BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

COLUMBIA, SOUTH CAROLINA

PROCEEDING #17-11621 AUGUST 2, 2017 10:05 A.M.

ALLOWABLE EX PARTE BRIEFING - ND-2017-12-E

SOUTH CAROLINA ELECTRIC & GAS COMPANY - Request for Allowable Ex Parte Briefing to Discuss Updates Regarding the New Nuclear Units at V.C. Summer Nuclear Station; Status of the Contractor, Westinghouse Electric Company, LLC; and Evaluation of Options Related to the Project

TRANSCRIPT OF ALLOWABLE PROCEEDINGS **EX PARTE BRIEFING**

COMMISSION MEMBERS PRESENT: Swain E. Whitfield, *Chairman*; and COMMISSIONERS John E. 'Butch' Howard, Elliott F. Elam, Jr., Elizabeth B. 'Lib' Fleming, Nikiya M. 'Nikki' Hall, and G. O'Neal Hamilton

ADVISOR TO COMMISSION: Joseph Melchers, Esq.
General Counsel

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

APPEARANCES:

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

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

I N D E X

PAGE

OPENING MATTERS 3-7

PRESENTATION

Kevin B. Marsh [SCE&G] 7

Stephen A. Byrne [SCE&G] 20

Jimmy E. Addison [SCE&G] 28

Question(s)/Comment by Vice Chairman Whitfield 34

Question(s)/Comment by Commissioner Elam 51

Question(s)/Comment by Commissioner Hall 61

Question(s)/Comment by Commissioner Howard 66

Question(s)/Comment by Commissioner Hamilton 68

Question(s)/Comment by Vice Chairman Whitfield 75

Question(s)/Comment by Commissioner Fleming 77

CLOSING MATTERS 87

REPORTER'S CERTIFICATE 89

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

Please note the following inclusions/attachments to the record:

- PowerPoint Presentation Slide (PDF)

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. We are here pursuant to a Revised Notice for Request for Allowable Ex Parte Communication Briefing, scheduled for today, August 1st, at 10 a.m., here in the Commission hearing room.

The party requesting the briefing is South Carolina Electric & Gas Company, and the subject matter to be discussed at the briefing is: Update Regarding the Progress of Construction of the New Nuclear Units at V.C. Summer Nuclear Station; Status of the Contractor, Westinghouse Electric Company, LLC; and Evaluation of the Options Related to the Project. Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: ORS? Who's representing ORS?

MS. HUDSON: Good morning, Mr. Chairman, Commissioners, everyone here. My name is Shannon Hudson, and I represent the South Carolina Office of Regulatory Staff.

Mr. Chairman, the ORS generally goes over rules for allowable ex parte briefings. Would now

be an appropriate —

CHAIRMAN WHITFIELD: Please do so.

MS. HUDSON: — time?

CHAIRMAN WHITFIELD: Please do so, Ms. Hudson.

MS. HUDSON: Thank you, Mr. Chairman.

Good morning, again, everyone. My name is Shannon Hudson, again. I'm Deputy Chief Counsel with the South Carolina Office of Regulatory Staff, and I have been selected by our Executive Director, Dukes Scott, to certify that today's allowable ex parte briefing is in compliance with South Carolina Code 58-3-260(C). That's the statute that allows today's briefing to take place. It requires — it has several rules that I'm going to go over.

First, the discussion and presentation by SCE&G today is limited to what SCE&G placed in their Notice to the Commission, and that is "Update regarding the progress of construction of the new nuclear units at V.C. Summer Nuclear Station; status of the contractor, Westinghouse Electric Company, LLC; and evaluation of the options related to the project.

Second, a transcript will be posted on the Commission's website in 72 hours of this proceeding. Any documents utilized or referenced

1 will either be included with that transcript or the
2 ORS' certification. I would just take this moment
3 to ask SCE&G and the Commission to be mindful that
4 any documents used during the presentation can be
5 rounded up and gathered in that 72-hour time
6 requirement to meet the certification.
7 Third, the allowable ex parte statute
8 prohibits any participants, Commissioners, or
9 Commission Staff from requesting or giving any
10 commitment, predetermination, or prediction
11 regarding any action by any Commissioner as to any
12 issue which either is or is likely to come before
13 the Commission. Now, I just read a portion from
14 the statute, and what that means is that SCE&G
15 cannot ask the Commission to take any action today,
16 and the Commission cannot indicate that it will or
17 will not take any action; it's purely a
18 presentation.
19 Lastly, when everyone came in and signed in,
20 you were given this form [indicating]. Your
21 signature is required by the allowable ex parte
22 statute that allows this proceeding to take place.
23 Please be sure you sign it and turn it back in,
24 before you leave. If you don't, you'll be tracked
25 down, but we sure would appreciate you turning it

in today.

I appreciate your indulgence, and thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Ms. Hudson.

Who represents the company today?

MR. BURGESS: Good morning, Chairman Whitfield, members of the Commission. My name is Chad Burgess and I'm corporate counsel for SCE&G. We appreciate this opportunity to appear before you today and give you an update with regard to the information and the decisions that have been made in connection with the nuclear units at Jenkinsville, South Carolina.

Today we have our senior leadership team — and I'll ask them to go ahead and take their seats at the table up front — Kevin Marsh, Steve Byrne, and Jimmy Addison.

Mr. Chairman, while they're getting situated, we do not have a slide deck today; we have but only one slide that Mr. Marsh will reference at the appropriate time in his statements. And also, we would ask that, while the witnesses are delivering their statements, if the Commissioners could hold their questions until the last speaker — who is Mr. Addison — has concluded, we would appreciate that.

1 Mr. Chairman if there isn't anything further
2 from me, I'll turn it over to you and we will
3 follow your direction on the next step.
4 **CHAIRMAN WHITFIELD**: Thank you, Mr. Burgess.
5 The Commission has heard your request and the
6 Commissioners will hold their questions until all
7 three presenters have finished their presentation.
8 So at this time, Mr. Marsh, I guess we'll
9 begin with you.
10 **KEVIN B. MARSH [SCE&G]**: Thank you, sir. Good
11 morning, Chairman Whitfield and Commissioners.
12 Thank you for giving us the opportunity to appear
13 before you today.
14 Our goal today is to explain why we made the
15 decision to abandon construction of the two new
16 V.C. Summer nuclear units, effective July 31, 2017,
17 and answer any questions you may have about our
18 decision.
19 As you might expect, these have been very
20 trying times for SCE&G. We've been called on to
21 make difficult decisions with limited options and
22 profound implications. We're convinced that the
23 decisions we've made best support the interests of
24 our customers and the long-run integrity of our
25 utility system. These have not been easy decisions

1 to make, given the impact we know that they will
2 have on our customers, our employees, our region,
3 and our State.
4 We will also discuss the Petition we will be
5 filing later today, concerning the implications of
6 that decision from a regulatory standpoint and the
7 steps we'll be taking to mitigate effects on
8 customers. Participating in this allowable ex
9 parte communication briefing with me are Mr. Jimmy
10 Addison and Mr. Steve Byrne.
11 In 2008, we came before the Commission seeking
12 authorization to build two Westinghouse AP-1000
13 units with our co-owner, Santee Cooper. In the
14 2008 proceeding, we sought a determination under
15 the Base Load Review Act for forecasted costs —
16 that our forecasted costs and construction plan
17 were reasonable and prudent. In the resulting
18 order, the Commission approved our plan and a cost
19 forecast of $6.3 billion. That amount represented
20 SCE&G's 55 percent share of the costs in future
21 dollars. At the time, we had negotiated with
22 Westinghouse Consortium to make approximately 52
23 percent of the costs of the construction contract
24 fixed. That 52 percent includes cost categories
25 where the base cost was fixed, but inflation or

escalation applied.

Through subsequent negotiations, we settled claims by Westinghouse for increased costs due to change in laws and regulations, regulatory delays, Fukushima costs, cybersecurity and physical security upgrades, and unanticipated site conditions.

In 2011, we negotiated an agreement with Westinghouse to fix approximately 67 percent of the costs of the units.

In 2015, we negotiated with Westinghouse a further option to fix 100 percent of Westinghouse's costs to complete the units. That option results in a cost estimate of approximately $7.7 billion. This cost estimate was approved as prudent and reasonable in the Commission's 2016 BLRA order.

In prior cases, including the 2016 proceeding, we presented generation-cost forecasts, showing that completing the units would result in the lowest rates for customers over the long term. Completing the units also reduced the State's long-term carbon emissions. It cut our dependence on fossil fuel and created a flexible portfolio of generating assets able to efficiently and effectively respond to a changing market and

environmental conditions.

As you know, on March 29, 2017, Westinghouse filed bankruptcy. Westinghouse did so for the stated purpose of separating the nuclear construction businesses from the losses it would have to incur in fulfilling fixed-price commitments it made to us and to the Southern Company for its Vogtle project.

Bankruptcy allows Westinghouse to reject those commitments. Westinghouse agreed to formerly delay doing so during the pendency of the Interim Assessment Agreement. That was the agreement that we entered with Westinghouse at the time of the bankruptcy announcement. Nevertheless, as part of its bankruptcy filing, Westinghouse has always intended to reject its fixed-price commitment when evaluation of the options was complete.

Since the March 29th bankruptcy announcement, SCE&G and its co-owner, Santee Cooper, have worked to evaluate the future options for the units. These options considered in SCE&G's evaluations were: (1) continue with construction of both units; (2) focus on construction of one unit and delay construction of the other; (3) continue with construction of one unit and abandon the other, and

1 seek recovery of the costs of the abandoned unit
2 under the BLRA; or (4) abandon the project and seek
3 recovery of the costs for both units under the
4 BLRA.
5 As Mr. Byrne will discuss, immediately after
6 the bankruptcy filing, a team of our construction
7 and financial experts began work to independently
8 assess Westinghouse's most recent costs and
9 construction data. This data was generated to
10 support a partially completed revision of the fully
11 integrated, revised schedule provided to the
12 company in the latter half of 2014.
13 Our team has been supported by external
14 consulting firms and experts. In addition, SCE&G
15 negotiated an Interim Assessment Agreement with
16 Westinghouse that gave us extensive access to
17 Westinghouse's information and commercial
18 arrangements, and direct access to Westinghouse's
19 construction personnel. We did not have this level
20 of access inside Westinghouse's business,
21 previously. The agreement also gave us access to
22 Fluor's construction experts and to other
23 contractors and subcontractors.
24 We looked at four principal factors in our
25 analysis: the Toshiba guaranty, the availability of

1 production tax credits, the potential for other
2 support from the government, and the costs to
3 complete one or both units.
4 Part of SCE&G's assessment of options involved
5 determining the damages we could recover from
6 Westinghouse and Westinghouse's parent company,
7 Toshiba. We had negotiated a parental guaranty
8 with Toshiba for Westinghouse's obligations under
9 our Engineering, Procurement, and Construction
10 Agreement, the EPC Agreement. This meant that
11 Westinghouse's bankruptcy did not cut off our
12 claims for damages.
13 On July 27, 2017, SCE&G and Santee Cooper
14 entered into an agreement providing that Toshiba
15 will pay us $2.2 billion. SCE&G's share will be
16 approximately $1.2 billion. The net proceeds of
17 the settlement, before taxes, are anticipated to be
18 approximately $1.1 billion after payment of certain
19 contractors' liens. The settlement fixed the value
20 of one important element in our evaluation of
21 options. And I should note that our team worked
22 extremely hard over several months to maximize this
23 recovery. The amount Toshiba is providing is
24 approximately $500 million more than the formulas
25 in the guaranteed contract would indicate to be the

