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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**

1 STATE OF SOUTH CAROLINA )

2 COUNTY OF RICHLAND )

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4 SENATE FINANCE COMMITTEE

5 TRANSCRIPT OF PUBLIC HEARINGS

6 \* \* \* \* \*

7 BEFORE: HUGH LEATHERMAN, CHAIRMAN

8 SENATOR FLOYD NICHOLSON

9 SENATOR KENT M. WILLIAMS

10 SENATOR DARRELL JACKSON

11 SENATOR GLENN REESE

12 SENATOR JOHN W. MATTHEWS, JR.

13 SENATOR NIKKI G. SETZLER

14 SENATOR HARVEY PEELER

15 SENATOR THOMAS C. ALEXANDER

16 SENATOR LARRY GROOMS

17 SENATOR DANNY VERDIN

18 SENATOR RONNIE W. CROMER

19 SENATOR PAUL G. CAMPBELL, JR.

20 SENATOR THOMAS C. DAVIS

21 SENATOR KEVIN JOHNSON

22 SENATOR KARL ALLEN

23 SENATOR JOHN SCOTT

24 SENATOR VINCENT SHEHEEN

25 SENATOR LARRY A. MARTIN

1 BEFORE: SENATOR SEAN BENNETT  
2 SENATOR THOMAS D. CORBIN  
3 SENATOR GREG GREGORY  
4 SENATOR GREG HEMBREE  
5 MIKE SHEALY  
6

7 \* \* \* \* \*

8  
9 DATE: February 18, 2020  
10 TIME: 10:00 a.m.  
11 LOCATION: Gressette Building, Room 105  
12 1101 Pendleton Street  
13 Columbia, South Carolina 29201  
14 REPORTED BY: PATRICIA G. BACHAND, COURT REPORTER  
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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

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

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

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

15                  CHAIRMAN LEATHERMAN: But not leave the  
16 campus.

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

21                  CHAIRMAN LEATHERMAN: Marsha, are you ready?

22                  MS. ADAMS: Yes, sir.

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

1 and raise your right hand.

2 (The oath is administered at this time.)

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

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

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

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

24 However, the General Assembly has  
25 specifically prohibited the Department from releasing

1 information described in South Carolina Code of Laws  
2 Section 30-4-40, without the written permission of the  
3 entity whose bid or proposal was recommended.

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

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

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

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

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

25 And with that, I would like to introduce our

1 advisors. As you know, the Joint Resolution required that  
2 the Department of Administration would hire a banker,  
3 attorneys and energy consultants to assist, and any other  
4 entities that we may need. We did so.

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

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

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

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

24 This is beyond my ordinary technical skill  
25 set, but I'm going to do my best to make the Powerpoint



1 move. So the agenda today, we're going to talk a little  
2 bit about the three proposals. We'll first do a brief  
3 summary of Santee Cooper's reform plan, then the management  
4 proposal from Dominion -- Dominion Energy, the bid for sale  
5 from NextEra Energy, and we'll talk a bit about the Joint  
6 Resolution process results.

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

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

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

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

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

7           Santee Cooper is not going to jeopardize any  
8 current employees. There will be no layoffs. That said,  
9 there is going to be a reduction in workforce that they  
10 have proposed, from approximately 1675 this year to 1514 in  
11 2028. That's a reduction of 10 percent. And that is going  
12 to come, again, not through cuts but rather through  
13 retirements, retraining, and natural attrition.

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

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

1 their reform proposal.

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

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

12 How does it do that? It's reducing its term  
13 by five years. As I think you're all aware, as a function  
14 of the public bonds that are out in respect of Santee  
15 Cooper, the Central coordination agreement goes out to  
16 2058. Santee Cooper, in its reform proposal, is seeking to  
17 lessen that term to 2053.

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

25 There's some additional considerations in

1 respect of the reform proposal that, obviously, we know you  
2 will take into account as you decide what to do moving  
3 forward. One of them is that their reform plan as  
4 presented to us does not resolve the Cook litigation.

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

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

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

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

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

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

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

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

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

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

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

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

19                   That energy and capacity is replaced with a  
20 mix of new natural gas generation that comes on-line in  
21 2027, that is an efficient combined cycle gas turbine. And  
22 then in addition to that new -- natural gas generation, new  
23 solar generation of 1500 megawatts that comes on-line over  
24 the course of the 2020s.

25                   So I think the primary take-aways from this

1 are that Santee Cooper is cleaning its generation from coal  
2 to natural gas and solar. This is broadly consistent with  
3 many utilities trends that we see around the industry, not  
4 only in the Southeast but also across the United States, as  
5 the cost of natural gas and solar have both come down  
6 dramatically in the past ten-plus years. They've gotten  
7 relatively more economic compared to coal, and so you see  
8 many utilities replacing their coal generation with natural  
9 gas and solar.

10 So the combination of those changes leads  
11 to, if you look on slide 7, a significant reduction in  
12 expected costs over the 20-year forecast period that we  
13 analyzed. You can see the top line of this chart on slide  
14 7 shows the projected retail rates for Santee Cooper in  
15 their 2019 budget.

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

22 So the generation modernization leads to the new  
23 set of rates that you see in the dark blue, which is the  
24 reform plan rates, and the aggregate net present value  
25 savings due to this generation plan. And other changes in

1 the Santee Cooper reform plan lead to a net present value  
2 savings of 2.3 billion dollars over the 20-year period.

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

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

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

22 Essentially, Dominion has proposed that, and  
23 you'll see this in a moment, it only will cost -- the  
24 fully-loaded cost of certain placed employees that would be  
25 placed at Santee Cooper. And that is the crux of their



1 management proposal. There will be three senior executives  
2 placed at Santee Cooper, and they would consider placing  
3 one as CEO. If one was not placed as CEO, the other three  
4 would report to the Santee Cooper CEO.

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

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

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

25 Dominion has a very successful track record

1 in the investor-owned utility industry. As you-all know,  
2 it is a large and well respected IOU based in Virginia,  
3 with a significant presence now in South Carolina.

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

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

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

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

25 The management proposal itself does not

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

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

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

20 Again, I think everybody believes that when  
21 folks are placed in a situation, from a management  
22 perspective, they are working in the interests of the party  
23 that is managed. However, in light of the fact that we are  
24 talking about what will two -- be the two largest utilities  
25 in the state, there is a question about whether or not the

1 pursuit of synergistic savings for Santee Cooper won't run  
2 into a conflict as between it and Dominion.

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

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

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

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

24           It is important to understand that  
25 defeasance of the outstanding bonds is not done by payoff

1 on day one. It is done by putting money into escrowed  
2 accounts. That money will sit and, ultimately over the  
3 existing term of the debt, pay bond-holders. But from the  
4 perspective that I think you-all were trying to achieve, of  
5 taking that burden off rate hold -- ratepayers, that begins  
6 day one.

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

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

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

23 What do we mean by "payment to the state"?  
24 If we look at the uses of funds -- it's sort of column 1,  
25 2, 3 -- you'll see what is being paid for by NextEra's

1 proposal. As I mentioned before, you have 6.98 billion  
2 dollars' worth of outstanding, long-term and short-term  
3 debt. That is the 6.553 plus the 3.06. You have the  
4 penalties, which at this point stand at 1.046 billion.  
5 That can change again, depending on interest rates. But  
6 the risk would be on NextEra.

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

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

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

24           Importantly, once that happens, if it should  
25 happen, NextEra would have the right to walk away from the

1 transaction. And I don't want to speculate as to whether  
2 that would actually take place or not, but the right exists  
3 and it's important for you to understand.

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

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

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

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

25           But it's just a path forward. And in that

1 path, the solution that the plaintiffs' lawyers would  
2 recommend to their class is accepting 541 million dollars  
3 worth of rate credits. There's an additional four -- and  
4 importantly, and we'll get to this, NextEra would also pay  
5 the plaintiffs' lawyers.

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

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

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

25 If we turn to the next page, we could look



1 at the potential benefits and additional considerations in  
2 respect of the NextEra bid for sale. Again, as I noted  
3 before, there will be debt defeasance of all debt,  
4 including early payment penalties paid off, no matter what  
5 they should be.

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

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

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

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

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

7           In speaking to Santee Cooper, we understand  
8 that if this transaction was to close on December 31st,  
9 2020, there would be approximately 500 million dollars. We  
10 think the -- I believe the band is between four eighty-five  
11 and twenty -- five twenty-five. We chose five hundred as a  
12 proxy, but we think that there's a -- that, that's a  
13 relatively safe number.

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

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

1 solar.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24                   One bucket is a function, again, of this  
25 sale, resulting in a change from what has historically been

1 a publicly-owned utility to an investor-owned utility.  
2 What I mean by that, I mean in a private sale of an  
3 investor-owned utility, there is a revenue requirement,  
4 there is a rate base, there is an ROE, there are known  
5 markers that it is only appropriate for a buyer to come in  
6 and address, either by saying, "I will take those until my  
7 next case before the PSC, or I am going to, as a condition  
8 to closing, ask the PSC to approve what I want to make my  
9 deal work."

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

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

23 Why? Because they provide an avenue for  
24 stakeholder involvement, they provide a way to request  
25 backup in detail for information, they provide avenues and

1 modalities for interveners to come in and say, "I like it."  
2 "I don't like it."

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

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

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

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

21 So the question becomes one of how do you  
22 consider this. It's for you, of course, to decide. But  
23 when we pressed, it was essentially the benefit of  
24 NextEra's bargain. In exchange for the consideration we  
25 discussed before, this was something that they felt that

1 they needed to have certainty on their side.

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

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

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

18 One note I'd like to make to you-all,  
19 there's just a small error in your -- and we ultimately  
20 will send out a correction sheet with any errors that may  
21 have been caught in the report. But on page 74 of the  
22 report, in the fifth bullet there is a romanette ii, and  
23 two "little I," that suggests that the state is standing  
24 behind the securitization with a guarantee. That's simply  
25 not true. It was wrong. How it made it in there is going



1 to be a bad day for somebody. But you needn't worry about  
2 it. That just happens to be a mistake. It is not true.  
3 So please disregard that.

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

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

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

24 Finally, I think it's important to give this  
25 a little shift as well, NextEra is not taking most pre-

1 closing liabilities from Santee Cooper. Now, there are  
2 certain things that we've spoken about. There's the Cook  
3 litigation. There are certain expressed liabilities.  
4 Anything that happens from closing forward, they take. But  
5 it's important for you to consider that there are many  
6 liabilities that are left behind.

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

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

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

21           By leaving those costs behind, okay, and  
22 assuming that Santee Cooper, because NextEra is buying  
23 essentially all of its assets, does not have the credit to  
24 address these liabilities, one must ask -- and it may be  
25 speculative on my part, but I think it's important for you

1 to consider, one must ask where do those liabilities now  
2 reside? Who ultimately bears the responsibility?

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

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

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

19 MR. MILLER: Thanks, Jerry. So when we  
20 looked at NextEra's proposed generation mix, the first item  
21 to note is it's very similar in its strategic direction to  
22 Santee Cooper's reform plan. And this, as Zach mentioned,  
23 is simply the result of current resource economics in the  
24 power industry, certainly in the region. And also more  
25 broadly, nationwide, a general transition from coal-fired

1 power plants to a heavier reliance on natural gas and solar  
2 generation to serve load.

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

9           So while the Santee Cooper reform plan  
10 proposes to retire Winyah fully by 2027, in the NextEra  
11 proposed plan we see that retirement happening fully by  
12 2023. So this happens within the broader context of  
13 NextEra's proposed transformation period. This is one of  
14 the core elements of their proposal.

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

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

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

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

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

1 its proposed legislation.

2           So if we look at the net effect of this  
3 generation mix, as well as the proposed operational  
4 efficiencies that NextEra is planning, and has submitted in  
5 its proposal, we can see NextEra's projected rates over the  
6 20-year forecast period.

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

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

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

25           CHAIRMAN LEATHERMAN: Speak into the mic, if

1 you would.

2 MR. MILLER: Is that better?

3 CHAIRMAN LEATHERMAN: Yes, sir. Thank you.

4 MR. MILLER: Certainly. So in addition to  
5 using the same natural gas price projections for all  
6 bidders, so that it is an apples-to-apples comparison. In  
7 other words, no bidder has a purported advantage for a cost  
8 that cannot be controlled, we consequently did give various  
9 entities credit for those particular assumptions, where  
10 they had a plan, a contractual commitment, or an inherent  
11 competitive advantage that was justified and demonstrated  
12 to us, in order to provide us comfort that those  
13 differentiating factors, additional cost reductions and the  
14 like, would actually come to pass.

15 Essentially, we wanted to be able to put  
16 forward for your consideration of the proposals, projected  
17 rates which we thought were reasonable and achievable, so  
18 that you were not evaluating something that was unlikely to  
19 be implemented, if you so chose that route.

20 So one other note for the NextEra rate  
21 projections: You can see the first four years, the impact  
22 of the total 941 million in proposed customer refunds and  
23 credits over those first four years do bring the rates  
24 below the Santee Cooper reform plan projected levels. And  
25 thereafter, in 2024, NextEra would go before the Public

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

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

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

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

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

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



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

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

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

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

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

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

1 Yes, sir, it does.

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

6 MR. FARANO: The two point -- is this -- Mr.  
7 Chairman, in respect of the Santee Cooper reform plan, the  
8 2.3 billion dollar reduction over 20 years in rates --

9 CHAIRMAN LEATHERMAN: It has assumption  
10 projection?

11 MR. FARANO: Yes.

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

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

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

18 MR. FARANO: Right. It is not.

19 CHAIRMAN LEATHERMAN: Mike, call the next.

20 MR. SHEALY: We recognize Senator Setzler.

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

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

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

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

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

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

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

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

11 MR. FARANO: That's correct

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

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

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

23 MR. FARANO: We'll need to leave that to you  
24 to make a determination. I think in your discussions and  
25 questions of NextEra, that would be something that you

1 certainly should probe with them.

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

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

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

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

12 SENATOR SETZLER: And what was your  
13 conclusion?

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

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

25 SENATOR SETZLER: Did you talk to ORS or any

1 of the Public Service Commission about the rates? Did you  
2 ask for their opinion or ask for them to give you input  
3 into the rates?

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

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

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

16 MR. FARANO: It does.

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

19 MR. FARANO: Yes, Senator, I have.

20 SENATOR SETZLER: And it also requires the  
21 General Assembly to determine prudence?

22 MR. FARANO: It requires the General  
23 Assembly to approve the generation plan and its costs, as  
24 proposed specifically in that legislation, which would  
25 indeed have the effect of deeming them to have been

1 prudently incurred. That is correct, Senator.

