the 14 8% rate reduction on a forward basis and a one-time rate credit for the months of April, May, June and July The PSC published its procedural schedule in the multi-docketed proceeding on July 5, 2018 The ORS and environmental groups are directed to file testimony in the rate relief docket by August 14 and SCE&G's testimony is due Sept 18, 2018. | | |
| Timeline. | Near term | Rating Impact: | Negative |

Merger with DEI

| | | | |
|---|---|---|---|
| The Issue | Proposed merger with better capitalized company | | |
| Our View | The merger between DEI and SCE&G's parent, SCG, as currently proposed would enhance SCG's credit quality, as it would bring SCG and its two utility subsidiaries into the fold of a larger and better capitalized entity If the merger were to be consummated as originally envisioned, Fitch expects a stabilization of SCE&G's credit metrics and would consider an upgrade An order is expected in DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding SCE&G and DEI are directed to file testimony in the merger docket by Aug. 2, 2018 and the ORS by Sept. 18, 2018. Absent any new developments, SCG shareholders are scheduled to vote on the DEI merger on July 31, 2018 | | |
| Timeline: | Near term | Rating Impact: | Positive |



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## Key Assumptions

**Fitch's key assumptions within our rating case for the issuer include:**

- 14.8% rate reduction through the forecast period attributable to costs currently being collected for Summer Units 2 and 3;
- Additional new nuclear development impairment of $1.67 billion;
- Columbia Energy Center recovered through rates in 2021;
- Reduction of SCG $2 45 annual dividend by 80% (to $70 million from $344 million).

## Financial Data

| (USDm) | Historical | | | |
|---|---|---|---|---|
| | Dec 2014 | Dec 2015 | Dec 2016 | Dec 2017 |
| **SUMMARY INCOME STATEMENT** | | | | |
| Gross Revenue | 3,091 | 2,930 | 2,986 | 3,070 |
| Revenue Growth (%) | 8.6 | -5 2 | 1 9 | 2.8 |
| Operating EBITDA (Before Income From Associates) | 1,193 | 1,274 | 1,380 | 1,395 |
| Operating EBITDA Margin (%) | 38.6 | 43 5 | 46.2 | 45.4 |
| Operating EBITDAR | 1,205 | 1 286 | 1,392 | 1 406 |
| Operating EBITDAR Margin (%) | 39.0 | 43.9 | 46.6 | 45.8 |
| Operating EBIT | 830 | 934 | 1 013 | 1,028 |
| Operating EBIT Margin (%) | 26.9 | 31 9 | 33.9 | 33.5 |
| Gross Interest Expense | -242 | -248 | -270 | -303 |
| Pretax Income (Including Associate Income/Loss) | 676 | 711 | 774 | -343 |
| **SUMMARY BALANCE SHEET** | | | | |
| Readily Available Cash and Equivalents | 100 | 130 | 164 | 395 |
| Total Debt With Equity Credit | 5,018 | 5,189 | 6,005 | 5,449 |
| Total Adjusted Debt with Equity Credit | 5,038 | 5,285 | 6,101 | 5,540 |
| Net Debt | 4,918 | 5,059 | 5,841 | 5,054 |
| **SUMMARY CASH FLOW STATEMENT** | | | | |
| Operating EBITDA | 1,193 | 1,274 | 1,380 | 1 395 |
| Cash Interest Paid | -210 | -228 | -251 | -303 |

