April 3, 2017

To: Public Service Commission of South Carolina

From: Tom Clements, Concerned Citizen and Resident in SCE&G Service Area

Re: Additional Filing in Docket 2017-99-E, Request for Emergency Hearing on SCE&G/Westinghouse Financial Crisis

I hereby file the attached documents in the docket noted above:

1. “SCE&G Affirms SC PSC Right to "Emergency Hearing" on Nuclear Crisis,” news update, April 3, 2017

2. Lien in the amount of $60 million filed by Fluor, against SCE&G, filed March 23, 2017 in Winnsboro, Fairfield County, South Carolina

3. Westinghouse news release on “strategic restructuring” (bankruptcy), March 29, 2017

4. UBS analysis “Mitigating the Nuclear Fallout,” on the impacts of Westinghouse bankruptcy, March 30, 2017

I request that the PSC direct SCE&G/SCANA to file in this docket and any subsequent dockets related to this matter any legal documentation filed by SCE&G/SCANA in response to the Westinghouse Chapter 11 filing in the U.S. Bankruptcy Court for the Southern District of New York. This would apply to any “agreement” related to any “initial assessment period” concerning the impacts of the bankruptcy or any other SCE&G/SCANA documents filed with the court in the bankruptcy proceedings.

Submitted by:

Tom Clements
SCE&G customer
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Columbia, SC 29201
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tomclements329@cs.com
Media Update: SCE&G/Westinghouse Nuclear Project Crisis
April 3, 2017
For Immediate Release

SCE&G Forced to Respond to Request to South Carolina Public Service Commission (PSC) for “Emergency Hearing” on Impact of Nuclear Project’s Financial Meltdown, SCE&G Affirms PSC’s Legal Right to Hold Such a Hearing as Nuclear Project Descends into Crisis

SCE&G Opposes Emergency Hearing as Glaring Lack of Action in Public Interest by PSC, Office of Regulatory Staff (ORS) and SC Legislators Continues – PSC, ORS, Legislature Must Act to Address Ratepayers’ Concerns

Columbia, SC – South Carolina Electric & Gas (SCE&G), facing financial meltdown in its construction of two nuclear reactors, has been forced to respond to a citizen’s petition for an “emergency hearing” on the crisis facing the mismanaged project. In opposing the hearing request, the company affirms the very point of the request: the legal right of the South Carolina Public Service Commission (SC PSC) to determine the need for such an urgent hearing.

The request for an emergency hearing was filed on March 27 by SCE&G ratepayer Tom Clements, two days before reactor vendor Westinghouse declared bankruptcy. The SC PSC, realizing the urgency of the financial crisis facing the nuclear project, immediately created a docket for the proceeding. The goal of the request by Clements was to get all relevant parties, including not only SCE&G but also the SC Office of Regulatory Staff (ORS) and others, on the record in a PSC-instigated proceeding concerning the state of affairs with the nuclear project.

SCE&G, in its March 31 filing affirms the right of the PSC “to hold hearings not specifically provided for by statute but only “where required in the administration of the powers and duties conferred upon it by this chapter and other acts relating to electrical utilities.” According to petitioner Tom Clements, the urgency of the situation concerning the financial impacts and rate impacts of the mismanaged nuclear project demand such a hearing by the PSC more than at any time since the project began in May 2008, when it was first brought before the regulatory agency.

“SCE&G has totally avoided the key point of the request for an emergency hearing, which was filed in order to stimulate the PSC to take its own action to quickly and officially get information into the public record concerning the financial crisis facing the nuclear project” said Clements. “The request was not filed to obtain specific relief by the petitioner but rather to point out and support the PSC’s legal right and obligation to determine that it can open an on-the-record information-gathering proceeding,” added Clements.

“Given the depths of the financial crisis facing SCE&G, the PSC must be proactive in showing residential and commercial electricity users that it is seriously addressing the impacts of the Westinghouse bankruptcy and the multi-year lead-in to it. The PSC must consider holding an on-going set of on-the-record hearings, perhaps in a new docket, to demonstrate that it will not
leave this matter in the hands of SCE&G to simply hold briefings on a schedule of their choosing,” said Clements. “Of highest importance and to demonstrate that it will be held accountable for its role in allowing the project to proceed to the brink of disaster, the PSC must step back from its historical support of the project and critically address the financial crisis and how it developed.”

