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February 13, 2020

SC Joint Senate Finance & House Ways and Means Committee

REPORTER: Laura DeCillis

SOUTH CAROLINA LEGISLATURE

JOINT SENATE FINANCE AND HOUSE WAYS AND MEANS COMMITTEE

Thursday, February 13, 2020

12:00 p.m.

Blatt Room 110

Marcia Adams, Executive Director
Department of Administration

Gibson, Dunn & Crutcher
  Gerald (Jerry) Farano
  Melissa Persons

Moelis & Company
  John Colella
  Nathan Barnes

Energy and Environmental Economics
  Nathaniel (Nate) Miller

Presenters:

PROCEEDINGS

MS. ADAMS: So I thank you for the opportunity to present our reports. And in a minute I'm going to introduce our advisors that I have here with me and the staff that's here, but I just want to take a few minutes to just have a few opening remarks for you.

I think that today you're going to find that we have provided you with three viable options to consider. We've developed a process that is unbiased and presents to you the facts about each option that's available to you. Admin takes seriously its task to fulfill the requirements of the Joint Resolution and presents to you options that have been vetted by our experts and recommendations that are driven by what is best for the ratepayers, the taxpayers and the State of South Carolina.

This was a huge task and it is, by far, the hardest thing I've ever had to do in my 32-year career with the State. It's also the most important task that I've ever had to do because there is much at stake here. And because there is much at stake for the people of this state, Admin and its team of advisors spent countless hours in gathering data required to be shared with bidders and keeping bidders interested in this endeavor regardless of issues thrown at us that had a chilling effect on the marketplace in negotiating and improving the proposals in each of the three categories, and that includes in working to improve the Santee Cooper Reform Proposal and in delivering these recommendations and report to the House Ways and Means and Senate Finance Committees.

I am proud of the work we have done and we have delivered to you three viable options that consider the interests of the ratepayers, the taxpayers and the State. The Department of Administration did not cause the four billion dollar problem that has led the State to address issues at Santee Cooper, nor did it ever ask to be a part of the process to deliver options that address those issues. The Department and its advisors are the only participants in our bidding process that have no opinion about the course of action the General Assembly should take. Obviously, Santee Cooper wants to remain a State entity, Dominion wants to manage Santee Cooper, NextEra wants to buy Santee Cooper, and Central wants to protect the co-ops and their customers.

Throughout this bidding process, which had to remain confidential as part of the Joint Resolution, Admin and its advisors have shouldered the burden of protecting and balancing the interests of the ratepayers, the taxpayers in this state and bringing you its recommendations and evaluations of each proposal. Those interests have been our guiding light and we all understand that remaining neutral and protecting those interests are at the heart of the Joint

Resolution.

With all of that in mind, I sit here, quite frankly, shocked about the events of yesterday and the concerns raised about the agency's contract with Gibson, Dunn & Crutcher. I would not allow Admin to enter in any contract that was biased towards the sale or any other option. We interviewed several law firms as we were seeking advisors and Gibson Dunn was the only firm to propose a cap on its fees. Their services were capped at six million dollars and included a 10 percent fee deferral. This deferral does not represent an incentive to recommend a sale, but merely reflects the estimate of the additional work required to complete a sale should the General Assembly choose the sale option. We all know that attorneys bill by the hour and should the General Assembly choose a sale, there will be more work to do in closing.

This fee structure did not violate the terms of the Joint Resolution. Regardless, as this issue was brought up in August and because it had the potential to be misinterpreted and result in a disruption of our process as well as the General Assembly's process in making a decision, beginning with their first invoice in August and all invoices thereafter, Gibson Dunn has billed Admin for the full cost for legal services and Admin has paid the full cost for all legal fees. There have been no deferrals.

This is just another example of Admin's complete, complete commitment to the duties it has been asked to fulfill under the Joint Resolution.

We deliver to you today three options required by the Joint Resolution to include fully-baked deals with agreements for the management and sale bids as well as proposed agreements with Central. This was done within the time frame required by the Joint Resolution and in spite of the countless issues we encountered with Santee Cooper, to include the funding of this process, their delays in signing confidentiality agreements, their attempt to cancel management presentations already scheduled with bidders -- which, by the way, required me to make countless phone calls just two days after I buried my mother so that those presentations could go on. They're delaying populating the Data Room, the threat of a lawsuit to prevent Santee Cooper from entering an agreement with a Southern subsidiary and numerous back and forth letters between Santee Cooper and Admin, to include one as recent as last month where Santee Cooper wondered if I had moved the goal post because of my extension notification letter. I stated that we were negotiating and improving all of the proposals. We have not moved goal posts by simply trying to get the best proposals for the State and that includes the best Santee Cooper reform proposal that you could consider.

I do not say these things to influence the decision that is before the General Assembly, but instead are said to remind everyone that it is the decisions and the actions made by Santee Cooper that has brought us here today. Admin and its advisors have always and will continue to remain neutral about the decision that the Joint Assembly will make. We have fulfilled our obligations under the Joint Resolution and we stand by our advisors' recommendations and analysis presented in this report. And, with that said, I thank you for that.

I would like to now introduce you to my staff and the advisors who worked on this project. We have a great group of advisors and the State will benefit from the work they've done together. They each played a role in analysis of the bids and the Santee Cooper Plan and it has been my honor to work with all of them. After the introductions I want to turn it over to them to present their review of the bids and analysis.

Today I have with me from Gibson, Dunn & Crutcher, Jerry Farano and Melissa Persons. From Moelis & Company I have John Colella, Nathan Barnes. And from the Energy and Environmental Economics -- excuse me -- our market advisor, Nathan Miller. These three folks worked with us in developing this report and the analysis and I look forward to hearing from them. And I would be remiss if

I didn't introduce our staff that's here today. Paul Koch, our Chief of Staff, David Avant our General Counsel, and I think you all know Sally Foster, our Legislative Liaison. We've worked very hard on this project and are proud to present the findings to you today.

MR. FARANO: Thank you, Marcia. My name is Jerry Farano. Is that better? Great. Thank you.

Good morning, everyone. We are honored to be here. My name is Jerry Farano. I'm a partner at the law firm of Gibson, Dunn & Crutcher. I want to, before we begin, just pay tribute to the work that the Department has done. I think we, the advisors, would all agree without hesitation that the public servants who work at the Department of Administration epitomize what and everything that is good about government. They work indefatigably to get to answers, they are dispassionate, thoughtful and have taken this mandate that you've presented them with quite seriously. It has been our pleasure and honor to work with them and we just consider the process to have been a success in large part because of the leadership of the Department, particularly of Marcia Adams.

With that, what I'd like to do first is just introduce to you the agenda and then we will turn it over and the advisors are going to sharetime as we have through the entire process to present to you in some detail the findings in our report and how we came to them.

John Colella is going to first introduce an overview of the process to take you through how we came to put this process together, what went into it, who was contacted. Nathan Miller from E-3 will then talk about how we evaluated the rate projections. It's important for you to understand that in the context of then thereafter looking at the separate proposals, which is what we'll do next. We'll walk you through the management -- excuse me. The Santee Cooper Reform Plan to tell you its benefits and talk about how we got there, to talk about some of the issues raised by it. Similarly, we will take an approach identical to that in discussing Dominion Energy's Management Proposal.

Finally, in respect of the three recommendations that we are going to present and have presented for your consideration, we'll talk about NextEra Energy's bid for sale. After that, John will walk us through the potential benefits and additional considerations that each of the three recommendations present before finally Nate will take us to a conclusion.

Again, it's our pleasure and honor to be before you. We hope this is helpful to you and we look forward in the future to answering any questions you may have. With that, I'm going to go ahead and turn this over to John.

MR. COLELLA: Thank you. I'm John Colella, Managing Director at Moelis & Company and I'd like to start on behalf of my entire team and my firm by echoing Jerry, your comments, around the great job that Marcia and team have done in terms of providing leadership around this process throughout. We're grateful for the opportunity to be here to present to you all today and to be of service to the State.