1 maximum.
2 The Energy Policy Act of 2005 included a
3 provision allowing federal production tax credits
4 for new nuclear construction. Those credits
5 potentially could have provided $2.2 billion in
6 gross value for SCE&G's customers, if both units
7 had been placed in service before the deadline of
8 January 1, 2021. These credits would only be
9 earned when the units are complete and producing
10 electricity. The Westinghouse bankruptcy put that
11 schedule in jeopardy. Recently, members of the
12 South Carolina Congressional Delegation were
13 successful in getting legislation passed by the
14 United States House of Representatives to eliminate
15 these deadlines. That legislation is currently
16 pending before the United States Senate. Given the
17 progress made on this legislation, we included
18 those credits in our evaluation of options, but
19 recognized an important risk still remained in
20 securing them.
21 We also explored the possibility of obtaining
22 additional governmental support for the project.
23 Over the past several months, we worked diligently
24 on this option with our colleagues from Santee
25 Cooper and the Southern Company. At various points

1 in the process, we made visits to key officials in
2 Washington. The support we would have required to
3 complete the project was not forthcoming.
4 SCE&G's evaluation team arrived at substantial
5 completion dates for Unit 2 of December 31, 2022,
6 and for Unit 3 of March 31, 2025. However, we
7 recognize that these are forecasts. In a project
8 of this complexity, there's an important element of
9 risk surrounding any forecasted completion dates.
10 Our evaluation team arrived at a forecasted cost at
11 completion of the units of approximately $8.8
12 billion. This amount is net of the estimated $1.1
13 billion value of the Toshiba settlement payments.
14 Here, too, in a project of this complexity,
15 there's an important element of risk surrounding
16 forecasts of estimated costs of completion. Our
17 team evaluated the option of completing Unit 2 and
18 abandoning Unit 3. The cost of that option would
19 be approximately $7.1 billion. This amount is also
20 net of the estimated $1.1 billion value of the
21 Toshiba settlement payments. All of these cost
22 forecasts include the additional owner's costs
23 SCE&G would anticipate incurring by assuming a
24 broader scope of responsibility for directing the
25 project and as a result of the extensions in the

1 substantial completion dates for the units. The
2 resulting estimated costs to complete both units is
3 approximately $2.2 billion more than the comparable
4 costs, as approved in Order 2016-794. This
5 increase in costs was approximately three times the
6 estimate of the additional costs to complete the
7 units that Westinghouse had provided SCE&G at the
8 time of the bankruptcy filing. Net of the parental
9 guaranty, the resulting increase is $1.1 billion.
10 Our analysis of the options involves a complex
11 set of variables and parameters across multiple
12 competing sets of assumptions. These variables
13 include fuel-price risks, carbon-price risks,
14 capital costs, construction risk, impact on
15 customers, and others. Mr. Byrne will discuss the
16 evaluation process in more detail.
17 All other things being equal, our preference
18 would be to complete the units for the benefits
19 that they would provide our system. Those benefits
20 include reduced carbon emissions, reduced fossil-
21 fuel dependence, greater diversity of generation,
22 and flexibility to respond to changing markets and
23 environmental regulations.
24 As we committed to the Commission in the ex
25 parte briefing on April 12, 2017, all available

1 options were given full consideration on their
2 merits. After the intensive evaluation of options,
3 it appeared that a practical path forward could be
4 to abandon or delay Unit 3 and complete Unit 2.
5 This option was subject to the final evaluations of
6 issues related to construction costs and schedule
7 risk, and the risk related to future carbon costs
8 and natural gas prices. This option appeared to be
9 attractive because it reduced costs to customers
10 across most planning assumptions. It resulted in
11 capital costs that were comparable to those
12 approved in 2016, or the comparable amount of
13 capacity involved, and also resulted in lower
14 carbon emissions, lower fossil-fuel dependence, and
15 a more balanced generation portfolio, compared to
16 the abandonment alternative. The total capital
17 cost of this approach, including gas capacity, was
18 still less than capital cost that was approved in
19 the 2016 proceeding. This option would provide,
20 effectively, the same amount of generating capacity
21 as two nuclear units, but with more reliance on
22 natural gas and higher fuel prices than nuclear
23 generation only. Before selecting that option,
24 there were still important risks to be evaluated.
25 They included risks related both to construction

1 schedules and costs. They included the risk that
2 the federal production tax credits would not be
3 available and that the rate impact of completing
4 Unit 2 would be unacceptable to customers and the
5 regulatory process.
6 However, the evaluation of these risks was
7 never brought to a conclusion. The decision-making
8 process was cut short when another factor emerged
9 as decisive. All options for completing one or
10 both units depended on Santee Cooper remaining a 45
11 percent partner and paying 45 percent of the costs
12 of construction and operations. In the end, Santee
13 Cooper determined it was in its interests and that
14 of its customers to suspend construction of the
15 units. As a practical and financial matter, this
16 left us no option but abandonment of both units.
17 Abandonment will involve demobilizing the
18 construction crews, disbanding the New Nuclear
19 Development Team, and returning the site to a
20 stable condition in the coming months. Mr. Byrne
21 will speak in more detail about what this entails.
22 From a regulatory standpoint, abandonment will
23 involve providing for the recovery of the
24 investment made in the plants, to date, under the
25 terms of the Base Load Review Act; accounting for

1 the Toshiba guaranty settlement payment; reviewing
2 rate mitigation, which SCE&G will be proposing to
3 reduce the impact of abandonment on customers; and
4 evaluating a number of other technical, tax, and
5 accounting matters that the abandonment will
6 entail. Mr. Addison will speak in more detail
7 about these matters.
8 [Reference: Presentation Slide]
9 Let me direct your attention to the slide that
10 is on your screen. The current asset of the
11 capital costs that will be left after the
12 abandonment is approximately $4.9 billion. The
13 Toshiba guaranty settlement payments are estimated
14 at $700 million after taxes. That reduces the net
15 number to approximately $4.2 billion. Abandoning
16 the $4.9 billion in construction costs would result
17 in an income tax reduction valued at approximately
18 $2 billion. This will reduce the net capital costs
19 of abandonment to approximately $2.2 billion, or
20 approximately 45 percent of the gross $4.9 billion
21 amount.
22 Now the unfortunate, unavoidable task before
23 us is to begin closing down the site.
24 Approximately 5100 construction workers are leaving
25 the site. We know that this decision will have an

1 economic impact on the Midlands of South Carolina
2 and particularly on Fairfield and surrounding
3 counties, but that effect is unavoidable. We will
4 need to manage the transition of approximately 600
5 SCE&G New Nuclear Deployment employees.
6 Saying farewell to these workers, many of whom
7 I have known personally for decades, will be
8 particularly hard, given the dedication and
9 diligence they have shown over the last eight
10 years, and especially during the intense period of
11 work to evaluate our options over the months since
12 the Westinghouse bankruptcy was announced.
13 I'm convinced that there is no better group of
14 people working in any company, anywhere in the
15 world, and they will be greatly missed.
16 At this point, I'll turn the microphone over
17 to Mr. Byrne.
18 **CHAIRMAN WHITFIELD**: Mr. Byrne, before you
19 start, we are going hold Commissioner questions,
20 but I broke from tradition at the beginning and
21 failed to introduce some of our public officials,
22 like we normally do at hearings. So, at this time,
23 I've been told that we have, I think, State
24 Treasurer Curtis Loftis with us today. We have
25 Senator Mike Fanning, Representative Mary Gail

1 Douglas, Council Chairman Billy Smith, Councilman
2 Pauley, Councilwoman Bertha Goins, and I think I
3 see County Administrator Jason Taylor, and Deputy
4 Administrator David Sanderson, So, welcome. I
5 understand Representative Ott may be here, as well?
6 I see you over there, sir.
7 Thank you, and we'll get back to you, Mr.
8 Byrne. You may go forward with your presentation.
9 **STEPHEN BYRNE [SCE&G]**: Thank you. Good
10 morning, Chairman Whitfield and members of the
11 Commission.
12 My goal this morning is to provide you with
13 more detailed information about how SCE&G and
14 Santee Cooper evaluated the options concerning the
15 future of the units, independently from
16 Westinghouse. The current status of this site and
17 the anticipated work necessary to properly abandon
18 the project and the impact of abandonment of these
19 units are a mix of power generation and our plans
20 to meet capacity needs of our customers.
21 When we learned that Westinghouse intended to
22 reject our fixed-price contract, our first
23 objective was to determine if it was feasible to
24 complete the project using an owner-directed model
25 and what it would cost for us to do so. Through

1 the Interim Assessment Agreement with Westinghouse,
2 we gained access to Westinghouse's scheduling and
3 cost information, and the commercial terms they had
4 negotiated with Fluor Corporation and other
5 contractors. We also gained direct access to
6 relevant personnel. We had not had access to much
7 of this information previously.
8 We also assembled a team of construction and
9 financial experts from SCANA and Santee Cooper —
10 this team was supported by external consulting
11 firms with expertise in scheduling and estimating —
12 to review the information. The team also had
13 access to expertise from Westinghouse and Fluor.
14 Once the cost and schedule was determined, our
15 Resource Planning Team was tasked with assessing
16 the costs to customers from the various options.
17 They did so over a 40-year planning horizon,
18 against multiple scenarios concerning load growth,
19 carbon costs, and natural gas costs — a consistent
20 approach with which you are all familiar.
21 One question we considered in our evaluation
22 was technical feasibility of completing the
23 project, and the scope and risks associated with
24 the work remaining. We identified no flaw or
25 problem with the AP1000 design, components, or

1 constructability.
2 The construction work at the site has been
3 progressing well. All components of the units have
4 now been successfully fabricated and, in some
5 cases, many times. Ninety-three [93] percent of
6 the major equipment is on-site. All of the major
7 structural modules for both units have been
8 constructed, and all have been placed in Unit 2,
9 and all but two have been placed in Unit 3.
10 The cooling towers are complete. The
11 switchyard is complete. In the Unit 2 turbine
12 building, the condensers, the stator, the lower
13 turbine casings, the overhead cranes, the
14 deaerator, and all feedwater heaters have been
15 installed. Additionally, all the roof trusses are
16 in place and roof installation has started.
17 In the Unit 2 nuclear island, the reactor
18 vessel, pressurizer, both accumulators, and both
19 steam generators are installed. Integrated reactor
20 vessel closure heads have been assembled on site
21 for both units. Containment vessel rings and top
22 head for Unit 2 are complete. The lower bowl and
23 all three ring sections have been installed. Only
24 the top head for Unit 3 is still in fabrication.
25 The first Chinese sister plants to our units

are now physically complete. They have completed their hot functional testing and fuel-load is expected to take place this month.

It has been reported that the units in Jenkinsville are only about 35 percent complete, and this can be a little misleading. The units are being built using modular construction techniques. Structural modules comprising many of the major and minor structural components of the units include walls, floors, passageways, shield building panels, stairways, platforms, and manways.

