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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 and Status of the Contractor, Westinghouse Electric Company, LLC

TRANSCRIPT OF ALLOWABLE
PROCEEDINGS    EX PARTE BRIEFING

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Jo Elizabeth M. Wheat, CVR-CM/M-GNSC, Court Reporter; and Deborah
Easterling, Calvin Woods, and Afton Ellison, Hearing Room
Assistants

APPEARANCES:

MATTHEW GISSENDANNER, ESQUIRE, and BELTON
ZEIGLER, ESQUIRE, together with KEVIN B. MARSH
[Chairman/CEO, SCE&G and SCANA], JIMMY E. ADDISON
[Executive VP/CFO, SCANA] and STEPHEN A. BYRNE
[Executive VP, SCANA; COO and President/Generation
& Transmission, SCE&G], representing and presenting
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JEFFREY M. NELSON, ESQUIRE, representing THE
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Note: For identification of additional referenced materials and/or links for same, please see Certification correspondence filed by the Office of Regulatory Staff.

Please note the following inclusions/attachments to the record:

• PowerPoint Presentation Slides (PDF)
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 turn it over to our attorney, Mr. Melchers, to read the docket.

MR. MELCHERS: Thank you, Mr. Chairman. Commissioners, we are here pursuant to a Notice of Request for Allowable Ex Parte Communication Briefing filed by South Carolina Electric & Gas Company. The date and time of the briefing is April 12, 2017, at 2:30, here in the Commission's chambers, and the subject matter to be discussed at this briefing is: Update regarding the progress of construction of the new nuclear units at V.C. Summer Nuclear Station and status of the Contractor, Westinghouse Electric Company LLC.

Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Mr. Melchers. I'll call on the South Carolina Office of Regulatory Staff to give us our ground rules for this allowable ex parte briefing.

MR. NELSON: Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Mr. Nelson.

MR. NELSON: Good afternoon. My name is Jeff Nelson. For those of you who don't know me, I am...
the Chief Counsel for the Office of Regulatory Staff, and I want to briefly explain to you the process here today, because this is a little different from maybe what a lot of you have been to before, which would be like a contested case hearing.

This is an allowable ex parte briefing. It’s conducted according to the rules that govern this under South Carolina Law. I’m here today as the Designee of the Executive Director of the Office of Regulatory Staff, which is Mr. Dukes Scott. And the ex parte will have to be conducted by the Commission in accordance with the provisions of South Carolina Code Annotated Section 58-3-260(C).

As the ORS representative, it’s my duty to certify the record of this proceeding to the Chief Clerk of the Public Service Commission, Ms. Jocelyn Boyd, within the next 72 hours, and to verify this briefing was conducted in compliance with the provisions of 58-3-260. The requirements of that statute are, in part, that the allowable ex parte be confined to the subject matter that has been noticed today. In this case, the Notice that was issued was for, quote, "Updates regarding the new nuclear units at V.C. Summer Nuclear Station, and
status of the Contractor, Westinghouse Electric Company, LLC," end quote. I would therefore ask that both the presenters, the Commissioners, and the staff that all participate today, please refrain from discussing any matters not related to these specific issues.

Secondly, the statute prohibits any participants, Commissioners, or Commission Staff from requesting or giving any commitment, predetermination, or prediction regarding any action by any Commissioner as to any ultimate or penultimate issue which either is before or is likely to come before the Commission. In short, what that means is the presenters are not allowed to ask the Commissioners for anything today, and the Commission and their staff are not allowed to give an opinion or pledge anything to the company on the topics that are being presented today.

Third, I would ask the participants, Commissioners, and staff, to refrain from referencing any reports, articles, statutes, or documents of any kind that aren’t included in the presentation that’s here today. If any such additional documents are mentioned, those would have to be provided to us within 48 hours so we
could certify that as part of the record.

Finally, I'd like to just explain what this is, because, like I said, this is a little different; this is a briefing. Any party, any person, can request to do a briefing in front of the Public Service Commission under the ex parte rules. SCE&G has requested to do this briefing here today. What it is, then, is just a presentation by them. There's no cross-examination or anything of that type. There's no order that comes out of this by the Commission at any time. This is just a one-sided briefing by one party. And, again, any party can request such a briefing be given to the Commission.

Finally, I'd like to note that everyone in attendance today must sign — you should've picked up, when you signed in — everybody needs to, first, sign in. Secondly, you should've been given a sheet when you came in. That sheet needs to be signed and turned in by you, and that is a verification that the ex parte briefing that's being conducted here today has been conducted in accordance with the rules that I just set out for you. If you have any questions about any of that, come talk to me, or you can come talk to the
Commission Staff before you turn that in. But everybody that is here today – including the Commissioners and the presenters – everybody has to sign that sheet before they leave today.

That's all I have. Thank you for your time, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Mr. Nelson. I believe everyone understands our ground rules. Now I would remind everyone we do have a no-cell-phone policy in here, and if your cell phones are not already off or on silent, please, I'd like to remind you to please do so at this time.

At this time, I'll call on Mr. Gissendanner. Mr. Gissendanner, I want to thank you and Mr. Burgess for promptly scheduling this allowable ex parte briefing. We realize this is impactful to all South Carolina citizens, and we look forward to your presentation and your information today. Mr. Gissendanner.