In opposing the request for an emergency hearing, SCE&G said that an emergency hearing was moot and that an ex parte briefing by SCE&G on April 12 would suffice, but such a briefing does not allow for cross examination by all parties and the information gathered in it is severely constrained. “SC&G’s presentation of an ex parte briefing is fine but the PSC needs to take additional steps to get SCE&G and others on the record in a proceeding that is not instigated by SCE&G nor under its control,” said petitioner Clements.

SCE&G deviates in its March 31 filing to draw attention away from the right of the PSC to hold an emergency hearing on the crisis in order to promote its “allowable ex parte communication briefing” as a substitute for such a hearing. SCE&G lawyers state that specific SCE&G officials would present at an April 12 briefing and address a list of questions, all of which indicate that SCE&G does not want to address how its past actions and those of its contractors, such as Westinghouse, Fluor and CB&I, have brought us to the point of project termination. The SCE&G filing states:

The Commission has scheduled the requested Briefing for April 12, 2017. SCE&G currently plans for its presenters at this Briefing to include its Chairman and Chief Executive Officer, Mr. Kevin Marsh; its Chief Operating Officer and President of Generation and Transmission, Mr. Stephen Byrne; and its Executive Vice President and Chief Financial Officer, Mr. Jimmy Addison.

1. What is known about the bankruptcy filing,
2. What is known about the next steps in the bankruptcy proceeding,
3. The steps that have been taken to date to ensure that construction continues on the Project without interruption,
4. The steps that have been taken to ensure that workers, contractors and subcontractors on the project are paid in a timely way,
5. The evaluation SCE&G is conducting of Westinghouse's estimate of the additional costs needed to complete the Project beyond those provided under existing agreements,
6. The resources available from Westinghouse and Toshiba to compensate SCE&G for Westinghouse's estimate of additional costs,
7. The status of the processes for escrowing AP 1000 intellectual property and software to support construction if Westinghouse leaves the project, and
8. The evaluations and steps SCE&G is taking to protect the interest of its customers, the Company and the State in light of this bankruptcy.

Clements believes it pertinent to address the questions posed by SCE&G, but a formal hearing, or series of hearings, is needed to more thoroughly examine past actions by SCE&G, the PSC and ORS that have brought South Carolina the point of nuclear project failure. The public record reflects that the PSC, ORS and public were warned repeatedly since 2008 that the
Experimental nature of the reactor project was rife with the possibility of massive cost overruns and schedule delays. “Despite clear warnings presented by the public interest community, PSC and ORS loyalty to the project have, to the great detriment of SCE&G and its ratepayers, been unwavering,” according to Clements. “The PSC and ORS have a chance to restore public trust but they must act fast and decisively in demanding answers from SCE&G and in formulating steps that address the crisis in a manner that at last favors the public.”

Notes:

Tom Clements, SCE&G ratepayer, request to SC Public Service Commission of March 27, 2017 for “emergency hearing” on impact of Westinghouse bankruptcy on mismanaged VC Summer project, filed in Docket 2017-99-E. (Note: To file before as the PSC as an organization requires a lawyer.)

https://dms.psc.sc.gov/Attachments/Matter/0a2061e7-ba7a-46cd-a8bb-2a54fdf6845c

SCE&G's response opposing “emergency hearing” request, March 31, 2017:


Notification of ex parte briefing by SCE&G to SC PSC, 2:30 p.m., Wednesday, April 12:

https://dms.psc.sc.gov/Attachments/Matter/3077fce8-488b-4274-8aee-4961b6d4128c

Clements led the initial intervention with the public interest organization Friends of the Earth in the initial docket of May 30, 2008, in which the SC PSC considered the nuclear project, Docket 2008-196-E, the project was approved by the PSC in February 2009:

https://dms.psc.sc.gov/Web/dockets/Detail/103552

Copy of $60 million lien filed by Fluor, reactor construction contractor, against SCE&G, March 23, 2017:


Contact:
Tom Clements
SCE&G ratepayer
Columbia, SC
tel. 803-834-3084
cell 803-240-7268
tomclements329@cs.com
Instrument Prepared By
And Recording Requested By:

Fluor Enterprises, Inc. ("Fluor")
100 Fluor Daniel Drive
Greenville, SC 29607

NOTICE OF MECHANIC'S LIEN
CLAIMANT WITHOUT DIRECT CONTRACT WITH OWNER

STATE OF SOUTH CAROLINA
COUNTRY OF FAIRFIELD
Fluor Enterprises, Inc.