2 SENATOR SETZLER: And I believe your summary  
3 says that.

4 MR. FARANO: That is correct, Senator.

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

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

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

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

20 SENATOR SETZLER: Sure.

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

1 participate, be present, monitor, chaperone, etc.

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

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

11                   MR. FARANO: That's correct, Senator.

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

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

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



1 boards would need to vote on the approval of that contract.

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

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

9 MR. FARANO: That's correct

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

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

19 SENATOR SETZLER: That's been there.

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

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

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

1 SENATOR SETZLER: So other than --

2 MR. FARANO: Correct.

3 SENATOR SETZLER: -- the existing agreement,  
4 there is no new agreement --

5 MR. FARANO: That's correct.

6 SENATOR SETZLER: -- between the two of  
7 them. All right. And then my understanding in the  
8 management proposal with Dominion, there is in essence an  
9 agreement, that there is no change, that Dominion and  
10 Central are both comfortable because of the synergies  
11 between the two there.

12 MR. FARANO: That's correct. There are no -  
13 -

14 SENATOR SETZLER: So there --

15 MR. FARANO: -- proposed changes to --

16 SENATOR SETZLER: So there would be no --

17 MR. FARANO: -- the coordination agreement.

18 SENATOR SETZLER: -- action required by  
19 Central, relative to the management with Dominion.

20 MR. FARANO: That's correct

21 SENATOR SETZLER: And there would be a  
22 requirement of action by Central in dealing with Santee  
23 Cooper.

24 MR. FARANO: I don't want to get and of  
25 myself. Let me answer it this way: Santee Cooper's reform

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

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

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

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

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

19           MR. FARANO: Got you.

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

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

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

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

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

22           MR. FARANO: Understood, Senator. I would  
23 only point out that I believe, in respect of the Central  
24 contract, the legislation actually says a proposed  
25 agreement with Central. I think it's in Section 9, but I'd

1 have to pull it. And I'd be happy to look at it and send  
2 you that answer in writing.

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

7 MR. FARANO: I understand. I understand.

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

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

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

24 SENATOR SETZLER: And as you said, part of  
25 what they're leaving behind, passes a liability to every

1 citizen in this state, regardless of where they live or who  
2 they're served by, that doesn't currently exist.

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

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

8 CHAIRMAN LEATHERMAN: Mike, the next one.

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

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

16 MR. FARANO: Thank you, sir.

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

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

24 MR. MILLER: And that's fine. Thank you,  
25 Senator, for the question. Regarding the retirement of the

1 outstanding stock of Santee Cooper's debt, it is true that  
2 their capital expenditures for the new combined cycle  
3 plant, as well as ongoing capital expenditures in the  
4 system as a whole, transmission distribution and the like,  
5 will require the use of additional debt in the future.

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

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

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

19 MR. MILLER: That's correct.

20 SENATOR CROMER: Okay. All right.

21 MR. MILLER: Yeah.

22 SENATOR CROMER: Moving on. Speaking to  
23 Dominion's management, and also NextEra, I assume that the  
24 line all the way out to -- I forgot what it is there now --  
25 2039, that is not a guaranteed rate. Is that correct?

1 That's the projected rate for NextEra?

2 MR. MILLER: That's correct, yeah.

3 SENATOR CROMER: So speaking on that, going  
4 down, the senator from Lexington had asked about the -- we  
5 call it the Base Load Review Act Part 2, the 2.3 billion in  
6 new capital expenditures, is that a guaranteed figure? Or  
7 when we propose that legislation -- and that may go back to  
8 Mr. Farano. When the Legislature passes that, does that  
9 leave it open-ended, they can raise whatever they need? It  
10 would not be kept at 2.3 billion? Or would it be kept at  
11 2.3 billion?

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

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

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

22 The fee in lieu of taxes is also broken down  
23 at the county level. I believe that the new combined cycle  
24 assets going into Fairfield County has a specific fee in  
25 lieu of taxes for Fairfield County. But again, I don't



1 want to speak to numbers off the top of my head, so I'd  
2 rather get those back to you in writing.

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

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

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

22 MR. MILLER: Yeah. With regards to the  
23 liabilities that are pre-closing liabilities, as Jerry  
24 said, yes, we believe those would fall upon the state,  
25 ultimately. Although, it is a dotted not and not a

1 contractual, you know, firm line anywhere where we would  
2 draw that conclusion.

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

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

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

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

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

25           SENATOR CROMER: Right. But that's already

1 an asset of the state right now.

2 MR. MILLER: Yes, that's correct.

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

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

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

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

19 SENATOR CROMER: Right.

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

1 could pay down debt. They could use it for project  
2 development.

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

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

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

20 MR. FARANO: Yes, sir. Understood.

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

25 MR. FARANO: Absolutely, sir.

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

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

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

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

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

24                   There are certain covenants that are made by  
25 -- that will be made, if you were to select this deal and

1 it goes forward, by Santee Cooper during the interim  
2 period, that period between a time that it would sign the  
3 contract and the time the contract would close. In respect  
4 of those, if there's -- if it turns out that there's a  
5 breach, and only certain types of breaches, there's a six-  
6 month period. So in other words, there are six months,  
7 after which there will be potential recourse to Santee  
8 Cooper for breaches of interim period covenants.

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

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

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

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

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

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

9 MR. SHEALY: Senator Grooms.

10 SENATOR GROOMS: Thank you, Mr. Chairman.

11 In the -- at the beginning of the report, it says that each  
12 bidder, including the one recommended here, faced a  
13 significant financial challenge, in addition to being  
14 required by the Joint Resolution to solve the multi-billion  
15 dollar problem of the outstanding indebtedness for assets  
16 that are neither used nor useful.

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

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

25 But in layperson's terms, or at least my

1 understanding, the "used and useful" requirement is one  
2 that, generally, in terms of prudence review, is necessary  
3 for costs to be included in rates.

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

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

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

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

24 MR. FARANO: I apologize, Senator. If you  
25 could try to ask that question again. I don't agree with



1 how you characterized it, but I -- but I don't want to -- I  
2 want to make sure I'm understanding your question.

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

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

12 SENATOR GROOMS: So the Department, through  
13 the consultants, have now made the determination that the  
14 parts at V.C. Summer are neither used nor useful for Units  
15 2 and 3.

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

20 SENATOR GROOMS: In the report, it also  
21 mentions that conversely, and in part, in order to ensure  
22 certainty in respect of cost recovery, the recommendation  
23 sale bidder is effectively shifting certain liabilities  
24 that currently reside only with Santee Cooper's ratepayers,  
25 to all South Carolina taxpayers, and presenting you

1 enabling legislation that in some ways, justifiably in the  
2 view of the bidder, is non-traditional in the respect of  
3 investor-owned utilities.

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

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

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

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

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

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

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

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

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

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

24           And there may be a way to bankrupt -- I'm  
25 not a bankruptcy lawyer. I mean, there may be ways for the

1 state to mitigate. But in my simple-person terms, I think  
2 of it this way: Any liability -- new liability that arises  
3 now at Santee Cooper, no matter how Santee may determine to  
4 financially deal with it, whether it's going out into the  
5 market, issuing bonds, whether it's borrowing money, likely  
6 is going to impact ratepayers. Because it -- it is -- it  
7 is a cost. And they will likely have to bear that cost.  
8 And indirectly, as you-all know, Santee Cooper serves  
9 approximately 2 million ratepayers.

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

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

20 And, again, just looking at it from a  
21 certain logic, that state liability is going to fall to the  
22 5 million taxpayers of the state. Now, of course 2 million  
23 of those also happen to be Santee ratepayers, so it's  
24 really only socializing it over an additional 3 million  
25 people. But in simple terms, as I think of it, it is a

1 risk shift from a 2 million-person universe to a 5 million-  
2 person universe.

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

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

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

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

16 There are no -- when I think of this risk  
17 shift, I think of it, for example, about if something is  
18 found to be an environmental problem -- let's just take  
19 that as an example. That's something -- there isn't  
20 anything now that we're looking at and saying, "Wow, this  
21 environmental risk for X dollars is going to now move from  
22 2 million to 5 million."

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

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

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

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

9                   MR. FARANO: That's correct

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

16                  MR. FARANO: Yeah.

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

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

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

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

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

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

23                   MR. FARANO: I think a good --

24                   SENATOR GROOMS: That's not --

25                   MR. FARANO: -- portion of those sins.

1 That's correct.

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

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

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

10 MR. FARANO: That's right.

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

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

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

17 MR. FARANO: That's correct.

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

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

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



1 MR. FARANO: Okay.

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

5 MR. FARANO: Yes.

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

9 MR. FARANO: Yeah.

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

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

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

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

1 certainly shouldn't.

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

4                   MR. FARANO: Categories.

5                   SENATOR GROOMS: Of categories.

6                   MR. FARANO: Yes, sir.

7                   SENATOR GROOMS: We talked about liabilities  
8 -- some of the liabilities that were mentioned. And we  
9 know specifically that we have a 525 million dollar  
10 liability -- a pension liability. How is that calculated,  
11 525 million?

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

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

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

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

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

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

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

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

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

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

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

10                  MR. FARANO: Yes.

11                  SENATOR GROOMS: -- of workforce.

12                  MR. FARANO: That's correct.

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

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

23                  SENATOR GROOMS: But the point is, the 525  
24 million dollar number is for current retirees. And it  
25 doesn't -- it would not -- the system would be -- it would

1 be impacted to a greater degree should this transaction  
2 move forward.

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

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

8 CHAIRMAN LEATHERMAN: Speak into the mic,  
9 please.

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

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

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

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

5           SENATOR GROOMS: So the liability numbers of  
6 525 only represent about 1100-and-something retirees.

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

14           SENATOR GROOMS: So that 525 million does  
15 contemplate the existing 675 person workforce? I'm saying  
16 675 folks right now. It's my understanding they're not  
17 included in that 525.

18           MR. AVANT: Right.

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

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

1 separate and apart from the statement liability.

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

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

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

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

15                   SENATOR GROOMS: -- exactly how it works.

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

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

20                   MR. AVANT: Yes.

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

23                   MR. AVANT: Right.

24                   SENATOR GROOMS: And we would have more  
25 folks withdrawing monies from the retirement system because

1 of this transaction. Was that taken into account?

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

8 If they withdraw their money, their  
9 liability to the trust fund ceases. So if I have 15 years  
10 in, and I go to work for NextEra tomorrow, I'm no longer a  
11 public employee, I have two options with regard to my  
12 retirement: I can leave it in and wait till I get to 65 or  
13 60 and retire, or I can take it out.

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

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

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

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



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

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

8 SENATOR GROOMS: No. Okay.

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

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

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

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

1 that.

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

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

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

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

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

22 MR. FARANO: That's correct.

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

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

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

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

16 MR. FARANO: Yes.

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

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

24 MR. POPE: I'm Gary Pope. Gary Pope with  
25 Pope Flynn. Yes, we raised that issue with the attorneys

1 drafting NextEra's legislation, flagged the issue for them,  
2 and they proposed a revision. And the form of the  
3 legislation that was proposed after the revision is what is  
4 before you in part of their plan.

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

8 MR. POPE: We --

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

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

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

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

1 majority of each of the House and the Senate.

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

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

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

21           MR. MUSSER: That's correct.

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

24           MR. MUSSER: That's correct. And NextEra  
25 negotiated that independently. That wouldn't be something

1 that the General Assembly would need to be burdened with or  
2 visiting.

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

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

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

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

24 SENATOR GROOMS: I would imagine that we may  
25 have some folks that would potentially challenge that. So

1 let's just say that we move forward with the transaction,  
2 and a court overturns that provision, how would a two  
3 hundred-plus million dollar a year liability for the ad  
4 valorem taxes affect the rates to the ratepayers of the new  
5 entity?

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

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

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

21 SENATOR GROOMS: Well, that's all well and  
22 good. But if all of a sudden my electric rate, as we're  
23 discussing here, would be at the average rate -- let's see,  
24 under the NextEra plan -- in year five, if the -- if we're  
25 talking an average of 77 dollars a megawatt hour, that

1 doesn't include property taxes.

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

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

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

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

25                   Now, with regards to your question as to the



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

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

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

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

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

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

1 CHAIRMAN LEATHERMAN: Yes, sir.

2 SENATOR GROOMS: And we paid for, I think,  
3 15 million dollars to have much of the speculation  
4 translated to facts. And it seems that, that's a -- this  
5 is a -- a 200 million dollar a year error -- or a 200  
6 billion dollar a year mistake needs a little more attention  
7 paid to it.

8 CHAIRMAN LEATHERMAN: I agree with that, but  
9 --

10 SENATOR GROOMS: Perhaps we should --

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

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

16 CHAIRMAN LEATHERMAN: You're certain --

17 SENATOR GROOMS: -- of that particular --

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

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

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

25 SENATOR GROOMS: Senator, I've got one more

1 question and then -- I've got many others. But just if  
2 you'll indulge me just one more question.

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

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

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

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

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

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

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

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

12 SENATOR GROOMS: Thank you.

13 MR. SHEALY: Senator Bennett is next.

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

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

25 Let me ask you, first of all, this process,

1 this time line getting to where we made this determination  
2 -- the General Assembly made this determination to seek  
3 these -- these alternatives until now, was a pretty  
4 compressed time line, a pretty ambitious time line.

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

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

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

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

25 SENATOR BENNETT: You also mentioned last

1 week, that Santee Cooper themselves resulted in about -- I  
2 think you said a two-month delay.

3 MS. ADAMS: Yes, sir.

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

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

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

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

22 MS. ADAMS: I think that some of the actions  
23 that were taken could have had a potential impact of  
24 freezing out some of the bids. We did our best. And I  
25 think we did a good job of trying to make sure that folks

1 stayed in for the bid, that they understood that this was a  
2 serious process.

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

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

11 MR. COLELLA: That's correct. Yeah.

12 MS. ADAMS: That's correct.

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

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

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

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

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

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

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

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

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



1 to avail themselves to, over the course of the process.

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

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

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

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

23           I'm trying to -- the variable rates that you  
24 -- that you look at when you're trying to compare it in  
25 your chart of last week of apples and apples, to the extent

1 that you could -- we could. Can you -- can you dig into  
2 that a little bit deeper, with respect to the variables  
3 that have to do with -- I'm trying to understand how you  
4 come up with, to the best that you can, the differences  
5 between a good management team versus a poor management  
6 team, and experience of -- you know, those sorts of things.  
7 How do -- how do we quantify that?

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

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

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

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

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

12 SENATOR BENNETT: So --

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

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

25 MR. MING: The first four years are -- there

1 is no normalization applied; those are contractually  
2 committed rates from NextEra. And so because those are  
3 enshrined, there was no normalization. The normalization  
4 only takes place on the fifth year and beyond.

