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HEARING PROCEEDINGS

February 18, 2020

Report of the Dept. of Administration re: SC PSA (Santee Cooper)

pursuant to Act 95 of 2019

REPORTER: Patricia Bachand

STATE OF SOUTH CAROLINA   )
COUNTY OF RICHLAND   )

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SENATE FINANCE COMMITTEE

TRANSCRIPT OF PUBLIC HEARINGS

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BEFORE: HUGH LEATHERMAN, CHAIRMAN
          SENATOR FLOYD NICHOLSON
          SENATOR KENT M. WILLIAMS
          SENATOR DARRELL JACKSON
          SENATOR GLENN REESE
          SENATOR JOHN W. MATTHEWS, JR.
          SENATOR NIKKI G. SETZLER
          SENATOR HARVEY PEELER
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          SENATOR THOMAS C. DAVIS
          SENATOR KEVIN JOHNSON
          SENATOR KARL ALLEN
          SENATOR JOHN SCOTT
          SENATOR VINCENT SHEHEEN
          SENATOR LARRY A. MARTIN

BEFORE: SENATOR SEAN BENNETT
SENATOR THOMAS D. CORBIN
SENATOR GREG GREGORY
SENATOR GREG HEMBREE
MIKE SHEALY

* * * * *

DATE: February 18, 2020
TIME: 10:00 a.m.
LOCATION: Gressette Building, Room 105
1101 Pendleton Street
Columbia, South Carolina 29201
REPORTED BY: PATRICIA G. BACHAND, COURT REPORTER

INDEX

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REQUESTED INFORMATION INDEX

(No Information Requested.)

Court Reporter's Legend:

dashes [--]   Intentional or purposeful interruption
...   Indicates trailing off
[sic]   Written as said

CHAIRMAN LEATHERMAN: Mike, talk to us about the agenda.

MR. SHEALY: Mr. Chairman, today we have the Department of Administration, and the speciality experts that were hired by the Department. They're led by Marsha Adams, who is the Executive Director of the Department of Administration.

She has a Powerpoint presentation. But before she gets into that presentation, she has some introductions that she would want to make, regarding the expert team that is on the front row. Some of these folks are the same folks that you saw last week, Thursday. And as you said, we will probably break for lunch in the middle, of the day, for a very short time --

CHAIRMAN LEATHERMAN: But not leave the campus.

MR. SHEALY: But not leave the campus. Because there's going to be food brought in for the membership, and then the adjournment at 5 o'clock this afternoon.

CHAIRMAN LEATHERMAN: Marsha, are you ready?

MS. ADAMS: Yes, sir.

MR. SHEALY: Mr. Chairman, it will be appropriate at this time to have them sworn in. So for everyone who is here today to testify, if you would stand

and raise your right hand.

(The oath is administered at this time.)

MS. ADAMS: Thank you, Chairman Leatherman. And thank you, Committee Members. Today, I'm going to introduce our advisors to you. And they will take over the presentation. They'll make just a brief summary again, of all three proposals, and then we'll be ready for any questions you may have.

Before we start, I do want to make some clarifying remarks. To clear up some confusion concerning the Department's ability to release all exhibits referenced in this report, submitted in its entirety, to include all those exhibits to the Chairman of Senate Finance and House Ways and Means on February the 11th.

Pursuant to the Joint Resolution Section 8, the General Assembly has explicitly limited the Department of Administration's authority to disclose information related to the process established by The Act.

Specifically, once the Department has provided the General Assembly with the recommendations of the professional service experts, only information regarding those recommendations shall be released in accordance with the Freedom of Information Act.

However, the General Assembly has specifically prohibited the Department from releasing information described in South Carolina Code of Laws Section 30-4-40, without the written permission of the entity whose bid or proposal was recommended.

Accordingly, the Department has no authority to release any such documents without the written permission of Santee Cooper, Dominion Energy, and NextEra Energy.

Lastly, the Department requested written permission from the three entities to release their submissions. The Department has received written permission from Santee Cooper and Dominion to release their complete submissions.

The Department has received written permission from NextEra to release most of their submission, with the exception for the -- of the disclosure schedules included in Exhibit C.1 in the report.

Those documents are unavailable for release, because they will not be complete until -- unless and until the General Assembly chooses to sell Santee Cooper. Additionally, some of those schedules may include Santee Cooper proprietary information.

All documents included in the report's exhibits, except for the ones that I just mentioned, were uploaded to admin's website yesterday, February 17th, 2020.

And with that, I would like to introduce our advisors. As you know, the Joint Resolution required that the Department of Administration would hire a banker, attorneys and energy consultants to assist, and any other entities that we may need. We did so.

And today with me from Moelis & Company, our banking experts, I have John Colella and Nathan Barnes. Our attorneys Gibson and Dunn, Jerry Farano, Melissa Persons. And then our energy consultants E3 Energy and Environmental Economics, Zach Ming and Nate Miller.

Additionally, we hired Pope Flynn to help us with bond issues, other tax issues. Today, we have Gary Pope and Bill Musser. And with those introductions, I want to turn those over to the experts.

MR. SHEALY: And, Mr. Chairman, just by way of clarification, everyone's bio is in your notebook, in case you want to read the background as people are testifying.

MR. FARANO: Mr. Chairman and Committee Members, good morning. Thank you for having us here. As Marsha indicated, we look forward to giving you a brief summary of what we discussed more globally on Thursday, and then we look forward to taking and answering your questions.

This is beyond my ordinary technical skill set, but I'm going to do my best to make the Powerpoint move. So the agenda today, we're going to talk a little bit about the three proposals. We'll first do a brief summary of Santee Cooper's reform plan, then the management proposal from Dominion -- Dominion Energy, the bid for sale from NextEra Energy, and we'll talk a bit about the Joint Resolution process results.

So Santee Cooper's reform plan, which was presented on the due date with the other presentation, had a great number of potential benefits that we'd like to review for you.

First and foremost, and in keeping with one of the Joint Resolution's specific requirements, that whatever is proposed seeks to benefit Santee Cooper's customers, the taxpayers of the State of South Carolina, and South Carolina itself.

Santee Cooper provides the lowest customer rates. It reduces customer rates by 2.3 billion dollars over 20 years, as compared to its 2019 budget that was passed in December of 2018.

Santee Cooper significantly proposes to modernize the generation mix, retiring coal and replacing it with a mix of natural gas and solar. Zach Ming will speak to you in a few moments, in a little bit more detail, about the implications of the modernization of the generation mix.

Although, Santee Cooper is not in a position to pay down all debt at once, it has an aggressive plan to pay down debt quickly for the benefit of ratepayers/taxpayers in the state, such that by 2039, 4.7 billion dollars of its current 6.9 billion dollar debt load would be retired.

Santee Cooper is not going to jeopardize any current employees. There will be no layoffs. That said, there is going to be a reduction in workforce that they have proposed, from approximately 1675 this year to 1514 in 2028. That's a reduction of 10 percent. And that is going to come, again, not through cuts but rather through retirements, retraining, and natural attrition.

Santee Cooper's governance is seeking significantly to be improved in respect of its proposal. The reform that they are implicating, or have proposed to require, are term limits and qualifications for their directors, the formation of a resource planning group that will consist of South Carolina -- excuse me -- Santee Cooper stakeholders, its customers, ratepayers, and others.

Retention by the board of technical advisors. I think no matter how qualified board members may be, when you're in the role of providing services at the board level, it is often the case that you want technical expertise. They have taken that into account in their reform proposal.

They've increased transparency in the form of public hearings on pricing and major projects, including oversight from ORS in respect of certain projects, as well as potentially from the Public Service Commission of South Carolina.

They've also improved their relationship with Central. As I think we've discussed with you before, and as you'll see in our report, it is a strained relationship. But one, I think, that Santee Cooper, in its reform proposal is looking to make better.

How does it do that? It's reducing its term by five years. As I think you're all aware, as a function of the public bonds that are out in respect of Santee Cooper, the Central coordination agreement goes out to 2058. Santee Cooper, in its reform proposal, is seeking to lessen that term to 2053.

Similarly, they are removing certain restrictions around distributed energy resources development. In other words, for example, many of Central's member cooperatives have their own ratepayers, some of whom might want to have solar on their rooftops, or other distributor energy resources. They are taking a step to improve that, which is obviously helpful.

There's some additional considerations in respect of the reform proposal that, obviously, we know you will take into account as you decide what to do moving forward. One of them is that their reform plan as presented to us does not resolve the Cook litigation.

I'd like to make an important point, though. The Cook litigation is an ongoing case in which Santee Cooper is a defendant. Our mandate did not permit it -- permit us, nor would it have an appropriate for us to get involved in that. So there -- maybe I should say this differently. There will be implications of any Santee Cooper settlement on rates, but we were not in a position to include that in our report.

One of the things that Santee Cooper is endeavoring to do, in respect of the modernization of its generation mix, is to make that happen over ten years. Ten years is not a long period, generally, in utility planning or management. But it does require a track record of generation modernization in order to say, "Hey, we've done this before."

And this is not a function of anything more than the fact that coal has for a long time been a cheap fuel on the margin, coal has been powering Santee Cooper. It's just a function of a generation resource shift of this type has not been done before by them. Or at least not in recent history.

We believe notwithstanding the efforts they've made in respect of reform and governments and increased transparency, that Santee Cooper could have gone further in order to increase transparency from both stakeholders, ratepayers and others.

The Central relationship. As we mentioned, there's some improved facets of it which are nothing but for the good. That said, again, this relationship is really strained due to historical friction and some fundamental disagreements on issues. We're hopeful that it could move for the better. But we have to point out for your consideration, its history.

Finally, and this is not unique to Santee Cooper's reform plan, without some type of legislative codification, progress created by the Joint Resolution could be lost. So for example, if and to the extent there are -- there is reform necessary, and it implicates the enabling legislation, Santee Cooper and all concerned would look to your good offices to impose those changes.

With that as a brief introduction, I'd like to turn it over to Zach Ming, to go into a little bit more depth on the Santee Cooper generation mix. Thank you.

SENATOR CAMPBELL: Mr. Chairman, do you want us to wait until a time over here, a time specific on questions?

CHAIRMAN LEATHERMAN: Yes. What they say may clear up some of your questions.

MR. MING: Okay. Thank you. My name is Zach Ming. I'm a senior managing consultant with E3, based in San Francisco. I'm going to give a brief overview of the generation modernization that is contemplated in the Santee Cooper reform plan.

So if you look here on slide 6, you can see there's a chart on the left, that shows the proposed installed capacity mix of Santee Cooper over time. And then the chart on the right shows the generation -- the energy generation from each of those capacity resources to provide electricity.

The two primary drivers of this modernization plan are, number one, the retirement of the Winyah coal station, which is contemplated in two phases: Half it being retired in 2023, and the other half being retired in 2027.

That energy and capacity is replaced with a mix of new natural gas generation that comes on-line in 2027, that is an efficient combined cycle gas turbine. And then in addition to that new -- natural gas generation, new solar generation of 1500 megawatts that comes on-line over the course of the 2020s.

So I think the primary take-aways from this are that Santee Cooper is cleaning its generation from coal to natural gas and solar. This is broadly consistent with many utilities trends that we see around the industry, not only in the Southeast but also across the United States, as the cost of natural gas and solar have both come down dramatically in the past ten-plus years. They've gotten relatively more economic compared to coal, and so you see many utilities replacing their coal generation with natural gas and solar.

So the combination of those changes leads to, if you look on slide 7, a significant reduction in expected costs over the 20-year forecast period that we analyzed. You can see the top line of this chart on slide 7 shows the projected retail rates for Santee Cooper in their 2019 budget.

So the 2019 budget is the status quo Santee Cooper plan, if you will. It was released in 2018. It was the basis for the previous sale process that was run under ICF. And that plan did not have any coal retirements. It did not contemplate new natural gas or new solar generation.

So the generation modernization leads to the new set of rates that you see in the dark blue, which is the reform plan rates, and the aggregate net present value savings due to this generation plan. And other changes in the Santee Cooper reform plan lead to a net present value savings of 2.3 billion dollars over the 20-year period.

The one other thing that I will add on the generation modernization plan is that it is the advisor's -- the professional service expert's view that the reform plan, as contemplated by Santee Cooper, is not necessarily a preference of lowest cost above all other objectives, but other objectives including fuel diversity and employee retention.

You know, trying to prevent layoffs was also taken into account in developing of the timing of the coal retirements and the quantity of coal retirements. So we think that there could be potential for further cost reductions. But those would come at, potentially, expensive other objectives, including fuel diversity and employees. Thank you.

MR. FARANO: Okay. Thank you, Zach. The next thing we're going to do it talk a little bit about the Dominion management proposal, if we could. And we'll start off with one of its greatest features. And that is that it -- there is no management fee.

Essentially, Dominion has proposed that, and you'll see this in a moment, it only will cost -- the fully-loaded cost of certain placed employees that would be placed at Santee Cooper. And that is the crux of their management proposal. There will be three senior executives placed at Santee Cooper, and they would consider placing one as CEO. If one was not placed as CEO, the other three would report to the Santee Cooper CEO.

Each of the managers who Dominion proposes to be placed at Santee Cooper, must have experience in the management and operation of utilities, they must have demonstrated success in similar positions, whether at Dominion or elsewhere. And they must act in the interest of what they, as reasonable people, believe are Santee Cooper's best interest. And we're going to talk about that conflict of interest issue in a second, in respect of additional considerations.

What are the benefits of this? Well, importantly, there are possible synergistic efficiencies that can be achieved. With Dominion's presence in the state already, the opportunities to potentially share certain costs, planning together, inventory sharing, there are certainly synergies that could be taken advantage of.

It is the proposed plan of limited duration. It is a ten-year contract, and it would be terminable by either party upon a change of control of the other party. Similarly, there are opportunities baked into the contract for extensions, but it's initial term is merely ten years.

Dominion has a very successful track record in the investor-owned utility industry. As you-all know, it is a large and well respected IOU based in Virginia, with a significant presence now in South Carolina.

Also importantly, Central has expressed an interest and a positive view in dealing with Dominion. And one of the Dominion executives who would be placed at Santee Cooper, would be the single point of contact -- or the senior point of contact for the Central relationship.

Finally, and not on the slide, but I think it's self-evident, it is probably the least heavy lift from a legislative perspective. This would merely be a contractual relationship between Dominion Energy and Santee Cooper, as it exists today.

Additional considerations that you should take into account, as you look to see whether and how the Dominion management proposal stacks up against the reform plan and the sale proposal, one is the fact that there is nothing in particular that the Dominion management proposal is doing to impact the debt.

And, again, as we talked about last week, and I think as the predicate for the Joint Resolution, resolution around that debt issue, particularly in respect of the abandonment of V.C. Summer Units 2 and 3, is of critical importance.

The management proposal itself does not

speak to the Cook litigation. Again, something we understand from you and from the Joint Resolution, that is an important consideration. Similarly, there is nothing that has been proposed formally, save for a desire to work to settle an existing litigation between Dominion and Santee Cooper.

Implementation. While this is a management proposal coming from a third party, unless -- well, I should say it is still going to be the managers subject to the Santee Cooper CEO's supervision and seniority, unless that they place a CEO, and in either case subject to the board.

Standing on its own, the management proposal does not have any of the benefits of the reform proposal. And so one of the considerations is, is this something that has independent value? And it might, as we discussed before. Or is it something that is better suited, or potentially suited, to the reform of Santee Cooper as it is proposed by them?

Again, I think everybody believes that when folks are placed in a situation, from a management perspective, they are working in the interests of the party that is managed. However, in light of the fact that we are talking about what will two -- be the two largest utilities in the state, there is a question about whether or not the pursuit of synergistic savings for Santee Cooper won't run into a conflict as between it and Dominion.

Finally, it's very difficult to quantify with any certainty, what synergistic savings may be achieved. There's the -- there's the potential, and Dominion suggests it, for up to a billion dollars in savings. But we were not in a position to quantify how those savings may be achieved.

So that briefly is an overview of the Dominion management proposal. What we're going to do next is turn to the NextEra bid for sale.

As you might expect, in addition to some of the issues we've already talk about in reform and management, a sales transaction brings in some more complexity, simply by virtue of the fact that a large asset, or the assets of a large company would be up for sale.

What are some of the key terms? And we think it's worth explaining them before we go into benefits and considerations. One key term is that all of the debt that is currently at Santee Cooper, both long-term and short-term, approximately 6.958 billion dollars, would be defeased at closing.

It is important to understand that defeasance of the outstanding bonds is not done by payoff on day one. It is done by putting money into escrowed accounts. That money will sit and, ultimately over the existing term of the debt, pay bond-holders. But from the perspective that I think you-all were trying to achieve, of taking that burden off rate hold -- ratepayers, that begins day one.

Also importantly, all defeasance costs associated with the debt will be borne by NextEra. What that means is because of the nature of the bonds, there are prepayment penalties associated with their payoff. The nature of those prepayment penalties is a function of interest rates over time.

NextEra has agreed to bear all of the risk. And although is seems counterintuitive, if interest rates go down in respect -- over time, the cost of the defeasance breakage costs go up.

It provides payments to the state, and allows the state to keep Santee Cooper's balance sheet cash to cover estimated liabilities left behind. Let's talk about that a second -- in a second, when we turn to the chart. And it also offers a roadmap and resources to settle the Cook litigation.

What do we mean by "payment to the state"? If we look at the uses of funds -- it's sort of column 1, 2, 3 -- you'll see what is being paid for by NextEra's proposal. As I mentioned before, you have 6.98 billion dollars' worth of outstanding, long-term and short-term debt. That is the 6.553 plus the 3.06. You have the penalties, which at this point stand at 1.046 billion. That can change again, depending on interest rates. But the risk would be on NextEra.

There's a 500 million dollar cash payment to the state at closing; that money will come through Santee Cooper and back up to the state. NextEra is putting 100 million dollars in escrow. What this means is there is certain cash at risk in this transaction, and it's this 100 million dollars worth of cash.

So for example, if as a consequence of the sales transaction there is a change in net working capital there are accounting errors, Santee Cooper, during the period -- when the contract gets signed and when it closes isn't working to a certain CapEx percentage, there's a purchase price adjustment, okay, that can take place.

But that purchase price adjustment is limited to 100 million dollars. So that money would come out of the escrow, it would go back to NextEra, and in fact at that point, the purchase price would be adjusted downward by 100 million dollars.

Importantly, once that happens, if it should happen, NextEra would have the right to walk away from the transaction. And I don't want to speculate as to whether that would actually take place or not, but the right exists and it's important for you to understand.

Fifteen million dollars would come back to the state, to reimburse it for the transaction costs associated with the Joint Resolution. Not least of which are some of the expenses of those sitting here in the front row.

The third one would be 941 million dollars in rate credits. Let's talk about those for a second. Because 541 million dollars of them go to NextEra's proposal for a roadmap and resources to settle the Cook litigation.

What would happen with those 541 million dollars is, within a very short time, 180 days, I believe, after closing, there would be credits paid to those ratepayers burdened by the Cook litigation costs.

An additional -- and, importantly, how that has been achieved is prior to the beginning of this process, NextEra, in the ICF process and beforehand, had spoken with the plaintiffs' lawyers for the class of Cook defendants, and had gotten a letter from them, obviously unsigned, but in -- or signed, but not actionable until this choice, if ever, is made.

But it's just a path forward. And in that path, the solution that the plaintiffs' lawyers would recommend to their class is accepting 541 million dollars worth of rate credits. There's an additional four -- and importantly, and we'll get to this, NextEra would also pay the plaintiffs' lawyers.

There's going to be another 400 million dollars that ratepayers would get over four years. And that four years is a period -- a rate freeze period that Nate Miller is going to speak a little bit more to you, and I'll address briefly when we talk about it in the next section.

What does all of that mean? All of that means there's approximately 9.461 billion dollars worth of consideration in the NextEra offer. That said, there are liabilities that they are not taking, and it's important to note these. And if you look at the little box on the right of your screen, you see that you've got approximately 525 million dollars, simply, of employee benefit liabilities.

There's a 310-or-so million dollar pension liability. There is about a 188 or 187 dollars [sic] in OPEB liability. There is a senior executive retirement plan that has about a 13.6 billion dollar price tag. And then finally, there's about 14 and a half million dollars of accrued vacation.

If we turn to the next page, we could look at the potential benefits and additional considerations in respect of the NextEra bid for sale. Again, as I noted before, there will be debt defeasance of all debt, including early payment penalties paid off, no matter what they should be.

It provides a roadmap and resources to resolve the Cook litigation, through 541 million dollars' worth of rate credits. And it also pays the plaintiffs' lawyers.

There are additional 400 million dollar rate -- rate cuts and rate credits over the four years of a rate freeze period that we're going to talk about in a moment. There's 515 million dollars that will come to the state in cash at closing. Five hundred million dollars, generally. Fifteen million dollars earmarked as expense reimbursement.

There's cash on the balance sheet. I didn't speak to this before, but I should talk about what that means now. Santee Cooper has approximately 500-plus million dollars on the balance sheet at this point.

As part of this process, when we thought about what you might want to recognize for the state, as you look to its best interest and the taxpayers best interest, one of the things the Department and its advisors considered was having the cash that's left on the balance sheet at the time of closing come to the state.

Why is that? Because a state asset, if it is disposed of, is no longer there to benefit the state as it currently does. There are annual payments that come out right now, and we thought it appropriate that the state get cash that was left on the balance sheet in order to address the loss of having it as a state asset.

In speaking to Santee Cooper, we understand that if this transaction was to close on December 31st, 2020, there would be approximately 500 million dollars. We think the -- I believe the band is between four eighty-five and twenty -- five twenty-five. We chose five hundred as a proxy, but we think that there's a -- that, that's a relatively safe number.

There are other synergistic savings that are achieved by virtue of the fact that NextEra is running the largest utility in Florida, and is one of if not the largest utility holding company in the country, that also has a robust fleet of renewable resources that's run on an unregulated basis.

Not unlike Santee Cooper, in fact very similarly, NextEra is proposing to modernize Santee Cooper's generation mix. Again, it is moving from coal -- a large reliance on coal to a much more balanced and robust reliance on cleaner, cheaper fuels. In this case, as in the case of Santee Cooper's reform plan, natural gas and solar.

One of the differences is unlike my -- what I mentioned before, that the Santee Cooper reform plan will be -- will go over ten years, this will be done over four years. And we'll talk a little bit more about that in the legislation.

But during those four years, there will be a rate freeze for ratepayers. That will be the time where they get their credits, which work into that, where they -- both the 541 and the 400.

And one of the benefits of that is that it places NextEra's rates lower than Santee Cooper's during the rate freeze. And then over the 20-year period that you asked us to look at, they are higher, but by less than one percent over that term.

What else? NextEra has a track record. As I mentioned before, they are a large and well respected utility holding company that runs the largest utility -- investor-owned utility in the state of Florida.

They have gotten -- and you will see as we talk about this further, we can speak to some of the particulars, they have agreed almost with finality to a power purchase agreement with Central. The change from a publicly-owned utility to an investor-owned utility, that would come with the acquisition by NextEra of Santee

Cooper, if that was the direction you chose to go, would not permit the coordination agreement to stay in place. It's just a function of what has happened in the energy industry. And so there would have to be a power purchase agreement entered into, as you required, in the Joint Resolution.

NextEra and others began, as well as Santee Cooper, speaking to Central in early December. And they have gotten almost to finality on their PPA, which at least is a suggestion that neither side is particularly unhappy; although as in all things, maybe not everyone is completely happy.

Finally, as a principle benefit -- or would be a very large benefit, NextEra is proposing to take all of the assets -- or, essentially, all of the assets. And those assets include Lake Moultrie, they include Lake Marion, they include the Jeffries Hydro Station and the FERC No. 199 license.

What comes with that in addition to the assets, is the responsibility to keep them maintained as required by those licenses, and as Santee Cooper has done historically.

What are some of the additional considerations that you should take into account as you look at NextEra's bid for sale? Again, I spoke to this:

The rates are frozen for four years. And what that does in that rate freeze period is provides a lower, by ten percent, outcome for ratepayers than does Santee Cooper's reform plan.

However, in the 15 years, 16 years thereafter there are -- those rates are 5 percent higher than in Santee Cooper's reform plan, resulting overall in less than a one percent net present value over 20 years' advantage to Santee Cooper. And that's approximately 161 million dollars. But, frankly, they are higher over the 20 years than the Santee Cooper. Something to be considered.

The legislative ask of you, which I think is of particular importance to the folks in this room, is comprehensive, and is, frankly, an essential part we think of the benefit of NextEra's bargain. But let's speak to it for a moment. Because what it does is, is -- in ways, it bypasses the traditional role of a public service commission, and asks you-all to step into that role.

How and what are the implications of that? We like to think about it -- and I'm going to move away from my bullet points for a second here -- as sort of three different buckets. And at least for me, it's easier to understand this way.

One bucket is a function, again, of this sale, resulting in a change from what has historically been a publicly-owned utility to an investor-owned utility. What I mean by that, I mean in a private sale of an investor-owned utility, there is a revenue requirement, there is a rate base, there is an ROE, there are known markers that it is only appropriate for a buyer to come in and address, either by saying, "I will take those until my next case before the PSC, or I am going to, as a condition to closing, ask the PSC to approve what I want to make my deal work."

Here, that is not the case, because Santee Cooper has been publicly-owned. So in other words, in respect of revenue requirement, in respect of return on equity, in respect of debt equity ratio, it is non-traditional for a General Assembly to make that determination. But it is not -- but is understandable. It's more a function of the nature of the transaction. That's kind of bucket 1.

We think of bucket 2 as a little bit differently. In bucket 2, the big issues that arise are approval of the generation plan and approval of the costs of the generation plan. Traditionally, those issues are left to a public service commission to determine.

Why? Because they provide an avenue for stakeholder involvement, they provide a way to request backup in detail for information, they provide avenues and modalities for interveners to come in and say, "I like it." "I don't like it."

Here, that is not the case. In our discussions with NextEra, we did suggest to them that this is a non-traditional path that could potentially cause some concern, and issues were -- excuse me -- actions were taken to address that.

So for example, there are caps on costs that could be spent on a pre-approved generation plan, and there's a promise to -- if the costs are actually less than that, of course just go with actual costs.

But what it doesn't do -- or what it does is changes the rubric a little, and puts to you-all the responsibility for approving the generation plan and the cost of that generation plan.

Now, keep in mind that after the rate freeze period -- excuse me -- NextEra would be treated -- or Santee Cooper under NextEra ownership of its assets, would be treated no differently than other -- any other investor-owned utility in the state.

So the question becomes one of how do you consider this. It's for you, of course, to decide. But when we pressed, it was essentially the benefit of NextEra's bargain. In exchange for the consideration we discussed before, this was something that they felt that they needed to have certainty on their side.

Let's talk a little bit more specifically about it. As I think we mentioned, there will be a rate freeze for four years. There's going to be 2.3 billion dollars in new generation construction, or CapEx, that will occur during that period.

They're seeking fee in lieu of tax provisions in their legislation. They are seeking approval of securitization bonds. Securitization is merely a method of financing; it's not at all uncommon. The inclusion of this as part of the legislative ask makes sense. And, frankly, without a legislative mandate, the PSC would not have power to do this on its own.

And then there is a non-standard or bonus -- excuse me. The wrong word. I'm thinking of something else. -- depreciation opportunity that would defer costs after the four-year fixed period.

One note I'd like to make to you-all, there's just a small error in your -- and we ultimately will send out a correction sheet with any errors that may have been caught in the report. But on page 74 of the report, in the fifth bullet there is a romanette ii, and two "little I," that suggests that the state is standing behind the securitization with a guarantee. That's simply not true. It was wrong. How it made it in there is going to be a bad day for somebody. But you needn't worry about it. That just happens to be a mistake. It is not true. So please disregard that.

There's a headcount reduction that does take place if NextEra acquires Santee Cooper. And it is one that takes the 1675 count, the 2020 count that we talked about with Santee Cooper, going to 1514 over time. In the case of NextEra, it goes from 1645 to 970 over time. And that is not an insignificant amount of workforce reduction there.

It is in large part a function of putting the lowest cost first. And it's also large part in function of the fact that, as I mentioned, they are retiring coal much more quickly, and the workforce associate with coal-fired plants and the workforce associated with gas-fired generation or solar plants is much smaller.

There is out-of-state reporting. Although, the CEO of a NextEra-owned Santee Cooper will be resident in Moncks Corner, and will be the senior executive decision-maker for the company, they, too, and others through business functions will report up to NextEra's headquarters in Florida.

Finally, I think it's important to give this a little shift as well, NextEra is not taking most pre-closing liabilities from Santee Cooper. Now, there are certain things that we've spoken about. There's the Cook litigation. There are certain expressed liabilities. Anything that happens from closing forward, they take. But it's important for you to consider that there are many liabilities that are left behind.

What does that mean? How do you evaluate? Well, right now they are inchoate. It is not known what they may be or become, or how much the financial cost of them may be.

Fundamentally, though, what is happening from a risk allocation perspective is that a risk currently borne by Santee Cooper's ratepayers. So in other words, if there's a pre-closing liability today that comes up, that has to be addressed by Santee Cooper, Santee Cooper can go out to the debt markets, it could try to issue more bonds.

But in all likelihood, those costs would -- would redound to the detriment of ratepayers. That's a 2 million dollar indirect universe of people who today bear those costs.

By leaving those costs behind, okay, and assuming that Santee Cooper, because NextEra is buying essentially all of its assets, does not have the credit to address these liabilities, one must ask -- and it may be speculative on my part, but I think it's important for you to consider, one must ask where do those liabilities now reside? Who ultimately bears the responsibility?

Well, it's probably going to be the state. There's nothing that says it in writing. It's not subject to a contract. It's a fact that there will be liabilities that will exist, that will have to be borne by an entity that may be out of existence, or no longer have any assets that's current, but ultimately was a state creature.

What does that really mean? It's that instead of 2 million ratepayers bearing the risk for the cost, 5 million taxpayers now bear them. The risks don't go away. Whether you leave behind -- leave them behind or you take them, they're still there. It's just who pays for them. And I think what happens here is just a bit of a risk shift.

So with that, I'm going to turn it over to Nate Miller at E3, to talk a little bit about NextEra's generation mix. Thank you.

MR. MILLER: Thanks, Jerry. So when we looked at NextEra's proposed generation mix, the first item to note is it's very similar in its strategic direction to Santee Cooper's reform plan. And this, as Zach mentioned, is simply the result of current resource economics in the power industry, certainly in the region. And also more broadly, nationwide, a general transition from coal-fired power plants to a heavier reliance on natural gas and solar generation to serve load.

So while it's the same strategic direction, what's important to note here as a distinction with the NextEra plan, is its proposal to accelerate the transition from coal to gas at the utility. And it does so by retiring the Winyah coal-fired generation station within a much shorter time frame.

So while the Santee Cooper reform plan proposes to retire Winyah fully by 2027, in the NextEra proposed plan we see that retirement happening fully by 2023. So this happens within the broader context of NextEra's proposed transformation period. This is one of the core elements of their proposal.

Over the four-year period, the first four years that it would assume operations and control of Santee Cooper's assets, it proposes to fixed rates for customers. And over that four-year fixed rate period, at the same time NextEra wishes to implement all of its changes to the generation mix, as well as, broadly speaking, to headcount reductions and operational efficiencies regarding operations and maintenance of the wires network, as well as the generation assets that are retained, in addition to operation efficiencies at the headquarters for general and administrative expenses.

