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MEETING VIDEO TRANSCRIPTION

February 13, 2020

SC Joint Senate Finance & House Ways and Means Committee

REPORTER: Laura DeCillis

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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

1 Presenters:

2	Adams	3, 66
3	Farano	8, 28, 37, 41
4	Colella	10, 58
5	Barnes	33, 40, 40
6	Miller	22, 34, 51, 64

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1 PROCEEDINGS

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

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

16 This was a huge task and it is, by far, the
17 hardest thing I've ever had to do in my 32-year career with
18 the State. It's also the most important task that I've ever
19 had to do because there is much at stake here. And because
20 there is much at stake for the people of this state, Admin
21 and its team of advisors spent countless hours in gathering
22 data required to be shared with bidders and keeping bidders
23 interested in this endeavor regardless of issues thrown at
24 us that had a chilling effect on the marketplace in
25 negotiating and improving the proposals in each of the three

1 categories, and that includes in working to improve the
2 Santee Cooper Reform Proposal and in delivering these
3 recommendations and report to the House Ways and Means and
4 Senate Finance Committees.

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

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

1 Resolution.

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

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

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

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

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

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

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

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

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

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

22 With that, what I'd like to do first is just
23 introduce to you the agenda and then we will turn it over
24 and the advisors are going to sharetime as we have through
25 the entire process to present to you in some detail the

1 findings in our report and how we came to them.

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

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

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

25 MR. COLELLA: Thank you. I'm John Colella,

1 Managing Director at Moelis & Company and I'd like to start
2 on behalf of my entire team and my firm by echoing Jerry,
3 your comments, around the great job that Marcia and team
4 have done in terms of providing leadership around this
5 process throughout. We're grateful for the opportunity to
6 be here to present to you all today and to be of service to
7 the State.

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

20 With that said, we recognized that there were
21 going to be several challenges that we would need to
22 overcome as would be the case in most processes. But in
23 this particular instance, I think there were a few that were
24 unique that we considered, as I said, from the start. First
25 was the timeline as I mentioned. The second was that in a

1 normal process, the relationship between the sellers, i.e.,
2 or those that are conducting the process, so the DOA, the
3 advisors and the company itself are typically one and the
4 same. In this particular instance, obviously, we needed to
5 navigate that process while working with Santee Cooper, who,
6 at times, wasn't necessarily the most willing participant in
7 this process.

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

21 With that said, our objectives were to begin by
22 building on the infrastructure that had been put in place
23 and developed through some of the previous work that had
24 been done around Santee Cooper and some of that in
25 particular around the previous process. But, most

1 importantly, take that, build upon that and bring you all,
2 bring the State a series of Best in Class and, most
3 importantly, actionable alternatives that you all could
4 decide upon that not only met the objectives as laid out
5 specifically in the Joint Resolution, but also was able to
6 withstand the negotiations that occurred with Central and
7 provide them and their ratepayers with an outcome that was
8 acceptable. And we're very proud of the fact that we
9 believe that collectively we were able to achieve that.

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

16 We had a number of calls, meetings, et cetera,
17 with interested parties and on August 16th we posted on the
18 DOA website a notice to all interested parties. And that
19 was important because not only did it put out obviously
20 notification that we had so formally begun the process, but
21 it also allowed for a means for any interested parties that
22 we may or may not have considered globally, for that matter,
23 to come forward and identify themselves to us if, in fact,
24 this opportunity was of interest. And so because of the
25 fact that we did that and ran the process the way that we

1 normally would, which I'll describe in a moment, we feel,
2 very, very confident that not only were we able to achieve
3 our objective of bringing to you all credible, Best in
4 Class, actionable alternatives, but that those alternatives
5 were the result of a comprehensive canvassing of the market,
6 not just locally here but globally.

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

13 So one of the first things that we did was set
14 up a Data Room which entailed really all of the relevant
15 documentation that any process participant would need to
16 review and consider in doing their due diligence in pursuit
17 of submitting a formal proposal and, as you can see, about
18 26,000 documents comprising about 360,000 pages. And we can
19 assure you that not only did we collectively as a team
20 review and interact with every one of those pages, but the
21 bidders and the participants that ultimately submitted
22 proposals spent the time, the money and the effort to
23 understand what was in all of those documents so that they
24 could make an informed proposal to you all that was credible
25 and that they could stand behind.