Mechanical modules are preconstruction assemblies with piping, conduit, valves, pumps, motors, and electrical equipment assemblies already installed on steel doors and supports.

Although much of the construction work of the project is embedded in these modules, the modules are listed as “procurement” in engineering reports. So the report that the units are now over 65 percent complete, that includes procurement. The 35 percent number does not include procurement, so it can be misleading in isolation.

From a design, construction, and testing standpoint we concluded that completing the project was feasible. This conclusion is certainly in

1 support of the option of completing one or both
2 units.
3 Completing the project would require SCE&G to
4 retain the design, engineering, and construction
5 resources required for the job. Westinghouse was
6 willing to support us with the services for which
7 it was qualified on commercially reasonable terms.
8 Those terms would have to be approved by the
9 bankruptcy court. Fluor was willing to undertake
10 the role as prime construction contractor in an
11 owner-directed project. I have to say that Fluor
12 has been very cooperative and professional
13 throughout this process.
14 Other key subcontractors were also willing to
15 help us complete the project. We did not identify
16 any required contractors, services, or resources
17 that we could not obtain. In fact, we were
18 negotiating the terms for doing so until the very
19 end of the evaluation process.
20 When Fluor became the project manager in
21 January 2016, they were tasked by Westinghouse with
22 conducting a full review of the project, including
23 a review of the integrated project schedule under
24 which its predecessor had been operating. This was
25 a part of an estimate to complete, or ETC, that

1 Westinghouse was conducting. This is one of a
2 number of schedule reviews and ETC efforts that
3 have taken place during the course of the project.
4 After the bankruptcy announcement, our
5 assessment team, including our outside experts,
6 worked side-by-side with Fluor personnel to
7 evaluate, in detail, the basis for the cost and
8 scheduling estimates that Fluor had provided to
9 Westinghouse. We also assessed the additional
10 resources and owner's costs involved in an owner-
11 directed project and to account for extensions in
12 the substantial completion dates for the units.
13 I've reviewed the work of these teams closely
14 and I will say that our teams have done an
15 excellent job. In a relatively short period of
16 time, they have produced an estimate that is
17 thorough, high-quality, and reasonable.
18 As to schedule, SCE&G arrived at reasonably
19 achievable substantial completion dates of December
20 31 of 2022 for Unit 2, and March 31 of 2024 for
21 Unit 3. SCE&G arrived at a forecasted cost at
22 completion of the units of approximately $9.9
23 billion. This would be reduced to approximately
24 $8.8 billion when netted against the Toshiba
25 guaranty settlement.

1 Our team also carefully reviewed and assessed
2 the cost of completing Unit 2 and abandoning Unit
3 3. We concluded that cost would be approximately
4 $7.1 billion.
5 Using this cost information, our Resource
6 Planning Group evaluated the levelized cost to
7 customers over a 40-year planning horizon from each
8 option. They assume that both units would qualify
9 for federal production tax credits, if completed.
10 They considered each option against high, low, and
11 base assumptions for future natural gas costs.
12 They forecasted carbon at $0, $15, and $30 a ton,
13 beginning in 2025. The base case included the
14 actual and reasonably foreseeable benefits of
15 increasing solar and of energy efficiency gains in
16 demand reduction. The analysis showed that there
17 could be a significant cost benefit to SCE&G
18 customers from completing one or both units. This
19 would've been true so long as the current forecasts
20 in construction schedules provided could be
21 reasonably accurate, the PTCs were realized, and
22 natural gas prices and CO_2 costs fell within the
23 ranges assumed. For the reasons stated by Mr.
24 Marsh, based on this evaluation, it appeared that
25 an economically practical path forward would be to

abandon or delay Unit 3 and complete Unit 2. This evaluation also showed that completing Unit 2 would only be economically and financially feasible if Santee Cooper continued as a project partner, paying its 45 percent share of the costs. Santee Cooper's decision to suspend construction of the project brought this evaluation to an end.

Abandonment of the units will require SCE&G to replace the capacity that they represented with other generating assets, over time. In the short term, that can be accomplished with capacity purchases. Capacity is currently available in the Southeast. Longer term, SCE&G will need to deploy a gas-generation resource strategy to replace the dispatchable capacity represented by these units. The time required to construct gas-generation assets is such that we believe we can replace the units with new gas generation without impacting reliability.

Yesterday, SCE&G informed Westinghouse and Fluor of its decision to abandon the project. SCE&G asked them to cease all work on the project, other than work necessary to safely and efficiently demobilize construction and to stabilize the site. Some combined facilities that are necessary to

support the operation of Unit 1 will need to be completed. We need to evaluate relinquishing our Combined Construction and Operating License for the units and releasing all other regulatory authorizations we've received, at the appropriate time.

Mr. Marsh already mentioned the very difficult personnel issues we'll face in winding down our New Nuclear Deployment Group. That group is comprised of exceptionally skilled and talented people. They have worked with selfless devotion to make up this project's success and have overcome multiple challenges to bring this project this far. We share their disappointment and intend to provide them with the necessary transition support to successfully move to the next job.

Thank you for your attention. I'll now turn the presentation over to Mr. Addison.

CHAIRMAN WHITFIELD: Mr. Addison.

JIMMY ADDISON [SCE&G]: Good morning, Chairman Whitfield and Commissioners.

My goal today is to provide you more detailed information about the cost, accounting, and tax issues involved in SCE&G's decision to abandon construction of its two nuclear units, the rate

1 mitigation that SCE&G will propose to reduce
2 impacts on customers, and the effect of the
3 Westinghouse bankruptcy and resulting project
4 abandonment on SCANA and SCE&G's position in the
5 capital markets.
6 The BLRA expressly mandates recovery of the
7 capital costs of an abandoned BLRA-approved plant,
8 except where the utility's decision to abandon is
9 shown to be imprudent. SCE&G believes that its
10 decision to abandon the project at this juncture is
11 prudent for the reasons Mr. Marsh and Mr. Byrne
12 discussed. Accordingly, SCE&G will be proposing a
13 plan for recovery of its investment in the units,
14 which I will explain.
15 First, let me address the transmission
16 construction that is a part of this. These are
17 valuable assets that are used and useful to serve
18 customers and are needed to serve the growing load
19 on our system. The majority of the modifications
20 are already complete. SCE&G intends to complete
21 the remainder and close all of them to plant-in-
22 service and electric rate base.
23 Doing so will require SCE&G to take the cost
24 of these projects out of the BLRA-approved capital
25 accounts and treat them as ordinary transmission

1 investment. It will do so in the next revised-
2 rates proceeding. The value of the projects is
3 approximately $316 million, currently.
4 Regarding the balance of the project,
5 effectively all the carrying costs on the amounts
6 spent on the units up to June 30, 2016, are already
7 reflected in revised rates. However, the carrying
8 costs on the amounts spent after June 30, 2016, are
9 not yet reflected in rates. To address those more
10 recent costs, SCE&G intends to file a revised-rates
11 request. We will seek revised-rates treatment for
12 all costs incurred from June 30, 2016, through
13 September 30, 2017. Doing so will allow SCE&G to
14 recover cost-of-capital — or financing — costs on
15 these amounts, just as carrying costs are being
16 recovered today on the amounts spent before June
17 30, 2016.
18 Additional costs will be incurred after
19 September 30, 2017, for demobilization and other
20 costs of winding down the project. SCE&G will ask
21 the Commission to allow it to defer these costs in
22 a regulatory asset with the carrying costs, as they
23 are incurred. These post-September 30, 2017, costs
24 could be considered in a future proceeding.
25 Next, we need to address the treatment of the

1 abandoned costs. The total abandoned plant
2 investment through September 30, 2017, is estimated
3 to be approximately $4.9 billion, as you see on the
4 slide. In the revised-rates filing later this
5 quarter, SCE&G will request the Commission to
6 authorize it to amortize this amount into rates
7 over 60 years. This amortization in carrying costs
8 would continue until the balance has been
9 recovered, either through revised rates or as a
10 component of electric base rates when new electric
11 base rates for SCE&G are approved in future
12 proceedings.
13 The $4.9 billion in abandoned plant costs will
14 generate a cumulative income-tax deduction valued
15 at approximately $2 billion, which will reduce rate
16 base. Effectively, the net rate-base impact of the
17 abandoned plant is approximately $2.9 billion.
18 To mitigate cost increases to customers, SCE&G
19 proposes to flow back to customers the net value of
20 the Toshiba guaranty settlement through a decrement
21 rider. The amount the rider would be set each
22 year, with full notice and transparency to the ORS
23 and the Commission. The annual amount would be
24 sufficient to offset the amount of any rate
25 increase to customers due to the abandonment or the

1 purchase of replacement generation during that
2 year.
3 The net after-tax value of the Toshiba
4 guaranty settlement is estimated to be $700
5 million. Combined with the abandoned-plant tax
6 deduction, the net cost to customers will be
7 approximately $2.2 billion — again, as presented on
8 the slide. Current projections are that the funds
9 available would allow SCE&G to offset rate
10 increases to customers arising out of the
11 abandonment for a number of years. Our mitigation
12 plan is dependent on booking the $4.9 billion
13 income-tax deduction for abandonment costs in Tax
14 Year 2017. The tax deduction is a critical
15 component of the rate mitigation plan. For that
16 reason, SCE&G will be asking the Commission to
17 expedite the hearing on the Petition we are filing
18 today, so that a definitive ruling can be made on
19 our request before the end of 2017 if at all
20 possible.
21 The abandonment of the units will raise a
22 number of other tax and accounting matters, which
23 SCE&G will present to the Commission in the
24 Petition that we'll file later today. These are
25 technical matters related to operating and capital

1 costs on transmission investment; the cost of
2 benefits lost under the Section 199 of the Internal
3 Revenue Code; the tax impacts of transferring the
4 equity component of the AFUDC, taken on the units,
5 to the capital cost account; costs associated with
6 interest-rate swaps to lock in interest rates for
7 bonds to be issued to finance the project; and the
8 proper accounting for the costs associated with
9 nuclear fuel that was acquired or was being
10 fabricated in anticipation of the construction of
11 the units; and other matters. We will provide more
12 information about these matters in the forthcoming
13 filing.
14 Finally, as to the financial community's
15 reaction, we are aware that the market has been
16 expecting us to proceed with at least one unit.
17 The decision to abandon both has been a significant
18 surprise. The maintenance of confidentiality
19 during this evaluation process has been critical
20 and, hence, the surprise.
21 Under the current plan, construction risk will
22 no longer exist, but the new risk is the
23 uncertainty about how abandonment costs will be
24 treated under the BLRA. Markets will be watching
25 closely to see how the abandonment provisions of

1 the BLRA are applied in this process, especially
2 given the creative rate proposals the company is
3 making to mitigate any near-term impact on
4 customers, while upholding the integrity of the
5 Base Load Review Act. The market's assessment of
6 these events will have a major bearing on SCE&G's
7 cost of capital in future years, and, therefore, on
8 customers' rates. However, we can assure the
9 Commission that the financial and regulatory plan
10 which we are presenting in the Petition SCE&G is
11 filing today, if adopted, will be sufficient to
12 rebalance the financial posture of SCE&G and
13 protect its ability to continue to operate a
14 reliable and efficient utility system to meet the
15 needs of its customers for the long term.
16 Thank you for your attention today, and we
17 welcome your questions.
18 **CHAIRMAN WHITFIELD**: Thank you, Mr. Addison.
19 I'm going to break with tradition once again,
20 and I'm going to use a little judicial privilege
21 and go first. Some of my fellow Commissioners
22 encouraged me to do that, and I'm going to do that.
23 And I'll start by saying: I'm from Fairfield
24 County, and it's a grim day.
25 Mr. Marsh, Mr. Byrne, Mr. Addison, even your

harshest critics have called it a sad day for the State of South Carolina and for Fairfield County. I'm going to go a little further and say that public trust is at stake here, folks. Act 175 demanded and required that. And you know the ethics rules and the Judicial Code, South Carolina Ethics Commission law prohibits communication, and we've all abided by that, as have you, the company, and other parties. However, are the three of you aware that this Commission was blindsided yesterday by this news?

