Exhibit _ (JEA-1A)

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Jimmy Addison
on Behalf of
South Carolina Electric & Gas Company in
Docket No. 2017-370-E

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DIRECT TESTIMONY
OF
JIMMY E. ADDISON

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DIRECT TESTIMONY

OF

JIMMY E. ADDISON

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2017-370-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Jimmy E. Addison and my business address is 220 Operation Way, Cayce, South Carolina. I am the Chief Executive Officer ("CEO") of SCANA Corporation ("SCANA") and each of its subsidiaries including South Carolina Electric & Gas Company ("SCE&G" or the "Company").

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate of the University of South Carolina with a Bachelor of Science Degree in Business Administration, majoring in accounting, and a Master of Accountancy Degree. I am also a Certified Public Accountant ("CPA") in South Carolina.

I joined the Company in March 1991. I became the CEO of the Company on January 1, 2018. Before that time, I served as the Executive

Vice President and Chief Financial Officer ("CFO") of SCE&G and SCANA.

Prior to joining the Company, I was employed for seven years by Deloitte & Touche. I was also a partner in the public accounting firm of Hughes, Boan and Addison immediately prior to joining the Company.

Q. HAVE YOU EVER TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA BEFORE?

A. Yes. I have testified before the Public Service Commission of South Carolina (the "Commission") in a number of different proceedings.

Q. WHAT WAS YOUR INVOLVEMENT WITH THE NEW NUCLEAR DEVELOPMENT PROJECT?

A. In my role as CFO, I was responsible for preparing and executing the financial plan for funding the new nuclear development project (the "NND Project" or the "Project"). In late 2015, I became involved in the negotiations of some of the financial and commercial aspects of the Amendment (the "Amendment") to the Engineering, Procurement and Construction Agreement for the NND Project (the "EPC Contract"). I also was involved in managing SCE&G's response to the Westinghouse Electric Company, LLC ("Westinghouse") bankruptcy filing in 2017.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony describes the proposed combination of SCANA with Dominion Energy, Inc. ("Dominion Energy"), which would result in

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SCANA and SCE&G becoming subsidiaries of Dominion Energy. I describe the events leading up to the proposed combination and the decision by SCANA's Board of Directors to propose that SCANA's shareholders approve the combination. I will outline the terms of the combination agreement and the benefits of the combination to SCE&G's customers, to the State of South Carolina and to the communities that SCE&G serves. The regulatory plan that Dominion Energy and SCE&G will provide if the combination closes is referred to in the Joint Petition and in my testimony as the "Customer Benefits Plan."

My testimony will also outline the two disfavored alternatives that SCE&G proposes if for any reason the Dominion Energy combination does not close. The first disfavored proposal, the "No Merger Benefits Plan," provides SCE&G's customers with important financial benefits to reduce the impact of the NND Project on them. But compared to the Customer Benefits Plan, it is a disfavored alternative because it provides fewer benefits for customers.

The second disfavored proposal set forth in the Joint Petition—the "Base Request"—involves a straightforward application of current statutes to this matter, with no consideration of rate mitigation other than the decision not to ask for a rate increase in this proceeding and the use of the Toshiba proceeds to reduce capital balances associated with the NND

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Project. It is presented as a third-tier option if the combination does not close and if the No Merger Benefits Plan is not approved.

Q. DO YOU TESTIFY CONCERNING PRUDENCY MATTERS?

A. Each of the three regulatory plans involves a determination by the Commission of the prudency of the decision by SCE&G to abandon construction of the NND Project. That determination is sought under S.C. Code Ann. § 58-33-280(K) and other laws and regulations that the Commission administers.

In support of that determination, my testimony provides an overview of the history of the Project subsequent to the regulatory and prudency reviews conducted by the Office of Regulatory Staff ("ORS") and this Commission in Docket Nos. 2016-223-E and 2016-224-E. These were the most recent proceedings to review and approve the NND Project costs and cost schedules. My testimony will explain why the decision to abandon the Project on July 31, 2017 was timely, reasonable, and prudent, and why it was in the best interest of SCE&G's customers and the electric utility system that serves them to continue to fund the Project up until the decision to abandon was made.

Q. WHAT OTHER WITNESSES ARE PRESENTING DIRECT TESTIMONY ON BEHALF OF THE COMPANY?

A. The other witnesses presenting direct testimony on behalf of the Company are Ms. Iris N. Griffin, Dr. Glenn Hubbard, Mr. Bob Hevert, Ms.

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Ellen Lapson, Dr. Joseph M. Lynch, Mr. Kyle M. Young, Mr. J. Wade Richards, Mr. Kevin R. Kochems, and Mr. Allen Rooks.

1. Ms. Griffin is the Senior Vice President, Chief Financial Officer, and Treasurer of SCANA and SCE&G. She is a CPA and will testify concerning financial matters related to the Joint Petition, the financial status of SCE&G and SCANA, and the financial results that would likely occur under the regulatory plans proposed in the Joint Petition, and if rates corresponding to those in Act 258 were adopted.

2. Dr. Hubbard is the Dean of the Graduate School of Business at Columbia University, as well as a Professor of Economics in the Department of Economics of the Faculty of Arts and Sciences, a Research Associate for the National Bureau of Economic Research, and a visiting scholar at the American Enterprise Institute. His work centers on analyzing and evaluating issues in corporate finance, public economies, industrial organization, monetary economics, and energy and natural resource economics. He will testify concerning the impact of South Carolina Laws Acts 258 and 287 on SCE&G, its customers, and the general public interest of the State of South Carolina.

3. Mr. Hevert is a partner with ScottMadden, Inc., where he advises energy and utility clients on a wide range of financial and economic issues. He will testify concerning the cost of capital for SCE&G

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and the returns that would be earned by SCE&G under the various regulatory proposals.

4. Ms. Lapson is a principal with Lapson Advisory and has extensive experience in the measurement and assessment of the creditworthiness and financial stability of investor-owned utility companies. She will testify concerning the effect on SCE&G's creditworthiness and financial stability under the various regulatory proposals for dealing with SCE&G's new nuclear investment and the likely financial repercussions from those proposals.

5. Dr. Lynch is the Manager of Resource Planning at SCANA. He will testify concerning the economic analyses that demonstrated that continued construction of the nuclear units was in the best interest of customers up until the decision by Santee Cooper to suspend construction of the Project on July 31, 2017. He will also testify concerning the economic analyses that were presented in prior Base Load Review Act ("BLRA") proceedings that demonstrated that completing the Project was in the economic best interest of SCE&G and its customers.

6. Mr. Young is the Manager of Nuclear Plant Demobilization for SCE&G. He will testify concerning the status of the Project up to and after abandonment, the abandonment activities that were undertaken after July 31, 2017, and related matters. Mr. Young will also testify concerning certain projects that were undertaken as part of the NND Project that are

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not being abandoned but are being placed in service to support SCE&G's ongoing utility operations.

7. Mr. Richards is a Senior Engineer in Transmission Planning for SCE&G. He will testify concerning the transmission projects that were included in the NND Project, which have been and are being placed in service. He will also testify concerning the benefits of those projects to SCE&G's customers.

8. Mr. Kochems was SCANA's Director of Nuclear Financial Administration and is now the Manager of Regulatory Accounting. Mr. Kochems will sponsor the schedule showing the costs of the NND Project as of December 31, 2017. He will present the adjustments in those cost schedules to remove costs associated with those aspects of the NND Project that are being put into service and will testify concerning accounting matters related to the regulatory proposals.