So what that means in its entirety is there is rate certainty for customers over a four-year period, during which the rate credits proposed are applied. Those credits do reduce NextEra's rates below Santee Cooper's projected rates for that period. After which, NextEra would go before the Public Service Commission and undergo a rate-making process in the same manner that other utilities currently operating in the state would undergo.

So something else to note: If you look at the chart on the left behind me, you'll see the installed capacity mix, different resources that make up the generating capabilities of the fleet under the NextEra plan.

Now, as Zach mentioned, this looks very similar on its face value to what Santee Cooper is doing. If you look at the right, however, the generation mix, you see a much higher percentage of the energy generated on an annual basis coming from natural gas. This is the result of how the units are actually dispatched, generally driven by a larger combined cycle gas turbine of about 1200 megawatts that NextEra proposes to build.

The gas turbine, in addition to 800 megawatts of solar and another 50 megawatts of four-hour batteries, together comprise the energy mix that NextEra is asking for pre-approval by you, as the General Assembly, in its proposed legislation.

So if we look at the net effect of this generation mix, as well as the proposed operational efficiencies that NextEra is planning, and has submitted in its proposal, we can see NextEra's projected rates over the 20-year forecast period.

Now, similar to the Santee Cooper reform plan rate projections that Zach talked through, these reflect the E3 normalized projected rates. But we have taken the assumptions that were provided to us by various proposers, including Santee Cooper, and we have made certain adjustments so that all of the rates are facing the same external world of real external factors.

So the most -- the single most important factor here is the projected natural gas price. As I mentioned, since both Santee Cooper and NextEra are proposing the same transformation of the generation mix from coal to gas, then the future natural gas price is of course the single most important factor in what the ultimate cost borne by ratepayers are likely to be.

So in our normalization process, we used the same projections of natural gas prices for all proposals in our evaluation, so that it was truly an apples-to-apples comparison. Furthermore --

CHAIRMAN LEATHERMAN: Speak into the mic, if

you would.
MR. MILLER: Is that better?
CHAIRMAN LEATHERMAN: Yes, sir. Thank you.
MR. MILLER: Certainly. So in addition to using the same natural gas price projections for all bidders, so that it is an apples-to-apples comparison. In other words, no bidder has a purported advantage for a cost that cannot be controlled, we consequently did give various entities credit for those particular assumptions, where they had a plan, a contractual commitment, or an inherent competitive advantage that was justified and demonstrated to us, in order to provide us comfort that those differentiating factors, additional cost reductions and the like, would actually come to pass.
Essentially, we wanted to be able to put forward for your consideration of the proposals, projected rates which we thought were reasonable and achievable, so that you were not evaluating something that was unlikely to be implemented, if you so chose that route.
So one other note for the NextEra rate projections: You can see the first four years, the impact of the total 941 million in proposed customer refunds and credits over those first four years do bring the rates below the Santee Cooper reform plan projected levels. And thereafter, in 2024, NextEra would go before the Public

Service Commission, and as I mentioned before, undergo a typical rate-making process similar to the other investor-owned utilities currently operating in the state.

So with that in mind, we'd just like to conclude our recap before we get to the questions, by looking at the total results of the process from the perspective of the rate projections.

So I think first and foremost, it's important to note that the implementation of the Joint Resolution by the Department of Administration and its advisors has resulted in substantial savings. We believe that we have presented you with three viable, implementable options as a way forward for Santee Cooper.

Each of these options is demonstrably better than the projected status quo, as we see in the light blue line, and as we considered from the ICF process.

Now, both Santee Cooper and NextEra, and we can assume Dominion management in its support for the reform plan, are projecting the same transformation, the generation mix. Santee Cooper's is a bit more slowly over time, and NextEra's is very up-front and a slightly larger magnitude with respect to gas.

At the same time, we expect that while these are projected rates and subject to uncertainty, we expect over the 20-year period, the rates to be relatively close.

You see in the initial four years, the NextEra projected rates are approximately 10 percent lower than the Santee Cooper reform plan, and then 5 percent higher thereafter.

In total net present value terms, that's approximately one percent different over the 20-year period. Of course, thereafter, we would expect a differential to potentially persist due to structural cost differences.

But I'd also like to note that in the rigorous evaluation of the proposals and the rates and the terms that we now put before you, you are looking at rate projections that we deem to be reasonable and achievable. But the reality of anything projected, especially after ten years, is inherently uncertain. And any entity that is chosen to continue on the path forward for Santee Cooper, may achieve materially better or worse rates than those that you see.

So with that being said, it's been our pleasure to assist the Department in this process, and to implement the Joint Resolution process that you have put before us. And so we stand ready to answer your questions, to assist you with your decision-making. Thanks.

CHAIRMAN LEATHERMAN: First, does that conclude this part of your presentation?

MS. ADAMS: Yes, sir, it does. Thank you.

Yes, sir, it does.

CHAIRMAN LEATHERMAN: Okay. Mike, before we call on the next, I got a couple of questions for Mr. Farano. The 2.3 million reduction, that has assumptions projection in it, right?

MR. FARANO: The two point -- is this -- Mr. Chairman, in respect of the Santee Cooper reform plan, the 2.3 billion dollar reduction over 20 years in rates --

CHAIRMAN LEATHERMAN: It has assumption projection?

MR. FARANO: Yes.

CHAIRMAN LEATHERMAN: If they don't come through, we don't have that, right?

MR. FARANO: That's -- that's correct.

CHAIRMAN LEATHERMAN: Okay. The next one, I think you said the state's not standing behind their securitization.

MR. FARANO: Right. It is not.

CHAIRMAN LEATHERMAN: Mike, call the next.

MR. SHEALY: We recognize Senator Setzler.

SENATOR SETZLER: Mr. Chairman, if you would allow me to ask a series of questions, I'll then stop. Because I could ask them for hours. But I will be kind enough to yield to other members, if you would indulge me for just a few minutes on a series of questions.

First of all, let me say to Ms. Adams and your Chief of Staff at DOA, and the attorney at DOA, thank you for what you have done. I appreciate the work that you have done, along with your experts and advisors.

And please do not read anything in, to any questions that I or others may ask as a reflection. I think everybody knows that this proposed transaction could potentially be the biggest transaction in the history of this state, if not in the history of this country. And the senator from Edgefield and I spent 22 months of our life, seven days a week 24/7, dealing with what's occurred here. So this is not deja vu for us.

Mr. Farano, if you would, I would like to ask you a couple of questions, please, sir, I guess -- or if there's other people you want to do it. On the NextEra bid is it a direct characterization that it is contingent totally on the passage of the 42-page piece of legislation that they propose?

MR. FARANO: That's correct, Senator. It is, in fact, a condition of their obligation to sign the Asset Purchase Agreement that you-all would have approved the legislation that they proposed.

SENATOR SETZLER: And so if the General Assembly chooses not to pass it, or changes it, they have the option to walk.

MR. FARANO: That's essentially correct. Yes, they would have to approve of whatever changes that you wanted, or change their mind in respect of a decision to reject it, before they'd have any obligation to sign. That's correct, sir.

SENATOR SETZLER: And to me that's very important. I want to take you down a road and I want you to follow me. So when the General Assembly acts, if they don't pass that legislation, then NextEra has a right to act. They are not bound.

MR. FARANO: That's correct

SENATOR SETZLER: Okay. In that legislation it requires the General Assembly, for lack of a better term, to set the rates or their costs of providing services. Is that not correct?

MR. FARANO: It does. It requires you to approve in advance, the cost parameters associated with their generation plan, such that the PSC would, in its review of that, accept that determination. Yes, sir.

SENATOR SETZLER: Do you believe, or your experts believe, that the General Assembly has the knowledge to set rates?

MR. FARANO: We'll need to leave that to you to make a determination. I think in your discussions and questions of NextEra, that would be something that you certainly should probe with them.

SENATOR SETZLER: I'm not asking NextEra. I'm asking you. Do you believe that the 170 members of the General Assembly have the knowledge to set rates?

MR. FARANO: I think non-traditionally what's being asked for -- they're asking you to pass is something that you can do, yes.

SENATOR SETZLER: Did you or any of the experts do an evaluation of the rates that they were proposing in this legislation?

MR. FARANO: We did evaluate the rates, yes.

SENATOR SETZLER: And what was your conclusion?

MR. FARANO: As we've shared with you today, our conclusion was that the projected rates that NextEra has proposed are in line with the projected rates proposed by Santee Cooper in its reform plan, and were also generally reflective of the rates proposed by other participants in the process.

Looking at that, and then looking experientially at the market at current fuel prices at the proposed generation mix, we believe that the rates were certainly not per se unreasonable in any way, shape or form.

SENATOR SETZLER: Did you talk to ORS or any of the Public Service Commission about the rates? Did you ask for their opinion or ask for them to give you input into the rates?

MR. FARANO: So in respect of ORS there was a mandate to discuss one particular feature of the bonds with them. We did not feel it appropriate, because it would have been outside the confidentiality restrictions, to otherwise address the rates with them.

We did have experts on our team, who are quite familiar with rates and rate-making, who have been before innumerable public service commissions in this country, and who have, we believe, sufficient knowledge of the rates to understand the appropriateness of them, so --

SENATOR SETZLER: And this legislation also required the General Assembly to set the ROE?

MR. FARANO: It does.

SENATOR SETZLER: Have you ever heard of the Base Load Review Act?

MR. FARANO: Yes, Senator, I have.

SENATOR SETZLER: And it also requires the General Assembly to determine prudency?

MR. FARANO: It requires the General Assembly to approve the generation plan and its costs, as proposed specifically in that legislation, which would indeed have the effect of deeming them to have been prudently incurred. That is correct, Senator.

SENATOR SETZLER: And I believe your summary says that.

MR. FARANO: That is correct, Senator.

SENATOR SETZLER: Now, relative to Central, your report says that you monitored the negotiations between Central and the three entities, that you have now submitted to the General Assembly. Explain to us a little bit more about what you mean by "monitoring." And did they have discussions outside of your presence?

MR. FARANO: The answer to the latter is "no." But I am going to --

SENATOR SETZLER: Okay. I thought it was. But I just wanted to get that on the record.

MR. FARANO: I'd like to ask John Colella to speak to the -- our monitoring of it, since he is a little bit closer to it than I am, when we talked before. I think that he would be able to provide you a little bit more color on that, Senator. If that is okay with you.

SENATOR SETZLER: Sure.

MR. COLELLA: Thanks, Jerry. So as part of our process, we mandated that all process participants only have interaction with Central, whether it be in person, conference calls, e-mails, etc., in a -- in a setting where we -- the DOA and its advisors were able to either participate, be present, monitor, chaperone, etc.

And so our understanding is, is that all of the process participants did abide by those rules that we set as part of the process. We're not aware of any discussions that took place outside of those roles.

SENATOR SETZLER: Okay. Thank you. Mr. Farano. So according -- if I'm reading your summary correctly, there is no agreement at the present time between Central and NextEra. Your report says there are minor differences which they think they can work out.

MR. FARANO: That's correct, Senator.

SENATOR SETZLER: So there is not in existence, a proposed contract? Or is there, between Central and now?

MR. FARANO: That's a very good question. There is a proposed contract. It is a draft. It is essentially in final form. There are a few things that remain to happen before that it would be -- it would be signed. Those things are dependent on the parties resolving those few minor issues, which I think are down to one de minimis issue.

And then but it's also the case that at that point, Central will need to go back -- the members of Central's board would need to take the contract back to their respective cooperative boards, and those cooperative boards would need to vote on the approval of that contract.

So until that occurs, you know, Central is not going to be in a position, as we understand it, to execute that contract. So those are, I'd say, the requirements left before it is executable.

SENATOR SETZLER: Whether it's de minimis or not, there's not currently an agreement between Central and NextEra that is finalized.

MR. FARANO: That's correct

SENATOR SETZLER: As I read your report, there is no agreement between Central and Santee Cooper at this point.

MR. FARANO: There is no agreement to -- in writing, in respect of those provisions, of Santee Cooper's reform proposal. So in other words, the shortening of the tenor and the changes to the distributed energy requirements section. There is an existing agreement, the coordination --

SENATOR SETZLER: That's been there.

MR. FARANO: That's been there. Yes.

SENATOR SETZLER: Right. But as your report says, Central has not agreed to what has been proposed by Santee Cooper.

MR. FARANO: Not in writing, pursuant to an executive -- an executed contract.

SENATOR SETZLER: So other than --
MR. FARANO: Correct.
SENATOR SETZLER: -- the existing agreement, there is no new agreement --
MR. FARANO: That's correct.
SENATOR SETZLER: -- between the two of them. All right. And then my understanding in the management proposal with Dominion, there is in essence an agreement, that there is no change, that Dominion and Central are both comfortable because of the synergies between the two there.
MR. FARANO: That's correct. There are no --
SENATOR SETZLER: So there --
MR. FARANO: -- proposed changes to --
SENATOR SETZLER: So there would be no --
MR. FARANO: -- the coordination agreement.
SENATOR SETZLER: -- action required by Central, relative to the management with Dominion.
MR. FARANO: That's correct
SENATOR SETZLER: And there would be a requirement of action by Central in dealing with Santee Cooper.
MR. FARANO: I don't want to get and of myself. Let me answer it this way: Santee Cooper's reform

proposal, proposes certain changes to the Central coordination agreement. Whether or not Central and Santee agree to those, if you were to choose the reform plan there is an agreement in place. So the proposed changes to the coordination agreement have not been memorialized.

Whether it is -- whether Santee's reform proposal is actionable without those changes, I'm just going to say "no." Because the reform proposal that was presented to us didn't have them -- contained them.

SENATOR SETZLER: Is the -- is the Santee Cooper proposal of reform, if the General Assembly adopted it, does it take any action by Central, as far as you are concerned?

MR. FARANO: Yes, to effectuate the changes -- the reform as proposed, it would take Central and Santee Cooper to amend the coordination agreement.

SENATOR SETZLER: And out of fairness to you, Mr. Farano, that's where I'm going.

MR. FARANO: Got you.

SENATOR SETZLER: In my opinion -- and it's worth what you pay for it, nothing. It's my opinion. The legislation that we pass says that when we receive this, it must include a contract for each recommended bidder to comply with the terms of the bid, in the event it is approved by the General Assembly.

In my opinion, it was the position of the General Assembly that when we chose one of these, and the General Assembly acted, that was the last action; there was no other action required. We don't have that before us with regards to NextEra. We don't have that before us with regards to Santee Cooper.

I think -- I think we have contingencies which don't meet what we were expecting to receive. And in fact, I will tell you what part of my problem is, if the General Assembly chose NextEra to sell it to, it takes an action beyond the General Assembly to complete that.

Beside their contingency, you've got to have an approval by the board of Central, they get the last say so. If they reject it, we're right back where we are. If we adopt the reform of Santee Cooper, according to what you just said, then Central has the last word again.

I don't think that was ever the intent, in my opinion, of the General Assembly. I think it was the intent when we spoke, we had something that we could enforce. And I don't believe that's what we got. That's just my personal opinion.

MR. FARANO: Understood, Senator. I would only point out that I believe, in respect of the Central contract, the legislation actually says a proposed agreement with Central. I think it's in Section 9, but I'd have to pull it. And I'd be happy to look at it and send you that answer in writing.

SENATOR SETZLER: It does say a proposed contract. But if you read above that, it says that when the General Assembly acts, it's enforceable. Period. And so I -- you can't interpret it both ways --

MR. FARANO: I understand. I understand.

SENATOR SETZLER: I can tell you the way I interpret it. All right. The only other thing right now, and then I'll let some others.

Clearly, the NextEra proposal leaves liabilities with the state. So when we say the debt is being paid, the debt may be paid, but there is a bunch of liabilities that will be given to the state, otherwise.

MR. FARANO: I think you raise a very good point, Senator. And that's why we tried to distinguish those in the benefits and the considerations. A benefit, of course, as you point out, is the defeasance of the debt. A consideration for you-all to keep in mind, is that they are not taking all pre-closing liabilities with them in their proposed transaction. It would be uncommon for a purchaser to do so. But they are not. And that is absolutely correct.

SENATOR SETZLER: And as you said, part of what they're leaving behind, passes a liability to every citizen in this state, regardless of where they live or who they're served by, that doesn't currently exist.

MR. FARANO: We believe that is a fair read, yes, that there is a risk shift, as you described, Senator. That's correct.

SENATOR SETZLER: Mr. Chairman, I'll leave it.

CHAIRMAN LEATHERMAN: Mike, the next one.

MR. SHEALY: Senator Cromer is next. And then the next up will be Senator Grooms and Senator Bennett.

SENATOR CROMER: Thank you, Mr. Chairman. Mr. Farano, let's back up -- and, again, I'm like the Senator from Lexington, that if you have someone else that you'd rather --

MR. FARANO: Thank you, sir.

SENATOR CROMER: -- answer the question, please ask them to come up. Under the Santee Cooper reform, I didn't see it. And it may have been in there, but do we know how much they would have to borrow and incur new liabilities to install these new generating facilities?

MR. FARANO: Let me -- let me turn that over to Nate to answer, if I could.

MR. MILLER: And that's fine. Thank you, Senator, for the question. Regarding the retirement of the outstanding stock of Santee Cooper's debt, it is true that their capital expenditures for the new combined cycle plant, as well as ongoing capital expenditures in the system as a whole, transmission distribution and the like, will require the use of additional debt in the future.

The exact numbers, I won't speak to you now off the top of my head. We can get those back to you in writing, so we make sure they're ironclad.

The total -- essentially, what Santee Cooper's plan does in order to achieve the draw-down -- the total pay-down of the outstanding debt, is a greater reliance upon cash generated from the capital investment fund, the CIF, which is collected annually from all ratepayers, and a lesser reliance on the issuance of new debt. But there is some additional debt that is issued.

SENATOR CROMER: Okay. And that debt repayment for whatever they had to borrow is already being calculated in that bottom line --

MR. MILLER: That's correct.

SENATOR CROMER: Okay. All right.

MR. MILLER: Yeah.

SENATOR CROMER: Moving on. Speaking to Dominion's management, and also NextEra, I assume that the line all the way out to -- I forgot what it is there now -- 2039, that is not a guaranteed rate. Is that correct?

That's the projected rate for NextEra?

MR. MILLER: That's correct, yeah.

SENATOR CROMER: So speaking on that, going down, the senator from Lexington had asked about the -- we call it the Base Load Review Act Part 2, the 2.3 billion in new capital expenditures, is that a guaranteed figure? Or when we propose that legislation -- and that may go back to Mr. Farano. When the Legislature passes that, does that leave it open-ended, they can raise whatever they need? It would not be kept at 2.3 billion? Or would it be kept at 2.3 billion?

MR. MILLER: No, that's subject to the caps proposed in the legislation for those generation assets.

SENATOR CROMER: Okay. The fee in lieu of taxes, how far out did that go? For the first four years? Or was it a longer period for NextEra?

MR. MILLER: For NextEra? My recollection, and I'll give you the -- again in writing, would happy to respond with an exact figure. But there is a transition period of time that's, I believe, greater than four years, by which that comes into being.

The fee in lieu of taxes is also broken down at the county level. I believe that the new combined cycle assets going into Fairfield County has a specific fee in lieu of taxes for Fairfield County. But again, I don't want to speak to numbers off the top of my head, so I'd rather get those back to you in writing.

SENATOR CROMER: Okay. And this speaks to both Dominion and NextEra, but we heard -- and I don't know why it was even put in there, but there's a possibility of some synergistic savings. But that doesn't give us anything to plan off of. We don't -- there's no finite figure or anything that we can -- we can be assured of on synergistic savings.

I also had the 525 billion dollars in liabilities for the state. So essentially, that liability -- and that doesn't include any litigation that were -- would be to come up amongst the remaining customers outside of Central's lawsuit. I guess there could be another class action. I'm not an attorney, and I don't know, but there could be another lawsuit against Santee Cooper at the time.

So Santee Cooper, at the time NextEra took over, we would be as a state and our taxpayers -- not ratepayers but taxpayers -- would be liability for those other contingency liabilities, lawsuits, or anything else that happened prior to the closing, correct?

MR. MILLER: Yeah. With regards to the liabilities that are pre-closing liabilities, as Jerry said, yes, we believe those would fall upon the state, ultimately. Although, it is a dotted not and not a contractual, you know, firm line anywhere where we would draw that conclusion.

There are funds provided in general proceeds to the state as a result of the NextEra economic bid, 500 million in payment, the additional 100 million in escrow, some of which may be returned, and some of which may not.

And then finally, the return of the balance sheet cash on Santee Cooper's balance sheet today, or ultimately at closing, that the state, if it should so choose, could be used to cover some of those outstanding liabilities.

SENATOR CROMER: Okay. And the last question, I think, is: Can you lay out for me, specifically -- and I think you just did -- what the state would get out of it is 500 million dollars out of the sale? We possibly could get another 100 million. But chances are, there are going to be some errors that were made, or some accounting procedures that NextEra would have the right to take back that 100 million dollars.

So all that we would be, quote, guaranteed would be the 500 million dollars. Is that correct? Am I making the wrong assumption?

MR. MILLER: Five hundred million plus the return of the cash on the balance sheet.

SENATOR CROMER: Right. But that's already an asset of the state right now.

MR. MILLER: Yes, that's correct.

SENATOR CROMER: So I don't know that we could say that NextEra is giving us an additional 500 million dollars, when that's on the -- on the balance sheet now.

All right. That being said, now, what was the time period that NextEra had to say, you know, "We made a missed projection" or "Santee Cooper gave us some erroneous information, we're backing out of this deal," how far out can they do that? Eighteen months?

MR. MILLER: I think I'll turn it over Jerry to answer those specific questions about those conditions.

MR. FARANO: Thank you, Senator. I just want to take one step back in respect of the cash on the balance sheet. And I think it's completely fair of you to say that's already an asset of the state. And I get it. We're -- we've got a lot at stake going on here today.

SENATOR CROMER: Right.

MR. FARANO: I think a difference is that, that cash on the balance sheet is really Santee Cooper cash. Santee Cooper's obligation to pay the state is a function of an annual payment. They would be able to apply -- or if the cash was left on the balance sheet for a buyer, they could use that cash for other things. They could pay down debt. They could use it for project development.

So while I would not quibble with you that, overall, that is a state asset, I think there is a bit of a distinction insofar as that 525 wouldn't be in, for example, the general fund, but for the way this process is working.

So I don't want to suggest anything wrong with what you said. But I think what it does is, if you look at the 500 million cash payment, the 15 million dollar expense reimbursement, what may or may not have come out of the one hundred, that you could really consider that 500 cash on the balance sheet as well. Because you will be able, affirmatively, to direct where that cash goes. Whereas, now that's not something that's within the purview of the General Assembly. And I don't mean to quibble.

SENATOR CROMER: You're correct. And when I said the state's, it's because it's a state-owned utility, it doesn't belong to NextEra.

MR. FARANO: Yes, sir. Understood.

SENATOR CROMER: The contract could have been negotiated to where NextEra kept all assets, including what was cash on hand. I've bought and sold enough businesses that I know it depends on what you negotiate.

MR. FARANO: Absolutely, sir.

SENATOR CROMER: When I made that statement, I was referring to the fact that, that was not money that NextEra was putting in at this time.

MR. FARANO: That is absolutely accurate. Yes, sir. In respect of your other question, "How far out?" So what we have done, which we think is a bit beneficial for the state in respect of this transaction, is to try to structure it as a public company deal.

So in other words, traditionally, in an asset purchase agreement, the seller will be saying -- making certain representations and warranties to the buyer, about the quality of assets, about environmental liability. All sorts of things.

And if for some period of time after the deal closes it is determined that one or another of those thing were untrue, and if there is an economic cost, a claim could be brought by the buyer during that post-closing period, which is often referred to as the survival period, which I think was the point you were getting at.

Here, as a public company deal, all the representations and warranties will expire at the closing. So there is no post-closing recourse for claims for breaches of reps and warranties.

There are certain covenants that are made by -- that will be made, if you were to select this deal and it goes forward, by Santee Cooper during the interim period, that period between a time that it would sign the contract and the time the contract would close. In respect of those, if there's -- if it turns out that there's a breach, and only certain types of breaches, there's a six-month period. So in other words, there are six months, after which there will be potential recourse to Santee Cooper for breaches of interim period covenants.

Now, what gives us some comfort in respect of the state's protection there, is that the interim period covenant list is something that can be monitored very much in real time. And particularly the way this deal is structured, NextEra would be working hand-in-glove with Santee Cooper after the deal is signed, and they would have a level of access to information.

That is not uncommon. But in this case, is more robust than usual, in large part to ensure that the nature of those covenants would be knowable at the closing.

So is there a survival period? Yes. How long is it? Six months. What does it cover? Certain interim period operating covenants. What do we think is the relative level of risk on those? Lower rather than higher, is probably my best estimate.

SENATOR CROMER: Let me say -- something else came to mind. I've had some people call me that --

concerned about the lakes. We were talking about Lake Marion and Lake Moultrie, the Santee Cooper area there. The people around the lakes, they lease property from Santee Cooper. And I assume that this in no way would affect any of those contracts that are already existing and in place; is that correct?

MR. FARANO: Your assumption is correct, Senator. Yes.

MR. SHEALY: Senator Grooms.

SENATOR GROOMS: Thank you, Mr. Chairman. In the -- at the beginning of the report, it says that each bidder, including the one recommended here, faced a significant financial challenge, in addition to being required by the Joint Resolution to solve the multi-billion dollar problem of the outstanding indebtedness for assets that are neither used nor useful.

Why did the consultants choose to use the specific terms "used" or "useful"?

MR. FARANO: Thank you for that question, Senator. "Used or useful" is a term of art in regulatory rate-making. So in order to have prudency around costs -- and I will confess that I am not a regulatory lawyer. And we'd be happy to, in writing, get you some more information around it, so that I'm not misspeaking.

But in layperson's terms, or at least my understanding, the "used and useful" requirement is one that, generally, in terms of prudence review, is necessary for costs to be included in rates.

So it wasn't -- it's not a term that we used. It's a term of art that the ORS had make a -- had made a determination on, in respect of a portion of the debt related to V.C. Summer Units 2 and 3.

SENATOR GROOMS: So the art -- so the -- so the Department chose to use the specific terms "used and useful," which is really at the center of the Cook case. But you chose to use those specific terms in this report.

MR. FARANO: Again, you -- I think it's a "used or useful" requirement. I didn't -- I don't think of it as being from the Cook case, as much as it is an absolute fundamental tenet of regulatory rate-making. And it goes to the very issue of what can or can't be included in rates. So that was sort of the -- behind our thinking.

SENATOR GROOMS: But you preference that by speaking of a multi-billion dollar problem of outstanding indebtedness. So it seems to me that we have a state agency getting ahead of the Cook case, and declaring certain assets to the -- to have no use or usefulness. Is that --

MR. FARANO: I apologize, Senator. If you could try to ask that question again. I don't agree with how you characterized it, but I -- but I don't want to -- I want to make sure I'm understanding your question.

SENATOR GROOMS: According to the Department of Administration, what assets are neither used or useful?

MR. FARANO: V.C. Summer Units 2 and 3, okay, other than certain transmission assets that are working, are neither used nor useful. That was the only point around the debt. It's that piece of the debt that goes to assets that are neither used nor useful. That is the crux of, I think, what you-all took into consideration when you wrote the law.

SENATOR GROOMS: So the Department, through the consultants, have now made the determination that the parts at V.C. Summer are neither used nor useful for Units 2 and 3.

MR. FARANO: Again, I want to answer the question correctly. We made no determination around "used or useful." It is a regulatory term of art that goes to those costs that could be included in rates.

SENATOR GROOMS: In the report, it also mentions that conversely, and in part, in order to ensure certainty in respect of cost recovery, the recommendation sale bidder is effectively shifting certain liabilities that currently reside only with Santee Cooper's ratepayers, to all South Carolina taxpayers, and presenting you enabling legislation that in some ways, justifiably in the view of the bidder, is non-traditional in the respect of investor-owned utilities.

Please -- you have explained it somewhat. Could you go into a little more detail, about which liabilities are being shift from ratepayers to taxpayers?

MR. FARANO: Of course, Senator. That's a good question. And I apologize for not doing a better job before. So there are certain specific liabilities. And let's put the debt aside; that's being discharged.

But in any sales transaction, what often happens is that the seller and the buyer look at the universe as pre-closing when the seller own the asset, and post-closing when the buyer would own the asset.

There are certain liabilities that are pre-closing liabilities. For example, accounts payable. So in respect of contracts that are by their nature subject to periodic payments, the payment cycle is not always going to align with the closing date. It would be great if it did. Trust me. But often, it doesn't.

And so, oftentimes, there are pre-closing, for example, payment liabilities under contracts that buyers absolutely assume, and they should assume, and it's appropriate. Then there are things that are not at all appropriate for the seller to bear.

So anything that is really happening, once it's on the buyer's watch -- so an occurrence of some sort of that gives rise to a liability that occurs post-closing, is appropriately almost always a buyer liability.

Then there are a bunch of -- then there are a universe of things that are subject to negotiation. And as I think you-all -- I know you-all are aware, it's really a function of purchase price, right? "Well, I'm happy to bear something that you might have done before, but that's going to impose a cost on you."

And the seller may say, "You know what, I'm pretty comfortable with the risk. I'd rather take the cash. So I'm going to keep that liability."

Here, for the most part, pre-closing liabilities are being left behind with Santee Cooper, in connection with the NextEra sale proposal. How that relates to the risk shift from 2 million to 5 million that you raised is as follows.

And admittedly, some of what I'm about to say is, I hope, I made clear before. And as Nate alluded to, some of this is somewhat speculative. Because the fate of Santee Cooper as an entity, we are looking at as part and parcel with the fate of the state.

And there may be a way to bankrupt -- I'm not a bankruptcy lawyer. I mean, there may be ways for the state to mitigate. But in my simple-person terms, I think of it this way: Any liability -- new liability that arises now at Santee Cooper, no matter how Santee may determine to financially deal with it, whether it's going out into the market, issuing bonds, whether it's borrowing money, likely is going to impact ratepayers. Because it -- it is -- it is a cost. And they will likely have to bear that cost. And indirectly, as you-all know, Santee Cooper serves approximately 2 million ratepayers.

What happens when those liabilities get left behind is a bit of a risk shift. Because ultimately, now, they're going to be Santee Cooper liabilities. And like I said, I think of those as, yeah, Santee Cooper will be there, but it's going to have no assets.

So if it gets bankrupted, or otherwise, you-all sitting here will have to decide, okay, how does the state deal with this. It may not be, as Nate said, a straight line. But there is a dotted line, probably, to the state in respect of what gets left behind.

And, again, just looking at it from a certain logic, that state liability is going to fall to the 5 million taxpayers of the state. Now, of course 2 million of those also happen to be Santee ratepayers, so it's really only socializing it over an additional 3 million people. But in simple terms, as I think of it, it is a risk shift from a 2 million-person universe to a 5 million-person universe.

SENATOR GROOMS: That's probably well and good, unless you're part of the other 3 million.

MR. FARANO: I would suggest that's absolutely right.

SENATOR GROOMS: Could you provide us a list of possible liabilities, that are typical of an electrical utility, that could be outstanding?

MR. FARANO: What I think we could do is provide you, in writing, some categories. Right now there are no specific liabilities, other than specifically excluded liabilities that were the part of the benefit of the bargain, that are identified. But sure, we can give you a list of categories. And they're all inchoate.

There are no -- when I think of this risk shift, I think of it, for example, about if something is found to be an environmental problem -- let's just take that as an example. That's something -- there isn't anything now that we're looking at and saying, "Wow, this environmental risk for X dollars is going to now move from 2 million to 5 million."