KEVIN B. MARSH [SCE&G]: I think it was a surprise to many people. The evaluation process we outlined to you in April, we tried our best to make it clear that we would seriously consider all options and try to reach the most prudent decision for the path forward. Understandably, when we made that announcement yesterday, it was a surprise. I don't know of a way to have avoided that. We also are under very strict rules, in terms of financial disclosures and providing information to investors, many of which were anxious to know what the decision would be. We shared that decision uncertainty with our neighbors at Georgia Power Company, who's going through the same process.

They have not announced their decision yet, and find themselves in the same position, evaluating the same options that we have considered.

I apologize for the surprise. I don't know of another way to have gone through the analysis and presented the results. There's no way to slow-leak the information out so we could prepare people for the decision. It was my decision and the decision of our team that the best way to do it was, as soon as we knew the answer, to present it as expeditiously as we could. We did that in conjunction with Santee Cooper, to give their board a chance to evaluate their decision, followed shortly thereafter by our board's decision.

So I apologize for the shock, but I don't know of another way we could've gone through the process and done it and complied with all the rules that we're subject to, as well as others, regarding confidentiality of the final action.

JIMMY ADDISON [SCE&G]: Mr. Chairman, I deeply regret it, too. It is a sad day for all of us. I'm basically a lifelong resident of this State, not far from Fairfield County where I grew up, and it is a very sad day. I viewed these plants as the right answer for my grandchildren's grandchildren.

1 So it's sad for all of us.
2 I would say, as far as the blindsiding,
3 though, we — you can tell from Mr. Marsh's and Mr.
4 Byrne's comments that we were prepared to bring the
5 plan forward to ORS and to you, to consider
6 completing one plant, and that wasn't officially
7 taken away until yesterday, when Santee made the
8 vote. So we had to honor that, and wait and ensure
9 that that critical factor was executed.
10 **CHAIRMAN WHITFIELD**: That's new news to us,
11 Mr. Addison. I appreciate you sharing it.
12 Mr. Byrne?
13 **STEPHEN BYRNE [SCE&G]**: We do acknowledge and
14 accept the admonishment. This is a sad day for
15 Fairfield County; it's a sad day for the State.
16 And it certainly is a sad day for the country and
17 the state of nuclear power in this country. We
18 recognize all those things.
19 I had the dubious distinction of telling 650
20 SCE&G employees, yesterday, that they were losing
21 their jobs, and we let thousands of contractors go
22 all at the same time. I think those folks felt
23 very blindsided, as well. But, as Mr. Marsh points
24 out, there was no way to slow-leak the information,
25 and a lot of this information was fairly late-

1 breaking.
2 **CHAIRMAN WHITFIELD**: Thank you for your
3 comments, disturbing as they are. Thank you for
4 answering my question in that regard.
5 I want to go to another area that's in our
6 Code of Laws, and one thing that we have to
7 consider each time, and that's the three legs of
8 the public interest. And two of those are gone,
9 today. Two of those are gone. And those two that
10 are suffering are the ratepayers and the economic
11 development, as one of the three legs of the public
12 interest. And I would ask you at this time that
13 either of the three of you — any of you can address
14 this — would you like to say anything further to
15 the ratepayers or the people of Fairfield County?
16 I can tell you, I don't need to read it. I'm from
17 there. This is going to shatter lives, hopes, and
18 dreams, in Fairfield County and in the State of
19 South Carolina. And if there's anything that you
20 could offer these folks — I know, Mr. Byrne, you
21 said you had an unpleasant job of informing 600
22 folks, but there's a lot more people that are going
23 to be impacted by this, and it's going to be
24 devastating. And if either one of the three of you
25 could address that, I would sure appreciate it.

1 **KEVIN B. MARSH [SCE&G]**: As I discussed
2 before, this is a very disappointing decision for
3 us. We had counted on this power to provide the
4 foundation for clean energy for South Carolina for
5 the long term. The unfortunate part is, with the
6 abandonment of the project, there is a reduction in
7 construction work and a reduction in ongoing jobs
8 at SCE&G. Our commitment, though, continues to be
9 to make sure we have power available to meet the
10 economic-development needs of the State, when
11 required. We have not changed our commitment to
12 meet the needs of the customers that we serve
13 today.
14 We are concerned about rate impacts for
15 customers. That was one of the paramount
16 evaluations in our determination of which option
17 would be the most prudent path going forward.
18 While we would like to have completed both units,
19 with the additional costs we found ourselves facing
20 due to the failure of Westinghouse and their
21 rejection of the fixed-price contract, we didn't
22 believe it was in the best interest of customers to
23 saddle them with an additional $5 billion in costs
24 if we try to complete that project. On the
25 schedule that we had laid out, it would be many

1 months longer than what Westinghouse had
2 represented to us. We believed the most prudent
3 path was to abandon and not incur any additional
4 expenditures on the project site, other than to
5 wind down the site and put it in a stable
6 condition, so that we wouldn't have additional
7 construction impacts on the customers as we go
8 forward.
9 We will need to determine where the additional
10 generation will come from, to make up the deficit
11 that we have. We still need base-load energy for
12 our customers. Unlike the situation Santee alluded
13 to in its press conference yesterday, we do still
14 have a need for generation. We will need to
15 replace these megawatts in a fashion that will be
16 cost-effective for the customers, so we take the
17 challenge seriously. We understand that customers
18 do have costs in their rates as a result of the
19 work that's been done on this project. We believe
20 those costs were prudently incurred.
21 Unfortunately, the prudent decision at this point
22 is to abandon the plants, so we're making every
23 effort to take these cash proceeds that attach from
24 the Toshiba settlement, and apply that to mitigate
25 impacts on customers' rates as we go forward.

JIMMY ADDISON [SCE&G]: Mr. Chairman, if I could add to that — and Mr. Marsh hit it there at the end of his comments — you'll see in our proposal, when we file it later today, that we're basically taking all the costs and stretching them out over a very long period of time — in some cases, the majority, over 60 years. Contrarily, we're taking all the benefits that are up here — the Toshiba guaranty, the net of income taxes, the tax deduction benefits, et cetera, and moving all those back to the early years so that the customer will get the benefit of those early on. So I think we've come up with a very aggressive plan to aid the customer in the near term, and I would also say, in the last four months, I don't think there's a day that the three of us have not been intensely involved in this issue, and there's hundreds more behind us that that is true for, as well. Particularly, we worked very hard on that guaranty. The contractual amount — as Mr. Marsh said in his initial comments — was about $1.7 billion. We increased it by $500 million, in aggregate, for both parties. I worked very, very hard to do that, and, of course, our anticipation was that it would help offset costs and be able to produce the

1 plants, and, unfortunately, where the decision
2 point was for that, that's not going to
3 materialize.
4 **CHAIRMAN WHITFIELD**: I appreciate both of your
5 comments regarding the ratepayers. That's a huge
6 concern. Do you — anyone have anything to add,
7 further, about the economic impacts to Fairfield
8 County and surrounding areas? Specifically, to the
9 ones hardest hit right there in Fairfield County?
10 **STEPHEN BYRNE [SCE&G]**: Chairman Whitfield, we
11 recognize that this is a significant impact to not
12 just Fairfield County, not just Newberry County,
13 Richland, Lexington, but it's the whole State. And
14 we look at the number of contractors that
15 Westinghouse has hired, the number of vendors that
16 Westinghouse has hired from the State, that list is
17 probably 100-plus, and a lot of them will be from
18 all over the State. So it's not just an our-
19 service-territory issue; it's not just a four-
20 counties-in-the-Midlands issue. We recognize those
21 folks are impacted. A lot of them are also owed
22 money through the bankruptcy process. So, you
23 know, we're hopeful that Westinghouse is sold
24 through this process, and that would probably be
25 their best method of recovering those costs, and

they've already expended those; they are already owed by Westinghouse.

The tax issues in Fairfield County are huge. You know, we recognize that we are now not going to be paying a significant amount of tax revenue that the County counted on, and that's unfortunate. The schools have made decisions based on workforce and the children of that workforce, and educating them. And those plans are now going to change. We see that. We recognize that.

I think we probably should point out that we thought — like I think everybody in this room thought — in October, when we negotiated our fixed-price option, that we had largely resolved the issues with costs. We brought that before this Commission, and this Commission approved it in November. Within about six weeks, we got a call from Westinghouse saying, "Toshiba is going to have a press conference tomorrow. You might want to listen in." We listened in on that press conference intently, and that's the first time that they indicated that Toshiba had a huge financial liability issue on finishing the cost of our project and the Vogtle project in Georgia. When they entered into bankruptcy, it nullified the

1 benefit of our fixed-price contract. So that is
2 really what drove us here.
3 I can tell you that none of us want to be in
4 this situation. We would much prefer to be
5 building. Certainly, there is nobody in this room
6 more disappointed that we won't be building. I've
7 dedicated the last decade of my life to building
8 these projects. I want to complete them,
9 desperately. But the loss of that fixed-price
10 option, the loss of the fixed-price contract, and
11 those additional costs — we had to evaluate what
12 those additional costs would be. In the final
13 analysis when we evaluate those costs and the
14 prospect that we may not qualify for production tax
15 credits, those are the kind of things that drove
16 this decision.
17 As Kevin said, we thought we still had an
18 option on one unit, but we have to have a partner
19 to do that, and we don't.
20 **CHAIRMAN WHITFIELD**: I've got two more
21 specific questions. I'm going to turn it over,
22 after those two questions, to my fellow
23 Commissioners, and quit hogging it up, here. But I
24 wanted to remind all three of you, of course, were
25 here, as were many of us, but the Commission issued

1 a Base Load Review order for a Combined Certificate
2 for Environmental Compatibility and a Base Load
3 Review order. As you remember, the case was nearly
4 a month long — December '08 — and we issued the
5 order early in '09, and the Supreme Court has
6 upheld our decision. And you're just going to walk
7 away from that. My question to you is — we didn't
8 know anything, like I said, until yesterday, but we
9 knew there was a Santee Cooper board meeting. But
10 when you got that news, the Interim Agreement is
11 until August 10th; could you not have at least
12 waited 10 more days, until August 10th? We've got
13 nine years in this. What's 10 more days? Is there
14 a reason, even once you got the disastrous news
15 from Santee Cooper yesterday, why could you not
16 have waited until August 10th, and see if others
17 were interested, see if there were other options?
18 What would 10 days have hurt?
19 **KEVIN B. MARSH [SCE&G]**: We had spent almost
20 four months going through the evaluation and trying
21 to consider every available option. We also
22 contacted potential partners, once we felt like
23 Santee might not be willing to go ahead or wanted
24 to bring in additional partners to reduce their
25 ownership shares. We considered those options.