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

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

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

18 SENATOR BENNETT: Wasn't requesting it.

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

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

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

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

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

11 MR. FARANO: We don't think it's appropriate  
12 to comment on them publicly. The way that we read Section  
13 8 of the Joint Resolution, I think we'd overstepping our  
14 bounds in doing that.

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

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

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

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

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

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

16 MR. FARANO: Sure. Thank you.

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

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

22 CHAIRMAN LEATHERMAN: Mike, who's next?

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

25 CHAIRMAN LEATHERMAN: Okay.

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

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

6                   SENATOR SCOTT: -- to answer this question.

7                   CHAIRMAN LEATHERMAN: Okay.

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

10                  CHAIRMAN LEATHERMAN: Right.

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

13                  CHAIRMAN LEATHERMAN: Ask.

14                  SENATOR SCOTT: Yes, sir.

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

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

23                                 And also in looking at that, what in your  
24 analysis is the best way to manage that water system since  
25 it's part of the community and will totally affect the

1 economic growth, and so it doesn't become stagnant so the -  
2 - if NextEra end up with it, they don't control the  
3 balancing as it relates to government in terms of the  
4 growth in that community? Has anybody looked at that?

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

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

11 CHAIRMAN LEATHERMAN: Speak into your mic,  
12 please.

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

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

23 The other part, the 500 million dollars on  
24 the balance sheet, there's been a lot of conversation about  
25 those assets need to come back to the state. And I'm



1 trying to figure out why would it come back to the state,  
2 if the community is already having some problems and  
3 they're -- and we're talk -- and their concern is about  
4 debt, and the amount of debt that has to be paid, rather  
5 than those assets reduce the amount of debt from 4.7 down  
6 to 4.2. We're not seeing -- seen much. But it is a  
7 tremendous reduction in overall debt. Have y'all looked at  
8 that? And what did you come up with?

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

17 SENATOR SCOTT: But the reason why I raise  
18 that question, if Santee Cooper's already given the state  
19 15 to 18 million dollars back, over a 20-year period of  
20 time that's about 360 million plus or minus, they would  
21 only be giving the state revenue that they would not give  
22 over the next 20 years to the state will receive anyway --  
23 let me do it again.

24 Santee Cooper normally sends the state back  
25 money every year. And so to give me assets off the books

1 is simply saying that you just advancing me money that's  
2 already my money, simply over the next 20 years I'm not  
3 going to be getting any money from you, that we've been  
4 already getting from Santee Cooper.

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

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

8 SENATOR SCOTT: I'm trying to figure out why  
9 in the world you want to give me back -- is any -- is any -  
10 -

11 CHAIRMAN LEATHERMAN: Do you want to just  
12 ask him?

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

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

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

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

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

21           MR. COLELLA: No, it was --

22           SENATOR SCOTT: Where did it come from?

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

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

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

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

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

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

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

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

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

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

13 MR. FARANO: That's correct.

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

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

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

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

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

23                   When you -- to your point, though, once the  
24 rate -- the fixed rate period -- the rate fixed period  
25 ends, there's an inversion. And going forward over time,

1 Santee Cooper has about a 5 percent rate -- excuse me -- a  
2 5 percent advantage from cost to ratepayers --

3 SENATOR SCOTT: Reduction.

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

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

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

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

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

1 your name.

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

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

8 MR. MILLER: Yeah, my apologies. So  
9 relative to the business as usual, or the case with all the  
10 coal, Santee Cooper over the 20 years saves about 2.3  
11 billion. And NextEra's projected rates would save about  
12 2.14 billion. So they both save over 2 billion.

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

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



1 Cooper?

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

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

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

14 SENATOR SCOTT: Thank you, Mr. Chairman.

15 CHAIRMAN LEATHERMAN: All right. Who's  
16 next?

17 MR. SHEALY: Up next is Senator Corbin.

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

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

1 of days, if necessary. Yeah.

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

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

14 SENATOR CORBIN: Okay. I don't have many  
15 questions, I don't -- for the sake of time, I'll just pare  
16 it down to a couple. And speaking of what Senator Scott  
17 spoke with you about the number of employees. I know that  
18 based on those numbers I jotted down here, that Santee  
19 Cooper is going to pare down to the 1,675 to 1,514,  
20 roughly, and NextEra's plan was to go from 1,675 down to  
21 970.

22 MR. FARANO: Yes, that's correct.

23 SENATOR CORBIN: That's a different of 544  
24 employees. And it's my personal opinion that private  
25 industry is much more efficient in getting things done than

1 government. But having said that, did Santee Cooper give  
2 you any indication as to why they felt like they needed  
3 that many more employees to run the company than NextEra?

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

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

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

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

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

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

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

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

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

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

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

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

1 investment and production tax cuts.

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

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

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

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

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

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

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

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

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

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

1 utilities, they tend to be sold in the -- as a multiple of  
2 rate base.

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

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

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

24 MR. COLELLA: I don't believe we're -- it's  
25 within our charge to express an -- to express an opinion on

1 that question. So we'll --

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

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

7 SENATOR CORBIN: Thank you.

8 CHAIRMAN LEATHERMAN: Mike, who's next?

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

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

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

20 SENATOR ALEXANDER: An aggregate. Okay.

21 MR. MING: And, you know, you can levelize  
22 that over the 20-year period. So the one percent, which is  
23 actually .08 percent, we're rounding up to one percent.  
24 But the one percent, that would be levelized over the 20-  
25 year period. If your bill is \$100 with Santee Cooper, your



1 bill would be \$101 with NextEra on average, every month for  
2 the 20 years period -- 20-year period.

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

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

11 MR. MING: Yes, that's correct

12 SENATOR ALEXANDER: So that's to the tune of  
13 13.6 million dollars. How many folks -- do we know how  
14 many people that are in that plan, and what is that based  
15 on?

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

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

24 MR. FARANO: We have.

25 SENATOR ALEXANDER: Is this something that

1 you would normally see, that is a plan provided by them by  
2 other companies in addition -- is this the only retirement  
3 plan that these individuals have?

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

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

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

22 MR. FARANO: There are two things going on.  
23 Yes, you are correct, Senator. And you raised a good  
24 point. And the point, I think, was raised earlier. One of  
25 the factors we believe that impacts the rate at which there

1 are workforce reduction or the -- are the number of years  
2 required to do -- to go from the current generation mix to  
3 the new, more modern, more efficient generation mix. That  
4 certainly has an impact on it. That, in our view, is  
5 factual just as a function of the number of folks required  
6 to operate one type of plant over the other.

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

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

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

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

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

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

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

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

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

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

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

24                   SENATOR ALEXANDER: So it was the former --

25                   MS. ADAMS: Yes, sir.

1 SENATOR ALEXANDER: Okay.

2 MS. ADAMS: For that period of time.

3 SENATOR ALEXANDER: Mr. Chairman, while I've  
4 got the microphone, if you don't mind, I see we have some  
5 distinguished individuals --

6 CHAIRMAN LEATHERMAN: Go ahead and do it.  
7 Feel free.

8 SENATOR ALEXANDER: Well, I -- okay. We're  
9 delighted to have with us today -- this is Clemson Day, as  
10 we know. And a few -- quite a few of us have got some  
11 orange on up here. Maybe some forgot, but would have had  
12 orange on. We have with us today -- I'd like to recognize  
13 the president of Clemson University, Dr. Jim Clements.

14 We have other -- we've got some good music  
15 going on over here too. We have members of the board.  
16 We've got Ambassador Wilkins -- well, let's see. We've got  
17 Ambassador -- let me start then here with Nicky McCarter,  
18 and come across to Bob Peeler.

19 Did you want to introduce them? Or is that  
20 a "no"? Smythe McKissick, the Chairman of the Board. Dr.  
21 Lee of Aiken. Ambassador Wilkins, as I mentioned earlier.

22 Maybe we need to let the music play. It  
23 sounds -- it sounds good.

24 We've got Louis Lynn there. Dr. J.J.  
25 Britton. Did I miss somebody there? And of course we've

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

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

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

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

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

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

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

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

11 MR. FARANO: That's correct.

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

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

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

24 MR. FARANO: That's an excellent question,  
25 Senator. The way the contract is crafted, they could agree

1 to extend it. So no one can force the extension. But if  
2 the parties agree to extend, they could extend for another  
3 number of years.

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

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

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

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

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



1 And I think you said that with the pre-closing liabilities,  
2 they may end up going from the 2 million ratepayers to the  
3 5 million citizens of South Carolina. Is that correct?

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

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

7 MR. FARANO: I understand that.

8 SENATOR JOHNSON: Thank you.

9 MR. FARANO: Of course. Thanks.

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

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

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

21 MR. FARANO: I think it's important -- you  
22 raise a great question. And I think this was alluded to  
23 before. So while the generation mix is that each is going  
24 to implement are similar, and while as you point out, part  
25 of the difference in workforce reduction is a function of

1 sort of the temporal nature of each choice, one is taking  
2 longer and one takes less time, whether or not -- and if  
3 I'm understanding your question correctly question, Senator  
4 -- if I'm not, please correct me -- is the question whether  
5 ultimately if -- assuming for purposes of this discussion,  
6 that the Santee generation mix and the NextEra generation  
7 mix are the same, is the question one of does Santee's  
8 workforce ultimately fall to 970 as well?

9 SENATOR JOHNSON: Yeah.

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

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

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

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

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

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

9                   SENATOR JOHNSON: A second question, so you  
10 can understand where I'm coming from, I represent the lake  
11 from Calhoun County, which is Richland County all the way  
12 down into deep into Berkeley County. And one of the  
13 drivers of our economy has been this Lake Marion water  
14 system that we've created. I didn't see anywhere in the  
15 report, how they plan to treat those plants. Are they  
16 planning to keep those water plants? Are they planning to  
17 --

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

20                   SENATOR JOHNSON: Is NextEra plan to keep  
21 them?

22                   MR. MING: Yes.

23                   SENATOR JOHNSON: And the final question. I  
24 know that NextEra was negotiating with fee in lieu  
25 agreements with counties. Do you know if that process has

1 been completed? Have they reached agreements on fee in  
2 lieu with those counties?

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

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

15 SENATOR JOHNSON: Okay.

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

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

25 There are other parts that are kind of

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

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

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

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

24 But I'm looking at this and I'm seeing the  
25 ratepayers are paying roughly the same, whether they keep

1 the debt in Santee Cooper, or whether they -- or whether  
2 NextEra picks up the debt, both by bonds and by cash. But,  
3 you know, I'm thinking even if they did it in all bonds, it  
4 would make an easier math problem, easier to explain.

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

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

15 SENATOR HEMBREE: Don't worry.

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

22 So what I mean by that, specifically, is  
23 that in the case of Santee Cooper right now, there are  
24 approximately 7 billion in outstanding bonds. That's  
25 mostly long-term bonds as well as some short-term bonds,

1 commercial paper. So all told, Santee Cooper is paying  
2 interest and the principle on that debt over time of a 7 a  
3 billion dollar number.

4 So if the utility were to transition to an  
5 investor-owned utility, then what happens is the regulator,  
6 in this case the public service commission of the state,  
7 will look at the used and useful existing assets of the  
8 utility. Which in Santee Cooper's case are approximately  
9 5.65 billion, okay?

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

16 So what's happening here is that NextEra  
17 also has an investor-owned utility, has a higher total cost  
18 of capital. So really that 5.65 billion is going to be  
19 half debt and half equity. And the cost of equity is much  
20 higher than the cost of debt. In this case, approximately  
21 10 percent versus, say, 3 percent on debt.

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

1 average cost of capital on 5.65 billion.

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

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

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

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



1 customers.

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

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

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

23 SENATOR HEMBREE: I don't know how else to  
24 ask it. It just -- I understand the difference between the  
25 7 billion and the 5.5 or 5.6, and why one -- you know,

1 understanding that one costs more. But it still seems like  
2 the ratepayers are paying off the debt, whether they pay it  
3 through NextEra or they pay it through Santee Cooper.

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

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

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

9 SENATOR HEMBREE: Yeah. Sure.

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

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

20 But one way to think about that, is that if  
21 that debt was not there, in other words, if you didn't have  
22 that excess debt on the books of Santee Cooper right now  
23 that was, you know, put in place to fund V.C. Summer 2 and  
24 3, then in this transaction, rates would be lower because  
25 more of those proceeds that are coming from NextEra -- so

1 call it that 9 and a half billion dollars of total  
2 consideration -- more of that money would be either  
3 available to the state, or more importantly to apply --  
4 increase customer credits to ratepayers.

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

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

13 MR. MILLER: Yeah.

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

16 MR. MILLER: Yeah.

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

22 MR. MILLER: That's correct.

23 SENATOR HEMBREE: Okay. So that's just  
24 money that's just plain lost. I mean, just to shift the  
25 financing from Santee Cooper bonds to cash in bonds or

1 equity in bonds from NextEra, it's just money that's --  
2 that's -- that the ratepayers -- the ratepayers take a loss  
3 by making that transition of a billion dollars. Is that --

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

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

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

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

14 MR. MILLER: Yeah.

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

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

1 go to the state from this transaction.

2 SENATOR HEMBREE: Right.

3 MR. MILLER: If the purchase price were  
4 unadjusted.

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

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

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

22 SENATOR HEMBREE: I'm looking at this rate  
23 freeze issue. I'm curious about that. And I know the  
24 senator for Dorchester had some questions about this. I'm  
25 trying to -- is that just a -- is that just a -- sort of a

1 marketing inducement to the General Assembly to -- so we  
2 can go back home and tell folks, "Hey, your rates are going  
3 to be locked in for three years before they go up"?

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

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

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

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

1 certainty.

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

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

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

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

23                   MR. MILLER: Yeah.

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

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

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

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

17                   SENATOR HEMBREE: Okay. Okay.

18                   MR. MILLER: Just to be crystal clear.

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

21                   MR. MILLER: It takes into account the 941.

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

24                   MR. MILLER: That's correct. Yeah.

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



1 it.

2 MR. MILLER: Yeah.

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

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

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

1 time.

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

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

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

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

24 So you may hear that there are additional  
25 savings that could be achieved, and that is possible. It's

1 also possible that they do not do as well as we project,  
2 and then rates are actually a bit higher. So they could do  
3 better or worse over that projection period.

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

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

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

24 MR. MILLER: Yeah.

25 SENATOR HEMBREE: -- would leave that off to

1 the side.

2 MR. MILLER: That's right.

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

5 MR. MILLER: Yeah.

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

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

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

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

1 525 million in liabilities that are triggered by the sale.  
2 So that kind of gives you a wash, you know, net standpoint.

