BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA

PROCEEDING #17-10633   NOVEMBER 9, 2017  1:03 P.M.

ALLOWABLE EX PARTE BRIEFING - ND-2017-27-e
SOUTH CAROLINA OFFICE OF REGULATORY STAFF - Request That South Carolina Electric & Gas Company Be Ordered to Provide an Allowable Ex Parte Briefing

Allowable Ex Parte Briefing by South Carolina Electric & Gas Company In Re: Update on the Status of Activities at the V.C. Summer Units 2 and 3 nuclear construction site

TRANSCRIPT OF ALLOWABLE PROCEEDINGS EX PARTE BRIEFING

COMMISSION MEMBERS PRESENT:  Swain E. WHITFIELD, CHAIRMAN; Comer H. ‘Randy’ RANDALL, VICE CHAIRMAN; and COMMISSIONERS John E. ‘Butch’ HOWARD, Elliott F. ELAM, Jr., Elizabeth B. ‘Lib’ FLEMING, Robert T. ‘Bob’ BOCKMAN, and G. O’Neal HAMILTON

ADVISOR TO COMMISSION: Joseph Melchers, Esq. General Counsel

STAFF: Jocelyn G. Boyd, Chief Clerk/Administrator; F. David Butler, Esq., Senior Counsel; James Spearman, Ph.D., Executive Assistant to Commissioners; B. Randall Dong, Esq., Josh Minges, Esq., and David W. Stark, III, Esq., Legal Staff; William O. Richardson, Douglas K. Pratt, Thomas Ellison, and John Powers, Technical Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM/M-GNSC, Court Reporter; and Afton Ellison, Hope Adams, and Calvin Woods, Hearing Room Assistants

APPEARANCES:

K. CHAD BURGESS, ESQUIRE, together with Stephen A. Byrne [Executive VP, SCANA; COO and President/Generation and Transmission, SCE&G], James E. Swan, IV [VP and Controller, SCANA], and Todd B. Johnson, [General Manager, Organization and Development Effectiveness, SCE&G] representing and presenting for SOUTH CAROLINA ELECTRIC & GAS COMPANY
APPEARANCES [CONT’G]:

SHANNON BOWYER HUDSON, ESQUIRE, representing the SOUTH CAROLINA OFFICE OF REGULATORY STAFF
Status of Activities at the V.C. Summer Units 2 & 3 Site

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P R O C E E D I N G S

CHAIRMAN WHITFIELD: Please be seated. I'll call this allowable ex parte briefing to order and ask our attorney, Mr. Melchers, to read the docket.

MR. MELCHERS: Thank you, Mr. Chairman.

Commissioners, we are here pursuant to a Notice of Allowable Ex Parte Communication Briefing. The date and time of the briefing was scheduled for today, November 9th, here in the Commission hearing room, at 1 o'clock. The party requesting the briefing is South Carolina Electric & Gas Company, and the subject matter to be discussed at this briefing is: Update on the Status of Activities at the V.C. Summer Units 2 and 3 Nuclear Construction Site.

Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Mr. Melchers.

Since this is an allowable ex parte briefing, I'm going to turn this over to the Office of Regulatory Staff, to Ms. Hudson, for some special instructions concerning allowable ex parte briefings.

MS. HUDSON: Good afternoon, Mr. Chairman, members of the Commission.

My name is Shannon Hudson, and I'm Deputy
Chief Counsel with the South Carolina Office of Regulatory Staff. I have been selected as the designee to certify that today's allowable ex parte briefing takes place in accordance with South Carolina Code 58-3-260(C)(6). Now, that statute sets forth certain parameters and rules under which this briefing must take place, and I'm going to go over a few of those with y'all right now.

First, this is a presentation by SCE&G and it is limited solely to an update on the status of activities at the V.C. Summer Units 2 and 3 nuclear construction site. Just that matter.

During today's presentation, SCE&G may not ask the Commission to take any action. On the converse, the Commission cannot indicate to SCE&G that it would take any action if it were asked to do so.

Next, a transcript of today's proceeding will be posted on the Commission's website Thursday — if I'm doing my math right, with tomorrow being Veterans' Day. And that being said, for those of you who have served in the military, thank you.

Then, lastly, you were either given or picked up the certification statement when you came in. Please sign it and return it on your way out. We
need it to certify today's proceeding. Thank you.

Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Ms. Hudson.

I will now call on the company. Mr. Burgess, if you would, I'll turn it over to you and your presenters.

MR. BURGESS: Thank you, Mr. Chairman.

And Mr. Chairman and members of the Commission, my name is Chad Burgess; I'm corporate counsel for SCE&G. We appreciate this opportunity in which you've opened up your doors to allow us to come over here and give you an update, as Ms. Hudson described, on the status of activities at the site.

We've got about 23 slides that our presenters are going to discuss with you. Those slides are bucketed into, really, two areas: One area is what's going on with the site, what's not going on with the site; and then, why that's important as to what's going on and what's not going on at the site. It's important from a tax perspective, and one of our presenters will educate you about that in more detail, as we move along.

So I'll go ahead and introduce these fellows and ask them to come on up to the table here, while
I'm doing that. Stephen Byrne is SCE&G's Chief Operating Officer. He's going to describe just an overview, set the table, if you would. He's got some slides to kind of walk you through, picture related. Todd Johnson, he's our general manager of Organization and Development Effectiveness. He works at the site. And then we also have James Swan, who is SCANA's Vice President and Controller, and he's going to cover with you the tax issues that are associated with the decisions that SCE&G has made related to the site.

Feel free, Mr. Chairman, and members of the Commission, to interrupt the presenters as we move along, or if you prefer to hold your questions till the end, it's entirely up to you. We are here at your pleasure, and we're happy to answer any and all questions that you have. Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Mr. Burgess. I believe we're going to allow them to present each of their presentations and then take questions at the end.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Ready, Mr. Chairman?

CHAIRMAN WHITFIELD: Yes, sir, Mr. Byrne. You
MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Well, good afternoon, Mr. Chairman, and members of the Commission.

[Reference: Presentation Slide 1]

We are here today to present the status of the activities at the site.

[Reference: Presentation Slide 2]

Chad has already introduced the presenters, but I think you're probably aware of me and my job title. To my right is Mr. Todd Johnson. Todd is a general manager of Organization and Development Effectiveness, and Todd was a long-term Unit 1 employee who relatively recently came over to the Units 2 and 3 side and is helping us with the wind-down activities at the site and eventually will transition back over to the Unit 1 side. And then to his right is Jim Swan, and Jim is our Vice President and Controller, and Jim will be here to explain some of the tax implications of what we're doing at the site.

[Reference: Presentation Slide 3]

So here's the – the situation is that site preservation is not in the best interests of our customers, and we're going to try to explain to you...
why that is, through this presentation, that the abandonment does bring with it a tax deduction that represents a large benefit to those customers, and taking that tax deduction in 2017 is pivotal. And, again, Mr. Swan will talk about that a little more in detail.