It's the possibility that, that could happen. So they're inchoate. But we could -- we'd be glad to provide you a list of categories.

SENATOR GROOMS: The Gypsum contract, I know that, that's a potential liability now with Santee Cooper. Is that addressed in the --

MR. FARANO: That's addressed in the contract. That's not -- that's not what's being left behind.

SENATOR GROOMS: So when you burn coal to produce electricity and you have coal ash --

MR. FARANO: That's correct

SENATOR GROOMS: And we're learning more and more about coal ash and potential contaminants. If there is a cleanup ordered by an environmental agency, or if something is discovered to be in the ground, a need for mediation such as -- I believe there was some capium [ph] found Congaree River.

MR. FARANO: Yeah.

SENATOR GROOMS: And now Dominion's having to stand behind that. Something similar with Santee Cooper, if something was discovered, that liability would be totally with the state and not with the new entity.

MR. FARANO: So there are -- you raise a very good and useful example, I think. In respect of coal ash -- and it's good because it's out there in the news, right? If you look just north of here, you've got Duke struggling with a 6 to 10 billion dollar coal ash issue.

What I think is very good the know about Santee Cooper is their coal ash issue is far smaller than that, and they've done a lot to mediate already. So most of the coal is out of their ash pond -- or most of the coal ash is out of their ash ponds, from what I understand it.

I think the quantum of the liability, at last we saw it, was approximately 200 million dollars. I believe that, that is already covered off in existing rates. But I could be wrong. And only Santee would be able to tell that.

However, if there was a coal ash problem, to your point, that wasn't specifically taken as a liability -- so if it developed later, in other words, they found runoff five years from now, and while it may have been from a coal ash pond that itself had been mitigated, it kind of doesn't matter when everything hits the fan. And that would be -- that would be a risk that shifts. That's a really good example.

SENATOR GROOMS: So the way the transaction is structured, any of the 85 years worth of sins of Santee Cooper would then be the liability of all the people of the state.

MR. FARANO: I think a good --

SENATOR GROOMS: That's not --

MR. FARANO: -- portion of those sins.

That's correct.

SENATOR GROOMS: That's not specifically mentioned in the contract.

MR. FARANO: Well, it is specifically mentioned in the contract. It's just a function of the fact that those are all excluded liabilities, definitionally, yes.

SENATOR GROOMS: And Santee Cooper currently operates V.C. Summer No. 1 with -- now with Dominion.

MR. FARANO: That's right.

SENATOR GROOMS: And part of the transactions would be the decommissioning of funds.

MR. FARANO: The decommissioning funds, yes. So say it would be V.C. 1, that's right.

SENATOR GROOMS: And those funds are set aside for when that plant is decommissioned.

MR. FARANO: That's correct.

SENATOR GROOMS: I was reading in the report, that there was a site visit by one of the potential bidders, and they were not able to visit V.C. Summer 1 because of a coolant leak that occurred that day.

MR. FARANO: I'm not aware of that. But we could certainly check into it.

SENATOR GROOMS: Yeah, that -- I believe that was in the report.

MR. FARANO: Okay.

SENATOR GROOMS: And I'm sure nothing happened. It was the -- it was checked out, and the V.C. Summer 1 is coming along just fine.

MR. FARANO: Yes.

SENATOR GROOMS: Should there be some sort of radioactive leak or a release into the atmosphere, moving forward --

MR. FARANO: Yeah.

SENATOR GROOMS: -- that would be the responsibility/liability of --

MR. FARANO: Of the ownership of -- the joint ownership, which would be now NextEra and Dominion.

SENATOR GROOMS: But we're talking about a coolant pump that needed to be maintained, someone could allege five years from now, that the coolant pump was not being alleged at this time -- or was not being maintained at this time, there would be exposure to the state.

MR. FARANO: You know, I'm not a litigator. And I think that anybody could really allege anything. In respect of how nuclear plants are run, and the strict O and M requirements around them, the idea that, that could happen is relatively remote. And I believe that if the state was even in harm's way on a claim like that, it wouldn't give rise to much, if any, liability. It certainly shouldn't.

SENATOR GROOMS: So their liabilities -- you're going to provide us with a list of --

MR. FARANO: Categories.

SENATOR GROOMS: Of categories.

MR. FARANO: Yes, sir.

SENATOR GROOMS: We talked about liabilities -- some of the liabilities that were mentioned. And we know specifically that we have a 525 million dollar liability -- a pension liability. How is that calculated, 525 million?

MR. FARANO: It is based on Santee Cooper's calculations that are provided from us, that I think they get the pension -- and I should defer to David. I believe the pension liability is calculated by the retirement system in the state.

The OPEB liability may be calculated by Santee itself. But in connection with that, the SERP, I think, is purely private. And I think they calculate accrued vacation.

SENATOR GROOMS: And that's based on current retirement levels.

MR. FARANO: That's what I understand. Absolutely, that's what we understand. Those are the numbers we were given, yes.

SENATOR GROOMS: Considering that if this General Assembly were to pass NextEra's enabling legislation, and move forward with the transaction, we would essentially be laying of 1,675 state employees in good standing with the retirement system. Do you believe that, that would have an impact on the liabilities and the retirement system?

MR. FARANO: So as I understand it, and we'll have to get back to you, specifically, because this is not my particularized area of expertise. But how it has been explained to us -- and I think you're right. I think if Santee Cooper doesn't exist, the 1,675 employees, if they all moved that day, would become NextEra employees, and would no longer be statement employees. That's how I understand it.

What that leaves behind is a liability that Santee Cooper owes to the state to fund, okay, that unfunded portion of the pension liability in respect of those employees. So that liability does exist. I think that's your point.

And it is not being expressly assumed by NextEra. What you-all would have to determine, in your consideration of their proposal, is whether in respect of the cash that is coming to the state, that is a useful disposition of it.

SENATOR GROOMS: But right now we see that number 525 million. And my point would be we know that NextEra -- if we move forward with NextEra, and we pass the proposed legislation, that they're proposing hiring 970 persons.

MR. FARANO: That would take -- that reduction in workforce would take place over five years.

SENATOR GROOMS: So there would be a 705 person reduction --

MR. FARANO: Yes.

SENATOR GROOMS: -- of workforce.

MR. FARANO: That's correct.

SENATOR GROOMS: And I have to believe that if I'm a -- let's say a 15-year employee with Santee Cooper, I've got to make a decision of what am I going to do. I've got some money in the retirement system, do I pull that out and put it in a 401K? Or if I'm at, let's say 25 years of service, the number -- what I do might be different. I may go ahead and buy out my retirement for the last three years.

MR. FARANO: Those are all individual decisions the people would have to take. Yes, sir.

SENATOR GROOMS: But the point is, the 525 million dollar number is for current retirees. And it doesn't -- it would not -- the system would be -- it would be impacted to a greater degree should this transaction move forward.

MR. FARANO: Let me turn it over to David, just so that I'm not mispeaking, Senator.

MR. AVANT: Senator, David Avant. I'm general counsel for the Department of Administrations. That --

CHAIRMAN LEATHERMAN: Speak into the mic, please.

MR. AVANT: I'm sorry. That liability is for current retirees and also current employees. Because employees -- actuarily, there is a liability attached as soon as somebody comes to work. When you get to five years or eight years now, that liability vests.

So this 310 million dollars of pension liability is for all of those employees that have a -- or would have at the time of privatization. So Santee no longer exists as a public entity. They would have some right to a benefit in the future.

Whether it's a current retiree who continues to have that right to draw their retirement or it's a -- an employee that has ten years in, and chooses to leave their funds with the retirement system, and then retire when they get to be 65, thirty years out, that creates that liability.

So it is for existing retirees who have a continuing liability going forward, and existing employees who could, based on their years of service at the time that it becomes private, claim a pension sometime in the future.

SENATOR GROOMS: So the liability numbers of 525 only represent about 1100-and-something retirees.

MR. AVANT: It represents a -- that liability is based on a percentage of their payroll as it exists right now. And if you take that percentage of payroll out of the retirement trust fund, going forward, that creates a present value liability that's computed by PEBA, of 310 million dollars for all of the people a Santee Cooper, either retirees or current employees.

SENATOR GROOMS: So that 525 million does contemplate the existing 675 person workforce? I'm saying 675 folks right now. It's my understanding they're not included in that 525.

MR. AVANT: Right.

SENATOR GROOMS: But if they were all of a sudden let go or terminated because of action of this General Assembly, would that -- would that 525 million liability increase?

MR. AVANT: No, sir. It's 310 for pension liability of the trust fund. A hundred and eighty for Santee Cooper's OPEB liability, their insurance. That's separate and apart from the statement liability.

So the 310 dollar -- 310 million dollar hole for the pension is created in the trust fund. Because that trust fund has an obligation to pay those people, either now or sometime in the future. So the 310 million dollars is a liability or a hole that's left in that trust fund.

And out of the 500 million dollars -- 515 million dollars, that if the Legislature chooses to pursue a sale, and they get 515 million dollars, the Legislature, if it chooses, could put some portion of that into the trust fund to fill that hole.

SENATOR GROOMS: Yeah, I may need some more information of exactly --

MR. AVANT: Again, I'm glad to --

SENATOR GROOMS: -- exactly how it works.

MR. AVANT: And I apologize if I'm not answering you, but I'm doing the best I can.

SENATOR GROOMS: I know you are. But it just seems to me, that we would have more folks retiring --

MR. AVANT: Yes.

SENATOR GROOMS: -- as a result of this transaction.

MR. AVANT: Right.

SENATOR GROOMS: And we would have more folks withdrawing monies from the retirement system because of this transaction. Was that taken into account?

MR. AVANT: Well, yes, it isn't -- yes, it is. All right. So what -- there is an actuarial assumption, that if people -- if they no longer work for the state, there's an actuarial assumption that they will either leave their money in and go on to retire at some point in the future, or they will withdraw their money.

If they withdraw their money, their liability to the trust fund ceases. So if I have 15 years in, and I go to work for NextEra tomorrow, I'm no longer a public employee, I have two options with regard to my retirement: I can leave it in and wait till I get to 65 or 60 and retire, or I can take it out.

If I leave it in, I continue to be a liability to the retirement system trust fund. If I take it out, I'm no longer a liability. I've removed my money from the trust fund. That 310 million dollars takes into account all of that.

SENATOR GROOMS: Thank you. I've got a -- just a few more questions. Not on this.

CHAIRMAN LEATHERMAN: The last question I think we could ask Peggy Boyle. Can you come in and tell us exactly what you're asking?

SENATOR GROOMS: Okay. Thank you. If you would -- earlier in your presentation, you said something -

- and it seemed to me that, that may have been not quite right, so -- and it goes to the fact -- I believe you said that at the end of four years, NextEra would then be treated like every other investor-owned utility in the state.

MR. FARANO: I saw you shake your head, so let me clarify.

SENATOR GROOMS: No. Okay.

MR. FARANO: What I -- what I meant is, so what -- right now what NextEra is proposing is a generation resource plan that will likely go for 20 years. I could be -- you know, you have to ask them. But it's a major shift in generation mix, and it's a -- it's a major cost that is being incurred.

By the time that the next generation mix proposal comes around, okay, they are going to have to go before the PSC, just as any other investor-owned utility. And in fact, after the rate freeze in respect of many issues, if they need to take actions that would otherwise require PSC approval, they must go in front of the PSC. That was my point.

SENATOR GROOMS: That's not what I was shaking my head at.

MR. FARANO: Okay. Fair enough. What were you shaking your head at? And maybe I can help you with that.

SENATOR GROOMS: I was -- I was shaking "no," based on some -- something in the enabling legislation that -- that gives NextEra, should this deal go through, tax exempt status for ad valorem taxes on existing plant property and equipment for 30 years.

MR. FARANO: That's correct. That is not a PSC issue but is a taxation issue. And I don't disagree with that. They are looking for tax relief, in respect of their transition from a tax exempt entity to a taxable entity, of which that proposal is a part.

SENATOR GROOMS: And it also appears that there would be -- they would be exempt from statement income taxes for 30 years also.

MR. FARANO: In respect of certain, yes, issues that are being set up in advance, that's correct.

SENATOR GROOMS: One of the issues of converting from a public entity to an investor-owned utility -- an investor-owned utility as a -- that was in the report, have certain advantages. And that would be exempt from property taxes and exempt from income taxes.

MR. FARANO: That's correct.

SENATOR GROOMS: It seems to me that this legislation attempts to transfer those same advantages to an investor-owned utility.

MR. FARANO: You are correct. There is a part of the legislation that is aimed at easing, if you will, the transition from tax exemption to fully taxable entity. Now, I believe in respect of both the ad valorem taxes and the state income tax, that it goes to a portion of the rate base that is being constructed now.

I think there will be taxation that applies before that 30-year period. But to answer your question directly, yes, are there certain streams of income that they are seeking to have -- to remain tax exempt over a period of time? There are. And that is in the legislation. You are correct.

SENATOR GROOMS: And was there any legal analysis conducted on that particular part of the legislation --

MR. FARANO: Yes.

SENATOR GROOMS: -- where we actually pick out one entity and give them different taxation than the other entities?

MR. FARANO: In fact, just to that point, the specific versus general nature of the taxability of it, I'm going to turn it over to Gary to address that, if I could.

MR. POPE: I'm Gary Pope. Gary Pope with Pope Flynn. Yes, we raised that issue with the attorneys drafting NextEra's legislation, flagged the issue for them, and they proposed a revision. And the form of the legislation that was proposed after the revision is what is before you in part of their plan.

SENATOR GROOMS: And you believe that the revision of that legislation would stand constitutional challenges.

MR. POPE: We --

SENATOR GROOMS: Is that -- is that your opinion?

MR. POPE: I am not -- we are not giving a legal opinion as to the constitutionality of that provision. As far as I can say, we flagged the issue for them, we believe that they took a reasonable approach to addressing our concerns regarding constitutionality, and that -- the way that it has been proposed is something that the General Assembly will have to consider and work through.

SENATOR GROOMS: And I don't know how much analysis was done over how much tax -- property tax would be exempt, but was there any done?

MR. MUSSER: Bill Musser with Pope Flynn. Just to follow on Gary's answer, the Constitution provides with respect to ad valorem property tax exemptions, they have to be granted generally, and with a two-thirds majority of each of the House and the Senate.

The fee in lieu of taxes provision here applies generally. It only applies to the assets that are being acquired for that 30-year period. NextEra has negotiated with several other counties, actual fee in lieu of tax arrangements, similar to those other entities located in South Carolina would negotiate. Sorry, this is a little short for me.

But as far as the income tax exemption, it applies for four years, the rate freeze period. And our understanding of the general revenue taxation laws and exemptions is that's something that the General Assembly can grant is within the power of the General Assembly.

SENATOR GROOMS: The fee in lieu of agreement -- or the fee in lieu is mentioned in here, I believe the fee in lieu agreements moving -- will be moving forward such, that the proposed plant that would be built in Fairfield County, that there's already been an agreement with Fairfield County that it would receive a traditional fee in lieu of --

MR. MUSSER: That's correct.

SENATOR GROOMS: -- from 10 and a half down to six percent?

MR. MUSSER: That's correct. And NextEra negotiated that independently. That wouldn't be something that the General Assembly would need to be burdened with or visiting.

SENATOR GROOMS: But when we speak in fee in lieu of, I think most of us think in those terms. Not necessarily a 2 million dollar fee paid to various counties in lieu of 211 million dollars annually, that would ordinarily be connect -- would be collected.

MR. MUSSER: Yeah, but -- okay. Santee Cooper is benefitted by three code sections which give it fee in lieu of tax treatment with respect to its existing assets. The ask by NextEra here is merely asking that, that same treatment be extended for Santee Cooper's acquired assets for a 30-year period. And that's the general law that we're trying to -- that they've offered to the General Assembly.

SENATOR GROOMS: And you believe that, that would be constitutional.

MR. MUSSER: Provided two-thirds vote of the House and Senate are received, and it's done in the general way that they -- they proposed it, we think that it's general enough to pass muster. But it would be some -- for something else -- for somebody else to study as well, I think.

SENATOR GROOMS: I would imagine that we may have some folks that would potentially challenge that. So let's just say that we move forward with the transaction, and a court overturns that provision, how would a two hundred-plus million dollar a year liability for the ad valorem taxes affect the rates to the ratepayers of the new entity?

MR. MUSSER: I don't know that we can speak to that.

MR. MILLER: Very similarly, under standard rate-making procedures, taxes are passed on to customers. That's the very basic fact. So any increase in taxes levied upon the entity would, generally speaking, including property taxes, result in higher rates to customers.

It's also worth noting, of course, that on the issue of taxes, particularly with regards to state income taxes and local property taxes, you know, an economist may think of those as transfers. Because one customer, a ratepayer of electricity, is paying additional property taxes to a locality that have then returned in those same monies to various benefits that a citizen of that locality may enjoy.

SENATOR GROOMS: Well, that's all well and good. But if all of a sudden my electric rate, as we're discussing here, would be at the average rate -- let's see, under the NextEra plan -- in year five, if the -- if we're talking an average of 77 dollars a megawatt hour, that doesn't include property taxes.

But if there's a challenge and that is lost, and assuming that the General Assembly passes the enabling legislation by two-thirds majority in both bodies, and that is struck down, how much more would we have to increase the rates, the two hundred -- my calculation was at least 211 million, based on the book value of Santee Cooper's assets, adjusting for the millage in the various counties.

Except for the transmission. The transmission is in a lot of counties. So I just did an aggregate of Berkeley, Horry, and Georgetown counties, where the majority of the hard assets are located. And the calculation I had was 211 million dollars in property taxes would be paid.

MR. MILLER: Yes, sir. I will just start by responding in a clarification, that the projected rates for all parties that we present in the report and in this presentation, do reflect the property taxes levied with regards to the full proposals.

So in other words, the NextEra rates specifically include those property taxes, under their assumed and expected tax provision, including fee in lieu. So they did include those fee in lieu of taxes for property taxes.

Now, with regards to your question as to the likely rate increase from those property taxes if the fee in lieu and other provision did not pass, I would probably defer, not being a local tax expert myself, but purely an energy economist, as to the exact number.

But sufficed to say, that an increase in property taxes, generally speaking, under a generally accepted and including locally accepting rate-making principles, would result in an increase in electricity rates to ratepayers, and a corresponding increase in monies to localities.

SENATOR GROOMS: It just seems to me, we're basing a lot of the proposal of NextEra on transitioning from a state-owned utility to an investor-owned utility, that one of the big advantages of a investor-owned utility would be the exemption of property taxes.

And it seems to me that we have a provision in here that is constitutionally suspect that could, if we go down this road, could trigger an additional payment that would be expected to be collected by the ratepayers of more than 200 million dollars a year.

CHAIRMAN LEATHERMAN: Senator Grooms, aren't we in an area of speculation here about what the General Assembly can or, of course, might do?

SENATOR GROOMS: Certainly, Senator, you're correct. There's a lot of speculation.

CHAIRMAN LEATHERMAN: Yes, sir.

SENATOR GROOMS: And we paid for, I think, 15 million dollars to have much of the speculation translated to facts. And it seems that, that's a -- this is a -- a 200 million dollar a year error -- or a 200 billion dollar a year mistake needs a little more attention paid to it.

CHAIRMAN LEATHERMAN: I agree with that, but --

SENATOR GROOMS: Perhaps we should --

CHAIRMAN LEATHERMAN: -- or the General Assembly hold in the future.

SENATOR GROOMS: Perhaps we should seek some legal opinions regarding the constitutionality of that particular --

CHAIRMAN LEATHERMAN: You're certain --

SENATOR GROOMS: -- of that particular --

CHAIRMAN LEATHERMAN: You're certainly free to do that if you choose to.

SENATOR GROOMS: I would hope that this committee would be able to do that.

CHAIRMAN LEATHERMAN: Well, we might could if we had a lot of time. And we just -- if you want to do it, absolutely. Feel free.

SENATOR GROOMS: Senator, I've got one more question and then -- I've got many others. But just if you'll indulge me just one more question.

In the report, a lot of the values were adjusted to a 20-year net present value. And what discount rate did you use in calculating the net present value?

MR. MILLER: I appreciate the question. We used a 7 percent discount rate as taken from the Office of Management and Budget at the federal level, used to evaluate projects for the sake of the general populace.

SENATOR GROOMS: Was there -- was there any discussion of using any other rate other than seven?

MR. MILLER: We did have a discussion internally. Certainly, when you think about, you know, public cost benefit analysis and looking at long-term infrastructure projects, a number of discount rates can be used.

So certainly, there was a discussion. We thought that this discount rate was reasonable. Certainly, it has precedent in use for long-term infrastructure planning at the federal level. And we did not come with the discount rate ourselves, but took it from the existing public source.

SENATOR GROOMS: So was there any analysis done in something other than 7 percent, but maybe some sort of inflationary index other than a straight seven?

MR. MILLER: Typically speaking, we -- a discount rate can obviously be nominal or real. I won't go into those particular distinctions before you-all, in the interest of your time and sanity. But I will say that we did consider alternate discount rates.

And generally speaking, as you move the discount rate either higher or lower, the relative comparison of the numbers don't change regarding which is lowest cost, which is next lowest cost, given the cost per file projections that we had, the magnitudes obviously do change when you change the discount rate.

SENATOR GROOMS: Thank you.

MR. SHEALY: Senator Bennett is next.

SENATOR BENNETT: Thank you, Mr. Chairman. I'm going to share with my colleagues, I apologize ahead of time, 'cause I'll probably bounce around. And you decide who's best to answer these questions. But I think -- I do want to start with Ms. Adams, if I could. I want to go back to last week.

And to the extent that I -- even if I do reference page numbers, I kind of prepared by questions over the weekend, based on your previous reports. So the page numbers probably aren't going to match up to what we did today.

Let me ask you, first of all, this process, this time line getting to where we made this determination -- the General Assembly made this determination to seek these -- these alternatives until now, was a pretty compressed time line, a pretty ambitious time line.

I guess my first question is: Did that compressed time line, in your opinion, inhibit or otherwise limit offers that we ultimately received?

MS. ADAMS: I don't think so. And this comes from a discussion that we've had with our bankers, Moelis, who actually looked at the marketplace. And I think that because there had been so much discussion of this subject previously in the state, and for those entities that were interested, they were already familiar with this subject.

What I do think is that it was a short period of time to get a lot of information together in the data room from -- from which they could work and make their bids.

There was also a very short period of time to bring to you contracts -- and I know there have been some discussion today about that, but to bring to you contracts that could be executed. Are they perfect? No, they may not be perfect. But they are in a large part complete.

SENATOR BENNETT: You also mentioned last week, that Santee Cooper themselves resulted in about -- I think you said a two-month delay.

MS. ADAMS: Yes, sir.

SENATOR BENNETT: The same kind of -- well, I guess first of all, who was in leadership at Santee Cooper during that two-month delay?

MS. ADAMS: For the most part, except for the one-month delay, which was a discussion of the funding, the current CEO, Mark Bonzall, was the leadership there. And I realize he was trying to understand the entity. He was new. I understand that.

But some of the issues that we had with, for example, the Southern contract and that potential suit, he was the CEO. He was not the CEO while we were having the funding issue discussion.

SENATOR BENNETT: Okay. And I guess going back to your original comment, the fact that we've been talking about this for a while, do you believe that Santee Cooper's specific delay resulted in any kind of restrictions on bids or offers or firms interested in engaging?

MS. ADAMS: I think that some of the actions that were taken could have had a potential impact of freezing out some of the bids. We did our best. And I think we did a good job of trying to make sure that folks stayed in for the bid, that they understood that this was a serious process.

SENATOR BENNETT: So you went from five purchase offers down to two in the finals, and you went from three management offers down to two in the final, correct?

MS. ADAMS: Yeah, I want to make -- I'm going to turn around and look at Moelis, to make sure I'm answering that, because I don't have those numbers in front of me. (To Mr. Colella) Is that correct?

MR. COLELLA: That's correct. Yeah.

MS. ADAMS: That's correct.

SENATOR BENNETT: And your belief is that the resulting of going from five to two and three to two was a result of all the information they had; they just decided they were mix, or you decided they were not in the mix.

MS. ADAMS: We did not decide they were not in the mix. Anyone who was not in the mix decided that for themselves. And I'm going to turn back to John on this, because they are the responsible party. But I believe that -- John, you want to -- do you want to make sure that you believe that they did in fact decide, after looking at that, that this was not the bid for them? The ones that --

MR. COLELLA: Yeah. Sure. So I'll add a

couple of comments to what Ms. Adams talked about. One is upon reflection --

CHAIRMAN LEATHERMAN: Speak into your mic, please, sir.

MR. COLELLA: Yeah. Sure. I'll just say that the results that we were able to achieve over the course of this process, and ultimately in the proposal that's set before you, we believe were the result of a robust -- a robust process.

Because of a lot of the public attention around the Santee Cooper situation, we were able to ultimately engage with the parties that we expected, broadly speaking, in the market, that would have or should have had interest in the Santee Cooper situation.

So we feel as though the process was complete from that perspective, in terms of canvassing the market, to really understand what the -- or the possible was in terms of interested parties.

The whittling down that we talked about last week in terms of the process participants, a couple of things. One is, is that as Ms. Adams said, we -- the DOA and its advisors, we did not select people out of the process. They self-selected themselves out, based on the time, expense, cost, etc., involved in pursuing the opportunity, as well as the information that they were able to avail themselves to, over the course of the process.

And the whittling down, that's normal. You see that in any process. You always start with a -- you know, a wide funnel, in terms of interested parties. And as time goes on, and as I said they -- bidders go down the journey in terms of discovery around information, etc., and they decide whether or not it makes sense for them to continue, you know, down the process, based on the costs.

As we talked about last week, each of the process participants, in our estimation, incurred millions and millions of dollars of expense, not just in terms of hard dollars, but their time in term -- in order to dedicated the resources necessary to study an opportunity of this size and order of magnitude.

And so we feel as though we got the results that we would have expected, despite some of the idiosyncracies associated with this particular process that we talked about.

SENATOR BENNETT: Great. Thank you. I think that's it on that -- on that topic. I'd like to dig a little deeper, though, into this rate normalization process analysis. So whoever is best suited for that.

I'm trying to -- the variable rates that you -- that you look at when you're trying to compare it in your chart of last week of apples and apples, to the extent that you could -- we could. Can you -- can you dig into that a little bit deeper, with respect to the variables that have to do with -- I'm trying to understand how you come up with, to the best that you can, the differences between a good management team versus a poor management team, and experience of -- you know, those sorts of things. How do -- how do we quantify that?

MR. MING: So the -- so as the report describes for rate normalization, there's three categories of assumptions. The variable assumptions are the set of assumptions that the bidders really determined solely for themselves. So that -- those are assumptions -- like, we want to build a natural gas plant that can result in cost of burning natural gas relative to the cost of solar or the cost of coal, or something like.

Now, there is a second category of assumptions called supported assumptions. The supported assumptions are where the bidder put forward a projection of costs around factors such as, this is what we think are general and administrative expenses are going to be. And in the case -- in the case of NextEra, they forecasted reductions in those costs of -- for a variety of factors, including synergizing with their home base in Juno Beach, Florida.

And so for that -- and that's just one

example of supported assumptions. For supported assumptions, we required one of three things. We required either the bidders to contractually commit to those costs in the future, or we required them to show supporting evidence for how they would achieve those costs.

NextEra, beyond the four-year fixed rate period, did not contractually commit to any of those cost reductions. And so we did review their documentation about the cost reductions that they're forecasting, and we did normalize those to what we, in our professional opinion, that was achievable and implementable.

SENATOR BENNETT: So --

MR. MING: And just to close off that point, what I will say is we did reduce their projected savings. But we did give them, as the report documents, substantial savings on the order of hundreds of millions of dollars, relative Santee Cooper, to essentially give them credit for the synergies of combining operations with their home base in Juno Beach.

SENATOR BENNETT: So the chart behind you shows those first four years of the lower rates, and I assume those were calculations that were made with respect to the -- to the variable assumptions of something that NextEra wanted to do, correct?

MR. MING: The first four years are -- there is no normalization applied; those are contractually committed rates from NextEra. And so because those are enshrined, there was no normalization. The normalization only takes place on the fifth year and beyond.

SENATOR BENNETT: Was there ever -- was there ever any analysis done on starting from a normalization from year one? I mean, I know that we've got, what, an eight-tenths of a percent of rate differential in year twenty over that time frame.

Was there ever any analysis done, just out of curiosity, to see what it would be if NextEra didn't offer those first four-year reduced rates, and just normalized those over the period? Would that -- I'm assuming that spread would narrow.

MR. MING: We didn't think it was appropriate to normalize the first four years, since NextEra wasn't --

SENATOR BENNETT: Wasn't requesting it.

MR. MING: -- requesting it. They were contractually committing to those rates.

SENATOR BENNETT: Okay. Okay. Thank you. Is there any general thought amongst anyone in the front row, about if we were to authorize the sale to NextEra, of having a state the size of South Carolina basically being served by the three largest utilities in the country?

Particularly with the respect to their relationship and interactions with regulators, based on their experiences or -- I guess no.

MR. FARANO: Yeah. Thanks, Senator. I think it's a great question. I don't know that it would be appropriate for us to opine on that. But we understand your question.

SENATOR BENNETT: Okay. Are you -- are you able to comment on any of the other bids that weren't accepted or weren't put forward?

MR. FARANO: We don't think it's appropriate to comment on them publicly. The way that we read Section 8 of the Joint Resolution, I think we'd overstepping our bounds in doing that.

SENATOR BENNETT: Okay. Fair enough. How much scrutiny was given to NextEra's offer to purchase with respect to -- I mean, we talk about -- I don't think anybody in here questions the ability of NextEra to operate a utility and generate power and transmit power and all those things.

We've talked a little bit about the lakes. Was there -- how much scrutiny was given to their ability to operate the much smaller, but very important component of Santee Cooper, the water systems?

MR. FARANO: That's a very good question.

And we spoke to them about that. In fact, when the participants in the process met with us in December, that was one of the issues that we thought warranted a little bit more probing, because it is a little bit outside the general scope of what -- of what anybody who is a participant is doing.

And we satisfied ourselves, based upon that explanation, that if in fact the water systems don't elect to exercise their ROFR right in respect of a transaction, should you approve one, that NextEra was in a position as a consequence of a lot of the similarities around kind of a -- running a utility to successfully endeavor to keep those going without adverse effect or implication.

SENATOR BENNETT: I think that's it for me, Mr. Chairman. Thank you.

MR. FARANO: Sure. Thank you.

CHAIRMAN LEATHERMAN: I understand the food's back there. We're going to break for one hour. We'll be back here. You can leave campus if you want to, but we're going to start back in one hour.

(A break was taken from 12:28 p.m. to 1:35 p.m.)

CHAIRMAN LEATHERMAN: Mike, who's next?

MR. SHEALY: We've got Senator Scott up next.

CHAIRMAN LEATHERMAN: Okay.

SENATOR SCOTT: Thank you, Mr. Chairman. I want to just have a couple of brief discussion on a -- I don't know who would be the right person.

CHAIRMAN LEATHERMAN: We're here for questions. We're not here for discussions.

SENATOR SCOTT: -- to answer this question.

CHAIRMAN LEATHERMAN: Okay.

SENATOR SCOTT: Mr. Chairman, I think you're going a little fast there, but I'm going to get there.

CHAIRMAN LEATHERMAN: Right.

SENATOR SCOTT: You're a little fast there, but I'm going to get there. I'm going to ask the question.