MR. GISSENDANNER: Thank you, Mr. Chairman. Good afternoon, Mr. Chairman, Mr. Vice Chairman, and members of the Commission. My name is Matthew Gissendanner and I'm corporate counsel for SCE&G. The subject of the briefing today is the progress of construction of the new nuclear units
at V.C. Summer Nuclear Station and the status of the Contractor, Westinghouse Electric Company, LLC.

With me today, on behalf of SCE&G, is Mr. Kevin Marsh, Chairman and CEO of SCANA and SCE&G; Mr. Jimmy Addison, Executive Vice President and Chief Financial Officer of SCANA; and Mr. Steve Byrne, Executive Vice President of SCANA and Chief Operating Officer and President for Generation and Transmission of SCE&G. They will each provide remarks on the Westinghouse bankruptcy and its effect on the project, and then Mr. Byrne has a construction update, consisting of 28 slides. We anticipate the presentation taking approximately 45 minutes.

Mr. Chairman, we are here at your pleasure and we want to answer any questions that you all may have, so please feel free to stop us at any point during the presentation and ask whatever questions are on your mind. We’re here to serve you and answer your questions.

With that said, I’ll turn it over to Mr. Marsh, Mr. Addison, and Mr. Byrne. Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Mr. Gissendanner.
Mr. Marsh.

MR. KEVIN B. MARSH [SCE&G/SCANA]: Good afternoon Chairman Whitfield and Commissioners. We are pleased to appear before you today. With me participating in this ex parte briefing are Mr. Jimmy Addison and Mr. Steve Byrne. We will all brief you on aspects of the Westinghouse bankruptcy. Mr. Byrne will also provide the twice-annual construction update required under Order 2016-794.

On March 29, 2017, Westinghouse filed to reorganize its business under the protection of Chapter 11 of the United States Bankruptcy Code. This is a reorganization filing. Westinghouse intends to continue in business as a provider of fuel, components, and services to the nuclear industry. The information Westinghouse has provided to the Bankruptcy Court indicates that these are profitable lines of business.

Westinghouse's announced goal in bankruptcy is to isolate its other businesses from new nuclear construction. For that reason, we anticipate that any plan to complete the units will include Westinghouse in some capacity, but not in a leader role as construction manager. We're discussing
these matters with Fluor and other potential resources that could be part of a restructured project to complete the units.

Prior to Westinghouse’s Chapter 11 filing, we, along with our project partner, Santee Cooper, worked with our bankruptcy counsel, financial advisors, and Westinghouse to reach an interim agreement which the Bankruptcy Court approved. Under this interim agreement, SCE&G and Santee Cooper are funding continued work on the units during a 30-day evaluation period while we evaluate our options. We may request an extension, if needed, which Westinghouse may agree to grant, or not.

This interim agreement is supporting continued work on the project of over 5000 construction workers who were on-site and working today. Mr. Addison and Mr. Byrne will discuss the interim agreement in more detail when they address the Commission.

During the interim period provided under the agreement, SCE&G and Santee Cooper are evaluating their options for continuing or canceling the units. The options presently being considered by SCE&G include: continue with the construction of
both units; focus on construction of one unit and delay construction of the other; continue with construction of one unit, abandon the other, and seek recovery of the abandoned unit under the BLRA; or abandon the project and seek recovery under the BLRA. Other options may arise during our review.

All other things being equal, our preference would be to complete the units for the benefits that they would provide for our system. We are giving all available options full and equal consideration on their merits. We are not prejudging any option.

Westinghouse is providing us with access to information concerning the estimated cost to complete the units and its commercial arrangements with Fluor, other contractors, and vendors. Through the agreement, we now have direct access to Fluor and other contractors and vendors to discuss commercial and other issues with them. We’re using this information and access to evaluate the options for completing the units as a restructured project outside of the EPC contract.

As you would expect, a primary goal of the evaluation is to validate the cost to complete the units that was provided to us by Westinghouse. Our
New Nuclear team, supported by outside experts, is reviewing the inputs and assumptions used to generate this cost estimate. We cannot currently validate this estimate because we have not yet completed our evaluation.

If Westinghouse rejects the EPC contract on which our current cost estimates are based, Westinghouse and Toshiba will owe us damages. Mr. Addison will discuss in more detail the caps that apply to certain aspects of damages and the guarantee by Westinghouse's parent company, Toshiba, for payment of our claims against Westinghouse.

Based on what we know now, the amount of damages available under the cap is greater than or equal to the additional cost Westinghouse is currently estimating will be required to complete the project. This is one reason why validating Westinghouse's calculation of additional costs is so important.

The federal production tax credits potentially available to the project represent approximately $2.2 billion in value to SCE&G's customers, if both units are completed, and are an important part of our cost evaluation. Under current law, a unit
must be in service before January 1, 2021, to earn the credits. The current substantial completion dates provided by Westinghouse support earning the full value of the credits. Nevertheless, it is prudent to protect the eligibility for credits even if the current deadlines are missed. For that reason, we have worked closely with our Washington delegation to eliminate the tax credit deadline. South Carolina Representative Tom Rice and South Carolina Senator Tim Scott have introduced legislation to accomplish this and also to make it possible for Santee Cooper, as a non-income-tax-paying entity, to take advantage of its potential share of the credits.

In past BLRA proceedings, we have assessed the relative costs and benefits of completing the units against the costs and benefits of canceling the units and relying on other sources of generation. The evaluation we plan to conduct of our current operation will involve a similar assessment. When appropriate information as to cost and other matters is available, we plan to assess the relative costs and benefits of completing or canceling the units, just as we have in the past. That assessment would include a review of multiple
assumptions, consistent with our system modeling and the Integrated Resource Plan. Such an evaluation would also consider the effect of the various alternatives on generation mix, CO₂ emissions, and exposure to future fuel price risk.