Contrary to some published reports, the equipment at the site is not rotting. We’ll show you that in some pictures, in a few minutes. And want to remind you the construction at this facility was always intended to be an open construction site, top down, meaning that the equipment was brought in largely with cranes and lowered in the site. The site was open and a lot of these components were going to be in that condition for many, many years, anyway. So it was open to the atmosphere.

And when finished at a nuclear power plant, if you go inside the reactor building or containment building or the turbine building, those are not air-conditioned spaces. It is very hot; it is very humid. And that’s the normal environment for most of this equipment to be in.

[Reference: Presentation Slide 4]

A couple of considerations for preservation:
We do have some things out there that are buried. We buried a lot of pipe relatively early. Most of that buried pipe is concrete or it's high-density polyethylene, or HDPE. The picture on the top is HDPE pipe. It is actually welded together or heat-treated together. And then a lot of the components were intended for outdoor applications anyway, so the switchyard, the cooling towers, all of our transformers were outside in the weather, just like they are for our operating unit, Unit 1, and all nuclear plants across the country.

Then, most metals will form a passive oxide layer. And to the uninitiated, when they first look at metal components that are outside and they see what they see as rust — that is rust, but it's a passive oxide layer, and that oxide layer does, as the name would imply, pacify the surface, so that rust doesn't then penetrate that layer. Stainless steel, a little bit different because it's got a lot of high chromium content and you can't see chromium oxide. You can see iron oxide.

The picture on this page is of the reactor vessel that's being lowered in. And you can see that, for the most part, the outer shell of this reactor vessel is carbon steel, so what you see
there is a passive oxide layer, and this is not
something we would do anything further with once we
put it inside of the reactor. We’d put insulation
around it, but we wouldn't coat it; we wouldn’t
protect it any further, and that oxide layer does
not damage the component at all.

[Reference: Presentation Slide 5]

Here's an example of some of the buried pipe.
This is relatively large-diameter circulating water
pipe, probably buried in the 2009-2010 timeframe.
So if you go to the site now, you don't see it, but
it is — it's concrete pipe.

[Reference: Presentation Slide 6]

A couple of photos of the site: These
photographs were taken, I think, July 24th, so it
would've been about one week prior to the cessation
of activities, so relatively recent. The site does
still largely look this way.

That [indicating] is Unit 2. There's Unit 3
[indicating]. This is the containment vessel
assembly area [indicating]. Again, these are
carbon steel plates — they're an inch and three-
quarter thick — out in the environment or out in
the elements, and some of these components have
been there for many, many years. Equipment storage
tents [indicating] near the top, so a lot of the
equipment that Todd will talk about in a few
minutes are inside of these storage tents. We've
got some here; we have some elsewhere on the site.
This represents, really, what we would call the
tabletop of the site. There's other equipment
stored in places other than on the tabletop.
That's the turbine building [indicating]. You can
see there that a lot of the roof panels have been
installed on that turbine building. And that's the
nuclear island [indicating], just above the turbine
building.

[Reference: Presentation Slide 7]
This is just 180 degrees around now. Same
day, same site. You can see the switchyard
[indicating]. You can see the service building,
which is now complete [indicating]. The heavy-lift
derrick, this is a component actually owned by
Westinghouse, the contractor, and it will be up to
them to disposition the heavy-lift derrick, but it
is still in place, currently. That's the module
assembly building [indicating], again, owned by
Westinghouse, up to them to disposition it. And
these are the cooling towers [indicating], and we
used low-profile, concrete cooling towers. So,
they're okay to be out in the elements, as well.

With that, I think I will turn it over to Mr. Johnson.

[Reference: Presentation Slide 8]

MR. TODD B. JOHNSON [SCE&G]: All right.

Appreciate the opportunity to come here and let you know the activities going on at the site.

Really, we can categorize these activities in four main buckets, the first being to stabilize the site and get it secured for longer term; returning vendor equipment, and there's a lot of effort and a lot of equipment was on rental that we have to get back to those vendors; closing out construction permits that we have open, and you'll see that we have 15 construction permits that we still have to close out; and then the collection and disposal of hazardous waste.

So the first area we'll look at kind of has two areas in it. The picture on the left, you see several pieces of vendor equipment, being a generator and a welding machine. Those had to be removed from the turbine building roof, and that's what you see there, and lowered down and then taken to a pickup point for the vendor to come on-site and retrieve that equipment. In addition, to
stabilize the site, we have to ensure that there's no potential of flying debris in the future and, also, that nothing will fall off the buildings in the future. So you can see on the left there were a lot of scaffolds, small equipment, that was on the roofs. And on the picture on the right is after we finished cleaning that off and have everything into a condition that is good for the long term. You would also notice that, on the right-hand picture, there is still a small section of the Unit 2 turbine building roof that is not complete, and that is over a stairwell in that area.

[Reference: Presentation Slide 9]

Here's some pictures of removing the third-party vendor equipment. Like I said, it's a number of different items, like office trailers, metal CONEXs, which are sea-land containers that you typically see on the highway, that was used to transport material. And these pictures are showing the dismantling of large cranes on-site, so it takes several cranes to actually disassemble one of the large ones, and that's what you see on the left. And then, on the right-hand side, after we disassemble these cranes, we staged them for pickup
by the vendor. So we have a number of items that
we're putting out in storage areas for pickup, and
that's ongoing through today and will probably
complete by mid-December.

[Reference: Presentation Slide 10]

On permits, as I said, we have 15 permits
open, and we're having to put these areas into a
condition that is acceptable to close, to meet
federal and State regulation. And on the picture
of the left, it shows you a drainage ditch that was
in process of being constructed, that we're having
to go in and complete that ditch to ensure that the
water flow meets our storm water plans that we have
in place. Also a picture on the right shows a hill
that was graded for construction of a parking lot.
So to be able to close this permit out, we have to
go in and seed that area, and wait until we get at
least 70 percent grass coverage in that area to be
allowed to close that permit out.

So these are the activities on the permit
closing that most likely will go into early 2018 to
be able to close it out, mainly because of having
to seed the land in those areas and get sufficient
grass to grow. And being the winter months,
there's — you know, we may get the grass to grow,
depending on the weather and be able to close them out, but it could go into early 2018 to be able to close these permits.

We also have two FAA permits, or Federal Aviation permits open. One is for the heavy-lift derrick that you saw, because it is over 200 feet tall. The other is a meteorological tower that is up on the site, and it has a permit. So once we get to the point of turning in our Combined Operating License, we will lay down the heavy-lift derrick and take down the meteorological tower, to be able to close those permits.