| | | | | |
|---|---|---|---|---|
| Cash Tax | -177 | -5 | -100 | 98 |
| Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow) | 0 | 0 | 0 | 0 |
| Other Items Before FFO | 54 | -208 | 25 | -115 |
| Funds Flow From Operations | 860 | 833 | 1,054 | 1,075 |
| Change in Working Capital | -219 | 245 | -132 | -69 |
| Cash Flow From Operations (Fitch Defined) | 641 | 1,078 | 922 | 1,006 |
| Total Non-Operating/Nonrecurring Cash Flow | 0 | 0 | 0 | 0 |
| Capex | -934 | -1,008 | -1,399 | -928 |
| Capital Intensity (Capex/Revenue) | 30.2 | 34.4 | 46.9 | 30.2 |
| Common Dividends | -260 | -289 | -301 | -319 |
| FCF | -553 | -219 | -778 | -241 |
| Net Acquisitions and Divestitures | 275 | 975 | 0 | 1,096 |
| Other Investing and Financing Cash Flow Items | -556 | -1,071 | -50 | -71 |
| Net Debt Proceeds | 760 | 141 | 762 | -556 |
| Net Equity Proceeds | 82 | 204 | 100 | 3 |
| Total Change in Cash | 8 | 30 | 34 | 231 |
| **ADDITIONAL CASH FLOW MEASURES** | | | | |
| FFO Margin (%) | 27.8 | 28.4 | 35.3 | 35.0 |
| **Calculations for Forecast Publication** | | | | |
| Capex, Dividends, Acquisitions and Other Items Before FCF | -919 | -322 | -1,700 | -151 |
| FCF After Acquisitions and Divestitures | -278 | 756 | -778 | 855 |
| FCF Margin (After Net Acquisitions) (%) | -9.0 | 25.8 | -26.1 | 27.9 |
| **COVERAGE RATIOS** | | | | |
| FFO Interest Coverage (x) | 5.1 | 4.7 | 5.2 | 4.5 |
| FFO Fixed-Charge Coverage (x) | 4.9 | 4.5 | 5.0 | 4.4 |



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| | | | | |
|---|---|---|---|---|
| Operating EBITDAR/Interest Paid + Rents (x) | 5.4 | 5.4 | 5.3 | 4.5 |
| Operating EBITDA/Interest Paid (x) | 5.7 | 5.6 | 5.5 | 4.6 |
| **LEVERAGE RATIOS** | | | | |
| Total Adjusted Debt/Operating EBITDAR (x) | 4.2 | 4.1 | 4.4 | 3.9 |
| Total Adjusted Net Debt/Operating EBITDAR (x) | 4.1 | 4.0 | 4.3 | 3.7 |
| Total Debt with Equity Credit/Operating EBITDA (x) | 4.2 | 4.1 | 4.4 | 3.9 |
| FFO-Adjusted Leverage (x) | 4.7 | 4.9 | 4.6 | 4.0 |
| FFO-Adjusted Net Leverage (x) | 4.6 | 4.8 | 4.5 | 3.7 |



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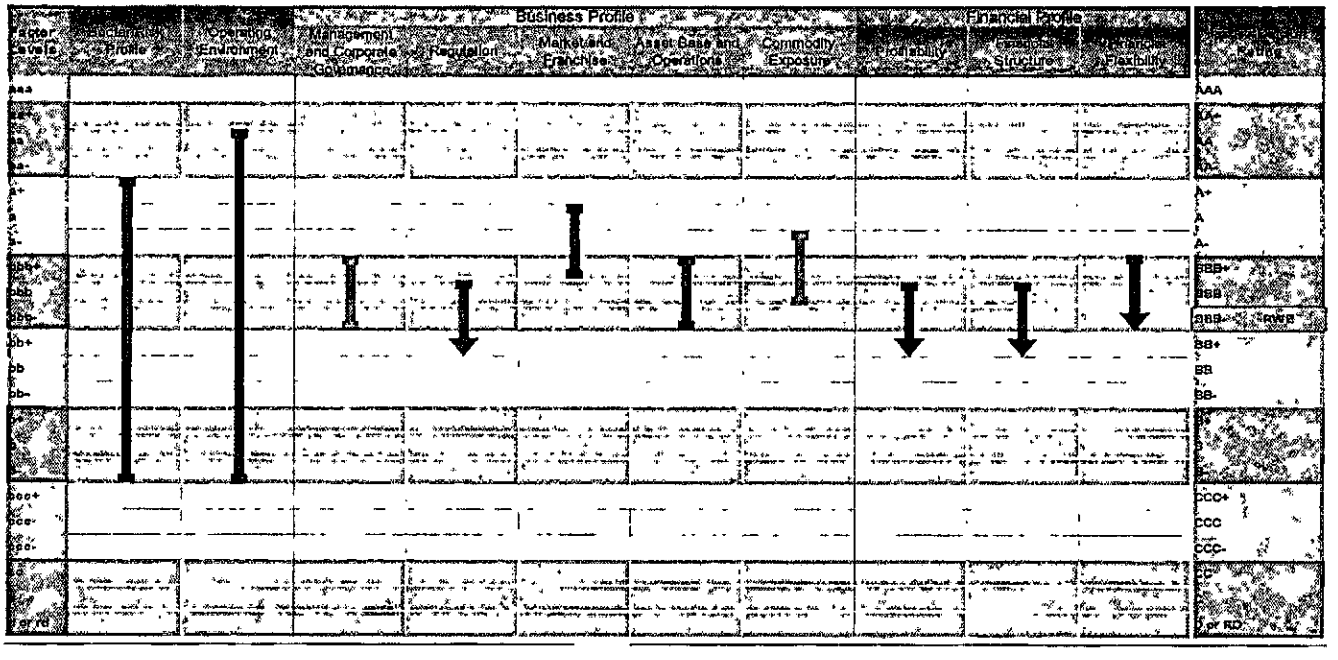
Rating Navigator