Once these evaluations are complete, the company plans to come before the Commission for a full review and assessment of its chosen alternative before making a final commitment to any course of action. When that will take place depends on the timing of many factors that are not known at this time. We will continue to keep the Commission informed of these matters as allowed under ex parte rules.

We'll also stay in close contact with the Office of Regulatory Staff. Dukes Scott and his team at the ORS have been persistent in monitoring developments with Westinghouse and the project, and insisting that we keep the best interests of our customers and the State of South Carolina in the forefront of our thinking. We appreciate the positive contributions that ORS is making and plan to stay in close contact with Mr. Scott and his team as the situation progresses.

I will now turn our comments over to Mr.
MR. JIMMY E. ADDISON [SCANA]: Thank you, Kevin.

Good afternoon, Chairman Whitfield, and fellow Commissioners. My goal today is to provide you with additional information concerning the Westinghouse plan for reorganization in bankruptcy, the damages Westinghouse will owe us if they reject their EPC obligations, the scope of the Toshiba parental guarantee to pay those damages, and the ability of Westinghouse and Toshiba to generate the cash required to make those payments. Then I'll also discuss the effect of the Westinghouse –

CHAIRMAN WHITFIELD: Mr. Addison, I'm sorry, could you get your mic on, please?

MR. MELCHERS: It is on; it just needs to be closer.

CHAIRMAN WHITFIELD: Just pull it a little closer.

MR. JIMMY E. ADDISON [SCANA]: How's that [indicating]?

CHAIRMAN WHITFIELD: Yeah.

MR. JIMMY E. ADDISON [SCANA]: And I'll also discuss the effect of the Westinghouse bankruptcy on SCANA and SCE&G's position in the capital
So Westinghouse has identified negative cash flow, as associated with its two AP1000 construction projects, as a source of its current financial difficulties. As Mr. Marsh has indicated, Westinghouse plans to use bankruptcy protection to reorganize around its profitable nuclear fuel, components, and services related businesses, which Westinghouse believes are valuable and financially sustainable. They intend to use bankruptcy to fence off the contractual liability for the two AP1000 construction projects from its other businesses.

Westinghouse does not list any secured debt on its books at the time of the bankruptcy filing. The unsecured debt listed is largely trade debt, most of which is identified as trade debt owed to suppliers of the AP1000 projects.

Westinghouse has disclosed that it has negotiated an $800 million line of credit to support its ongoing operations after the bankruptcy filing. Draws against this line of credit will have priority of payback over other pre-petition debts, including any amounts owed to V.C. Summer and Vogtle project owners. However, Westinghouse
is not using its line of credit to defray the costs of continuing to work on the AP1000 projects during the current period. In fact, it's prohibited from doing so by the providers of that credit. Instead, they negotiated interim assessment agreements with the V.C. Summer and Vogtle project owners as a condition of the work going forward on the projects.

As Mr. Byrne will discuss, under these interim assessment agreements, the V.C. Summer and Vogtle project owners are paying Fluor directly and are funding Westinghouse weekly to pay for work done by other South Carolina contractors and vendors on our project. The V.C. Summer and Vogtle owners are also paying Westinghouse's internal costs of supporting the project during this period.

Westinghouse has publicly stated that the additional costs associated with completing the two AP1000 projects above what it could contractually require the V.C. Summer and Vogtle project owners to pay is approximately $4 billion. They recently informed SCE&G that the V.C. Summer project share of the additional $4 billion cost estimate is approximately $1.5 billion. The $4 billion is largely associated with the fixed-and-firm price
options that V.C. Summer and Vogtle project owners have negotiated for their projects. I stress that these are Westinghouse's estimates, and we have not yet validated the amounts. Bankruptcy gives Westinghouse the ability to reject or walk away from these fixed-price obligations. However, if it does so, SCE&G and Santee Cooper have the right to claim damages and collect them, along with the Vogtle project owners and other unsecured creditors, from the value of Westinghouse's businesses and assets. Those damages are subject to a contractual cap, as I will discuss in a moment.

In addition, Toshiba has given SCE&G and Santee Cooper a parental guarantee for Westinghouse's payment obligations under the EPC contract, including the obligation for damages. Under the parental guarantee, SCE&G has the right, in its discretion, to pursue either Westinghouse or Toshiba for any amounts, including damages, that are owed and not paid.

In general, the damages we can collect from Westinghouse and, therefore, Toshiba, are capped at 25 percent of the payments we have made to Westinghouse at the time it breaches the EPC
contract. Given the payments made to date, if the breach occurred today, we would expect the amount of the cap to be approximately $1.7 billion for the total project, or approximately $940 million for SCE&G’s 55 percent share. This amount will grow somewhat as further payments are made.

One source of payment for damages due from Westinghouse would be Westinghouse’s value as a business. Their two principal lines of business, apart from the new nuclear construction, are its nuclear fuel and component manufacturing business, and its operating plants business. The nuclear fuel and component manufacturing business is the largest supplier of fuel for light water commercial reactors globally and supports 140 nuclear plants worldwide. The operating plants business is a leading supplier of nuclear services globally and supplies some degree of services to 80 percent of the operating nuclear power plants worldwide.