[Reference: Presentation Slide 11]

Here's some additional pictures of works to close out permits from the Corps of Engineering, and also FERC. These are cofferdams built. The picture on the left is our raw water intake structure that is on Lake Monticello. The picture on the right is our wastewater discharge into the Broad River. So we’re having to go in and pull these metal sheets out that were driven into the ground and restore that shoreline back to acceptable standards to meet Corps of Engineering and FERC regulations, and then we will be able to close those permits.
[Reference: Presentation Slide 12]

One of the other big areas: Hazardous waste collection. We have a number of chemicals throughout the site that were properly stored in storage cabinets, as you see on the right, that are used in construction activities. We had to go in and collect all of that material. We brought it back to a central location and we have a contract with a vendor to dispose of this material. And that's what you see there on the left, is one of our collection points waiting for pickup.

[Reference: Presentation Slide 13]

So those were the big four areas, but there's also other activities that we're doing. A lot of it is oversight of Westinghouse while they have their subcontractors come in and remove their equipment. And as we said, there are three main components owned by Westinghouse that will go into 2018 for being dismantled and taken off the site, that being the heavy-lift derrick that Mr. Byrne had showed you a picture of earlier on the overview; the modular assembly building; and also the concrete batch plant. Those are, right now, going to auction to be sold and removed from the site, but due to their size and the time it takes,
it will take place in early 2018.

Also we're having to review a number of vendor payments that were left from the final payments we had before stopping construction, so that has taken a large effort of people to go through those final payments. And then, also, we have the Combined Operating License that is still active, as of now. We did request a 30-day extension, and we now have a notification date of December 15th to let the NRC know that we're going to terminate that license.

[Reference: Presentation Slide 14]

So that takes us over to preventative maintenance. I know a lot of discussion has been here. We evaluated three options. We took the full scope of preventative maintenance that Westinghouse was doing and we reviewed that, and we pared it down, based on – a large number of items were small-bore valves that have little value, and it would take a lot of maintenance to upkeep them. These valves, even if you used them in the future, you would repack them and replace the gasket. So, really, you don't have to do preventative maintenance on those. And then there were some other low-value components that we took out of the population, looking at it.
That put us into a targeted PM decision of focusing preventative maintenance on those components that have value and could be salvaged. And then we also just considered doing no preventative maintenance.

So right now we have chosen to do Option 2, to focus on a small set of equipment that is not installed in the plant, and we are doing – we have a team coming in next week to begin that preventative maintenance. And this will be things like checking nitrogen pressure on components that have it, cleaning out the tents and make sure they maintain good conditions in those tents, and then end rotations of valves and things like that on these high-value pieces of equipment. And this would be done until we determine whether or not we're going to salvage any of that equipment.

But right now, doing preventative maintenance on anything installed or that could potentially impact our tax abandonment decision, we have no plans to do that right now. And anything that is scoped into that tax abandonment decision, all preventative maintenance will stop by the end of this year, to be able to take that tax deduction. And Jim will be – Mr. Swan will be talking about
that in a little bit.

On our warehouses, we do have two off-site warehouses and then we have several on-site warehouses. We're doing weekly walk-downs of those to verify that we have no significant water or environmental issues in those warehouses and tents. And we'll take a look at those two warehouses; we've got a few pictures of those. And right now, we're in the process of transferring the leases of the off-site warehouses to SCE&G, but we do have positive control of those off-site warehouses right now.

[Reference: Presentation Slide 15]

So here's a couple of examples of status of equipment on site. The picture on the left is the steam generator for Unit 2, one of the two steam generators. And as you can see, it does have a layer of oxidation on it. This is normal, this is what you would see at Unit 1 if you would remove the insulation, so it is a normal condition. And the picture on the right shows the coated inside of containment at Unit 2. So this is the condition, as of a few weeks ago; these pictures were taken. And all of these components were designed to be in the open atmosphere during construction, and so there
are no immediate needs to do anything with these components.

[Reference: Presentation Slide 16]

This picture shows the integrated head on top of the reactor head for Unit 2, on the left, and that is in a temperature-controlled tent. And on the right, you can see just a close-up view of the reactor head. And there again, it has a layer of oxidation on it. That is expected and normal for that condition. And this head is under a nitrogen purge to ensure that the internals of it are maintained.

[Reference: Presentation Slide 17]

A couple of other examples of what we’re doing to maintain the temps in warehouses. On the left, you see a dehumidifier; this is a rented piece of equipment and it is maintaining low humidity in the tent that contains the diesel generators for both units.

The picture in the middle is just a storage rack that the reactor coolant pump is sitting in, and there again, it’s in a tent. And you can see up at the top the small items up top of the tent, those are heaters that we will use in the winter, once the temperature starts to drop below 40
degrees. We'll use the control panel there on the right to activate those heaters and it will maintain the temperature in those tents to acceptable levels.

[Reference: Presentation Slide 18]

Here are some pictures of our on-site warehouses. As you can see, they're very clean. We've maintained those in a good condition. All the equipment inside is in good condition. There's no leaks in these warehouses. We are establishing a pest control, to have them come out and work to ensure we don't have spider webs and other things that can get into these buildings. And so we do check these each week to ensure that they are in good condition.

[Reference: Presentation Slide 19]

Here's the picture of the outside of the warehouse we have in West Columbia. And as you can see it's about 241,000 square feet, approximately.

[Reference: Presentation Slide 20]

Here's a picture of the inside of that warehouse; you can see it is also in very good condition. And we have teams that go into that warehouse at least weekly and verify the conditions inside of it. And as I said, we do have security
on these buildings to ensure that we have no issues at these locations.

And I'll turn it over to Mr. Swan.

[Reference: Presentation Slide 21]

MR. JAMES E. SWAN, IV [SCANA]: Good afternoon, Mr. Chairman, and Commissioners. Thank you for letting me speak today.

[Reference: Presentation Slide 22]

I have been asked to give you just a little overview of this abandonment tax position that we're seeking to obtain here in 2017. The other presenters have kind of given you an overview of what's going on at this site, and all of that is directed at trying to do our best to capture this tax benefit for our customers here in 2017.

I just have a couple of slides to sort of frame the discussion. The first one, you'll see up near the top, describes how significant this tax benefit could be to our customers. About 40 percent of the cost that has been expended on the project could be recovered through this tax deduction when you consider it along with the earlier research deductions that we have claimed. So it's a sizable benefit and, again, any tax deduction that we could capture sooner, rather than
later, would be a benefit to the customers, so
that’s what we’re really trying to do here.

The middle of the page talks about the
timeframe and really gets more to the importance of
that 2017 tax position.

Back in 2015, we sold a couple of subsidiaries
and we ended up paying significant income taxes on
those gains. So we have this tax back in 2015 that
we could go back and carryback a loss to, and we
could receive a sizable tax refund if we’re able to
capture this deduction in 2017. The carryback
rules only would allow us to go back two years, so
if we don’t capture this tax benefit in ‘17 but it
slips out into ‘18, then we can’t get back that
2015 tax payment. So it’s pretty significant; it’s
about $200 million that’s out there, that we could
capture.