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

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

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

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

22           CHAIRMAN LEATHERMAN: Who's next?

23           MR. SHEALY: Mr. Chairman, next is Senator  
24 Davis. And for the good of the Committee, if there is  
25 anyone else that would like to be recognized for a first

1 round question, please let me know.

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

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

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

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

1 therefore have any incentive from that perspective to  
2 increase efficiency.

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

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

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

23           SENATOR DAVIS: Conversely, in regards to  
24 the projected rates for NextEra, that is reflective of a  
25 541 million dollar payment to settle that Cook litigation,

1 is it not?

2 MR. MILLER: That's correct. And that's the  
3 result -- as we talk about normalization, that is a  
4 commitment to fund those credits from NextEra, that was  
5 part of their economic bid. So in other words, whereas in  
6 Santee Cooper's case, we have no information from Santee  
7 Cooper as to what money would or would not go to customers,  
8 or what impact on rates would be, NextEra has committed to  
9 providing a 541 million dollar customer refund. So we  
10 included it in our rate projections, you know,  
11 contextualized as such.

12 SENATOR DAVIS: So if I'm going to make an  
13 apples-to-apples comparison between those rate projections  
14 on that -- on that graph there, one of them -- the NextEra  
15 rate projection contemplates the Cook litigation having  
16 been resolved. The other in regard to reform plan does not  
17 contemplate that. In fact, we don't know what effect the  
18 outcome of the Cook litigation would have on the projected  
19 rates, do we?

20 MR. MILLER: That's correct. And I would  
21 just say the key term is we don't know exactly what effect  
22 that would have, given the information, you know, we have.  
23 I would just really none regarding Santee Cooper's proposed  
24 plans to deal with that litigation.

25 SENATOR DAVIS: In looking through the --



1 MR. FARANO: Senator, before I --

2 SENATOR DAVIS: Sure.

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

5 SENATOR HEMBREE: Absolutely.

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

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

22 So I don't think it addresses your other  
23 question, which as Nate says, we have -- we made no  
24 assumptions around. But I think it's important to know  
25 that there is a decoupling, if you will, of the actual

1 settlement of the Cook litigation and the 541 million  
2 dollar rate credit.

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

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

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

1 willing to pay and accept.

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

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

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

21 But what we were able to do, and it was in  
22 the context not of trying to make a determination of what  
23 Santee Cooper itself might settle for, but in the context  
24 of trying to evaluate whether the NextEra amount that had  
25 been determined in connection with the plaintiffs' counsel

1 for the Cook plaintiffs made sense, is to look at the  
2 Central counterclaim in the Cook litigation.

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

13 Looking at it that way, again for purposes  
14 of trying to pressure-test NextEra's settlement about -- of  
15 541, it seemed, you know, within reason to us. Because  
16 again remember that, that settlement amount and that credit  
17 that goes to ratepayers is separate and apart from whatever  
18 the plaintiffs' lawyers would be paid. And while that's  
19 coming out of NextEra's pocket as well, it's a -- it's a  
20 separate number that's probably not small.

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

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

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

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

19 "A critical commercial relationship between  
20 Santee Cooper and its largest customer, Central, remains  
21 negatively affected by the historic friction between the  
22 two organizations and fundamental disagreements over  
23 certain operating strategies. Central maintains that its  
24 customers want more choice to provide their own power,  
25 whether that be providing it from within their own

1 territories from a growing competitive wholesale market, or  
2 from behind the meters of individual customers."

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

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

14 MR. FARANO: That's a --

15 SENATOR DAVIS: -- alternatives.

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

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

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

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

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

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

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

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

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

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

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

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

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

24 I will need to follow up with the exact  
25 percentage of how much higher that is, but it's -- it's



1 higher than the 1.5 percent that Central has today with  
2 Santee Cooper.

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

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

21           So Central still maintains a significant say  
22 over those new resources. And so Central wants -- as we  
23 have again monitored the discussions between Central and  
24 Santee Cooper, Central wants to have a say in developing  
25 those plans. Due to the process, Santee Cooper developed

1 their reform plan, that is in front of you now, sort of,  
2 you know, by necessity on their own. But ideally, those  
3 plans in the future would be developed with Central, and  
4 Central would have to be on board, or else they wouldn't be  
5 able to build the plants.

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

12 MR. MING: That is correct, yes.

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

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

24 So it's kind of money from one pocket to the  
25 other. That's why we haven't quantified it in rates. It's

1 not clear that there's a direction that, that would go in  
2 settling that litigation.

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

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

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

16 CHAIRMAN LEATHERMAN: Mr. Chairman.

17 MR. SHEALY: Senator Campbell.

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

25 MR. MING: Again, if you add a cost of 541

1 million, that would be increased rates. But it would  
2 ultimately be paid to ratepayers. So it is not necessarily  
3 the case that it increases rates by 541 million, because it  
4 would be paid to the ratepayers. So it's essentially zero.

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

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

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

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

19 MR. MING: Well, I -- the way I would follow  
20 up with that is that even though we are representative the  
21 541 million dollar settlement for NextEra, as a benefit to  
22 rates, it is not in fact -- it would not manifest itself  
23 through rates. We are putting it into rates in this graph  
24 here, for the purposing of apples-to-apples comparison.  
25 But it actually would be paid directing to the plaintiffs,

1 and would not actually be used to lower rates.

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

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

14           MR. MING: In which circumstance?

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

16           CHAIRMAN LEATHERMAN: Five forty-one.

17           MR. MILLER: We appreciate the questions.

18 This is obviously a huge outstanding issue with regards to  
19 litigation, recognizing your point, Senator, as what the  
20 rate impact might be. I think it's difficult for us in our  
21 particular position within the process, to make a prognosis  
22 on that fact.

23           It's worth noting a couple of things,  
24 perhaps, that there may be an impact to some ratepayers.  
25 That impact can only be estimated. And we probably do not

1 have the particular bound in this process to do that  
2 estimation.

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

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

23  
24           MR. FARANO: Yeah, I -- look, I think we  
25 need to be mindful of our role and where the process

1 stands. We obviously want to be as helpful as possible. I  
2 think what we've endeavored to do with the information we  
3 had is to present, without getting out of our swim, and  
4 without trying to make assumptions, three potential  
5 proposals for your consideration.

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

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

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

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

25           MR. SHEALY: If there are no other members

1 for a first round question, this is the second round  
2 questions. And Senator Setzler is next.

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

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

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



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

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

13 SENATOR SETZLER: Did y'all ask them? When  
14 evaluating their proposal, you didn't ask them which one it  
15 was, the 541 million?

16 MR. FARANO: From an economic perspective,  
17 the nature of how they determine to do it, I don't want to  
18 say is immaterial, but it doesn't affect the outcome. So,  
19 no.

20 SENATOR SETZLER: All right. So you didn't  
21 ask them which one it was, then --

22 MR. FARANO: Well, again let me, if I may,  
23 point you to the legislation. We accepted their  
24 legislation, and it is for your consideration to determine  
25 which one of those, or both, you are comfortable with.

1                   SENATOR SETZLER: But you don't get off the  
2 hook by saying, "We got their legislation and it's up to  
3 you." You had to evaluate in that your recommendation of  
4 them as a purchaser.

5                   MR. FARANO: We had to evaluate a number of  
6 specific criteria that you set out for us. And we did.  
7 Our outcome, as was the charge of the Department, was to  
8 present you with a best sales offer, a best management  
9 proposal, and a Santee Cooper reform plan. Which we've  
10 done.

11                   We're happy to answer questions, but that's  
12 a -- that's a qualitative assessment or a subjective answer  
13 that you're looking for from me, it's -- that's not our  
14 job. Really, that is yours that will help you decide  
15 between.

16                   SENATOR SETZLER: No offence to NextEra, but  
17 you are the experts and the advisors for the state, for  
18 DOA. If we ask NextEra, they're going to give us their  
19 opinion. I'm looking for a second opinion or another  
20 opinion other than NextEra's.

21                   MR. FARANO: But you're asking -- I  
22 understand. And, again, I'll just suggest that whether  
23 it's a refund or a credit, we do not know the answer. Have  
24 we asked them? Yes. What they told us was our legislation  
25 provides for both opportunities.

1                   SENATOR SETZLER: All right. So  
2 understanding whatever their proposed 42 pages of  
3 legislation is, is that 540 to -- quote, to settle the Cook  
4 legislation -- I mean, litigation, end quote? Because I  
5 understood that's what you said initially --

6                   MR. FARANO: You are correct.

7                   SENATOR SETZLER: So that is supposedly to  
8 settle it.

9                   MR. FARANO: Correct. Because remember, the  
10 plaintiffs in the Cook litigation are the same ratepayers.  
11 The 541 million dollar credit does not go to all  
12 ratepayers. It only goes to ratepayers burdened by the  
13 Cook litigation.

14                   So the simple way for me to understand that  
15 is to ask myself what does the mean. It's the plaintiffs'  
16 class, okay? So the plaintiffs' class in the lawsuit are  
17 the folks to whom NextEra will give either a refund or a  
18 credit in settlement of the litigation.

19                   What lends potential credibility, it's not  
20 one hundred percent certain as we've said, is the fact that  
21 in their proposal, and you'll see this, I believe, there is  
22 a letter from plaintiffs' counsel to them. Plaintiffs'  
23 counsel looks at the proposed settlement which manifests  
24 itself in the legislation via the 541 million dollar rate  
25 credit, and says, "We believe that our class, the people we

1 represent, will accept that settlement."

2 SENATOR SETZLER: And what about the -- go  
3 back to the senator for Beaufort's -- what about Central's  
4 cross-claim against Santee Cooper, is it settled with that  
5 amount of money?

6 MR. FARANO: Central is satisfied that what  
7 is being proposed by NextEra, in respect of the settlement  
8 of the Cook litigation would, yes, get rid of their cross-  
9 claim. That's correct

10 SENATOR SETZLER: Is that in writing?

11 MR. FARANO: That is in discussions with us.  
12 That is reflected in the fact that they have negotiated an  
13 almost-final PPA with Central. And you'll have to ask  
14 Central how they came to that level of comfort.

15 SENATOR SETZLER: So are -- you also said, I  
16 thought earlier today, that even if they closed -- if  
17 NextEra closed and Cook didn't settle --

18 MR. FARANO: That's right

19 SENATOR SETZLER: -- they're still going to  
20 pay -- or give this 541 million dollars, correct?

21 MR. FARANO: You're correct, Senator. Yes.

22 SENATOR SETZLER: All right. So then are  
23 the tax -- are the ratepayers of Santee Cooper still on the  
24 hook?

25 MR. FARANO: So I'm not a plaintiff's lawyer

1 nor am I a litigator, generally. But if and to the extent  
2 that the plaintiffs' class, according to their lawyers, has  
3 been paid an amount that their lawyers would recommend to  
4 them as fair settlement of a claim, then I don't know that  
5 they're going to have a great case.

6 You'd have to ask someone else. But the  
7 theory is, if you're seeking something in settlement and I  
8 give it to you, the -- your claim has been satisfied, and  
9 your ability to come after anybody else for it is  
10 diminished.

11 SENATOR SETZLER: Okay. So the 541 goes to  
12 the ratepayers.

13 MR. FARANO: Correct.

14 SENATOR SETZLER: Supposedly.

15 MR. FARANO: Ratepayers burdened by the  
16 Santee -- by the --

17 SENATOR SETZLER: What about the lawyers?  
18 Who's going to pay the lawyers?

19 MR. FARANO: NextEra is paying the lawyers  
20 directing.

21 SENATOR SETZLER: Is that in these documents  
22 --

23 MR. FARANO: Yes, it is.

24 SENATOR SETZLER: -- that we haven't gotten  
25 yet?

1 MR. FARANO: It's in the documents that are  
2 on the website, yes, and in the documents that were  
3 presented to the Chairman, as required by the Joint  
4 Resolution. Correct.

5 SENATOR SETZLER: Okay. So it's your  
6 representation to the Committee, that beyond the 541  
7 NextEra is going to pay the attorneys --

8 MR. FARANO: That is correct. Up to a limit  
9 that you will see in the documentation, we have confirmed  
10 that with NextEra in writing and orally.

11 SENATOR SETZLER: And the attorneys fees are  
12 not included in the 541 number.

13 MR. FARANO: That is correct

14 SENATOR SETZLER: All right. Is the 541 in  
15 NextEra's rate base that they want the General Assembly to  
16 approve in their proposed legislation?

17 MR. FARANO: No, it's not -- it's not in  
18 rate base.

19 SENATOR SETZLER: Okay. So it's not in  
20 there. All right. What about the cost of V.C. Summer 2  
21 and 3, is it in their rate base?

22 MR. FARANO: No. It's not permitted to be.

23 SENATOR SETZLER: Okay. And what about the  
24 debt defeasance penalty?

25 MR. FARANO: The debt defeasance penalty and

1 rate base, no, it's not an -- it's not an element to rate  
2 base.

3 SENATOR SETZLER: Okay. So you're sure all  
4 three of those are not in there.

5 MR. FARANO: Yes, I am sure.

6 SENATOR SETZLER: So let's talk about the  
7 return on equity, a minute. What all is included in their  
8 return on equity?

9 MR. COLELLA: Their proposed return on  
10 equity is a -- is a proposal that comes from them, that  
11 would be -- that we believe, although, you'll have to  
12 confirm them -- this with them, but we believe is informed  
13 by their experience in other jurisdictions where they  
14 operate utilities, such as Florida and other data points,  
15 that -- that are observable throughout the country in terms  
16 of where PSCs have been granting, allowed ROEs recently.  
17 But again, we haven't confirmed that with them. So you'll  
18 have to -- you'll have to --

19 SENATOR SETZLER: What is that ROE?

20 MR. FARANO: Their ROE is 10.2 percent.

21 MR. COLELLA: Yeah. So 10.2 percent.

22 SENATOR SETZLER: 10.2 percent return on  
23 equity. And do you believe that the South Carolina Public  
24 Service Commission might consider factors that NextEra has  
25 not put in for consideration as a part of that ROE, where

1 it would not be 10.2?

2 MR. COLELLA: I don't know that we could  
3 speculate on that, other than to say that there are a range  
4 of ROE outcomes throughout the country and in South  
5 Carolina, that are not exactly 10.2. And so, you know,  
6 again, we'll also have to defer that question to NextEra.  
7 Again, we would be speculating if we -- if we tried to  
8 opine on that.

9 SENATOR SETZLER: Okay. So let's go back to  
10 the costs of the Cook litigation, a minute, as to Santee  
11 Cooper. Is it built in -- it's not built in these rates  
12 projections of Santee Cooper; is that correct?

13 MR. MILLER: That's correct. There's no  
14 cost associated with the Cook litigation built into those  
15 normalized rate projections you see before you.