The bankruptcy filings indicate that, in fiscal year 2015, these two lines of business generated $305 million in EBITDA, or earnings before interest, taxes, depreciation, and amortization. There is significant value in this level of annual cash flow.
Westinghouse is also the owner of the AP1000 design, patents, license, and technology. The AP1000 still represents the most advanced passive-safety nuclear reactor design that has been licensed. Construction issues notwithstanding, the AP1000 technology is a valuable Westinghouse asset, going forward.

If they reject the EPC contract in bankruptcy, SCE&G and Santee Cooper can seek to recover their additional cost of completing the units from the value of these businesses through the bankruptcy court. We would likely do so along with the Vogtle project owners. Funds to pay unsecured creditors, like SCE&G, could be generated by recapitalizing Westinghouse or selling the company to a buyer. Unofficial reports indicate that several potential buyers, including some in the US, have expressed interest in purchasing Westinghouse out of bankruptcy. What they might pay is unknown.

SCE&G can also seek to recover its damages directly from Toshiba. Toshiba has a number of very valuable businesses, the most prominent of which is its flash memory business. In fact, they invented the flash memory and are Apple's principal flash memory supplier. Toshiba has indicated it
will sell the controlling interest in its flash memory business to generate cash, and there appear to be multiple interested parties.

Our assessment is that there is substantial value at Toshiba to support our claim for damages if Westinghouse fails to pay SCE&G’s claims.

Again, let me stress that this is based on Westinghouse’s current estimate that indicated it will require an additional $1.5 billion above the previously approved cost schedules to complete the units. That estimate is yet to be verified.

The potential effects of Westinghouse’s bankruptcy on SCE&G and SCANA have attracted a great deal of attention from the financial community. The interest-rate cost on SCE&G’s senior secured debt has increased by 1 to 4/10 of a percent since the Westinghouse bankruptcy was first publicly suggested. SCANA stock has lost approximately 18 percent of its value compared to its peers during this time. The rating agencies have put SCE&G and SCANA’s debt ratings on Negative Outlook or Watch status, as they have all of the owners of the US AP1000 projects, including Santee Cooper. However, to date, the ratings themselves have not been changed.
While these implications have been significant, they have been substantially mitigated by the existence of the Base Load Review Act, or BLRA, and not just the existence of the law, but the fair and consistent application of the law over the last decade by the ORS and this Commission. It is of critical importance that this approach continue, particularly given the uncertainty of the present moment. There have been a number of questions about how capital investment in the project will be treated if we determine that canceling is in the best interest of our customers and the State. Perceptions profoundly influence markets' realities. For the market to become concerned that the regulatory risk disability were too great under either a cancel or continue scenario, SCE&G could lose the ability to raise capital on reasonable terms; and that fact, alone, could itself force us to cancel the project.

We are fortunate that we're not currently in a position where concerns about our ability to execute a plan of finance are materially limiting the options we can consider for the project. At this juncture, we do not know what, if any, long-term impact the Westinghouse bankruptcy will have.
on our costs to complete the units. But we do know that, during this interim evaluation period, it's critically important that markets not lose confidence in the regulatory process in South Carolina. A loss of confidence during this critical time can make it difficult or impossible to effectively manage the finances of the project and the company, going forward.

I'll now turn the presentation over to Mr. Byrne.

CHAIRMAN WHITFIELD: Mr. Byrne?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Thank you, Jimmy.

Good afternoon, Chairman Whitfield and members of the Commission. My goal is to provide you more detailed information about the interim assessment agreement, the effect of the bankruptcy on the construction site, and the evaluation we are undertaking concerning options to continue or not continue the project. As Mr. Marsh mentioned, I'll also provide the twice-annual update on construction progress since we were last before the Commission in October of 2016.

Work on the project is proceeding under the interim assessment agreement that has been in place
since March 29th of 2017. That’s the date when Westinghouse filed for reorganization under the United States Bankruptcy Code. Under the interim assessment agreement, SCE&G is paying Fluor Corporation directly for its work. SCE&G is providing Westinghouse verification of those payments so they can be counted as EPC contract payments.

Each week, Westinghouse provides SCE&G with an estimate of its payments that it must make to other subcontractors and vendors. SCE&G transmits funds to Westinghouse to cover that estimate. The actual payments are trued up against disbursements. SCE&G also pays Westinghouse weekly for its costs to support the project. That support includes design engineering, field engineering, procurement, construction and project management, quality assurance, safety, information technology, licensing support, records management, and other costs.

Under the interim assessment agreement, SCE&G has the right, but not the obligation, to pay contractors and vendors who have past-due accounts or who have filed liens on the project. In isolated cases, such payment may be necessary to
prevent contractors who are critically important to the project from walking off the job. However, SCE&G is strictly limiting such payments. We advise unpaid subcontractors or vendors to take their claim to the Bankruptcy Court.

Payments made under the interim assessment agreement are counted as advance milestone payments under the EPC contract. The interim assessment agreement otherwise suspends the milestone payments.

Total payments have been running approximately $30 million a week, or approximately $120 million a month, and this is less than the anticipated value of the milestone payments.

The interim assessment agreement expires on April 28th of 2017, but can be canceled on five days' notice by the owners of the V.C. Summer project. The V.C. Summer owners may request an extension of the interim agreement, if necessary, to complete the evaluation of its options for the project. Westinghouse may or may not grant this request. SCE&G and Santee Cooper, along with the Georgia project partners, are sharing in the cost of Westinghouse's team of engineers and managers to support the AP1000 construction. For that reason,
the interim assessment agreement terminates if Georgia Power Company terminates its analogous agreement with Westinghouse and the V.C. Summer owners do not otherwise agree to extend the agreement.