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

15 So, with that, if you turn to page -- well,
16 we'll turn to page seven. This will give you a sense for
17 the way that the process played out in terms of
18 participants. As I mentioned earlier, on August 16th we
19 posted a notice, a notification for all interested parties
20 to come forward to us. Shortly after doing that or at about
21 the same time, we proactively reached out to about 55
22 potential participants who we thought collectively in our
23 judgment were likely to be not only interested but capable.
24 And I can assure you that much like Santee Cooper and this
25 process received a lot of attention here locally here in the

1 state of South Carolina, throughout the utility industry at
2 large. This was, over the course of the last six months or
3 so, a very high profile undertaking that was certainly
4 understood by any potential bidder that would have had
5 interest.

6 So we sent information, initial information, to
7 55 participants. Of those 55, 13 signed non-disclosure
8 agreements to begin to receive confidential information
9 around Santee Cooper. Those 13 participants were granted
10 access to the Data Room, which included not only the
11 documents that I referred to earlier, but also, as we'll
12 describe in a moment, models and other descriptive
13 information that they would have needed again to provide us
14 with formal proposals. And as is normal in any process like
15 this, what you'll see is, as you look further down the page,
16 is that we start with 55 and that number funnels down to the
17 ultimate two proposals that we put before you. That is
18 normal. That is how these processes typically happen almost
19 as a matter of necessity.

20 There are a few elements that drive that. One
21 is sheer cost. As any process participant goes further down
22 a process like this, they're spending not only countless
23 manhours of their time, their organization's time, but also
24 hard dollars. And I think you can assume that not only the
25 two process participants, NextEra and Dominion, but the

1 others that participated in our process literally spent
2 millions and millions and millions of dollars in pursuit of
3 this opportunity. And we're collectively proud of the fact
4 that we were able to interact with them in a credible way
5 such that they were inspired to be engaged with us and to
6 pursue this and spend that time and money.

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

19 So in total, six management presentations were
20 conducted by us with the entire management team at Santee
21 Cooper. That was a highly orchestrated set of presentations
22 that we have collectively, the DOA and the advisors, worked
23 with Santee Cooper to develop presentations that would
24 ultimately be delivered that were factual, accurate and,
25 most importantly, designed to not only provide potential

1 bidders with the facts, but also to provide them with the
2 sort of visibility as to what the business not only looks
3 like today, but could look like down the future so they
4 could use that information to inform their own plans.

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

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

24 There is a lot of data on the page and I'll
25 break it down into a few kind of key components. The first

1 was the pre-marketing component and that really took place
2 from the time that we were hired in July through August.
3 And during that period of time in August, we were beginning
4 to interact with potential process participants to get them
5 interested if they ultimately had the inclination to engage
6 with us in this process.

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

23 From that point in time, we focused on not only
24 opening the Data Room, but providing participants with a
25 financial model that they could use on which to premise

1 their proposals. And the folks over at E-3, Nate will talk
2 in a little bit more about that model. But we were able to
3 able to upload that into the Data Room in early October, so
4 October 3rd.

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

16 After we received those proposals, as was
17 prescribed in the Joint Resolution, we then shifted our
18 focus to not only optimizing and negotiating around those
19 proposals, but also provided access at that point in time to
20 Central so that those bidders could begin to negotiate a
21 potentially enhanced outcome with Central relative to the
22 status quo. And with that we proceeded down to really
23 spending that time between the early part of this year, so
24 we received on the back of those initial negotiations, on
25 January 3rd we received revised proposals from each of the

1 bidders, the two for the Sale Proposal, two for the
2 Management Contract. And from January 3rd, we continued
3 with further negotiations with Central, further negotiations
4 with us here at the DOA and the team, that ultimately
5 resulted in what we were able to present earlier this week
6 -- I'm sorry -- in the final report.

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

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

22 We also had some delays around the management
23 presentations that we were scheduling, including one
24 particular management presentation where we had a party show
25 up to the presentation itself only to be told by the

1 management team at Santee Cooper that they were not
2 intending to present on that day and Marcia, of course, was
3 able to compel them to do so. But that was certainly an
4 abnormal episode.