9. Mr. Rooks is the Manager of Electric Pricing and Rate Administration at SCANA Services, Inc. He will explain the proposed rate structures and rate adjustments under the Customer Benefits Plan and the No Merger Benefits Plan and will sponsor the tariff sheets that are proposed for implementing those plans. He will also discuss the proposal for calculating and making the one-time cash payments to customers under the Customer Benefits Plan.

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Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized into the following sections:

I. Regulatory History of the Project

II. The Combination with Dominion Energy

III. The Westinghouse Bankruptcy

IV. The Post-Bankruptcy Evaluation of SCE&G's Options

V. Post-Abandonment Settlement Attempts

VI. The Merger Discussions and Merger Agreement

VII. The No Merger Benefits Plan

VIII. The Base Request

IX. Prudency Matters

X. Conclusion.

I. REGULATORY HISTORY OF THE PROJECT

Q. PLEASE PROVIDE AN OVERVIEW OF THE REGULATORY HISTORY OF THE PROJECT INCLUDING THE INITIAL BLRA PROCEEDINGS CONCERNING THE PROJECT.

A. As the Commission is aware, in 2005, SCE&G began to evaluate the alternatives available to meet its customers' growing need for additional base load capacity in the coming decades. The Company conducted this evaluation in light of its aging fleet of coal generating units, volatile global fossil-fuel markets and the increasingly stringent and costly environmental regulations imposed on fossil-fuel generation, particularly coal generation.

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In its evaluation, the Company sought proposals from three suppliers of nuclear generation units. The resulting evaluations and the negotiation of an Engineering, Procurement, and Construction Agreement (the "EPC Contract") for the Units took place over the period 2005-2008. On May 23, 2008, the Company signed the EPC Contract with Westinghouse and Stone & Webster, which was a part of the Shaw Group ("WEC/CB&I").

Later that month, on May 30, 2008, the Company filed a Combined Application under the BLRA seeking a full regulatory review by the Commission and ORS of the prudency of the Project and the reasonableness of the EPC Contract. The cost schedule presented to the Commission in 2008 also included a reasonable forecast of owner's contingency for the Project. SCE&G's share of the total anticipated cost was $6.3 billion in future dollars. In December 2008, the Commission held nearly three weeks of hearings and took evidence from 22 expert witnesses about the Project, the contractors, the EPC Contract, and risks of construction.

Q. WHAT WAS THE RESULT OF THE 2008-2009 BLRA PROCEEDINGS?

A. These initial cost forecasts for the Units were the subject of extensive discovery and review by expert witnesses for the ORS and others. On March 2, 2009, the Commission issued Order No. 2009-104(A) approving the capital cost schedules and associated owner's contingencies. The South

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Carolina Supreme Court reviewed and upheld the Commission's determinations as to the need for the Units and their prudency finding that "based on the overwhelming amount of evidence in the record, the Commission's determination that SCE&G considered all forms of viable energy generation, and concluded that nuclear energy was the least costly alternative source, is supported by substantial evidence." *Friends of Earth v. Pub. Serv. Comm'n*, 387 S.C. 360, 369, 692 S.E.2d 910, 915 (2010). In a related case, *South Carolina Energy Users Comm. v. South Carolina Pub. Serv. Comm'n*, 388 S.C. 486, 697 S.E.2d 587 (2010), the Court ruled that costs which were not itemized to specific expense items—specifically owner's contingency costs—could not be included in the Commission-approved cost schedules for the Units. In that opinion, the Court indicated that the BLRA allowed the Company to return to the Commission to seek approval of additional expenditures as circumstances required.

SCE&G had included in its original cost projections for the Project contingencies to reflect the risk that current cost projections would not be met. The Company had planned to update those contingency amounts as the risks of the Project evolved. This would have allowed the Commission to evaluate the economics of the Project in light of current assessments and quantifications of risk. The *Energy Users* opinion of 2010 eliminated that possibility. From that point forward, only itemized and clearly foreseeable

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costs could be included in the BLRA update. Risk contingencies were disallowed.

Q. PLEASE DESCRIBE THE UPDATES THAT HAVE OCCURRED TO THE COST AND CONSTRUCTION SCHEDULES FOR THE UNITS SINCE ORDER NO. 2009-104(A) WAS ISSUED.

A. Since Order No. 2009-104(A) was issued in March 2009, SCE&G has appeared before the Commission five times to update the cost and construction schedules for the Units.

1. In 2009, the Commission updated the construction schedule and associated cash flow forecasts to reflect WEC/CB&I's issuance of a site-specific integrated construction schedule for the Project. The EPC Contract required WEC/CB&I to begin preparing such a schedule as soon as it was signed. SCE&G presented that schedule to the Commission for review as soon as practical after it was accepted by SCE&G. In the 2009 update filing, the timing of cash flows were adjusted, but the total forecasted cost for the Units in 2007 dollars ($4.5 billion) did not change. However, escalation calculations increased the cost of the Units from $6.3 billion to $6.9 billion. After discovery and the pre-filing of testimony, ORS and the South Carolina Energy Users Committee signed a settlement

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agreement with SCE&G approving the update. No party appealed the resulting order.

2. In 2010, consistent with the decision of the South Carolina Supreme Court in *South Carolina Energy Users Comm. v. South Carolina Pub. Serv. Comm'n*, 388 S.C. 486, 697 S.E.2d 587 (2010), the Company removed the owner's contingency costs from the prior cost forecasts. In addition, in the 2010 update proceeding, the Company identified and itemized approximately $174 million in costs related to specific cost categories for the Project that it would have accounted for using owner's contingency costs before the court decision. As a result, in Order No. 2011-345, the Commission approved cost schedules for the Project that reduced the approved cost estimate in future dollars from $6.9 billion to $5.8 billion ($4.3 billion in 2007 dollars), including an approximately $800 million reduction in forecasted escalation. After discovery and the pre-filing of testimony, ORS and SCE&G signed a settlement agreement approving the update. No party appealed the resulting order.

3. In 2012, the Commission updated the capital cost forecasts and construction schedule. The cost forecasts were based on a

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settlement between SCE&G and WEC/CB&I for cost increases associated with:

a. The delay in the issuance of the Combined Operating License ("COL") by the Nuclear Regulatory Commission ("NRC");

b. WEC's redesign of the AP1000 Shield Building;

c. The redesign by WEC/CB&I of certain structural modules to be used in the Units; and

d. The discovery of unanticipated rock conditions in the Unit 2 Nuclear Island ("NI") foundation area.

The Commission also updated the anticipated schedule of Owner's cost to reflect more detailed operations and maintenance planning; new safety standards issued after the Fukushima event; and other matters. The 2012 update also involved several specific EPC Contract change orders. It increased the anticipated cost for the Units by approximately $300 million in 2007 dollars, but reductions in escalation and interest costs fully offset those increases and the total cost in future dollars remained approximately $5.8 billion ($4.5 billion in 2007 dollars). The Commission adopted these new schedules in Order No. 2012-884. The South Carolina

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Supreme Court affirmed that order in *S.C. Energy Users Comm. v. S.C. Elec. & Gas*, 410 S.C. 348, 764 S.E.2d 913 (2014).

4. In 2015, the Commission updated the construction and cost schedules to reflect new completion dates for the Units of June 2019, and June 2020, and to reflect new cost forecasts. The updated schedules were the result of a newly-baselined construction and cost schedule that SCE&G had directed the Consortium to compile to more accurately reflect the schedule delays and productivity issues that were challenging the Project. The Consortium's newly revised schedule was presented to the Commission after a detailed review by SCE&G of the assumptions and methodologies on which it was based but with the express understanding as indicated by SCE&G's testimony in this document that the Consortium would be required to substantially improve productivity and mitigate delays to achieve the commitments the Consortium was making under those schedules. The resulting update increased the construction cost estimate for the Project to $6.8 billion in future dollars ($5.2 billion in 2007 dollars). After discovery and the pre-filing of testimony, ORS and the South Carolina Energy Users Committee signed a settlement

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agreement with SCE&G approving the update. No party appealed the order approving the updated cost and construction schedules.