In the interim assessment agreement, Westinghouse has agreed that it will not sell or attempt to sell project assets, nor will it attempt to grant any lien on those assets while that agreement is in place. Westinghouse has also agreed that it will not reject the EPC contract or its contractual obligations with Fluor and other vendors or subcontractors until the agreement expires. This ensures that the EPC contract and the contracts that support it will remain in place as the evaluation is conducted while the interim assessment agreement is in place.

The interim agreement also removes confidentiality constraints that previously limited SCE&G’s ability to consult directly with Fluor and others concerning project status and contractual and commercial issues. Westinghouse has also contractually committed itself during the interim evaluation period to provide SCE&G with information about the project and the bankruptcy plan necessary
for SCE&G to investigate its options for completing the project.

A principal task of the New Nuclear team during this interim evaluation period is to determine the feasibility of completing the project. To that end, our team is validating Westinghouse's estimates of additional costs needed to complete the units. In testing and validating these cost estimates, the New Nuclear team is working closely with Fluor and Westinghouse and is assisted by outside construction costing and scheduling experts. As Mr. Marsh indicated, Westinghouse's recent planning and evaluation has focused on determining the additional costs to complete construction and the implications of those costs on the solvency of Westinghouse and Toshiba. Part of our evaluation will be to assess the likely completion dates in light of the construction schedules that the New Nuclear team is reviewing.

Important commercial issues must be considered in evaluating any owner-directed option. SCE&G must determine what contracts and subcontracts can or should be carried forward, what role Fluor can play in completing the project, and what additional internal and external resources will be required to
effectively direct the work. Westinghouse has informed us that it is willing to continue supporting engineering testing and startup requirements of the project even during the bankruptcy. We are assessing the terms of any potential engagement now.

A further task of the New Nuclear team is to evaluate the costs and activities that would be required to cancel the project. This involves assessing the cost of demobilization, structure removal, site restoration, and salvage value of the equipment and materials on the site.

Since the bankruptcy, Westinghouse has been generally cooperative and responsive to our requests for information. Our ability to obtain information and consult directly with Fluor and other contractors has greatly increased the efficiency of our evaluation. We believe that it is in Westinghouse’s corporate interests for this project to proceed to a successful conclusion and for Westinghouse to be perceived as fully cooperative in the transition. For that reason, we expect this cooperation to continue as long as these interests are in play. However, 30 days is an extremely short period of time to conduct our
evaluations. An extension of the assessment and evaluation period may be in the project's best interest, and we would hope that it would be possible to obtain such an extension if needed.

Under the amended EPC contract, SCE&G has required Westinghouse to escrow intellectual property in the form of software and design information necessary to build and operate the units. Westinghouse has reported that substantially all of the required intellectual property has now been escrowed. We are attempting to verify that this information is present in usable form at this time.

In spite of the bankruptcy, work continues on-site without substantial disruption. More than 5000 contractor and subcontractor staff are working on the site. However, we are aware that Westinghouse has directed some reduction in craft overtime and weekend work.

Westinghouse continues to support the project under the interim assessment agreement. This work continues, as before the bankruptcy, although a great deal of attention is being focused on the evaluation and transition.

We do have a handful of vendors that have
filed construction liens on the project, and our attorneys are addressing those liens. One impact that we have seen from the bankruptcy is that, immediately following the announcement, Fluor reported a high incidence of new hires failing to report for training, as scheduled. We're monitoring this aspect of the project to see if that trend continues.

[Reference: Presentation Slide 1]

At this time, I'd like to provide an update of the activities at the construction site.

[Reference: Presentation Slide 2]

As you can see from the screen, and contrary to published reports, we are still constructing two AP1000 units at the Jenkinsville site. This is an aerial view of the project, from January of this year. You can see that I've labeled a number of components: Unit 3 near the top of the screen, Unit 2 more near the middle of the screen. Left-hand side, you can see the cooling towers, which are structurally complete. On the right-hand side, you can see the containment vessel rings. Obviously, there, you can see they are nearing completion. We've also labeled turbine buildings and the nuclear island.
Near the bottom of the screen, you can see the service building. This is a building that, in the last case, we pulled out of the EPC contract. We felt we could manage this better than Westinghouse could. We gave that construction to a local construction company, MB Kahn, and they're doing a good job. They're on schedule and on budget for that project.

[Reference: Presentation Slide 3]

Another aerial view. This shows you the relationship of Units 2 and 3 to Unit 1. Near the top of the screen, you can see our V.C. Summer Unit 1 on the shores of scenic Lake Monticello. It's been operating since 1982. You can see the level of completeness of the turbine building. And you can see Unit 3 near the bottom of the screen.

You'll also notice a lot of white structures on the site; those are tents. Those tents were not a part of the original plan, but as parts and pieces are finished and sent to the site, it has caused us some storage issues, so we are storing a lot of components in a lot of those tents on the site, as well as taking advantage of two off-site storage areas.

[Reference: Presentation Slide 4]
One of the things that was completed near our last briefing but that we didn't have pictures of was Unit 3's turbine building. And these are condensers. We have three condensers for each of the units, and this is the lower half of those condensers being lowered in with the heavy lift derrick.

[Reference: Presentation Slide 5]

In December of last year, we took the largest structural module – this is the structural model that we call CA01. It weighs about 2 million pounds; it is the heaviest lift that our derrick will have to make. And this is lifting that unit, which is about 80-by-85-by-90 feet, into the Unit 3 containment vessel.