So, with that, I want to begin, as Jerry said, by providing with you all an overview of the process that we ran, how we constructed it, what we were thinking about and what our objectives were throughout. Let me start by saying that from the time that we collectively as advisors were hired in the June/July time frame, we recognized immediately the enormity of the task, not only in terms of achieving the timeline that was set out before us, but also the gravity of the project in terms of how serious it is, obviously, in terms of achieving the right outcome on behalf of all of the constituents, the ratepayers, Central, obviously the State of South Carolina at Large.

With that said, we recognized that there were going to be several challenges that we would need to overcome as would be the case in most processes. But in this particular instance, I think there were a few that were unique that we considered, as I said, from the start. First was the timeline as I mentioned. The second was that in a normal process, the relationship between the sellers, i.e., or those that are conducting the process, so the DOA, the advisors and the company itself are typically one and the same. In this particular instance, obviously, we needed to navigate that process while working with Santee Cooper, who, at times, wasn't necessarily the most willing participant in this process.

We also had to simultaneously run a process that would solicit the kinds of proposals that the J.R., the Joint Resolution, was intended to provide for, while also allowing for negotiations to take place with Central, which was, again, an important element around how we needed to think about sequencing things. And then, finally, it should not be understated that this is a large utility. This is, as you'll see as we go through, the proposals, particularly in the case of the Sale Proposal, in totality the source of funds is in the range of 9.5 billion dollars. That's a large number and there are a finite number of market participants that are capable of being able to transact at that level.

With that said, our objectives were to begin by building on the infrastructure that had been put in place and developed through some of the previous work that had been done around Santee Cooper and some of that in particular around the previous process. But, most importantly, take that, build upon that and bring you all, bring the State a series of Best in Class and, most importantly, actionable alternatives that you all could decide upon that not only met the objectives as laid out specifically in the Joint Resolution, but also was able to withstand the negotiations that occurred with Central and provide them and their ratepayers with an outcome that was acceptable. And we're very proud of the fact that we believe that collectively we were able to achieve that.

A couple of key points and in a moment I'm going to walk you through the timeline, but just to give you a sense for time frame, we collectively, as I said, were hired in the July time frame and from the moment we here hired we began -- we, Moelis -- began to interact with potential market participants to solicit interest in this process.

We had a number of calls, meetings, et cetera, with interested parties and on August 16th we posted on the DOA website a notice to all interested parties. And that was important because not only did it put out obviously notification that we had so formally begun the process, but it also allowed for a means for any interested parties that we may or may not have considered globally, for that matter, to come forward and identify themselves to us if, in fact, this opportunity was of interest. And so because of the fact that we did that and ran the process the way that we normally would, which I'll describe in a moment, we feel, very, very confident that not only were we able to achieve our objective of bringing to you all credible, Best in Class, actionable alternatives, but that those alternatives were the result of a comprehensive canvassing of the market, not just locally here but globally.

I'll turn now to page six, just to give you a sense for the order of magnitude of the work, the effort that went into this process in achieving the results that we're going to describe here shortly. This just provides you with some key statistics to give you, again, some flavor.

So one of the first things that we did was set up a Data Room which entailed really all of the relevant documentation that any process participant would need to review and consider in doing their due diligence in pursuit of submitting a formal proposal and, as you can see, about 26,000 documents comprising about 360,000 pages. And we can assure you that not only did we collectively as a team review and interact with every one of those pages, but the bidders and the participants that ultimately submitted proposals spent the time, the money and the effort to understand what was in all of those documents so that they could make an informed proposal to you all that was credible and that they could stand behind.

In terms of due diligence, a very large component of the timeline was spent on what we call due diligence and that's simply that we collectively as advisors were interacting with the market participants to provide them not only with the initial Data Room, but additional information clarifying questions, other information that they felt as though they needed in order to inform their proposal. There was about 2,000 diligence questions that we handled, working together with the helpful employees at Santee Cooper. Approximately 50,000 manhours collectively amongst the team here and literally hundreds of conference calls, meetings, many here in Columbia, with again not only amongst ourselves, but with process participants and with Santee Cooper.

So, with that, if you turn to page -- well, we'll turn to page seven. This will give you a sense for the way that the process played out in terms of participants. As I mentioned earlier, on August 16th we posted a notice, a notification for all interested parties to come forward to us. Shortly after doing that or at about the same time, we proactively reached out to about 55 potential participants who we thought collectively in our judgment were likely to be not only interested but capable. And I can assure you that much like Santee Cooper and this process received a lot of attention here locally here in the state of South Carolina, throughout the utility industry at large. This was, over the course of the last six months or so, a very high profile undertaking that was certainly understood by any potential bidder that would have had interest.

So we sent information, initial information, to 55 participants. Of those 55, 13 signed non-disclosure agreements to begin to receive confidential information around Santee Cooper. Those 13 participants were granted access to the Data Room, which included not only the documents that I referred to earlier, but also, as we'll describe in a moment, models and other descriptive information that they would have needed again to provide us with formal proposals. And as is normal in any process like this, what you'll see is, as you look further down the page, is that we start with 55 and that number funnels down to the ultimate two proposals that we put before you. That is normal. That is how these processes typically happen almost as a matter of necessity.

There are a few elements that drive that. One is sheer cost. As any process participant goes further down a process like this, they're spending not only countless manhours of their time, their organization's time, but also hard dollars. And I think you can assume that not only the two process participants, NextEra and Dominion, but the others that participated in our process literally spent millions and millions and millions of dollars in pursuit of this opportunity. And we're collectively proud of the fact that we were able to interact with them in a credible way such that they were inspired to be engaged with us and to pursue this and spend that time and money.

Down at the bottom, so as is normally the case after a process participant enters the Data Room has access, begins to do what we call desktop work and understand the opportunity, they get to a point where they need to decide if they're interested in continuing down the process and the natural next step, which we set up, is for those participants to do what we call management presentations. And so those are meetings that we held here in South Carolina with the management of Santee Cooper where, in the case of the Sale Proposal five entities, in the case of the Management Contract three entities, there was some overlap there.

So in total, six management presentations were conducted by us with the entire management team at Santee Cooper. That was a highly orchestrated set of presentations that we have collectively, the DOA and the advisors, worked with Santee Cooper to develop presentations that would ultimately be delivered that were factual, accurate and, most importantly, designed to not only provide potential bidders with the facts, but also to provide them with the sort of visibility as to what the business not only looks like today, but could look like down the future so they could use that information to inform their own plans.

Then ultimately you can see that from that we conducted site visits with many of those parties, the three in the case of the Sale, two in the case of the Management Contract and ultimately received formal proposals, so fully diligenced and fully approved proposals from two parties in the case of the Sale alternative, two parties in the case of the Management Contract. And what we can tell you is, is that between the management presentations and site visits, we had many of those parties continue with us pretty close to the ultimate date in which they were required to submit formal proposals and several of them obviously chose to self-select out based on their own views around value, cost, et cetera.

We are going to turn to page eight. So this will provide you with a timeline as you can see. From the time that we started until today was about, a total of about seven months. We collectively worked as fast as we could with the objective of obviously meeting the timeline that was prescribed in the Joint Resolution.

There is a lot of data on the page and I'll break it down into a few kind of key components. The first was the pre-marketing component and that really took place from the time that we were hired in July through August. And during that period of time in August, we were beginning to interact with potential process participants to get them interested if they ultimately had the inclination to engage with us in this process.

Our focus was to try to open up the Data Room as soon as we could so that those process participants that were signing NDA's could begin to do their desktop work and studying as quickly as possible. And we were able to achieve that on September 20th, so call it about two months or a little less than two months after we were collectively all hired. Those are those documents that I referred to, so an enormous amount of work went into being able to be in a position to open the Data Room. And it was important, by the way, for bidders to, when they first have access to the Data Room to see what is a complete set of information because if they don't see that initially, it can be discouraging to them. It can speak to the credibility of the process, the commitment of the process, et cetera, and the feedback that we certainly received from anyone who had access to the Data Room was that it was, in fact, complete.