PETITIONER

VERSUS
South Carolina Electric & Gas Company

RESPONDENT

Name and Address of Petitioner / Claimant:

Fluor Enterprises, Inc. ("Fluor")
100 Fluor Daniel Drive
Greenville, SC 29607

PERSONALLY APPEARED, John Shepherd, who being duly sworn, deposes and says as follows:

That he is the authorized representative of the above-identified Petitioner, the Petitioner and Mechanic's Lien Claimant herein, and that the below mentioned verified statement of account for labor and materials is a true and just account of the amount due to the Petitioner, with all just credits given, for labor and building materials furnished and actually used in the construction, erection, alteration, and/or repair of buildings or structures situated on the after-described real
estate (the "Property"), by virtue of Petitioner’s contract to perform work to the benefit of the Respondent, the Owner of the property (the "Owner").

That Owner was previously provided with a Notice of Furnishing by Petitioner.

That the last of the labor and materials were furnished to the Property was on March 23, 2017.

That by the serving and filing of this Mechanic’s Lien, the Petitioner has and claims a Mechanic’s Lien for the payment of the indebtedness aforesaid, and the cost of enforcing its lien, upon the following described property, including its buildings and structures:

Virgil C. Summer Nuclear Generating Station, Jenkinsville, SC

LEGALLY DESCRIBED AS:

"All that certain piece, parcel or tract of land known as the PARR Shoals Hydroelectric Project No. 1894, which property boundary lines were revised slightly under Order 133 FERC ¶ 62,061. The revised eastern and southern boundaries of the PARR Shoals Hydroelectric Project No. 1984 are shown on the plat prepared for South Carolina Electric & Gas Company and South Carolina Public Service Authority by Glenn Associates Surveying, Inc. dated September 12, 2012 and recorded October 4, 2012 in the office of the Register of Deeds for Fairfield County in Slide 605 at pages 2217-2220 (the "Plat").

and

All that certain piece, parcel of tract of land included as part of the PARR Shoals Hydroelectric Project No. 1894 and shown on the Plat as the 44.19 acre “Service Water Pond”.

WHEREFORE, the Petitioner claims a Mechanic’s Lien against the Property in the sum of $59,950,641.34, together with the interest thereon, and the costs of this action including a reasonable attorney’s fee.

The Petitioner:

☒ is

☐ is not

required to be licensed or registered as contemplated by S.C. Code Ann. 29-5-15. If it is, the S.C. License or Registration Number is G12508.

[THIS SPACE INTENTIONALLY LEFT BLANK. SEE SUBSEQUENT PAGE.]
Signature of Claimant, and Verification

State of South Carolina County of Fairfield

I, John Shepherd, the undersigned, being of lawful age and being first duly sworn upon oath, do state that I am the Claimant named herein, and that I have read the foregoing instrument, and as the Claimant have knowledge of the facts, and certify that based thereupon, upon my information and belief, the foregoing is true and correct under penalty of perjury.

[Signature]

Company: Fluor Enterprises, Inc.

Print Name: John Shepherd

Sworn to and subscribed before me, undersigned Notary Public, in and for the above listed State and County, on this date: March 23, 2017

[Notary Public Signature]

Notary Public

CAROLINE J. HOLLAND
Notary Public, State of South Carolina
My Commission Expires 2/26/2026
WESTINGHOUSE ANNOUNCES STRATEGIC RESTRUCTURING

Files for Chapter 11 Protection and Secures $800 Million in DIP Financing to Fund Operations

Cranberry Township, Pa., March 29, 2017 – Westinghouse Electric Company, LLC, a U.S. company, and certain of its subsidiaries and affiliates, today filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code. The Company is seeking to undertake a strategic restructuring as a result of certain financial and construction challenges in its U.S. AP1000® power plant projects. Westinghouse has obtained $800 million in debtor-in-possession (DIP) financing from a third-party lender to help fund and protect its core businesses during its reorganization. The Chapter 11 filings took place in the U.S. Bankruptcy Court for the Southern District of New York in New York City.