The other thing in the next bullet really
talks about the prospect of tax reform. I,
personally, don’t know whether tax reform will
happen or not, but there’s a lot of talk about it.
And from what we, you know, understand about the
tax reform ideas, they would involve lower tax
rates. The tax benefit would necessarily be
smaller in a low-rate environment than in a high-
rate environment, so, to the extent we can capture any of those dollars in 2017 while the rates are still high, that would be better for the customers.

The bottom of this slide really highlights the Code descriptions of the criteria around this deduction. The idea is that we have to irrevocably intend to discard the assets and not to make use of them in the future. We have to truly and genuinely believe that we have no future plans for those assets and that those assets will not again be used in our business. So that's a very high threshold, and there's going to be an analysis by the IRS of the facts and circumstances as they exist. They will almost certainly challenge any claim we make along these lines, and the facts that are sort of in play at that time will drive the decision.

So we have to state our intent to abandon and then we have to act in accordance with those statements. We have to behave as if we mean it, and we have to — we actually have to behave consistently with that intention.

[Reference: Presentation Slide 23]

The next slide shows you some examples of some things that would be consistent with that intention. And at the bottom of the slide, there's
some examples of some things that would sort of be the bad facts; they would be things that would be inconsistent with that determination.

I was really just going to point you to a couple in the top section that I think are particularly important. The first couple get to, sort of, our public announcements. We have to have made a public notification of our decision. And we've done that. The IRS may also want to look at our corporate governance, and they may want to see that the board resolutions and the board activity around the project is consistent with management's plan of abandonment. So we'll certainly be getting those things in place as we near the end of the year. A lot of these, by the way, you've already heard from the other presenters that we're doing these things. We've ceased construction, we've demobilized the site, that sort of thing, and we're deconstructing equipment.

The last one on that first list that I do want to mention was the removal of the cost from the construction-work-in-progress accounts. It was very important that we demonstrate in our Securities and Exchange Commission filings that we had abandoned the project, so we moved the costs
that had accumulated in the construction-work-in-progress account out of that account in the third quarter, and we described a lot of that in our most recent third-quarter Form 10-Q filing. So had we not done that by year-end, that would've been a very negative fact for us. That would've been inconsistent with our decision. So we did that in Q3.

The bottom of the slide does talk about some other things that would be inconsistent with the decision, and Mr. Johnson spoke specifically about some of this, too. The idea of doing preventative maintenance in the future is not consistent with an abandonment decision. It suggests that you do have future plans for those assets and that you're trying to maintain them for some future value. Again, those are opposing views. That's in opposition to the idea that you have abandoned the project.

So those were the examples I had sort of put together to draw your attention to. I guess, in closing, the thing I wanted to reiterate was that any tax deduction that we can claim with respect to the site is for the benefit of the customers and it will inure to the benefit of the customers in all
cases. So that’s what we’re trying to do. We’re trying to do our best to demonstrate that intent and to behave according to that intent, so that the IRS will look upon a claim favorably.

And, with that, I guess I would open it to questions.

CHAIRMAN WHITFIELD: Okay. At this time, we’re going to take a Commissioner questions of the panel.

Commissioner Hamilton?

COMMISSIONER HAMILTON: Thank you, Mr. Chairman.

Mr. Swan, on our last meeting we had, ex parte, Mr. Byrne and I had a discussion about this particular thing that you just brought up: abandonment. And what we’ve seen in the press is that your partner to this has a different view. Is that still the view of Santee Cooper that they will preserve? And how do you go about reaching an abandonment decision if one party is moving in a different direction?

MR. JAMES E. SWAN, IV [SCANA]: I would ask Steve maybe for some thoughts on that, as well, but our position — of course, they’re not a taxpayer.

COMMISSIONER HAMILTON: I understand that.
MR. JAMES E. SWAN, IV [SCANA]: So we are looking out for our customers in the context of the tax scheme that we are dealt, you know, that we are dealt with. It is not necessarily a fatal flaw if they were to do something different than we were to do, but it doesn't help our story for them to be trying to preserve it. Again, it's hard to reconcile the idea of preserving the site and the idea of us claiming the abandonment.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: I will say that we have had some conversations with Santee Cooper about the differences. They, like we, have been unsuccessful in finding anybody that would be willing to partner to complete the units, so we're not divergent along those lines. I think they understand our position and we're hoping for a meeting of minds before the end of the year.

COMMISSIONER HAMILTON: Thank you, sir.

CHAIRMAN WHITFIELD: Commissioner Randall.

VICE CHAIRMAN RANDALL: Thank you, sir.

Gentlemen, let me ask Mr. Swan just a quick question that I was — on the actions which might be viewed as inconsistent for the intent to abandon.

MR. JAMES E. SWAN, IV [SCANA]: Yes, sir.

VICE CHAIRMAN RANDALL: The middle point,
maintaining site and equipment for eventual use, sale, or salvage — which you're talking about sale or salvage right now — currently, where is that line?

MR. JAMES E. SWAN, IV [SCANA]: Well, again, we would like to cease maintaining that site and that equipment at the end of this year. There could be certain items that we could carve away from an abandonment claim, if there were a near-term salvage opportunity for that. I think that's what Mr. Johnson was referring to, as well. But by and large, the best posture for us to be in is to not be doing preventative maintenance, really, on anything.

VICE CHAIRMAN RANDALL: With some of the things that you've talked about with — all of you — about, I mean, most of it was going to be outside and it had been under construction, should something come up after the end of the year that it was still salvageable, does that affect you negatively? Or can you still reap some benefit from that?

MR. JAMES E. SWAN, IV [SCANA]: The more that we can accomplish in 2017, the better. And the less trailing activity there were in '18, the
better. We could have – for example, on the permits, there are some of those that may actually not get closed until ‘18, but our position on those needs to be that we have done everything that we needed to do ahead of the end of the year, and so that all the activities that were necessary on our part were done.

VICE CHAIRMAN RANDALL: That includes stuff like removal of the cofferdams and that kind of thing?

MR. JAMES E. SWAN, IV [SCANA]: That’s right.

VICE CHAIRMAN RANDALL: Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Commissioner Randall.

Commissioner Elam.

COMMISSIONER ELAM: Mr. Swan, what is a general timeline on IRS action for a request like this, to get a determination of whether you decide to go back in there and start maintaining something or trying to salvage something for sale, if they turn you down?

MR. JAMES E. SWAN, IV [SCANA]: Well, our practice would be to file a tax – file our taxes in 2018 for the 2017 year, and then we would file a
refund claim for the earlier year, and then they would audit the return. We are not part of a continuous audit program with the IRS. Some large companies are, and they get, sort of, real-time examination of their returns. We do not. But we do know that they are extremely likely to examine our 2017 return. They’re currently examining some returns for our research claims, and it would be very logical for them to pick this up, as well.