1 The driving force behind the disclosures and the
2 way they were made, unfortunately, is the strict
3 requirements we have from a financial-disclosure
4 perspective that, once we learned of material
5 information that would've been significant to
6 potential investors in the marketplace, we are
7 under an obligation to disclose that. That's why,
8 when we made the press release last Thursday
9 afternoon, once we got the information regarding
10 the good news on the Toshiba settlement, the $2.2
11 billion, we had to include in that release
12 information about what we had learned through our
13 evaluation, to date. Our concern was that, given
14 the good information on the funds coming from
15 Toshiba, people might have reacted on that in the
16 stock market, not knowing the other material
17 information that we had available at that time,
18 which is why we made those disclosures in that
19 press release. We wanted to have the decision made
20 as quickly as possible for the final decision, and
21 Monday was the quickest time we could do that,
22 given that the schedule's required by my board, and
23 public notice of meetings, and things of that
24 nature. I don't think there's a way, even if we
25 came back to the Commission — if we'd come back to

1 the Commission for an ex parte briefing, that
2 doesn't qualify for full-disclosure requirements
3 under the SEC — Security & Exchange — Rules. We
4 would have had to make a separate disclosure. And
5 our boards had not met at that time. We had
6 information, we had the evaluations done; our board
7 was waiting on Santee's decision. We knew they had
8 a discussion to go through with their board. We
9 needed to act as soon as they did, because they
10 were doing a press release immediately following
11 their board meeting.
12 You know, I apologize for not being able to
13 give any more notice or provide interim updates,
14 but it came together very quickly at the end of the
15 process.
16 **CHAIRMAN WHITFIELD**: Well, this Commission —
17 this allowable ex parte briefing was originally
18 scheduled for Friday. We got notice that you
19 wanted three more days. We got notice. But we
20 certainly didn't anticipate, backing it up to
21 Tuesday, that we would be getting the news that we
22 got.
23 Lastly, I want to get on a subject that, I
24 guess, mainly you, Mr. Byrne, touched on, talked
25 about replacement generation, and I talked about

1 how we approved the order — it was a 126-page order
2 that we issued, approving these units — back in
3 early '09 after hearing the case in '08. Well,
4 some of you may know or you may be aware that in
5 Docket No. 2013-392-E, the Commission granted a
6 certificate to Duke Energy to build a 750 megawatt
7 combined-cycle gas plant at the Lee Station in
8 Anderson County, near Pelzer/Williamston area. You
9 may be aware of that, and 750 megawatts, I think we
10 would all agree, is very large, base load.
11 Correct?
12 **STEPHEN BYRNE [SCE&G]**: Yes.
13 **CHAIRMAN WHITFIELD**: I mean, considering Unit
14 1 is 966 megawatts, that — we issued that — we had
15 that case in 2014, and issued the order in 2014.
16 And that plant is still not in service now. So I
17 think, Mr. Byrne, you said that you could get gas
18 up to speed quickly to cover your reserve margin,
19 but here we are talking about a gas plant that was
20 planned, that we issued an order for in 2014,
21 that's still not commercially operational now. How
22 do you propose to do that? And would you use the
23 existing site, the existing transmission, the 230
24 kV lines? What could you share about the
25 replacement generation that you referenced, Mr.

1 Byrne, here now in your presentation?
2 **STEPHEN BYRNE [SCE&G]**: Yeah, we've taken a
3 look at what we would need from a gas replacement-
4 generation perspective. Fortunately, gas
5 generation or electrical generation capacity is
6 available in the Southeast. So we think that, in
7 the short term — and when I say "short term," I'm
8 talking about for the next five or six or seven
9 years — we believe that gas generation will be
10 available on the market, so we can buy the
11 generation at reasonable prices. We've been buying
12 300 megawatts — we've got a contract that runs
13 through 2019, so 2020 would be the first time we
14 would need to take action to renew that contract.
15 So we think we'd be able to renew that contract.
16 We had a number of counterparties the last time we
17 went out for a bid, which was in 2016, so we don't
18 see a change to that in the short term.
19 I think in five years — our experience with
20 our last combined-cycle generation construction in
21 Jasper County tells us that we could certainly do
22 it in five years, including permitting. Now, we
23 would probably be looking at a plant smaller than
24 what Duke is looking at. We're looking at two-on-
25 one combined-cycle gas generation, generally in the

1 500 megawatts' range. Relative to whether or not
2 the site, itself, would be conducive to that, you
3 know, a lot of people would convert a site from
4 something else to natural gas. The turbines are
5 large enough that they would not be conducive to a
6 two-on-one or even a three-on-one configuration.
7 So it's —
8 **CHAIRMAN WHITFIELD**: The turbines at
9 Fairfield.
10 **STEPHEN BYRNE [SCE&G]**: The turbines that we
11 currently have up at Jenkinsville for the new
12 nuclear units. We do have some gas generation at
13 Fairfield County, but they're small, and I think
14 they total 60 megawatts. You know, we're talking
15 about plants in the 500-plus range. So it's
16 entirely likely that we would build new gas
17 generation in a near-term planning horizon, but
18 probably not at that site. But we could tap into
19 the transmission assets almost anywhere. So from a
20 transmission perspective, the transmission build-
21 out that we've done to support these units has
22 strengthened our system. We will be able to tap
23 into that at either 230 or 115 kV almost
24 immediately.
25 **CHAIRMAN WHITFIELD**: It would have to be where

1 the gas supply would be?
2 **STEPHEN BYRNE [SCE&G]**: That is probably going
3 to be the overriding consideration.
4 **CHAIRMAN WHITFIELD**: Thank you to the three of
5 you. I may circle back later, but for now I'm
6 going to turn it over to my fellow Commissioners.
7 Commissioner Elam, I see your light on.
8 **COMMISSIONER ELAM**: Thank you, Mr. Chairman.
9 Continuing with the idea about what was on
10 site there — and I understand what you're saying
11 about the size of the turbines. So, is nothing
12 salvageable in terms of future generation from the
13 site?
14 **STEPHEN BYRNE [SCE&G]**: I wouldn't say nothing
15 is salvageable. But from future generation at the
16 site, I'm not sure that the AP1000 turbine building
17 assets would be really useful for anything other
18 than something large or something different. The
19 site is a relatively large site. I think you're
20 probably aware we've got an almost 600 megawatt
21 pumped storage facility there; we've got the
22 operating Unit 1 there; we've got a run-of-river
23 hydro unit that's probably nine or ten megawatts;
24 and we've got four peaking gas turbines for a total
25 of 60 megawatts. So, we've got a lot of generation

1 there. You know, based on the changing usage
2 patterns in our service territory, the Charleston
3 area probably needs something more than this area
4 of the State does, so — the issue with Charleston
5 is getting the gas into Charleston.
6 So as Chairman Whitfield points out, we would
7 probably be looking to site something on a gas line
8 where we have gas capacity available; that will
9 probably be one of the driving decision points, is
10 location where you can get gas capacity.
11 The site, from a recovery perspective,
12 obviously has a lot of components. I think I
13 listed, you know, the percentages of the components
14 that are there. A lot of those components will
15 have some value, and we could potentially go into
16 an investment recovery mode. That's not a decision
17 I want to make today or tomorrow, but, you know —
18 and the question is how much do you think you could
19 get for those components. And the estimates vary
20 widely, and it really depends on whether you're
21 looking at — if you've got steel, if you're looking
22 at scrap type prices, or if somebody can actually
23 use the components. So, if somebody else were to
24 build an AP1000, you know, could they use those
25 parts? That's certainly a possibility. So those

are parts that are constructed to nuclear grade standards and come with a pedigree. The only people actively building, currently, would be the Chinese. So that would probably be the market if we want to try to maximize value.

COMMISSIONER ELAM: You know, the transmission capacity's out of sight. And part of the reason I'm asking about the possibility of generation at the site is, you built a lot of new transmission capacity at that site. Will you be able to fully utilize that?

STEPHEN BYRNE [SCE&G]: The real transmission capacity that we built at the site is our new switchyard, which is a relatively large switchyard, but, you know, the lines from that site really run throughout the State. So we — the new construction we built terminates down in the St. Matthews area, so we've got lines that really run all over the State from this new nuclear construction. So we'll be able to tap in just about anywhere. We've got former plant locations, in fact, that might be very conducive, again, absent the fact that they don't have natural gas capacity there. But we've got switchyards that we could easily tie into, in most locations.

1 **CHAIRMAN WHITFIELD**: Commissioner Elam may be
2 referring to the step-up transformer at that site,
3 too.
4 **STEPHEN BYRNE [SCE&G]**: Yeah, so the — things
5 like transformers, those could be utilized
6 somewhere else. The transformers will not be
7 unique to this plant, so I can take that
8 transformer and utilize it somewhere else, and the
9 transformer configuration — in fact, all the
10 transformers we've got would probably be very
11 useful as spares on our system, on the generation.
12 The main step-up transformers that take the output
13 of the generator and put it out onto the grid,
14 those could be utilized other places.
15 **COMMISSIONER ELAM**: Over the course of this
16 project, we've seen completion dates that seem to
17 slip exponentially — for lack of a better word.
18 And when we were talking about increase of costs,
19 they seemed to slip from — well, it's, you know, a
20 couple hundred million more than we thought it was
21 going to be, and then it started slipping by
22 billions. Not for one minute do I believe that an
23 initial estimate of something this complicated
24 would not have had some cost overruns, but what I'm
25 trying to understand is why it seemed to get worse

as we went along. What element of the construction is causing the slowdown to seemingly get slower as we go?

STEPHEN BYRNE [SCE&G]: Yeah, we — the construction pace has picked up. Again, another unfortunate part of canceling at this point in time. The construction pace has picked up.

The cause of the major delays, I would say, are a couple-fold. We did have some regulatory delays upfront, disagreements between the regulator and Westinghouse on code compliance type issues. And without arguing about who is right or wrong, if the regulator says you're wrong, then you're wrong. So we had to change things to accommodate that regulatory review.