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

21 We were able to continue. We were able to
22 obviously. And Marcia and team, convinced the folks over at
23 Santee Cooper not to continue with the Southern MOU.
24 Because we were able to do that, we were able to continue
25 with our process. We may not have been able to do so

1 otherwise. That gives you just some sense for why it took
2 us a little bit longer than we otherwise would have liked to
3 and some of the challenges that we faced by virtue of the
4 way that Santee Cooper viewed and approached this process.

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

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

22 So I'm going to talk first a bit about how we
23 approached the bid evaluations in this process. Southern
24 Utility is complex. There are a lot of parts to consider.
25 And a core component of our bid evaluation was the

1 assessment of projected rates for Santee Cooper's customers.

2 Nick, do you mind going to the next line?

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

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

21 This process required participants to submit
22 20-year rate projections for evaluation by the Department
23 and by the professional service experts. Now, due to the
24 inherent uncertainty in any forecast, especially over such a
25 long period of time, participants had strong incentives,

1 naturally, to use assumptions in their submissions that
2 favor their own bids; low fuel prices, low interest rates,
3 particularly high efficiencies and cost savings and the
4 like. So it was, therefore, critical for us as evaluators
5 of the bids to establish submission rules and to provide
6 rate projections to the General Assembly which could form a
7 sound basis for decision-making based on the facts and a
8 strong likelihood of achievement.

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

15 So diving a little bit deeper into the bid
16 evaluation and normalization process, our approach to
17 normalizing the rate projections was designed in order to
18 use standardized assumptions for all factors that were
19 shared in common among participants so that proposals were
20 only differentiated by their plans, their commitments, or
21 their competitive advantages from one participant to the
22 next. Each participant, as I said, was required to submit a
23 populated version of a revenue requirement model which
24 projected rates for twenty years. Now, this model was also
25 provided to participants in the Data Room and we released a

1 process letter which directed participants to three kinds of
2 assumptions that would be used in our bid evaluation and
3 that populate the model; fixed assumptions, supported
4 assumptions and variable assumptions.

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

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

23 And, finally, the variable assumptions were
24 unique to each participant and represented core components
25 of bid economics, such as a resource plan, a fees or

1 purchase price for the utility, financing structure and
2 return on equity. These variable assumptions submitted by
3 participants were unchanged in the normalized rate
4 projections.

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

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

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

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

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

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

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

10 The Joint Resolution in the process that's
11 undertaken as a consequence of your mandate is really the
12 story about the future of Santee Cooper. The decision in
13 2017 to abandon VCNS units two and three, created a four
14 billion dollar problem. Mainly, or namely, how do you
15 provide relief for the ratepayers who are going to be
16 burdened with this cost or who are burdened with this cost,
17 but due to the cancellation of the plan, who will never get
18 power from it?

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

25 The comparison that we're going to discuss is

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

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

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

24 What else does Santee Cooper include in its
25 proposal? There are going to be new transparency in

1 oversight measures to improve governance and increase
2 stakeholder involvement. I'm going to talk about those in a
3 second. But, first, it's important to note three things
4 that Santee Cooper must address in respect of its reform.
5 There are issues around its structure, there are issues
6 around its management and there are issues around its
7 culture.

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

20 So what do they do to improve that structure?
21 One of the things -- and this was part of the negotiation
22 that the Department and the rest of us had with them -- was
23 to introduce term limits and qualifications for Directors,
24 to propose the formation of a Resource Planning Group that
25 consisted of Santee Cooper stakeholders, folks like Satchel,

1 folks like the retail ratepayers, certain commercial
2 customers, their other wholesale customers. They talked
3 about the retention of a Board of technical advisors, also
4 incredibly helpful. No one could be expected to know
5 everything that there is to know to run an incredibly
6 complex business at a time when the nature of that business
7 is fundamentally changing. They have increased transparency
8 in respect of certain matters by opening them to public
9 hearings and including ORS review, and in some very limited
10 circumstances, PSC input. So that is all to the good.