Well, that could be a two-to-three-to-four-year examination process, too, but we won’t likely have an answer before we file that it’s a good claim. We will be looking at the facts and circumstances, and we will want to make sure that we have a reasonable filing basis or a more-likely-than-not determination with respect to the deduction, because we would not want to file the return fraudulently, obviously, and we would not want to expose the company to fines or penalties for underpayment, which would be applicable if we made a claim that had no basis. So we’ll be evaluating what our facts look like at year-end.

**COMMISSIONER ELAM:** I guess the gist of where I’m trying to get to is if, indeed, customers were to see the benefit of this, when is a reasonable
time they could expect to see that benefit?

    MR. JAMES E. SWAN, IV [SCANA]: Well, they
would see the benefit of the carryback claim
relatively quickly, as that cash was returned to
us, and they would see other aspects of that in
rate-base reductions as we pay less tax in the
future, during a carryforward period.

    COMMISSIONER ELAM: Okay. So it would be
piecemeal?

    MR. JAMES E. SWAN, IV [SCANA]: Yes.

    COMMISSIONER ELAM: Or just at the next time
there would be any kind of a rate review?

    MR. JAMES E. SWAN, IV [SCANA]: Yes. I would
say it would be in a rate review or in some sort of
comprehensive look at the overall abandonment.

    COMMISSIONER ELAM: Okay, thank you.

    CHAIRMAN WHITFIELD: Thank you, Commissioner
Elam.

    Commissioner Bockman.

    COMMISSIONER BOCKMAN: Thank you, Mr.
Chairman.

    Good afternoon, gentlemen. Mr. Byrne or maybe
Mr. Johnson, maybe one of you could answer this
question: When did you make the decision to select
Option 2, Mr. Johnson, as you indicated, to do this
targeted preventative maintenance, excluding installed facility?

MR. TODD B. JOHNSON [SCE&G]: We selected that option around four weeks ago.

COMMISSIONER BOCKMAN: Four weeks ago?

MR. TODD B. JOHNSON [SCE&G]: That’s correct.

We were looking at possible salvage values, as we explored the different tax benefits that we could foresee. And so, during the interim while we made the final decisions, we determined to go ahead and contract those services out to begin a limited-scope PM on that select equipment, and approximately about 1500 pieces of equipment. And a lot of that, like I said, is fairly easy checks that we can go in to ensure we maintain the value on that equipment.

COMMISSIONER BOCKMAN: When did you start this study, or the examination, to make the determination that you would?

MR. TODD B. JOHNSON [SCE&G]: For the preventative maintenance?

COMMISSIONER BOCKMAN: Yes, that you reached four weeks ago, when did you begin?

MR. TODD B. JOHNSON [SCE&G]: We had discussed it, you know, probably since the September
timeframe, but it was around four weeks ago when it was — the option of salvage — was possible, that we decided that we would move ahead with that preventative maintenance.

COMMISSIONER BOCKMAN: Were you looking at this possibility before July 31st?

MR. TODD B. JOHNSON [SCE&G]: Well, before July 31st, everything was under the Westinghouse preventative maintenance program, so they were performing all of that work as part of the contract.

COMMISSIONER BOCKMAN: And no consideration of this aspect or having to do this analysis and reaching this conclusion before then? In other words, you didn’t consider the tax effects or the decision — or the fact that you would have to undertake a study like this, before then?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: We did not — we were not specifically looking, prior to the decision to cancel, at the tax implications of a cancellation. We did have — as a part of the study, we announced we were looking at four options, and abandonment was the fourth of those options. We were looking at continuing with both; completing one, mothballing one; completing one,
canceling one; or canceling two. And we started that study around the time of the Westinghouse bankruptcy. And as a part of that, we had a — we did an evaluation of what abandonment might look like and what cost-recovery might look like under that scenario, but it was a very high-level evaluation. And it really only looked at the implications of recovery of selling parts; it really did not look at the tax implications.

COMMISSIONER BOCKMAN: And I'm sorry, Mr. Byrne, you probably mentioned this, but when did you do that?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: We did that in the — it was sometime in our evaluation timeframe, so evaluation that we started at the bankruptcy, which was end of March, and prior to announcing the cancellation, which was the end of July. So it was probably in the April-May timeframe that we did that.

COMMISSIONER BOCKMAN: All right. Mr. Johnson or Mr. Byrne, what dictates your — what dictated your decision to identify certain equipment as installed, as opposed to not installed, where your preventative maintenance would exclude installed equipment or facilities? How did you make that
MR. TODD B. JOHNSON [SCE&G]: Well, based on our tax direction on the tax benefit, it would not allow us to do any PMs or preventative maintenance on installed equipment, so we focused only on the uninstalled equipment that was coming current due or coming due in the near term.

COMMISSIONER BOCKMAN: Maybe help me a little bit, because I'm kind of a layperson about construction. But when you say “installed” as opposed to, you know, “not installed,” can you just tell me, what does that mean?

MR. TODD B. JOHNSON [SCE&G]: This would be a piece of equipment that is in its permanent location, either welded in or bolted in, and so it would not be removed from that location. It's in its normal operating position within the plant.

COMMISSIONER BOCKMAN: And who is it who made that decision? Did you make that decision?

MR. TODD B. JOHNSON [SCE&G]: I think this was a collective decision that we worked together internally, based on the tax direction, as to what we would focus our preventative maintenance on.

COMMISSIONER BOCKMAN: And how long did that analysis take, looking at it piece by piece, or —
MR. TODD B. JOHNSON [SCE&G]: Not long. We had a list from Westinghouse of all the preventative maintenance that they were working to. And, as I said, we were able to easily parse that information down to the items coming due in the near term, or current, and that is our focus right now. In this preventative maintenance we're doing, it's flexible in that we can reduce it, we can add to it, or we can stop it at any time.

COMMISSIONER BOCKMAN: Mr. Swan, does the IRS have regulations that would define what's “installed equipment” or “installed facilities” for purposes of this tax effect?

MR. JAMES E. SWAN, IV [SCANA]: I'm sure that there are distinctions, but for the purposes of an abandonment loss, I don't know that those distinctions are particularly relevant. The idea with the abandonment loss was that you have — again, you've affirmatively stated that you're not going to, sort of, resuscitate that asset for future use, and that you're going to not try to get any future value out of it. And in that case, you're able to take this ordinary loss. There could be distinctions between installed and uninstallied equipment in some other areas of tax
law, where you're trying to determine whether you have an ordinary loss or a capital loss, those kind of things, or whether something is depreciable or not. But I don't know that it is significant for this particular tax aspect.

COMMISSIONER BOCKMAN: Did anybody look at that, to determine whether it's particularly significant?

MR. JAMES E. SWAN, IV [SCANA]: We've consulted with outside tax counsel and advisors throughout our thinking about this, and so, again, to the extent that it were relevant, I believe it would've been addressed.