5. In 2016, the Commission approved SCE&G's request for a new construction milestone schedule tied to new substantial completion dates for the Units of August 31, 2019, and August 31, 2020, and to update the forecasted capital costs of the Units to approximately $7.7 billion in future dollars ($6.8 billion in 2007 dollars) including the cost associated with the fixed price option. After discovery and the pre-filing of testimony, ORS, the South Carolina Energy Users Committee and other parties signed a settlement agreement with SCE&G approving the update. No party appealed the resulting order.

II. THE COMBINATION WITH DOMINION ENERGY

Q. WHAT IS SCE&G'S POSITION CONCERNING THE COMBINATION WITH DOMINION ENERGY?

A. SCE&G supports the combination with Dominion Energy wholeheartedly because it provides important benefits to SCE&G's customers while resolving the financial and regulatory issues that have arisen following the abandonment of the NND Project. SCE&G's primary duty is to provide safe, reliable, and efficient service to its customers. It

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will be able to continue to do so as a subsidiary of Dominion Energy. Without the combination, SCE&G's ability to serve its customers effectively over the short-term, or the long-term, could be in jeopardy, and customers would not receive the benefits provided under the Customer Benefits Plan.

In terms of values and operating culture, Dominion Energy is a positive fit for South Carolina. Dominion Energy invests in the people, systems and infrastructure needed to sustain excellent service and efficient operations, and takes a long-term view of the utility business. SCE&G has thousands of employees who rely on the Company for the tools, equipment, and training they need to work safely and efficiently. Dominion Energy has an excellent record for operating utility systems safely, reliably, and efficiently. Dominion Energy utilities support the communities they serve and actively promote economic development.

In the immediate context, Dominion Energy has the financial strength to help SCE&G and its customers recover from the disruption that has occurred as a result of the abandonment of the NND Project. In the long-term, it will provide customers with a stable, dependable and high quality utility service.

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Q. WHAT ARE THE CUSTOMER BENEFITS MADE POSSIBLE BY THE DOMINION ENERGY COMBINATION?

A. **Cash Payments.** Under the Customer Benefits Plan, SCE&G's retail electric customers will receive a one-time rate credit totaling $1.3 billion. These payments will be made within 90 days of the combination closing, as Mr. Farrell explains in his testimony. Residential customers will receive approximately $628 million from that distribution, with the average residential customer receiving $1,000. Industrial customers will receive approximately $300 million, and commercial customers will receive the balance. Within those rate categories, the State of South Carolina will receive approximately $36.6 million through various agencies and institutions of higher learning; municipalities and other local government entities will receive approximately $22.6 million; and churches will receive approximately $2.6 million.

Foregone Recovery of Capital Items. As a result of the combination with Dominion Energy, SCE&G will forego recovery of $1.4 billion of NND Project Costs, which includes the prior impairments taken by SCE&G. In addition, SCE&G will forego recovery of $361 million in regulatory assets related to the NND Project. Finally, SCE&G will write off the $180 million purchase price of the 540 MW combined cycle natural gas generation facility that SCE&G has acquired to replace part of the anticipated nuclear generation.

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Bill Reductions. Dominion Energy will provide SCE&G's customers with a bill reduction which is estimated to total approximately 7%. That reduction will be comprised of a refund credit which will reduce bills by approximately 3.5% as compared to its annualized 2017 retail electric bills, and a savings from the Tax Cuts and Jobs Act of 2017. The amount of estimated tax savings customers will receive was initially estimated at 1.5%, but that estimate has been revised upwards to 3.5%. Any additional tax savings that are realized will be passed through to customers when received. The combined 7% bill reduction will reduce a typical residential customer's bill by approximately $22 per month.

Dominion Energy's shareholders will absorb the financial impacts, net of tax reductions, of these write-offs and bill reductions. Dominion Energy's plan will amortize the balance of the NND Project capital costs over 20 years.

Q. STANDING ALONE, COULD SCANA AND SCE&G PROVIDE THE SAME BENEFITS AS DOMINION ENERGY IS OFFERING?

A. As a standalone company, SCANA and SCE&G would not be able to provide the benefits Dominion Energy is offering without incurring undue financial risk.

Q. WHY IS THAT THE CASE?

A. If SCE&G were to attempt to provide benefits comparable to those that Dominion Energy can offer through the combination agreement, the

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resulting reduction in revenues and potential impairment of assets could cause SCE&G an acute liquidity and creditworthiness crisis. There would be a significant risk that SCE&G would not be able to access the cash needed to support ongoing utility service to its gas and electric customers.

At best, SCE&G would experience an increase in the costs of issuing debt and other capital. SCE&G typically invests approximately $500 million a year in new capital to maintain the safety, reliability, and efficiency of its utility systems, and to meet growing customer demands. Even if the financing needed to sustain this investment could be found, it could be very expensive. SCE&G's capital costs—and ultimately the rates it charges to customers—could rise dramatically and the increased costs remain embedded in SCE&G's capital structure for decades.

In his testimony, Mr. Hevert shows that as a result of the current lack of regulatory and political certainty related to its revenues and finances, SCE&G's cost of equity has risen by 50 basis points from the currently allowed 10.25% to approximately 10.75%. This dramatic rise in SCE&G's cost of capital does not take into consideration the additional stress that seeking to provide the Customer Benefits Plan would impose if provided on a stand-alone basis.

For these reasons, it would be unduly risky, if not impractical, for SCE&G or SCANA to provide benefits comparable to those that Dominion Energy is offering through the combination.

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Q. WHAT TERMS DOES THE COMBINATION AGREEMENT CONTAIN TO PROTECT EMPLOYEE AND COMMUNITY INTERESTS?

A. Dominion Energy has committed to maintain the corporate headquarters for SCE&G in Cayce, South Carolina. The compensation of all SCANA employees will be protected until January 1, 2020. SCANA will increase its charitable contributions by $1 million per year.

III. THE WESTINGHOUSE BANKRUPTCY

Q. WHAT EVENTS LED TO THE COMBINATION AGREEMENT WITH DOMINION ENERGY?

A. The events that led to the combination agreement with Dominion Energy were set in motion on March 29, 2017, when Westinghouse filed for bankruptcy. At that time, Westinghouse announced that it would use the bankruptcy code to invalidate the price and performance guarantees that SCE&G and Santee Cooper had built into the construction contract for the Units through the EPC Contract and the Amendment. In fact, Westinghouse's stated goal in filing for bankruptcy was to renounce and invalidate the obligations of Westinghouse that SCE&G and Santee Cooper had negotiated into the EPC Contract to protect their customers, along with similar price guarantees that Westinghouse had granted Southern Company and the other owners of the project to construct two AP1000 Units at the Plant Vogtle site in Waynesville, Georgia (the "Vogtle Project"). This was

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a terrible blow to the Project in light of the importance of the EPC Contract to SCE&G and its customers.

Q. PLEASE EXPLAIN THE IMPORTANCE OF THE EPC CONTRACT TO SCE&G AND ITS CUSTOMERS.

A. Since the beginning of the Project, SCE&G sought to protect itself and its customers from price risk by incorporating fixed and firm pricing into the terms of the EPC Contract. In 2008, when the EPC Contract was signed, approximately 54% of the EPC costs were set as either fixed or firm prices (*i.e.,* set at a stated amount either without adjustment or subject only to specified escalation adjustments).