From that point in time, we focused on not only opening the Data Room, but providing participants with a financial model that they could use on which to premise their proposals. And the folks over at E-3, Nate will talk in a little bit more about that model. But we were able to able to upload that into the Data Room in early October, so October 3rd.

Once we had all of that information, so the Data Room open, the model, the company presentation, et cetera, the next steps were a management presentation which we were able to do in early October. And from that period of time, as is normal, we provided bidders with approximately six weeks, so call it from early October through November 26th, to complete their due diligence. So that's the 2,000 questions I referred to ultimately, the site visits, all of the work they needed to do, any financing that they had to secure on their end so that we could have a complete proposal on November 26th.

After we received those proposals, as was prescribed in the Joint Resolution, we then shifted our focus to not only optimizing and negotiating around those proposals, but also provided access at that point in time to Central so that those bidders could begin to negotiate a potentially enhanced outcome with Central relative to the status quo. And with that we proceeded down to really spending that time between the early part of this year, so we received on the back of those initial negotiations, on January 3rd we received revised proposals from each of the bidders, the two for the Sale Proposal, two for the Management Contract. And from January 3rd, we continued with further negotiations with Central, further negotiations with us here at the DOA and the team, that ultimately resulted in what we were able to present earlier this week -- I'm sorry -- in the final report.

So maybe with that, I'll pause. The next two pages provide a little bit more detail around the timeline, but I think that it might make sense for us to go forward to page eleven, because I think I've covered most of what's in that detailed timeline, and just provide maybe a few what we think are important process considerations.

First, is that, I mentioned this process took us about seven months. Our collective estimations is that we could have achieved it in about five so we were delayed by about two months by virtue of some of the actions that were taken by Santee Cooper, starting with a one-month delay with the DOA in terms of securing funding to assemble the team of advisors. And throughout the process there were other delays, including delays in getting us the information that we needed collectively in order to open the Data Room.

We also had some delays around the management presentations that we were scheduling, including one particular management presentation where we had a party show up to the presentation itself only to be told by the management team at Santee Cooper that they were not intending to present on that day and Marcia, of course, was able to compel them to do so. But that was certainly an abnormal episode.

Then, finally, we had the incident, as I'll call it, around the Southern Company MOU which I think many of you may recall, became public news back in the September time frame. That was the absolute worst time for anything like that to happen in our process. We took the view and do take the view that that episode in which Santee Cooper allowed it to become public, that they had entered into an MOU with Southern Company, that Southern Company is one of the largest utility companies, certainly in this region. We fully expected them to be a participant in our process. They initially expressed interest to us in participating in this process and ultimately, by virtue of entering into that MOU with Santee Cooper, we believe that other potential process participants were discouraged by that because they felt as though this process might have been short-circuited in some way. We assured them that it wasn't.

We were able to continue. We were able to obviously. And Marcia and team, convinced the folks over at Santee Cooper not to continue with the Southern MOU. Because we were able to do that, we were able to continue with our process. We may not have been able to do so otherwise. That gives you just some sense for why it took us a little bit longer than we otherwise would have liked to and some of the challenges that we faced by virtue of the way that Santee Cooper viewed and approached this process.

With that said, we do want to underscore that the employees at Santee Cooper, many of those employees were incredibly helpful to us in terms of really doing a lot of the work that was necessary to populate the Data Room, get us the information that we needed to inform our model and other elements of the broader process around preparing information. So we want to make sure that we highlight that and thank those employees for their efforts. And so with that, I am going to now turn it over to Nate.

MR. MILLER: Thanks, John. So, again, I'm Nate Miller. I'm a consultant with Energy and Environmental Economics. We were brought in as the utility and market advisors to assist the DOA and the other advisory parties in this process. I also just would like to say that, you know, we were happy to be of service to the State. We worked hard. We all worked hard. It was a challenging process to get to the best possible outcome that we could.

So I'm going to talk first a bit about how we approached the bid evaluations in this process. Southern Utility is complex. There are a lot of parts to consider. And a core component of our bid evaluation was the assessment of projected rates for Santee Cooper's customers. Nick, do you mind going to the next line?

So the importance of customer rates is recognized by the J.R. in its requirement for electrical rate projections and projected financial impact to Santee Cooper retail customers. We considered the impact of each proposal on rates for both retail and for wholesale customers, including Central, throughout the process.

So just to give you some, you know, fundamental context, electricity rates, of course, depend on many factors. There's fuel, there's operations, maintenance, corporate overhead, there's recovery of capital investment and taxes. Now, these costs together form a revenue requirement which the utility must collect from customers each year. Now, these costs are then categorized and allocated to various customers' classes based on how the costs are incurred to meet customer demand. This cost allocation, in turn, forms the basis for customer rates. Now, of the factors you see, some of these factors are under the utility's control while others are not.

This process required participants to submit 20-year rate projections for evaluation by the Department and by the professional service experts. Now, due to the inherent uncertainty in any forecast, especially over such a long period of time, participants had strong incentives, naturally, to use assumptions in their submissions that favor their own bids; low fuel prices, low interest rates, particularly high efficiencies and cost savings and the like. So it was, therefore, critical for us as evaluators of the bids to establish submission rules and to provide rate projections to the General Assembly which could form a sound basis for decision-making based on the facts and a strong likelihood of achievement.

Now, through the normalization process all proposals, then faced with the same world of external factors, and the normalized rates helped us to ensure that what you see is what you are likely to get at the end of the day. This process protected ratepayers, they protected taxpayers and bondholders as required by the J.R.

So diving a little bit deeper into the bid evaluation and normalization process, our approach to normalizing the rate projections was designed in order to use standardized assumptions for all factors that were shared in common among participants so that proposals were only differentiated by their plans, their commitments, or their competitive advantages from one participant to the next. Each participant, as I said, was required to submit a populated version of a revenue requirement model which projected rates for twenty years. Now, this model was also provided to participants in the Data Room and we released a process letter which directed participants to three kinds of assumptions that would be used in our bid evaluation and that populate the model; fixed assumptions, supported assumptions and variable assumptions.

Now, the fixed assumptions consisted of factors that were largely outside of participants' control, such as natural gas prices, interest rates, inflation and load forecasts. For fixed assumptions all participants were required to use the same values, truly apples to apples comparison.

Now, for supported assumptions, these represented areas where participants may have real material differences due to their plans, their contractual commitments or their competitive advantages. These assumptions included resource cost for new generation, operational efficiencies and other proposed cost savings. Participants were also required to provide justification for their submissions in order for their submitted values to be accepted in our normalized rate projections. Without adequate justification for an assumption, a participant's submitted value would be adjusted back to a standard value for that assumption.

And, finally, the variable assumptions were unique to each participant and represented core components of bid economics, such as a resource plan, a fees or purchase price for the utility, financing structure and return on equity. These variable assumptions submitted by participants were unchanged in the normalized rate projections.

So while many of the assumptions considered in the bid evaluation and in the rate projections had impacts on those projections and were important drivers, the single most significant factor in bid normalization was the projected price of natural gas. Now, this is because in the current state of resource economics in the region and nationwide, gas and solar and other resources are lower cost energy alternatives to coal fire generation and each participant, including Santee Cooper itself, recognized this fact and proposed to save on energy costs for consumers by replacing coal fire generation with new gas resources and solar and some other resources. So at the same time as a proposed switch from coal to gas, each participant in its submission also expressed a distinct view of the future of natural gas prices.

So in order to compare different resource plans in a fair manner while considering different possible futures, we, as the professional service experts and here at E-3, we apply two bookend, well-supported projections of natural gas prices that were applied to all proposals. These projections were based on gas prices at Henry Hub, Jay

Gas Delivery location in Louisiana Gulf Coast that is used nationally and globally as a commodity-priced benchmark for U.S. natural gas.

So the first forecast that we applied is based on the Energy Information Administration's EIA mid-gas price scenario. This is a fundamental-based, supply and demand, long-term forecast. The second forecast that we used was based on a market expectation of future gas prices, followed by a transition to a fundamentalist forecast at the end of the forecast period. So during the first ten years we took NYMEX Henry Hub futures contracts which are well known, used and accepted market expectations of future gas bought prices. For the last ten years, from 2029 to 2039, we used a linear transition from that final gas forward price ultimately to the EIA mid-fundamentals price in the last year.