COMMISSIONER BOCKMAN: Did somebody in the company, or outside tax counsel they consulted, get a preliminary determination from the IRS about this treatment?

MR. JAMES E. SWAN, IV [SCANA]: We've talked about — we talked about that, and we have not made a determination as to whether we would seek a private letter ruling or anything like that at this point.

COMMISSIONER BOCKMAN: Why would you not do that, to ensure that you would be able to achieve the objective that you say this would produce?
MR. JAMES E. SWAN, IV [SCANA]: Yeah, I don’t know the answer to that, sir.

COMMISSIONER BOCKMAN: Is the capture of the tax benefit for the customers, as you described, is that what’s driving this decision?

MR. JAMES E. SWAN, IV [SCANA]: I would look to Mr. Byrne to —

MR. STEPHEN A. BYRNE [SCEG/SCANA]: Yes, it’s that, coupled with the fact that we didn’t see an opportunity to bring in other partners — we did solicit for other partners; we didn’t get any. Santee Cooper, from our understanding, has solicited for other partners, but haven’t gotten any to come to the fore — so, the only likelihood that we would continue with the plants, anyway, coupled with the tax advantages, is really what’s driving us to this decision.

COMMISSIONER BOCKMAN: And the benefits, as Commissioner Elam — the benefits would accrue or flow to the customers after a ratemaking proceeding?

MR. JAMES E. SWAN, IV [SCANA]: They would show up in the books and records, and would be considered in that, or they would be considered in a Base Load Review Act filing, or —
COMMISSIONER BOCKMAN: Assuming there is such thing, right? But there would be — it would be — affect the revenue requirements, at some point?

MR. JAMES E. SWAN, IV [SCANA]: That’s correct, yes, sir.

COMMISSIONER BOCKMAN: But that would be a determination that the company would make, as to the timing of that?

MR. JAMES E. SWAN, IV [SCANA]: I am not aware of what the construct may look like. Again, the benefit would be there for the customers, but I’m not sure the exact means that that would take.

COMMISSIONER BOCKMAN: All right. Thank you, Mr. Chairman. Thank you, gentlemen.

COMMISSIONER HOWARD: Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Commissioner Bockman.

Commissioner Howard.

COMMISSIONER HOWARD: Mr. Johnson, Mr. Byrne, to me, preventative maintenance is a minimalist term; it’s all over the place. Can you give us an example of what’s involved in preventative maintenance on certain pieces of equipment or what would you physically do to perform preventative maintenance on some of this equipment?
MR. TODD B. JOHNSON [SCE&G]: Yes, sir. Some of the preventative maintenance examples are as simple as going and checking nitrogen pressure. You look at a dial to make sure you still have positive pressure on that piece of equipment. Some of the maintenance is hand-rotating the pumps to help with the lubrication, and there's also lubrication of valves, checking desiccant that's in there to prevent moisture, and those type of activities. It's not significant maintenance but it's more of just preventing that component from degrading.

COMMISSIONER HOWARD: That doesn't seem to me to be a very costly process. Am I overlooking something? I guess my other question, do you have a number for this, for how much money we're talking about to perform this preventative maintenance?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: I think, Commissioner Howard, that Santee, at one of the hearings — I don't remember if it was a House or Senate hearing — gave an estimate of about $15 million annually to do the PMs. We think that that's probably in the ballpark. We may be able to do it for a little bit less than that, but it's in the ballpark.
In addition to the PMs, the preventative type maintenance that Mr. Johnson talked about, there are a couple of things that would need to be done to the site, at a cost, if you really intended to preserve with the intent of restarting. Some of those would be roofs on buildings, perhaps the top on the containment vessel. So those will come at an additional cost that's outside of the normal PMs.

COMMISSIONER HOWARD: Okay, thank you.

CHAIRMAN WHITFIELD: Thank you, Commissioner Howard.

Commissioner Fleming.

COMMISSIONER FLEMING: Yes. Good afternoon. Well, first of all, I want to ask about — what are some of the dangers of the site, if it's — at the site, if it's not properly maintained?

MR. TODD B. JOHNSON [SCE&G]: Some of the dangers are flying debris, if you have a storm come through. As you know, Unit 1, which is still the operating unit, is within a mile of this location, so we have to be very careful to ensure that we do not have flying debris that could impact the operating unit.

Other items are just general security sweeps
through the area and vendors coming to retrieve their equipment. We have to ensure that we have all the open trenches covered, that we don’t have fall hazards in the general areas that you would walk through.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]:
Commissioner Fleming, there will be no open access to this site, long term. So the site is completely fenced, and we have added some gates where we didn't have gates before, so the site will be secure.

COMMISSIONER FLEMING: Okay. And there’s no danger of — I’m looking back to see. It seemed like there was something that you were having to maintain at a proper temperature level?

MR. TODD B. JOHNSON [SCE&G]: Yes. Some of the tents that have the diesel generator in it, they have electronics in them, and we do have dehumidifiers to ensure that we don't have high moisture content in that tent, and also heaters to ensure temperature doesn't drop below 40 degrees.

COMMISSIONER FLEMING: So there are no concerns about explosives or anything of that kind?

MR. TODD B. JOHNSON [SCE&G]: No. We — as I think I had stated, we’ve collected all the
Status of Activities at the V.C. Summer Units 2 & 3 Site

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COMMISSIONER FLEMING: And I'm — there's so much swirling around, so many different things being thrown out, as far as this goes, as pertaining to lawsuits, pertaining to unconstitutionality in some issues, how this will be settled, that's all going on. So what I'm asking: How does that play into the tax credit that you were talking about, the abandonment tax credit? Does that — and you're working within a short timeframe.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Our plan is to abandon the site by the end of the year and satisfy as many of the hurdles as we can to be sure that we capture the tax credit. So all of the other things that are going on are really going on around that or separate from that.

COMMISSIONER FLEMING: So it won't impact it, one way or the other?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: We don't currently see the other things that are going on, which may certainly go into next year to resolve, and beyond, impacting the decision we make relative
to taking a tax deduction in the 2017 tax year.

COMMISSIONER FLEMING: And so you're — so, it just sounds as if there is no opportunity to move forward on this project.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Yeah, we have not — we have solicited for and have not found any partners that would help us complete the project. We're looking for utilities with, you know, nuclear backgrounds and perhaps construction experience, and we've found nobody that's interested in completing these units. So with that as a backdrop, I think our best efforts would be placed towards getting the maximum tax deduction for the benefit of the customer.

COMMISSIONER FLEMING: And it looks as if, from your presentation, in spite of what has been in the press, that you are trying to maintain it as well as you can.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: We are putting the site in a safe, stable condition. Not all of those activities are completed. We're looking at winding down all of the permits which have some requirements and obligations to them. Again, not all of those may be completed before the end of 2017, but clearly, we will signal our intent
to close those permits as soon as we take the remedial actions that are necessary.