CHAIRMAN LEATHERMAN: Ask.

SENATOR SCOTT: Yes, sir.

CHAIRMAN LEATHERMAN: We'll slow down and let you ask the question.

SENATOR SCOTT: My question is: Has anyone made an even projection, as it relates to what the asset's worth as it relates -- as it relates to the lakes, and especially the water system, in looking at it, both from a income approach as well as a property -- a property -- a property value of it?

And also in looking at that, what in your analysis is the best way to manage that water system since it's part of the community and will totally affect the economic growth, and so it doesn't become stagnant so the -- if NextEra end up with it, they don't control the balancing as it relates to government in terms of the growth in that community? Has anybody looked at that?

MR. FARANO: I don't know if we've looked at it independently, of valuing that.

MR. COLELLA: Thanks for your question. We have not discreetly valued the water systems, separate and apart from the broader transaction, in part because the proposal that we put before you --

CHAIRMAN LEATHERMAN: Speak into your mic, please.

MR. COLELLA: Yeah. Sure. The short answer is: We have not discreetly valued the water system.

SENATOR SCOTT: Well, at some point, in order to make a good analysis or determine the true value, especially since the analysis is spread over 20 years, that becomes a very important information in making those decisions. Not necessarily just the value of it, but the usage of it. Because that could end up being a vehicle that the new owner, if there is a new owner, use to in fact create other revenues.

The other part, the 500 million dollars on the balance sheet, there's been a lot of conversation about those assets need to come back to the state. And I'm trying to figure out why would it come back to the state, if the community is already having some problems and they're -- and we're talk -- and their concern is about debt, and the amount of debt that has to be paid, rather than those assets reduce the amount of debt from 4.7 down to 4.2. We're not seeing -- seen much. But it is a tremendous reduction in overall debt. Have y'all looked at that? And what did you come up with?

MR. COLELLA: Sure. So as part of the NextEra proposal, the existing, you know, debt would be fully defeased. And so the -- as we sort of thought about a potential transaction structures that relates to the cash on the balance sheet, we had sort of separated our thinking around the balance sheet cash, relative to the debt existing at Santee Cooper, for the reason that I mentioned earlier.

SENATOR SCOTT: But the reason why I raise that question, if Santee Cooper's already given the state 15 to 18 million dollars back, over a 20-year period of time that's about 360 million plus or minus, they would only be giving the state revenue that they would not give over the next 20 years to the state will receive anyway -- let me do it again.

Santee Cooper normally sends the state back money every year. And so to give me assets off the books is simply saying that you just advancing me money that's already my money, simply over the next 20 years I'm not going to be getting any money from you, that we've been already getting from Santee Cooper.

I want to go, also, to page 16 --

CHAIRMAN LEATHERMAN: Is that a question, before you leave there?

SENATOR SCOTT: I'm trying to figure out why in the world you want to give me back -- is any -- is any --

CHAIRMAN LEATHERMAN: Do you want to just ask him?

SENATOR SCOTT: Yeah. Good question. Why was that not question asked when y'all interviewed them? Why were -- since you're not going to give money back, why is it so important for it to come to -- the 500 million dollar come to the -- come to the state, when in fact you had the customer who could have gotten it back, you could have reduced debt?

MR. COLELLA: Yeah. So the way we sort of think about the NextEra proposal is, is that there are obviously very -- various component parts, including the payment to the statement, they're all to the cash, and ultimately fungible in terms of how they proposed to us the overall value of their proposal.

And so within that, in theory there are pieces that could have moved around. But the ultimate structure in terms of the cash coming -- the balance sheet cash coming off of the Santee Cooper balance sheet remaining with the state, you know, was part of the overall transaction.

And I would just sort of point out that one of the potential benefits associated with that is, is that -- we talked earlier today about the liabilities that will remain with the state. And that cash on the balance sheet, in addition to the 500 million dollar payment, plus the potential 100 million dollar escrow account, are all cash proceed -- cash -- sources of cash that ultimately could be used to deal with any potential liabilities that ultimately accrue to the state for any transaction.

SENATOR SCOTT: Who came up with the 541 million dollars as an estimate for litigation -- in the Cook litigation, along with satisfying the legal fees? I mean, where did that number come from? Did you put out -- did somebody do an analysis?

MR. COLELLA: No, it was --

SENATOR SCOTT: Where did it come from?

MR. COLELLA: It was represented to us by the group over at NextEra, that, that number was a product of discussions that they had, had with participants in the

Cook litigation case, prior to their participation in our process.

SENATOR SCOTT: So we really don't know whether that's a true figure or not. It's just something they put out there for us. I mean, what is it backed by?

MR. FARANO: That's a really good question, Senator. No, I think -- look, there are -- there is nothing that is certain. However, to John's point, NextEra had, prior to their joining our process, had meetings and discussions with plaintiffs' counsel for the Cook class of plaintiffs.

And those lawyers who represent the Cook plaintiffs' class were of the view that a settlement -- that they could recommend a settlement to those plaintiffs, their clients, at that number. How that number was derived, we're not sure.

One of the ways we pressure-tested its likely value was in looking at, I believe, Central's claim. There's a counterclaim in the Cook litigation by Central. I believe the value of that is in the four -- high four hundred millions.

What we thought to ourselves, just as rough justice, is that if you're looking at 70 percent of the burden ratepayer base by the Cook litigation at 470 -- I forget the number exactly, but we could find it for you --

then roughly, you're talking about a 650 million dollar liability across all ratepayers.

The thought that one could settle a 640 million dollar-or-so claim for 541 million dollars didn't seem to be in any sense beyond the pale to us. So the number kind of holds water as pressure-tested. But to answer your question specifically where it comes from, is plaintiffs' counsel to the class.

SENATOR SCOTT: Now keep in mind that did you know -- I'm not talking about hard dollars until you get to the plaintiff lawyers. You're talking about ratepayers credit.

MR. FARANO: That's correct.

SENATOR SCOTT: And to me, that wouldn't make a whole lot of sense to send me five hundred thousand, when it should have really been in the mix if you accepted liability, and in fact have given the ratepayers the ratepayers credit, and then worry about negotiating the fees -- the fees with the lawyers.

MR. FARANO: And you raise a good question there. And I think what NextEra has done -- and, again, to this point, we're only explaining what they have proposed. So in addition to offering the 541 million dollar rate credit, whatever dollars are due to the plaintiffs' lawyers are going to come from NextEra directing as well.

SENATOR SCOTT: And my last question -- and thank you, Mr. Chairman. On page 16 of the Joint Resolution process results, if Santee Cooper had come up with -- over the next 19, 20 years, with the rate reduction below what they normally had of 2.5 million -- 2.3 million dollars, then what does NextEra numbers actually represent in dollars and cents since it's -- it's higher?

And I'm looking at the first four years, I guess 6 percent, 7 percent -- six -- 7 percent. And then for the next six and a half years, Santee Cooper actually offset those numbers that NextEra had given, but they're going forward -- there's about a 30 percent average when you do 4 percent -- 4 percent, 5 percent dollar-wise. So what does that 4 percent actually represent in terms of NextEra -- in terms of dollars and cents?

MR. FARANO: So I'll turn it over to Nate to answer. I think what's actually happening just from a -- again, the non-numbers guy standing before you, is the way we look at it, during the rate fix period, which is for the first four years, there's a approximately a 10 percent advantage in rates that NextEra has over the Santee Cooper reform plan.

When you -- to your point, though, once the rate -- the fixed rate period -- the rate fixed period ends, there's an inversion. And going forward over time, Santee Cooper has about a 5 percent rate -- excuse me -- a 5 percent advantage from cost to ratepayers --

SENATOR SCOTT: Reduction.

MR. FARANO: Yes. For the rest of that time. So which results, again, over the 20 years in a net present value of approximately .8 percent or so advantage. So Santee Cooper is less expensive over the 20 years.

MR. MILLER: Yeah, just to add a little bit of additional color on that. So if you look at the 2019 ICF process, you know, projected budget baseline for Santee Cooper, and take that as your rate projection, and subtract Santee Cooper's reform plan, you get to the 2.3 billion in net present value terms.

If you do the same thing between the NextEra proposal, the projected rates that have been normalization, and take the difference between that and Santee Cooper's reform plan, then that early first four-year decrease and then the later last 15- or 16-year, you know, increase results in a total net increase relative to Santee Cooper of about 161 million in NPD, net present value terms.

So rather than being 2.3 billion below the ICF in 2019 budget baseline, they're about a 2.14 billion below. Because it's that plus, you know, .16 billion.

CHAIRMAN LEATHERMAN: Nate, you've been before us. And we know you. But for the record, state your name.

MR. MILLER: Yes. My name is Nathan Miller. And I'm a senior consultant with E3.

SENATOR SCOTT: So we're looking at -- we're looking at a 2 billion dollar increase over that same time period that Santee Cooper, you said, of 106 million. Is that represented per year? Or that's over the --

MR. MILLER: Yeah, my apologies. So relative to the business as usual, or the case with all the coal, Santee Cooper over the 20 years saves about 2.3 billion. And NextEra's projected rates would save about 2.14 billion. So they both save over 2 billion.

The NextEra rate projections are relatively slightly more expensive than net present value. So because it's net present value, that is taking the differences in every year between the two revenue requirements, and discounting them back to the present at the 7 percent figure, a discount rate that we talked about before.

SENATOR SCOTT: Next question. You also talked about a reduction in employees as a result of the -- if NextEra took over. How mmany folk are we talking about? And what is the overall unemployment rate for the region, since we're the -- function of the state, that it really could be a major factor of unemployment based on those income level, individuals who actually work for Santee

Cooper?

MR. MILLER: Yeah, so -- I mean, the initial difference between the Santee Cooper reform plan, which envisions a 10 percent attrition, and the NextEra plan envisions a 660 headcount reduction below that 10 percent attrition of another 660 employees, I would not have the resulting impact figures of those --

SENATOR SCOTT: So 7-, 800 people is what we're talking about.

MR. MILLER: That's correct. On the order of 700 people. I don't know what the resulting impact of, you know, particular counties' unemployment rates would be off the top of my head for that.

SENATOR SCOTT: Thank you, Mr. Chairman.

CHAIRMAN LEATHERMAN: All right. Who's next?

MR. SHEALY: Up next is Senator Corbin.

SENATOR CORBIN: Thank you, Mr. Chairman. I'm not sure who to direct a question to. How long are y'all going to be here? Are y'all going to be here just today? Are you going to be here with us all week, or what?

MR. FARANO: That's a fair question. Having been here essentially since last Sunday, I feel like I'm going to have a tax burden myself in South Carolina. But right now we're planning on being here for the next couple of days, if necessary. Yeah.

SENATOR CORBIN: Now, if that -- the next couple of days, is that in committee hearing such as this? Or would you just be available for members to talk with you privately? Or how does that --

MR. FARANO: We were planning -- if you-all needed us to return tomorrow, our plan, of course, is to accommodate that return. If you have, individually, questions, you know, we would likely return tomorrow, only because I don't know that I have any clean clothes left. And but would be happy to get on the phone, if that would be -- if you would be amenable to that, and then I believe we'll be back next week as well.

SENATOR CORBIN: Okay. I don't have many questions, I don't -- for the sake of time, I'll just pare it down to a couple. And speaking of what Senator Scott spoke with you about the number of employees. I know that based on those numbers I jotted down here, that Santee Cooper is going to pare down to the 1,675 to 1,514, roughly, and NextEra's plan was to go from 1,675 down to 970.

MR. FARANO: Yes, that's correct.

SENATOR CORBIN: That's a different of 544 employees. And it's my personal opinion that private industry is much more efficient in getting things done than government. But having said that, did Santee Cooper give you any indication as to why they felt like they needed that many more employees to run the company than NextEra?

MR. FARANO: I think you need to take that up with Santee Cooper. But in fairness, in respect of how the workforce reduces over time, part of that's a function of the fact that NextEra will be retiring its coal plants on a much more aggressive schedule.

And so as I mentioned before, staffing at a coal plant versus staffing at a gas-fired plant or a solar facility is much different; there are many more employees required.

I think that is part of the reason that you see the drop at NextEra sooner. And that because Santee Cooper is keeping -- is doing that modernization more slowly, I think they could allow for a more gradual reduction.

At the end, to your point, there is with assembler resource mix, a difference in employee numbers. And the functionality of that, I think we have thoughts around it. But as to what may have been behind it in the decision-maker's mind, that we don't know.

SENATOR CORBIN: Do you know if Santee Cooper ever plans to get down to as low as 970?

MR. FARANO: I do not. You would have to

ask them that. I don't know the answer to that question.

SENATOR CORBIN: And I'm talking about retiring the coal plants. According to basically all plants here, they're going to rely more on gas power and also more on solar. And I know that individuals can get tax credits, both federal and state, for using solar energy. Do corporations get that as well?

MR. FARANO: There is a tax credit, yes, that can be obtained. So there is an investment tax credit in respect of solar power; it is a function of how many dollars you invest. I would have to defer to a tax expert and get you some more information.

There is a sunset, I believe, in respect of the ITC. But there is a -- there are credits available, and those credits could be used in different ways.

SENATOR CORBIN: If the sale of NextEra goes through, after a given amount of time, I believe it was six months, there would be a time when they're cut loose completely, and they can't sort of come back on us for anything. If those subsidies go away, then NextEra will have to deal with that.

MR. FARANO: That's correct. You know, I think there is always concern among generators, in respect of how they look at the cost of fuel, based upon any number of factors. One of which in the renewables context is investment and production tax cuts.

SENATOR CORBIN: And if they go away, Santee Cooper would also have to deal with it.

MR. FARANO: Correct. To the extent that they were -- now, keeping in mind -- and, again, I can't speak to Santee Cooper's tax position. But part of the nature of the federal investment tax credit is a need to have tax appetite nearby, have a requirement to pay taxes under the federal law for it to be a beneficiary.

Now, there are markets for those credits. There are ways to make tax equity investments, so that they can be monetized. But, yes, generally, generators, be they public or private, will keep their eye on factors that implicate generation costs.

SENATOR CORBIN: Does any -- either company give you any indication of how they might handle that situation if the tax credits went away, how that might affect the ratepayers and/or the taxpayers of South Carolina?

MR. MING: So, yes. And my name is Zach Ming with E3. So to clarify, investments in solar receive an up-front tax credit at the time of the investment. So if those -- if Congress were to sunset those tax credits, they would already be accrued at the time of when the solar was built.

SENATOR CORBIN: In other words, all the benefits would have been obtained?

MR. MING: Correct. The tax benefit is obtained.

SENATOR CORBIN: Okay. All right. I was uncertain how that will all work. The last question. I've been trying to figure out -- and I didn't see a balance sheet or a financial statement or anything in here for Santee Cooper.

Did you you-all do any research into what Santee Cooper's worth -- I mean, if you're looking -- if you -- if you're going to go buy a company, whether it's a mom-and-pop hardware store on the corner, or a 2 to 3 billion dollar Donald Trump deal, you're going to get their books and you're going to figure out what their worth, you know, assets, liabilities, capital, and at the end of the day, what they're worth. Did you give us that figure, or know?

MR. COLELLA: John Colella with Moelis. So one way that we think about -- or the easiest way to think about that in this context is to sort of look at the rate base. So the opening rate base, which is about 5 and a half billion dollars. If you look at across the market, broadly, at transactions that have occurred over the last several years for electric utilities -- primarily electric utilities, they tend to be sold in the -- as a multiple of rate base.

And so that range has been, broadly speaking, sort of within about 1.5 to 1.8 times rate base for electric utilities. Some have been a little bit lower. Some have been a little bit higher. There are arguments as to why Santee Cooper itself might be on the low end or the high end of that range.

But if you look at the NextEra proposal, it would be within that range. So think about the 9.4 billion dollars, roughly, of total proceeds against the 5 and a half billion dollars of rate base, and you'd get to a rate base -- a multiple of about 1.7 or 1.8 times, depending on how you'd still look at some of the different components parts of the proposal. So in the range.

SENATOR CORBIN: One last question for now, since I'm not exactly sure when all of you will be back. We have employed to the tune of 15 million dollars, you-all collectively as a group. Which I think was wise to hire some of the most brilliant people in the field to come back with a report for us. And obviously this would just be an opinion question, but if you were in the General Assembly, which one of these three options would you choose?

MR. COLELLA: I don't believe we're -- it's within our charge to express an -- to express an opinion on that question. So we'll --

SENATOR CORBIN: For 15 million bucks we don't get an opinion?

MR. COLELLA: The Joint Resolution -- the way that you-all have laid out the Joint Resolution, I don't think that we're allowed to give an opinion on that.

SENATOR CORBIN: Thank you.

CHAIRMAN LEATHERMAN: Mike, who's next?

MR. SHEALY: Mr. Chairman, Senator Alexander is next.

SENATOR ALEXANDER: Thank you, Mr. Chairman. Just two or three brief questions here. I think it's appropriate with this chart up here, of projected average system rates, and I get the one percent that's in their projected. What does that mean, actually, to the average homeowner on a -- on their monthly bills?

MR. MING: So the one percent is a -- it's a net present value number, so it represents an aggregate 20-year value.

SENATOR ALEXANDER: An aggregate. Okay.

MR. MING: And, you know, you can levelize that over the 20-year period. So the one percent, which is actually .08 percent, we're rounding up to one percent. But the one percent, that would be levelized over the 20-year period. If your bill is $100 with Santee Cooper, your bill would be $101 with NextEra on average, every month for the 20 years period -- 20-year period.

SENATOR ALEXANDER: So whether it's you or someone else, we had the other day there about the pros and the cons here, I believe, the pension and certain known remaining liabilities. We had the pensions at 309, and I think we've kind of gone over that. We hope to be hearing from Ms. Barker and those folks on that in the OPEB.

The SERP, I guess that's Senior Employee Retirement Plan?

MR. MING: Yes, that's correct

SENATOR ALEXANDER: So that's to the tune of 13.6 million dollars. How many folks -- do we know how many people that are in that plan, and what is that based on?

MR. FARANO: Yeah. Thank you, Senator. That's a good question. And we can get back to you with the specifics of the SERP. It's the Senior Executive Retirement Plan. It's a function of a relatively small universe of folks. But we can get back to you on that. We don't know off the top of our heads.

SENATOR ALEXANDER: So y'all have evaluated other utility companies in your --

MR. FARANO: We have.

SENATOR ALEXANDER: Is this something that you would normally see, that is a plan provided by them by other companies in addition -- is this the only retirement plan that these individuals have?

MR. FARANO: I have to -- I'd have to defer to folks. As an ordinary course matter there, many companies will provide to senior executives, without trying to -- and I'm getting way out over my skis, 'cause I'm not a labor lawyer or an ERISA lawyer. There are certain requirements in the federal law around ERISA, that makes sure that highly-compensated employees are treated in a certain way with rank-and-file employees.

That said, without violating ERISA, yes, there are -- there are plenty of folks out there who have senior executive retirement plants.

SENATOR ALEXANDER: Okay. Thank you. Also, and I think that it was covered already, about the number of employees from what was proposed -- or is proposed by Santee Cooper versus -- versus NextEra. But I guess if -- at some point they're going to make the same transition, even though it's further years out, if I understood that correct. Is that --

MR. FARANO: There are two things going on. Yes, you are correct, Senator. And you raised a good point. And the point, I think, was raised earlier. One of the factors we believe that impacts the rate at which there are workforce reduction or the -- are the number of years required to do -- to go from the current generation mix to the new, more modern, more efficient generation mix. That certainly has an impact on it. That, in our view, is factual just as a function of the number of folks required to operate one type of plant over the other.

There are other factors, of course, that go into workforce reduction and that go into employee retention. As I said before, we are not in the minds of the decision-makers. But it could well be that the Santee reduction is slower and will -- and that there will -- their workforce will stay greater, because they have made a decision around how to balance workforce versus rates.

And so there are issues involved that we did not take into account, but that could be drivers.

SENATOR ALEXANDER: So it's not necessarily -- I guess where I was going was, that at some point if they get to the same place, then the reduction -- we don't envision a further reduction -- or certainly they don't -- they don't envision any further reduction in employees if they're getting to the same place, even if it's 15 years down the road.

MR. FARANO: That's probably a fair -- a fair assumption. And I understand that logic. Yeah. Sure.

SENATOR ALEXANDER: One last thing, if I could, Mr. Chairman. And I don't know whether you or whether this is Ms. Adams from -- was talking earlier about the process. I think somebody had her come back up, and you were talking about who was in charge for those two months where there were some issues.

But I think you said there was a month there, basically, on the funding where there was a issue. But I don't think -- who was in charge -- the impression I had was that the new CEO was not there for that period of time.

MS. ADAMS: Not for the funding period of time.

SENATOR ALEXANDER: So who was -- who was the -- in charge of Santee Cooper at the time when that issue was going on?

MS. ADAMS: At that time, when we had a question about the funding -- I can't remember the previous CEO.

SENATOR ALEXANDER: Okay. You didn't get that -- okay. So it's the previous --

MS. ADAMS: Yeah, but it was not -- it was not Mr. Bonzall.

SENATOR ALEXANDER: So it was the former --

MS. ADAMS: Yes, sir.

SENATOR ALEXANDER: Okay.
MS. ADAMS: For that period of time.
SENATOR ALEXANDER: Mr. Chairman, while I've got the microphone, if you don't mind, I see we have some distinguished individuals --
CHAIRMAN LEATHERMAN: Go ahead and do it. Feel free.
SENATOR ALEXANDER: Well, I -- okay. We're delighted to have with us today -- this is Clemson Day, as we know. And a few -- quite a few of us have got some orange on up here. Maybe some forgot, but would have had orange on. We have with us today -- I'd like to recognize the president of Clemson University, Dr. Jim Clements.
We have other -- we've got some good music going on over here too. We have members of the board. We've got Ambassador Wilkins -- well, let's see. We've got Ambassador -- let me start then here with Nicky McCarter, and come across to Bob Peeler.
Did you want to introduce them? Or is that a "no"? Smythe McKissick, the Chairman of the Board. Dr. Lee of Aiken. Ambassador Wilkins, as I mentioned earlier.
Maybe we need to let the music play. It sounds -- it sounds good.
We've got Louis Lynn there. Dr. J.J. Britton. Did I miss somebody there? And of course we've

got Mark -- Mark Cauthren with the tremendous Government Affairs team of Clemson University is here with us too.

And we're delighted to have them here. We've got the reception tonight. And if I could just take the liberty of recognize -- I want to read one -- I was with them earlier, and this was shared as the president pointed out this morning when I was with them, you know, things didn't turn out exactly like we had hoped they would in New Orleans.

But he did refer to a headline in the Sunday New Orleans paper, the day before the National Championship game was to be played. And it said, "LSU has the edge on the field. But in academic rankings, Clemson dominates." And I thought it was only appropriate for us to recognize that.

And while we're not in session -- regular session today, I would appreciate their willingness to come over. And thank you for allowing us to recognize it.

CHAIRMAN LEATHERMAN: To the Clemson Board and President, welcome. If you come back a week from now, we'll probably still be here. Maybe. What a great institution you have. Lots of orange around here. Some love it and some hate it. There may be some garnet and black running around. I don't know. Some love it and some hate it. But welcome. We're happy to have you with us.

MR. SHEALY: Mr. Chairman, we have Senator Johnson up next for questions.

SENATOR JOHNSON: Thank you, Mr. Chairman. Most of the questions I've got have already been addressed, but I think I have a question for at least maybe one -- at least one or three options. Mr. Farano, you can probably answer these questions.

Just a minor question. I know that you said under the Santee Cooper reform plan, that the debt of 4.7 billion dollars would be paid off by 2039?

MR. FARANO: That's correct.

SENATOR JOHNSON: What about the other 2 billion dollars of debt, that would just still be outstanding?

MR. FARANO: It would, based on how we're looking at the reform proposal. Now, it's a function of things. You know, Santee Cooper could, depending on how things go, elect to pay that down -- debt more -- down more quickly. But in their reform plan, the proposal was to have paid 4.7 billion of it down by 2039.

SENATOR JOHNSON: Okay. Now, going to the Dominion plan, what happens after the ten years? What options do they have to the Dominion management proposal?

MR. FARANO: That's an excellent question, Senator. The way the contract is crafted, they could agree to extend it. So no one can force the extension. But if the parties agree to extend, they could extend for another number of years.

And then similarly, what would impact its ability to stay in place for the full ten years, is that each of the two parties has an ability to terminate the contract, if there is a change of control of the other party, Senator.

SENATOR JOHNSON: So I think I read somewhere, I forget which plan it was under, but -- about restructuring of the management or the control. So there still would be a board under Dominion management or --

MR. FARANO: That's exactly right. So one of the benefits of the Dominion plan from a legislative requirements perspective, is that there's not really going to be a legislative -- other than you -- other than the joint -- other than the General Assembly approving the plan, which was contemplated in the Joint Resolution.

The existing board of directors of Santee Cooper would continue to be the rate-making authority as it is today.

SENATOR JOHNSON: And now the question -- I just want to make sure I understand what you're saying as far as NextEra. And I know we're leave -- we're losing about 40 percent of the workforce under NextEra's plan.

And I think you said that with the pre-closing liabilities, they may end up going from the 2 million ratepayers to the 5 million citizens of South Carolina. Is that correct?

MR. FARANO: That is correct, sir. Yes.

SENATOR JOHNSON: That probably won't go over very well, you understand.

MR. FARANO: I understand that.

SENATOR JOHNSON: Thank you.

MR. FARANO: Of course. Thanks.

MR. SHEALY: We've got Senator Matthews. Senator Matthews is next, and then Senator Hembree.

SENATOR MATTHEWS: I got two questions. And the first one is, listening to the testimony and reading, the employment both for NextEra and Santee Cooper would change over a period of time, once the coal plants are reduced and they go to solar and gas.

Once they reach parative, even though Santee Cooper would do it slowly, they will eventually get there, will they address the employments at that point, once they get to the point where their mix is equal to NextEra?

MR. FARANO: I think it's important -- you raise a great question. And I think this was alluded to before. So while the generation mix is that each is going to implement are similar, and while as you point out, part of the difference in workforce reduction is a function of sort of the temporal nature of each choice, one is taking longer and one takes less time, whether or not -- and if I'm understanding your question correctly question, Senator -- if I'm not, please correct me -- is the question whether ultimately if -- assuming for purposes of this discussion, that the Santee generation mix and the NextEra generation mix are the same, is the question one of does Santee's workforce ultimately fall to 970 as well?

SENATOR JOHNSON: Yeah.

MR. FARANO: And the answer to that is kind of unknown. It could. But as we understand the reform proposal, that is not what we have been led to understand. Now, their number -- their workforce reduction, again, is just attrition. It's retraining and it's retirement. So no one is being sort of laid off in respect of their plan. That said, they go to 2028. So go ahead, Zach, please.

MR. MING: So if you think about the reductions in the NextEra staffing --

CHAIRMAN LEATHERMAN: If you will -- if you will give your name for the record.

MR. MING: Sorry. Zach Ming with E3. So there are really two things that are driving the reductions in staffing for NextEra. One is the generation change, and the other is the synergies both combining resources with their sort of mother utility in Juno Beach.

So they're laying off people because they're going to have functions that are providing those same functions from the -- from the head utility. And that's leading to a significant number of layoffs.

So that would -- that would mean in the end, they would not be equal. NextEra would be lower. Because part of their value proposition is saving staff by combining operations with Juno Beach.

SENATOR JOHNSON: A second question, so you can understand where I'm coming from, I represent the lake from Calhoun County, which is Richland County all the way down into deep into Berkeley County. And one of the drivers of our economy has been this Lake Marion water system that we've created. I didn't see anywhere in the report, how they plan to treat those plants. Are they planning to keep those water plants? Are they planning to --

MR. MING: Yes, they're planning to keep all the water assets.

SENATOR JOHNSON: Is NextEra plan to keep them?

MR. MING: Yes.

SENATOR JOHNSON: And the final question. I know that NextEra was negotiating with fee in lieu agreements with counties. Do you know if that process has been completed? Have they reached agreements on fee in lieu with those counties?

MR. MING: So the -- for the new assets, primarily the new combined cycle gas generator in Fairfield County, that does not yet exist. So as NextEra's -- they have the right to decide where to locate that. And they have negotiated, in principle with Fairfield County, an agreement for fees in lieu of taxes if they build the combined cycle generator in that county.

For all of their existing assets, the property taxes that Santee Cooper is currently exempt from, that is what the legislation would enable for fee in lieu of taxes, of the existing generation transmission assets in the state.

SENATOR JOHNSON: Okay.

MR. SHEALY: Mr. Chairman, next up is Senator Hembree.

SENATOR HEMBREE: Thank you, Mr. Chairman. I don't know who to direct these to, so I'll just start. But first off, I want to say the agreements from the colleagues that spoke previously, it seems like we're focusing all of our conversation on NextEra. I think the reason for that is it's the most complicated, you know, option we have.

There are other parts that are kind of

easier to understand and grasp pretty quickly. This one has a lot of moving parts, different -- different kind -- the financing is quite interesting and -- rather complex. So I hope that y'all, but especially the others that might be listening, don't hear our questions and try to interpret those questions as picking one side or another.

I think -- I think everybody up here is really just struggling to try to make a good decision, a very important decision, the best we can. So I'm going to ask some questions that probably are really basic questions. I'll warn you ahead of time. But I -- you know, I'm trying to get my head around it. And I've got my chance. This is my chance.

The first, there's a narrative that's being -- it's more of a political narrative that is sort of out in the community, or it's been published wide -- you know, widely, that if we sell -- that we sell Santee Cooper, that the debt goes away.

There are people -- I can tell you, our constituents right now back home, that think if we sell NextEra, the debt disappears and the ratepayers don't have to pay for it, and that somehow in this sort of accounting shift it goes away in a way that doesn't have to be paid.

But I'm looking at this and I'm seeing the ratepayers are paying roughly the same, whether they keep the debt in Santee Cooper, or whether they -- or whether NextEra picks up the debt, both by bonds and by cash. But, you know, I'm thinking even if they did it in all bonds, it would make an easier math problem, easier to explain.

But ratepayers are going to pay this debt whether they pay it through -- if we were to sell it, the debt's going to get paid and we're going to pay it -- the ratepayers are going to pay it through NextEra, or the ratepayers are going to pay the debt through Santee Cooper. Is that a fair characterization? How does it work?

MR. MILLER: This is Nate Miller from E3. Thanks for the question, Senator. I will answer it in a couple of parts and try to be as clear as I can. And if you have any followups, please, you know, don't hesitate.

SENATOR HEMBREE: Don't worry.

MR. MILLER: I'm sure. So effectively, and we talked about in our report, this hill -- additional cost that investor-owned utilities have to overcome. So really it comes down to a difference in the quantity of investment that is charged to ratepayers and the rate of investment that is charged to ratepayers.

So what I mean by that, specifically, is that in the case of Santee Cooper right now, there are approximately 7 billion in outstanding bonds. That's mostly long-term bonds as well as some short-term bonds, commercial paper. So all told, Santee Cooper is paying interest and the principle on that debt over time of a 7 a billion dollar number.

So if the utility were to transition to an investor-owned utility, then what happens is the regulator, in this case the public service commission of the state, will look at the used and useful existing assets of the utility. Which in Santee Cooper's case are approximately 5.65 billion, okay?

That's every -- you know, that's all the -- all the existing wires, transmission distribution, meters, headquarters, generators. All of that. So NextEra, if NextEra purchases the utility, would be able to charge customers based on 5.65 billion, and not based on the 7 billion in outstanding debt, okay?