The Commission approved the pricing terms of the EPC Contract in Order No. 2009-104(A) and included the following discussion of them in that order:

> [The] fixed and firm categories contain the major equipment and components that are to be used in the Units, and the majority of nuclear-specific engineering and other services that will be provided by Westinghouse as the nuclear systems provider. [The contractors were] able to provide fixed or firm pricing not only on the majority of the total price, but also on the majority of those elements of the equipment and services that were most uniquely nuclear in nature, and so subject to potential price risks that are unique as compared to more standard construction cost items. . . . . For these reasons, the Commission finds that the EPC Contract contains reasonable and prudent pricing provisions, as well as reasonable assurances of price certainty for a project of this scope.

As the Project moved forward and prices became more certain, SCE&G was able to negotiate an amendment to extend fixed or firm

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pricing to an additional group of EPC costs. That occurred in 2010, and the associated costs were affirmed by this Commission in Order No. 2011-345.

Ultimately, in October 2015, SCE&G and Santee Cooper negotiated a further amendment to the EPC Contract, including an option to make substantially all remaining EPC costs subject to fixed pricing (the "Amendment" and the "Fixed Price Option"). The Amendment also provided for a transition period during which payments would be made under an interim payment schedule. During the transition period, the parties—by agreement or, failing their agreement, by order from the Dispute Resolution Board ("DRB")—were to develop a detailed milestone payment schedule. The DRB was created as part of the Amendment. The milestone payment schedule—in conjunction with other provisions of the Amendment—shifted additional risk to Westinghouse to achieve the Project schedule and to improve construction efficiencies.

Q. DID THE AMENDMENT CHANGE LIQUIDATED DAMAGES AND PERFORMANCE INCENTIVES?

A. The Amendment also increased liquidated damages four-fold and put Westinghouse at risk for a total of approximately $1 billion in liquidated damages and lost performance incentives if it failed to complete the Project in a timely manner. (This is a 100% number representing both SCE&G's and Santee Cooper's shares of the amounts.)

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Q. WHAT DID THE AMENDMENT MEAN AS A PACKAGE?

A. As a package, the Amendment provided Westinghouse with a strong incentive to improve construction productivity and to complete the Project in a timely and efficient manner.

Productivity of the construction labor on site was a key concern. As the Commission found in Order No. 2015-661, Westinghouse and its Consortium partner were "not achieving either the original or the updated [as of 2015] productivity assumptions" and that "achieving these factors [was] important to meeting both the cost and construction schedules" for the Project. The Amendment shifted substantial productivity risk to Westinghouse. The fact that Westinghouse agreed to put itself at risk for cost overruns and schedule compliance in the Amendment indicated to us that Westinghouse was serious about curing the problems in the Project and completing the Project successfully.

Q. WHAT REGULATORY ACTION DID SCE&G TAKE?

A. On May 26, 2016, SCE&G filed a petition under the BLRA seeking Commission review and approval of the Amendment and the associated cost schedules and construction schedules and the exercise of the Fixed Priced Option (the "2016 Update Proceeding").

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Q. WHILE THIS PROCEEDING WAS PENDING, DID ORS AND OTHER PARTIES ALSO SEEK ASSURANCES DIRECTLY FROM WESTINGHOUSE THAT IT WAS COMMITTED TO COMPLETING THE PROJECT?

A. Yes. After SCE&G had pre-filed its direct testimony in the 2016 Update Proceeding and while settlement negotiations were ongoing, ORS and other parties sought direct assurances from Westinghouse's senior leadership that Westinghouse was fully committed to completing the Project successfully. Jeff Benjamin, the Westinghouse Senior Vice President in charge of new nuclear construction globally, gave those assurances at a face-to-face meeting that was held at the Jenkinsville site on August 5, 2016. In addition to Mr. Benjamin, Westinghouse was represented at that meeting by Carl Churchman, Consortium VP and Project Director for the NND Project, and Westinghouse legal counsel. ORS was represented at that meeting by Mr. C. Dukes Scott, its Executive Director, and his legal counsel; Ms. Allyn Powell, ORS's Manager of Nuclear Programs; and ORS's outside nuclear construction expert for this Project, Mr. Gary Jones. Mr. Scott Elliott, Esquire, attended representing the South Carolina Energy Users Committee. Mr. Mike Couick, along with legal counsel represented the Electrical Cooperatives of South Carolina. Mr. John Tiencken, represented Central Electric Cooperatives. The Fluor

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Corporation was represented by Mr. Gary W. Flowers, its Executive Vice President in the Office of Chairman and legal counsel.

SCE&G suggested that it would be helpful for ORS to provide a list of questions in advance so that Westinghouse and Fluor could prepare their responses. A copy of those questions is attached at ***Exhibit __ (JEA-1).***

Q. WHAT TOOK PLACE AT THE MEETING?

A. At the meeting, ORS's Executive Director, Mr. Scott, subjected Westinghouse's senior leadership to sharp questioning concerning Westinghouse's commitment to complete the Project and to improve the productivity factors and schedule compliance issues that were of great concern to ORS and SCE&G at the time. As the senior Westinghouse official present, Mr. Benjamin, reaffirmed the commitment to successfully completing the Project. Other Westinghouse personnel explained Westinghouse's plans to increase labor productivity and schedule compliance. Mr. Benjamin explained that the company was actively marketing its AP1000 Advanced Passive Safety reactor technology globally. At the time, Westinghouse was publicly reported to be actively negotiating to construct multiple AP1000 units. Mr. Benjamin reiterated Westinghouse's strategy. He assured those present at the meeting that successfully completing this Project and its sister project in Georgia was critically important to Westinghouse's core business strategy.

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Q. WHAT HAPPENED AFTER THE MEETING?

A. After the meeting, discussions began in earnest on a settlement agreement. Following several weeks of negotiations, the parties reached a final agreement on September 1, 2016. All the parties who were present at the August meeting with Westinghouse—including ORS, the South Carolina Energy Users, and the Electric Cooperatives of South Carolina—signed the settlement agreement and agreed that in light of the commitments made by Westinghouse, and the terms of the settlement agreement itself, the Project should go forward under the terms of the Amendment. ORS then submitted the settlement agreement to the Commission in resolution of all issues raised in that docket. It was accepted by the Commission in Order No. 2016-794 and is attached as Exhibit A to that order.

Q. ON WHAT FACTUAL BASIS WAS APPROVAL GRANTED TO SCE&G'S PETITION IN THE 2016 UPDATE PROCEEDINGS?

A. In its testimony in the 2016 update proceeding, SCE&G showed that the projected total cost of the NND Project had increased by 21% in the eight years since it began. SCE&G provided testimony and economic analyses from Dr. Lynch showing that completing the Project continued to be in customers' best interests, even at the current forecasted price and even in consideration of the extremely low natural gas prices of the current period. Specifically, Dr. Lynch showed that, assuming the price of the

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Project as projected in the Fixed Price Option, completing the Units would save customers an average of between $172 million and $586 million per year over a 40-year planning horizon, compared to the cost of replacing the Units with other types of energy generation. The 2016 study showed that customers would benefit from completing the Units unless costs increased by $3.8 billion.

Q. HOW DID SCE&G ADDRESS THE RISK OF FUTURE CHANGE ORDERS INCREASING THE PRICE?

A. During the negotiation of the Amendment, SCE&G insisted on terms that redefined and greatly limited what could be claimed as a change order going forward. SCE&G also insisted on the creation of the DRB to arbitrate construction disputes quickly and decisively, so as to prevent Westinghouse from filing a lawsuit and walking off the job prior to completion if its change order claims were not approved.