**COMMISSIONER FLEMING:** So you’re making sure that anything that can be salvaged or sold is being well maintained in the process.

**MR. STEPHEN A. BYRNE [SCE&G/SCANA]:** Currently, those things are being maintained. The majority of the things that would have value from a sale perspective, above just scrap value, would be in either the warehouses, on-site warehouses or off-site warehouses, or storage tents that are located on the site.

**COMMISSIONER FLEMING:** All right. Thank you.

**CHAIRMAN WHITFIELD:** Thank you, Commissioner Fleming.

Commissioner Randall.

**VICE CHAIRMAN RANDALL:** Yeah, just one more quick question. I think, Mr. Byrne, when you were saying that Santee Cooper’s estimate for preventative maintenance was $15 million, do they still have somebody on the site? Do they have anybody on the site?

**MR. STEPHEN A. BYRNE [SCE&G/SCANA]:** Santee Cooper has somebody at the site full-time, dedicated to Unit 1, but that’s a person that could
cross over into Units 2 and 3. They also still have, I think it's two people, that are at the site periodically. So they may not be there full-time, but they still have a presence at the site.

VICE CHAIRMAN RANDALL: So that was just their estimate; they're not really doing anything preventive-maintenance wise?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: They're not actually doing anything from a preventative maintenance perspective now, but their folks have been involved with our folks in doing some of the evaluations that Todd was talking about earlier.

VICE CHAIRMAN RANDALL: Thank you.

Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Commissioner Randall.

And Commissioner Randall just asked a question, just then, that I was going to ask, but I'll start with you, Mr. Byrne. You had an exchange with Commissioner Howard concerning what activities fall under PM, preventative maintenance, and what activities are larger than that or not routine. And one of the things you described was putting a top on the containment vessel and other large projects like that that are not routine,
preventative maintenance, and you described some costs to something like that. You didn't say — I don't know that you have a number in mind. You didn't say a number. Or do you?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: We did have an estimate for putting the top on the containment vessel, and I think it was about $1.5 million — does that sound right?

MR. TODD B. JOHNSON [SCE&G]: Yes.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Yeah, about $1.5 million to — you'd have to put the top on; you'd want the contractor that has the ASME stamp, in order to do that, and they would at least tack weld it in place. So, more than likely would be a company like Chicago Bridge & Iron that would have to do that for us, so about $1½ million was our estimate to do that component.

MR. TODD B. JOHNSON [SCE&G]: Right, and just understand that estimate was when they had their labor force on-site and their equipment. They are demobilized now, so there would be a remobilization charge to that.

CHAIRMAN WHITFIELD: Getting them back to the site.

MR. TODD B. JOHNSON [SCE&G]: That's correct.
CHAIRMAN WHITFIELD: Could you go back to Slide 8 for me?

[Reference: Presentation Slide 8]

Mr. Johnson, might've been you that was describing this, but my question's going to probably go to Mr. Byrne. On the left, you show the generators and other materials on the roof and on the right you show a clean roof. And I'm going to refer, Mr. Byrne, if I can just a minute, to your testimony in the August 1 allowable ex parte we had. I think you said — your words were “The roof is basically on.” And, of course, now we see from the picture on the right that — and now you're describing this as partially on. But you went on to say that, “I believe if we put the sides on the building, then I protect the equipment that's inside rather than leaving it exposed to the weather.” Are there sides on that building and is the equipment protected, or has that been done since the briefing you had with us in August?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: I think I can probably show you on the previous slide.

[Reference: Presentation Slide 6]

There are no sides on the building. You can't really see that well. You can see where it says
“Turbine Building” that there is —

CHAIRMAN WHITFIELD: I see that, yes, sir.

MR. STEPHEN A. BYRNE [SCEG/SCANA]: The roof panels are largely on. There is a stairwell that is exposed, but the sides of the building are not on.

We were — at the point where we made that testimony in the previous ex parte briefing, we were looking at the possibility of whether or not we would preserve equipment, or not. Since that timeframe, the tax strategy has come out where it would probably be not beneficial for us to do that. So we did change our minds on installing the side panels on the turbine building, so they’re not installed.

CHAIRMAN WHITFIELD: I realize you said that August 1, so I think that was your intent August 1. But you’re saying now that, because of the tax strategy described by Mr. Swan, that it won’t allow you to do that. Is that what you’re saying?

MR. STEPHEN A. BYRNE [SCEG/SCANA]: That’s correct.

CHAIRMAN WHITFIELD: Okay. Next, Mr. Johnson mentioned stopping the PM, the preventative maintenance, by the end of 2017. And then you
mention now a cost estimate, going forward, from Santee Cooper that is — and I realize that’s from Santee Cooper — and I think you said, Mr. Byrne, you wouldn’t dispute that number; it’s probably a little less than that. My question is, if you’re not allowed to do the PM going past the end of 2017 and it’s necessary that some of that still occur to keep much more rapid deterioration from occurring in the components and materials, who would do that and what are your plans with that? What are your intentions?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Our plans are to cease those activities December 31 of this year. So, nobody would pick those up — I mean, if somebody were to come in and take the site, that’s fine, but we would not plan to do those PMs beyond December 31 of this year.

CHAIRMAN WHITFIELD: Well, I realize I think you said the value of scrap metal is — I get that. But are there any other components or materials that would have significant value that would be significantly impacted if you do not do that, going forward, or someone does not do that going forward? I realize your path is to —

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Yeah.
CHAIRMAN WHITFIELD:  — proceed —

MR. STEPHEN A. BYRNE [SCE&G/SCANA]:  Yeah, there conceivably are some components, particularly electronic components, that you wouldn't want out in the weather. Now, those are currently stored in warehouses, so that warehouse storage would really need to continue for those components to have value.

We could, as Mr. Swan pointed out, take some action before the end of the year to do some level of salvage and carve those out from the components that we would not intend to salvage, and take the tax deduction on the components we would not intend to salvage. Another aspect is that, if you can delineate not only those components, but if you can delineate it by areas of the site, that would also be helpful. So something like an off-site warehouse that's clearly delineated and it's not on the tabletop, it's not on the construction site, that obviously makes things a little bit easier. It gets fuzzier, the closer you get to the tabletop.

CHAIRMAN WHITFIELD:  You're saying, if you put it in an off-site warehouse, then you still can be viewed — in your opinion — by the IRS as still
heading down the abandonment.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Yeah, we would have to carve out the value of what we believe would be in that warehouse from the amount that we would plan to abandon.

CHAIRMAN WHITFIELD: This is for any of the three of you – possibly for you, Mr. Swan. But in your opinion, if you were to work with Santee Cooper on some of these type activities Mr. Byrne just described, would that void or negate your abandonment proceeding for the tax credit?