So what's happening here is that NextEra also has an investor-owned utility, has a higher total cost of capital. So really that 5.65 billion is going to be half debt and half equity. And the cost of entity is much higher than the cost of debt. In this case, approximately 10 percent versus, say, 3 percent on debt.

So what that means is that the total weight of the average cost that you're paying, the interest if you will, on top of that rate base to customers every year, is going to be, you know, that 7 percent and a weight of average cost of capital on 5.65 billion.

If you take 7 percent of 5.65 billion versus Santee Cooper's lower cost of debt on 7 billion, they're actually very comparable on an annual basis. So that's really what's happening, in that you are repaying the debt up-front in the NextEra sale, because those bonds -- money, as Jerry has said, has been set aside to retire those bonds over time.

At the same time, you are transitioning to a investor-owned utility that's charging a higher annual cost of capital on a smaller rate base. And it just so happens that, that annual amount charged to customers is relatively comparable.

SENATOR HEMBREE: So my followup question is, the ratepayers are still going to pay for it -- I mean, it's not coming from another state. It's not coming from another -- you know, Florida ratepayers aren't going to be paying -- contributing to this problem -- or the resolution of this problem, or are they?

MR. MILLER: I would say that the outstanding -- and this -- I'll be -- I'll be direct in my -- in my best understanding. So right now you have 5.65 billion in assets, right? Now, a -- and you have 7 billion in outstanding bonds. So you have more debt outstanding than you have assets, that would typically be charged to customers.

A large portion of that debt outstanding relates to V.C. Summer 2 and 3, it's a power plant that will never be built. Now, in a typical rate-making situation, those costs would not be allowed to be passed on to customers. If you -- if you do not pass those costs on to customers, then that debt has to be taken care of somehow.

And so in the reform plan there -- the proposition is that there is no one else to take care of that debt except customers over time. But because it's relatively low-cost debt, it's achievable at rates that are comparable, as opposed to the case in an investor-owned utility when -- because you cannot pass those costs on to customers, you're only charging customers for the used and useful assets that are providing them with power every day.

So they are paying for what is there in the ground and for new assets that are coming on-line. But because the investor-owned utility operates with -- it's private capital, and there's a higher cost to that equity, then there is an increase in the cost from those existing assets that are then going to be regulated by the PSC.

SENATOR HEMBREE: I don't know how else to ask it. It just -- I understand the difference between the 7 billion and the 5.5 or 5.6, and why one -- you know, understanding that one costs more. But it still seems like the ratepayers are paying off the debt, whether they pay it through NextEra or they pay it through Santee Cooper.

CHAIRMAN LEATHERMAN: Is that in the form of a question?

SENATOR HEMBREE: No. I'll move on, Mr. Chairman. Thank you. Let me ask you about the --

MR. COLELLA: Senator, I just wanted to --

SENATOR HEMBREE: Yeah. Sure.

MR. COLELLA: -- add one sort of concept to what you just said, which is if you think about the seven -- yes, sir. It's John Colella. I just want to add to that.

There's one way to sort of think about why the rates are similar, in both the sale proposal versus the standalone reform proposal is, is that the -- obviously, money is fungible. And so there are a variety of different ways that you could sort of think about how the ratepayers ultimately is paying for that existing debt.

But one way to think about that, is that if that debt was not there, in other words, if you didn't have that excess debt on the books of Santee Cooper right now that was, you know, put in place to fund V.C. Summer 2 and 3, then in this transaction, rates would be lower because more of those proceeds that are coming from NextEra -- so call it that 9 and a half billion dollars of total consideration -- more of that money would be either available to the state, or more importantly to apply -- increase customer credits to ratepayers.

So you can think about the fact that the opportunity costs associated with that 9 and a half billion dollars of consideration not going to ratepayers directly, because of the existence of that 7 billion dollars of debt, is another way to think about why it is that those rates in the end are similar.

SENATOR HEMBREE: Let me ask about the 1.046 billion that's the debt defeasance penalty.

MR. MILLER: Yeah.

SENATOR HEMBREE: And I'm -- and let me say what I -- what I think it is.

MR. MILLER: Yeah.

SENATOR HEMBREE: And tell me where I'm wrong. Because I'm trying to get my head around that one. That's just -- that is a penalty that has to be paid, because the Santee Cooper bonds are being paid off early; is that correct?

MR. MILLER: That's correct.

SENATOR HEMBREE: Okay. So that's just money that's just plain lost. I mean, just to shift the financing from Santee Cooper bonds to cash in bonds or equity in bonds from NextEra, it's just money that's -- that's -- that the ratepayers -- the ratepayers take a loss by making that transition of a billion dollars. Is that --

MR. MILLER: Yeah, it is an additional cost, that is correct, that is triggered by the early retirement of all the bonds outstanding.

SENATOR HEMBREE: Got it. So it's just --

MR. MILLER: So if the bonds were not retired or in -- or in any fashion, and were just repaid over time, then that money would not be triggered or not -- that cost would not materialize in the same way.

SENATOR HEMBREE: I just think it's important. I thought that's what it was.

MR. MILLER: Yeah.

SENATOR HEMBREE: I just wanted to be sure that it's important -- it seems important that the ratepayers know that to do this deal like this would cost them a billion dollars in early retirement of the debt.

MR. MILLER: Yeah. So I think that's -- that's an important point, that, that billion dollars is additional, it's incremental, triggered by the early retirement of the bonds. To John's point just now, you know, the fungibility of money, you can also see that as part of a sponge in additional costs, if you will, that absorb some of the proceeds that would typically otherwise go to the state from this transaction.

SENATOR HEMBREE: Right.

MR. MILLER: If the purchase price were unadjusted.

SENATOR HEMBREE: And I was just thinking -- that's what I was thinking about was, as John was talking, that if you didn't have that cost there, it could either go to the General Assembly, it could -- if we were selling it anyway, it could go to the General Assembly, it could go to the ratepayers directly. There's a host of places where that money could go.

Because your sale price essentially -- if your sale price is the same, and you don't have this billion dollar off the top, then you -- it could go someplace else. I mean, it would be going to the seller in some form, whether that seller be rate -- whether you put it in ratepayer form or whether you put it in a -- you know, in taxpayer form by going to the General Assembly, that's how it would work. Isn't that -- is that right?

MR. MILLER: Yeah, I think that's generally a fair characterization of that additional cost.

SENATOR HEMBREE: I'm looking at this rate freeze issue. I'm curious about that. And I know the senator for Dorchester had some questions about this. I'm trying to -- is that just a -- is that just a -- sort of a marketing inducement to the General Assembly to -- so we can go back home and tell folks, "Hey, your rates are going to be locked in for three years before they go up"?

I'm trying to figure out why one would do that unless -- and I understand it was a contractual agreement or a contractual offer by NextEra. But why would one do that unless -- I'm trying to figure out why somebody would do that.

MR. MILLER: Yeah. No, I appreciate that. I'll answer from, again, the perspective of us as advisors and evaluators. I will defer to NextEra, itself, to answer its own motivations around it since that's -- again, I can't speak to their motivations.

I can say that as advisors, the way we looked at that fixed rate period was generally in the context of the rest of their proposal where -- I mean, fundamentally, they are proposing to invest over 2 billion dollars in a four-year period, retire, you know, a thousand megawatts of coal, and put in a bunch of new generation, solar, gas and batteries, as well as implement a number of operational efficiencies in the workforce.

So we looked at that in tandem with a fixed rate, which are fixed at levels that we deem to be generally reasonable within the context of Santee Cooper's existing rates and existing rate base in terms of revenue certainty.

So you're trying to implement a lot of changes in a short period of time. And this goes to the legislative ask as well. They're asking for pre-approval of a large investment, with its own conditions attached to it, which we've discussed and which is up for your consideration. And at the same time, are proposing to get revenue certainty for customers in that same period, so they know at least what the top line comes in as they try to manage how they deal with the bottom line.

SENATOR HEMBREE: The 941 million that's going back to the customers, does any of that part of the rates staying stable? Is that counted toward that? Or is that in addition to keeping the rates stable, and then they're going to get back 941 million in addition to that?

MR. MILLER: Yeah, it's an addition. So if you look at the graph behind me, you know, their -- their rate freeze is around that 71 number. And the additionality of those rate credits and refunds, 941 brings them down to the 64 that you see behind.

SENATOR HEMBREE: Okay. So I think -- yeah, I think I'm getting it.

MR. MILLER: Yeah.

SENATOR HEMBREE: So without the 941, you can't stay frozen there. That's making up -- that's --

MR. MILLER: Oh, I'm sorry. You would -- you would stay frozen. They're proposing to fix rates based upon an average system rate level. And then in addition to that fix, offer credits first of 541 to all of those affected by the Cook litigation, and then 400 to all other customers. So all told over the four-year period, you look at a fixed rate level and then a reduction for the credits, which is what you see represented behind you.

SENATOR HEMBREE: So if I'm to explain it to one of my -- to a constituent, I'm going to be able to say your rates are going to be frozen, plus you're going to receive credits of this much on top of that. Is that -- am I doing that math right?

MR. MILLER: That's correct. The rates -- the level of the rate freeze is not the 64 that you see behind me. That's inclusive of those credits over time.

SENATOR HEMBREE: Okay. Okay.

MR. MILLER: Just to be crystal clear.

SENATOR HEMBREE: Okay. So that takes into account the 941.

MR. MILLER: It takes into account the 941.

SENATOR HEMBREE: The 941 is what gets us to the 64.

MR. MILLER: That's correct. Yeah.

SENATOR HEMBREE: Okay. I got it. So I got it.

MR. MILLER: Yeah.

SENATOR HEMBREE: So that's helpful. And I guess lastly, and I don't know -- I guess it strikes me, just again early in this process, but when you're looking at the NextEra proposal has less employees, a quicker transition to a modern generation mix. And what we believe private is more efficient -- and I'm not sure is always the case, depending upon how well the privates run versus whatever. But the ratepayers are still going to be paying about a percent more -- even with those increased efficiencies, the ratepayers will pay more at the bottom line.

MR. MILLER: Yeah, that's right. And, again, sort of to add some additional context to the rate projections, which I think are probably helpful for, you know, your judgement and exercise in decision-making. The rate projections you see here, you know, behind me consist of a few drivers, up and down, relative to the reform plan. That is what NextEra is proposing, and what we deem to be kind of reasonable projections going forward.

So there is an increase in the cost of capital, as we just discussed, relative to the addition of equity on that rate base, versus Santee Cooper's, you know, total cost of debt charged on the total 7 billion over time.

Then there's the addition of the taxes, state and federal and property taxes. And this takes into account the fee in lieu of tax agreements that they proposed. Those two together add a few billion in costs over the entire, you know, 20-year forecast.

And then NextEra makes up for some of that with additional operational savings, which include the reduction in staff, the early retirement of the coal and the savings generated from that, and additional savings at the headquarters level.

And then if you add the, you know, present value of the 941 in rate credits and refund, that gives you another 800 million in reductions. And that's -- that's how you get to that one percent figure. You have an up and then you have a down over 20 years.

But it's worth it to then add a few more characterizations to the projections. First in the normalized projections that you see behind me, the NextEra rates do assume that they achieve some of the savings that they have proposed. But in our normalized projections, we have not assumed they achieve all of the savings that they have proposed.

So you may hear that there are additional savings that could be achieved, and that is possible. It's also possible that they do not do as well as we project, and then rates are actually a bit higher. So they could do better or worse over that projection period.

So we see that 5 percent kind of net premium relative to the reform plan. And that goes for Santee Cooper as well, obviously, since the projections go for both.

SENATOR HEMBREE: And then, finally, I'm just trying to look at the -- to sort of the selling of the state asset. And of course there's -- you know, it could be -- and this is a debate -- you know, a policy debate up here about the value of not exposing taxpayers to potential risks by owning Santee Cooper. I mean, there's a -- you know, that's a philosophical and financial discussion to have that, you know, we have a lot of time to talk over -- some time to talk about.

But I'm just kind of looking at -- just looking at the sheet that -- well, this key terms that are in here that -- you tell me if I'm understanding this right. A payment to the state of 500 million dollars, that's just -- that's the up -- that's the money that goes to the state -- you've got the money in escrow, which may or may not come to the state. The hundred I just --

MR. MILLER: Yeah.

SENATOR HEMBREE: -- would leave that off to the side.

MR. MILLER: That's right.

SENATOR HEMBREE: That's speculative on what's going to come out of that.

MR. MILLER: Yeah.

SENATOR HEMBREE: So we get 500, but we're keeping -- the state is keeping the liabilities of 525 million dollars. So I mean, am I getting that right that we're -- we're -- we're essentially sort of giving it away than keeping -- I mean --

MR. MILLER: Yeah. And so if in a sense -- and this goes to what John was saying earlier, when you say, you know, what is the value of Santee Cooper. You know, first, we ran competitive process, we talked to all the major players out there, and this is the -- you know, we got multiple bids, and this was the best bid that we decided to put forward.

So from the sake of what is the market's value of Santee Cooper, it's what you see behind us is what you have to consider before you, right? So that's the first point.

I guess the second point with regards to the payments coming to the state, yes, you've got a 500 million dollar check that comes in. You have some portion, zero or something out of that hundred million. And then you have

525 million in liabilities that are triggered by the sale. So that kind of gives you a wash, you know, net standpoint.

And then what is, you know, Santee Cooper is now, which is the cap on the balance sheet, and what, you know, would becomes the state's. Because if not Santee Cooper's, I mean, who else would it go to? It's the state's from this deal to settle all of those other liabilities that may or may not materialize, or to be put to any other uses that the General Assembly may decide, that would be the additional cash.

But you're right from the initial, you know, certain payments up-front, you know, 500 and then something -- zero to something in a hundred, that's what you are considering as up-front consideration.

The additional debt beyond the rate base, the additional penalties on the debt, all of that serves as an additional cost, in this particular instance, that would absorb funds that otherwise might go to the state in a different context.

SENATOR HEMBREE: I appreciate it. Thank you, Mr. Chairman.

CHAIRMAN LEATHERMAN: Who's next?

MR. SHEALY: Mr. Chairman, next is Senator Davis. And for the good of the Committee, if there is anyone else that would like to be recognized for a first round question, please let me know.

MR. MING: Actually, sorry, before we go on, this is Zach Ming from E3. I did want to just add one additional point that we considered in the normalization process, that I think has come up a couple of times today, that I think is worth discussing.

But NextEra, while they are a private entity, you know, in a normal -- a normal course of business, you would expect that a private entity has an incentive to be more efficient, because the more efficient they are, the lower their costs and the more profit they can make.

Even though NextEra is a private entity, they are a cost of service regulated entity. And so they don't benefit from being more efficient by earning higher profits. If they're more efficient, those costs to ratepayer. If they're less efficient, they're still able to recover all of those costs in the form of higher rates.

So from a normalization perspective, we did not attribute the public versus private factor in creating any of the savings. We did recognize the fact that NextEra is a large investor-owned utilization, there are economies of scale and synergies possible by combining operations across the business. But we did not attribute anything to the pure function of the fact that they are private and therefore have any incentive from that perspective to increase efficiency.

SENATOR DAVIS: Thank you, Mr. Chairman. In regard to the projected rates that we see up there on that screen, in regard to the reform plan projected rates, if somebody could explain to me what assumptions regarding the contingent Cook litigation costs have been factored into those rate projections.

MR. MILLER: Yeah, that's for that question, Senator. I can answer it quite simply. And that is, in a word, none. So there's no adjustment up or down to the rates you see for the Santee Cooper reform plan, to reflect costs that may or may not be passed on to ratepayers as a result of the Cook litigation. And as Jerry mentioned before, that's largely because we are trying to stay in our lane within the process, the bounds of the JR, and our role as advisors. It was not out place to be involved in Santee Cooper's settlement of the Cook litigation.

And furthermore, we did not have information to project any particular numbers as to where possible settlement funds would come from, and how those would be or would be not charged to customers.

SENATOR DAVIS: Conversely, in regards to the projected rates for NextEra, that is reflective of a 541 million dollar payment to settle that Cook litigation,

is it not?
MR. MILLER: That's correct. And that's the result -- as we talk about normalization, that is a commitment to fund those credits from NextEra, that was part of their economic bid. So in other words, whereas in Santee Cooper's case, we have no information from Santee Cooper as to what money would or would not go to customers, or what impact on rates would be, NextEra has committed to providing a 541 million dollar customer refund. So we included it in our rate projections, you know, contexturalized as such.
SENATOR DAVIS: So if I'm going to make an apples-to-apples comparison between those rate projections on that -- on that graph there, one of them -- the NextEra rate projection contemplates the Cook litigation having been resolved. The other in regard to reform plan does not contemplate that. In fact, we don't know what effect the outcome of the Cook litigation would have on the projected rates, do we?
MR. MILLER: That's correct. And I would just say the key term is we don't know exactly what effect that would have, given the information, you know, we have. I would just really none regarding Santee Cooper's proposed plans to deal with that litigation.
SENATOR DAVIS: In looking through the --

MR. FARANO: Senator, before I --

SENATOR DAVIS: Sure.

MR. FARANO: If I may interrupt for a moment.

SENATOR HEMBREE: Absolutely.

MR. FARANO: Just to clarify one thing, because the question you're raising is a good one. And I think Nate's answer is obviously the correct one. I think it's important for you-all to realize, because it goes to the very point that you're raising, that NextEra's proposal is not conditioned upon a settlement of the Cook litigation at these terms or any other.

So in other words, if it gets to the point where all -- if you choose to go with the sales proposal, and after the agreement is signed, time has passed, any other required approvals have been obtained, if all of the conditions precedent to NextEra's obligation to close have been met, they are committed to provide that 541 million dollar credit to ratepayers within 180 days after closing, notwithstanding whether there has been or will be an outcome to the Cook litigation.

So I don't think it addresses your other question, which as Nate says, we have -- we made no assumptions around. But I think it's important to know that there is a decoupling, if you will, of the actual settlement of the Cook litigation and the 541 million dollar rate credit.

SENATOR DAVIS: Let me ask a question maybe a different way. If you were to assume in those rate projections that Santee Cooper's settlement costs was going to be 541 million dollars, and assuming they had some way to come up with that money, what would that do to that rate projection there in terms of being able to make an apples-to-apples comparison between that and what NextEra's projections are?

MR. FARANO: Yeah. So the NPD difference over 20 years in those charts right now is 161 million dollars to the positive to the Santee Cooper reform plan. If you took 541 million dollars and applied that as a cost, right, to the Santee Cooper reform plan, then the NextEra proposal would be 380 million dollars to the positive. So lower over the 20-year projection period.

SENATOR DAVIS: Let me ask this question, and I'm try -- I'm looking at the reform proposal and trying to weigh that against the sale -- or the bid proposal. Help me if -- is there any way for me to try to monetize or quantify what the exposure to Santee Cooper is in that Cook litigation? I mean, I understand there's a settlement amount here of 541 million dollars, that presumably represents what the two willing parties are willing to pay and accept.

But do we have any sense, or was there any analysis given to that lawsuit, what the contingent liability amount would be? Those factors. Because if we -- if we go with the reform plan, we're necessarily saying we're going to roll the dice and we're going to take chances on whatever results in that litigation. And I would be more comfortable knowing a little bit more about that in assessing the two options.

MR. FARANO: Well, that's a really good question, Senator. And what we endeavor to do is have folks obviously follow the ongoing docket in respect of this -- the Cook litigation. As you-all know there -- it has been quite active for any number of reasons.

One of the things that is clear, at least from the docket as we have explored it, is that full-on contingent liability as to what one or the other side may think the case is worth has been a -- not a -- I'm not a litigator, but it makes sense to me, has been assiduously guarded in this case.

But what we were able to do, and it was in the context not of trying to make a determination of what Santee Cooper itself might settle for, but in the context of trying to evaluate whether the NextEra amount that had been determined in connection with the plaintiffs' counsel for the Cook plaintiffs made sense, is to look at the Central counterclaim in the Cook litigation.

And that counterclaim, as I think I explained before, we'll get you an exact number, if you'd like one. It's public information. It's someplace in the high 400 millions. And our view was that if that was the counterclaim that Central was preparing to assert against Santee, in respect for what would be arguably, if you're Santee Cooper, its 70 percent share of the cost, then the actual overall -- I should say an actual possible amount of the total value of the litigation was someplace in the area of 650 to 660 million dollars.

Looking at it that way, again for purposes of trying to pressure-test NextEra's settlement about -- of 541, it seemed, you know, within reason to us. Because again remember that, that settlement amount and that credit that goes to ratepayers is separate and apart from whatever the plaintiffs' lawyers would be paid. And while that's coming out of NextEra's pocket as well, it's a -- it's a separate number that's probably not small.

SENATOR DAVIS: And in the process of looking at Santee Cooper's reform plan, and then a dialog with them in regard to the aspects of that reform plan, did the absence of any resolution of the Cook litigation come up?

MR. FARANO: You know what, let me get back to you on that. I wasn't party to every conversation with them. I think to Nate's point, we really did try to, as advisors to the Department, and the process with which you have charged them, to make sure we weren't overstepping our bounds. And Santee Cooper is an active defendant in a case. It's a universe of privileged information.

While we can follow the docket, understanding what they're thinking or their litigation strategy, we felt was not an appropriate place for us to probe. So while we may have shared that with them at a time, we were not trying to probe them on it. We did not think it was appropriate for our role.

SENATOR DAVIS: Yeah, I want to move -- move now away from questions regarding Cook, and more towards Central. On page 10 of the -- of the report, about halfway down, in talking about Santee Cooper's reform plan the report says as follows:

"A critical commercial relationship between Santee Cooper and its largest customer, Central, remains negatively affected by the historic friction between the two organizations and fundamental disagreements over certain operating strategies. Central maintains that its customers want more choice to provide their own power, whether that be providing it from within their own territories from a growing competitive wholesale market, or from behind the meters of individual customers."

Talk to me a little bit in regard to this question of choice and competition among energy providers, and tell me about the degree of choice and the degree of competition in regard to the reform plan as opposed to a scenario where NextEra as an IOU comes in and participates, and presumably, would be subject to PERPA or other federal regulations in that regard, that Santee Cooper is not subject to.

So explain to me a little bit about how choices taken through their competition among energy production markets takes place in both of those examples --

MR. FARANO: That's a --

SENATOR DAVIS: -- alternatives.

MR. FARANO: It's a very good question, Senator. And I'll defer to -- I'll defer to Zach to answer it. I will say that as a general proposition, as a starting point, the Southeast remains, as does South Carolina, a place where utilities for the most part are fully integrated. Santee Cooper's relationship with Central changes that dynamic some -- a bit.

But it is a very traditional investor-owned utility model. There is not a great degree of customer choice. We know from various proposals that are in the

General Assembly right now, that it's being considered. But today, there is not a lot of customer choice.

The issue around distributed energy resources, and the discussion that, that engendered between Central and Santee Cooper, I will certainly defer to Zach on.

SENATOR DAVIS: And while he's coming up, I'll just make this general observation. And the reason why I asked that is, that last session we enacted legislation, the Energy Freedom Act, which would oblige an IOU that if an independent power producer could general power for less than the avoided cost of that IOU, that they had to accept power purchase agreements.

Santee Cooper, however, is not subject to that Energy Freedom Act. And so I guess as in the context of that, I'm interested in exploring which of the two models gives consumers choices, and which of the two models creates more competition as your production --

MR. FARANO: It's a helpful and great question, Senator. And I think Zach is particularly well suited to speak to that.

MR. MING: So, yeah, my name is Zach Ming the E3. I might call on Nate as well to help me here. It's a little difficult to directing compare and contrast NextEra to Santee Cooper. As far as -- just sticking with

Central. So in Central's current coordination agreement with Santee Cooper, there are limits on the amount of distributed energy resources that Central can develop.

Santee Cooper has, in principle, agreed to increase those limits, to allow Central more flexibility, more customers to develop those resources.

SENATOR DAVIS: What does that mean, "in principle"?

MR. MING: That means that they haven't executed the new coordination agreement, but they have agreed -- they have come to an agreement that has not been executed. Previous -- you know, today Central can develop, distribute energy resources up to 1.5 percent of their peak load. In the new -- in principle, agree to a coordination agreement, those limits have gone away. But there would be an avoided cost methodology to ensure that the -- Central would only be getting paid the amount that Santee Cooper's costs would be avoided, essentially, through developing those distributed resources.

For NextEra, NextEra has also agreed to increase Central's flexibility, relative to what the current Central coordination agreement is. So there is a increase in flexibility for NextEra as well.

I will need to follow up with the exact percentage of how much higher that is, but it's -- it's higher than the 1.5 percent that Central has today with Santee Cooper.

SENATOR DAVIS: A little bit more questions about the, quote, historic friction between the two organizations, in that fundamental disagreements remain over operating strategies. I mean, as I'm looking at the reform plan proposal, it's somewhat of a concern to me that there is this degree of disconnect between Santee Cooper and its largest customer. Can you expound upon those -- those differences in operating strategies or culture, or something that helps me understand the nature of that underlying relationship?

MR. MING: So as probably may folks are aware here, the current contract between Central and Santee Cooper gives Central what's called an opt-out right for new generation. That means ever generator and contract that is contemplated in the Santee Cooper reform plan, Central will have to sign on to that in order for Santee Cooper to actually build each of those plants, and sign each of those large contracts.

So Central still maintains a significant say over those new resources. And so Central wants -- as we have again monitored the discussions between Central and Santee Cooper, Central wants to have a say in developing those plans. Due to the process, Santee Cooper developed their reform plan, that is in front of you now, sort of, you know, by necessity on their own. But ideally, those plans in the future would be developed with Central, and Central would have to be on board, or else they wouldn't be able to build the plants.

SENATOR DAVIS: Let me stop you there for a moment. So the rate projections in the reform plan that is shown there, that makes an assumption that Central is going to be cooperative, and that Central will not opt-out in regard to any future power generation that Santee Cooper brings on-line. Is that correct?

MR. MING: That is correct, yes.

SENATOR DAVIS: Okay. So it makes that assumption. It also makes the assumption, essentially, that the Cook litigation is going to be zero cost or zero liability, does it not?

MR. MING: So if you think about the Cook litigation, the plaintiffs in the Cook litigation are the ratepayers of Santee Cooper, that have borne these historic costs of the nuclear plant. So while it is true that if Santee Cooper were to bear a cost of settling the Cook litigation, the beneficiaries of that cost would be the ratepayers themselves.

So it's kind of money from one pocket to the other. That's why we haven't quantified it in rates. It's not clear that there's a direction that, that would go in settling that litigation.

SENATOR DAVIS: That's all I have for right now, Mr. Chairman.

MR. FARANO: If I may, Senator Davis, just to clarify a few things in respect of the relationship between Santee and Central. Santee has made offers, that we discussed before, in respect of reforming the coordination agreement with Central, offers to lower the tenor, offers to increase the amount of distributed energy resources. That has not yet been memorialized. So we just wanted to make sure that, that was clear to you.

MR. SHEALY: Mr. Chairman, I need to ask if there are any members that would like to be recognized for a first-round question, who have not asked a question yet.

CHAIRMAN LEATHERMAN: Mr. Chairman.

MR. SHEALY: Senator Campbell.

SENATOR CAMPBELL: Mr. Chairman, just out of curiosity, if you added 541 million dollars -- I'm not sure if this is Nate or Zach, probably. But if you handle the -- if you add that 541 million dollars back into the Santee Cooper rates, what would it raise that rate to be? That's assuming that the cost to settle is 541 million, which it may or may not be. But that's a little vague to us --

MR. MING: Again, if you add a cost of 541 million, that would be increased rates. But it would ultimately be paid to ratepayers. So it is not necessarily the case that it increases rates by 541 million, because it would be paid to the ratepayers. So it's essentially zero.

Now, I guess that's probably as far as I should go on that. It's complicated.

SENATOR DAVIS: Mr. Chairman, my follow up based on it's in relation to my line of questioning here.

MR. SHEALY: That's fine. That's fine.

SENATOR DAVIS: I would challenge that last statement, in that if you look at the Cook litigation, most of the exposure that Santee Cooper has is in regard to the cross-claim and not in regard to the action by the ratepayers. And so the statement that they're paying it on one hand, the ratepayers, but on the other hand they're getting it back, I don't think that, that draws that distinction between the exposure they have on those two claims. Do you follow what I'm saying?

MR. MING: Well, I -- the way I would follow up with that is that even though we are representative the 541 million dollar settlement for NextEra, as a benefit to rates, it is not in fact -- it would not manifest itself through rates. We are putting it into rates in this graph here, for the purposing of apples-to-apples comparison. But it actually would be paid directing to the plaintiffs, and would not actually be used to lower rates.

SENATOR DAVIS: Mr. Chairman, it would be helpful to me -- and I don't know if this is possible, but to maybe under certain scenarios impute what is bound to be a cost of that Cook litigation into what those rate projections might look like. Because I don't -- I don't know how to really compare apples to apples here, where one fully contemplates settlement of all outstanding claims in Cook, and the other doesn't contemplate any settlement of those claims. And it would just help me understand, graphically, what the difference --

CHAIRMAN LEATHERMAN: Let me ask a question here. Would that be a refund to the ratepayers?

MR. MING: In which circumstance?

MR. SHEALY: You're going to the 64.

CHAIRMAN LEATHERMAN: Five forty-one.

MR. MILLER: We appreciate the questions. This is obviously a huge outstanding issue with regards to litigation, recognizing your point, Senator, as what the rate impact might be. I think it's difficult for us in our particular position within the process, to make a prognosis on that fact.

It's worth noting a couple of things, perhaps, that there may be an impact to some ratepayers. That impact can only be estimated. And we probably do not have the particular bound in this process to do that estimation.

The impact may or may not paid from some of Santee Cooper's existing cash. It might be financed over time. In likelihood, it will be some combination of those things. And I think it's something that is important for the consideration of the General Assembly. It's certainly an important question that could be posed to Santee Cooper, itself, as well, but probably not one that we are within our bounds and information to answer further.

SENATOR DAVIS: March, it seems to me -- and I understand what you're saying, but it seems to me that if we gave you various sets of assumed fact, okay, assume that the action costs this much, ultimately, and assume this much goes to the class, and assume this much goes to Central, given those facts, how would that affect these rate schedules? In other words, I'm not asking you to make a qualitative determination as to what those amounts would be, but responding to those variables and showing us what it would look like in terms of projected rates. I mean, that would be within the bounds of what you could do, would it not?

MR. FARANO: Yeah, I -- look, I think we need to be mindful of our role and where the process stands. We obviously want to be as helpful as possible. I think what we've endeavored to do with the information we had is to present, without getting out of our swim, and without trying to make assumptions, three potential proposals for your consideration.

Why I think the role of the Cook litigation is so prominent in respect of NextEra's proposal, is because they came out to us with a solution. And we thought it would be inappropriate to presuppose any assumptions around what might happen with Santee Cooper.

I'm a little reluctant even now to go down that pathway, as we discuss it, in large part because it is an ongoing litigation where there is settlement. I think speculation around what assumptions might yield would not be appropriate. It certainly shouldn't be coming from us as advisors.

I think Santee Cooper, no doubt, is very credibly addressing this litigation with the parties to it. And I think being seen to influence it in any way would probably not be appropriate for us. So I leave that to you as a -- as an answer. I understand it might be satisfactory, but I think that's where we are.

SENATOR DAVIS: Thank you. Thank you, Mr. Chairman.

MR. SHEALY: If there are no other members for a first round question, this is the second round questions. And Senator Setzler is next.