[Reference: Presentation Slide 6]

This is a steam generator. This is the first steam generator for the units. There are two per plant, so a total of four steam generators. This was lowered into Unit 2 in January.

[Reference: Presentation Slide 7]

And this is a picture of it in its resting place, being temporarily supported, in the CA01 module, which I showed you a couple of slides ago.

[Reference: Presentation Slide 8]
This is the second ring section that was placed in February this year for Unit 2. So, each containment vessel has a lower bowl, three stackable rings, and then a top closure head. So this is the second of those three stackable rings.

[Reference: Presentation Slide 9]

And here you can see it in place. The rigging has stayed attached to this ring so that we can get a weld bead between the first ring section and the second ring section before we can disengage the rigging, which is now released.

[Reference: Presentation Slide 10]

This is the Unit 2 turbine island. Top left, you can just make out a very long tank; that was our most difficult logistical transport. It's now in place, called the deaerator.

Top right, that's a component being lifted onto the turbine deck. It's a stationary portion of the turbine generator called the stator.

Bottom left, that is a lower shell for one of the low-pressure turbines.

And the bottom right, you can make out the turbine building. Here, about half of the roof trusses were installed. Subsequently, all of the roof trusses have been installed, and we're
actually installing the roof decking now. The long yellow component on that turbine building is the turbine building's overhead crane.

[Reference: Presentation Slide 11]

This is a picture of Unit 3's turbine island. We took one from December of 2015 and a similar shot from February of this year. So, in that 14 months, you can see that we've made quite a bit of progress on the turbine island and, indeed, on the nuclear island, where you can see the containment vessel ring in place.

[Reference: Presentation Slide 12]

And this is the last of the four steam generators, as it makes its way from the Port of Charleston, via rail, to the Jenkinsville site. And this is it last month; while the USC team was up in New York playing in the tournament, this steam generator was going by the Colonial Life Arena.

[Reference: Presentation Slide 13]

I talked about some storage issues we've had on the site. These are shield building panels that I've got circled here. The shield building is being made by a company called Newport News, in Virginia. Our storage location for these is
actually near our Fairfield Pumped Storage Facility, over a mile from this tabletop where the plants are being built. But because we’ve run out of room there, we’re having to stack them up here on the construction site.

[Reference: Presentation Slide 14]

This is a foldout or rollout view of the shield building. Now, the shield building is a big cylinder, but if you roll that cylinder out, this is what it would look like. And each of these numbered squares is a panel that’s being fabricated at Newport News. The block out there where there isn’t anything, that’s where the auxiliary building would go. So the shield building’s purpose is to protect everything inside, so it protects the reactor vessel, the steam generators, the containment vessel. There’s an annular gap between the containment vessel on this shield building.

It’s a composite structure. It’s steel, concrete, and steel. We get the steel panels from Newport News, we put them together in a ring, we weld them together, and then we fill them with concrete. And if it’s green, that means it’s been completed, so you can see the first five courses of these panels have been placed and have all been
filled with concrete. And you can see there's a total of 16 of these panels — 16 courses. I should mention we have 147 of the 167 panels we need for this cylinder on-site.

[Reference: Presentation Slide 15]

This is the same picture for Unit 3, and you see we've got 82 of 167 on-site. The first two courses have been placed, and those first two courses have been filled with concrete.

[Reference: Presentation Slide 16]

Major equipment, I will tell you that most of the major equipment for these units is on our site. On this major equipment manufacturing schedule, if it's in green, it's been completed and has been delivered to us. So you can see there's just four things on here that have not been delivered. I'll talk about those in more detail here.

[Reference: Presentation Slide 17]

So, there are four reactor coolant pumps for units, labeled RCPs, and we've actually received two of the Unit 2 reactor coolant pumps, so we've got another six, total, to come in. As you see here, they should all be in about the third quarter of this year. We've got some explosive valves called squib valves. We've received some of our
Unit 2 squib valves, but the remainder – you can see here – should all be in by the second quarter of the year.

[Reference: Presentation Slide 18]

Staffing: You’re aware of the fact that Fluor took over as our construction manager, and all the craft work for Fluor Corporation. Fluor took over in – showed up at the site in January. They took over all of the staffing in April. So from April 2016 through February of ‘17, you can see they had increased the site total by about 1200. So Fluor has been actively out recruiting craft and professionals.

[Reference: Presentation Slide 19]

Progress at the site: The contractor is required to report to us what their progress has been. They break out the percent complete in different areas, so engineering, procurement, construction, and startup. So they would report out to us 63.4 percent completion, and the actual physical construction is about 33.7 percent complete. Obviously, Unit 2 would be a little more than that, and Unit 3 would be a little less than that, but on average 33.7. So this is the percent complete they report out to us.
I wanted to list a couple of the local companies that are involved. We talk a lot about Fluor Corporation obviously being – they run their nuclear operations out of Greenville, but we have a lot of other companies that are involved in this around the State. They range from very large contracts to small contracts. You can see Glenn and Associates actually is a Jenkinsville surveying company that’s supporting our project. Tindall Corporation, precast concrete, in Spartanburg, they made all the concrete for the cooling tower, so that was a relatively large contract.

So this is just a listing of some of the companies and where they are from.

This is more.

More.