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

21 Santee Cooper's Plan, I think, very sort humanly
22 does call for a head count reduction by about 10 percent.
23 Now, it's a reduction that's going to come out without
24 layoffs. If you look at the head count as of this year,
25 2020, based on the December 2018 projection it was 1675.

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

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

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

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

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

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

25 The Reform Plan, as Jerry said, does plan to pay

1 down 4.7 billion in debt over the 20-year forecast which we
2 were asked to analyze under the Joint Resolution. That is
3 under various assumptions for cost saving categories,
4 utilization of excess cash from a capital improvement fund,
5 refinancing and other liability management opportunities
6 that Santee Cooper management has identified.

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

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

25 In this Reform Plan, Santee Cooper proposes to

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

12 So these cost savings are driven by the
13 retirement of the Winyah Coal Fire Generating Station, the
14 addition of new gas, solar and battery resources to replace
15 that lost energy and to replace some of the imported energy.
16 It also includes a plan for debt refinancing and paying down
17 the stock of existing debt as Nathan mentioned. It
18 accelerates debt reduction over time through reliance more
19 on new power contracts, PPAs, or Power Purchase Agreements,
20 relative, or instead of capital expenditures on the
21 utilities on a balance sheet, but also reduces the issuance
22 of new debt. And Santee Cooper proposes to refinance some
23 of the higher cost bonds as they become due and to reduce
24 the interest expense charged to customers over time. So the
25 change in generation mix, as I said, is a major element of

1 the cost savings and we'll dive into that a bit more in
2 greater detail in the next slide.

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

10 First, Santee Cooper proposes to retire all of
11 the units, all four units, at the existing coal fired Winyah
12 Generating Station and they propose to do so in two batches.
13 First, units 3 and 4 would be retired in 2023 and then units
14 1 and 2 would be retired in 2027. It represents a total
15 retirement of about 1150 megawatts away from the system.

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

1 megawatts of solar.

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

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

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

23 One of the things that's most compelling about
24 it is its low cost. A second thing that's very compelling
25 about it is that it's not going to require you to pass much

1 legislation to get it enacted. It is a contract. What is
2 the cost issue? The cost issue is one that there will be no
3 fee charged because the heart of Dominion's Management
4 Proposal is the placement by Dominion of three executives as
5 senior managers at Santee Cooper who would report to the
6 CEO.

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

22 How are they then going to achieve a benefit for
23 the State for its taxpayers and for Santee Cooper's
24 customers? One of the main ways that they propose to do
25 that is through synergies with Dominion. Obviously, now as

1 the owner of the former SCANA in the state, there are
2 synergies that can be achieved, they would seek to do those.
3 Their report does not go into -- excuse me. Their proposal
4 does not go into much detail around that, but it's obviously
5 something that on its face could be compelling consideration
6 for you.

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

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

25 I'll turn it back over to Nathan to talk to you

1 a little bit about the financial overview of the map.

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

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

20 These proposed incremental joint cost savings
21 would be, as Jerry noted, largely due to the complementary
22 in-state electric utility operations that they operate and
23 they would be to the benefit of both Dominion as well as
24 Santee Cooper customers. These would be operating
25 synergies, identified partnerships, joint resource planning

1 opportunities, as well as other measures that would in
2 effect, again, be incremental cost savings to the Reform
3 Plan.

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

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

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

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

1 100 percent of the debt at closing and cover all defeasance
2 costs. And if you'll look over at the table that says use
3 of funds, when we talk about debt, let's talk about what
4 gets paid down and how it gets paid down. 6.553.1 billion
5 dollars will get paid down essentially via the putting into
6 escrow accounts of cash that over time would continue to pay
7 the bondholders. It is not something that happens on day
8 one from the perspective of the bondholders, but it is
9 something that happens on day one from the perspective of
10 the ratepayers because the debt is no longer being financed
11 by those folks paying for electricity both that include it,
12 rather it is being financed by cash put into escrow accounts
13 by NextEra.