## South Carolina Electric & Gas Co.

Corporates Ratings Navigator
US Utilities



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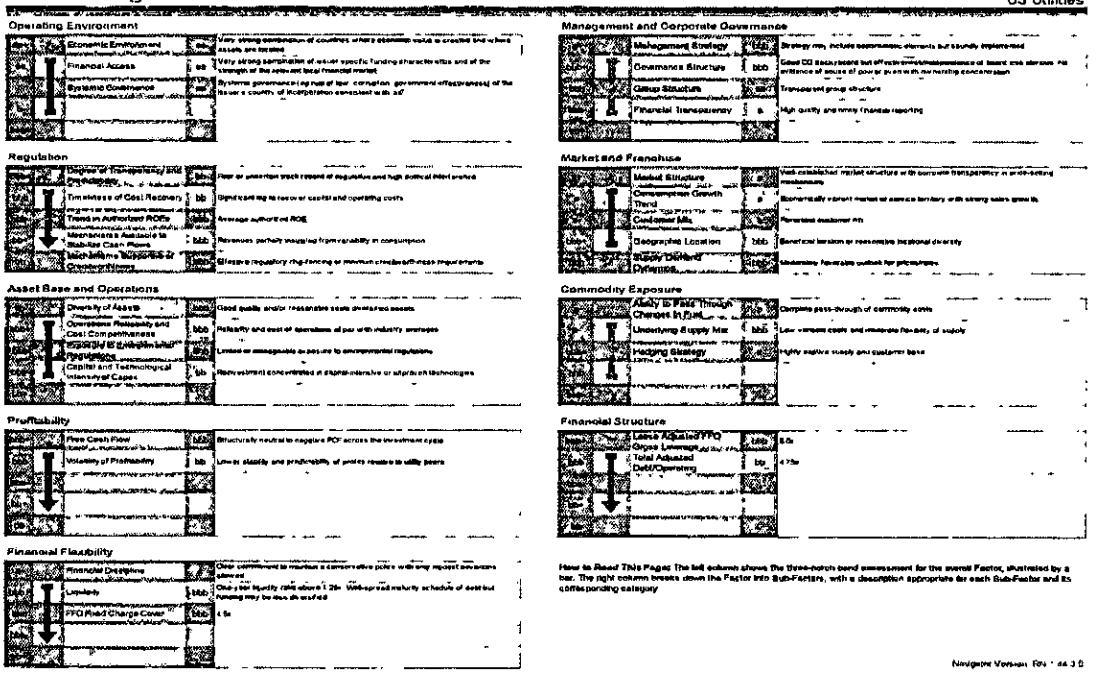
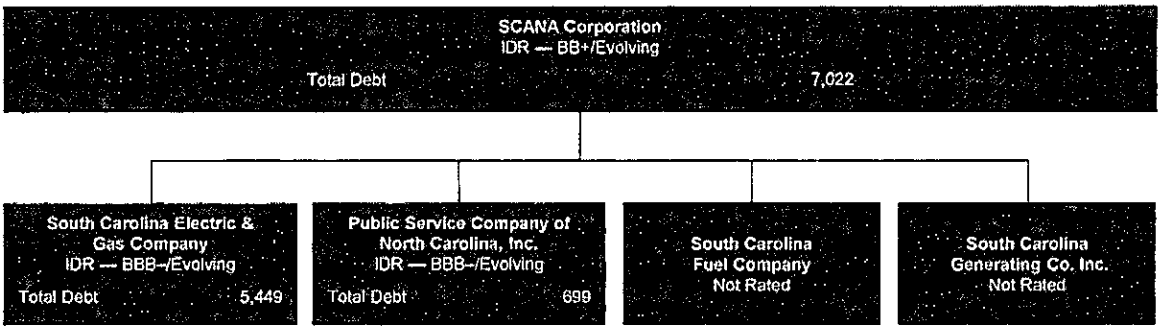
FitchRatings South Carolina Electric & Gas Co. Corporates Ratings Navigator US Utilities



## Simplified Group Structure Diagram

**Organizational and Debt Structure — South Carolina Electric & Gas Company**
($ Mil., As of Dec. 31, 2017)




Source: Company filings, Fitch.