16 SENATOR SETZLER: And so if Santee Cooper  
17 settles it, those would be built in, in all probability, in  
18 the future.

19 MR. MILLER: Yes. Depending on the form of  
20 settlement and the mechanism by which the settlement is  
21 funded, yes.

22 SENATOR SETZLER: And would you agree that  
23 by not settling the cross-claim in the Cook litigation,  
24 that, that puts additional pressure on Santee Cooper in  
25 anything they try to do?



1 MR. MILLER: I believe that would be beyond  
2 the speculation that I would put forth on my own person.

3 SENATOR SETZLER: Okay. In the NextEra  
4 proposal -- and I don't know if this is for you or for  
5 somebody. Maybe it's in tomorrow -- in the -- in the  
6 NextEra proposal is there any -- as was done with the  
7 Dominion deal, is there any allocation of board seats,  
8 etc.? And if so, where do they come from and who are they?

9 MR. MILLER: In the Dominion management  
10 proposal, you mean?

11 SENATOR SETZLER: No. In the NextEra  
12 purchase proposal, does anybody in South Carolina get a  
13 seat on their board, either from Santee Cooper, Central,  
14 whatever? And if so, what are those conditions of being  
15 there?

16 MR. MILLER: Yeah, I mean, I'll defer to --  
17 my understanding is --

18 MR. FARANO: No, that level of granularity  
19 as to what the -- what the new -- if NextEra was to acquire  
20 Santee Cooper's assets, and we name their utility Santee  
21 Cooper Power and Light, the level of granularity around who  
22 may or may not be on that board as opposed -- obviously,  
23 NextEra has the big board -- has not been determined.

24 Generally, again, this is only one person's  
25 experience. In the context of wholly-owned subsidiaries,

1 boards of directors are really a function of complying with  
2 state law in order to make sure the fiduciary obligations  
3 that are otherwise imposed by that law are met.

4           It is not common in a wholly-owned  
5 subsidiary situation to have outside directors.  
6 Oftentimes, because they are purely perfunctory insofar as  
7 a shareholder proposition, the holding company is running  
8 the activity, is playing the role of a shareholder, they're  
9 usually internal boards.

10           SENATOR SETZLER: Are you aware that in --  
11 when Dominion purchased SCANA, I believe that SCANA -- or  
12 representatives here in South Carolina got two seats on  
13 their big board?

14           MR. FARANO: On Dominion's board.

15           SENATOR SETZLER: On Dominion's board.

16           MR. FARANO: I understand.

17           SENATOR SETZLER: And don't you think it  
18 would be important to South Carolinians, if NextEra is the  
19 purchaser, to have representation from South Carolina on  
20 their big board, making decisions relative to the citizens  
21 of South Carolina?

22           MR. FARANO: We leave the determination of  
23 an issue like that to you. And you are the folks who could  
24 make that happen, and who are looking out for the interests  
25 of the citizens at that level. But certainly that's a --

1 SENATOR SETZLER: So there's nothing --

2 MR. FARANO: -- an effective question.

3 SENATOR SETZLER: -- in the documents that  
4 have been negotiated, that we're going to vote on, that  
5 assures South Carolina representation on NextEra's big  
6 board.

7 MR. FARANO: On the board of NextEra's  
8 publicly traded entity, no, there is not.

9 SENATOR SETZLER: Okay. Let's talk about  
10 what you -- what kind of tax relief NextEra is requesting.  
11 You say on page 20, "Other tax exemption agreements."

12 Let me tell you where -- where our problem  
13 is, Mr. Navaro, and this -- this isn't necessarily  
14 NextEra's problem or anyone else's, except this deal is so  
15 complicated, you say -- we hear on one side, you're paying  
16 off the debt. But on the other side they're getting X, Y,  
17 Z, A, B, C, D. Well, we can't balance those off. We don't  
18 know what they are. So can you y'all prepare for us, a  
19 list of all the tax benefits and values that NextEra is  
20 requesting in the agreement or in the legislation?

21 MR. FARANO: Let us speak with the  
22 Department about preparing a list. I think in respect of  
23 the tax issues that Bill and Gary can speak to directly,  
24 I'll obviously defer to them.

25 What I did by pulling up this slide, is just

1 to look again at the business proposition. Because I don't  
2 want to create confusion, so if there's a confusion around  
3 defeasance of debt on the one hand, and what the state or  
4 the ratepayers or the taxpayers may be getting on the  
5 other, we could certainly walk through that again, if you  
6 think that would be helpful, Senator.

7 SENATOR SETZLER: Well, for example --

8 MR. FARANO: Yes.

9 SENATOR SETZLER: -- I've heard that  
10 Fairfield County has agreed to a fee in lieu. What's the  
11 value of that? I've heard that NextEra wants to have the  
12 same property tax exemptions that Santee currently has. I  
13 may have misunderstood you, but I thought you said over 30  
14 years, that was 2 billion dollars? Did I understand that  
15 correctly?

16 MR. FARANO: You didn't hear that from me.  
17 So I apologize.

18 SENATOR SETZLER: Can you put a dollar  
19 amount on that?

20 MR. FARANO: Let me -- let me turn it over  
21 to the experts. I don't think we have a dollar amount.  
22 But I will -- I am out over my skis in and taxes. So I'll  
23 turn it over to the folks who know.

24 MR. MUSSER: Bill Musser with Pope Flynn.  
25 My understanding of their ask, is that as to the acquired

1 assets which Santee Cooper is paying a fee in lieu on right  
2 now, they want that same fee in lieu treatment to continue  
3 for 30 years.

4 And with respect to the new construction,  
5 they're going to be negotiating fee agreements with  
6 Fairfield County, or whatever other county they site a  
7 facility in. And that's outside of the proposal. That's  
8 something they appended to their proposal. And they  
9 haven't really asked us to weigh in on --

10 SENATOR SETZLER: So y'all haven't  
11 calculated the cost to the state for the tax property  
12 benefits over a 30-year period?

13 MR. MUSSER: Well, not with respect to the  
14 acquired assets. I think the working assumption has been  
15 that the payments over to the state, with respect to the  
16 existing assets, would continue at about the same amount or  
17 percent the same formula they -- that they're currently  
18 calculated a percent to.

19 With respect to Fairfield County, we have  
20 not gotten into their deal with Fairfield County. We don't  
21 know what kind of benefits they've negotiated, what millage  
22 they've negotiated, what their promised investment would  
23 be. And they, I think, also offered inducement agreements  
24 with several other counties, too, that they're considering  
25 siting facilities in. That was not included in their

1 proposal. It was something that was new.

2 SENATOR SETZLER: And I'm not trying to be  
3 difficult. I'm trying to --

4 MR. MILLER: No, no. I understand.

5 SENATOR SETZLER: I'm trying to get the  
6 information. So if we got Utility X that's currently doing  
7 business in this state, and paying property taxes on their  
8 assets, and NextEra is not going to pay property taxes for  
9 30 years, there's a value to that to NextEra and there is a  
10 loss to the state of there -- or to the counties. We don't  
11 have a calculation of that amount of money?

12 MR. MILLER: Just a quick clarification that  
13 -- Nate from E3 again -- that really it's a foregone tax  
14 revenue is obviously --

15 SENATOR SETZLER: I'm sorry, I didn't  
16 understand you.

17 MR. MILLER: I just wanted to clarify that  
18 when we talk about, you know, who is benefitting from what,  
19 at least from the position of the evaluators of the various  
20 proposals we received, we see, you know, any increase in  
21 taxes, including property taxes, would also be an increase  
22 in rates to ratepayers, because the taxes are passed on to  
23 ratepayers. So there are not additional money coming out  
24 of NextEra's pockets, it's money that they're turning  
25 around and then charging to ratepayers.

1                   SENATOR SETZLER: I do understand that. But  
2 still I -- the question is: How much is it? How much of a  
3 break?

4                   MR. MILLER: Yeah. So again, we'll want to  
5 get back to you with specific numbers, to the extent that  
6 we can.

7                   SENATOR SETZLER: So you don't want to give  
8 us a list. Tell us what other income tax exemption  
9 agreements are in these documents, that we haven't seen or  
10 had an opportunity to read, that we're going to be asked to  
11 vote on. I'm not --

12                  MR. MILLER: Well, there aren't --

13                  SENATOR SETZLER: I can tell you I'm not  
14 about to vote on something that I don't have a full  
15 understanding of what it contains and been explained.

16                  MR. MUSSER: Yes, sir. In the -- in the  
17 legislation there's a statement that during the rate freeze  
18 period, which is a four-year period, the state income taxes  
19 will not be assessed against their income, and that losses  
20 will be carried forward. And there's also --

21                  SENATOR SETZLER: Say that one more time  
22 slowly.

23                  MR. MUSSER: With respect to the rate freeze  
24 period, the four-year period for which they're -- more than  
25 four-year period for which they're freezing rates, there

1 will be no state income taxes paid by NextEra.

2 SENATOR SETZLER: And what is the dollar  
3 benefit of that to NextEra --

4 MUSSER: That would be --

5 SENATOR SETZLER: -- over that four-year  
6 period?

7 MR. MUSSER: That would really depend on a  
8 totality of circumstances, their income, their expenses.  
9 It would be very hard to determine that.

10 SENATOR SETZLER: Did you estimate that or  
11 discuss that when you were evaluating the two sale  
12 proposals you had?

13 MR. MUSSER: I don't believe that was  
14 discussed, sir.

15 SENATOR SETZLER: You don't think that's  
16 important to the state to know that?

17 MR. FARANO: It was taken into account in  
18 the rate projections, what the impact of moving from tax  
19 exemption to taxability would be. And also just to answer  
20 your question before, because I don't think it was clear:  
21 there are probably 20 or 30 tax exemption agreements that  
22 are being sought by NextEra, the execution of which is a  
23 precondition or a condition precedent to their obligation  
24 to sign. That is in the report.

25 Certain of the exemption agreements, I



1 believe, that have been executed are within the  
2 documentation that was posted last night, and were part of  
3 the documentation that were presented to the Chairs of the  
4 committees as required by the law.

5 SENATOR SETZLER: So can you give us a list  
6 of those 20 or 30 tax exemptions that they're requesting?

7 MR. FARANO: We'll have to talk to them  
8 around confidentiality. But certainly, if they agree to  
9 it, we can.

10 SENATOR SETZLER: Wait a minute. I thought  
11 you just said it was posted on the internet.

12 MR. FARANO: Only the ones that have been  
13 executed. Not all the ones that they are seeking.

14 SENATOR SETZLER: Are there others that they  
15 are seeking in the -- in the legislation?

16 MR. FARANO: So that I can be clear, the  
17 nature of their proposal -- if you look at their proposal  
18 and you look at the Asset Purchase Agreement, one of the  
19 conditions -- or at the Asset Purchase Agreement as well as  
20 the legislation, they are seeking a tax proposal around  
21 exemption.

22 Part one -- part of that tax proposal that  
23 they have made it very clear if they do not have, they will  
24 not sign, are getting tax exemption certificates from -- I  
25 think we get you the exact number. I believe it's between

1 20 and 30. I think at this point they have six. They are  
2 chasing the others.

3 SENATOR SETZLER: And do the others involve  
4 the State of South Carolina as a party?

5 MR. FARANO: I don't think they're state tax  
6 exemption certificates. I am not well versed enough. I  
7 think it's all localities.

8 SENATOR SETZLER: So the folks in this room  
9 and the 170 members of the General Assembly are not  
10 entitled to know what those 20 or 30 tax exemptions are  
11 before we're asked to vote?

12 MR. FARANO: I think you misunderstood my  
13 answer.

14 SENATOR SETZLER: Okay.

15 MR. FARANO: So I apologize.

16 SENATOR SETZLER: Please.

17 MR. FARANO: Let me make it clear. We will  
18 get you what you are requesting.

19 SENATOR SETZLER: Thank you.

20 MR. FARANO: I don't have it for -- at the  
21 top of my tongue.

22 SENATOR SETZLER: Okay. I did not  
23 understand that. All right. Back to the ROE. Does it  
24 include abandoned property too?

25 MR. COLELLA: If you're -- if you're

1 referring to -- so the ROE would be -- would be applied to  
2 the rate base. So in this particular case, the opening  
3 rate base of roughly 5.6 billion dollars. And so it would  
4 be applied to -- the 10.2 percent allowed ROE would be  
5 applied to the equity component of that rate base, so  
6 roughly half of that rate base number.

7 SENATOR SETZLER: So here's my question in  
8 simple terms on behalf of the other members of the Senate.

9 MR. COLELLA: Sure.

10 SENATOR SETZLER: So if they build a new  
11 facility and they shut down a facility, do they continue to  
12 use the closed facility in their return on equity  
13 calculations?

14 MR. COLELLA: So the return on equity would  
15 apply to only those investments that ultimately are deemed  
16 to be used and useful either by virtue of the enabling  
17 legislation that has been proposed. So in this particular  
18 case -- in that particular case, the 2.3 billion dollars of  
19 generation investments, or any investments beyond that,  
20 ultimately, that are deemed to be prudently incurred by the  
21 PSC after the four-year rate freeze.

22 MR. MING: John, can I clarify that?

23 MR. COLELLA: Sure. Go for it.

24 MR. MING: Zach Ming from E3.

25 SENATOR SETZLER: Yes, sir.

1 MR. MING: So to follow up on that. In  
2 NextEra's starting rate base of 5.6 billion, that does not  
3 include any of the V.C. Summer 2 and 3 nuclear assets. So  
4 they do not earn a return on or of those abandoned nuclear  
5 assets.

6 SENATOR SETZLER: Okay.

7 MR. MING: NextEra does propose in their new  
8 generation plan to retire coal, namely the Winyah unit, and  
9 they would continue to earn a return on the -- on that  
10 asset over a period of 30 years.

11 SENATOR SETZLER: Even once it's been  
12 abandoned.

13 MR. MING: Even once it has been retired.

14 SENATOR SETZLER: Okay. It's been retired -  
15 -

16 MR. MING: Yes.

17 SENATOR SETZLER: -- not abandoned.

18 MR. MING: Yes.

19 SENATOR SETZLER: And under the proposal,  
20 just to clarify for me, of leaving liability with the  
21 state, if they do that after the purchase, the state's  
22 still responsible for any problems that come with that  
23 facility, liability-wise?

24 MR. FARANO: No.

25 MR. MING: No. That is -- those costs would

1 be recovered from ratepayers. And just to clarify, the  
2 reason they are retiring the plant is because it is cheaper  
3 for ratepayers to pay for the new gas plant and the old  
4 coal plant --

5 SENATOR SETZLER: Right.

6 MR. MING: -- rather than keep the coal  
7 plant running.

8 SENATOR SETZLER: And I do understand that.  
9 Okay. All right. And I got a question of somebody about  
10 territories served.