In reaching a settlement agreement with SCE&G in the 2016 Update Proceeding, ORS insisted that SCE&G bear the cost of future change order requests that were not specifically sanctioned under the new and more restrictive terms that had been negotiated in the Amendment. SCE&G agreed, and that became a key provision of the settlement agreement in the 2016 update proceeding.

ORS and SCE&G were both trying to ensure that Westinghouse bore as completely as possible the risk it had accepted for future cost increases

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under the Fixed Price option. So long as Westinghouse honored its Fixed Price commitments, SCE&G and its customers were largely protected from the risks of EPC Contract price increases.

Q. WAS IT REASONABLE TO ASSUME THAT WESTINGHOUSE WOULD MEET ITS OBLIGATIONS?

A. Yes. Westinghouse was a 150-year-old corporation that was an icon of the electric industry. It was a principal supplier of nuclear fuel and equipment to the nuclear power industry globally. Its core non-new nuclear construction businesses were generally understood to be quite profitable, and the subsequent bankruptcy filing showed that those businesses were in fact profitable. Westinghouse had made it clear that it was committed to completing these units, which was of critical importance to its global strategy of marketing AP1000 units. In addition, Westinghouse's parent company, Toshiba Corporation, was a 140-year-old corporation that was a global technology leader with a market capitalization in October of 2015 of over $12 billion and was investment grade rated at the time (Baa2 - Moody's, BBB - Standard and Poor's).

Q. WERE THERE OTHER REASONS IN 2016 TO BELIEVE THAT THE PROJECT COULD BE SUCCESSFULLY COMPLETED?

A. As Mr. Young will testify in more detail, and as the Commission found in Order No. 2015-661, at page 21, by late 2016 "construction of the

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Units [had] proceeded to the point where many of the initial risks and challenges of new nuclear construction have been overcome."

As the Commission recognized in Order No. 2015-661, the most pressing challenge Westinghouse faced was the need to improve on-site construction productivity so that plant buildings and structures could be completed, and so that equipment could be installed and tested in a timely and efficient manner. In fact, as the Commission also found in Order No. 2015-661, SCE&G began in May 2015 to withhold portions of payments it believed were "related to the delay and inefficient performance" by Westinghouse. Order No. 2015-661, p. 33. SCE&G did so to put pressure on Westinghouse to improve productivity. In the end, millions of dollars were withheld for that reason. As SCE&G's testimony indicated in Docket No. 2016-223-E, a principal motivation for the restructuring of the Consortium and the negotiations leading up to the Amendment was the perception by Westinghouse and its then-partner Chicago Bridge & Iron that SCE&G's actions were pushing the Project toward major litigation.

Q. DID THE AMENDMENT ADDRESS SCE&G'S CONCERNS ABOUT PRODUCTIVITY?

A. Yes. The Amendment resolved substantially all outstanding disputes between the parties, created the DRB to allow for the more efficient resolution of future disputes interfering with the Project, and, most importantly, shifted essentially all EPC Contract price risk to

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Westinghouse. As a result of the Amendment, Westinghouse, not SCE&G or its ratepayers, would bear the risk of poor productivity. In addition, the Amendment made it possible to eliminate the Consortium structure, which had become a major obstacle to efficiency by 2015.

The Amendment made Westinghouse solely responsible for managing the Project and allowed Westinghouse to select a new construction subcontractor. Westinghouse selected Fluor, which had extensive experience managing major nuclear and electric generation projects, and other major construction projects globally. SCE&G had an extensive, direct, and very positive experience with Fluor going back decades. Immediately after being selected, Fluor and Westinghouse, along with representatives from SCE&G, Santee Cooper, and Southern Nuclear Company, began an intensive review of the work processes that were causing poor productivity.

Q. WHEN DID CONCERNS ABOUT WESTINGHOUSE'S AND TOSHIBA'S ACCOUNTING ISSUES ARISE?

A. In July 2015, Toshiba Corporation announced that it had overstated profits by $1.2 billion through accounting irregularities at some of its operating companies. Those irregularities did not involve Westinghouse's new nuclear construction activities.

But, on December 27, 2016, Toshiba announced that it had discovered a new set of accounting irregularities that would require

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reassessing the probable losses in completing Westinghouse's two new nuclear projects in the United States: Vogtle and V.C. Summer. It was apparent that the probable losses from these projects had not been fully quantified in Toshiba's financial statements.

Q. WAS THE PUBLIC AWARE OF THESE PROBLEMS RELATED TO THE NUCLEAR PROJECTS BEFORE DECEMBER 2016?

A. The first public disclosure that Westinghouse had not fully quantified its nuclear construction losses came in December 2016. SCANA and SCE&G were not aware of these issues prior to December 2016.

Q. WERE THESE PROBLEMS NOT EVIDENT ON TOSHIBA'S OR WESTINGHOUSE'S PUBLICLY REPORTED FINANCIAL STATEMENTS?

A. Westinghouse's financial results were consolidated with Toshiba's and not available to the public. Toshiba's financial statements had been audited by a major, global accounting firm. That firm had represented to the public that Toshiba's accounting controls were effective and that the financial results of the firm's operations —including Westinghouse's — were presented fairly. There was no reason for us to suspect that Westinghouse had under-reported its anticipated nuclear losses to Toshiba.

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Q. HOW DID THE GLOBAL FINANCIAL MARKETS RESPOND TO THE DECEMBER 2016 ANNOUNCEMENT?

A. Over most of 2016, Toshiba's shares had been on a steady upward climb, recovering from the losses resulting from the 2015 accounting issues. Toshiba's share price had almost reached pre-2015 levels by early December 2016. But between early December 2016 and mid-February 2017, Toshiba shares lost approximately 60% of their value. This sudden reversal in share prices is evidence that the public was not aware of the accounting problems related to Westinghouse's nuclear projects before this time and, therefore, those problems were not factored into Toshiba's share prices at the beginning of December 2016. Chart A shows Toshiba's publicly reported share prices during this period:

[Chart begins on following page]