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## Peer Financial Summary

| Company | Date | Rating | Gross Revenue | FFO Fixed Charge Coverage (x) | FFO Adjusted Leverage (x) | Funds Flow From Operations | Total Adjusted Debt/Operating EBITDAR (x) |
|---|---|---|---|---|---|---|---|
| South Carolina Electric & Gas Co | 2017 | BBB– | 3,070 | 4.4 | 4.0 | 1,075 | 3.9 |
| | 2016 | BBB | 2,986 | 5.0 | 4.6 | 1,054 | 4.4 |
| | 2015 | BBB | 2,930 | 4.5 | 4.9 | 833 | 4.1 |
| Dayton Power & Light Company | 2017 | BBB– | 720 | 7.5 | 2.9 | 198 | 3.2 |
| | 2016 | BB+ | 1,366 | 10.1 | 2.9 | 237 | 2.5 |
| | 2015 | BB+ | 1,552 | 8.3 | 3.1 | 233 | 2.6 |
| Indianapolis Power & Light Co. | 2017 | BBB– | 1,350 | 4.4 | 4.9 | 299 | 4.2 |
| | 2016 | BBB– | 1,347 | 5.1 | 4.2 | 344 | 3.7 |
| | 2015 | BBB– | 1,250 | 6.5 | 4.3 | 307 | 3.9 |
| Appalachian Power Co. | 2017 | BBB | 2,902 | 5.0 | 3.8 | 848 | 3.7 |
| | 2016 | BBB | 2,970 | 5.3 | 3.7 | 853 | 3.5 |
| | 2015 | BBB– | 2,930 | 4.8 | 3.9 | 799 | 3.6 |

Source: Fitch Solutions.



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## Reconciliation of Key Financial Metrics

| (USD Millions, As reported) | 31 Dec 2017 |
|---|---|
| **Income Statement Summary** | |
| Operating EBITDA | 1,395 |
| + Recurring Dividends Paid to Non-controlling Interest | 0 |
| + Recurring Dividends Received from Associates | 0 |
| + Additional Analyst Adjustment for Recurring I/S Minorities and Associates | 0 |
| **= Operating EBITDA After Associates and Minorities (k)** | 1,395 |
| **+ Operating Lease Expense Treated as Capitalised (h)** | 11 |
| **= Operating EBITDAR after Associates and Minorities (j)** | 1,406 |
| **Debt & Cash Summary** | |
| **Total Debt with Equity Credit (l)** | 5,449 |
| + Lease-Equivalent Debt | 91 |
| + Other Off-Balance-Sheet Debt | 0 |
| **= Total Adjusted Debt with Equity Credit (a)** | 5,540 |
| Readily Available Cash [Fitch-Defined] | 395 |
| + Readily Available Marketable Securities [Fitch-Defined] | 0 |
| **= Readily Available Cash & Equivalents (o)** | 395 |
| **Total Adjusted Net Debt (b)** | 5,145 |
| **Cash-Flow Summary** | |
| **Preferred Dividends (Paid) (f)** | 0 |
| Interest Received | 0 |
| **+ Interest (Paid) (d)** | (303) |
| **= Net Finance Charge (e)** | (303) |
| **Funds From Operations [FFO] ( c)** | 1,075 |
| + Change in Working Capital [Fitch-Defined] | (69) |
| **= Cash Flow from Operations [CFO] (n)** | 1,006 |
| **Capital Expenditures (m)** | (928) |
| **Multiple applied to Capitalised Leases** | 8.0 |
| **Gross Leverage** | |
| **Total Adjusted Debt / Op. EBITDAR* [x] (a/j)** | 3.9 |
| **FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))** | 4.0 |
| *Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)* | |
| **Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)** | 3.9 |
| **Net Leverage** | |
| **Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)** | 3.7 |
| **FFO Adjusted Net Leverage [x] (b/(c-e+h-f))** | 3.7 |
| *Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)* | |
| **Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))** | 64.8 |
| **Coverage** | |
| **Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)** | 4.5 |
| **Op. EBITDA / Interest Paid* [x] (k/(-d))** | 4.6 |
| **FFO Fixed Charge Cover [x] ((c-e+h-f)/(-d+h-f))** | 4.4 |
| *(FFO - Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)* | |
| **FFO Gross Interest Coverage [x] ((c-e-f)/(-d-f))** | 4.5 |
| *(FFO - Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)* | |