11 MS. MUSSER: If I could, I'll clarify one  
12 thing --

13 SENATOR SETZLER: Sure.

14 MR. MUSSER: -- that was said a moment ago.  
15 On the tax issue during the rate freeze period, in addition  
16 to the exemption from income taxation, they're asking for  
17 no other taxes or assessments by the state or any of the  
18 localities to be assessed, other than the fee in lieu of  
19 taxes. That's also in the legislation.

20 SENATOR SETZLER: All right. So you're  
21 saying that during that four-year period, they want to pay  
22 no taxes at any governmental level in South Carolina.  
23 Period.

24 MR. MUSSER: All they want to pay is the fee  
25 in lieu of tax provision --

1 SENATOR SETZLER: On the Fairfield.

2 MR. MUSSER: On Fairfield -- well, no, on  
3 the -- on the existing assets, pursuant to the same  
4 legislation. It's the same -- tailored to be the same as  
5 Santee Cooper's existing fee in lieu legislation, together  
6 with whatever fee in lieu of taxes they negotiated under  
7 the local agreements that Mr. Farano mentioned.

8 SENATOR SETZLER: So they want to be treated  
9 differently than any other utility in this state is  
10 operating.

11 MR. MUSSER: During the rate freeze period,  
12 the only tax burdens they -- they are going to assume are  
13 the fee in lieu of taxes.

14 SENATOR SETZLER: Okay. So the -- you are  
15 the one to answer a question about securitization that's in  
16 that legislation?

17 MR. MUSSER: Either I or Gary can probably  
18 answer that.

19 SENATOR SETZLER: I understand they're  
20 asking for the right to secure tie -- to have the right to  
21 secure ties, correct?

22 MR. MUSSER: Yes, sir.

23 SENATOR SETZLER: No other utility in this  
24 state has that ability, right?

25 MR. MUSSER: It is new to the state. Yes,

1 sir.

2 SENATOR SETZLER: And it applies only to  
3 NextEra, or to every utility in the state?

4 MR. MUSSER: As it's drafted, it would only  
5 apply to NextEra. It is something that has been used in  
6 other --

7 SENATOR SETZLER: Wow.

8 MR. MUSSER: It is something that has been  
9 used in other jurisdictions.

10 SENATOR SETZLER: Okay. Who can answer a  
11 question about territory?

12 MR. FARANO: Sure.

13 SENATOR SETZLER: Customer-served territory.

14 MR. FARANO: Yeah.

15 SENATOR SETZLER: We currently have a  
16 provider in the Upstate. We have a provider who purchased  
17 SCANA, who are serving customers. And we have in place a  
18 territorial assignment law in South Carolina. Are you  
19 familiar with that?

20 MR. FARANO: We have reviewed it. I'm not a  
21 South Carolina lawyer. But, yes.

22 SENATOR SETZLER: Central is the biggest  
23 customer of Santee Cooper. If NextEra is successful and  
24 they purchase Santee Cooper, how many of the customers in  
25 this state would NextEra then be serving?

1 MR. FARANO: So as I understand it -- that's  
2 a very good question, Senator. Currently, directing and  
3 indirectly, Santee Cooper serves about 2 million customers.  
4 Those customers are direct-serve customers, residential,  
5 commercial, and industrial, all of whom pay retail rates.  
6 Those customer -- and then the customers are wholesale  
7 customers -- there are a few wholesale customers in  
8 addition to Central. But as you point out, Central is the  
9 largest customer.

10 If you look through Central to its member  
11 cooperatives and to their ratepayers, they are included  
12 within that 2 million number that I just mentioned.

13 SENATOR SETZLER: Okay.

14 MR. FARANO: If the --

15 SENATOR SETZLER: Go ahead. I'm sorry.

16 MR. FARANO: I just want to -- sorry about  
17 the --

18 SENATOR SETZLER: No, that's fine.

19 MR. FARANO: Just to answer directing. So  
20 if NextEra completes an acquisition, if you approve it, of  
21 Santee Cooper's assets, that ratepayer universe would  
22 remain the same.

23 SENATOR SETZLER: Do you know off the top of  
24 your head, or have an idea, of how many customers Duke  
25 currently serves in South Carolina?



1 MR. FARANO: In South Carolina, I don't. We  
2 have that information --

3 SENATOR SETZLER: Does anybody on the team  
4 know that?

5 MR. FARANO: Does anybody know off the top  
6 of their head? Not off the top of our heads.

7 SENATOR SETZLER: All right. So if Dominion  
8 were successful as the bidder on a management proposal --

9 MR. FARANO: Yes.

10 SENATOR SETZLER: -- and I raise the same  
11 question and concern about that proposal, Dominion  
12 purchased SCANA, so they have SCANA's current territory  
13 plus another 2 million customers.

14 MR. FARANO: They would be managing Santee  
15 Cooper --

16 SENATOR SETZLER: Correct.

17 SENATOR DAVIS: -- with 2 million customers.  
18 Yes, sir.

19 SENATOR SETZLER: Right. So do you know the  
20 total amount then, that Dominion would be serving through  
21 itself and Santee Cooper in South Carolina?

22 MR. FARANO: At that point, I -- I -- I  
23 don't know the exact number. But I presume it's the vast  
24 majority of customers within the state.

25 SENATOR SETZLER: All right. I'm going to

1 go back to the question that somebody over here asked  
2 earlier today, and you made the comment you have three of  
3 the biggest, if not the biggest, providers in the country,  
4 that would be in South Carolina. Did y'all consider  
5 whether that was a ratio that was fair to the citizens, to  
6 have one company or another serving a larger majority than  
7 the other two companies?

8 MR. FARANO: We took into consideration,  
9 particularly in connection with the management proposal,  
10 whether given Dominion's footprint in the state already,  
11 and I think we talked about this in considerations, there  
12 are issues around both conflicts and -- and what -- and how  
13 that might position Dominion years from now. So, yes, we  
14 did. We discussed that. It did not, as you can see,  
15 ultimately impact our decision to recommend that to you.  
16 But we did.

17 In terms of NextEra, who at this point does  
18 not have any footprint within the State of South Carolina,  
19 we didn't specifically look at it vis-a-vis it now, along  
20 with Duke, which I think has a relatively small footprint,  
21 and Dominion, which obviously has a large footprint, we  
22 didn't get into that type of value judgement. No.

23 SENATOR SETZLER: So when NextEra proposes  
24 that they be granted the right to secure ties in South  
25 Carolina, did you discuss with them why they wanted that

1 ability?

2 MR. FARANO: Yes, of course we did.

3 SENATOR SETZLER: Okay. And so why -- what  
4 did they tell you, the reason they wanted to do that?

5 MR. FARANO: I'll let John speak to it more  
6 definitively. But one of the reasons that folks seek to do  
7 securitization is, that ultimately it is a lower cost of  
8 cap -- a lower cost of capital financing route that will  
9 redound to the benefit of ratepayers.

10 So part of why they were using  
11 securitization, and part of why it's used routinely around  
12 the country and other jurisdictions, is it has the dual  
13 benefit, potentially, of adding to both shareholder and  
14 ratepayer values. So it's a very useful type of financing.

15 They shared that with us. It is not  
16 something with which we are unfamiliar. And so the fact  
17 that it is new here, while we understand that, if you look  
18 at a broader universe of what is considered common, it is -  
19 - it is quite common. Well, I'll turn it over to John.

20 MR. COLELLA: The only thing I would add to  
21 what Jerry just said is, that in this particular context,  
22 you know, we believe that they -- NextEra sought to employ  
23 a securitization in part, because as Jerry said is a low  
24 cost of financing, and as a result, I think, allowed them  
25 in their proposal to accrue greater benefits to the

1 ratepayers as well as to the state, by virtue of the  
2 payment to the state as a result of that low cost  
3 financing.

4 SENATOR SETZLER: Do you believe that would  
5 be a level playing field, to allow one utility in the state  
6 to have a right that the others don't?

7 MR. COLELLA: You know, again within the  
8 context of our process, we didn't make any judgements  
9 around other utilities in the state that were not  
10 participating or that did not directing have to do with the  
11 Santee Cooper process.

12 I'm just saying again that, in the context  
13 of our process and what our mandate was, one of the things  
14 that was a fundamental tenet in the way that we designed  
15 and ran our process is that we did want to make sure that  
16 we allowed for any process participant to employ creativity  
17 in terms of how they structured their proposal.

18 We believe that the securitization in the  
19 context of the NextEra proposal was consistent with that  
20 fund -- that approach that we took. And we do believe that  
21 it ultimately has allowed for greater value to be conveyed  
22 overall in the context of the proposal. Some of which  
23 ultimately accrues to the benefit of the ratepayers, and  
24 some of which ultimately accrues to the benefit of the  
25 state by virtue of the direct payment.

1                   SENATOR SETZLER: So in essence, it would  
2 allow them to construct new facilities, if they wanted to,  
3 at a lower rate than other competitors.

4                   MR. COLELLA: In this particular context, it  
5 allows them to finance their proposal, using a lower cost  
6 of capital, overall, than had they not utilized a  
7 securitization, yes, in our view.

8                   SENATOR SETZLER: Thank you. Somebody over  
9 here, one of you addressed the issue of the current value  
10 of Santee Cooper. I believe you said it was 1.5 or 1.8  
11 times the rate base. Is that correct?

12                   MR. COLELLA: Yeah, the point that I made  
13 was that if you look broadly across the market at  
14 utilities, electric utilities in particularly in this size  
15 range, that have been bought and sold over the last several  
16 years, say the last three to five years, our observation  
17 is, is that those transactions -- many of which, by the  
18 way, are larger than this one, some of which are in the  
19 region, some of which are smaller, but certainly Santee  
20 Cooper would be within the range of observable data points  
21 -- that those transactions have generally occurred as a --  
22 as a multiple of rate base, which in this particular  
23 context we think is a useful way to think about value.

24                   There are other metrics, of course, that the  
25 marketplace looks at -- looks at. But given the fact that

1 this is a unique situation, in that Santee Cooper is  
2 transitioning from public to private ownership rate bases  
3 is the easiest, in our view, multiple -- or rather metric  
4 to look at.

5           And without being overly specific, if you looked  
6 at the recent transactions, they've occurred as multiple  
7 rate base, sort of in the mid to high ones, in some cases  
8 even low twos. And if you look at the total consideration  
9 of 9.6 billion dollars against the 5.6 billion dollars of  
10 rate base here, the resulting multiple would be -- would be  
11 within the range, in our view, of transactions that have --  
12 similar transactions that have occurred in the marketplace.

13           MR. SETZLER: And I heard you say that the  
14 first time. Really, what I'm looking for out of you is  
15 what is a low -- what is the low and what is the high?  
16 What is the range of the current value of Santee Cooper, as  
17 it sits today, that somebody's trying to buy? It goes back  
18 to the question the senator from Greenville and the senator  
19 from Newberry made, if you're going to buy something,  
20 you've go to know what the value of what you're selling is  
21 -- or what you're buying.

22           MR. COLELLA: Yeah.

23           SENATOR SETZLER: Give us a range.

24           MR. COLELLA: I'd like to follow up with a  
25 sort of specific, simply because I don't have the data

1 points at my fingertips in terms of the low -- the lowest  
2 and the highest transaction multiples that have occurred  
3 over the last several years. We'd be happy to follow up  
4 with you on that.

5 But I would say, though, is that the -- the  
6 resulting value that we were able to achieve in the NextEra  
7 proposal was in our view a function of what was a  
8 competitive process, one in which we were able to motivate  
9 NextEra to increase their ultimate proposal, in terms of  
10 where they ended up relative to where they started in their  
11 initial proposal. So it was a result of a good measure of  
12 negotiation that was led by the DOA, and we as advisors  
13 participated in that process.

14 And, again, we can follow up with you the  
15 specific -- with a specific answer to your question around  
16 to the range.

17 SENATOR SETZLER: That's a great answer  
18 without giving me an answer. And we all in the field we're  
19 in participate in the same process, so I don't fault you  
20 for that. But I don't understand how you understand that  
21 it's within the range if you don't know what the range is.  
22 And I'm being candid with you.

23 MR. COLELLA: Yeah. Sure. No, we do -- we  
24 do know what the range is. As I said, I think that it --  
25 so if you look at the 9.6 billion dollars, roughly, of

1 consideration in this -- or 9.4 billion of consideration  
2 against the 5.6 billion of rate base, that results in a  
3 roughly 1.7 times ratio.

4 And, again, that would be within the range  
5 of observable data points for similar transactions. And we  
6 can follow up with you with a list of what those are.

7 SENATOR SETZLER: When do you think you'll  
8 get those?

9 MR. COLELLA: We can get that to you in  
10 short order. We'll coordinate with --

11 SENATOR SETZLER: Is that within 24 hours,  
12 while you're still here?

13 MR. COLELLA: I believe we can.

14 SENATOR SETZLER: Okay. All right. Mr.  
15 Navaro, let me ask you -- Farano. Excuse me.

16 MR. FARANO: That's okay. I was just going  
17 to say --

18 SENATOR SETZLER: Farano.

19 MR. FARANO: Navaro is great. We have a  
20 junior associate named Navaro, who's going to take great  
21 joy if she watches this and you were naming me that. But  
22 please go ahead.

23 SENATOR SETZLER: It's kind of like Setzler,  
24 you know, you --

25 MR. FARANO: I was going to say. I get it.



1 I get it.

2 SENATOR SETZLER: Talk to us a little bit  
3 about what's been in the paper, all the discussion about a  
4 contingency fee agreement --

5 MR. FARANO: Ah, yes.

6 SENATOR SETZLER: -- which was addressed  
7 yesterday, very astutely. And we appreciate it being  
8 brought out directly. But discuss that with us just a  
9 minute.

10 MR. FARANO: Certainly. So when the  
11 Department sought to retain advisors in connection with  
12 this process, it put out an RFP for services with which --  
13 in respect to which responded, of course.

14 One of the things that it asked for when it  
15 put out that RFP is, "Could you give us a breakdown of what  
16 you might charge through different phases of the project?"

17 And maybe just as a -- as a starting point -  
18 -

19 SENATOR SETZLER: And by the way, I'm not  
20 one who's criticizing it. I want -- I want to understand  
21 it and be sure everybody in the committee understands it.

22 MR. FARANO: Thank you, Senator. I  
23 appreciate that very much. So our model is pretty simple.  
24 We just -- when you say it out loud, it almost sounds bad,  
25 but we sell time for money. We charge a certain rate per

1 hour. And that is how we get paid.

2                   There are other lawyers, and occasionally  
3 our litigators, will engage in contingency fee  
4 arrangements. But what we do on the corporate side  
5 certainly isn't set out to be done on a contingent basis.