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SENATOR SETZLER: Mr. Farano, if you -- if you'd come back, please, sir. I want to go right back to this 541. And I heard what you said, loud and clear. But there is -- keep in mind -- and I, for one -- some people might be otherwise. I don't have a prejudice or a preconceived opinion of which of the three is best, but this is gigantically complicated for us to have to make a decision. So you can't read anything into the questions of being for or against one proposal.

Secondly, keep in mind that all we have, until later yesterday or early this morning, is a 100-page summary. And now there's a thousand pages downloaded on the internet, I understand, of additional documents that we haven't been able to read.

So I think you've created, not intentionally, confusion around this 541. Of the 541, how much is a refund to the ratepayers of Santee Cooper, and how much is a rate credit to the taxpayer -- to the ratepayers?

MR. FARANO: So all I can do to answer that, Senator, is point you to the legislation in respect of how it is described. So if you look to the element of the legislation we're in, the nature of the credit is outlined, you will see that within 180 days there will be a refund or credit to the ratepayers who were burdened by the Cook litigation.

How that is actually accomplished, in terms of whether or not checks are being cut or bills are showing a credit as a line item, I think it's more appropriately a question for NextEra. It's not a dodge. It's simply the truth.

SENATOR SETZLER: Did y'all ask them? When evaluating their proposal, you didn't ask them which one it was, the 541 million?

MR. FARANO: From an economic perspective, the nature of how they determine to do it, I don't want to say is immaterial, but it doesn't affect the outcome. So, no.

SENATOR SETZLER: All right. So you didn't ask them which one it was, then --

MR. FARANO: Well, again let me, if I may, point you to the legislation. We accepted their legislation, and it is for your consideration to determine which one of those, or both, you are comfortable with.

SENATOR SETZLER: But you don't get off the hook by saying, "We got their legislation and it's up to you." You had to evaluate in that your recommendation of them as a purchaser.

MR. FARANO: We had to evaluate a number of specific criteria that you set out for us. And we did. Our outcome, as was the charge of the Department, was to present you with a best sales offer, a best management proposal, and a Santee Cooper reform plan. Which we've done.

We're happy to answer questions, but that's a -- that's a qualitative assessment or a subjective answer that you're looking for from me, it's -- that's not our job. Really, that is yours that will help you decide between.

SENATOR SETZLER: No offence to NextEra, but you are the experts and the advisors for the state, for DOA. If we ask NextEra, they're going to give us their opinion. I'm looking for a second opinion or another opinion other than NextEra's.

MR. FARANO: But you're asking -- I understand. And, again, I'll just suggest that whether it's a refund or a credit, we do not know the answer. Have we asked them? Yes. What they told us was our legislation provides for both opportunities.

SENATOR SETZLER: All right. So understanding whatever their proposed 42 pages of legislation is, is that 540 to -- quote, to settle the Cook legislation -- I mean, litigation, end quote? Because I understood that's what you said initially --

MR. FARANO: You are correct.

SENATOR SETZLER: So that is supposedly to settle it.

MR. FARANO: Correct. Because remember, the plaintiffs in the Cook litigation are the same ratepayers. The 541 million dollar credit does not go to all ratepayers. It only goes to ratepayers burdened by the Cook litigation.

So the simple way for me to understand that is to ask myself what does the mean. It's the plaintiffs' class, okay? So the plaintiffs' class in the lawsuit are the folks to whom NextEra will give either a refund or a credit in settlement of the litigation.

What lends potential credibility, it's not one hundred percent certain as we've said, is the fact that in their proposal, and you'll see this, I believe, there is a letter from plaintiffs' counsel to them. Plaintiffs' counsel looks at the proposed settlement which manifests itself in the legislation via the 541 million dollar rate credit, and says, "We believe that our class, the people we represent, will accept that settlement."

SENATOR SETZLER: And what about the -- go back to the senator for Beaufort's -- what about Central's cross-claim against Santee Cooper, is it settled with that amount of money?

MR. FARANO: Central is satisfied that what is being proposed by NextEra, in respect of the settlement of the Cook litigation would, yes, get rid of their cross-claim. That's correct

SENATOR SETZLER: Is that in writing?

MR. FARANO: That is in discussions with us. That is reflected in the fact that they have negotiated an almost-final PPA with Central. And you'll have to ask Central how they came to that level of comfort.

SENATOR SETZLER: So are -- you also said, I thought earlier today, that even if they closed -- if NextEra closed and Cook didn't settle --

MR. FARANO: That's right

SENATOR SETZLER: -- they're still going to pay -- or give this 541 million dollars, correct?

MR. FARANO: You're correct, Senator. Yes.

SENATOR SETZLER: All right. So then are the tax -- are the ratepayers of Santee Cooper still on the hook?

MR. FARANO: So I'm not a plaintiff's lawyer nor am I a litigator, generally. But if and to the extent that the plaintiffs' class, according to their lawyers, has been paid an amount that their lawyers would recommend to them as fair settlement of a claim, then I don't know that they're going to have a great case.

You'd have to ask someone else. But the theory is, if you're seeking something in settlement and I give it to you, the -- your claim has been satisfied, and your ability to come after anybody else for it is diminished.

SENATOR SETZLER: Okay. So the 541 goes to the ratepayers.

MR. FARANO: Correct.

SENATOR SETZLER: Supposedly.

MR. FARANO: Ratepayers burdened by the Santee -- by the --

SENATOR SETZLER: What about the lawyers? Who's going to pay the lawyers?

MR. FARANO: NextEra is paying the lawyers directing.

SENATOR SETZLER: Is that in these documents --

MR. FARANO: Yes, it is.

SENATOR SETZLER: -- that we haven't gotten yet?

MR. FARANO: It's in the documents that are on the website, yes, and in the documents that were presented to the Chairman, as required by the Joint Resolution. Correct.

SENATOR SETZLER: Okay. So it's your representation to the Committee, that beyond the 541 NextEra is going to pay the attorneys --

MR. FARANO: That is correct. Up to a limit that you will see in the documentation, we have confirmed that with NextEra in writing and orally.

SENATOR SETZLER: And the attorneys fees are not included in the 541 number.

MR. FARANO: That is correct

SENATOR SETZLER: All right. Is the 541 in NextEra's rate base that they want the General Assembly to approve in their proposed legislation?

MR. FARANO: No, it's not -- it's not in rate base.

SENATOR SETZLER: Okay. So it's not in there. All right. What about the cost of V.C. Summer 2 and 3, is it in their rate base?

MR. FARANO: No. It's not permitted to be.

SENATOR SETZLER: Okay. And what about the debt defeasance penalty?

MR. FARANO: The debt defeasance penalty and rate base, no, it's not an -- it's not an element to rate base.

SENATOR SETZLER: Okay. So you're sure all three of those are not in there.

MR. FARANO: Yes, I am sure.

SENATOR SETZLER: So let's talk about the return on equity, a minute. What all is included in their return on equity?

MR. COLELLA: Their proposed return on equity is a -- is a proposal that comes from them, that would be -- that we believe, although, you'll have to confirm them -- this with them, but we believe is informed by their experience in other jurisdictions where they operate utilities, such as Florida and other data points, that -- that are observable throughout the country in terms of where PSCs have been granting, allowed ROEs recently. But again, we haven't confirmed that with them. So you'll have to -- you'll have to --

SENATOR SETZLER: What is that ROE?

MR. FARANO: Their ROE is 10.2 percent.

MR. COLELLA: Yeah. So 10.2 percent.

SENATOR SETZLER: 10.2 percent return on equity. And do you believe that the South Carolina Public Service Commission might consider factors that NextEra has not put in for consideration as a part of that ROE, where it would not be 10.2?

MR. COLELLA: I don't know that we could speculate on that, other than to say that there are a range of ROE outcomes throughout the country and in South Carolina, that are not exactly 10.2. And so, you know, again, we'll also have to defer that question to NextEra. Again, we would be speculating if we -- if we tried to opine on that.

SENATOR SETZLER: Okay. So let's go back to the costs of the Cook litigation, a minute, as to Santee Cooper. Is it built in -- it's not built in these rates projections of Santee Cooper; is that correct?

MR. MILLER: That's correct. There's no cost associated with the Cook litigation built into those normalized rate projections you see before you.

SENATOR SETZLER: And so if Santee Cooper settles it, those would be built in, in all probability, in the future.

MR. MILLER: Yes. Depending on the form of settlement and the mechanism by which the settlement is funded, yes.

SENATOR SETZLER: And would you agree that by not settling the cross-claim in the Cook litigation, that, that puts additional pressure on Santee Cooper in anything they try to do?

MR. MILLER: I believe that would be beyond the speculation that I would put forth on my own person.

SENATOR SETZLER: Okay. In the NextEra proposal -- and I don't know if this is for you or for somebody. Maybe it's in tomorrow -- in the -- in the NextEra proposal is there any -- as was done with the Dominion deal, is there any allocation of board seats, etc.? And if so, where do they come from and who are they?

MR. MILLER: In the Dominion management proposal, you mean?

SENATOR SETZLER: No. In the NextEra purchase proposal, does anybody in South Carolina get a seat on their board, either from Santee Cooper, Central, whatever? And if so, what are those conditions of being there?

MR. MILLER: Yeah, I mean, I'll defer to -- my understanding is --

MR. FARANO: No, that level of granularity as to what the -- what the new -- if NextEra was to acquire Santee Cooper's assets, and we name their utility Santee Cooper Power and Light, the level of granularity around who may or may not be on that board as opposed -- obviously, NextEra has the big board -- has not been determined.

Generally, again, this is only one person's experience. In the context of wholly-owned subsidiaries, boards of directors are really a function of complying with state law in order to make sure the fiduciary obligations that are otherwise imposed by that law are met.

It is not common in a wholly-owned subsidiary situation to have outside directors. Oftentimes, because they are purely perfunctory insofar as a shareholder proposition, the holding company is running the activity, is playing the role of a shareholder, they're usually internal boards.

SENATOR SETZLER: Are you aware that in -- when Dominion purchased SCANA, I believe that SCANA -- or representatives here in South Carolina got two seats on their big board?

MR. FARANO: On Dominion's board.

SENATOR SETZLER: On Dominion's board.

MR. FARANO: I understand.

SENATOR SETZLER: And don't you think it would be important to South Carolinians, if NextEra is the purchaser, to have representation from South Carolina on their big board, making decisions relative to the citizens of South Carolina?

MR. FARANO: We leave the determination of an issue like that to you. And you are the folks who could make that happen, and who are looking out for the interests of the citizens at that level. But certainly that's a --

SENATOR SETZLER: So there's nothing --

MR. FARANO: -- an effective question.

SENATOR SETZLER: -- in the documents that have been negotiated, that we're going to vote on, that assures South Carolina representation on NextEra's big board.

MR. FARANO: On the board of NextEra's publicly traded entity, no, there is not.

SENATOR SETZLER: Okay. Let's talk about what you -- what kind of tax relief NextEra is requesting. You say on page 20, "Other tax exemption agreements."

Let me tell you where -- where our problem is, Mr. Navaro, and this -- this isn't necessarily NextEra's problem or anyone else's, except this deal is so complicated, you say -- we hear on one side, you're paying off the debt. But on the other side they're getting X, Y, Z, A, B, C, D. Well, we can't balance those off. We don't know what they are. So can you y'all prepare for us, a list of all the tax benefits and values that NextEra is requesting in the agreement or in the legislation?

MR. FARANO: Let us speak with the Department about preparing a list. I think in respect of the tax issues that Bill and Gary can speak to directly, I'll obviously defer to them.

What I did by pulling up this slide, is just to look again at the business proposition. Because I don't want to create confusion, so if there's a confusion around defeasance of debt on the one hand, and what the state or the ratepayers or the taxpayers may be getting on the other, we could certainly walk through that again, if you think that would be helpful, Senator.

SENATOR SETZLER: Well, for example --

MR. FARANO: Yes.

SENATOR SETZLER: -- I've heard that Fairfield County has agreed to a fee in lieu. What's the value of that? I've heard that NextEra wants to have the same property tax exemptions that Santee currently has. I may have misunderstood you, but I thought you said over 30 years, that was 2 billion dollars? Did I understand that correctly?

MR. FARANO: You didn't hear that from me. So I apologize.

SENATOR SETZLER: Can you put a dollar amount on that?

MR. FARANO: Let me -- let me turn it over to the experts. I don't think we have a dollar amount. But I will -- I am out over my skis in and taxes. So I'll turn it over to the folks who know.

MR. MUSSER: Bill Musser with Pope Flynn. My understanding of their ask, is that as to the acquired assets which Santee Cooper is paying a fee in lieu on right now, they want that same fee in lieu treatment to continue for 30 years.

And with respect to the new construction, they're going to be negotiating fee agreements with Fairfield County, or whatever other county they site a facility in. And that's outside of the proposal. That's something they appended to their proposal. And they haven't really asked us to weigh in on --

SENATOR SETZLER: So y'all haven't calculated the cost to the state for the tax property benefits over a 30-year period?

MR. MUSSER: Well, not with respect to the acquired assets. I think the working assumption has been that the payments over to the state, with respect to the existing assets, would continue at about the same amount or percent the same formula they -- that they're currently calculated a percent to.

With respect to Fairfield County, we have not gotten into their deal with Fairfield County. We don't know what kind of benefits they've negotiated, what millage they've negotiated, what their promised investment would be. And they, I think, also offered inducement agreements with several other counties, too, that they're considering siting facilities in. That was not included in their proposal. It was something that was new.

SENATOR SETZLER: And I'm not trying to be difficult. I'm trying to --

MR. MILLER: No, no. I understand.

SENATOR SETZLER: I'm trying to get the information. So if we got Utility X that's currently doing business in this state, and paying property taxes on their assets, and NextEra is not going to pay property taxes for 30 years, there's a value to that to NextEra and there is a loss to the state of there -- or to the counties. We don't have a calculation of that amount of money?

MR. MILLER: Just a quick clarification that -- Nate from E3 again -- that really it's a foregone tax revenue is obviously --

SENATOR SETZLER: I'm sorry, I didn't understand you.

MR. MILLER: I just wanted to clarify that when we talk about, you know, who is benefitting from what, at least from the position of the evaluators of the various proposals we received, we see, you know, any increase in taxes, including property taxes, would also be an increase in rates to ratepayers, because the taxes are passed on to ratepayers. So there are not additional money coming out of NextEra's pockets, it's money that they're turning around and then charging to ratepayers.

SENATOR SETZLER: I do understand that. But still I -- the question is: How much is it? How much of a break?

MR. MILLER: Yeah. So again, we'll want to get back to you with specific numbers, to the extent that we can.

SENATOR SETZLER: So you don't want to give us a list. Tell us what other income tax exemption agreements are in these documents, that we haven't seen or had an opportunity to read, that we're going to be asked to vote on. I'm not --

MR. MILLER: Well, there aren't --

SENATOR SETZLER: I can tell you I'm not about to vote on something that I don't have a full understanding of what it contains and been explained.

MR. MUSSER: Yes, sir. In the -- in the legislation there's a statement that during the rate freeze period, which is a four-year period, the state income taxes will not be assessed against their income, and that losses will be carried forward. And there's also --

SENATOR SETZLER: Say that one more time slowly.

MR. MUSSER: With respect to the rate freeze period, the four-year period for which they're -- more than four-year period for which they're freezing rates, there will be no state income taxes paid by NextEra.

SENATOR SETZLER: And what is the dollar benefit of that to NextEra --

MUSSER: That would be --

SENATOR SETZLER: -- over that four-year period?

MR. MUSSER: That would really depend on a totality of circumstances, their income, their expenses. It would be very hard to determine that.

SENATOR SETZLER: Did you estimate that or discuss that when you were evaluating the two sale proposals you had?

MR. MUSSER: I don't believe that was discussed, sir.

SENATOR SETZLER: You don't think that's important to the state to know that?

MR. FARANO: It was taken into account in the rate projections, what the impact of moving from tax exemption to taxability would be. And also just to answer your question before, because I don't think it was clear: there are probably 20 or 30 tax exemption agreements that are being sought by NextEra, the execution of which is a precondition or a condition precedent to their obligation to sign. That is in the report.

Certain of the exemption agreements, I

believe, that have been executed are within the documentation that was posted last night, and were part of the documentation that were presented to the Chairs of the committees as required by the law.

SENATOR SETZLER: So can you give us a list of those 20 or 30 tax exemptions that they're requesting?

MR. FARANO: We'll have to talk to them around confidentiality. But certainly, if they agree to it, we can.

SENATOR SETZLER: Wait a minute. I thought you just said it was posted on the internet.

MR. FARANO: Only the ones that have been executed. Not all the ones that they are seeking.

SENATOR SETZLER: Are there others that they are seeking in the -- in the legislation?

MR. FARANO: So that I can be clear, the nature of their proposal -- if you look at their proposal and you look at the Asset Purchase Agreement, one of the conditions -- or at the Asset Purchase Agreement as well as the legislation, they are seeking a tax proposal around exemption.

Part one -- part of that tax proposal that they have made it very clear if they do not have, they will not sign, are getting tax exemption certificates from -- I think we get you the exact number. I believe it's between

20 and 30. I think at this point they have six. They are chasing the others.

SENATOR SETZLER: And do the others involve the State of South Carolina as a party?

MR. FARANO: I don't think they're state tax exemption certificates. I am not well versed enough. I think it's all localities.

SENATOR SETZLER: So the folks in this room and the 170 members of the General Assembly are not entitled to know what those 20 or 30 tax exemptions are before we're asked to vote?

MR. FARANO: I think you misunderstood my answer.

SENATOR SETZLER: Okay.

MR. FARANO: So I apologize.

SENATOR SETZLER: Please.

MR. FARANO: Let me make it clear. We will get you what you are requesting.

SENATOR SETZLER: Thank you.

MR. FARANO: I don't have it for -- at the top of my tongue.

SENATOR SETZLER: Okay. I did not understand that. All right. Back to the ROE. Does it include abandoned property too?

MR. COLELLA: If you're -- if you're

referring to -- so the ROE would be -- would be applied to the rate base. So in this particular case, the opening rate base of roughly 5.6 billion dollars. And so it would be applied to -- the 10.2 percent allowed ROE would be applied to the equity component of that rate base, so roughly half of that rate base number.

SENATOR SETZLER: So here's my question in simple terms on behalf of the other members of the Senate.

MR. COLELLA: Sure.

SENATOR SETZLER: So if they build a new facility and they shut down a facility, do they continue to use the closed facility in their return on equity calculations?

MR. COLELLA: So the return on equity would apply to only those investments that ultimately are deemed to be used and useful either by virtue of the enabling legislation that has been proposed. So in this particular case -- in that particular case, the 2.3 billion dollars of generation investments, or any investments beyond that, ultimately, that are deemed to be prudently incurred by the PSC after the four-year rate freeze.

MR. MING: John, can I clarify that?

MR. COLELLA: Sure. Go for it.

MR. MING: Zach Ming from E3.

SENATOR SETZLER: Yes, sir.

MR. MING: So to follow up on that. In NextEra's starting rate base of 5.6 billion, that does not include any of the V.C. Summer 2 and 3 nuclear assets. So they do not earn a return on or of those abandoned nuclear assets.

SENATOR SETZLER: Okay.

MR. MING: NextEra does propose in their new generation plan to retire coal, namely the Winyah unit, and they would continue to earn a return on the -- on that asset over a period of 30 years.

SENATOR SETZLER: Even once it's been abandoned.

MR. MING: Even once it has been retired.

SENATOR SETZLER: Okay. It's been retired --

MR. MING: Yes.

SENATOR SETZLER: -- not abandoned.

MR. MING: Yes.

SENATOR SETZLER: And under the proposal, just to clarify for me, of leaving liability with the state, if they do that after the purchase, the state's still responsible for any problems that come with that facility, liability-wise?

MR. FARANO: No.

MR. MING: No. That is -- those costs would be recovered from ratepayers. And just to clarify, the reason they are retiring the plant is because it is cheaper for ratepayers to pay for the new gas plant and the old coal plant --

SENATOR SETZLER: Right.

MR. MING: -- rather than keep the coal plant running.

SENATOR SETZLER: And I do understand that. Okay. All right. And I got a question of somebody about territories served.

MS. MUSSER: If I could, I'll clarify one thing --

SENATOR SETZLER: Sure.

MR. MUSSER: -- that was said a moment ago. On the tax issue during the rate freeze period, in addition to the exemption from income taxation, they're asking for no other taxes or assessments by the state or any of the localities to be assessed, other than the fee in lieu of taxes. That's also in the legislation.

SENATOR SETZLER: All right. So you're saying that during that four-year period, they want to pay no taxes at any governmental level in South Carolina. Period.

MR. MUSSER: All they want to pay is the fee in lieu of tax provision --

SENATOR SETZLER: On the Fairfield.

MR. MUSSER: On Fairfield -- well, no, on the -- on the existing assets, pursuant to the same legislation. It's the same -- tailored to be the same as Santee Cooper's existing fee in lieu legislation, together with whatever fee in lieu of taxes they negotiated under the local agreements that Mr. Farano mentioned.

SENATOR SETZLER: So they want to be treated differently than any other utility in this state is operating.

MR. MUSSER: During the rate freeze period, the only tax burdens they -- they are going to assume are the fee in lieu of taxes.

SENATOR SETZLER: Okay. So the -- you are the one to answer a question about securitization that's in that legislation?

MR. MUSSER: Either I or Gary can probably answer that.

SENATOR SETZLER: I understand they're asking for the right to secure tie -- to have the right to secure ties, correct?

MR. MUSSER: Yes, sir.

SENATOR SETZLER: No other utility in this state has that ability, right?

MR. MUSSER: It is new to the state. Yes, sir.

SENATOR SETZLER: And it applies only to NextEra, or to every utility in the state?

MR. MUSSER: As it's drafted, it would only apply to NextEra. It is something that has been used in other --

SENATOR SETZLER: Wow.

MR. MUSSER: It is something that has been used in other jurisdictions.

SENATOR SETZLER: Okay. Who can answer a question about territory?

MR. FARANO: Sure.

SENATOR SETZLER: Customer-served territory.

MR. FARANO: Yeah.

SENATOR SETZLER: We currently have a provider in the Upstate. We have a provider who purchased SCANA, who are serving customers. And we have in place a territorial assignment law in South Carolina. Are you familiar with that?

MR. FARANO: We have reviewed it. I'm not a South Carolina lawyer. But, yes.

SENATOR SETZLER: Central is the biggest customer of Santee Cooper. If NextEra is successful and they purchase Santee Cooper, how many of the customers in this state would NextEra then be serving?

MR. FARANO: So as I understand it -- that's a very good question, Senator. Currently, directing and indirectly, Santee Cooper serves about 2 million customers. Those customers are direct-serve customers, residential, commercial, and industrial, all of whom pay retail rates. Those customer -- and then the customers are wholesale customers -- there are a few wholesale customers in addition to Central. But as you point out, Central is the largest customer.

If you look through Central to its member cooperatives and to their ratepayers, they are included within that 2 million number that I just mentioned.

SENATOR SETZLER: Okay.

MR. FARANO: If the --

SENATOR SETZLER: Go ahead. I'm sorry.

MR. FARANO: I just want to -- sorry about the --

SENATOR SETZLER: No, that's fine.

MR. FARANO: Just to answer directing. So if NextEra completes an acquisition, if you approve it, of Santee Cooper's assets, that ratepayer universe would remain the same.

SENATOR SETZLER: Do you know off the top of your head, or have an idea, of how many customers Duke currently serves in South Carolina?

MR. FARANO: In South Carolina, I don't. We have that information --

SENATOR SETZLER: Does anybody on the team know that?

MR. FARANO: Does anybody know off the top of their head? Not off the top of our heads.

SENATOR SETZLER: All right. So if Dominion were successful as the bidder on a management proposal --

MR. FARANO: Yes.

SENATOR SETZLER: -- and I raise the same question and concern about that proposal, Dominion purchased SCANA, so they have SCANA's current territory plus another 2 million customers.

MR. FARANO: They would be managing Santee Cooper --

SENATOR SETZLER: Correct.

SENATOR DAVIS: -- with 2 million customers. Yes, sir.

SENATOR SETZLER: Right. So do you know the total amount then, that Dominion would be serving through itself and Santee Cooper in South Carolina?

MR. FARANO: At that point, I -- I -- I don't know the exact number. But I presume it's the vast majority of customers within the state.

SENATOR SETZLER: All right. I'm going to go back to the question that somebody over here asked earlier today, and you made the comment you have three of the biggest, if not the biggest, providers in the country, that would be in South Carolina. Did y'all consider whether that was a ratio that was fair to the citizens, to have one company or another serving a larger majority than the other two companies?

MR. FARANO: We took into consideration, particularly in connection with the management proposal, whether given Dominion's footprint in the state already, and I think we talked about this in considerations, there are issues around both conflicts and -- and what -- and how that might position Dominion years from now. So, yes, we did. We discussed that. It did not, as you can see, ultimately impact our decision to recommend that to you. But we did.

In terms of NextEra, who at this point does not have any footprint within the State of South Carolina, we didn't specifically look at it vis-a-vis it now, along with Duke, which I think has a relatively small footprint, and Dominion, which obviously has a large footprint, we didn't get into that type of value judgement. No.

SENATOR SETZLER: So when NextEra proposes that they be granted the right to secure ties in South Carolina, did you discuss with them why they wanted that ability?

MR. FARANO: Yes, of course we did.

SENATOR SETZLER: Okay. And so why -- what did they tell you, the reason they wanted to do that?

MR. FARANO: I'll let John speak to it more definitively. But one of the reasons that folks seek to do securitization is, that ultimately it is a lower cost of cap -- a lower cost of capital financing route that will redound to the benefit of ratepayers.

So part of why they were using securitization, and part of why it's used routinely around the country and other jurisdictions, is it has the dual benefit, potentially, of adding to both shareholder and ratepayer values. So it's a very useful type of financing.

They shared that with us. It is not something with which we are unfamiliar. And so the fact that it is new here, while we understand that, if you look at a broader universe of what is considered common, it is -- it is quite common. Well, I'll turn it over to John.

MR. COLELLA: The only thing I would add to what Jerry just said is, that in this particular context, you know, we believe that they -- NextEra sought to employ a securitization in part, because as Jerry said is a low cost of financing, and as a result, I think, allowed them in their proposal to accrue greater benefits to the ratepayers as well as to the state, by virtue of the payment to the state as a result of that low cost financing.

SENATOR SETZLER: Do you believe that would be a level playing field, to allow one utility in the state to have a right that the others don't?

MR. COLELLA: You know, again within the context of our process, we didn't make any judgements around other utilities in the state that were not participating or that did not directing have to do with the Santee Cooper process.

I'm just saying again that, in the context of our process and what our mandate was, one of the things that was a fundamental tenet in the way that we designed and ran our process is that we did want to make sure that we allowed for any process participant to employ creativity in terms of how they structured their proposal.

We believe that the securitization in the context of the NextEra proposal was consistent with that fund -- that approach that we took. And we do believe that it ultimately has allowed for greater value to be conveyed overall in the context of the proposal. Some of which ultimately accrues to the benefit of the ratepayers, and some of which ultimately accrues to the benefit of the state by virtue of the direct payment.

SENATOR SETZLER: So in essence, it would allow them to construct new facilities, if they wanted to, at a lower rate than other competitors.

MR. COLELLA: In this particular context, it allows them to finance their proposal, using a lower cost of capital, overall, than had they not utilized a securitization, yes, in our view.

SENATOR SETZLER: Thank you. Somebody over here, one of you addressed the issue of the current value of Santee Cooper. I believe you said it was 1.5 or 1.8 times the rate base. Is that correct?

MR. COLELLA: Yeah, the point that I made was that if you look broadly across the market at utilities, electric utilities in particularly in this size range, that have been bought and sold over the last several years, say the last three to five years, our observation is, is that those transactions -- many of which, by the way, are larger than this one, some of which are in the region, some of which are smaller, but certainly Santee Cooper would be within the range of observable data points -- that those transactions have generally occurred as a -- as a multiple of rate base, which in this particular context we think is a useful way to think about value.

There are other metrics, of course, that the marketplace looks at -- looks at. But given the fact that this is a unique situation, in that Santee Cooper is transitioning from public to private ownership rate bases is the easiest, in our view, multiple -- or rather metric to look at.

And without being overly specific, if you looked at the recent transactions, they've occurred as multiple rate base, sort of in the mid to high ones, in some cases even low twos. And if you look at the total consideration of 9.6 billion dollars against the 5.6 billion dollars of rate base here, the resulting multiple would be -- would be within the range, in our view, of transactions that have -- similar transactions that have occurred in the marketplace.

MR. SETZLER: And I heard you say that the first time. Really, what I'm looking for out of you is what is a low -- what is the low and what is the high? What is the range of the current value of Santee Cooper, as it sits today, that somebody's trying to buy? It goes back to the question the senator from Greenville and the senator from Newberry made, if you're going to buy something, you've go to know what the value of what you're selling is -- or what you're buying.

MR. COLELLA: Yeah.

SENATOR SETZLER: Give us a range.

MR. COLELLA: I'd like to follow up with a sort of specific, simply because I don't have the data points at my fingertips in terms of the low -- the lowest and the highest transaction multiples that have occurred over the last several years. We'd be happy to follow up with you on that.

But I would say, though, is that the -- the resulting value that we were able to achieve in the NextEra proposal was in our view a function of what was a competitive process, one in which we were able to motivate NextEra to increase their ultimate proposal, in terms of where they ended up relative to where they started in their initial proposal. So it was a result of a good measure of negotiation that was led by the DOA, and we as advisors participated in that process.

And, again, we can follow up with you the specific -- with a specific answer to your question around to the range.

SENATOR SETZLER: That's a great answer without giving me an answer. And we all in the field we're in participate in the same process, so I don't fault you for that. But I don't understand how you understand that it's within the range if you don't know what the range is. And I'm being candid with you.

MR. COLELLA: Yeah. Sure. No, we do -- we do know what the range is. As I said, I think that it -- so if you look at the 9.6 billion dollars, roughly, of consideration in this -- or 9.4 billion of consideration against the 5.6 billion of rate base, that results in a roughly 1.7 times ratio.

And, again, that would be within the range of observable data points for similar transactions. And we can follow up with you with a list of what those are.

SENATOR SETZLER: When do you think you'll get those?

MR. COLELLA: We can get that to you in short order. We'll coordinate with --

SENATOR SETZLER: Is that within 24 hours, while you're still here?

MR. COLELLA: I believe we can.

SENATOR SETZLER: Okay. All right. Mr. Navaro, let me ask you -- Farano. Excuse me.

MR. FARANO: That's okay. I was just going to say --

SENATOR SETZLER: Farano.

MR. FARANO: Navaro is great. We have a junior associate named Navaro, who's going to take great joy if she watches this and you were naming me that. But please go ahead.

SENATOR SETZLER: It's kind of like Setzler, you know, you --

MR. FARANO: I was going to say. I get it.

I get it.

SENATOR SETZLER: Talk to us a little bit about what's been in the paper, all the discussion about a contingency fee agreement --

MR. FARANO: Ah, yes.

SENATOR SETZLER: -- which was addressed yesterday, very astutely. And we appreciate it being brought out directly. But discuss that with us just a minute.

MR. FARANO: Certainly. So when the Department sought to retain advisors in connection with this process, it put out an RFP for services with which -- in respect to which responded, of course.

One of the things that it asked for when it put out that RFP is, "Could you give us a breakdown of what you might charge through different phases of the project?"