“Today, we have taken action to put Westinghouse on a path to resolve our AP1000 financial challenges while protecting our core businesses,” said Interim President & CEO José Emeterio Gutiérrez. “We are focused on developing a plan of reorganization to emerge from Chapter 11 as a stronger company while continuing to be a global nuclear technology leader.”

The DIP financing will fund Westinghouse’s core businesses of supporting operating plants, nuclear fuel and components manufacturing and engineering as well as decommissioning, decontamination, remediation and waste management as the company works to reorganize around these strong business units. Existing letters of credit have been cash collateralized in full and will remain in place. The financing will also allow for new letters of credit to be issued.

The Company has reached an agreement with each owner of the U.S. AP1000 projects to continue these projects during an initial assessment period. Westinghouse remains committed to its AP1000 technology as the industry’s premier Gen III+ nuclear power plant design, and will continue its existing projects in China as well as pursuit of other potential projects in the future.

Westinghouse’s operations in its Asia and Europe, the Middle East and Africa (EMEA) Regions are not impacted by the Chapter 11 filings. Customers in those regions will continue to receive the high-quality products and services they have come to expect in the usual course as the regions will also be supported by the DIP financing.

As part of today’s Chapter 11 filings, Westinghouse also filed several “first day” motions with the Court to ensure business continuity through payment of employee salaries, wages and benefits, as
NEWS RELEASE

well as pay its suppliers for the delivery of services. The motions are expected to be approved by the Bankruptcy Court. Westinghouse is represented by Weil, Gotshal & Manges LLP in its Chapter 11 cases.
US Electric Utilities
Mitigating the Nuclear Fallout

Back to Business at the Nuclear Plants
Bottom line, construction work at both Vogt lane and Summer is continuing on schedule for now but we'll presumably get an update on what firm is continuing work by the end of April (unless either SO or SCG is unable to ascertain cost estimates). Both firms appear to be planning for Westinghouse (WEC) to abandon the project, though this is somewhat curious given Toshiba's reserve for contract loss (after $4B) appears to be well below our estimated combined max liability ($3.688 for Vogt, ~$1.78+ for Summer) if WEC chooses the abandon option. Presumably cost overruns are viewed as limited but we suspect healthy scepticism until the numbers are confirmed by management next month (we believe this could provide a key point of support for SCG shares). While abandonment is technically an option (and ratebase accrued thus far appears to be intact) we see both SCG and SO pushing aggressively to reach a more constructive solution to finish the plants. The specific mechanics of how damages will be awarded (is it every incremental dollar assuming WEC leaves the construction role or simply any cost over-runs on the milestone payment dates) will be worth watching and could explain the $4B (page 96 here) reserve for contract loss as of 228/17. However, we highlight that there will also be claims through the traditional bankruptcy approach. In addition, we note timing and decision to file could be related more to listing criteria for Tokyo stock exchange--not solely financial stress mitigation (filling should allow Toshiba to deconsolidate WEC prior to year-end).

SCG Ready for a Bottom in Sentiment?
At this stage, the main uncertainty is largely what the updated cost projections become. Assuming resolution by the end of April, we see potential for a relative bottom in SCG shares as the absolute risks are outlined clearly and presumably below the $7.678 approved cap + ~$18 of Westinghouse/Toshiba obligation (this is adjusted for SCGs 55% share of the Summer plant). Clearly, lacking a fixed price contract even with the damages incurred exposes SCG to cost overrun risk in a way it was not previously, but Street sentiment seems to have largely assumed this outcome--any commitment to the existing contracts beyond the parent guarantee limit would likely be a relatively positive surprise. Further, SCG's projected confidence on the adequacy of parent guarantees to offset the cost overruns is clearly constructive, though we note this would be incurred over several years as payment obligations are breached and the ultimate viability of the project moving ahead will be based on the cost update next month. SCG mgmt was clear to emphasize the added costs would prove offset directly with proceeds from the guarantee (presenting no real changes to project costs as of today). With ~5K workers active on site without an expected slowdown from the WEC bankruptcy, execution risk may be more limited than feared.