MR. JAMES E. SWAN, IV [SCANA]: Yes, sir, my sense of that is the more of that that we do, the more at risk we put the abandonment deduction. That's not to say that some of that could not happen; but, generally speaking, the more consistent the approach is for the entire project, the better our risk profile is with respect to the deduction.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: We would hope to identify the components that might have some value and salvage those before the end of the year, such that we don't then have to worry about carrying things over into the next tax year.

CHAIRMAN WHITFIELD: And I certainly – I can
certainly see that you need to do that timely. My question is, if it’s not before the end of the year – and Santee Cooper does have ownership of that. So, again, I come back to you, Mr. Swan. Does that – they have ownership. Some of these things, you can't split. So how does that harm the direction you want to go?

MR. JAMES E. SWAN, IV [SCANA]: Again, we're going to be looking at all of the facts and circumstances at year-end and, to the extent that we are not abandoned fully, that is a weaker position to be in, and it puts the claim at greater risk. So as Mr. Byrne said, the goal would be to have salvage activity done in '17, rather than later.

CHAIRMAN WHITFIELD: Thank you. And one last question unrelated to what I've been asking you about.

And, Ms. Hudson, I promise you I'll stay inside the bounds of this allowable ex parte with this question.

But the Toshiba money – I know we're not here to discuss that, but, of course, this Commission did not have anything to do with the approval of your sale of your benefits there, but do you intend
or have you used any of the Toshiba settlement
money in the context of this abandonment or wind-
down efforts?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: To the
best of my knowledge, we have not used any of the
Toshiba money in conjunction with the wind-down
efforts.

CHAIRMAN WHITFIELD: Thank you. That’s all I
have. Looks like Commissioner Elam has another
question?

COMMISSIONER ELAM: Yes. Does the tax
deduction have to be taken in a single tax year, or
can it be split?

MR. JAMES E. SWAN, IV [SCANA]: As I said
earlier, the less that we were to carve off of the
abandonment and the less dividing of it we were to
do, the stronger the claim would be. There is not
– again, it’s helpful to consider it as a package,
as opposed to parsing it into different pieces.
Part of that is because you then have to get into
cost allocations, to try to parse it. So the claim
is better, is stronger, with less risk, if it’s
viewed in its entirety. So I would say the
preference would be to do it in one year.

COMMISSIONER ELAM: I guess what I’m saying,
or what I'm asking, is, if there are some loose ends, as far as areas of the plant that are going to be fully abandoned, or not, could you take the majority of the deduction in 2017 and part of it later? Is it the same answer?

MR. JAMES E. SWAN, IV [SCANA]: Again, I believe that can be done. I believe that the position is not as strong in that scenario, because you have, at that point, not had perfectly consistent actions around the intent to abandon.

COMMISSIONER ELAM: Okay. Thank you.

CHAIRMAN WHITFIELD: Commissioner Fleming.

COMMISSIONER FLEMING: The way you are expressing yourself seems to me that it's not a certainty that you will get that tax credit.

MR. JAMES E. SWAN, IV [SCANA]: That's correct. We're doing everything we possibly can, to be able to claim that tax deduction in 2017, but we will be looking at the facts as they exist at the end of the year and we'll be determining whether that is an appropriate position. So we are doing everything we possibly can for the benefit of the customers in trying to capture that tax deduction.

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

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Commissioner Fleming, there are a lot – I have discovered – a lot in the tax regulations that are not bright lines. And what you need to do is put yourself in the best position to meet all of these tests. We feel pretty comfortable that if we make an abandonment decision before the end of the year and demonstrate that that is our intent, even if some of the permits run into perhaps 2018, that we'll be able to pass these tests and we'll be successful. So we feel pretty comfortable about it, if we go down the strategy we've outlined. Anything that changes that, as Mr. Swan points out – you know, if any of those tests are not as clean as we would intend – if you start moving things into other years, and you start carving off pieces of the site, if you start discussing partial ownership, all those things, it just puts more doubt on it. So the path that we've laid out, we believe is the strongest path to meet the hurdles you have to get over to make that tax deduction.

COMMISSIONER FLEMING: And how long is the process to find out if you need it, if you are at a place to apply for that?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Yeah, so I think, as Mr. Swan points out, we will take the
deduction, and we will be audited by the IRS, and that may take a couple of years to sort out.

**COMMISSIONER FLEMING:** Okay, thank you.

**CHAIRMAN WHITFIELD:** Thank you, Commissioner Fleming.

Commissioner Bockman, did you have a follow-up?

**COMMISSIONER BOCKMAN:** I do, Mr. Chairman. Thank you.

You said it would take a couple of years for things to sort out at the IRS, to approve the deduction?

**MR. JAMES E. SWAN, IV [SCANA]:** Yes, sir, most likely.

**COMMISSIONER BOCKMAN:** What happens two years from now, if you don't get it? What's the fallback?

**MR. JAMES E. SWAN, IV [SCANA]:** We would have to pay tax. If we had – assuming we claim the deduction and we get that tax refund for 2015, and we have net operating loss carryforwards for the current years and the next couple of years and we don’t pay taxes, if we do not prevail on or sustain the deduction, our returns would be audited and we would be assessed tax at that time.
COMMISSIONER BOCKMAN: Two years from now, or however long it takes the IRS to do the audit.

MR. JAMES E. SWAN, IV [SCANA]: That's correct, yes, sir.

COMMISSIONER BOCKMAN: Thank you.

CHAIRMAN WHITFIELD: Thank you, Commissioner Bockman.

What about what Commissioner Bockman said during his first line of questioning? Could you not — I know you say you're working with outside tax consultants. Could you not work with them and working with the IRS — I know when you're dealing with these sums of money — could you not get your outside consultants or your experts to work with them so that there's some more certainty in your going down — I mean, all this effort, and as Commissioner Bockman said, to come up empty-handed in two years, I just don't know that we can handle something like that, in this State. Is there not a way you can work with those experts to see that you've got some percentage, some relative number, of certainty that you will receive those credits, rather than just taking the deduction now and finding out after a couple of years that you don't get it?
MR. JAMES E. SWAN, IV [SCANA]: Yes, sir. We are working with outside consultants and they are helping us evaluate these facts as they develop, and they are giving us advice on how these criteria are to be met or if they can be met, and then what our relative strength of claim is. So we are doing that.

CHAIRMAN WHITFIELD: Thank you. I don't have anything further.

Any other Commissioners?

[No response]

Well, if not, we thank you for your time and this — hold on one second.

[Brief pause]

Looks like there are no further questions. If not, we thank you for your time, and this allowable ex parte hearing is adjourned.

[WHEREUPON, at 2:20 p.m., the proceedings in the above-entitled matter were adjourned.]
CERTIFICATE

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

IN WITNESS WHEREOF, I have hereunto set my hand, on this the 11th day of November, 2017.

Jo Elizabeth M. Wheat, CVR-CM/GNSC
Hearings Reporter, PSC/SC