And maybe just as a -- as a starting point --

SENATOR SETZLER: And by the way, I'm not one who's criticizing it. I want -- I want to understand it and be sure everybody in the committee understands it.

MR. FARANO: Thank you, Senator. I appreciate that very much. So our model is pretty simple. We just -- when you say it out loud, it almost sounds bad, but we sell time for money. We charge a certain rate per hour. And that is how we get paid.

There are other lawyers, and occasionally our litigators, will engage in contingency fee arrangements. But what we do on the corporate side certainly isn't set out to be done on a contingent basis.

We responded to the RFP and set out some dollar values for the different pieces of this process. I believe we thought up to now our range was someplace in the order of a million and a half to 4 million dollars to get where we are today, or actually to get where were we --

SENATOR SETZLER: For your fee.

MR. FARANO: -- presented to -- that was our estimate.

SENATOR SETZLER: Sure.

MR. FARANO: But it was all done in charging by the hour. We did note that the RFP suggested to law firms who were bidding in response to it, that the expectation would be if you-all recommended a sale, and therefore, the sale -- the transaction had to be completed, that the expectation would be the law firm would undertake that as well.

So we broke that down, and the RFP asked for it, as another number. And I want to say -- I'd have to - look more specifically, but maybe we said it's another 500,000 to 2 million dollars.

Part of our bid was also to offer up a cap on fees, okay? And what we said is, well, let's defer a certain amount of money, so that if we get to a point where you-all decide on a sale, you know we're going to show up at the end to do it.

We don't get a nickel of that money as any contingent basis. It's merely we will need to do more work if the deal goes the sale route and we have to close and we -- there would be -- there would be a cushion. Because we -- keep in mind we're working to a cap, we're endeavoring to be efficient, and we just know that you would have the comfort -- or the Department, knowing that you'd see the same faces closing the deal as who worked on the deal. And the only thing we would get paid for is the money that we would charge from the time that you recommended a sale to closing.

All that said, this came up, I think, in the media back in August. And the Department brought it to our attention. And the idea that it could be looked at as something that was otherwise not appropriate, or that would cause distraction, you know what, we said, "The heck with this. We're just going to charge by the hour."

And we have since our very first bill, sent out for all of our time. The Department, thank you to its great credit, has paid us. And so that --

SENATOR SETZLER: I don't think Ms. Adams is not going to pay you.

MR. FARANO: I don't think she's not going to pay us either. We have every faith in Ms. Adams and the staff. So, hopefully, that was helpful to you and addresses the issue.

SENATOR SETZLER: Well, it doesn't quite clarify what I thought I heard yesterday, or the day before yesterday, or last Thursday. The days run together. I thought I understood that everything had now been paid. So that was no contingency, I thought was what I heard. Have you been paid?

MR. FARANO: Every bill that we have sent you, you-guys have paid in full. We have no -- there is no outstanding account receivable right now.

MR. SETZLER: That's not my question. My question is you have -- you were going to pay -- get paid X up until a determination of the sale.

MR. FARANO: Oh.

SENATOR SETZLER: And you were going to be paid Y afterwards --

MR. FARANO: Sorry, that's what we discussed in that --

SENATOR SETZLER: -- and I understand -- I understand now you've been paid X and Y. Is that correct?

MR. FARANO: Let me restate. No, I may have -- I didn't mean to create confusion. We never -- we just estimated what certain phases might cost. They weren't like a -- we didn't say, "Hey, it's going to cost you 4 million dollars to get to here and 6 million dollars to get to here." We said, "We charge by the hour. We're going to bill you for our time."

You-guys had asked for estimates for phases and we tried to give those to you. So there's nothing -- we have been paid for the work that we've done, for which we have sent you bills. We don't expect to be paid any more than what we have to do to complete the task and there's no --

MS. ADAMS: Jerry, can I --

MR. FARANO: Oh, please, Martha. Go ahead.

SENATOR SETZLER: And I'm just trying to get it clear.

MS. ADAMS: I know. I understand. So let me just be really clear on this. They have sent us bills for the time they've worked. We've paid that. There have been no deferrals on those bills. That was from the day one bill in August, that was our first bill, all the way forward.

We do have a cap in place of 6 million. And if you should decide that you will have a sale, whatever your decision is, we will have to have attorneys to close, obviously, and they will be back. They are capped at 6 million. There have been no referrals. The invoices are there.

Because even though everything was done to make sure that we would have these attorneys all the way through this process, whatever it is you would decide, I did not want any kind of questions or misunderstanding on this. So we paid them. And we have paid -- well, we've paid all of these guys on time, but we've paid those attorneys on time also.

SENATOR SETZLER: So what I'm understanding is, if it goes above 6 million dollars, they're on their dime and not our dime.

MS. ADAMS: That's right

SENATOR SETZLER: Okay. Mr. Farano, you want to come back just a minute? You agree --

MR. FARANO: That's cool.

SENATOR SETZLER: You agree with her statement?

MR. FARANO: I do.

SENATOR SETZLER: Okay.

MR. FARANO: Yeah.

SENATOR SETZLER: Yeah, I can answer he doesn't want to, but I --

MR. FARANO: Well, whether I want to or not, that's the deal that I made with them.

SENATOR SETZLER: So I'll -- so I'll understand.

MR. FARANO: I understand.

SENATOR SETZLER: Let me go to some of the things you said about the Santee Cooper reform. One of those recommendations was from Santee Cooper term limits --

MR. FARANO: Yes.

SENATOR SETZLER: -- am I correct, on board members?

MR. FARANO: That's correct.

SENATOR SETZLER: Really that doesn't have to be a part of the agreement. The Governor can enforce term limits by who he appoints, can't he?

MR. FARANO: I don't know the Governor's powers in respect to the Santee Cooper general legislation --

SENATOR SETZLER: Well, he makes the appointments, advice and consent.

MR. FARANO: Then I -- if you are telling me that, that is the power he has, I would not disagree with you. I don't know the answer to that.

SENATOR SETZLER: And the General Assembly could enforce term limits on the board of Santee, just by passing a piece of legislation; they wouldn't have to do that themselves.

MR. FARANO: I may have mis-spoken. Just so that you understand, the reform proposal, I think, is suggesting that it would be beneficial to transparency and clarity -- with which we agree, by the way -- to have term limits on directors, the modality of --

SENATOR SETZLER: Sure. Sure.

MR. FARANO: -- of how that happens, I think, is open to the existing law and what you might approve.

SENATOR SETZLER: And so y'all -- if I'm understanding your recommendation, if the General Assembly decided to go to a management versus a sale or a reform, that you feel very strongly that the reform elements need to be passed by the General Assembly, to be sure they're a part of the management.

MR. FARANO: I want to be careful not to take a position that's inconsistent or outside the charge that you gave us. Because the charge that you gave us was to present the reform proposal that Santee Cooper gave, to present a best management proposal and a best sales proposal.

There is something to -- as we thought about the management proposal, we did think about it largely in the context of it being an adjunct to the reform proposal, just to -- just for our own benefit. But we presented as a standalone, which is how it was in fact --

SENATOR SETZLER: Yeah, I just thought I read and understood that you said if we went with the management, we still needed elements of the reform proposal.

MR. FARANO: We believe that, that would be beneficial, yes.

SENATOR SETZLER: Okay. And one of the other items, if I recall in the management proposal, I believe, was that -- and you referenced it today, that Central -- maybe it's in the reform, that Central be a part of the process of determining which route they were going to go as to whether it's gas, coal, solar or whatever, that they be a part of those discussions. Which they are not now.

MR. FARANO: I want to be clear. I don't know that I spoke to that. But let me just -- the coordination agreement, as it currently exists between Santee and Central, does give Central a role. I can't say that I'm completely expert in it. It is a very long and often-amended agreement. There was a time when I probably knew it better than I do know it now, standing before you.

But Central does have a say. There is a

planning committee. There is an executive committee. They have an opt-out right. Santee Cooper shares with Central its resource plan, I think, early in the fall. Central look at it. It puts it be its board. It gets back to it.

So to suggest that there's no role for them now is not correct. There is a contract that specifics what their rights are. And this is just an observation from a group of folks who have looked at this now for six or seven months.

The level of execution on those rights, and it's not a judgement call, has not been clear to us. And so we think betterment of the process, better administration of that contract, is critical to Santee Cooper reform, and it would be critical in respect of management.

The issue that got mentioned, specifically in respect of Dominion's proposal, is that one of the senior executives who they would second to Santee Cooper, would be the point person for the Central relationship on behalf of Santee Cooper. Not the only person, of course. But a point person.

SENATOR SETZLER: Right. And of the three people that Dominion proposes to put -- and it's been said several times, one could potentially could be a CEO -- who would make that choice under the proposals? Does Santee

Cooper make that choice? Does Dominion make that choice? Who make -- or Central make -- who makes that choice?

MR. FARANO: So the contract specifics how the secondment would work. And there would be people proposed for consideration by Santee Cooper. It is collaborative. It is not something that's simply a mandate from one party to the other. And that's laid out in the Dominion management agreement that is attached -- again, proposed Dominion management agreement, I did say attached, to what was submitted.

SENATOR SETZLER: Did I say to you that I am concern -- have concerns about all three of the proposals, and where the state is going to be with these three proposals?

MR. FARANO: You did. Yes.

SENATOR SETZLER: Okay. I think that's all right now, Mr. Chairman.

MR. FARANO: Thank you, Senator.

MR. COLELLA: Senator, if I could. I just wanted to follow up --

CHAIRMAN LEATHERMAN: Yeah.

MR. COLELLA: Sorry, Senator. I just wanted to follow up on our discussion on the -- on your question around value. And, again, we'll follow up with the data that you requested.

But just going back to the reference that I stated earlier, around that rate base multiple range OF 1.5 to 1.8 times. If you utilized those numbers, that would imply a value range for Santee Cooper of 8.5 billion on the low end to 10.2 billion dollars of enterprise value on the high end. And the NextEra proposal of 9.5 billion dollars is within that range, closer to the high end.

SENATOR SETZLER: Right. Thank you.

CHAIRMAN LEATHERMAN: It looks like Senator Grooms is next on the list. But before we go there -- AND behind him is Senator Bennett, Senator Corbin. And take all the time you need. I'd ask you to make your points, if you can, and move on. Senator Grooms.

SENATOR GROOMS: Thank you, Mr. Chairman. I'd like to first of all look to the question that was asked by the senator from Horry, about trading debt for debt, that there is no such thing as a free lunch. And one of the tag lines that are out there, if the NextEra deal goes through, we're eliminating the nuclear debt.

Could someone please speak to me a little bit about the debt? Because what are now calculating the nuclear debt to be? I believe that's spelled out in the agreement. Isn't that about 3.6 billion?

MR. COLELLA: Yeah, so -- you know, again, look, what we have from NextEra is a proposal that includes various component parts. Obviously, one of those components parts is the defeasance of the exist -- all of the existing -- the existing debt. And, again, there's about 7 billion dollars of existing debt with the make-whole provision of about a billion dollars brings that total liability up to about 8 billion dollars.

And then obvious -- and then beyond that, there are proceeds in the NextEra proposal, effectively a delta between that and some other liabilities of the proceeds that go to the state, as well as the ratepayer.

They are refinancing -- you know, part of their 9.6 billion dollars of consideration is being refinanced through both the securitization and the roughly two and a half --

SENATOR GROOMS: And securitization, that's just -- that's debt.

MR. COLELLA: That's debt.

SENATOR GROOMS: That's debt.

MR. COLELLA: Yeah, it's as form --

SENATOR GROOMS: And we've got corporate bonds. And all the key terms of the NextEra bid sale, which is up on the screen right now --

MR. COLELLA: Yeah.

SENATOR GROOMS: -- it appears that the proposal would be for corporate bonds of 2.720 billion and

1.330 billion in securitized debt. So the spotlight on 4 billion in bonds, 4 billion in debt.

MR. COLELLA: Correct. Correct.

SENATOR GROOMS: So we've got 3.6 billion in nuclear debt that will be eliminated, but we're taking on over 4 billion dollars in corporate and securitized debt. Is that not correct?

MR. COLELLA: That's correct.

SENATOR GROOMS: And then we have a net -- a NextEra cash contribution of 5.4 billion of which 2.925 billion will be the equity in the new company.

MR. COLELLA: Correct.

SENATOR GROOMS: And the entity in the new company, they're entitled to a return on investment, a return on entity --

MR. COLELLA: Correct.

SENATOR GROOMS: -- of 10.2 percent.

MR. COLELLA: Correct.

SENATOR GROOMS: For how long? Is that for 30 years, or is that forever?

MR. COLELLA: So the way their deal is structured is that they've got a rate freeze for the first four years, and then after that, the 10.2 percent would apply to, effectively, treatment that they would receive through the PSC, you know, thereafter. So in perpetuity.

SENATOR GROOMS: So in perpetuity.

MR. COLELLA: Obviously, subject to review periodically by the PSC.

SENATOR GROOMS: Before we talk about the other 2.3 billion that they intent to invest, somebody was asking me the other day about the difference in bonds or in mortgage and also renting. Is there some sort of analogy that when you're rent -- someone else owns your home and you're renting it, you don't own it but you're paying that rent forever? Or like a return on entity, instead of paying off a mortgage as if you were the owner and you owned the asset, if you have an infusion of entity, the payments last forever.

MR. COLELLA: I'm not sure that I understand the question. I'm sorry that I didn't maybe hear that correctly.

MR. MILLER: John, I don't know if you want to --

MR. COLELLA: Sure.

MR. MILLER: -- kind of -- that's definitely a good question, sir.

SENATOR GROOMS: In trying to explain the deal.

MR. MILLER: Yeah.

SENATOR GROOMS: It seems like we're trading debt for debt, and then we're selling some of the assets and basically giving them to somebody else as if we're renting our home; we'll never own it but we're paying that rent forever.

MR. MILLER: Yeah. Okay. I'm starting to understand that, the perspective that's being raised. Just to kind of clarify, mechanically, kind of what's happening with the financing for the deal.

So you have a bunch of outstanding bonds, you know, Santee Cooper's existing debt, right, and those are revenue obligation bonds, so they -- the bond-holders have a claim on revenues charged to customers over the life of the bonds, right?

So when the -- when the entity that is able to charge customers is sold, those bonds become due because there is no longer an entity backing up those bonds, able to charge customers for those revenues. Now, consequently -- so that's why those bonds must be retired. That's why the sale triggers the retirement of those bonds.

Then you have the establishment under the sale proposal, a recapitalization of the utilities. So your characterization of the debt for debt, it's somewhat different in that I would say the bonds now no longer have an entity that's able to service them, so they're retired. The new entity raises corporate bonds at the operating company levels.

So Santee Cooper Power and Light, which would be the new entity holding the assets, is going to be capitalized with a mix of debt and entity. Now, all utilities have debt. Debt is not inherently good or bad. Debt is debt. How debt is repaid is how debt is repaid. So it's important to look at things that way.

SENATOR GROOMS: So the ratepayers of the system, the Santee Cooper system or the South Carolina -- or the Santee Cooper Power and Light, those ratepayers would be responsible, ultimately, for paying the debt.

MR. MILLER: The new debt that is raised.

SENATOR GROOMS: The existing debt under Santee Cooper or the new debt under South Carolina Power and Light -- or Santee Cooper Power and Light.

MR. MILLER: Yeah, I would -- it's different quantums, so --

SENATOR GROOMS: Yeah. But the Santee Cooper right now, its ratepayers are responsible for the debt.

MR. MILLER: That's correct, yes.

SENATOR GROOMS: Okay. And if Santee Cooper is sold to Santee Cooper Power and Light and there's -- there's no debt, the old debts are defeased so we got no debt, the customers -- the same customer base would be responsible for the new debt.

MR. MILLER: That's correct. It's different amounts of debt and it's going to different assets. But, yes, that's correct.

SENATOR GROOMS: And in addition to the new debt, they'll be responsible for paying a return on entity.

MR. MILLER: That's correct.

SENATOR GROOMS: Forever.

MR. MILLER: That's correct. That's how investor-owned utilities operate.

SENATOR GROOMS: Bonds will eventually pay it off.

MR. MILLER: That's correct.

SENATOR GROOMS: But the return on entity is not. That's --

MR. MILLER: Well, they're -- that's not entirely correct. The difference --

SENATOR GROOMS: Correct me.

MR. MILLER: Yes. So the difference is -- I see where you're driving at. I think it's an important and helpful distinction to make in terms of how return on capital happens within the regulatory construct of an investor-owned utility. So effectively, you have the assets in service which are 5.65 billion, right? So --

SENATOR GROOMS: And those are assets.

MR. MILLER: Yeah, those are assets.

SENATOR GROOMS: And if those assets belong to, let's say, Duke Power, they'd be paying property taxes on those right now, correct?

MR. MILLER: I'm just trying to stick to the question at hand --

SENATOR GROOMS: Okay.

MR. MILLER: -- so I can clarify this. And then we'll --

SENATOR GROOMS: That will be my next question.

MR. MILLER: I understand that. But just trying to stay in the lane here of what we're talking about financing -- the cost of financing and how it's recovered.

So those assets depreciate over time, right? So effectively, what's happening is NextEra is acquiring those assets for 5.65 billion, acquiring them at their rate base value. Which is really their net book value.

So they have a depreciation like those assets are broken down into individual, this generator here, those wires there, that meter there. Each of those has a separate asset life.

Those assets are depreciated over time, and customers under investor-owned utility are charged for that depreciation. That is the return of the principle investment. It is akin to paying the principle on a bond, right?

So as those assets are eventually fully depreciated, they are no longer in rate base and they no longer earn a return on entity. Nor are they repaid from customers.

SENATOR GROOMS: And that's what's a recoverable cost.

MR. MILLER: That's correct. They're assets that are used and useful in the generation and service provision to customers, once they are fully depreciated, customers have paid the initial investment as well as the return on the investment, and then they are removed from rate base.

SENATOR GROOMS: And in the -- in the proposal moving forward, it seems that NextEra is planning on adding new generation within the first four years.

MR. MILLER: That's correct.

SENATOR GROOMS: About 2.3 billion dollars, a gas plant, some solar, and that would be a recoverable expense.

MR. MILLER: Yes, those would be assets used to generate power for customers.

SENATOR GROOMS: And normally the Public Service Commission would have to deem those to be prudent.

MR. MILLER: That's correct.

SENATOR GROOMS: But we're being asked to certify that they're prudent expenditures in the enabling legislation --

MR. MILLER: That is the ask from the NextEra, yes.

SENATOR GROOMS: -- bypassing them. And they're entitled to a 10.2 percent rate of return on those expenses.

MR. MILLER: That is the return on entity that they're asking for, fixed in the initially period of time. And that -- correct me if I'm mistaken, that's just for the four-year period.

MR. FARANO: That's just for the four-year period.

MR. MILLER: That's just for the four-year period in the legislation. So after the initial four-year period, NextEra would come before the Public Service Commission in South Carolina and do a rate case. In which point the return on entity, the cost of debt, the rate base, all those assets generally would be reviewed through the typical rate-making process.

SENATOR GROOMS: So what about the four -- what about that 2.3 billion? If we determine as a -- as a body, that they are a prudent expenditure, would they not be entitled to a 10.2 percent return on investment? Would they not be built into the rate base?

MR. MILLER: They would be included in the rate base as a used and useful asset. The 10.2 percent is a return on entity, so they would be included in rate base. The rate base as a whole is going to be deemed to be debt and entity financed at a particular leverage.

So the 10.2 percent would be earned on that 2.3 billion, the portion of which, you know, may be 52 percent or so of entity of that new 2.3 billion. So about 1.15 billion or so, 1.2 billion would be the entity component that would earn 10.2 percent.

That ROE is not indefinite. That would be subject to periodic review by the Public Service Commission, following an initial four-year period.

SENATOR GROOMS: So the rate base would be the initial 5.650 billion plus the 2.3 billion of additional investment.

MR. MILLER: That's correct. Now, the rate base is the initial acquired rate base. That would continue to depreciate -- those assets would depreciate over time. So it would decline, they would add 2.3 billion. I mean, they would continue to add additional capital expenditure as needed for the system over time in generation transmission distribution and --

SENATOR GROOMS: So in year five, we would have the 5.650 that had depreciated over five years, whatever that value is. Let's just say 5 billion. In addition to that, we would have the 2.3 billion. And that would be the basis of the rate for NextEra; is that correct?

MR. MILLER: Yeah. Fundamentally, you know, all else equal, that would be a component, altogether, of the rate base that's being charged.

SENATOR GROOMS: If moving forward in the first four years, if NextEra expends only a billion instead of 2.3 billion, the rate base would be lower, correct?

MR. MILLER: That's correct. So the new generator -- we're just talking about the generation additions to the rate base.

SENATOR GROOMS: It generates --

MR. MILLER: We're not talking about the TND and everything else. Yeah, so the provisions to legislation that have been put forward by NextEra, include a provision to charge actually costs if it is less than the cap that is proposed for the new generation assets. So, yes.

If it came in at, for instance, you know, 2 million or 1.8 billion rather than 2.3, that would be the addition that would be added to rate base.

SENATOR GROOMS: So they would have an incentive to spend up to the 2.3 billion to get the 10.2 percent return.

MR. MILLER: That would be what the cap says in the legislation as far as the maximum they could earn. There are some additional provisions where they need to -- in the building of the new generation, put it out to competitive tender, which of course can be based on a lowest cost and there is some --

SENATOR GROOMS: But don't they deserve the right to build it themselves? NextEra energy partners, could they not build the facility?

MR. MILLER: There are provisions for that. If NextEra Energy were going to participate in a tender for the new generation. And, again, Jerry, correct me if I'm wrong here. There would be provisions to subject that procurement process to the PSC if NextEra were to participate in as a -- as a competitor.

SENATOR GROOMS: Okay. So the --

MR. MILLER: In other words, it's not an automatic right that they're going to self-supply at 2.3 billion. They have a competitive process, if they participate in their own competitive process with a related party -- another, you know, NextEra party, it would go to the PSC to approve that procurement process -- to oversee that process.

SENATOR GROOMS: Would that be -- let's just say NextEra Energy partners has a limited partnership, and they're proposing to build this asset, would that be a regulated or non-regulated asset?

MR. MILLER: We're talking about an engineering procurement and construction contracts, and those would be EPC for rate base. So this would be a regulated asset that would be added to rate base.

SENATOR GROOMS: Okay.

MR. MILLER: It's the treatment for that generation addition during the four years.

SENATOR GROOMS: Okay. So the rate base we're looking -- we're looking for the rate base in the -- we're looking for the rate base to be somewhere around 7.3 billion, assuming they got five -- 650 million dollars in depreciation on the first four years. And I'm just -- I'm just trying to get an idea what -- what is the rate -- what's going to be in the rate base.

MR. MILLER: Yeah. In orders of magnitude, there's also, you know, a regular planned additions to transmission distribution, other aspects of the system, and depreciation.

SENATOR GROOMS: Okay. So they could spend more than 2.3 billion in the first --

MR. MILLER: That's for generation --

SENATOR GROOMS: -- in the first four years.

MR. MILLER: -- alone. I'm sorry.

SENATOR GROOMS: Okay.

MR. MILLER: Yes. But in aggregate, they could spend more than 2.3 billion during the first four years.

SENATOR GROOMS: Let's just say they spent 4 billion, they got to increase the -- well, I know they'll be able to get to Horry County. There's a proposal for Myrtle Beach -- I can't think of the name. The flywheel equalize the load on the system.

MR. MILLER: The synchronous condenser?

SENATOR GROOMS: The synchronous condensers. That's correct.

MR. MILLER: Yeah.

SENATOR GROOMS: But you will still need to wheel in some more power from somewhere, so there would be upgrades to the -- to the transmission.

MR. MILLER: Yeah, we included an extra 90 million in provision in our normalized rate projections that you see behind us.

SENATOR GROOMS: So that 90 million would also be built into the rate base.

MR. MILLER: Yes. Any investment that the

IOU would do, would be built into rate base, subject to either the terms of the legislation during that period and with respect to that particular asset, or to a typical PSC prudency review.

SENATOR GROOMS: What I'm trying to get to is: What do you believe the rate base will be?

MR. MILLER: At the end of the four-year period or --

SENATOR GROOMS: Yes, at the end of the four-year period. You have to have some sort of projection, 'cause you're projecting rates. To project rates you have to have a rate base.

MR. MILLER: Yeah. Yeah, we do. No, we have that projected as part of the rates.

SENATOR GROOMS: And what would that number be?

MR. MILLER: I'll look up the number and give it to you, rather than quoting off the top of my head. But it's certainly on the order of 5.65 minus some depreciation, you know, plus 2.3 billion for new generation assets.

SENATOR GROOMS: Plus upgrades to the transmission --

MR. MILLER: Yeah, the upgrades to the transmission. I mean, the depreciation is on the order of a hundred million a year, so it's sort of down and then up. Like I said, I'd rather get the numbers straight from our projections and give that to you, than quote something off the top of my head.

SENATOR GROOMS: Are your projections contemplated in the enabling legislation, of what is prudent?

MR. MILLER: Our projections.

SENATOR GROOMS: Like the 90 million dollar upgrade to the transmission, or other things that might not come to your -- come to your mind right now, that you'd be able to find. I mean, you've got them somewhere. But I'm trying to figure out the rate base --

CHAIRMAN LEATHERMAN: You want to let him answer one question at a time?

SENATOR GROOMS: Yes.

MR. MILLER: Yeah, so I'm just thinking through. The terms legislation --

MR. FARANO: They apply to generation and a couple of additional things. So anything that's directly related to the generation are part of the mix. But it is pretty much a generation --

MR. MILLER: It's a generation prudency.

MR. FARANO: -- mix prudency review.

MR. MILLER: Yeah.

MR. FARANO: It's not apply to other assets. It's not TND. It's not synchronous condensers. It's not stuff that's being done, that they would choose to do outside the plan that gets presented, in connection what they're asking of you.

SENATOR GROOMS: So in the enabling legislation are we giving them a blank back by saying whatever you do is prudent?

MR. FARANO: No.

MR. MILLER: No. No.

SENATOR GROOMS: So there is a limit --

MR. MILLER: Oh, yes.

SENATOR GROOMS: -- like the rate base would be.

MR. MILLER: Yes, there is a limit. The prudency -- the deemed prudency of a -- of approval in the legislative ask relates to the new generation plan. Not to transmission, assets, distribution assets, other, you know, upgrades to the headquarter facilities or anything envisioned under the normal course of business.

It is entirely focused around the combined cycle gas turbine of 1265 megawatts, the 800 megawatts of solar and the 50 megawatts of battery as its spelled out. Each of those three has a cost cap, as you recognized earlier in your question.

SENATOR GROOMS: And there's a -- we have a schedule that will be made available to us?

MR. MILLER: Yes. In the legislation itself, actually, are the cost cap numbers for those --

SENATOR GROOMS: I was able to --

MR. MILLER: -- type of assets.

SENATOR GROOMS: I was able to pull that off the NextEra website last night, the proposed legislation, after I read in the Post & Courier that it was available to them but not us.

Let's talk a little bit about the generation plans, the Santee Cooper plans versus the NextEra plan. Santee Cooper proposes to do things, and it seems to me -- and tell me if you agree with me on this -- that they're changing the generation mix goes forward for about ten years.

MR. MILLER: Yeah.

SENATOR GROOMS: And then after ten years, it allows certain flexibility where they can -- where they can change the plan. But we're still projecting things out 30 years, based on what's going to happen over the next ten years.

MR. MILLER: Yeah, broadly speaking, that's accurate. I mean, I would characterize that with one additional important condition, which is that once you make a generation investment of any particular magnitude, it does have a certain path dependency attached to it.

In other words, it would be prudent, generally, to once you invest in something that is and continues to be cost effective to serve customers, that you continue to maintain and operate that asset for that purpose.

SENATOR GROOMS: And under the NextEra plan by building this -- by building the large generation asset within the first four years, would that offer the same type of flexibility that you see in the Santee Cooper reform plan?

MR. MILLER: I see your question. I would say a couple of different points worthy of your consideration. The first is, since you are building what NextEra is putting into place in the generation mix during the first four years, is largely adequate to serve load and combine -- in combination with the other existing assets for the majority of the 20-year period. Then not -- there is not a significant need for additional generation investments once those initial investments are made.

Now, in contrary, on the Santee Cooper side, because the retirement of Winyah is delayed, then you do have a longer period of time, or a slower introduction of new resources over time, if you will.

Now, consequently, the earlier retirement of the coal and the addition of the new combined cycle in the NextEra plan does generate near-term savings that are not there in the Santee Cooper plan. So it's really a trade-off. They are basically building a new generation mix that will last for the better part of 20 years, within the first four, generating some additional savings up-front that are passed to customers. And then those assets -- you know, presumably, there will be some additional need for generation investments in year 15 or year 18.

In the Santee Cooper plan, it is more of a step-by-step approach in the retirement of Winyah and the introduction of more solar to the system.

SENATOR GROOMS: Really, you said once you build it, it's sort of there and you need to use it. Is that --

MR. MILLER: In so --

SENATOR GROOMS: Or if we're talking about --

MR. MILLER: Insofar as it remains a cost effective resource on the margin, taking into account the proper treatments on cost, yes.

SENATOR GROOMS: And the next -- in the NextEra plan cost of building this asset in Fairfield County, 1250-something megawatt combined gas cycle turbine, would that meet the demand of the Santee Cooper system? Or would it exceed the demand of the Santee Cooper system?

MR. MILLER: When we talk about demand, we need to kind of characterize it according to how utilities plan to meet their peak load. So we're talking about planning reserve margin here. We also have to talk about how you meet -- so there is the peak load of the system, and there's also the energy need, you know, kilowatt hours/ megawatt hours in the system.

So under the NextEra plan, the larger combined cycle and the retirement of Winyah combined with the addition of the solar and batteries, does take them above a planning reserve margin for a few years.

However, the larger combined cycle also allows it to run at a higher capacity factor, which then has cost savings passed on from the replacement of coal generation with gas generation.

So there is some additional capacity beyond the planning reserve margin during the first number of years, and a trade-off with the capability of running gas to serve a larger share of your energy demand.

SENATOR GROOMS: I guess what I'm getting at, the Santee Cooper plan allows flexibility after year 10; the NextEra plan pretty much locks in for at least a 20-year, and possibly ever longer period, the type of generation that their resource plan would have. The gas plan would be at you're above -- you're above-peak capacity, well above it for the first few years as -- and then demand will eventually catch up to it, but you're sort of locked out of flexibility for a while. Is that not correct?

CHAIRMAN LEATHERMAN: Senator, is that a question or a statement?

SENATOR GROOMS: It's a question.

CHAIRMAN LEATHERMAN: Thank you.

MR. MILLER: Yeah, so I would say certainly because NextEra is supplying the large transmission of generation mix earlier on, then those investments are, you know, already made and part of rate base, and sort of locked in, by your characterization.

In terms of flexibility, I mean, Santee Cooper, relatively earlier on is signing PPAs for a 1000 megawatts of solar. Those contracts are usually pretty firm. And it's a -- it's not easy to get out of those contracts when you are bringing a new asset into place with financing behind it.

So there is -- they're going to be needing to off-take that energy serve from those contracts, which come on fairly earlier as well.

I would also say -- so in a sense, there may be somewhat greater flexibility in terms of optionality in the phased approach to Santee Cooper's reform plan, at the cost of some incremental savings that are achieved by the earlier introduction of more gas and solar than the Santee Cooper plan.

SENATOR GROOMS: Some of Santee Cooper's criticism was that it built too much coal and it relied on coal too heavily. Could the same be said of NextEra by building too much firm -- too much gas earlier in the system without the ability to switch in case the fuel prices were to rise on gas?