So these two cases, when taken together for possible futures of natural gas prices reflected an envelope of potential future scenarios, and that allowed us to conduct a fair and balanced assessment of various resource plans against one another using the same universe of potential outcomes.

So now I will turn it over and we'll be discussing the Santee Cooper Reform Plan as submitted in greater detail.

MR. FARANO: Thanks, Nate, very much. I want to take a step back before we jump into all of this. The approach we're going to take for each, the Reform Plan, the Management Proposal and the Sales Proposal, is to discuss key terms with you to take you through some of the financial nuance of it, to talk about rates and to talk about generation mix in each of these. But maybe a step back further is just to talk about what got us here and to, at least for my own benefit, to try to simplify it.

The Joint Resolution in the process that's undertaken as a consequence of your mandate is really the story about the future of Santee Cooper. The decision in 2017 to abandon VCNS units two and three, created a four billion dollar problem. Mainly, or namely, how do you provide relief for the ratepayers who are going to be burdened with this cost or who are burdened with this cost, but due to the cancellation of the plan, who will never get power from it?

The answer to that was what you proposed and you gave to the Department and all of us who were lucky enough to serve them and you, three choices to look at. And that's what we did. And the first one that we're going to discuss here is Santee Cooper's Reform Plan, what are its key terms, what does it do and what are we comparing it to.

The comparison that we're going to discuss is one that's made against Santee Cooper's proposed Plan from December of 2018 where they put out a projection for what would happen this year. And in looking at that baseline and in looking at the Reform Plan, there are a couple of important things, there are a few important things to note. Firstly, that Santee Cooper is going to implement a new power supply road map. What does that mean? Apropos what Nate just said, there's going to be a revised generation plan. There will be a shift to less expensive fuels from a surplus of coal to more natural gas, to more renewables, to energy storage.

What is the impact of that? Well, namely, it permits about a 2.3 billion dollar reduction in customer rates on a net present value basis over twenty years as opposed to that December 2018 Plan.

What else does it do? One of the things that Santee Cooper is faced with and that a management proponent is faced with that is different from the approach required by you of a sales bidder is how to deal with this four billion dollars in debt. It is still there even in a reformed Santee Cooper. However, what they have proposed is to accelerate the payment of that debt so that over twenty years it would be reduced by 4.7 billion dollars.

What else does Santee Cooper include in its proposal? There are going to be new transparency in oversight measures to improve governance and increase stakeholder involvement. I'm going to talk about those in a second. But, first, it's important to note three things that Santee Cooper must address in respect of its reform. There are issues around its structure, there are issues around its management and there are issues around its culture.

Structure is just inherent in the way Santee Cooper is governed. Its governance, not unlike many, in fact, almost most public utilities in the United States is one of its Board of Directors being the rate-making authority. There's nothing inherently wrong or bad about that. In fact, so long as it is done with transparency, with clear governance, with rules, it works out fine. There are many publicly-owned utilities in this country that work incredibly well. Santee Cooper's particular structure, which it addresses in its Reform Plan, was weak in some of these areas. It was not operating under what we'll call best practices.

So what do they do to improve that structure? One of the things -- and this was part of the negotiation that the Department and the rest of us had with them -- was to introduce term limits and qualifications for Directors, to propose the formation of a Resource Planning Group that consisted of Santee Cooper stakeholders, folks like Satchel, folks like the retail ratepayers, certain commercial customers, their other wholesale customers. They talked about the retention of a Board of technical advisors, also incredibly helpful. No one could be expected to know everything that there is to know to run an incredibly complex business at a time when the nature of that business is fundamentally changing. They have increased transparency in respect of certain matters by opening them to public hearings and including ORS review, and in some very limited circumstances, PSC input. So that is all to the good.

What the Reform Plan doesn't do is it does not resolve the Cook litigation. Now, obviously, Santee Cooper is a defendant in this litigation. We appropriately were not privy to, nor should we have been whatever settlement negotiations may be going on right now. However, their Reform Plan itself does not propose a solution. What does that mean? Well, depending on how that litigation goes, there are consequences to ratepayers that would be unfortunate. That's not to suggest that it can't be settled, it just was not addressed.

Santee Cooper's Plan, I think, very sort humanly does call for a head count reduction by about 10 percent. Now, it's a reduction that's going to come out without layoffs. If you look at the head count as of this year, 2020, based on the December 2018 projection it was 1675.

The reduction will go to 1514 by 2020. But to their credit, they are doing that without layoffs. They believe that through retraining, retirement and attrition, this goal can be achieved.

So where does that leave us in considering the Reform Proposal? Well, the item that is not addressed that is fundamentally important is Santee Cooper's relationship with its biggest customer, that being Central Electric Cooperative. The relationship would probably best be described as strained. And there are changes to the Coordination Agreement that governs that relationship that have been proposed as part of your reform proposals. There's a term reduction by five years.

As I'm sure you all know, the Coordination Agreement's term is tied to the life of the bonds that are creating this four billion dollar issue, and that goes out to 2058 so it will be reduced to 2053. Importantly, and I think in a concession from Santee Cooper to Central, that is sensible based on how modernization of electricity is moving in the United States, Central will be able to have fewer restrictions on their distributed energy resources put on the system. What does that mean? If a co-op's customer wants to have some solar on their rooftop, they can have it without it causing a problem that would come back into Central's writs.

All of that said, the relationship remains fraught. It is one that requires healing. This is the issue around culture. Then John made the point, which is a good one, that the ranking file at Santee Cooper are excellent, hard working people who have certainly helped us in our journey to put all of these plans before you, but they must address this cultural issue; structure, management and culture.

In any event, I'm going to turn it back over at this point to John to -- or Nathan, I'm sorry, to walk through some of the financial issues in the Reform Plan.

MR. BARNES: Thanks, Jerry. Nathan Barnes from Moelis. I'm just going to give an overview of some of the key financial impacts of the Santee Cooper Reform Plan as submitted. So, first, just speaking to credit quality, despite recent downgrades in the most recent few years, given Santee's authority to manage rates to handle debt service obligations, they do maintain very strong credit ratings across all three agencies, A2 with Moody's, A- at Fitch and A at S&P. With regards to the current outstanding debt that is 6.9 billion dollars, you will see that in the proposals to come as to how that is managed under the different proposals submitted, but that 6.9 billion of debt is 6.6 billion of bonds and 300 million of commercial paper.

The Reform Plan, as Jerry said, does plan to pay down 4.7 billion in debt over the 20-year forecast which we were asked to analyze under the Joint Resolution. That is under various assumptions for cost saving categories, utilization of excess cash from a capital improvement fund, refinancing and other liability management opportunities that Santee Cooper management has identified.

All liabilities current would remain outstanding, of course, under this H. Cooper Reform Plan, for example, the Cook litigation and other litigation items that we can discuss. And, finally, the rate impact from the Santee Cooper Reform Plan relative to the 2019 budget, which Nate from E-3 will go into in more detail on the following pages, is an estimated 2.3 billion of net present value savings, again compared to the original 2019 budget estimated by Santee Cooper Management.

MR. MILLER: Thanks, Nathan. So here we see the first result of the J.R. Process. In the light blue line, as Nathan alluded to, you see the 2019 budget. This represents Santee Cooper's status quo. All the existing coal facilities remain online. They form the major source of all energy generated in the system and we are looking at the projected average system rates for all customer classes on a dollars per megawatt hour basis that's a unit of delivered energy to customers.

In this Reform Plan, Santee Cooper proposes to change its generation mix to transition away from some of its predominantly coal fire generation and towards natural gas and solar with some battery storage. That fundamental energy shift saves over two billion dollars over a 20-year basis and net present value relative to the status quo. And it was truly, you know, we see it as this process that catalyzed Santee Cooper to come to the table with a generation mix that really does reflect kind of current resource economics and a modern and more efficient cost effective generation plan for customers over the next twenty years.