6                   We responded to the RFP and set out some  
7 dollar values for the different pieces of this process. I  
8 believe we thought up to now our range was someplace in the  
9 order of a million and a half to 4 million dollars to get  
10 where we are today, or actually to get where were we --

11                   SENATOR SETZLER: For your fee.

12                   MR. FARANO: -- presented to -- that was our  
13 estimate.

14                   SENATOR SETZLER: Sure.

15                   MR. FARANO: But it was all done in charging  
16 by the hour. We did note that the RFP suggested to law  
17 firms who were bidding in response to it, that the  
18 expectation would be if you-all recommended a sale, and  
19 therefore, the sale -- the transaction had to be completed,  
20 that the expectation would be the law firm would undertake  
21 that as well.

22                   So we broke that down, and the RFP asked for  
23 it, as another number. And I want to say -- I'd have to -  
24 look more specifically, but maybe we said it's another  
25 500,000 to 2 million dollars.

1           Part of our bid was also to offer up a cap  
2 on fees, okay? And what we said is, well, let's defer a  
3 certain amount of money, so that if we get to a point where  
4 you-all decide on a sale, you know we're going to show up  
5 at the end to do it.

6           We don't get a nickel of that money as any  
7 contingent basis. It's merely we will need to do more work  
8 if the deal goes the sale route and we have to close and we  
9 -- there would be -- there would be a cushion. Because we  
10 -- keep in mind we're working to a cap, we're endeavoring  
11 to be efficient, and we just know that you would have the  
12 comfort -- or the Department, knowing that you'd see the  
13 same faces closing the deal as who worked on the deal. And  
14 the only thing we would get paid for is the money that we  
15 would charge from the time that you recommended a sale to  
16 closing.

17           All that said, this came up, I think, in the  
18 media back in August. And the Department brought it to our  
19 attention. And the idea that it could be looked at as  
20 something that was otherwise not appropriate, or that would  
21 cause distraction, you know what, we said, "The heck with  
22 this. We're just going to charge by the hour."

23           And we have since our very first bill, sent  
24 out for all of our time. The Department, thank you to its  
25 great credit, has paid us. And so that --

1                   SENATOR SETZLER: I don't think Ms. Adams is  
2 not going to pay you.

3                   MR. FARANO: I don't think she's not going  
4 to pay us either. We have every faith in Ms. Adams and the  
5 staff. So, hopefully, that was helpful to you and  
6 addresses the issue.

7                   SENATOR SETZLER: Well, it doesn't quite  
8 clarify what I thought I heard yesterday, or the day before  
9 yesterday, or last Thursday. The days run together. I  
10 thought I understood that everything had now been paid. So  
11 that was no contingency, I thought was what I heard. Have  
12 you been paid?

13                   MR. FARANO: Every bill that we have sent  
14 you, you-guys have paid in full. We have no -- there is no  
15 outstanding account receivable right now.

16                   MR. SETZLER: That's not my question. My  
17 question is you have -- you were going to pay -- get paid X  
18 up until a determination of the sale.

19                   MR. FARANO: Oh.

20                   SENATOR SETZLER: And you were going to be  
21 paid Y afterwards --

22                   MR. FARANO: Sorry, that's what we discussed  
23 in that --

24                   SENATOR SETZLER: -- and I understand -- I  
25 understand now you've been paid X and Y. Is that correct?

1 MR. FARANO: Let me restate. No, I may have  
2 -- I didn't mean to create confusion. We never -- we just  
3 estimated what certain phases might cost. They weren't  
4 like a -- we didn't say, "Hey, it's going to cost you 4  
5 million dollars to get to here and 6 million dollars to get  
6 to here." We said, "We charge by the hour. We're going to  
7 bill you for our time."

8 You-guys had asked for estimates for phases  
9 and we tried to give those to you. So there's nothing --  
10 we have been paid for the work that we've done, for which  
11 we have sent you bills. We don't expect to be paid any  
12 more than what we have to do to complete the task and  
13 there's no --

14 MS. ADAMS: Jerry, can I --

15 MR. FARANO: Oh, please, Martha. Go ahead.

16 SENATOR SETZLER: And I'm just trying to get  
17 it clear.

18 MS. ADAMS: I know. I understand. So let  
19 me just be really clear on this. They have sent us bills  
20 for the time they've worked. We've paid that. There have  
21 been no deferrals on those bills. That was from the day  
22 one bill in August, that was our first bill, all the way  
23 forward.

24 We do have a cap in place of 6 million. And  
25 if you should decide that you will have a sale, whatever

1 your decision is, we will have to have attorneys to close,  
2 obviously, and they will be back. They are capped at 6  
3 million. There have been no referrals. The invoices are  
4 there.

5           Because even though everything was done to  
6 make sure that we would have these attorneys all the way  
7 through this process, whatever it is you would decide, I  
8 did not want any kind of questions or misunderstanding on  
9 this. So we paid them. And we have paid -- well, we've  
10 paid all of these guys on time, but we've paid those  
11 attorneys on time also.

12           SENATOR SETZLER: So what I'm understanding  
13 is, if it goes above 6 million dollars, they're on their  
14 dime and not our dime.

15           MS. ADAMS: That's right

16           SENATOR SETZLER: Okay. Mr. Farano, you  
17 want to come back just a minute? You agree --

18           MR. FARANO: That's cool.

19           SENATOR SETZLER: You agree with her  
20 statement?

21           MR. FARANO: I do.

22           SENATOR SETZLER: Okay.

23           MR. FARANO: Yeah.

24           SENATOR SETZLER: Yeah, I can answer he  
25 doesn't want to, but I --

1 MR. FARANO: Well, whether I want to or not,  
2 that's the deal that I made with them.

3 SENATOR SETZLER: So I'll -- so I'll  
4 understand.

5 MR. FARANO: I understand.

6 SENATOR SETZLER: Let me go to some of the  
7 things you said about the Santee Cooper reform. One of  
8 those recommendations was from Santee Cooper term limits --

9 MR. FARANO: Yes.

10 SENATOR SETZLER: -- am I correct, on board  
11 members?

12 MR. FARANO: That's correct.

13 SENATOR SETZLER: Really that doesn't have  
14 to be a part of the agreement. The Governor can enforce  
15 term limits by who he appoints, can't he?

16 MR. FARANO: I don't know the Governor's  
17 powers in respect to the Santee Cooper general legislation  
18 --

19 SENATOR SETZLER: Well, he makes the  
20 appointments, advice and consent.

21 MR. FARANO: Then I -- if you are telling me  
22 that, that is the power he has, I would not disagree with  
23 you. I don't know the answer to that.

24 SENATOR SETZLER: And the General Assembly  
25 could enforce term limits on the board of Santee, just by

1 passing a piece of legislation; they wouldn't have to do  
2 that themselves.

3 MR. FARANO: I may have mis-spoken. Just so  
4 that you understand, the reform proposal, I think, is  
5 suggesting that it would be beneficial to transparency and  
6 clarity -- with which we agree, by the way -- to have term  
7 limits on directors, the modality of --

8 SENATOR SETZLER: Sure. Sure.

9 MR. FARANO: -- of how that happens, I  
10 think, is open to the existing law and what you might  
11 approve.

12 SENATOR SETZLER: And so y'all -- if I'm  
13 understanding your recommendation, if the General Assembly  
14 decided to go to a management versus a sale or a reform,  
15 that you feel very strongly that the reform elements need  
16 to be passed by the General Assembly, to be sure they're a  
17 part of the management.

18 MR. FARANO: I want to be careful not to  
19 take a position that's inconsistent or outside the charge  
20 that you gave us. Because the charge that you gave us was  
21 to present the reform proposal that Santee Cooper gave, to  
22 present a best management proposal and a best sales  
23 proposal.

24 There is something to -- as we thought about  
25 the management proposal, we did think about it largely in



1 the context of it being an adjunct to the reform proposal,  
2 just to -- just for our own benefit. But we presented as a  
3 standalone, which is how it was in fact --

4 SENATOR SETZLER: Yeah, I just thought I  
5 read and understood that you said if we went with the  
6 management, we still needed elements of the reform  
7 proposal.

8 MR. FARANO: We believe that, that would be  
9 beneficial, yes.

10 SENATOR SETZLER: Okay. And one of the  
11 other items, if I recall in the management proposal, I  
12 believe, was that -- and you referenced it today, that  
13 Central -- maybe it's in the reform, that Central be a part  
14 of the process of determining which route they were going  
15 to go as to whether it's gas, coal, solar or whatever, that  
16 they be a part of those discussions. Which they are not  
17 now.

18 MR. FARANO: I want to be clear. I don't  
19 know that I spoke to that. But let me just -- the  
20 coordination agreement, as it currently exists between  
21 Santee and Central, does give Central a role. I can't say  
22 that I'm completely expert in it. It is a very long and  
23 often-amended agreement. There was a time when I probably  
24 knew it better than I do know it now, standing before you.

25 But Central does have a say. There is a

1 planning committee. There is an executive committee. They  
2 have an opt-out right. Santee Cooper shares with Central  
3 its resource plan, I think, early in the fall. Central  
4 look at it. It puts it be its board. It gets back to it.

5 So to suggest that there's no role for them  
6 now is not correct. There is a contract that specifics  
7 what their rights are. And this is just an observation  
8 from a group of folks who have looked at this now for six  
9 or seven months.

10 The level of execution on those rights, and  
11 it's not a judgement call, has not been clear to us. And  
12 so we think betterment of the process, better  
13 administration of that contract, is critical to Santee  
14 Cooper reform, and it would be critical in respect of  
15 management.

16 The issue that got mentioned, specifically  
17 in respect of Dominion's proposal, is that one of the  
18 senior executives who they would second to Santee Cooper,  
19 would be the point person for the Central relationship on  
20 behalf of Santee Cooper. Not the only person, of course.  
21 But a point person.

22 SENATOR SETZLER: Right. And of the three  
23 people that Dominion proposes to put -- and it's been said  
24 several times, one could potentially could be a CEO -- who  
25 would make that choice under the proposals? Does Santee

1 Cooper make that choice? Does Dominion make that choice?  
2 Who make -- or Central make -- who makes that choice?

3 MR. FARANO: So the contract specifics how  
4 the secondment would work. And there would be people  
5 proposed for consideration by Santee Cooper. It is  
6 collaborative. It is not something that's simply a mandate  
7 from one party to the other. And that's laid out in the  
8 Dominion management agreement that is attached -- again,  
9 proposed Dominion management agreement, I did say attached,  
10 to what was submitted.

11 SENATOR SETZLER: Did I say to you that I am  
12 concern -- have concerns about all three of the proposals,  
13 and where the state is going to be with these three  
14 proposals?

15 MR. FARANO: You did. Yes.

16 SENATOR SETZLER: Okay. I think that's all  
17 right now, Mr. Chairman.

18 MR. FARANO: Thank you, Senator.

19 MR. COLELLA: Senator, if I could. I just  
20 wanted to follow up --

21 CHAIRMAN LEATHERMAN: Yeah.

22 MR. COLELLA: Sorry, Senator. I just wanted  
23 to follow up on our discussion on the -- on your question  
24 around value. And, again, we'll follow up with the data  
25 that you requested.

1                   But just going back to the reference that I  
2                   stated earlier, around that rate base multiple range OF 1.5  
3                   to 1.8 times. If you utilized those numbers, that would  
4                   imply a value range for Santee Cooper of 8.5 billion on the  
5                   low end to 10.2 billion dollars of enterprise value on the  
6                   high end. And the NextEra proposal of 9.5 billion dollars  
7                   is within that range, closer to the high end.

8                   SENATOR SETZLER: Right. Thank you.

9                   CHAIRMAN LEATHERMAN: It looks like Senator  
10                  Grooms is next on the list. But before we go there -- AND  
11                  behind him is Senator Bennett, Senator Corbin. And take  
12                  all the time you need. I'd ask you to make your points, if  
13                  you can, and move on. Senator Grooms.

14                  SENATOR GROOMS: Thank you, Mr. Chairman.  
15                  I'd like to first of all look to the question that was  
16                  asked by the senator from Horry, about trading debt for  
17                  debt, that there is no such thing as a free lunch. And one  
18                  of the tag lines that are out there, if the NextEra deal  
19                  goes through, we're eliminating the nuclear debt.

20                  Could someone please speak to me a little  
21                  bit about the debt? Because what are now calculating the  
22                  nuclear debt to be? I believe that's spelled out in the  
23                  agreement. Isn't that about 3.6 billion?

24                  MR. COLELLA: Yeah, so -- you know, again,  
25                  look, what we have from NextEra is a proposal that includes

1 various component parts. Obviously, one of those  
2 components parts is the defeasance of the exist -- all of  
3 the existing -- the existing debt. And, again, there's  
4 about 7 billion dollars of existing debt with the make-  
5 whole provision of about a billion dollars brings that  
6 total liability up to about 8 billion dollars.

7 And then obvious -- and then beyond that,  
8 there are proceeds in the NextEra proposal, effectively a  
9 delta between that and some other liabilities of the  
10 proceeds that go to the state, as well as the ratepayer.

11 They are refinancing -- you know, part of  
12 their 9.6 billion dollars of consideration is being  
13 refinanced through both the securitization and the roughly  
14 two and a half --

15 SENATOR GROOMS: And securitization, that's  
16 just -- that's debt.

17 MR. COLELLA: That's debt.

18 SENATOR GROOMS: That's debt.

19 MR. COLELLA: Yeah, it's as form --

20 SENATOR GROOMS: And we've got corporate  
21 bonds. And all the key terms of the NextEra bid sale,  
22 which is up on the screen right now --

23 MR. COLELLA: Yeah.

24 SENATOR GROOMS: -- it appears that the  
25 proposal would be for corporate bonds of 2.720 billion and

1 1.330 billion in securitized debt. So the spotlight on 4  
2 billion in bonds, 4 billion in debt.

3 MR. COLELLA: Correct. Correct.

4 SENATOR GROOMS: So we've got 3.6 billion in  
5 nuclear debt that will be eliminated, but we're taking on  
6 over 4 billion dollars in corporate and securitized debt.  
7 Is that not correct?

8 MR. COLELLA: That's correct.

9 SENATOR GROOMS: And then we have a net -- a  
10 NextEra cash contribution of 5.4 billion of which 2.925  
11 billion will be the equity in the new company.