MR. MILLER: Yeah, I would say, in general, you know, there is a larger build on gas. And, certainly, whenever you bring a new thermal resource on-line, you are making a fundamental economic judgement that -- as to what will be cheapest for customers over a longer economic life, a longer planning period.

So certainly, there is, I would say, optionality on different time frames, for instance, Senator. So what I would say is first, there is the decision-making around what to build, right? So you have the capability in your system to run gas or coal, based on how much you build and at what time frame you build it.

But then as prices change, that is then a second order of optionality, where you are looking at what is your contractual position for fuel. And you have some flexbility within your dispatch, subject to what kinds of capacity you have and when, as to how best run the existing assets that you have, relative to fuel prices.

So having a large combined cycle definitely gives you a larger optionality to use gas. If gas prices were to spike tomorrow and remain very high, then, yes, that would be an impact.

Now, it's also worth saying that over the first 10-year period of operations there are, you know, market contracts by which you could lock in and hedge, you know, yourself out for the benefit of customers at an additional cost of that forward contract position, to continue to sort of get access to gas at a known price forecasted into the future by a degree of --

SENATOR GROOMS: Would spiking gas prices be more detrimental to the NextEra proposal or to the Santee Cooper reform platform?

MR. MILLER: So the combined cycle unit -- it's also worth mentioning that, fundamentally, Santee Cooper is bringing on the same combined cycle technology and H-Series gas turbine as the NextEra plan, just at a different time scale, and using only half of a two-by-one rather than a full two-by-one combined cycle.

When you look at the fuel efficiency of that plant, and the load profile of the utility, you can see that the gas is a cheaper option for customers, relative to the costs of keeping the coal on-line from year to year, as well as its fuel costs, up and, you know, through around 4 dollars per BTU, which is significantly higher than gas prices today.

So an initial, you know, swing in gas prices would still be to the benefit of ratepayers, with a larger gas system earlier under the NextEra plan. A larger swing than that would then tip the needle in favor of a more coal-heavy mix.

It's also worth noting, in general, when you think about the future -- and these are excellent questions, Senator -- that, you know, coal and gas, in addition to hydro, are kind of the only firm resources that are really available economically to serve, you know, load and to meet peak right now.

Certainly, in the future you have the potential introduction of more solar and batteries to do that. But at the moment, really, you're -- especially given the fact that you're a winter-peaking system here with electrical -- electrical load, you know, moving from coal to some diversified position into gas is probably a reasonable economic decision for any planner looking at this region and this resource mix.

The exact timing of, you know, when you do it and how much and what fuel prices are then does have certain cost implications depending on how things move.

SENATOR GROOMS: It looks like one plan's betting a billion dollars more on gas than the other. And it could pay off if gas stays low and it --

MR. MILLER: Yeah, I --

SENATOR GROOMS: -- would be detrimental if gas does not.

MR. MILLER: Yeah. Broadly speaking, that's a property characterization of --

SENATOR GROOMS: I'd like to bet --

MR. MILLER: -- the differences.

SENATOR GROOMS: -- Santee Cooper would have coal a while back, it's not paying off as well as they had hoped at this point.

Let me ask you about the FERC license. Who's our FERC license person? Would that be -- would that be you too?

MR. FARANO: The FERC No. 199 license.

SENATOR GROOMS: Yes, the FERC license 199.

MR. FARANO: Yeah.

SENATOR GROOMS: Right now Santee Cooper's been in the process of renewing the FERC license.

MR. FARANO: Yes.

SENATOR GROOMS: It hasn't been renewed.

MR. FARANO: Correct.

SENATOR GROOMS: As you know, there's ongoing issues regarding shortnose sturgeon and other things.

MR. FARANO: That's correct.

SENATOR GROOMS: What requirement -- should we move forward with the sale of NextEra, what requirements are there to ensure that NextEra would move forward with the re-licensing of the project?

MR. FARANO: Sure.

SENATOR GROOMS: If the project was re-licensed, there would certainly be obligations that would go along with it. But a -- but a license that has not be renewed, would those same obligations be there?

MR. FARANO: It's an excellent question, Senator. And you go to the heart of the issue around the FERC No. 199 license. I think the issue there is that its transfer would be subject to FERC approval. And so, presumably, NextEra would have to work out with the FERC.

I don't imagine that the FERC would give up what leverage it may have in respect of any license provisions, if it thinks there's going to be a change of control of the asset. And so what will happen is that will likely, you know, be a discussion, and it will, that the

FERC and NextEra will have to have around that license.

Because as a condition preceding to closing, because they are in fact taking all of the assets, that FERC license transfer has to take place.

So I think I -- I think I'm addressing your question, which is there are -- there are some issues around it right now. You're absolutely correct. I don't want to speak for the Federal Energy Regulatory Commission, but I imagine that they may well use a change in ownership that warrants a license transfer approval to try to resolve those issues in its favor. But I would be surprised if they permitted a transfer of the license with any of these issues unresolved.

SENATOR GROOMS: Does the -- does the enabling legislation require that the FERC license be obtained by NextEra?

MR. FARANO: So the enabling legislation, as a state law creature, doesn't speak to the approval of the FERC No. 1 -- No. 199 license transfer by the FERC. But the Asset Purchase Agreement itself does. So where you will find the requirement of that license transfer happening is in the APA rather than in the enabling legislation.

SENATOR GROOMS: Well, it's contemplated that there would be a license granted.

MR. FARANO: Yes. There has to be.

SENATOR GROOMS: Okay. Let me get to this issue called ring fencing. That seemed to be an important issue in other states.

MR. FARANO: Yep.

SENATOR GROOMS: Could you explain to the Committee what is ring fencing?

MR. FARANO: Sure. I'll turn it over to John, to talk about ring fencing.

MR. COLELLA: Yeah, so ring fencing is a set of provisions that have been employed in certain circumstances around utilities in other parts of the country, whereby the owner, or the acquiror, agrees as part of their acquisition, to abide by certain what I'll call maintenance covenants which are designed to protect the utility from any financial distress that might occur at the holding company level above the operating utilities.

So in this particular case, that would be NextEra. Those kinds of provisions could range from anything from dividend restrictions that maintain cash inside of the utility, to balance sheet covenants such as debt equity ratios, credit ratings and other mechanisms that again are designed to create an entity that is effectively bankruptcy of a note, so that it would not be effected, you know, really, by any financial distress in the case of the -- or in the circumstance of the owner.

Does that answer your question?

SENATOR GROOMS: So ring fencing, sometimes it's implemented and sometimes it's not.

MR. COLELLA: Correct.

SENATOR GROOMS: And ring fencing would -- if there were -- if we're requiring ring fencing, the assets of Santee Cooper Power and Light would be protected for the customers of Santee Cooper Power and Light, in that they could not be pledged against other obligations of the parent company. Is that -- is that --

MR. COLELLA: That's a fair assessment. So you can think of it as a -- an extra set of provisions that would serve to further protect the ratepayer from, again, any financial consequences or distress that could occur. In this case at the NextEra ownership level, yes.

SENATOR GROOMS: I know part of the Joint Resolution, we required the bidders to speak to why they were not able to complete other transactions. So you probably looked at the -- one of the transactions that was contemplated in Texas with NextEra. Did you have any comments, or did you look into the ring fencing issue with that?

MR. COLELLA: So we're aware of NextEra's history around Encore. And in terms of, you know, why they ultimately were unsuccessful in consummating that transaction, you know, again we have views. But those would be -- you know, I think I'd prefer to defer -- you know, defer that to NextEra to answer for themselves.

SENATOR GROOMS: But you have views. And what would those views be?

MR. COLELLA: Well, I mean, ultimately, in that particular case, these views are based nothing -- on nothing more than sort of observations of public statements that were made which -- which in that particular case, you know, the -- there were, to our understanding, a set of provisions that NextEra was asked to agree to in that particular instance. And they were not willing to do so, and therefore, were not able to consummate the transaction. But I won't -- you know, I won't attempt to get into any more detail than that.

SENATOR GROOMS: Is ring fencing required of the other two utilities in South Carolina, the investor-owned utilities?

MR. COLELLA: Not that I'm aware of, no.

SENATOR GROOMS: Was there any discussions about the FEMA reimbursements? 'Cause right now Santee Cooper, as you know, is FEMA-eligible. So if there's a natural disaster, they're partially reimbursed, I think 75 percent dependent on the disaster declaration to the system for recovery. And NextEra is not. How does that work for NextEra, for Florida Power and Light?

MR. FARANO: That's a good question, Senator. Candidly, I don't know the FP&L situation well enough to have an answer. We could certainly take a look at that. I think -- you know, one of the issues that I think made the NextEra bid compelling was its just sort of capital structure and the ability, if necessary, to infuse capital -- or to get into and access the capital markets regularly in the event of a disaster. That is something we took into consideration.

We understand the history here. And it's a difficult one for ratepayers and the folks who provide power to them. And one of the things we took into consideration with respect to NextEra, was sort of historically what have it's -- it has done in its access to capital in order to address those issues.

SENATOR GROOMS: Do you realize we get hit more with hurricanes than Florida?

MR. FARANO: I do realize that, yes. Yes, sir.

SENATOR GROOMS: And that we had a big one in 1989, that basically took down the entire Santee Cooper transmission system.

MR. FARANO: Yes, sir. We know that.

SENATOR GROOMS: Another element about FEMA reimbursements, if there's a natural disaster, the total amount of the disaster ends up determining whether counties or political subdivisions are entitled to disaster relief, and that within the last three years, Santee Cooper's received twenty -- 25 million dollars in FEMA reimbursements that not only help Santee Cooper, but also help the individual counties that were hit hard, so that they would then be eligible. I was wondering was any of that taken into consideration.

MR. FARANO: Again, I think we looked at what in the private sector has been done in respect of providing relief to ratepayers in localities, be it if you look at the Ike bonds that were issued in Texas. And so there are a number of different approaches that folks have taken. Those were taken into consideration. But we didn't, you know -- more than that, there was no requirement of them, if you will.

SENATOR GROOMS: Are you aware of submission with Florida Power and Light right now, with the Florida Public Service Commission, over storm damage and the changes in the federal tax code which resulted in revenue increases -- or projected revenue increases on those assets?

MR. FARANO: That was not something that we took into -- I am aware of that issue, myself. Yes.

SENATOR GROOMS: Let me ask you a little bit --

MR. FARANO: Or one thing on the ring fencing and Encore, we can point out that it is probably the best example of ring fencing working under a -- an attack that you wouldn't otherwise expect it. It's probably the ring fencing poster child, that Encore was able to get the value that it ultimately received in respect of its sale.

SENATOR GROOMS: And I was thinking of an example back in -- oh, gosh, I'm trying to think of the year -- involving NextEra. Out in California and in Oregon there was a ring fencing provision when Enron collapsed because of other investments that the parent company had made. There was a call on some of the assets, and folks in Oregon, because they insisted on ring fencing, their utility was protected where the others were not.

MR. FARANO: Absolutely. Ring fencing is --

CHAIRMAN LEATHERMAN: Excuse me.

MR. FARANO: -- has served people well

CHAIRMAN LEATHERMAN: Excuse me. Senator, is that a question or a statement?

SENATOR GROOMS: Well, it's absolutely a question. It was a "Did you know?" And I'm almost finished. Reliability is something that's important. I think you would agree with that.

MR. FARANO: Reliability is important.

SENATOR GROOMS: And what is the confidence level of reliability of both plans?

MR. FARANO: Both plans, did you say? Senator, may I just ask --

SENATOR GROOMS: The Santee Cooper resource plan and the NextEra plan.

MR. FARANO: The plan.

SENATOR GROOMS: I'm sorry.

MR. FARANO: Sorry, I heard "plants." I apologize. Could you -- could you just explain a little more? In terms of reliability, you mean reliability --

SENATOR GROOMS: Reliability to the system --

MR. FARANO: Reliability to the system.

SENATOR GROOMS: -- of staying up and not collapsing because we took too much power away from Winyah at a particular time --

MR. FARANO: Yeah. Sure

SENATOR GROOMS: -- and we didn't replace it.

MR. FARANO: That's a fair question. And that was looked into. I'll turn it over to Zach to answer that question. We certainly took it into consideration.

MR. MING: So as presented today in these plans and rate projections, we view reliability to be equal between the two plans. In NextEra's original proposal, we actually thought that it wasn't quite as reliable as Santee Cooper's. And so we added the 90 million dollars that represents cost of transmission upgrades, to bring it to an equipment level of reliability. And that's reflected in the rates.

SENATOR GROOMS: And that's what I was getting at. That 90 million dollars would be for transmission upgrades.

MR. MING: It could be for transmission upgrades. It would, theoretically, be for additional sort of peaker generation in the Myrtle Beach load pocket area.

SENATOR GROOMS: And how long would it take to make those upgrades?

MR. MING: If it were generation? Very quickly. Transmission? Potentially longer.

SENATOR GROOMS: And those -- and so there's -- there's a -- there's a plan for additional generation immediately in the Myrtle Beach area?

MR. MING: The 90 million dollars reflects our judgement of additional costs that would be required to bring the system to an appropriate level of reliability.

If it was generation, you could bring that on-line within the period of about a year.

SENATOR GROOMS: I know you have some synchronization occurring in the Myrtle Beach area, but would you not need additional power on the -- on the transmission to get to Myrtle Beach, for them to be effective?

MR. MING: The new generation that I'm talking about, that would be within the 90 million dollar budget, would be within the Myrtle Beach load pocket area. So it wouldn't need additional transmission to get to that load pocket.

SENATOR GROOMS: And where would that generation be?

MR. MING: There is -- there is existing generation -- peaker generation in the Myrtle Beach load pocket, already, that Santee Cooper owns land on.

SENATOR GROOMS: So that would be a peaker.

MR. MING: Yes.

SENATOR GROOMS: And explain to us, what is a peaker?

MR. MING: It is a relatively simple form and a cheap form of natural gas generation. It's essentially a jet turbine. It could be operated on natural gas or oil.

SENATOR GROOMS: Thank you, Mr. Chairman.

CHAIRMAN LEATHERMAN: Thank you, Senator Grooms. Let's see, Senator Bennett, you're up next.

SENATOR BENNETT: Thank you, Mr. Chairman. I'll be brief. I just need a couple of reference points, really, going forward.

Going back to slide 16, where you outline these rates. Can you provide me, or us, whether you have it now or at some point, what those rates represent as far as a average -- there you go -- as an -- as an average Santee Cooper customer bill right now, what that 70 -- what the 60 -- the 64 is currently, as well as five years out when it -- when it jumps up? Just to give us an idea what we're really talking about from a -- from a user standpoint.

MR. MILLER: No, I appreciate that question. And, certainly, it's worth clarifying, Senator, that these are, you know, average total system rates. So it's all customer classes. For a number of reasons, we're not projecting rates by customer class. But we did consider rates by customer class, based on cost allocation methodologies employed by Santee Cooper now, and any information we received from Santee Cooper to do so.

So I would just simply note that the, you know, reform plan rates of 70 to 71, the 70 are approximately, you know, consistent with current rates at Santee Cooper. There's no, you know, substantial change in generation mix during that time. And it generally reflects their existing practices; there's no sea change that materially moves, you know, that level.

Obviously, fuel moves from year to year. So I would contextualize those as a baseline customer bill today, and probably direct you towards evaluating everything else from there in relative terms.

SENATOR BENNETT: So, I guess, what's that number?

MR. MILLER: Yeah, in terms of --

SENATOR BENNETT: If I were a Santee Cooper direct-serve member right now, what's my average will as a resident look like currently? And what will it look like if we translate these rates?

MR. MILLER: Yeah, I'd have to get back to you on that.

SENATOR BENNETT: That's fine.

MR. MILLER: Because that's -- that obviously --

SENATOR BENNETT: That's fine.

MR. MILLER: -- depends on billing determinates, the year, the usage --

SENATOR BENNETT: Sure.

MR. MILLER: -- fuel costs and a whole host of factors.

SENATOR BENNETT: And that's fine. I don't need it right now. The other thing is, while you're doing that, I had particular -- I had some interest in the conversation with Senator Grooms, behind me, on the -- on the base rate calculation going forward, say, five years from now, ten years from now.

I'd also like to see on that Santee Cooper's side. I know you are kind of engaged more from a NextEra side. I'd like to see what that expectation is in your rate calculations as a base rate for Santee Cooper.

Because here -- here's an area that's been difficult for me to wrap my arms around. There's a lot of things that are difficult to wrap, with a complex transaction.

But one of the things that I wrestle with myself on is, if it is determined that a sale is appropriate -- is today appropriate, I guess -- and I kind of use the comparison, if I were starting one of those new fancy home improvement shows on Discovery Network, starring my friend Senator Corbin as the handsome lead character, and I had a -- an old house that needed a lot of work to it, and I sold it to Senator Corbin for his show and I got out from under that house, there's a certain value to me for that.

And Senator Corbin could spend some time designing that thing and putting together a nice -- nice additions and refurbishing that, and turn around and sell it at a much better price. Or I could have done that as well, if I wanted to take that -- to take that on. And I see that as a very simplified look here at Santee Cooper.

I mean, I don't -- I think we all agree that we're dealing with a distressed business right now. If it wasn't a distressed business, we wouldn't be here talking about selling it.

CHAIRMAN LEATHERMAN: Senator, is that a question or a statement?

SENATOR BENNETT: So I'd like to see those numbers, to compare whether or not it makes sense to sell or use those multiples, moving forward at a different time. So as you're gathering those factors for NextEra, I'd like to see them for Santee Cooper as well.

MR. MILLER: Thanks, Senator. I'd like to respond to that, in a couple of points for now, and, you know, we can obviously come back to you. I suppose the -- just the first point is, as a minor point, and for the sake of the record in a public forum such as this, I've been, you know, speaking to the NextEra sales slides. I am not on NextEra's side. I'm not for NextEra.

SENATOR BENNETTE: No, I know you're --

MR. MILLER: I know you're thinking --

SENATOR BENNETT: And I'm not suggesting that.

MR. MILLER: I just wanted to make sure it was very clear, you know, we -- we have all worked on all parts of this process. My colleagues and I have worked alongside, equally in the nitty-gritty of all generation mixes that are presented.

Certainly, I think to one of the other senator's points earlier, it's a -- there's been a lot of discussion and a lot of time spent on the NextEra proposal because it is more complex, and not because we were advocating for any particular outcome.

SENATOR BENNETT: Sure.

MR. MILLER: It's simply because it takes more effort to explain the, you know, details. The second point I just wanted to address -- I appreciate the house analogy. I will say a couple of things, and I will stay within my lane, again, within the bounds of the process.

I think as we've mentioned, we believe that what we have brought before you today -- recognizing that none of these options may be perfect in everyone's eyes. I think none of them probably are perfect in everyone's eyes. But we also think that they are essentially the best options that are out there.

We ran a competitive process. We really talked to everyone who could be interested. And we were also at a time in the capital markets, where, you know, valuations are relatively high and there's a lot of equity looking for good projects. Natural gas prices are low, there's a lot of value -- you know, potential in changing generation mix. Oil prices are relatively low as well.

So there's the fundamental interest rates as well. All of those factors together make, you know, this time running a competitive process, you know, very reasonably about as good as you could get from a basic transaction perspective.

Now, that being said, obviously, as we have discussed, some of the additional costs associated with this particular asset, you know, might absorb some of the sale premium that might otherwise go to the benefit of the state in a different time, in a different process.

I'd also like to note that, you know, in the interest of everyone here, and the work that we've done, I would not at all advocate for another process. I think that this process has been challenging; we've still brought viable paths forward.

And one other point I would like to make, again for the sake of the public forum, is that, you know, we in our evaluation also do not view Santee Cooper as a distressed asset. So, you know, a distressed asset has a very particular connotation within transactions relating to bankruptcy.

Santee Cooper has rate-making authority and is able to continue to service its debt, which we see in the reform plan, and draw that down slowly over time through its rate-making authority. It is not bankrupt. It is a viable entity. And their reform plan is a viable path forward.

And so it is not a sale of a distressed asset in a context that you might draw a parallel to a private process; but simply, it is that there is outstanding debt that has to be paid down somehow. And that's what brought us to the process where we are today.

SENATOR BENNETT: Thank you.

CHAIRMAN LEATHERMAN: Thank you, Senator Bennett. That's all?

SENATOR BENNETT: That's it. Yes, sir.

CHAIRMAN LEATHERMAN: The next one is Senator Corbin.

SENATOR CORBIN: I'm not going to sell that house I got from you, Senator. I like it.

Just real quickly, I was going to mention this earlier, but I was going to let the senator from

Beaufort talk about it -- on the floor.

When we were dealing with this about a year or so ago, some of us had some concerns with the assets still left onsite at the V.C. Summer site, and the value of those assets. Could you tell us what those -- roughly, what those values are and how that would be played out with each of these proposals?

MR. FARANO: Yeah. Thank you, Senator. I just want to make sure I'm thinking of the right assets. Are you talking about -- there is a host -- there are a host of spare parts and unfinished parts that were left behind --

SENATOR CORBIN: And we have --

MR. FARANO: -- at V.C. Summer.

SENATOR CORBIN: We have heard numbers batted around from 80 million to several hundred million.

MR. FARANO: Yeah. And that's -- that is fair. There are -- there are a host of numbers that are out there. I believe there was recently a resolution about, from a percentage basis, how any sort of proceeds from the sale of those assets would be shared.

As to their value, you know, for our purposes -- and I'll defer it to the folks over here -- I think we valued them at zero. And we did that for any number of reasons. One, it just permitted us to evaluate all of the proposals was that at -- with that as the assumption.

What ultimately comes from any sale of those, in both the context, I think, of the reform plan and of the NextEra plan, would be dollars that would come back to the company. Our expertise is not one of evaluating property like that.

Is there a market out there for the sale of these assets? Sure. Folks have spoken to the market in terms of it being Asia and in terms of it being Votal. There are parts in addition to parts that are AP-1000 specific parts that would have value.

As to what that value might be, we didn't want to speculate. We've seen numbers anyplace from 35 million to 425 million. In large part, due to the inchoate -- inchoate nature of any potential sale, and who those buyers might be, we simply chose to value them at zero.

SENATOR CORBIN: And has Santee Cooper taken any steps to protect the value of those assets? Because I would assume that they are declining, just sitting out in the weather.

MR. FARANO: You'd have to talk to them. I believe they have. I believe there is -- I believe some of them are covered. I believe there's a warehouse in which they are stored. I don't want to speak for Santee Cooper, but I think they're aware of the value.

I think they put a -- sort of on the higher end of the value chain, a number in respect of those assets. So I believe they have taken steps to protect them, but you'll want to confirm that with them.

SENATOR CORBIN: And if I was NextEra and I was going to go through this deal, I would put a value on those assets. I would have looked at them. And you weren't -- nobody shared anything in regards to you? I mean, I know you put a value of zero on them. But did anybody --

MR. BARNES: Yeah.

SENATOR CORBIN: Is there any whispers in the hallway or anything to you?

MR. BARNES: No, we -- it's Nathan Barnes from Moelis. My colleagues have been doing an excellent job, so I've -- given a cold, I've allowed them to carry the load here today. But I will -- on this point --

CHAIRMAN LEATHERMAN: Speak into the mic.

MR. BARNES: On this point, specifically, we had -- we did hire a -- another advisor for a technical independent engineering report, Black and Veatch. They did a full review of those assets. They did an onsite visit. They noticed some problems with regards to the chain of custody, effectively, and the -- some weather elements that impacted the value, that led them to some material concerns in regards to ultimate value and being able to realize that.

That value indication was in your report. And it was along the lower lines of what Jerry just walked through. And so that was accessible to all bidders, and we can make that accessible to you.

SENATOR CORBIN: Okay. So in other words, they sat out there a little too long and the value dropped, but you -- you'll let me know what they are.

MR. BARNES: Yeah, exactly. And we provided that as a third-party independent, competent technical review, with onsite diligence, to all bidders for their input into their valuation.

SENATOR CORBIN: 'Cause it will be an asset left to somebody at some dollar value, at some --

MR. BARNES: Yeah, certainly.

SENATOR CORBIN: That's all I have for now. Thank you.

CHAIRMAN LEATHERMAN: All right. The next one.

MR. SHEALY: Senator Davis. And then I have Senator Matthews after Senator Davis.

SENATOR DAVIS: Thank you. Along those same -- same lines in regard to the V.C. 2 and 3 assets. So I understand the structure of the deal, and on page 13 of the report, it's an asset sale. And NextEra, through this new subsidiary, in addition to the productive assets, is going to require -- it says, "As well as all of Santee Cooper's interests in V.C. Summer 2 and 3 real property and related materials and equipment."

So whatever value may be assigned to it, is going to inert the benefit of NextEra's new subsidiary, correct? I mean, this asset is not going to be excluded from the conveyance. It's going to be included in what's conveyed to the new -- the newly formed subsidiary.

MR. FARANO: Yes, I believe you're looking at Section -- I want to say 2.1, probably, of the Asset Purchase Agreement, that the page that you referenced refers to, there are specifically acquired assets.

The assets that you mentioned, that way that you mentioned them, are going to be acquired, the real property and other materials. The regulatory asset and the associate regulatory liability are not being required -- acquired, in large part because the monies are being put aside to pay to defease the -- that debt. And that's the 3.6 billion-or-so that relates specifically to V.C. Units 2 and 3.

SENATOR DAVIS: And as the senator from Greenville intimated, there was some indication, a year or so ago, maybe two years now, that the equipment onsite, provided that the nuclear pedigree was retained and provided certain preventative measure which -- which I was told that Santee Cooper was expending 10 to 15 million dollars a year to preserve them, that the assets would have had a considerable resale value of 2- or 300 million dollars.

So I'd be interested in seeing what the onsite analysis by that third party was -- and to the degree that there was any deterioration of those assets, you know, what the deterioration was, and why it occurred. And just -- and, again, I think it does have a value in excess of zero, simply because of what I've heard from third parties beforehand. So I --

MR. BARNES: Yeah, and we will share that technical report with you. And that is consistent with your assumption that there is a value greater than zero. It is more of a lower end, though, of what the ranges that Jerry walked through from effectively 50 million to 425. It's much closer to the 50 million in their estimate.

And it was due to, again, weather damage and a lack of exact protocol with regards to a chain of custody in records, that would effectively allow for something as sensitive as nuclear equipment to be sold for use in a new reactor.

SENATOR DAVIS: Do we know whether or not the nuclear pedigree is still in place for these --

MR. BARNES: We don't. And that is effectively the -- one of the challenges with trying to predict a value. So it is not in any way definitive. And it's effectively what you heard from Jerry. It is really -- what a buyer would need, really to pay for it, given the less than perfect chain of custody and some of the weather impacts that have been on the equipment.

SENATOR DAVIS: And one hears from time to time, the specter of somebody from out of the country, an investment company, a Korea base, wherever, coming in and breathing new life into V.C. Summer 2 and 3, and somehow that may be an effective way of moving forward.

Is that -- is that a dead letter? Is that just sort of a -- you know, a rumor mill? Or should we put any credence in that whatsoever, that there's value there that could be, in the right hands, you know, brought to productive use?

MR. BARNES: I imagine that's outside of our perspective. But if under any current foreign gas price outlook that you could see today, it's hard to see how that would in any way be reasonable.

MR. COLELLA: Yeah. And I would just -- I would just add to that is, if that opportunity existed, our process certainly provided a forum for any of those kinds of proposals --

SENATOR DAVIS: To come forward.

MR. COLELLA: -- to come forward. And they did not.

SENATOR DAVIS: Thank you.

MR. SHEALY: All right. We've got Senator Matthews.

SENATOR MATTHEWS: Thank you, Mr. Chairman. I got two questions. One of them is for clarification. In part of the discussion, you both said NextEra and Santee Cooper were moving forward with a new mix, and part of it is solar. Do you have -- do you know what percentage of it is solar and what's gas?

MR. MING: This is Zach Ming from E3. So on this slide here you can see in 2030, this is for Santee Cooper, they have a 19 percent of energy generation from renewables; 7 percent of that is already existing that's non-solar. Primarily, hydro and the other small bio-mass and bio-gas resources. So approximately 12 percent of Santee Cooper's energy would come from solar, and less for NextEra.

SENATOR MATTHEWS: My second question goes to the -- I know NextEra is expecting to -- for us to pass some legislation. And in this body, the legislation that you're introduce and the legislation that you get at the end is always -- always never quite the same. Are there any triggers in that legislation, if we fail, that would allow them to walk away?

MR. FARANO: That's a really good question, Senator. And it's one that, obviously, we took into consideration. The nature of NextEra's proposal, when you look at it from an overall perspective, taking into account the Asset Purchase Agreement, the legislation, some other regulatory approvals, is intended to be sort of one contiguous opportunity.

As they have proposed their offer to acquire Santee Cooper, it is based on the enabling legislation that they have provided being passed, as it currently stands, before signing.

That said, to your point, I can't imagine they are unaware of the fact that the legislative process sometimes produces sausage that looks slightly different than the ground beef that may go in, in the beginning. But we'll leave it to them to answer that question more specifically.

But in terms of the proposal that we put in front of you, they're seeking to have the enabling legislation that they provided put in place as part of your approval, before they would sign the Asset Purchase

Agreement.

CHAIRMAN LEATHERMAN: Any others?

MR. SHEALY: No others.

CHAIRMAN LEATHERMAN: Thank you. First of all, it's been a long day. I don't know about y'all, but I want to thank the members and the consultants. Great job. And you did your work with dignity. And I thank you so much. Marsha?

MS. ADAMS: Yes, sir.

CHAIRMAN LEATHERMAN: Your consultants did a superb job. Thank you.

MS. ADAMS: Thank you, sir. I appreciate it.

CHAIRMAN LEATHERMAN: We'll convene in the morning at 9 a.m. in this room and -- session at noon. So with that -- yes, sir.

SENATOR CROMER: Mr. Chairman, before we adjourn can -- and I know you mentioned we'd come in at 9 in the morning. This week, I think, we had planned -- we'll be at 9, probably on Thursday. I'm just wanting to get an overview of what will be going on this weekend, next week. Will be in Finance Committee meeting part or all of next week?

CHAIRMAN LEATHERMAN: I think the agenda -- Mike, help me a little bit. Will NextEra be here tomorrow

--

MR. SHEALY: Dominion the next day.

CHAIRMAN LEATHERMAN: Then we will not meet Friday?

MR. SHEALY: Correct.

CHAIRMAN LEATHERMAN: And we'll come back Monday?

MR. SHEALY: And we have Santee Cooper on Monday and Tuesday morning.

SENATOR CROMER: We'll back in session on Wednesday, hopefully. Is that correct? I mean, Tuesday. Yes, sir.

CHAIRMAN LEATHERMAN: Next week.

SENATOR CORBIN: Mr. Chairman, so we're going to gavel in to the core at noon tomorrow, with the expectation of not being there an extended period of time, and getting back to this. Is that correct? Is that what I understood you to say?

CHAIRMAN LEATHERMAN: We're going in at noon and call in --

SENATOR CROMER: Okay. So we will meet tomorrow after Session. What about Thursday, what's the plan for Thursday?

CHAIRMAN LEATHERMAN: At the time on Thursday?

MR. SHEALY: Much depends on what is accomplished on Thursday morning.

(OFF THE RECORD AT 4:56 P.M.)

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Patricia G. Bachand

PATRICIA G. BACHAND, COURT REPORTER
MY COMMISSION EXPIRES MARCH 8, 2027

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