So these cost savings are driven by the retirement of the Winyah Coal Fire Generating Station, the addition of new gas, solar and battery resources to replace that lost energy and to replace some of the imported energy. It also includes a plan for debt refinancing and paying down the stock of existing debt as Nathan mentioned. It accelerates debt reduction over time through reliance more on new power contracts, PPAs, or Power Purchase Agreements, relative, or instead of capital expenditures on the utilities on a balance sheet, but also reduces the issuance of new debt. And Santee Cooper proposes to refinance some of the higher cost bonds as they become due and to reduce the interest expense charged to customers over time. So the change in generation mix, as I said, is a major element of the cost savings and we'll dive into that a bit more in greater detail in the next slide.

So, as I mentioned, Santee Cooper proposes to transition away from existing coal resources slowly and over time in a phased approach. That is really the key take away from the Reform Plan's proposed resource mix. The end result is a more diversified resource portfolio of coal, gas, solar, nuclear and hydro by 2030. So most of what is happening in the generation mix occurs between now and 2030.

First, Santee Cooper proposes to retire all of the units, all four units, at the existing coal fired Winyah Generating Station and they propose to do so in two batches. First, units 3 and 4 would be retired in 2023 and then units 1 and 2 would be retired in 2027. It represents a total retirement of about 1150 megawatts away from the system.

Now, at the same time, between 2022 and 2024, Santee Cooper would contract for a thousand megawatts of new solar and would also add some peak capacity at the Winyah site. Over the following four years they would propose to add 200 megawatts of two-hour battery storage to assist with the integration of solar with the system. And then in 2027 we see another large addition. This is when Winyah 1 and 2 are retired. Santee Cooper would complete a 549 megawatt addition of combined cycle gas capacity, along with additional peak capacity at Winyah, followed by another 500 megawatts of solar.

So, again, the end result is, they are transitioning away from coal by retiring the Winyah unit, the cross unit remains fully online over the duration of the forecast period, and replacing that lost generation capacity with a mix of contracted solar, some added combined cycle gas and some battery storage.

MR. FARANO: Great. The next thing that we'd like to talk about is the Management Proposal that was provided by Dominion Energy that the Department is recommending to you for your consideration.

One of the things, just to step back a moment, that you'll see in more detail in the report and I think that redowns to the excellent job that the Department has done is that the nature of the bids that were provided to the Department in November on the 26th and the recommendations that are being made here are improved markedly. It is important, I think, for you to consider that when you look at the work that these folks have done on behalf of the State. With that as a little bit of background and not to go into too much detail here, let's talk about the Dominion Management Proposal.

One of the things that's most compelling about it is its low cost. A second thing that's very compelling about it is that it's not going to require you to pass much legislation to get it enacted. It is a contract. What is the cost issue? The cost issue is one that there will be no fee charged because the heart of Dominion's Management Proposal is the placement by Dominion of three executives as senior managers at Santee Cooper who would report to the CEO.

Importantly, the qualifications of the people proposed will have to be experienced in management operation of utilities so that there is a value that they're going to have demonstrated success in a similar position. You'll want folks who have been not only senior executives at Dominion or elsewhere and who now are working for Dominion, you want people who could come and actually improve Santee Cooper by virtue of their being there. They need to act in a manner that they believe in their considered professional opinions benefits Santee Cooper and its ratepayers and it does not benefit merely Dominion as the provider of services. Again, there's no management fee that's going to be charged. It is completely a low cost option. The only cost is going to be reimbursing Dominion for the fully loaded cost of these executives who would come over.

How are they then going to achieve a benefit for the State for its taxpayers and for Santee Cooper's customers? One of the main ways that they propose to do that is through synergies with Dominion. Obviously, now as the owner of the former SCANA in the state, there are synergies that can be achieved, they would seek to do those. Their report does not go into -- excuse me. Their proposal does not go into much detail around that, but it's obviously something that on its face could be compelling consideration for you.

The term of their proposed agreement is ten years and each party will have the option to terminate if there is a change of control of the other party. There's also going to be one Dominion executive whose job would be to be Santee Cooper's primary contact person. Obviously, based on what we talked about before, culture and the need to reform this relationship, again, there is a compelling feature to having someone from the outside step in and try to repair and restore goodwill between the parties.

The benefits may not be realized without additional legislative reform at Santee Cooper, management and structure. Again, if what is causing issues at Santee Cooper isn't addressed at Santee Cooper, the mere overlay of a manager is not going to provide the answer. So there may well need to be, in your consideration as you look at this, things that you might otherwise propose to do, if you're going to accept the Reform Plan that would also improve the Management Proposal.

I'll turn it back over to Nathan to talk to you a little bit about the financial overview of the map.

MR. BARNES: Yes. So just getting into a bit of Dominion Energy's financial capabilities and the key aspects of a financial perspective of their proposal. Dominion has a current equity market capitalization of approximately 70 billion. That makes them one of the largest publicly traded utilities globally. They have credit ratings at a -- level, triple B plus from S&P, BWA2 from Moody's, and obviously secured OPCO ratings detailing levels above that. But between those two aspects, clearly a very financially capable entity so no questions on that front.

They do assume the Reform Plan is implemented as proposed by Santee Cooper. So effectively the same Plan with regards to the proposed changes to generation and other cost saving opportunities that have been identified, their view is to via their competent employees, to place the employees they have, the three positions, help to improve with incremental cost savings above and beyond those identified by the Reform Plan.

These proposed incremental joint cost savings would be, as Jerry noted, largely due to the complementary in-state electric utility operations that they operate and they would be to the benefit of both Dominion as well as Santee Cooper customers. These would be operating synergies, identified partnerships, joint resource planning opportunities, as well as other measures that would in effect, again, be incremental cost savings to the Reform Plan.

With regards to the financial cost of this proposal, the only cost proposed is the recovery of the placed employee costs; i.e., salary and benefits for the employees that they would put into Santee Cooper's management structure, and those fees would be in line with the current Santee Cooper policies for compensation of their employees. They are charging no management fees and are making no payments to the State beyond what Santee Cooper would otherwise make under the Reform Plan. So their financial incentive, if you will, is truly the joint cost savings which they would, of course, expect to benefit and share along with Santee Cooper.

So, with that, maybe, Jerry, back to you for the sale proposal.

MR. FARANO: Thanks, Nate. So we'll try to go into as much detail as we can here. I think admittedly the sale proposal, in large part, because of some of the additional requirements on it that you all built into the Joint Resolution may take a little bit more explanation and we'll try to do our best to be concise, but clear.

What are the key terms of NextEra's bid for sale? Well, one, their defeasance were otherwise discharged

100 percent of the debt at closing and cover all defeasance costs. And if you'll look over at the table that says use of funds, when we talk about debt, let's talk about what gets paid down and how it gets paid down. 6.553.1 billion dollars will get paid down essentially via the putting into escrow accounts of cash that over time would continue to pay the bondholders. It is not something that happens on day one from the perspective of the bondholders, but it is something that happens on day one from the perspective of the ratepayers because the debt is no longer being financed by those folks paying for electricity both that include it, rather it is being financed by cash put into escrow accounts by NextEra.

Looking at the second piece of the debt that says Santee Cooper Commercial Paper, I believe that that Commercial Paper line is really a combination of certain revolving credit facilities and about 200 million dollars worth of commercial paper. That will be taken care of immediately at closing. It is simply that the banks will be repaid. They will execute letters confirming that they've been repaid and that debt will be taken off the books.

Importantly, when you look at the 1.046 billion dollars, that is the cost. And Nate is going to get into this in a little bit more detail. But suffice it to say for these remarks that it's the cost of paying down the debt early. Again, notwithstanding the fact that money is going to go into accounts to pay the bondholders, doing that in advance incurs an additional one billion dollars in cost. One of the things that was important to the Department, because that number can move, that one billion dollars will go up if interest rates go down and that one billion dollars will go down if interest rates go up. No matter what happens, NextEra is fully at risk for that amount. So, again, that's probably more detail than you're interested in or excited by, but it is a recitation of how the debt is defused at closing.