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

22 Importantly, when you look at the 1.046 billion
23 dollars, that is the cost. And Nate is going to get into
24 this in a little bit more detail. But suffice it to say for
25 these remarks that it's the cost of paying down the debt

1 early. Again, notwithstanding the fact that money is going
2 to go into accounts to pay the bondholders, doing that in
3 advance incurs an additional one billion dollars in cost.
4 One of the things that was important to the Department,
5 because that number can move, that one billion dollars will
6 go up if interest rates go down and that one billion dollars
7 will go down if interest rates go up. No matter what
8 happens, NextEra is fully at risk for that amount. So,
9 again, that's probably more detail than you're interested in
10 or excited by, but it is a recitation of how the debt is
11 defused at closing.

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

1 foot whatever plaintiffs' lawyers' fee is associated with
2 the settlement of that litigation. That, too, will come out
3 of their pocket.

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

13 500 million dollars will be payable to Santee
14 Cooper at closing for the benefit of the State. That is
15 one-half billion dollars, that is sacrosanct, there is no
16 conditionality around that, but that the deal closes. An
17 additional 100 million dollars will be placed into an escrow
18 account. That escrow account is in place to take care of
19 certain considerations that could affect the amount of the
20 purchase price.

21 So, in other words, if there is a working
22 capital adjustment required, if there is a failure by Santee
23 Cooper to perform in accordance with its cap ax proposal, if
24 there are accounting errors, if there are nuclear trust
25 errors, if their debt turns out to be something other than

1 what was the maximum of that maximum amount of debt, the
2 debt that was available in their proposal to be paid off.
3 But that all comes out of that 100 million dollar escrow
4 account. If none of those eventualities occur, that 100
5 million dollars would also come to the State.

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

24 All of that is happening with a substantial
25 benefit to ratepayers and Nate will take you through some of

1 the nuance, again, around this. But suffice it to say that
2 during the four-year rate block, or fixed rate period of
3 their proposal, they will have rates that are lower than in
4 the Santee Cooper Reform Proposal. Over the twenty years
5 that we were asked to analyze, their rates will be less than
6 1 percent higher.

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

23 There are other provisions that are a function
24 of the fact that they will need to transition from being a
25 taxpaying -- excuse me. A tax exempt entity to being a

1 taxpaying entity. And, finally -- and John will give you
2 more detail on this as well -- there are provisions in the
3 legislation that would relate to one of the elements of
4 their financing which is the securitization bonds that you
5 see in the sources of funds. These are all things that we
6 know that you will consider and consider seriously as you do
7 this.

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

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

25 The debt repayment and defeasance amount covers

1 all of the 6.859 billion dollars of combined long-term and
2 short-term debt and a currently 1.05 billion dollars of make
3 coal cost. Again, to the extent that those make coal costs
4 go up, it is immaterial, this is from NextEra's pocket.
5 There's going to be 541 million dollars in credits to
6 ratepayers in respect of the Cook litigation and an
7 additional 400 million dollars to ratepayers overall.
8 That's 941 million dollars and that's how we get to the
9 9.641 billion dollars. The cash on the balance sheet, as we
10 said, is going to be around 500 million. We estimate the
11 range of 485 million dollars to 535 million dollars.

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

18 What does that mean? That means that those
19 liabilities, that now they're inchoate, they're unknown,
20 okay? It could be anything, it could be nothing. But if
21 something arises from the period prior to when NextEra
22 closes the deal, save for some particular liabilities that
23 you'll see in the report they are expressly assuming, what
24 would happen? Well, what likely would happen is rates would
25 have to go up. To the extent there are liabilities, those

1 are costs. For a regulated utility, how you address those
2 costs is through raising rates. You may have to go out and
3 borrow to get the cash. You may have to infuse equity to
4 get the cash. But, ultimately, the ratepayers will bear
5 that cost.

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

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

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

23 Just looking at NextEra with regards to its
24 financial capabilities, currently they are the largest
25 openly-traded utility globally, 130 billion dollars market

1 capitalization. Credit ratings at the Holdco of A- S&P,
2 BAA1 Moody's, utility op-co ratings are above that. SCP&L,
3 the proposed new subsidiary wholly-owned that would
4 effectively merge into Santee Cooper, it would be one of
5 three wholly-owned utility subsidiaries from NextEra, the
6 other two being Gulf Power and Florida Power & Light, so it
7 would be a separate wholly-owned subsidiary.