What About Southern? Seemingly More Latitude
Southern's current $9.28 fixed price contract is subject to a liability cap of 20% of the contract price or 40% if the work is abandoned, which is ~$1.88 and ~$3.688 respectively on the $9.28 fixed price contract. This is inclusive of $920-930M of maximum liquidated damages, which can be triggered by either a delay in the project or the performance guarantee, which is subject to the liability limit of ~$3.688. Theoretically, this would imply a $12.888 (plus ~2.38 of owner costs in the capital budget) all in project cost potential before there was any liability beyond the approved construction $9.28 cost. On the other hand, any decision to move forward at the Georgia PSC would necessarily recognize increasing counterparty risk for the substantial parent guarantees which would presumably transfer to Toshiba as costs are incurred. While SO appears to have many of the same stipulations in place as SCG (R6 here), we note the company's $920M letter of credit provides a first line of defense towards recouping the liabilities, whereas the $3.78 liability limit provides more leeway.

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What next? Keeping the ball rolling

Ultimately, any substantial halt to construction would be a negative outcome, so the stop gap weekly working capital funding mechanism that WEC is effectively utilizing in conjunction with the $800M DIP financing and the LoC makes sense for both parties' perspective. Even to the extent that management's conjecture regarding WEC's preference to sell the construction business is accurate, there is clearly a firm mitigation plan in place as Fluor or others could step in (albeit under renegotiated contract terms) to finish. We note all vendors continue to perform under their arrangements of late despite the latest filing by Westinghouse.

The question is just how would the project be split up?

SCG mgmt. notes that any rejection of the contract by Westinghouse would likely involve the breakup of work between SCG and its contractor today, Fluor. We note the vast majority of employees on site are already Fluor and the majority would be Fluor that are retained out of the Westinghouse bankruptcy (at least as initially contemplated by SCG). We note precise terms of who is general contractor and how terms on subcontracting back to Fluor are negotiated remain pending a final decision on how to proceed. We do not see a fixed priced option as a viable avenue with Fluor.

Timing of Westinghouse filing: Why now?

We note the timing is coincident with the latest deadline to file financials for Toshiba and avoids any continued consternation of a delisting of the equity. Further, with Toshiba keen to stop out its losses to these plants, a filing, even if equivalent to the guarantees paid out stems future potential cash liabilities despite the loss of the business and associated cash flow from ancillary businesses.

Recovery of Spend through the interim is also unclear in recovery

We note that the working capital spend through April (next 30-days) is not technically recoverable under the guarantee arrangement, and as such, SCG has incentive to limit a protracted period given less than clear recovery before the wider SC PSC. We note that this should limit the incentive to have a meaningfully longer period than this initial 30-day window. We also caution that the corresponding cash needs (which are not necessarily recoverable) could also drive immediate cash funding needs and pressure to the balance sheet; timing of any related equity if at all remains unclear, particularly following the credit risks flagged.

We emphasize the decision to continue work through this period without hesitation remains quite clear given the meaningful owners costs incurred as well as wider risks of project timeline disruption without continuous execution against contemplated schedule.

What about project abandonment? Appears clear today that moving forward on nuclear plant (still) makes sense.

We note SCG mgmt's last cost comparison update of pursing the nuclear project relative to a new CCGT plant resulted in the nuclear project still being selected. We caution that the latest revisions to the project (at least as initially proposed by Westinghouse) suggest that they will be entirely offset by realization of guarantees, and so as such, suggests that this remains a low likelihood option
unless there are material cost increases identified in the subsequent review period by mgmt. beyond those risks identified by Westinghouse mgmt. already.

But recognize that if they see project abandonment as the right move, SCG has rights to recover from customers money spent already under BLRA.