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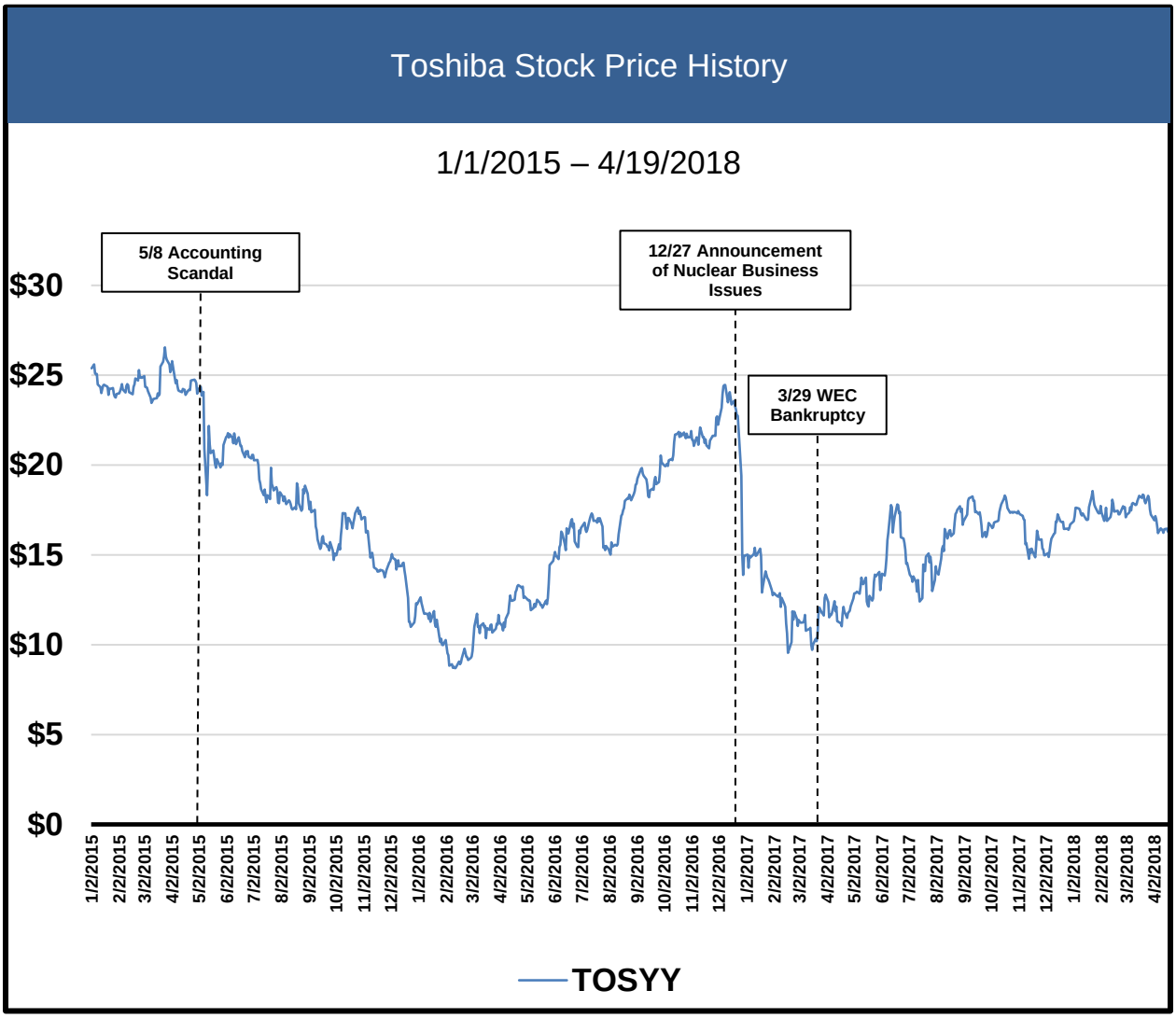
Chart A



Q. WHAT ACTION DID TOSHIBA AND WESTINGHOUSE TAKE FOLLOWING THE DECEMBER 2016 ANNOUNCEMENT?

A. When the magnitude of Westinghouse's new nuclear construction obligations was disclosed, Toshiba chose to bankrupt Westinghouse and shift the costs that Westinghouse had not accurately reported to Toshiba onto Westinghouse's customers, including SCE&G, Santee Cooper, and the

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owners of the Vogtle project. This set in motion the events that resulted in the need to abandon the NND Project and ultimately led to SCANA's decision to enter a combination agreement with Dominion Energy to resolve the resulting financial and regulatory challenges in a manner that is beneficial to SCE&G's customers.

IV. THE POST-BANKRUPTCY EVALUATION OF SCE&G'S OPTIONS

Q. WHAT DID SCE&G DO IN RESPONSE TO THE WESTINGHOUSE BANKRUPTCY FILING?

A. As Mr. Young will testify, in response to Westinghouse's bankruptcy filing, SCE&G and Santee Cooper worked with Southern Nuclear Company to perform an intensive review of the costs and schedule for completing the Project. Westinghouse made available its detailed cost and schedule data, as well as the terms of its commercial agreements with vendors and subcontractors. Westinghouse had previously kept this information confidential to protect its commercial interests in bidding on future nuclear construction projects. SCE&G hired construction costing and scheduling experts and obtained expert assistance from Fluor to assess the potential costs and schedules for completing the Project. This assessment was done on an accelerated basis, but nonetheless required a number of months to complete.

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Q. HOW DID THE PROJECT GO FORWARD DURING THIS EVALUATION PERIOD?

A. During the evaluation period, the workforce and supply chain for the Project were kept in place under an Interim Assessment Agreement ("IAA") with Westinghouse. The IAA provided for SCE&G and Santee Cooper to fund construction on a weekly basis while completing their assessment of options. Mr. Kochems will also discuss the IAA in more detail.

Q. WHY WAS IT IMPORTANT TO CONTINUE CONSTRUCTION ON THE PROJECT DURING THIS TIME?

A. As Mr. Young will testify, had SCE&G suspended the Project while the assessment was being performed, construction crews would have been demobilized, workers would have found other employment, subcontractors would have left the site, and off-site vendors and fabricators would have taken on other work. If this had been allowed to happen, it would have been very slow and expensive to restart the Project later.

Q. WAS THERE A REASONABLE POSSIBILITY THAT THE PROJECT WOULD GO FORWARD AFTER THE BANKRUPTCY?

A. The cost and schedule data that Westinghouse provided to us at the time of its bankruptcy filing indicated that SCE&G and Santee Cooper could complete the Project themselves for an additional cost that was roughly equal to the damages that Toshiba was expected to pay for

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breaching the EPC Contract. If that had been correct, completion of the Units would have cost our customers roughly the same as the amount that was approved in the 2016 Update Proceeding. The benefits to continuing the Project would have been roughly the same as Dr. Lynch's calculation in the study he presented in that proceeding.

However, before we could make a decision to continue the Project, we needed to be sure that the costs and schedule information provided by Westinghouse were reliable. We also needed to evaluate the magnitude of risks that SCE&G and Santee Cooper would assume if the Project went forward as an owner-directed project.

It was not until SCE&G and Santee Cooper had completed their independent review of the cost and schedule data that it became clear that it was not likely that the Project could be completed for the cost Westinghouse had stated. Mr. Kochems and Mr. Young participated in the evaluation process and will testify in more detail concerning it. But after several months of work it became clear that the economics of the Project needed to be modeled using a higher estimated cost to complete than Westinghouse had provided.

Having prepared a more realistic estimate to complete the Project, SCE&G evaluated the cost to customers of completing one or both Units compared to the cost of abandoning them and replacing them with other types of generation. Dr. Lynch was involved in preparing these economic

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analyses, and he will testify in more detail concerning them. As he testified, when these analyses were initially run, they indicated that customers could benefit—over a 40-year planning horizon—from completing Unit 2. During this time, the NND team was actively negotiating and pricing potential commercial agreements with Westinghouse, Fluor, and other vendors for continuing the Project. While the purely economic analysis showed that customers might well benefit from completion of the Project, there were important construction, financial, regulatory, and other risks associated with that option that had not yet been fully assessed. SCE&G's leadership team had not completed that assessment when circumstances intervened.

Q. WHAT CIRCUMSTANCES INTERVENED?

A. In early July 2017, Santee Cooper's executive leadership indicated to SCE&G that they were likely to recommend to their board that Santee Cooper suspend all support for the Project. SCE&G then undertook to consider the economics and risks of completing one Unit as sole owner. In light of the risks involved, SCE&G's management determined it would not be prudent to proceed with construction as a 100% owner of one Unit with no co-owner to share costs or risks. We considered the challenge in financing the Unit as a sole owner, the impacts on rates to customers from building a single Unit as a sole owner, and the risk of proceeding with construction without a fixed price agreement. At that point, SCE&G began

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preparing its response to what we understood might be the decision by Santee Cooper's Board when it met to consider the matter. On July 31, 2017, Santee Cooper's Board of Directors met and voted to immediately begin taking those actions necessary to wind-down and suspend construction of the NND Project, and to take whatever steps it could to immediately reduce its NND Project expenditure and personnel costs. Santee Cooper's Board of Directors also gave its authorization to unilaterally terminate Santee Cooper's involvement in the NND Project. Later, on July 31, 2017, having received word of Santee Cooper's Board's vote, SCE&G's Board of Directors made the decision to abandon the Project. At that time, SCE&G instructed Westinghouse and Fluor to demobilize crews on site and to minimize expenses. Mr. Young will testify as to the specifics of the ensuing work to place the site in a safe and stable condition and to close out open permits.