* EBITDA/R after Dividends to Associates and Minorities

Source: Fitch, based on information from company reports.

## Fitch Adjustment Reconciliation

| | Reported Values 31 Dec 17 | Sum of Fitch Adjustments | Fair Value and Other Debt Adjustments | Other Adjustment | Adjusted Values |
|---|---|---|---|---|---|
| **Income Statement Summary** | | | | | |
| Revenue | 3,070 | 0 | | | 3,070 |
| Operating EBITDAR | 1,362 | 44 | | 44 | 1,406 |
| Operating EBITDAR after Associates and Minorities | 1,362 | 44 | | 44 | 1,406 |
| Operating Lease Expense | 11 | 0 | | | 11 |
| Operating EBITDA | 1,351 | 44 | | 44 | 1,395 |
| Operating EBITDA after Associates and Minorities | 1,351 | 44 | | 44 | 1,395 |
| Operating EBIT | 1,028 | 0 | | | 1,028 |
| **Debt & Cash Summary** | | | | | |
| Total Debt With Equity Credit | 5,416 | 33 | 33 | | 5,449 |
| Total Adjusted Debt With Equity Credit | 5,507 | 33 | 33 | | 5,540 |
| Lease-Equivalent Debt | 91 | 0 | | | 91 |
| Other Off-Balance Sheet Debt | 0 | 0 | | | 0 |
| Readily Available Cash & Equivalents | 395 | 0 | | | 395 |
| Not Readily Available Cash & Equivalents | 0 | 0 | | | 0 |
| **Cash-Flow Summary** | | | | | |
| Preferred Dividends (Paid) | 0 | 0 | | | 0 |
| Interest Received | 0 | 0 | | | 0 |
| Interest (Paid) | (288) | (15) | | (15) | (303) |
| Funds From Operations [FFO] | 1,075 | 0 | | | 1,075 |
| Change in Working Capital [Fitch-Defined] | (69) | 0 | | | (69) |
| Cash Flow from Operations [CFO] | 1,006 | 0 | | | 1,006 |
| Non-Operating/Non-Recurring Cash Flow | 0 | 0 | | | 0 |
| Capital (Expenditures) | (928) | 0 | | | (928) |
| Common Dividends (Paid) | (319) | 0 | | | (319) |
| Free Cash Flow [FCF] | (241) | 0 | | | (241) |
| **Gross Leverage** | | | | | |
| Total Adjusted Debt / Op. EBITDAR* [x] | 4.0 | | | | 3.9 |
| FFO Adjusted Leverage [x] | 4.0 | | | | 4.0 |
| Total Debt With Equity Credit / Op. EBITDA* [x] | 4.0 | | | | 3.9 |
| **Net Leverage** | | | | | |
| Total Adjusted Net Debt / Op. EBITDAR* [x] | 3.8 | | | | 3.7 |
| FFO Adjusted Net Leverage [x] | 3.7 | | | | 3.7 |
| Total Net Debt / (CFO - Capex) [x] | 64.4 | | | | 64.8 |
| **Coverage** | | | | | |
| Op. EBITDAR / (Interest Paid + Lease Expense)* [x] | 4.6 | | | | 4.5 |
| Op. EBITDA / Interest Paid* [x] | 4.7 | | | | 4.6 |
| FFO Fixed Charge Coverage [x] | 4.6 | | | | 4.4 |
| FFO Interest Coverage [x] | 4.7 | | | | 4.5 |

*EBITDA/R after Dividends to Associates and Minorities

Source: Fitch



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## Full List of Ratings

| South Carolina Electric & Gas Co. | Rating Outlook | Last Rating Action |
|---|---|---|
| Long-Term IDR | BBB– Rating Watch Evolving | Rating Watch Maintained 03 July 2018 |
| Short-Term IDR | F3 | Rating Watch Maintained 03 July 2018 |
| Senior Secured | BBB+ | Rating Watch Maintained 03 July 2018 |
| Senior Unsecured | BBB | Rating Watch Maintained 03 July 2018 |
| CP | F3 | Rating Watch Maintained 03 July 2018 |