We caution investors from being overly punitive in this scenario, as we note they are technically due a recovery on full equity and debt components of what they have spent already. While this would clearly strain the limits of the relationships, we would not simply see this as a scenario without recovery. Rather, the rate of return would be the bigger question. Additionally growth would slow substantially if only a CCGT plant were built in place of the nuclear facility. Given the substantial commitment from the state into this project, we see this as a low risk.

By contrast, given the elected nature of the GA PSC, this remains less clear mgmt. will stay the course on these projects. Here too however, support remains quite strong to continue to pursue the projects.

What about the fixed price guarantees? How to handle the loss from a regulatory perspective.

We see among the most prickly dynamics for both SO and SCG, but especially SCG given its fixed price arrangement was only signed after CBI left the deal, is the ultimate recovery of the ~$500 Mn premium approved only as last November (and signed as part of the transition to Fluor, and away from CBI). It would appear in hindsight the cost increases resulting from this transition ultimately drove increases that made Westinghouse opt to file the business. We see risks to the continued recovery of this amount should SCG mgmt attempt to receive recovery for capex related to spend that would have otherwise been covered under this arrangement.

As such, we see a baseline outcome as at a minimum potentially seeing the loss of such ratebase recovery on this deal.

What about Core Project Execution?

SCG mgmt notes continued positive execution against improved productivity ratios necessary to ensure the project is delivered on time. We note that much of the blame for historic productivity issues was related to failure to deliver modules from assembly on time (and hence causing shifts in the originally contemplated work flow). We note with the bulk of the equipment now delivered on site, this appears less of a clear concern. That said, Mgmt. does note other ongoing behaviors (some quite trivial) in an effort to caution other more strategic elements of the project could need productivity improvement to reach the budgeted timeline. We note our conversations with stakeholders in SC continue to suggest execution remains well underway.

What's our concern? While we appreciate continued improvement in productivity remains critical, we remain principally concerned around reaching in-service criteria identified by the NRC to turn on the machines, rather than core construction (currently underway). Gauging success of these efforts slated for 2019/20 remains the next focal point of our attention as we emphasize other recent large plants such as SO's Kemper and DUK's Edwardsport IGCC coal plants have encountered the bulk of their issues around the in-service rather than through construction principally. To this point, we believe the risk of further cost over-runs will remain largely un-addressable by the current development team.
Just How Wide of a Discount Is It?

We estimate SCG shares are trading at a substantial discount vs. peers. On our estimates, we see a -23% discount vs. peers on our slightly above Street projections. Using a consensus FY2 P/E (~2018E), our historical chart indicates a loss of 20% relative valuation in recent months down to a -15% discount off this year. Overall, should only a -$1 Bn equity raise be necessary to assure recovery of the nuclear project this would be a positive outcome, in our view. At roughly -$10 Bn in market cap today, we see the -23% discount as effectively equal to writing off at least -$2.3 Bn in equity value, substantially more than the portion of cost increases due to SCG’s share in the project.

What will it take for shares to find comfort? We see not just a firm update from mgmt. on its costs (hopefully simply reaffirming Westinghouses’ latest cost estimate produced as of last weekend), and confidence in the new jointly developed plan between Fluor and the nuclear operators directly (SO & SCG) in limiting any slowdowns and ensuring execution in closing any remaining productivity gaps without Westinghouse involved.

What’s the lingering risk here? The risks simply don’t dissipate.

We caution that the biggest consternation from investors could well be a scenario in which the uncertainty over further cost over-runs remains persistent and a failure to see the substantial gap vs. peers close for a protracted period. While we don’t believe this will be fully utilized via incremental dilution incurred due to unrecoverable spend, the upside will be dictated by just how much this amount is (as we suspect shares will return to at least in-line with peers) through project execution.

Figure 1: SCG Relative Valuation on FY2 P/E Basis vs XLU peers

Source: FactSet
Risks identified about project delay beyond nuclear PTC expiration in coop filings... but this is largely already a known risk.

We note that while this remains a clear risk for both projects, beyond the Year-End 2020 expiration, we see this as a relatively more limited concern of ours. We flag prospects for an extension of this deadline remain a low-risk element of the overall setup. We note extension for tax purposes would also presumably necessarily apply to bonus depreciation to also ensure customer benefits remain intact. This remains among the clearest ways for the current administration and Congress to support nuclear energy. Bottom line, this remains less of an immediate concern.