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

19 Jerry went through that but maybe just two
20 incremental points. We did work with the Santee Cooper
21 management team to understand forward monthly cash
22 volatility relative to historical volatility. The important
23 point being that going forward, peak to trough is estimated
24 at no more than a 50 million dollar variance. So when you
25 account for that variance, respective of closing date, we

1 still have comfort on the 500 million dollar net number for
2 the balance sheet cash. That obviously excludes the cash
3 that NextEra would be keeping which is related to the
4 decommissioning trust funds, as well as select escrow
5 accounts held for third-parties. But net of that would be
6 500 million dollars approximately going to the State. And
7 then the transaction reimbursement payment of 15 million as
8 we discussed.

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

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

22 Now, as you could see, there are significantly
23 low and flat rates from 2021 to 2024. This reflects the
24 first four years of NextEra's operations of the utility.
25 And under its proposal, NextEra would fix customer rates

1 during this period, as well as distribute the 941 million
2 dollars of customer refunds and credits. So these adjusted
3 rates of \$64 per megawatt hour or 6.4 cents per kilowatt
4 hour reflect both the fixed rates as well as the adjustment
5 downward for the credits given.

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

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

25 So in this process, all sale bidders equally

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

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

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

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

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

25 So the critical consideration when we examine

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

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

20 Now, in its Plan and in the projected rates
21 through our normalization process as well, NextEra aims to
22 achieve 1.7 billion in total operational savings to help
23 offset those increases in costs over time, over a 20-year
24 period. Furthermore, the 941 million in customer refunds
25 and ratepayer credits that are offered during their first

1 four years amount to 816 million in net present value that
2 further help to offset the total additional cost to
3 ratepayers over the 20-year period expressed in net present
4 value in today's terms.

5 So prod into context a different way. The
6 projected difference in rates between the NextEra sale
7 proposal and the Santee Cooper Reform Plan is around 161
8 million in net present value over the 20-year period. Now,
9 161 million dollars is certainly not nothing. But placed
10 into context further, the total revenue requirement of the
11 Santee Cooper Reform Plan in twenty years is actually 20
12 billion dollars versus the NextEra projected rates over the
13 same period of time at 20.25 billion dollars. So it
14 actually amounts to approximately .8 percent difference in
15 total rates in net present value over the 20-year period.
16 Go on to the next slide.

17 So similar to how we characterized and discussed
18 and analyzed ourselves the Santee Cooper Reform Plan from
19 the perspective of what do they propose to do with the
20 generation mix, the resources that create power for
21 customers over time, and what does NextEra propose to do and
22 how can that generate some of those additional operational
23 savings that we just discussed that help them overcome that
24 hill of additional cost faced by an investor-owned utility.
25 Similar to Santee, NextEra proposes to replace existing coal

1 fire generation with new gas and solar and some battery
2 storage. But NextEra in its plan proposes to do so at an
3 accelerated pace. Where Santee retires Winyah fully by
4 2027, NextEra is proposing to do so fully by 2023. That's
5 four years earlier.

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

19 So the investments they're proposing to make
20 during that first four-year period total around 2.3 billion
21 in new investment. That's comprising a 1250 megawatt
22 combined cycle unit to be located in Fairfield County, 800
23 megawatts of new solar and 50 megawatts of four-hour battery
24 storage to assist with the implementation or integration of
25 that solar as well as provide some capacity resource. And a

1 lot of the savings that you see relative to the Santee
2 Reform Plan are the introduction of a larger combined cycle
3 power plant earlier on in the process relative to the coal
4 plants. And you can see that reflected in the energy mix
5 graph on the right.

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

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

23 In terms of the benefits, as we've mentioned
24 earlier, on cost as a result of this process the Reform Plan
25 has resulted in approximately 2.3 billion dollars of savings

1 to the ratepayers over the 20-year projection period
2 relative to what the company's budget was prior to this
3 process. It also results in a modernization of the
4 generation fleet, governance improvements that we've talked
5 about, as well as improvements to the structure of the
6 Coordination Agreement with Central, namely the five-year
7 shortening of the duration, as well as improvements that
8 Jerry described around distributing energy resources, such
9 as the capability for Central's customers to pursue rooftop
10 solar and other similar forms of generations. No layoffs.
11 While they do not pay off the debt day one over the 20-year
12 period, 4.7 billion dollars of debt is paid down by virtue
13 of their plan. And ultimately in terms of operations,
14 obviously the Plan represents the status quo in the sense
15 that the State remains in control and benefits from what has
16 been a strong historical track record in terms of safety and
17 reliability.