What other sort of terms are important in NextEra's proposal? I think it was, or we believe that you were very interested in seeing a resolution of the Cook litigation. There's a big number and there's a lot of uncertainty associated with that number. NextEra has proposed a road map and resources to settle Cook. They have, before May 22nd, because they've been looking at this asset for some time, they engaged with the plaintiffs' lawyers for the Cook class. They have come up with a proposed settlement in respect of that litigation. How it would redown to the benefit of ratepayers is via a 541 million dollar credit to rates that would be payable out within the first 180 days after closing. That is an element of their legislation. They are also going to, themselves, foot whatever plaintiffs' lawyers' fee is associated with the settlement of that litigation. That, too, will come out of their pocket.

In addition to the 541 million dollars in credits that are related to the Cook litigation, NextEra has proposed an additional 400 million dollars in rate credits over the four years of their rate block period that will be payable to all ratepayers. It's important to understand that the 541 million dollar credit is only payable to those ratepayers who were burdened by the abandonment of Santee Cooper, not folks who have subsequently come into the system.

500 million dollars will be payable to Santee Cooper at closing for the benefit of the State. That is one-half billion dollars, that is sacrosanct, there is no conditionality around that, but that the deal closes. An additional 100 million dollars will be placed into an escrow account. That escrow account is in place to take care of certain considerations that could affect the amount of the purchase price.

So, in other words, if there is a working capital adjustment required, if there is a failure by Santee Cooper to perform in accordance with its cap ax proposal, if there are accounting errors, if there are nuclear trust errors, if their debt turns out to be something other than what was the maximum of that maximum amount of debt, the debt that was available in their proposal to be paid off. But that all comes out of that 100 million dollar escrow account. If none of those eventualities occur, that 100 million dollars would also come to the State.

There's 500 million dollars approximately now, and through our discussions with the treasurer at Santee Cooper, we believe that as of December 31st of this year there will still be 500 million dollars cash on the balance sheet of Santee Cooper. Santee Cooper is obviously an important State asset. That will be, no doubt, the big part of your considerations in respect to its future. Right now, Santee Cooper pays out an amount to the State that is relatively small in comparison to its value. One of the things that NextEra has proposed in respect to the disposition of it, realizing that it will no longer be in State hands, is that 500 million dollars in cash on the balance sheet would come out assuming a December 31st, 2020 closing and would also go to the benefit of the State. Finally, small, but as we sit here particularly in light of recent events, there will be a 15 million dollar reimbursement of the transaction cost incurred to run this process.

All of that is happening with a substantial benefit to ratepayers and Nate will take you through some of the nuance, again, around this. But suffice it to say that during the four-year rate block, or fixed rate period of their proposal, they will have rates that are lower than in the Santee Cooper Reform Proposal. Over the twenty years that we were asked to analyze, their rates will be less than 1 percent higher.

Finally, in respect to some of the terms, let's look at that number at the bottom of the left-hand column and the bottom of the right-hand column, 9.461 billion dollars. That is the total consideration expressed in the use of funds to determine where it goes that NextEra is proposing to pay. That does not mean that there aren't issues that you will consider. John is later going to get into the issue around NextEra's legislation. There are certain things that they're asking for in their legislation that may be non-traditional, but that are simply a function of a publicly-owned utility becoming a private investor-owned utility. There are other elements that are somewhat non-traditional, but that are a function of the benefit of their bargain, the exchange for 9.461 billion dollars in consideration to provide a certain amount of certainty.

There are other provisions that are a function of the fact that they will need to transition from being a taxpaying -- excuse me. A tax exempt entity to being a taxpaying entity. And, finally -- and John will give you more detail on this as well -- there are provisions in the legislation that would relate to one of the elements of their financing which is the securitization bonds that you see in the sources of funds. These are all things that we know that you will consider and consider seriously as you do this.

Another consideration for you is that the workforce will be reduced in connection with the NextEra bid. Again, as was the case in the Santee Cooper Reform Plan, taking 1675 as the workforce number for 2020, NextEra's proposal over the following four years or five years would reduce the head count to around 970 by 2025. So those hopefully are the high points of NextEra's terms for sale. And with that, what I'll do is just turn to the next slide to show you an illustration of how they may be used. This is really just for your consideration.

Again, quickly to recapitulate, there's 500 million dollars in cash that will come directly to the State. If the elements that would otherwise permit the escrow account to be drawn upon do not occur, the State would get an additional 100 million dollars in cash. There's 15 million dollars in reimbursement for transaction expenses.

The debt repayment and defeasance amount covers all of the 6.859 billion dollars of combined long-term and short-term debt and a currently 1.05 billion dollars of make coal cost. Again, to the extent that those make coal costs go up, it is immaterial, this is from NextEra's pocket. There's going to be 541 million dollars in credits to ratepayers in respect of the Cook litigation and an additional 400 million dollars to ratepayers overall. That's 941 million dollars and that's how we get to the 9.641 billion dollars. The cash on the balance sheet, as we said, is going to be around 500 million. We estimate the range of 485 million dollars to 535 million dollars.

There are liabilities that will be left behind and, in part, you will have to consider how to address these. Firstly, there's a pension cost and an OPEP cost and a CERT cost and accrued vacation that totals out to 525 million dollars. Also importantly, NextEra is not taking most pre-closing liabilities from Santee Cooper.

What does that mean? That means that those liabilities, that now they're inchoate, they're unknown, okay? It could be anything, it could be nothing. But if something arises from the period prior to when NextEra closes the deal, save for some particular liabilities that you'll see in the report they are expressly assuming, what would happen? Well, what likely would happen is rates would have to go up. To the extent there are liabilities, those are costs. For a regulated utility, how you address those costs is through raising rates. You may have to go out and borrow to get the cash. You may have to infuse equity to get the cash. But, ultimately, the ratepayers will bear that cost.

Looking at the ratepayer universe today at Santee Cooper, both direct and indirect recipients of electricity from them is about a two million person population. That two million person population with the leaving behind of these liabilities would become a five million person population, that being the population of the state. So liabilities don't disappear as a consequence of someone leaving them behind. They simply shift from the folks who would have borne them before they were left behind to a million ratepayers, to the people who would likely end up bearing them, again, if they ever come to be when they are left behind, five million citizens and taxpayers.

With that, I'm going to go ahead and turn it over to Nate again to do a financial review.

MR. BARNES: Thanks, Jerry. And a lot of this is a bit repetitive so maybe we'll provide some incremental details but spare some of the repetitive portions.

Just looking at NextEra with regards to its financial capabilities, currently they are the largest openly-traded utility globally, 130 billion dollars market capitalization. Credit ratings at the Holdco of A- S&P, BAA1 Moody's, utility op-co ratings are above that. SCP&L, the proposed new subsidiary wholly-owned that would effectively merge into Santee Cooper, it would be one of three wholly-owned utility subsidiaries from NextEra, the other two being Gulf Power and Florida Power & Light, so it would be a separate wholly-owned subsidiary.

Again, total cash compensation to the State as proposed by NextEra would be 1.1 billion on its face. That is a 600 million dollar payment direct from NextEra. As Jerry highlighted, we believe that is a 500 million dollar payment in truth once you account for the 100 million dollars in escrow that is to be left behind, and that is due to the various purchase price adjustments that are effectively offsetting that 100 million dollars whether it's networking capital, cap X adjustments, accounting errors and the like. And then in addition to the direct payment, we have estimated 500 million dollars of balance sheet cash.

Jerry went through that but maybe just two incremental points. We did work with the Santee Cooper management team to understand forward monthly cash volatility relative to historical volatility. The important point being that going forward, peak to trough is estimated at no more than a 50 million dollar variance. So when you account for that variance, respective of closing date, we still have comfort on the 500 million dollar net number for the balance sheet cash. That obviously excludes the cash that NextEra would be keeping which is related to the decommissioning trust funds, as well as select escrow accounts held for third-parties. But net of that would be 500 million dollars approximately going to the State. And then the transaction reimbursement payment of 15 million as we discussed.