The supply chain was probably the biggest issue we've had to date, particularly with supply of modules. So the modular construction techniques — the same way they build aircraft carriers and nuclear submarines — is a great idea, but if the modules aren't there when you need them, that becomes a problem. And the supply chain was letting us down, where Westinghouse, again, was responsible for that supply chain. A lot of the facilities, some of which were constructed just for

1 this purpose, were not turning out those modules.
2 So the delays in modules has been a relatively big
3 issue. Beyond that, what was assumed for
4 production rates, things that we would call —
5 things like unit rates, so how much — how many
6 hours it would take to pour a cubic yard of
7 concrete, we found the Westinghouse, Shaw, and CB&I
8 estimates to be underestimated. We found the Fluor
9 estimates be much more reasonable. Based on the
10 Fluor experience, what we plugged into the schedule
11 going forward, the one that came out to December of
12 2022, utilizes the Fluor unit rates, so we're
13 pretty comfortable that the schedule we got —
14 albeit, you know, years later than our last
15 approved schedule — is fairly accurate. You know,
16 we also had the benefit of the experience we gained
17 at the site, which helps us. I would say that
18 those are the factors that led to the delays.
19 Mixed in with that, design issues. So, you know,
20 as Fluor goes out to construct something, they give
21 feedback to Westinghouse that, you know, "From a
22 constructability perspective, we can't really do
23 this," then you have to change the design. And the
24 license is such that, if you hit certain triggers,
25 you have to go back to the Nuclear Regulatory

1 Commission and ask permission to vary the design,
2 whereas, in the old days when we constructed
3 nuclear plants or any plant, you would just as-
4 built that. You'd change in the field, you'd as-
5 built it later, and then you'd apply for an
6 operating license after the construction permit was
7 completed.
8 So there are differences in the licensing
9 scheme. The underestimation by the contractors
10 previously has been a problem. The supply chain
11 let them down, and a couple of regulatory arguments
12 with the Nuclear Regulatory Commission requests.
13 Those are the drivers, the key drivers, for the
14 delay.
15 **COMMISSIONER ELAM**: So after this experience,
16 are you less of a fan of the modular construction
17 philosophy?
18 **STEPHEN BYRNE [SCE&G]**: No, I would say that
19 the modular construction philosophy works. I would
20 think that if we were to go forward with another
21 construction, my advice to whoever would do that
22 next would be: It needs to be a combination of
23 modular and non-modular construction.
24 For example, when we did the original base
25 mat, the six-foot-thick concrete floor that all of

1 the reactor components will eventually sit on or
2 reside on, it had a reinforcing-bar cage that went
3 into that. We built that in a modular fashion
4 outside of the excavation and lifted it, with the
5 Bigge crane, and put it in. For the second unit,
6 we stick-built it inside the excavation. It
7 probably made more sense for that kind of an
8 application. So, it's a combination of modular and
9 non-modular.
10 Other things that worked very well in modular
11 fashion: the containment vessel itself is an inch-
12 and-three-quarter-thick big steel can, 130 feet in
13 diameter. That was built in modular sections and
14 then lifted with the Bigge crane and welded
15 together. That has worked very well. The
16 structural modules have worked out really well.
17 They just haven't shown up on time. We changed
18 vendors — in some cases, a couple of times. The
19 new vendors are performing much, much better. And
20 so having a vendor that's accustomed to the
21 scrutiny that comes along with a nuclear project,
22 the documentation that comes along with a nuclear
23 project, the training that comes along with a
24 nuclear project, really helps. Newport News
25 Industrial, for example, they're accustomed to

building things for the Department of Defense, so they're up to standards. So when we swapped to them for the shield building panels, they did a great job. So which vendor you select, I think, is crucially important.

COMMISSIONER ELAM: Maybe this is for Mr. Addison. You talked about deferring post-September 30th costs. What — when is your projection — up till when would you defer those costs?

JIMMY ADDISON [SCE&G]: Until we're in at some point years down the road, to deal with a base electric rate case.

COMMISSIONER ELAM: Okay. And the decrement rider that you talked about the money going back to ratepayers from the Toshiba settlement, will that be something that changes year to year, based on what you collect? Or is it an amount you're going to set and forget, until, you know, that much money was at $1.2 billion, or —

JIMMY ADDISON [SCE&G]: One point 2 [1.2], before tax.

COMMISSIONER ELAM: Right.

JIMMY ADDISON [SCE&G]: That would be on the slide, after tax. So the plan would be to set it each year, in cooperation, and work with the ORS

and with you for full transparency — to set it each year, to make sure it offsets any rate impact from wrapping up this abandonment, for the next several years.

COMMISSIONER ELAM: But if you don't get the money from Toshiba, which I take it is not a guaranty if they're paying until, when, 2025?

JIMMY ADDISON [SCE&G]: 2022.

COMMISSIONER ELAM: 2022.

JIMMY ADDISON [SCE&G]: Yeah. So, the installments are expected to start this October, two months from now —

COMMISSIONER ELAM: Right.

JIMMY ADDISON [SCE&G]: — and they're scheduled to run for about five years. There is a significant event, being the sale of Westinghouse that Mr. Byrne referenced earlier, that is likely to happen. I think it's highly probable it will happen, most likely in 2018. And we believe that that will contribute a significant piece of the $700 million after-tax, possibly up to half of it, based upon the estimate of Westinghouse. So that's our intention, is to get as much of it as we can upfront.

COMMISSIONER ELAM: That's all I have. Thank

1 you.
2 **CHAIRMAN WHITFIELD**: Thank you, Commissioner
3 Elam.
4 Commissioner Hall.
5 **COMMISSIONER HALL**: Thank you, Mr. Chairman.
6 As far as the Toshiba guaranty, what happens
7 if for some reason they can't sell Westinghouse or
8 they can't meet that obligation? What's the Plan B
9 for that.
10 **JIMMY ADDISON [SCE&G]**: Yeah, so that's not
11 Toshiba's choice. They declared bankruptcy in the
12 Southern District of New York; it's an American
13 judicial system that will execute on that. That is
14 going to happen. The matter is simply around when
15 it happens. They've now completed their business
16 plan. I think it happened this week. And the
17 intention now is to go through the process under
18 the bankruptcy judge's supervision and sell those
19 assets. It would go through a structured process
20 to get the highest value for those assets. So, our
21 advisors tell us it's highly likely to happen
22 within the next year, maybe inside of that.
23 **COMMISSIONER HALL**: Okay. Now as far is the
24 uninstalled equipment that's left on the site, who
25 owns that? Do you, the company, and Santee Cooper

own that? Does Westinghouse own it? Who owns that?

STEPHEN BYRNE [SCE&G]: Well, for the plant equipment that's on the site, the owners own it. So the owners are us and Santee Cooper, so we'll own it in our relative proportions of 55/45. We also have two off-site warehouses that are chock-full of parts and components, and so we'll be taking over those leases on those off-site warehouses and establishing our own security on them. So it's the stuff on site and two off-site warehouses where the equipment is located.

So anything that we have paid for or partially paid for becomes ours. There is equipment on the site, construction equipment on the site, that is the property of Westinghouse. The heavy-lift derrick is the largest example of that. So we intend to tell Westinghouse, "Come and get your equipment," at the appropriate time. They won't be able to, functionally; it will take months to deconstruct that heavy-lift derrick, and they don't necessarily have anywhere to put it. So it's not causing any issues right now, so we'll work with them to do that. But they've got construction equipment at the site; the concrete batching

1 plants, for example. They own those, we don't own
2 those. But anything that's on the site or in the
3 warehouses that we've either paid for or partially
4 paid for is the owners'.
5 **COMMISSIONER HALL**: Okay. Your employees, the
6 650 employees, and those contractors, as far as
7 your employees, tell me more about what plan you
8 have in effect for them. And for those
9 contractors, did you just — when you let them go
10 yesterday, are they getting paid for the week, and
11 they're done? What is their status?
12 **STEPHEN BYRNE [SCE&G]**: Relative to the
13 contractors, we let Westinghouse and Fluor know
14 that we don't intend to continue and that we gave
15 Notice of Termination of the Interim Assessment
16 Agreement. I'm certain they'll be paid for a short
17 period of time. I don't know how long that will
18 be. It may be days, it may be a week or two. I
19 don't know. That's really up to the contractors.
20 With respect to our employees —
21 **COMMISSIONER HALL**: I'm sorry. Because you
22 had been paying them pursuant to the plan, up until
23 now.
24 **STEPHEN BYRNE [SCE&G]**: Yeah, we had been
25 paying — most of the subs were paid through

1 Westinghouse. The difference was we were paying
2 Fluor directly.
3 **COMMISSIONER HALL**: Okay.
4 **STEPHEN BYRNE [SCE&G]**: The contract is still
5 with Westinghouse. So we will cease the payments,
6 and then it's up to the contractors to do with
7 their employees what they will.
8 With regard to our employees, we will need
9 some to wind down activities; we'll need some to
10 put the plant in a safe condition, which we're
11 doing, you know, as we speak, literally; and we'll
12 need some to, what we would call stabilize the
13 site. You know, if you want to sell equipment, it
14 makes sense to preserve it. In some cases, it may
15 make some sense to close in a building, for
16 example. The turbine building: The roof is
17 basically on, so if I put the sides on the
18 building, then I protect the equipment that's
19 inside, rather than leaving it exposed to the
20 weather. Those kind of things make sense to me.
21 So we would propose doing some preservation-
22 of-site activities, so I'll need a small
23 contingent. I'll need, probably, some Fleur
24 employees to do that. Probably no involvement from
25 Westinghouse, though I'm not certain. We'll need

1 some of our employees, but that's a small group.
2 So we gave them the Notice yesterday. They
3 will be employed for about another two months for
4 the warn notice. There's a federal regulatory
5 notice you have to give them and keep them employed
6 for two months. We'll give that notification — we
7 gave that notification yesterday, so that'll be for
8 two months, and then we'll offer a short, small
9 severance package, and we brought in an outside
10 entity to help with placements, so — it's a company
11 that looks like it's got a lot of experience,
12 called the Wright Group, and they'll be helping
13 with — we've established an on-site resource
14 center, already, and we'll be starting those
15 placement activities on Thursday. I've already
16 received calls from two different companies that
17 are looking for employees in the nuclear industry.
18 **COMMISSIONER HALL**: Okay. And, finally, did
19 any of you three or any upper-level management have
20 bonuses or any kind of compensation tied to this
21 project?
22 **KEVIN B. MARSH [SCE&G]**: We all have
23 compensation, in some form, tied to incentives for
24 work to be performed during the year. Construction
25 milestones are included, I know, in Mr. Byrne's and

1 Mr. Archie's performance goals. Mr. Addison has
2 relative goals for his responsibilities regarding
3 financing, to make sure that that's accomplished
4 when it needs to be accomplished. And, certainly,
5 I have responsibilities for all the members of my
6 senior team. Those goals, I would tell you, are
7 not likely to be met this year, based on the
8 cancellation of the project. And that's the way
9 incentive compensation works: If you don't meet the
10 incentives, you're not paid.
11 **COMMISSIONER HALL**: Okay. Thank you.
12 Thank you, Mr. Chairman.
13 **CHAIRMAN WHITFIELD**: Thank you, Commissioner
14 Hall.
15 Commissioner Howard.
16 **COMMISSIONER HOWARD**: Mr. Addison, I've got a
17 couple of questions. Your agreement with — the
18 settlement agreement with Toshiba, between you and
19 Santee Cooper, does that have to be approved by any
20 bankruptcy court?
21 **JIMMY ADDISON [SCE&G]**: No, sir. It's Noticed
22 by the court — it's already been filed with them —
23 that it does not require their approval. It is
24 binding today.
25 **COMMISSIONER HOWARD**: I know this only

1 happened yesterday, but have you had any
2 repercussions from Wall Street?
3 **JIMMY ADDISON [SCE&G]**: Yeah, significant
4 repercussions. So there's been a lot of
5 uncertainty around what's going to go on with the
6 construction since, really, it started on December
7 27th when the financial announcement was made by
8 Toshiba, that Mr. Byrne mentioned earlier. There's
9 been a lot of uncertainty since. I'd say the
10 performance of our stock has probably been 20
11 percent below the electric peer group, year to
12 date. Friday, it was down substantially, based
13 upon some reports that some analysts put out that
14 were misleading, based upon what we intended to do.
15 They didn't know different, but they were
16 guesstimating what that might be, based upon our
17 filing of the settlement document last week, the
18 disclosure of that. Then, yesterday, after we
19 explained that, I think it responded some back, but
20 we're still probably 20 percent down, compared to
21 our peers this year.
22 **COMMISSIONER HOWARD**: Thank you.
23 **CHAIRMAN WHITFIELD**: Thank you, Commissioner
24 Howard.
25 Commissioner Hamilton.