You see there’s a lot of companies –

– involved from around –

– the State.
Transmission status: We have 377 circuit miles of transmission associated with the new units. We’re finished with Unit 2’s; they’re 100 percent complete. Unit 3, within the transmission structures – we don’t necessarily call them towers anymore because they don’t look like the lattice structures that you see there; they’re normally single pole now, of metal – 74 percent complete with the structures, and 69 percent of the wires. Overall for the project, about 85 percent of structures and 79 percent on wire. So the transmission construction is going very well.

We often get questions on the Sanmen units. There are two AP1000s being built at a site called Sanmen, in China. That’s the picture here. There are also two being built at a site called Haiyang. You can see that these plants look like they’re physically complete, and, indeed, Unit 1 has gone through its hot functional testing. Westinghouse, in its filings, report that they expect to load fuel soon at Sanmen 1 and Haiyang 1, and they expect that the Sanmen unit and the Haiyang unit – at least the first one – should come on-line.
towards the end of 2017 or early 2018.

[Reference: Presentation Slide 28]

And we would now be glad to entertain any questions you might have.

CHAIRMAN WHITFIELD: Thank you for your presentations.

Commissioners, questions for our panelists?

Commissioner Elam.

COMMISSIONER ELAM: Good afternoon. Can you tell me what contractors have the capability of completing the Summer Units 2 and 3?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: You’re talking about the major construction contractors that would have that capability?

COMMISSIONER ELAM: Correct.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: That’s a fairly small club. Certainly, Fluor has that capability. Bechtel would have that capability. And there are probably a handful of others. Perhaps AREVA, which is a French company. Domestically, probably Fluor and Bechtel would be the two biggest. There are probably one or two others, but it’s not a big community.

COMMISSIONER ELAM: Thank you.

CHAIRMAN WHITFIELD: Thank you, Commissioner
Commissioner Fleming.

COMMISSIONER FLEMING: Good afternoon. Thank you for coming before us today with this update on the project.

Could you talk about what the status of the AP1000 is, in China? I know they were constructing the units there at the same time.

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Right, so they're constructing four AP1000 units. They purportedly have plans to build many more. The four that they are constructing, two of them are physically complete; the other two are nearing completion. According to Toshiba, they have finished their hot functional testing at the first of those units, called Sanmen 1, and they are in the process of doing hot functional testing at the first unit at Haiyang – Haiyang Unit 1.

The hot functional testing takes the plant up to full rated temperature and pressure, without nuclear fuel in the vessel, so they can test out the plant and put it through its paces, depressurize it rapidly. They've got a whole series of tests they have to do. They finished that at the Haiyang unit – I'm sorry – at the
Sanmen unit. They did find a couple of issues. One was some material they used for insulation melted, so they had to change that material. Those will advantage us, because we won't have to learn those lessons, since they've learned them there. We actually had one of our startup managers that was seconded to the Westinghouse team working that project for a couple of months.

But they should complete that shortly. They'll prepare the things that they have to fix, and probably redo that portion of the test. We anticipate that they will load fuel — fuel was built, by the way, here, in Columbia, at the Westinghouse plant on Bluff Road. That has been received on-site at both sites. We expect that they'll load fuel probably in the second quarter of this year at Sanmen 1, and we anticipate that they will start up toward the end of the year — "start up" as in project finished and making power.

COMMISSIONER FLEMING: So, are they experiencing some of the difficulties that are being experienced in the States?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: They have experienced some difficulties on the China projects. Delays over there were similar, similar
in length of time. We learned lessons from them, so we didn't go through exactly the same delays, or the same — the reasons were not the same for their delays. A lot of theirs were design-related, that we had resolved. They don't have the same regulatory structure that we have, so they wouldn't have similar delays to us in the regulatory process. And the model being used in China was more like the model that Westinghouse/Toshiba would like to use. Westinghouse was not the engineering, procurement, and construction contractor over there — called the EPC contractor — which basically means you're responsible for everything. In China, they have indigenous construction companies that handled the construction, so Westinghouse really provided the design, so they were the architect/engineer, if you will. But procurement, they did some of that; the Chinese did some of the procurement, and the Chinese did the construction. That's much closer to the model that Westinghouse would like to use in AP1000 construction, going forward, and we think it's much closer to the model we will end up with, what we call self-directed construction at the site, if we decide to continue.

COMMISSIONER FLEMING: Okay, thank you.
CHAIRMAN WHITFIELD: Thank you, Commissioner Fleming.

At this time, I've got a few questions I'd like to ask a couple of you. I guess, Mr. Byrne, first, what percentage of the components are on-site? I know you had a slide that had engineering completions and construction, but what percentage of components would you say are on-site now?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Yeah, we generally break components up into major components and then others. Of the major components, I'd say we're about 90 percent. Of the total components, I would say we're probably in the 85 percent range.

CHAIRMAN WHITFIELD: Thank you. Also, I guess, Mr. Addison and Mr. Marsh, both of you mentioned possibly seeking an extension for this interim agreement, and I think you, even, Mr. Addison, said that, naturally, 30 days is a short time. How long would you seek for an extension, or what more could you tell us about that? I know you're still in an ongoing process now, but do you have any idea of when you might know more, or when you might know if you'll even seek an extension?

MR. KEVIN B. MARSH [SCE&G/SCANA]: I'll be glad to address that. We certainly have the team
engaged fully now, in trying to do these
evaluations as quickly as possible. We would like
to have had longer than 30 days under the initial
contract, but that was the amount of time
negotiated between us and Southern, and
Westinghouse. I think it's likely we'd go beyond
the 30 days to make sure we can examine all the
information we feel like is necessary to make our
recommendation as to the most prudent path forward,
so I would expect this to fall in the 60-to-90-day
timeframe before we do a full, completed analysis
and come back to the Commission.