As Jerry also mentioned, this would take care of the 6.9 billion of current debt as well as the 1 billion dollar-plus estimated defeasance penalties. And with the exception of the Cook solution which had been prearranged in NextEra's proposal, NextEra is leaving all pre-closing liabilities behind with the State, notably the identified pension, OPEP, and other employee benefits, as well as SUTA unknown liabilities. So, with that, Nate, maybe a little bit on the rates as projected.

MR. MILLER: Thanks, Nathan. So here we're looking at the normalized projected average system rates for the NextEra sale proposal under the market forward's gas price projection.

Now, as you could see, there are significantly low and flat rates from 2021 to 2024. This reflects the first four years of NextEra's operations of the utility. And under its proposal, NextEra would fix customer rates during this period, as well as distribute the 941 million dollars of customer refunds and credits. So these adjusted rates of $64 per megawatt hour or 6.4 cents per kilowatt hour reflect both the fixed rates as well as the adjustment downward for the credits given.

Following 2024, then NextEra would go before the Public Service Commission and undergo a typical rate case through a standard rate-making process and we would expect the projected rates to increase once the credits are fully distributed and done to the levels that you see over the period. So, with that being said, it's important to think about the projected rates under a sale bid within the context of a sale bid in this particular instance. If you'll go to the next slide.

So there are very few examples as we've noted in recent history of a publicly-owned utility such as Santee Cooper, particularly of the size of Santee Cooper being converted to an investor-owned utility. Now, investor-owned utilities face certain incremental and structural costs which are higher than those faced by publicly-owned utilities. These principally consist of a difference in the cost of capital for an investor-owned utility relative to a public utility, as well as a higher tax burden that is levied upon an investor-owned utility.

So in this process, all sale bidders equally faced this hill of additional costs which had to be overcome in order to offer comparable rates to those that could be achieved by Santee Cooper in its Reform Plan without also burdening the State with additional liabilities that are created by the sale itself. So for a generic sale bidder acquiring Santee Cooper's rate base, their existing used and useful assets of generation transmission and distribution headquarters, the addition of a shareholder's required return on equity, return on the investment, to the cost of capital leads to a higher cost on those same assets that are paid over time by customers relative to the predominantly debt finance structure of Santee Cooper. This difference by itself amounts to around 1.9 billion and higher capital recovery costs compared to Santee Cooper, all else being equal on the resource plan, capital investment, et cetera.

In addition, an investor-owned utility would be required to pay Federal, State and local taxes which are higher than those levels currently paid by Santee Cooper. Those higher taxes would be charged to customers over time as part of the investor-owned utilities' revenue requirement. Now, it's also true that some of those funds, particularly the State and the local property taxes to counties would be used to flow back to the State and to local areas for the benefit of citizens. But they would, nonetheless, be reflected in a rate increase relative to

Santee Cooper's levels. So these are the two additional costs that any sale bidder faces in trying to issue rates that are competitive with those that could be proposed by Santee Cooper. So all together, 3.7 billion generically over a 20-year period in net present value terms.

Now, in addition to those additional costs that have to be overcome by a sale bidder for ratepayers, there are also some additional liabilities which we've discussed that could fall to the State and that are triggered by the sale itself. These come in the form of 525 million in total liabilities related to employee and retiree benefits. This is foregone funds that would otherwise be paid by customers of Santee Cooper over time to those accounts, but with the sale of Santee Cooper would no longer be received and paid to those accounts. So this is the net present value of that liability.

In addition, as Jerry and Nathan mentioned, there is this debt repayment penalty on the existing bonds of almost 7 billion dollars outstanding. Really, it's six-and-a-half in long-term debt. It represents essentially a foregone interest payment to those bond holders and so these penalties are baked into the bonds themselves and they would become due when the bonds become due as triggered by a sale.

So the critical consideration when we examine all of the sale proposals as we did in our process and considered which was the best sale proposal to put forward for your consideration was effectively how well does the sale bidder do in overcoming this hill of additional costs and how well does the sale bidder do for the benefit of the State in overcoming and covering these additional liabilities created by the sale. Go to the next slide.

So one of the principal benefits of the NextEra sale proposal that was certainly a factor in our decision to put this forward to you for your consideration was that in its sale proposal, NextEra successfully climbs the hill of these IOU transition costs, investor-owned utility transition costs. Ultimately, this is now looking at the specific projected rates from NextEra in its generation mix relative to the Santee Cooper Reform Plan. NextEra faces an additional 1.3 billion in costs arising from the difference in cost of capital over time on its investment. Furthermore, NextEra faces another 1.39 billion in taxes that have to be charged to ratepayers as well.

Now, in its Plan and in the projected rates through our normalization process as well, NextEra aims to achieve 1.7 billion in total operational savings to help offset those increases in costs over time, over a 20-year period. Furthermore, the 941 million in customer refunds and ratepayer credits that are offered during their first four years amount to 816 million in net present value that further help to offset the total additional cost to ratepayers over the 20-year period expressed in net present value in today's terms.

So prod into context a different way. The projected difference in rates between the NextEra sale proposal and the Santee Cooper Reform Plan is around 161 million in net present value over the 20-year period. Now, 161 million dollars is certainly not nothing. But placed into context further, the total revenue requirement of the Santee Cooper Reform Plan in twenty years is actually 20 billion dollars versus the NextEra projected rates over the same period of time at 20.25 billion dollars. So it actually amounts to approximately .8 percent difference in total rates in net present value over the 20-year period. Go on to the next slide.

So similar to how we characterized and discussed and analyzed ourselves the Santee Cooper Reform Plan from the perspective of what do they propose to do with the generation mix, the resources that create power for customers over time, and what does NextEra propose to do and how can that generate some of those additional operational savings that we just discussed that help them overcome that hill of additional cost faced by an investor-owned utility. Similar to Santee, NextEra proposes to replace existing coal fire generation with new gas and solar and some battery storage. But NextEra in its plan proposes to do so at an accelerated pace. Where Santee retires Winyah fully by 2027, NextEra is proposing to do so fully by 2023. That's four years earlier.

The core component of NextEra's generation mix and, really, its sale proposal, is the first four years during the transition, as they say. During this period, as I mentioned, NextEra proposes to fix total customer rates as well as distribute credits during that period. At the same time, NextEra intends to fully transform the generation mix and implement a number of cost saving measures in headquarters operations and in the operations and maintenance of the system as a whole so that by the time NextEra goes before the Public Service Commission in 2024 for its first rate case, they have implemented the lion's share or all, in fact, of their proposed changes for the next twenty years that will serve customers.

So the investments they're proposing to make during that first four-year period total around 2.3 billion in new investment. That's comprising a 1250 megawatt combined cycle unit to be located in Fairfield County, 800 megawatts of new solar and 50 megawatts of four-hour battery storage to assist with the implementation or integration of that solar as well as provide some capacity resource. And a lot of the savings that you see relative to the Santee Reform Plan are the introduction of a larger combined cycle power plant earlier on in the process relative to the coal plants. And you can see that reflected in the energy mix graph on the right.

While in both instances the Santee Reform Plan and the NextEra sale proposal, the cross-generating units remain online and are used for meeting the peak demand of the system and also to generate some electricity as energy for consumers, there is a much higher share of gas fire generation because of the larger size of the gas facility that NextEra brings online.

MR. COLELLA: So, with that, we recognize we've provided you all with a great deal of detail around each of the three proposals and we recognize that we as a team have obviously been steeped in this for several months now, and so in order to kind of conclude, we thought we might provide you all with some of our overall summary thoughts around each of the three proposals. And I'll start with on page 32 the Santee Cooper Reform Plan and we'll talk a little bit about some of the potential benefits as well as some of the considerations.

In terms of the benefits, as we've mentioned earlier, on cost as a result of this process the Reform Plan has resulted in approximately 2.3 billion dollars of savings to the ratepayers over the 20-year projection period relative to what the company's budget was prior to this process. It also results in a modernization of the generation fleet, governance improvements that we've talked about, as well as improvements to the structure of the Coordination Agreement with Central, namely the five-year shortening of the duration, as well as improvements that Jerry described around distributing energy resources, such as the capability for Central's customers to pursue rooftop solar and other similar forms of generations. No layoffs. While they do not pay off the debt day one over the 20-year period, 4.7 billion dollars of debt is paid down by virtue of their plan. And ultimately in terms of operations, obviously the Plan represents the status quo in the sense that the State remains in control and benefits from what has been a strong historical track record in terms of safety and reliability.