## Related Research & Criteria

Fitch Maintains Rating Watch Evolving on SCANA and Subsidiaries (July 2018)

Corporate Rating Criteria (March 2018)

Parent and Subsidiary Rating Linkage (February 2018)

Fitch Revises Rating Watch on SCANA and Subsidiaries to Evolving (January 2018)

Fitch Downgrades SCANA to 'BB+' / SCE&G to 'BBB-', Negative Watch Maintained (September 2017)

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REVISING O'DONNELL TABLE 1 AND EXHIBIT KWO-1)

| | O'Donnell Bond Issues | O'Donnell Cumulative Issues | O'Donnell Error | Corrected Cumulative Issues | O'Donnell Interest Costs | Corrected Int. Cost | SCE&G Debt Maturities | Cumulative Total Issues with Refi | Incremental Interest cost: Baa3/BBB-/BB+ (1) | Incremental Interest cost: Range, Ba / BB/BB Category (1) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | KWO-1, Col. 4 | KWO-1, Col.5 | | Recalculate | KWO-1, Col.6 | Recalculate | | | | | |
| | | | | | 0.1667% | 0.1667% | | | 0.55% | 0.75% | 0.95% |
| 2018 | 198,675,782 | 198,675,782 | | 198,675,782 | 331,126 | 331,193 | 700,000,000 | 898,675,782 | 4,942,717 | 4,942,717 | 4,942,717 (2) |
| 2019 | 111,120,987 | 111,120,987 | | 309,796,769 | 516,328 | 516,431 | | 1,009,796,769 | 5,553,882 | 7,573,476 | 9,593,069 |
| 2020 | 113,621,209 | 113,621,209 | | 423,417,978 | 705,697 | 705,838 | | 1,123,417,978 | 6,178,799 | 8,425,635 | 10,672,471 |
| 2021 | 116,177,686 | 116,177,686 | | 539,595,664 | 899,326 | 899,506 | 331,000,000 | 1,570,595,664 | 8,638,276 | 11,779,467 | 14,920,659 |
| 2022 | 261,193,114 | 658,387,349 | (142,401,429) | 800,788,778 | 1,097,312 | 1,334,915 | | 1,831,788,778 | 10,074,838 | 13,738,416 | 17,401,993 |
| 2023 | 263,865,927 | 779,851,847 | (142,401,429) | 1,064,654,705 | 1,299,753 | 1,774,779 | | 2,095,654,705 | 11,526,101 | 15,717,410 | 19,908,720 |
| 2024 | 124,197,449 | 904,049,296 | | 1,188,852,154 | 1,506,749 | 1,981,817 | | 2,219,852,154 | 12,209,187 | 16,648,891 | 21,088,595 |
| 2025 | 126,991,891 | 1,031,041,187 | | 1,315,844,045 | 1,718,402 | 2,193,512 | | 2,346,844,045 | 12,907,642 | 17,601,330 | 22,295,018 |
| 2026 | 129,849,209 | 1,160,890,396 | | 1,445,693,254 | 1,934,817 | 2,409,971 | | 2,476,693,254 | 13,621,813 | 18,575,199 | 23,528,586 |
| 2027 | 132,770,816 | 1,293,661,212 | | 1,578,464,070 | 2,156,102 | 2,631,300 | | 2,609,464,070 | 14,352,052 | 19,570,981 | 24,789,909 |
| 2028 | 135,758,159 | 1,429,419,371 | | 1,714,222,229 | 2,382,366 | 2,857,608 | 400,000,000 | 3,145,222,229 | 17,298,722 | 23,589,167 | 29,879,611 |
| 2029 | 138,812,718 | 1,568,232,089 | | 1,853,034,947 | 2,613,720 | 3,089,009 | | 3,284,034,947 | 18,062,192 | 24,630,262 | 31,198,332 |
| 2030 | 141,936,004 | 1,710,168,093 | | 1,994,970,951 | 2,850,280 | 3,325,617 | | 3,425,970,951 | 18,842,840 | 25,694,782 | 32,546,724 |