1 **COMMISSIONER HAMILTON**: Thank you, Mr.
2 Chairman.
3 I've got a couple of questions for you
4 gentlemen. One, it might be a play on words but
5 the press releases of Santee Cooper and yours
6 differed in the fact that Santee Cooper said they
7 were suspending operations, which to me kind of
8 means to mothball it and wait for another day; and
9 "abandonment" was the word that you used, which
10 kind of indicates that you're walking away. Am I
11 confused?
12 **KEVIN B. MARSH [SCE&G]**: No, their press
13 release did say exactly what you noted. In our
14 conversations with Santee, it was their desire to
15 cease construction or suspend construction with the
16 possibility that there could be additional
17 governmental support or the potential for another
18 partner to step forward and say they'd like to
19 discuss coming into the project. Our belief was we
20 had pursued those options and we had evaluated
21 those very carefully. As I mentioned, I had
22 conversations with a couple of utilities about
23 their interest in coming in, and no interest was
24 expressed at this time. And we concluded our
25 appropriate action was abandonment. We didn't feel

like it was fair to continue with construction. I mean, we could've continued construction while we looked for another partner, but we were at this for four months and I feel like people had an opportunity to step forward if they had an interest. We did pursue some of that on our own, directly. As I mentioned, we didn't have any interest expressed. We felt like the prudent decision was to stop the project and abandon, from our perspective.

Now, if someone were to step forward — I don't want to mislead the Commission — we would have an interest in talking with them, but I don't think that would be a quick process. You'd have to negotiate new construction agreements; you'd have to negotiate a new partnership agreement. I think you could be looking at three to six months. So the opportunity exists for us to reevaluate that. We just don't have anyone, to my knowledge, willing to have that discussion with us today, and it wouldn't occur overnight.

You may recall Santee — I believe it was four years ago — did a search for a partner to help lower some of their participation in the project, and we ended up with one potential person coming

in, which was Duke Energy. We supported Santee in that effort, we helped them negotiate what that contract would look like. But at the end of the day, their desire to come in was on different terms than we had in our existing contract, and we didn't think it was fair to the customers of Santee and the customers of SCE&G to have different risks than a new partner that might come into the project. So any agreement we would have, going forward, if there is a potential for one – and I'm not aware of one today – would need to be on equal terms for all partners. We'd have to share the same risk going forward, and we were unable to do that in the previous discussions.

COMMISSIONER HAMILTON: I saw Mr. Carter on 10 o'clock news, and his – part of his comments were the fact that he felt like that the federal government, if they really wanted nuclear energy to be a thing of the future, now is the time for them to step in. Do you think any possibility that this message will make any action happen in Washington?

KEVIN B. MARSH [SCE&G]: I'm not optimistic. I've been to Washington at least two times with Mr. Carter and our counterparts from the Southern Company. We've had very direct discussions with

1 high officials at the White House, the Department
2 of Energy, and other connected people to the energy
3 business or sector, in Washington. We have
4 explained the need for support for these projects
5 because of the national security interests and that
6 we have a strong nuclear fleet here in the United
7 States, which is why it's so disappointing for us
8 not to be able to continue with these projects. I
9 believe, had these projects been completed, it
10 would've been the foundation for additional
11 projects to be built, and I'm pulling for the
12 project of Southern Company; I hope they're able to
13 find a way to get their project to go forward.
14 They've got the same challenges we do. As I
15 mentioned, they have yet to make a decision.
16 We delivered our message very directly, very
17 clearly, in terms of what we were looking for to
18 support the projects. I believe they made an
19 effort to evaluate options they had available,
20 where they thought they could help us. We went as
21 high as Rick Perry, Secretary of Energy, in the
22 last meeting we had up there, and we've not gotten
23 a response. We did hear from the Department of
24 Energy. They called and offered us a DOE loan,
25 which we had evaluated earlier, but that doesn't

1 help the situation we're in. Unfortunately, the
2 facts are, to finish the projects, it significantly
3 costs more — and for our shares, a billion dollars
4 more, over the fixed-price option. We felt like
5 the fixed-price option was the right decision for
6 our customers because it locked down the cost of
7 the plant. So for me to come back to you and say
8 we want the fixed-price option plus a billion
9 dollars, I don't think that's the right thing to
10 do. And we asked the government to make up that
11 difference or provide us with the backstops, if we
12 actually incurred those dollars, they would
13 backstop the project in the form of a grant. It
14 was a very clear request. We made it known to
15 everybody we talked to what we were looking for,
16 and Southern Company asked for the same thing
17 because their cost estimates, I suspect, will be in
18 the same range of ours. I've not seen their
19 analysis, so I don't have their actual numbers.
20 We pursued that as hard as we could. I was on
21 the phone with a number of officials; I know Mr.
22 Byrne was on the phone with a number of people in
23 different agencies. And we got no response.
24 **STEPHEN BYRNE [SCE&G]**: We got no response on
25 the grant aspect of things. We probably should

1 point out that I think all three of us have spent a
2 number of trips to Washington and lots of times on
3 the phone on the production tax credits, and the
4 South Carolina Delegation has done, I think,
5 everything they could do to try to help us to
6 secure the production tax credit extension. You
7 know, it was passed in the House. Now it's with
8 the Senate. I don't know what the prospects are in
9 the Senate or when it might be taken up in the
10 Senate. But the South Carolina Delegation, when we
11 asked for help, they did everything they could do
12 to help us.
13 **KEVIN B. MARSH [SCE&G]**: I would echo Mr.
14 Byrne's comments. Mine were directly related to
15 direct support from the government in the form of a
16 grant. I don't know anything we asked our South
17 Carolina Delegation to do, any door we tried to get
18 opened by them, that they didn't respond. They
19 were very responsive, they've been very supportive
20 all the way back to when we were trying to secure
21 our license and we got assistance from them in
22 shaking that loose from the NRC. So they've been
23 extremely supportive. I talked to many of them
24 yesterday, personally. They were as disappointed
25 as we were that we were not going ahead.

1 **COMMISSIONER HAMILTON**: Mr. Addison, the $4.9
2 billion, is that the total cost at this date that's
3 in the project?
4 **JIMMY ADDISON [SCE&G]**: It's about 4.7, is the
5 cost to date, and there's an estimate for a variety
6 of ramp-down costs, et cetera, in there, to get to
7 the total of 4.9.
8 **COMMISSIONER HAMILTON**: Four point nine [4.9].
9 In other words, that's what it's going to cost —
10 the total cost — to abandon the project.
11 **JIMMY ADDISON [SCE&G]**: That's our estimate
12 today.
13 **COMMISSIONER HAMILTON**: And I see that you're
14 giving the ratepayer the benefit of this [word inaudible]
15 money and the tax discounts, which I'm sure will be
16 well received. But the rest of it's going to be
17 kind of tough, with nothing?
18 **JIMMY ADDISON [SCE&G]**: Very tough.
19 **COMMISSIONER HAMILTON**: There's no way easy to
20 walk away from something, I know that, and I
21 understand what we're going through and what you're
22 going through, and what everybody in this audience
23 is going through today. Thank you, for your
24 information.
25 **JIMMY ADDISON [SCE&G]**: Yes, sir.

1 **COMMISSIONER HAMILTON**: Thank you, Mr.
2 Chairman.
3 **CHAIRMAN WHITFIELD**: Thank you, Mr. Hamilton.
4 Before we go to Commissioner Fleming, I want
5 to add one more quick question to you, and you
6 partially answered it with Commissioner Hamilton's
7 exchange. What would it take for you to
8 reconsider? You mentioned some examples here. Do
9 you have a certain — Mr. Marsh came close, but do
10 you have a certain litmus test, that — a mark, if
11 you will, for you to reconsider? I said earlier
12 your harshest critics even said it's a sad day.
13 So, what would it take for you to reconsider? And
14 have you heard from anybody at the Department of
15 Energy, FERC, anybody at the federal level, in the
16 last 24 hours since this news broke?
17 **KEVIN B. MARSH [SCE&G]**: I have not heard
18 anything and I'm not aware of anybody on my team
19 hearing anything from the federal government in
20 terms of support. I'm not aware of that. I
21 personally have not had any conversations.
22 The decision of what it would take probably
23 falls into a couple of categories. The first one
24 would be we'd have to have, I believe, governmental
25 support to give us a backstop or cover the

1 additional costs of completing the units if we went
2 above the fixed-price option. We need to protect
3 customers from that risk, and that would be an
4 absolute we would have to have from a cost
5 perspective. That's important because, with the
6 failure of Westinghouse to deliver on a fixed-price
7 option in their declaration of bankruptcy, the cost
8 of completing a project shifts back to us. We have
9 evaluated extremely in very much detail what it
10 would take to complete the project, which is why we
11 feel comfortable with the schedules we have that
12 show completing Unit 1 in 2022 — or, the first new
13 unit in 2022, and the second unit in 2024. But
14 there continue to be risks to those schedules, so
15 we have to have that backstop in place so if we go
16 over that amount where we extended any additional
17 owner's cost, that that's not going to be borne by
18 the South Carolina customers.
19 I think Mr. Carter would echo those comments,
20 because that was a lot of what drove their
21 decision. On top of that, we still have the
22 unanswered question on the production tax credits.
23 Mr. Byrne mentioned our legislative team was
24 extremely successful in helping us get that through
25 the House of Representatives. We've not been as

1 successful with the Senate, in Washington. So
2 that's another $2 billion of value for our
3 customers. We would need to have some confidence
4 that that was going to be included in our overall
5 evaluation. We included that, because we felt like
6 the evaluation — I mean, the passing of the bill by
7 the House of Representatives that eliminated the
8 deadline was a very positive step. We still have a
9 couple more steps to go, before that would be law,
10 so, at this point, we would not qualify for the
11 credits, so we'd have to take a careful evaluation
12 of what that risk would be and share that in our
13 overall consideration.
14 **CHAIRMAN WHITFIELD**: Thank you, Mr. Marsh.
15 I'm going to go to Commissioner Fleming. I
16 know she has a few questions. We'll check with our
17 court reporter just a minute.
18 [Discussion off the record]
19 Commissioner Fleming?
20 **COMMISSIONER FLEMING**: Yes, thank you. And,
21 actually, Commissioner Hamilton went down the path
22 that I had planned to go down to ask, so I just
23 wanted to build on or go a little farther, I guess,
24 in that direction of the differences that were in
25 the press releases that each of you — each, that

1 Santee Cooper and SCE&G gave, regarding suspension
2 versus abandonment. It seems to me, if that is the
3 case, there could be some real differences in how —
4 differences of opinion — in how this develops along
5 the way, as to which direction one goes. So could
6 you talk a little bit about that, because, if you
7 want to abandon and they want to suspend, it's
8 totally different directions, so how do you resolve
9 that? Even in a financial way seems to be putting
10 up some major barriers. So could you talk a bit
11 more about that?
12 **KEVIN B. MARSH [SCE&G]**: Well, I think we are
13 both agreed on the suspension of the work at the
14 site. We felt like it's appropriate for us to
15 abandon and not continue to incur the construction
16 dollars. It was our decision without a partner it
17 was financially impossible for us to move forward.
18 And I wouldn't want to present a case to the
19 Commission that said, "We believe there's a partner
20 coming in; we want to wait six months." We've been
21 through this evaluation process for four months;
22 we've looked for partners and we've not had any
23 success, to date.
24 Santee, I believe, thinks that the decision
25 we've made, based for Washington action, think it

may spur a partner to step forward. But I've talked to Mr. Carter about this, and even he acknowledges if someone were to step forward today, there's a long process before you've reached an agreement to go ahead, and then try to bring everybody back to the site. Our belief was an appropriate decision for our customers and the other stakeholders was to go ahead and file the plan of abandonment, and that's what we plan to do later this afternoon. If, for some reason, someone were to step forward and change that, we would have to reconsider that, but I don't believe that's likely at this point. I could be proven wrong, and the door is open for someone that wants to have a conversation with us, but we believe the prudent decision at this point is to abandon the project. For the evaluation of the other risks, we'd have to consider, and the lack of the governmental support and just unavailability of a partner.