18 In terms of considerations, as we mentioned
19 earlier the Central relationship is clearly strained. It is
20 not clear to us that the modifications that have been
21 proposed around the Coordination Agreement would materially
22 alter that relationship based on our observations throughout
23 the process. The governance changes that we've described,
24 while helpful, we don't -- it's not clear to us that those,
25 in and of themselves, represent enough structural change

1 such that we would be convinced that the culture of the
2 organization would ultimately be impacted by virtue of
3 decision-making. We do believe, though, that ultimately if
4 the General Assembly were to pursue the Reform Plan, it
5 would be necessary to codify as soon as possible any of the
6 structural improvements that are being proposed, simply
7 because in the current form there is a lack of clear
8 accountability that comes out of any of those proposed
9 governance or other changes.

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

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

24 The relationship with Central, our observation
25 throughout the course of the process was that, our belief

1 was that Central would welcome, or certainly be open-minded
2 to a Dominion relationship. And then finally, as we talked
3 about the real benefit comes from the cost savings that
4 could potentially be achieved by virtue of Dominion
5 operating two of the largest utilities in the state.

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

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

21 Then, finally, as I mentioned, sort of the
22 potential savings to the customers. While we recognize the
23 potential for those by virtue of operating synergies, there
24 is no clear benchmark, there is no clear, again,
25 accountability, I'll go back to, in terms of what the State

1 or the ratepayers should tangibly expect.

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

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

25 NextEra operates one of the largest utilities in

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

12 In terms of the considerations, the top of our
13 list as the legislators asked, so one of the conditions to
14 their closing would be that they would be asking the General
15 Assembly to approve several important elements of their
16 Plan, including their customer rates for that first
17 four-year period, as well as a generation plan that includes
18 approximately 2.3 billion dollars in capital expenditures
19 associated with a shift in the generation fleet and the new
20 resources that they would be seeking to come to bring online
21 during that period of time. I'll also point out that in a
22 material portion of their, in a proposed NA-1 legislation
23 has to do with a form of financing known as securitization.
24 So certain bonds that have that designation be
25 securitization bonds which effectively are bonds for which a

1 stream of cash flow, so the cash flows that will be coming
2 from the payers would be guaranteed by virtue of the
3 legislation that you all would pass. So that legislation
4 would include provisions that effectively would say that
5 those bonds, to the degree that they're ultimately raised,
6 would have guaranteed payments backed by the State. That
7 structure is not uncommon. We see that quite frequently
8 throughout the utility industry in particular. Many states
9 and many utilities have some form of securitization bonds
10 currently outstanding.

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

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

22 MR. MILLER: So we wanted to conclude this
23 session today with this forecast of the projected rates
24 normalized through our bid evaluation process over time. It
25 shows the 2019 budget that was the basis for the ICF process

1 and the status quo. It shows Santee Cooper's projected
2 rates under the Reform Plan and it shows the projected rates
3 under the NextEra Sale Proposal, noting also that the
4 Dominion Management Proposal, as stated, intends to
5 implement the Reform Plan with the assistance of those
6 senior managers.

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

20 It's also important to note for your
21 consideration that with the exception of NextEra's four-year
22 fixed rate proposal, all of the rates are projections. We
23 took great care and effort to undergo rigorous analysis to
24 make sure that what we presented to you for your
25 consideration and decision-making were the most robust and

1 factual and conservative, reliable projections that could be
2 derived. However, they are still projections, the future is
3 still uncertain and either of the entities chosen, NextEra
4 in the Sale Proposal or Santee Cooper in its Reform Plan or
5 the Dominion Management Proposal, may ultimately achieve
6 better or worse performance relative to these projections in
7 actuality.

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

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

17 (End of Video)

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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

Laura S. DeCillis
Certified Court Reporter
My Commission Expires
August 4, 2026

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