Q. WHAT DECISION DID THE OWNERS OF THE VOGTLE PROJECT MAKE?

A. The Vogtle Project is owned by the Southern Nuclear Company; Oglethorpe Power Corporation; the City of Dalton, Georgia; and the Municipal Electric Authority of Georgia. As Mr. Young will testify, at the time of the Westinghouse bankruptcy, the Vogtle project was at roughly the same point of the construction plan as SCE&G's NND Project, and was experiencing similar issues. The Boards of Directors of all four owners

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decided to continue construction of both units at the Vogtle site, conditional upon a favorable ruling by the Georgia Public Service Commission concerning Southern Nuclear Company's decision to continue the project. By order dated December 21, 2017, entered in Docket No. 29849, the Georgia Public Service Commission granted approval to continue the project with certain limitations on Southern Nuclear Company's ability to recover costs.

V. POST-ABANDONMENT SETTLEMENT ATTEMPTS

Q. WHAT REGULATORY ACTION DID SCE&G TAKE?

A. On August 1, 2017, SCE&G filed a petition in Docket No. 2017-244-E, asking the Commission to review the rate and regulatory matters raised by its decision to abandon the NND Project. In making that filing, SCE&G publicly stated its intention to work with ORS and all interested parties to achieve a settlement that would be in the best interest of all parties and would include a large component of rate mitigation for customers.

However, no settlement negotiations took place. On August 9, 2017, ORS moved to dismiss that petition, arguing that the Governor and the General Assembly should be allowed to undertake a review of the matter before the petition was heard. That same day, James "Jay" H. Lucas, the Speaker of the House of Representatives, filed a petition to intervene in the docket and indicated his support of ORS's Motion to Dismiss. At that time,

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SCE&G came under pressure from the Governor, legislative leaders, and others to withdraw the August 1, 2017 petition in deference to the legislative review of these matters.

By letter dated August 15, 2017, SCE&G withdrew its petition as requested. Since that time, both the South Carolina House of Representatives and the South Carolina Senate have held hearings on these matters, and in June 2018 have enacted related legislation.

On September 26, 2017, ORS filed a petition in Docket No. 2017-305-E seeking an immediate order from the Commission —without hearing— reducing SCE&G's rates by $445 million annually (which would be $413 million, net of rates related to transmission projects) and eliminating all revised rate recovery associated with the NND Project. As we indicated in our filings in that docket, granting such a request could lead to the rapid economic demise of SCE&G and SCANA.

Q. WHAT DID SCE&G DO THEN?

A. On November 16, 2017, SCE&G proposed to the public a rate and regulatory plan to resolve these issues (the "November 2017 Proposal"). The terms of the November 2017 Proposal included:

1. An immediate 3.5% reduction in electric rates;
2. An offer to permanently write-off approximately $810 million in nuclear investment;

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3. An offer to absorb the acquisition costs ($180 million) of 540 MW of replacement generation; and

4. Use of the net proceeds of the Toshiba Corporate Guarantee Settlement Payment (approximately $1.1 billion), and the value of future abandonment tax benefits, to reduce the cost to be recovered from customers.

The other elements of the November 2017 Proposal largely track the No Merger Benefits Plan discussed below.

Q. WHAT WAS THE RESPONSE TO THE NOVEMBER 2017 PROPOSAL?

A. The proposal was not received favorably. Over the following weeks, SCE&G's leadership gauged the reaction to the November 2017 Proposal and concluded that SCE&G would not be able to offer a settlement proposal on a standalone basis that would be received favorably.

VI. THE MERGER DISCUSSIONS AND MERGER AGREEMENT

Q. PLEASE DESCRIBE THE SUBSTANTIVE BUSINESS COMBINATION DISCUSSIONS WITH DOMINION ENERGY.

A. While Dominion Energy had initiated preliminary discussions with SCANA about a possible combination in the summer of 2017, no substantive merger discussions had resulted from those contacts. On the evening of Monday, November 27, 2017, SCANA's senior leaders met with Thomas Farrell, Dominion Energy's CEO. During that meeting, Mr.

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Farrell described a possible package of customer benefits that Dominion Energy could underwrite that went far beyond what SCE&G had previously offered. SCANA's leadership team determined that Dominion Energy's proposed solution should be seriously evaluated. SCANA's Board convened two days later and concurred. Detailed negotiations ensued.

After conducting extensive due diligence and negotiation, SCANA's leadership presented a combination agreement to SCANA's Board. On the evening of January 2, 2018, SCANA's Board unanimously approved it and agreed to recommend its adoption by shareholders. The combination agreement with Dominion Energy was announced on the following day. SCANA's shareholders approved the merger on July 31, 2018.

Q. WHAT ARE THE REGULATORY CONDITIONS TO CLOSING?

A. A copy of the Agreement and Plan of Merger agreement is attached as ***Exhibit __ (JEA-2)***. The conditions to closing are set forth in detail there at Section 6.01 and Appendix A. To summarize, the combination can only close if this Commission approves the combination with no material changes to its terms or alternatively makes a finding that the combination is in the public interest or that there is an absence of harm to South Carolina ratepayers from it. An additional condition of the combination's closing is that the Commission approve the jointly proposed NND Project cost recovery plan with no material changes to its terms, conditions or undertakings and no significant change to the economic value of the plan.

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The jointly proposed NND Project cost recovery plan is the Customer Benefits Plan contained in the Joint Petition. The closing of the combination is also conditioned on there being no change in the BLRA or any South Carolina public utility law that would reasonably be expected to have an adverse effect on SCANA or any of its subsidiaries. This is only a summary of the terms of the agreement, and reference should be made to the agreement itself for a full picture of them.

VII. THE NO MERGER BENEFITS PLAN

Q. WHAT ALTERNATIVE SHOULD THE COMMISSION CONSIDER IF THE CUSTOMER BENEFITS PLAN IS NOT APPROVED OR DOES NOT GO INTO FORCE?

A. SCE&G asks the Commission to approve the No Merger Benefits Plan as the disfavored alternative to the Customer Benefits Plan if that plan does not go into force. A statement of the provisions of the No Merger Benefits Plan was attached to the Joint Petition as Exhibit 10, and is attached to my testimony as ***Exhibit __ (JEA-3).*** The key features of the No Merger Benefits Plan are set forth in the testimony of Ms. Griffin and Mr. Kochems as follows:

1. SCE&G will provide retail electric customers a reduction of 3.5% as compared to its annualized 2017 retail electric bills and subject to fuel clause adjustments and other non-NND adjustments, including rate

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case adjustments. SCE&G will maintain this rate reduction in force until the next general retail electric rate proceeding;

2. SCE&G will apply the Toshiba Corporate Guarantee Settlement Payments, net of amounts used to satisfy Project liens, in an amount of approximately $1.1 billion to reduce the outstanding balance of the NND Project investment;

3. SCE&G will not seek any additional revised rate increases associated with the remaining balance of NND Project investment under the BLRA. SCE&G will absorb any forgone returns or amortization of NND investment through existing rates pending the next general retail electric rate proceeding;

4. SCE&G will recognize for rate-making purposes a $490 million write-off against its NND Project investment, and will write-off an additional $361 million in associated regulatory assets;

5. SCE&G will credit all tax savings and related benefits arising out of tax deductions associated with the abandonment of the NND Project to reduce the costs and revenue requirements to be recovered from customers;