COMMISSIONER FLEMING: I think that's the only small bit of optimism that has come out of this today, that there could be an opportunity if the government or if some other interested entity would come forward. And I would imagine that the negotiations would be a lot more flexible than

1 maybe they have been in the past. Would you say
2 that?
3 **KEVIN B. MARSH [SCE&G]**: They've been pretty
4 tough in the past. I don't know — I guess it might
5 depend on who you're negotiating with, depending on
6 what their expectations might be.
7 **COMMISSIONER FLEMING**: Another area that I —
8 you had talked about the intellectual property,
9 before, being escrowed. And at that point, that
10 was a pretty important part of the project,
11 overall. Does it have any significance today? Is
12 it still escrowed? Is there value on it? Who
13 actually owns it at this point?
14 **STEPHEN BYRNE [SCE&G]**: Yeah, the intellectual
15 property is in escrow. It's in escrow with a third
16 party. We would have to notify that third party of
17 a triggering event, so insolvency at Westinghouse
18 would be a triggering event, and we would get
19 access to that intellectual property.
20 It's not necessarily valuable to anybody other
21 than us, if we were to continue with construction.
22 So I can't take that intellectual property and sell
23 it to somebody else; it doesn't have value from
24 that respect. The only value in it is if we wanted
25 to continue with the construction and Westinghouse

1 were not there to support us, then the intellectual
2 property would come to us and we could continue
3 construction of the plant with that intellectual
4 property. Westinghouse, as you're probably aware,
5 filed for bankruptcy protection under Chapter 11,
6 so they are still performing in bankruptcy, so they
7 are willing to help us — we'd have to negotiate a
8 separate agreement with them, because they're going
9 to reject our EPC contract. We'd have to negotiate
10 a separate agreement with them, and we would take
11 over the lead in construction and they would
12 support us. So, even in that, we wouldn't
13 necessarily need the intellectual property.
14 So from the perspective of value, if it has —
15 if we can sell it, we can't sell that intellectual
16 property. We can't use it for another purpose.
17 **COMMISSIONER FLEMING**: But you do still have —
18 you still have that in your possession?
19 **STEPHEN BYRNE [SCE&G]**: The intellectual
20 property is still in escrow with a third party,
21 yes.
22 **COMMISSIONER FLEMING**: If an opportunity did
23 come up.
24 **STEPHEN BYRNE [SCE&G]**: Yeah, it's still
25 there. We'll continue to make those payments —

1 those very small payments — to maintain that.
2 **COMMISSIONER FLEMING**: Now, what if — with the
3 bankruptcy, though, are there other vendors who may
4 have liens on that?
5 **STEPHEN BYRNE [SCE&G]**: We're not aware of any
6 other vendors who have liens on the intellectual
7 property. I believe that Westinghouse had to go
8 through some financing, some short-term debtor-in-
9 possession, or DIP, financing. Those DIP financing
10 entities may have some claims on the intellectual
11 property. But that doesn't impact our claim on the
12 intellectual property.
13 **CHAIRMAN WHITFIELD**: In Georgia?
14 **STEPHEN BYRNE [SCE&G]**: Georgia is a situation
15 a little different. They did not have intellectual
16 property through their original contract, so they
17 have negotiated, as we understand it, a Services
18 Agreement with Westinghouse so, should they go
19 forward, they'll be operating with this Services
20 Agreement. And the Services Agreement does give
21 them some rights to use intellectual property, but,
22 again, it would be Westinghouse utilizing their own
23 intellectual property for the benefit of that
24 Vogtle project.
25 **COMMISSIONER FLEMING**: When you were doing

1 your looking at the costs of the project, going
2 forward, and the cost of abandoning it, when
3 Chairman Whitfield earlier talked about the three
4 legs that we consider, did you also include the
5 costs to the State of abandoning this project and
6 including loss of jobs and plans that had been put
7 in place with the Cpunty that were including the
8 completion of this project?
9 **JIMMY ADDISON [SCE&G]**: We made the
10 consideration of our customers the primary
11 consideration, as you'll see when we file our case,
12 in principle. We certainly considered those
13 factors on a qualitative basis. It's very
14 difficult to define all of those objectively.
15 I will tell you that the option of
16 abandonment, just to be clear — it's probably
17 fairly obvious — is the least advantageous to any
18 investor in our company. That is clearly the least
19 advantageous route. So we're basically
20 recommending to you the least advantageous for any
21 of our investors.
22 And I would also — if I could go back a couple
23 of questions earlier, Commissioner, where you asked
24 Mr. Marsh about partners, et cetera. When it was
25 becoming clear that Santee was likely not to go

1 forward, I personally suggested to them that maybe
2 as they look for other partners, they consider
3 thinking about the sunk-costs concept and not
4 asking an investor that might come in and buy down
5 their position to pay the past costs, but just to
6 pay the go-forward costs, to make this thing work,
7 to get to a rational share that they felt like they
8 could support. So I don't know if they would still
9 do that, if someone came forward — that's their
10 consideration; it's their dollars that they've
11 invested — but we did try to put any option we
12 could think of on the table.
13 **COMMISSIONER FLEMING**: So that is on the table
14 at this point, if someone were to come forward?
15 **JIMMY ADDISON [SCE&G]**: Well, it's my
16 recommendation that they should consider that. I
17 have no idea what their response to it might be.
18 **COMMISSIONER FLEMING**: "They" being?
19 **JIMMY ADDISON [SCE&G]**: Santee.
20 **COMMISSIONER FLEING**: Okay. I was thinking if
21 you were talking about the other members of SCE&G,
22 but you're speaking for SCE&G.
23 **JIMMY ADDISON [SCE&G]**: Right. Principally,
24 you know, in the one-unit option where we would
25 supplement with gas and make a proposal to you that

1 that's less than the existing fixed-price option,
2 where we would have a similar amount of capacity
3 between the combination of one unit of nuclear and
4 the gas solution, it would still provide most of
5 the jobs, et cetera, that you were asking about,
6 but would provide Santee maybe to take their
7 position down from 45 percent to something that's
8 more palatable to them If another partner were to
9 come in and take a portion of that, would they
10 allow them to take that portion at just the go-
11 forward costs, rather than the sunk costs, for the
12 good of the whole of the project and for the good
13 of the whole of the State. So I suspect they would
14 give that consideration. They can only speak for
15 themselves, as to what they would do.
16 **COMMISSIONER FLEMING**: We've been — talking
17 about the overall cost to the State, you've talked
18 about the cost to the customer, both now and going
19 forward. What is the stake of the stockholders in
20 this? What are you looking for them, in reference
21 to this?
22 **JIMMY ADDISON [SCE&G]**: As I said earlier, the
23 SCANA stock this year — well, throughout this
24 construction project, because of the perceived risk
25 associated with it, we have performed less than our

1 peer group over this period of time. This year, in
2 particular, with all of the financial issues with
3 Westinghouse, with Toshiba, et cetera, we have
4 substantially underperformed our peer group. We're
5 down for the year, when the peer group is up. So
6 we're down about 20 percent below our peer group,
7 so I'd say that's roughly $2 billion this year, of
8 negative performance, compared to the peer group.
9 Billion with a "b."
10 **COMMISSIONER FLEMING**: I heard you. I — and
11 the other thing — I did want to just follow up on
12 what Chairman Whitfield said in the very beginning.
13 We were blindsided by this. When I read it on my
14 e-mails, I mean, it was like a gut punch, because
15 it just came totally out of the blue. And I know,
16 under Act 175, we have certain restrictions on
17 communications, but there are ways, proper ways,
18 that we can be communicated to about such issues.
19 And I understand that you had the needed to hold it
20 close to the chest to a certain point. But did you
21 go through those proper channels to communicate
22 with us about this?
23 **JIMMY ADDISON [SCE&G]**: I really can't speak
24 to that, personally. We did, along the way, keep
25 ORS aware, and had briefed them recently before we

made the news public.

COMMISSIONER FLEMING: Okay. Well, I don't think any — I don't think the Public Service Commission was made aware of anything until we read — until I read it, on the Internet. And I think I can probably speak for the rest of the Commission, in that regard. And I just — I guess I just hope that, in some way, with the facility at the completion point it is, at this time, and with the equipment that is on site, I just have to hope that there is some way — I think it pays off — I mean, I'm a real advocate of clean energy, and I think if we want that for our State, it is just imperative to have this kind of energy for base load. Thank you.

CHAIRMAN WHITFIELD: Thank you, Commissioner Fleming.

Do one of y'all want to — you have your light on, Mr. Addison? Did you want to respond to Commissioner Fleming?

JIMMY ADDISON [SCE&G]: I'm sorry, I've had it on continually.

CHAIRMAN WHITFIELD: Okay.

Anyone else, Commissioners?

[No response]

1 If nothing else, Mr. Burgess, anything else
2 from the company?
3 **MR. BURGESS**: Nothing further from the
4 company, Mr. Chairman.
5 **CHAIRMAN WHITFIELD**: South Carolina Office of
6 Regulatory Staff, Ms. Hudson?
7 **MS. HUDSON**: Mr. Chairman, I would just ask
8 that everyone please turn in your signed
9 certifications on the way out. Thank you.
10 **CHAIRMAN WHITFIELD**: Thank you, Ms. Hudson.
11 At this time, this allowable ex parte briefing
12 is adjourned.
13 [WHEREUPON, at 11:50 a.m., the
14 proceedings in the above-entitled matter
15 were adjourned.]
16 _____
17
18
19
20
21
22
23
24
25

C E R T I F I C A T E

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

IN WITNESS WHEREOF, I have hereunto set my hand, on this the 2nd day of August, 2017.

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