What have we written of late?

We include a full list of our latest SCANA and Toshiba related notes below pertaining to the cost over-runs and run-up into the latest decision to file Ch.11.

SCG: Staging the Latest Debates on New Nuclear (Revised)
SO: Defining the Resiliency
SCG: Upgrading to Buy: Toshiba Risk Priced In
SO: The Billion Dollar Gasifier Question
SCG: Finding Comfort with Nuclear Risk
SCG: Scanning the Nuclear Risks
Valuation Method and Risk Statement

SCG:
Factors that could prevent SCANA from achieving our earnings, cash flow, and price target objectives include: adverse weather conditions; changes in the regional power regulatory environment; adverse regulatory decisions in its various states jurisdictions (primarily SC, NC, and GA) as well as from the federal regulator, FERC; interest rate & capital market risks; slowdown in regional economy; risks associated with operating nuclear units as well as risks to the completion cost and timeline of the VC Summer plant additions specifically; more stringent environment regulation; and the impact that changes in commodity prices could have on the unhedged portion of its competitive gas business, SCANA Energy. An added risk is the corresponding construction and financial risk associated with its proposed new nuclear units at the V.C. Summer facility. Our price target for SCG is based on a SOTP analysis using a -10% discount to the peer utility 2018E P/E multiple.

SO:
Factors that could prevent Southern from achieving our earnings, cash flow, and price target objectives include: adverse weather conditions; changes in the regional power regulatory environment; adverse regulatory decisions in its various states jurisdictions (primarily GA, AL, MS, FL) as well as from the federal regulator, FERC; interest rate & capital market risks; slowdown in regional economy; risks associated with operating nuclear units; more stringent environment regulation; and the impact that changes in commodity prices could have on the unhedged portion of its competitive generation operations, Southern Power. An added risk is the corresponding construction and financial risk associated with its proposed new nuclear unit at Vogtle. Valuation is based on a sum-of-the-parts analysis.
**Required Disclosures**

This report has been prepared by UBS Securities LLC, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

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**Analyst Certification**: Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst-covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

**UBS Investment Research: Global Equity Rating Definitions**

<table>
<thead>
<tr>
<th>12-Month Rating</th>
<th>Definition</th>
<th>Coverage</th>
<th>IB Services</th>
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<tbody>
<tr>
<td>Buy</td>
<td>FSR is &gt; 6% above the MRA.</td>
<td>45%</td>
<td>29%</td>
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<tr>
<td>Neutral</td>
<td>FSR is between -6% and 6% of the MRA.</td>
<td>39%</td>
<td>27%</td>
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<tr>
<td>Sell</td>
<td>FSR is &gt; 6% below the MRA.</td>
<td>15%</td>
<td>16%</td>
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<thead>
<tr>
<th>Short-Term Rating</th>
<th>Definition</th>
<th>Coverage</th>
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</thead>
<tbody>
<tr>
<td>Buy</td>
<td>Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Sell</td>
<td>Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

Source: UBS. Rating allocations are as of 31 December 2016.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

**KEY DEFINITIONS**: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock’s price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. Equity Price Targets have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES**: UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount. Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.
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**UBS Securities LLC**: Julien Dumoulin-Smith; Steven Fisher, CFA; Jerimiah Booream, CFA.  
**UBS Securities Japan Co., Ltd.**: Kenji Yasui.

**Company Disclosures**

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<th>Short-term rating</th>
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Source: UBS. All prices as of local market close. 
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.

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5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.

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6b. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-investment banking securities-related services are being, or have been, provided.

6c. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-securities services are being, or have been, provided.

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**SCANA Corp. (US$)**

![Price Target (US$) vs Stock Price (US$)](image)

**US Electric Utilities** 30 March 2017
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Source: UBS, as of 29 Mar 2017

Southern Company (US$)

**Price Target (US$)**

**Stock Price (US$)**

- **Neutral**
- **Sell**
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Source: UBS; as of 29 Mar 2017