CHAIRMAN WHITFIELD: Thank you, Mr. Marsh.

Mr. Addison, I believe you described some
revenue from some other businesses quite aptly that
Westinghouse has. And you mentioned that you could
possibly seek damages from Toshiba from some of
their other businesses. And I guess you're talking
about outside the parental guarantee, or could you
share a little more info on that?

MR. JIMMY E. ADDISON [SCANA]: Sure. So, we
are really indifferent to the source that it comes
from; we just want to make sure that we, the
customers, Santee, et cetera, are protected up to
the limits of that liability, to the extent we
incur damages to that level. So whether they recapitalize the Westinghouse business and raise cash that way, or sell Westinghouse to some other company or investor group and raise cash, or whether they don't raise enough there and we have to go to Toshiba to realize that, we are fairly indifferent as to where it comes from, as long as it meets any incremental cost estimates. And they've estimated those today to be, as I said, about a billion and a half dollars for the entire Summer projects.

CHAIRMAN WHITFIELD: Lastly, and this is for any of you, given that the company expects growth in its service territory, can the company meet its pollution emissions requirements if Units 2 and 3 are not completed?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Yeah, it — I can speak from what we know about the existing environmental rules and regulations. And I would say the answer is yes. We do have — you can see in our Integrated Resource Plan — a need for power. So we couldn't not build these and get by without them. So we do have a need for power. So that would have to likely come from a source like natural gas.
CHAIRMAN WHITFIELD: Thank you, Mr. Byrne.
Commissioner Fleming, did you have a follow-up?

COMMISSIONER FLEMING: Yes. I wanted to ask about—we’ve heard a lot about the revised construction schedule and since, I think, about 2016, it was expected by the end of that year. Could you talk a little bit about what the status of the revised construction schedule is, presently?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]:
Certainly. Westinghouse has owed us that schedule for, really, quite some time. They solicited input from Fluor to that schedule for estimates of labor hours, unit rates, commodities, those kind of things. That was delivered to Westinghouse sometime late last year.

Westeinghouse was then supposed to turn around and give it to us. They were deficient in getting back to us. The schedule got caught up in their financial crisis, when they recognized it was going to cost much more to finish the two projects, the Georgia project and the South Carolina project, than they anticipated. They basically put a pause on that information and giving it to us.

As of this time, they have not given us the
schedule. I don't know, though, that I'm all that interested in their schedule any longer. And so, as a part of this process, we're going to run a schedule. Now, we'll use their inputs and validate the inputs, but we're going to run the schedule at some point in the future.

COMMISSIONER FLEMING: So will it be a part of the interim assessment?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Us running the schedule and having an understanding of how long it takes to complete the units will be an integral part of that assessment.

COMMISSIONER FLEMING: So, when you come back to give us a follow-up, that could be part of it?

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: Yeah, our anticipation is that we will be able to do that in the interim assessment period or, as Kevin pointed out, in some kind of an extension of that interim assessment period. Provided we don't have anything big that falls out of it, we ought to have that sometime within the next couple of months.

COMMISSIONER FLEMING: Thank you.

CHAIRMAN WHITFIELD: A follow-up to Commissioner Fleming's question just then to you, Mr. Byrne: You said you would run the schedule.
You mean, you, along with Fluor? Or you, independently? Or —

MR. STEPHEN A. BYRNE [SCE&G/SCANA]: We would look to run the schedule independently, but with Fluor's input. Now, if Fluor can bring scheduling expertise to the fore, I'd be glad to entertain that. But Fluor has not been asked to provide that by Westinghouse, previously. They certainly may have experience there. But we're capable of running a schedule, as well.

So we will take the inputs that heretofore have been proprietary even to us, and we'll run that schedule. But if Fluor wants to participate — their inputs will be valuable to us. If they want to run a schedule alongside of us, with us, that would be perfectly fine.

CHAIRMAN WHITFIELD: Thank you.

Commissioners, any other Commissioner questions? Commissioner Hamilton.

COMMISSIONER HAMILTON: Thank you, Mr. Chairman. I'd like to join the Commission in thanking you gentlemen for being here today. It's helpful information for the Commission.

And, Mr. Chairman, I would like to make a request of SCE&G that, when the interim report is
completed as promptly as possible, if we could have a follow-up ex parte to keep us informed.

MR. KEVIN B. MARSH [SCE&G/SCANA]: You have our commitment, as soon as that process is completed, we will be back to you as quickly as possible.

COMMISSIONER HAMILTON: Thank you, Mr. Marsh. Thank you, gentlemen.

Thank you, Mr. Chairman.

CHAIRMAN WHITFIELD: Thank you, Commissioner Hamilton.

If there are no further questions, Mr. Marsh, Mr. Addison, and Mr. Byrne, thank you for your presentation today. This is a project that's highly impactful to the citizens of South Carolina, and the Commission has great interest in being further apprised of the developments that you've addressed today and the results of the interim assessment. We look forward to another briefing upon completion of this, and periodic briefings thereafter.

With that, this allowable ex parte briefing is adjourned. Thank you.

[WHEREUPON, at 3:25 p.m., the proceedings in the above-entitled matter were adjourned.]
CERTIFICATE

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

IN WITNESS WHEREOF, I have hereunto set my hand, on this the 12th day of April, 2017.

[Signature]

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