6. SCE&G will amortize the net outstanding balance of the NND Project investment over a straight-line 50-year amortization period, producing an annual amortization expense of $62 million. As indicated

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above, SCE&G will absorb this amortization expense through existing rates until the next general retail electric rate case;

7. SCE&G will issue a request for proposals for 100 MW of new solar capacity, with associated battery storage, to be added to SCE&G's system;

8. SCE&G will write off the $180 million acquisition cost of the 540 MW Columbia Energy Center combined cycle gas generation facility in Gaston, South Carolina. Customers will never be required to pay this acquisition cost and will only be responsible for ongoing costs of operating and maintaining this plant; and

9. The Tax Rider set forth in Exhibit 1 to Mr. Rook's testimony will apply to SCE&G's retail electric rates.

VIII. THE BASE REQUEST

Q. WHAT DOES SCE&G REQUEST IF NEITHER THE CUSTOMER BENEFITS PLAN NOR THE NO MERGER BENEFITS PLAN GOES INTO FORCE?

A. If neither the Customer Benefits Plan nor the No Merger Benefits Plan goes into force, SCE&G seeks approval of the "Base Request" as the least favored option. The Base Request was attached to the Joint Petition in this docket as Exhibit 11, and is attached to my testimony as ***Exhibit __ (JEA-4).*** The key features of the Base Request are as follows:

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1. The Company will not offer any rate mitigation apart from the Company's commitment not to seek rate relief in the current docket and the use of the Toshiba Corporate Guarantee Settlement proceeds to reduce the balance of NND costs to be recovered;

2. SCE&G will request for the Commission to authorize the accounting treatment and recovery of the $361 million in regulatory assets that Mr. Kochems describes in his testimony;

3. SCE&G will not offer to recognize any write down of its NND Project investment for ratemaking purposes;

4. SCE&G will credit the net benefit of the Toshiba Corporate Guarantee Settlement Payment after payment of Project liens to reduce the outstanding balance of the NND Project costs;

5. SCE&G will implement a Tax Rate Rider, and would allow any future cost savings related to the Tax Cuts and Jobs Act of 2017 to be considered in a future rate proceeding; and

6. SCE&G will record the net balance of NND Project investment, approximately $3.6 billion, in a regulatory asset and amortize that asset into retail electric expenses over 50 years on a straight-line basis, but will not seek recovery for the associated costs in this proceeding.

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IX. PRUDENCY MATTERS

Q. WHAT ARE YOU SPECIFICALLY ASKING THE COMMISSION TO DO CONCERNING THE PRUDENCY OF THE DECISION TO ABANDON THE PLANT?

A. For the reasons stated above, SCE&G respectfully requests that the Commission rule that the decision to abandon construction of the Units on July 31, 2017 was reasonable and prudent. As of July 31, 2017, SCE&G no longer had a co-owner with whom it could share risks and costs, as Santee Cooper had done up until that point. Completing even one Unit in those circumstances would not have been prudent given the magnitude of the risks involved and the economic impacts on customers.

The facts also show that it would not have been prudent to abandon the Project at any time before July 31, 2017. Before the Westinghouse bankruptcy filing, SCE&G was constructing the plant under the Fixed Price Option. Completing the Project at that cost was shown to be in the best interest of customers. The prudency of continuing to construct the Units at that price had been specifically approved by the Commission in Docket No. 2016-223-E.

SCE&G had shown in testimony by Dr. Lynch in Docket No. 2016-223-E that completing the Units would have saved customers between $172 million and $586 million per year compared to the cost of abandoning the Units and replacing them with other generation. Dr. Lynch made showings

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of customer benefits in the two prior update proceedings, Docket Nos. 2012-203-E and 2015-103-E, and showed the same when the initial BLRA order was issued in Docket No. 2008-196-E. Furthermore, if SCE&G had canceled the Project before Westinghouse had filed for bankruptcy, SCE&G may have been in breach of the EPC Contract and therefore liable to Westinghouse for damages and costs. In that event, there would have been no guarantee payment from Toshiba. There was no basis prior to the Westinghouse bankruptcy to conclude that abandoning the Project would have been in the customers' best interest.

Q. WOULD IT HAVE BEEN PRUDENT TO ABANDON THE PROJECT WHEN WESTINGHOUSE DECLARED BANKRUPTCY?

A. It would not have been prudent for SCE&G to abandon the Project at the time of Westinghouse's bankruptcy filing. As discussed above, the initial information provided by Westinghouse indicated that the amount of additional cost required to complete the Project was not materially greater than the corporate guarantee payment anticipated from Toshiba. Even with the new cost and schedule calculations that were prepared by SCE&G and Santee Cooper independently of Westinghouse, the economic analysis showed that it was still quite possible that completing one Unit and suspending or abandoning construction of the other would have been in the customers' best interest. When Santee Cooper executive leadership indicated that it was likely going to recommend suspending the Project to

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the Santee Cooper Board, SCE&G considered the option of completing one Unit as a 100% owner. SCE&G reached out to other utilities that were connected to our transmission system to ascertain their interest in taking Santee Cooper's role. These inquiries were not successful. SCE&G was prepared to (and did) cancel the Project immediately upon the vote by the Santee Cooper Board not to proceed further. Until Santee Cooper made that decision, there were viable options for continuing the Project.

X. CONCLUSION

Q. WHAT ARE YOU ASKING THE COMMISSION TO DO CONCERNING THE COSTS THAT HAVE BEEN SPENT TO DATE ON THE PROJECT?

A. Mr. Kochems will provide an accounting of the capital costs spent on the NND Project since its inception, net of transmission costs and the cost of the other assets that are being placed in service. In his testimony, Mr. Kochems will show that these capital costs have been reviewed, verified, and determined to be reasonable and prudent costs. They are well within the previously approved capital cost forecasts for the Project. As such, they continue to be subject to the prior, binding prudency determinations made by the Commission in Order No. 2016-794 and prior orders. Furthermore, all costs incurred before June 30, 2016, have been reviewed and audited by ORS in revised rates proceedings and affirmed in ORS reports to the Commission as reasonable and appropriate costs for

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setting rates by this Commission. Such reports have been filed in each revised rates proceeding since 2008 and have been accepted by the Commission in the resulting revised rates order in each case. In effect, those costs have been approved by this Commission and by ORS twice, once as projected costs in update dockets, and once in revised rates proceedings as costs actually expended. The costs so approved include all costs that would be recovered from customers under the Customer Benefits Plan.

SCE&G's position is that all costs spent to date on the Project are subject to prior binding prudency determinations. However, to be clear, SCE&G asks the Commission to adopt the cost schedule presented by Mr. Kochems as the approved cost schedule for the Project in abandonment, and to reaffirm the prudency of these costs.

Q. WHAT ARE YOU ASKING THE COMMISSION TO DO CONCERNING THE COMBINATION WITH DOMINION ENERGY?

A. SCE&G is asking the Commission to approve the combination with Dominion Energy with no material changes to its terms, if the Commission determines that formal approval of the combination is appropriate under S.C. Code Ann. § 58-27-1300 or any other applicable law. Alternatively, if the Commission determines that formal approval of the combination is not required, SCE&G is asking the Commission to find that: (i) the

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combination is in the public interest; or (ii) there is an absence of harm to South Carolina ratepayers as a result of the combination.

Q. ARE THERE ANY OTHER REQUESTS?

A. Yes, SCE&G is also asking the Commission to: (i) terminate the requirement that SCE&G provide the semi-annual update on construction progress required by Order No. 2016-794; and (ii) acknowledge that with the cession of construction, the filing of quarterly reports on construction progress is no longer required under S.C. Code Ann. § 58-33-277 and Order No. 2009-104(A).

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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