| 2031 | 205,053,921 | 1,855,297,657 | (59,924,357) | 2,200,024,872 | 3,092,163 | 3,667,441 | | 3,631,024,872 | 19,970,637 | 27,232,687 | 34,494,736 |
| 2032 | 148,394,979 | 2,003,692,636 | | 2,348,419,851 | 3,339,488 | 3,914,816 | 300,000,000 | 4,079,419,851 | 22,436,809 | 30,595,649 | 38,754,489 |
| 2033 | 151,733,866 | 2,155,426,502 | | 2,500,153,717 | 3,592,378 | 4,167,756 | 500,000,000 | 4,731,153,717 | 26,021,345 | 35,483,653 | 44,945,960 |
| 2034 | 155,147,878 | 2,310,574,380 | | 2,655,301,595 | 3,850,957 | 4,426,388 | | 4,886,301,595 | 26,874,659 | 36,647,262 | 46,419,865 |
| 2035 | 158,638,705 | 2,469,213,085 | | 2,813,940,300 | 4,115,355 | 4,690,838 | 100,000,000 | 5,144,940,300 | 28,297,172 | 38,587,052 | 48,876,933 |
| 2036 | 162,208,076 | 2,631,421,161 | | 2,976,148,376 | 4,385,702 | 4,961,239 | 125,000,000 | 5,432,148,376 | 29,876,816 | 40,741,113 | 51,605,410 |
| 2037 | 165,857,758 | 2,797,278,919 | | 3,142,006,134 | 4,662,132 | 5,237,724 | | 5,598,006,134 | 30,789,034 | 41,985,046 | 53,181,058 |
| 2038 | 169,589,558 | 2,966,868,477 | | 3,311,595,692 | 4,944,781 | 5,520,430 | 535,000,000 | 6,302,595,692 | 34,664,276 | 47,269,468 | 59,874,659 |
| 2039 | 173,405,323 | 3,140,273,800 | | 3,485,001,015 | 5,233,790 | 5,809,497 | 150,000,000 | 6,626,001,015 | 36,443,006 | 49,695,008 | 62,947,010 |
| 2040 | 177,306,942 | 3,317,580,742 | | 3,662,307,957 | 5,529,301 | 6,105,067 | | 6,803,307,957 | 37,418,194 | 51,024,810 | 64,631,426 |
| 2041 | 181,296,349 | 3,498,877,091 | | 3,843,604,306 | 5,831,462 | 6,407,288 | 350,000,000 | 7,334,604,306 | 40,340,324 | 55,009,532 | 69,678,741 |
| 2042 | 185,375,516 | 3,684,252,607 | | 4,028,979,822 | 6,140,421 | 6,716,309 | 500,000,000 | 8,019,979,822 | 44,109,889 | 60,149,849 | 76,189,808 |
| 2043 | 189,546,466 | 3,873,799,073 | | 4,218,526,288 | 6,456,332 | 7,032,283 | 400,000,000 | 8,609,526,288 | 47,352,395 | 64,571,447 | 81,790,500 |
| 2044 | 193,811,261 | 4,067,610,334 | | 4,412,337,549 | 6,779,351 | 7,355,367 | | 9,228,337,549 | 50,755,857 | 69,212,532 | 87,669,207 |
| 2045 | 198,172,014 | 4,265,782,348 | | 4,610,509,563 | 7,109,637 | 7,685,719 | | 9,426,509,563 | 51,845,803 | 70,698,822 | 89,551,841 |
| 2046 | 202,630,885 | 4,468,413,233 | | 4,813,140,448 | 7,447,355 | 8,023,505 | 425,000,000 | 10,054,140,448 | 55,297,772 | 75,406,053 | 95,514,334 |
| 2047 | 207,190,080 | 4,675,603,313 | | 5,020,330,528 | 7,792,672 | 8,368,891 | | 10,261,330,528 | 56,437,318 | 76,959,979 | 97,482,640 |
| Total | 5,020,330,528 | 4,675,603,313 | (344,727,215) | 5,020,330,528 | 110,315,255 | 124,142,056 | 4,816,000,000 | 10,261,330,528 | 793,140,366 | 1,079,757,693 | 1,366,375,021 |

Notes

(1) Ratings by Moody's/S&P/ Fitch

(2) Refunding carried out in August 2018 at incremental credit spread of over 50 basis points