In terms of considerations, as we mentioned earlier the Central relationship is clearly strained. It is not clear to us that the modifications that have been proposed around the Coordination Agreement would materially alter that relationship based on our observations throughout the process. The governance changes that we've described, while helpful, we don't -- it's not clear to us that those, in and of themselves, represent enough structural change such that we would be convinced that the culture of the organization would ultimately be impacted by virtue of decision-making. We do believe, though, that ultimately if the General Assembly were to pursue the Reform Plan, it would be necessary to codify as soon as possible any of the structural improvements that are being proposed, simply because in the current form there is a lack of clear accountability that comes out of any of those proposed governance or other changes.

Nate talked a little bit about the evolving generation profile and while the Plan does include a modernization of the fleet, Santee Cooper simply does not have a track record of pursuing and implementing a generation shift in the order of magnitude as what is being contemplated. And then, finally, we talked about the Cook litigation for which there is not a proposed solution.

Shifting to the Dominion Management Proposal, as we talked about, this is a low cost approach. There is no management fee. The proposal is for a 10-year term, so relatively short or certainly in the utility context. Obviously, Dominion is present in the state. They're one of the largest utilities in the world, very well respected in terms of their ability to own and operate utilities.

The relationship with Central, our observation throughout the course of the process was that, our belief was that Central would welcome, or certainly be open-minded to a Dominion relationship. And then finally, as we talked about the real benefit comes from the cost savings that could potentially be achieved by virtue of Dominion operating two of the largest utilities in the state.

In terms of considerations, the debt remains outstanding. The Cook litigation, again, much like the Reform Plan, there is not a solution for that that has been proposed as part of their Plan. In terms of implementation, the Dominion managers that we talked about which would be dedicated, would still be subject to oversight both from the Santee Cooper CEO and the Board.

In terms of the Reform Plan, while the Dominion proposal is really an overlay on the Reform Plan, again it lacks accountability in terms of any -- whether its fees to the State or NYMEX by which they would be held to account over time as a function of their performance, there is a potential for conflict of interests in terms of the dedicated employees, you know, having interests both on the Dominion as well as the Santee Cooper side of the ledger.

Then, finally, as I mentioned, sort of the potential savings to the customers. While we recognize the potential for those by virtue of operating synergies, there is no clear benchmark, there is no clear, again, accountability, I'll go back to, in terms of what the State or the ratepayers should tangibly expect.

I'll turn to page 34 to summarize NextEra. So I think we've touched on, I'm certain, most of these points, but they do defease the debt day one. So as Jerry talked about, while the debt remains outstanding from the perspective of the current ratepayers that are shouldering that burden, that does go away day one. They have as part of their proposal provided a road map that serves to resolve the Cook litigation through a 541 million dollar ratepayer credit that is part of a 941 million dollar ratepayer credit, 400 of which obviously would go to additional ratepayer -- or rate offsets.

As Nate mentioned, over the 20-year projection period, by virtue of their offer as well as the rate credits, the total customer bill over twenty years would be within 1 percent of what has been proposed in the Santee Cooper Reform Plan. There is the opportunity -- I'm sorry. Before we get to that, the payments to the State. We talked about the 500 million dollar certain payment to the State as well as the potential for an additional 100 million dollars on top of that by virtue of the escrow account, as well as the notion that approximately 500 million dollars of cash on the Santee Cooper balance currently would remain with the State in their proposal.

NextEra operates one of the largest utilities in the country with Florida Power & Light and we do recognize that there would be, given their scale, the potential for additional operating synergies. Their proposal, as we described, does modernize the generation fleet and they do have a very strong track record of operating, building, developing and operating the kinds of generation resources that would be included in their Plan. And, finally, their proposal does include material improvements to the current Coordination Agreement, both in terms of the duration of that agreement as well as the distributed energy resource flexibility that was desired by Central.

In terms of the considerations, the top of our list as the legislators asked, so one of the conditions to their closing would be that they would be asking the General Assembly to approve several important elements of their Plan, including their customer rates for that first four-year period, as well as a generation plan that includes approximately 2.3 billion dollars in capital expenditures associated with a shift in the generation fleet and the new resources that they would be seeking to come to bring online during that period of time. I'll also point out that in a material portion of their, in a proposed NA-1 legislation has to do with a form of financing known as securitization. So certain bonds that have that designation be securitization bonds which effectively are bonds for which a stream of cash flow, so the cash flows that will be coming from the payers would be guaranteed by virtue of the legislation that you all would pass. So that legislation would include provisions that effectively would say that those bonds, to the degree that they're ultimately raised, would have guaranteed payments backed by the State. That structure is not uncommon. We see that quite frequently throughout the utility industry in particular. Many states and many utilities have some form of securitization bonds currently outstanding.

We talked a little bit about the head count reductions. So they would be, as part of their Plan they would initially be laying off approximately 300 employees and ultimately reducing the workforce by about 660 employees by 2025. And then, finally, unlike the current structure, ultimately if Santee Cooper was sold by NextEra, while there would be a management team and headquarters obviously in Moncks Corner, that team would ultimately report up to the senior management of NextEra in Juno Beach, Florida.

So, with that, I will pause and turn it back over to Nate.

MR. MILLER: So we wanted to conclude this session today with this forecast of the projected rates normalized through our bid evaluation process over time. It shows the 2019 budget that was the basis for the ICF process and the status quo. It shows Santee Cooper's projected rates under the Reform Plan and it shows the projected rates under the NextEra Sale Proposal, noting also that the Dominion Management Proposal, as stated, intends to implement the Reform Plan with the assistance of those senior managers.

So it's important to note that this process through the Joint Resolution that you all passed resulted in three viable paths forward that all result in substantial savings from the baseline status quo. Santee Cooper itself was able to come to the table and beat their own projections with a modernized generation mix that saves customers approximately 2 billion dollars over twenty years. In addition, the NextEra Sale Proposal and the projected rates come quite close. We mentioned that they are over a 20-year period, approximately .8 percent higher. That is a combination of being about 10 percent lower in the first four years and then approximately 5 percent higher in each year thereafter over the projection.

It's also important to note for your consideration that with the exception of NextEra's four-year fixed rate proposal, all of the rates are projections. We took great care and effort to undergo rigorous analysis to make sure that what we presented to you for your consideration and decision-making were the most robust and factual and conservative, reliable projections that could be derived. However, they are still projections, the future is still uncertain and either of the entities chosen, NextEra in the Sale Proposal or Santee Cooper in its Reform Plan or the Dominion Management Proposal, may ultimately achieve better or worse performance relative to these projections in actuality.

So I will simply leave you with this. At the conclusion now of our process, the J.R. process, and the submission of the report, the General Assembly now faces a choice of which path to take forward for Santee Cooper's future. Thank you very much for your time today.

MS. ADAMS: Thank you. I appreciate the time. I look forward to further meetings. And we will have a copy of this available to each one of you later on this afternoon.

(End of Video)

CERTIFICATE OF REPORTER

I, Laura S. DeCillis, Certified Court Reporter and Notary Public in and for the State of South Carolina at Large, do hereby certify:

That the foregoing Recording, not taken by same, as typed, is true, accurate and complete to the best of my ability.

I further certify that I am neither related to nor counsel for any party to the cause pending or interested in the events thereof.

I further certify that the original of said transcript shall be hereafter sealed and delivered to the SC Senate Judiciary Committee, Gressette Building 102 1101 Pendleton Street, Columbia, South Carolina, 29201.

Witness my hand, I have hereunto affixed my official seal this 27th day of February 2020, at Columbia, Richland County, South Carolina.

Laura S. DeCillis

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Certified Court Reporter
My Commission Expires
August 4, 2026

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