12 MR. COLELLA: Correct.

13 SENATOR GROOMS: And the entity in the new  
14 company, they're entitled to a return on investment, a  
15 return on entity --

16 MR. COLELLA: Correct.

17 SENATOR GROOMS: -- of 10.2 percent.

18 MR. COLELLA: Correct.

19 SENATOR GROOMS: For how long? Is that for  
20 30 years, or is that forever?

21 MR. COLELLA: So the way their deal is  
22 structured is that they've got a rate freeze for the first  
23 four years, and then after that, the 10.2 percent would  
24 apply to, effectively, treatment that they would receive  
25 through the PSC, you know, thereafter. So in perpetuity.

1                   SENATOR GROOMS: So in perpetuity.

2                   MR. COLELLA: Obviously, subject to review  
3 periodically by the PSC.

4                   SENATOR GROOMS: Before we talk about the  
5 other 2.3 billion that they intent to invest, somebody was  
6 asking me the other day about the difference in bonds or in  
7 mortgage and also renting. Is there some sort of analogy  
8 that when you're rent -- someone else owns your home and  
9 you're renting it, you don't own it but you're paying that  
10 rent forever? Or like a return on entity, instead of  
11 paying off a mortgage as if you were the owner and you  
12 owned the asset, if you have an infusion of entity, the  
13 payments last forever.

14                  MR. COLELLA: I'm not sure that I understand  
15 the question. I'm sorry that I didn't maybe hear that  
16 correctly.

17                  MR. MILLER: John, I don't know if you want  
18 to --

19                  MR. COLELLA: Sure.

20                  MR. MILLER: -- kind of -- that's definitely  
21 a good question, sir.

22                  SENATOR GROOMS: In trying to explain the  
23 deal.

24                  MR. MILLER: Yeah.

25                  SENATOR GROOMS: It seems like we're trading

1 debt for debt, and then we're selling some of the assets  
2 and basically giving them to somebody else as if we're  
3 renting our home; we'll never own it but we're paying that  
4 rent forever.

5 MR. MILLER: Yeah. Okay. I'm starting to  
6 understand that, the perspective that's being raised. Just  
7 to kind of clarify, mechanically, kind of what's happening  
8 with the financing for the deal.

9 So you have a bunch of outstanding bonds,  
10 you know, Santee Cooper's existing debt, right, and those  
11 are revenue obligation bonds, so they -- the bond-holders  
12 have a claim on revenues charged to customers over the life  
13 of the bonds, right?

14 So when the -- when the entity that is able  
15 to charge customers is sold, those bonds become due because  
16 there is no longer an entity backing up those bonds, able  
17 to charge customers for those revenues. Now, consequently  
18 -- so that's why those bonds must be retired. That's why  
19 the sale triggers the retirement of those bonds.

20 Then you have the establishment under the  
21 sale proposal, a recapitalization of the utilities. So  
22 your characterization of the debt for debt, it's somewhat  
23 different in that I would say the bonds now no longer have  
24 an entity that's able to service them, so they're retired.  
25 The new entity raises corporate bonds at the operating



1 company levels.

2 So Santee Cooper Power and Light, which  
3 would be the new entity holding the assets, is going to be  
4 capitalized with a mix of debt and equity. Now, all  
5 utilities have debt. Debt is not inherently good or bad.  
6 Debt is debt. How debt is repaid is how debt is repaid.  
7 So it's important to look at things that way.

8 SENATOR GROOMS: So the ratepayers of the  
9 system, the Santee Cooper system or the South Carolina --  
10 or the Santee Cooper Power and Light, those ratepayers  
11 would be responsible, ultimately, for paying the debt.

12 MR. MILLER: The new debt that is raised.

13 SENATOR GROOMS: The existing debt under  
14 Santee Cooper or the new debt under South Carolina Power  
15 and Light -- or Santee Cooper Power and Light.

16 MR. MILLER: Yeah, I would -- it's different  
17 quantum, so --

18 SENATOR GROOMS: Yeah. But the Santee  
19 Cooper right now, its ratepayers are responsible for the  
20 debt.

21 MR. MILLER: That's correct, yes.

22 SENATOR GROOMS: Okay. And if Santee Cooper  
23 is sold to Santee Cooper Power and Light and there's --  
24 there's no debt, the old debts are defeased so we got no  
25 debt, the customers -- the same customer base would be

1 responsible for the new debt.

2 MR. MILLER: That's correct. It's different  
3 amounts of debt and it's going to different assets. But,  
4 yes, that's correct.

5 SENATOR GROOMS: And in addition to the new  
6 debt, they'll be responsible for paying a return on entity.

7 MR. MILLER: That's correct.

8 SENATOR GROOMS: Forever.

9 MR. MILLER: That's correct. That's how  
10 investor-owned utilities operate.

11 SENATOR GROOMS: Bonds will eventually pay  
12 it off.

13 MR. MILLER: That's correct.

14 SENATOR GROOMS: But the return on entity is  
15 not. That's --

16 MR. MILLER: Well, they're -- that's not  
17 entirely correct. The difference --

18 SENATOR GROOMS: Correct me.

19 MR. MILLER: Yes. So the difference is -- I  
20 see where you're driving at. I think it's an important and  
21 helpful distinction to make in terms of how return on  
22 capital happens within the regulatory construct of an  
23 investor-owned utility. So effectively, you have the  
24 assets in service which are 5.65 billion, right? So --

25 SENATOR GROOMS: And those are assets.

1 MR. MILLER: Yeah, those are assets.

2 SENATOR GROOMS: And if those assets belong  
3 to, let's say, Duke Power, they'd be paying property taxes  
4 on those right now, correct?

5 MR. MILLER: I'm just trying to stick to the  
6 question at hand --

7 SENATOR GROOMS: Okay.

8 MR. MILLER: -- so I can clarify this. And  
9 then we'll --

10 SENATOR GROOMS: That will be my next  
11 question.

12 MR. MILLER: I understand that. But just  
13 trying to stay in the lane here of what we're talking about  
14 financing -- the cost of financing and how it's recovered.

15 So those assets depreciate over time, right?  
16 So effectively, what's happening is NextEra is acquiring  
17 those assets for 5.65 billion, acquiring them at their rate  
18 base value. Which is really their net book value.

19 So they have a depreciation like those  
20 assets are broken down into individual, this generator  
21 here, those wires there, that meter there. Each of those  
22 has a separate asset life.

23 Those assets are depreciated over time, and  
24 customers under investor-owned utility are charged for that  
25 depreciation. That is the return of the principle

1 investment. It is akin to paying the principle on a bond,  
2 right?

3 So as those assets are eventually fully  
4 depreciated, they are no longer in rate base and they no  
5 longer earn a return on entity. Nor are they repaid from  
6 customers.

7 SENATOR GROOMS: And that's what's a  
8 recoverable cost.

9 MR. MILLER: That's correct. They're assets  
10 that are used and useful in the generation and service  
11 provision to customers, once they are fully depreciated,  
12 customers have paid the initial investment as well as the  
13 return on the investment, and then they are removed from  
14 rate base.

15 SENATOR GROOMS: And in the -- in the  
16 proposal moving forward, it seems that NextEra is planning  
17 on adding new generation within the first four years.

18 MR. MILLER: That's correct.

19 SENATOR GROOMS: About 2.3 billion dollars,  
20 a gas plant, some solar, and that would be a recoverable  
21 expense.

22 MR. MILLER: Yes, those would be assets used  
23 to generate power for customers.

24 SENATOR GROOMS: And normally the Public  
25 Service Commission would have to deem those to be prudent.

1 MR. MILLER: That's correct.

2 SENATOR GROOMS: But we're being asked to  
3 certify that they're prudent expenditures in the enabling  
4 legislation --

5 MR. MILLER: That is the ask from the  
6 NextEra, yes.

7 SENATOR GROOMS: -- bypassing them. And  
8 they're entitled to a 10.2 percent rate of return on those  
9 expenses.

10 MR. MILLER: That is the return on entity  
11 that they're asking for, fixed in the initially period of  
12 time. And that -- correct me if I'm mistaken, that's just  
13 for the four-year period.

14 MR. FARANO: That's just for the four-year  
15 period.

16 MR. MILLER: That's just for the four-year  
17 period in the legislation. So after the initial four-year  
18 period, NextEra would come before the Public Service  
19 Commission in South Carolina and do a rate case. In which  
20 point the return on entity, the cost of debt, the rate  
21 base, all those assets generally would be reviewed through  
22 the typical rate-making process.

23 SENATOR GROOMS: So what about the four --  
24 what about that 2.3 billion? If we determine as a -- as a  
25 body, that they are a prudent expenditure, would they not

1 be entitled to a 10.2 percent return on investment? Would  
2 they not be built into the rate base?

3 MR. MILLER: They would be included in the  
4 rate base as a used and useful asset. The 10.2 percent is  
5 a return on entity, so they would be included in rate base.  
6 The rate base as a whole is going to be deemed to be debt  
7 and entity financed at a particular leverage.

8 So the 10.2 percent would be earned on that  
9 2.3 billion, the portion of which, you know, may be 52  
10 percent or so of entity of that new 2.3 billion. So about  
11 1.15 billion or so, 1.2 billion would be the entity  
12 component that would earn 10.2 percent.

13 That ROE is not indefinite. That would be  
14 subject to periodic review by the Public Service  
15 Commission, following an initial four-year period.

16 SENATOR GROOMS: So the rate base would be  
17 the initial 5.650 billion plus the 2.3 billion of  
18 additional investment.

19 MR. MILLER: That's correct. Now, the rate  
20 base is the initial acquired rate base. That would  
21 continue to depreciate -- those assets would depreciate  
22 over time. So it would decline, they would add 2.3  
23 billion. I mean, they would continue to add additional  
24 capital expenditure as needed for the system over time in  
25 generation transmission distribution and --

1                   SENATOR GROOMS: So in year five, we would  
2 have the 5.650 that had depreciated over five years,  
3 whatever that value is. Let's just say 5 billion. In  
4 addition to that, we would have the 2.3 billion. And that  
5 would be the basis of the rate for NextEra; is that  
6 correct?

7                   MR. MILLER: Yeah. Fundamentally, you know,  
8 all else equal, that would be a component, altogether, of  
9 the rate base that's being charged.

10                  SENATOR GROOMS: If moving forward in the  
11 first four years, if NextEra expends only a billion instead  
12 of 2.3 billion, the rate base would be lower, correct?

13                  MR. MILLER: That's correct. So the new  
14 generator -- we're just talking about the generation  
15 additions to the rate base.

16                  SENATOR GROOMS: It generates --

17                  MR. MILLER: We're not talking about the TND  
18 and everything else. Yeah, so the provisions to  
19 legislation that have been put forward by NextEra, include  
20 a provision to charge actually costs if it is less than the  
21 cap that is proposed for the new generation assets. So,  
22 yes.

23                         If it came in at, for instance, you know, 2  
24 million or 1.8 billion rather than 2.3, that would be the  
25 addition that would be added to rate base.

1                   SENATOR GROOMS: So they would have an  
2 incentive to spend up to the 2.3 billion to get the 10.2  
3 percent return.

4                   MR. MILLER: That would be what the cap says  
5 in the legislation as far as the maximum they could earn.  
6 There are some additional provisions where they need to --  
7 in the building of the new generation, put it out to  
8 competitive tender, which of course can be based on a  
9 lowest cost and there is some --

10                  SENATOR GROOMS: But don't they deserve the  
11 right to build it themselves? NextEra energy partners,  
12 could they not build the facility?

13                  MR. MILLER: There are provisions for that.  
14 If NextEra Energy were going to participate in a tender for  
15 the new generation. And, again, Jerry, correct me if I'm  
16 wrong here. There would be provisions to subject that  
17 procurement process to the PSC if NextEra were to  
18 participate in as a -- as a competitor.

19                  SENATOR GROOMS: Okay. So the --

20                  MR. MILLER: In other words, it's not an  
21 automatic right that they're going to self-supply at 2.3  
22 billion. They have a competitive process, if they  
23 participate in their own competitive process with a related  
24 party -- another, you know, NextEra party, it would go to  
25 the PSC to approve that procurement process -- to oversee



1 that process.

2 SENATOR GROOMS: Would that be -- let's just  
3 say NextEra Energy partners has a limited partnership, and  
4 they're proposing to build this asset, would that be a  
5 regulated or non-regulated asset?

6 MR. MILLER: We're talking about an  
7 engineering procurement and construction contracts, and  
8 those would be EPC for rate base. So this would be a  
9 regulated asset that would be added to rate base.

10 SENATOR GROOMS: Okay.

11 MR. MILLER: It's the treatment for that  
12 generation addition during the four years.

13 SENATOR GROOMS: Okay. So the rate base  
14 we're looking -- we're looking for the rate base in the --  
15 we're looking for the rate base to be somewhere around 7.3  
16 billion, assuming they got five -- 650 million dollars in  
17 depreciation on the first four years. And I'm just -- I'm  
18 just trying to get an idea what -- what is the rate --  
19 what's going to be in the rate base.

20 MR. MILLER: Yeah. In orders of magnitude,  
21 there's also, you know, a regular planned additions to  
22 transmission distribution, other aspects of the system, and  
23 depreciation.

24 SENATOR GROOMS: Okay. So they could spend  
25 more than 2.3 billion in the first --

1 MR. MILLER: That's for generation --

2 SENATOR GROOMS: -- in the first four years.

3 MR. MILLER: -- alone. I'm sorry.

4 SENATOR GROOMS: Okay.

5 MR. MILLER: Yes. But in aggregate, they  
6 could spend more than 2.3 billion during the first four  
7 years.

8 SENATOR GROOMS: Let's just say they spent 4  
9 billion, they got to increase the -- well, I know they'll  
10 be able to get to Horry County. There's a proposal for  
11 Myrtle Beach -- I can't think of the name. The flywheel  
12 equalize the load on the system.

13 MR. MILLER: The synchronous condenser?

14 SENATOR GROOMS: The synchronous condensers.  
15 That's correct.

16 MR. MILLER: Yeah.

17 SENATOR GROOMS: But you will still need to  
18 wheel in some more power from somewhere, so there would be  
19 upgrades to the -- to the transmission.

20 MR. MILLER: Yeah, we included an extra 90  
21 million in provision in our normalized rate projections  
22 that you see behind us.

23 SENATOR GROOMS: So that 90 million would  
24 also be built into the rate base.

25 MR. MILLER: Yes. Any investment that the

1 IOU would do, would be built into rate base, subject to  
2 either the terms of the legislation during that period and  
3 with respect to that particular asset, or to a typical PSC  
4 prudency review.

5 SENATOR GROOMS: What I'm trying to get to  
6 is: What do you believe the rate base will be?

7 MR. MILLER: At the end of the four-year  
8 period or --

9 SENATOR GROOMS: Yes, at the end of the  
10 four-year period. You have to have some sort of  
11 projection, 'cause you're projecting rates. To project  
12 rates you have to have a rate base.

13 MR. MILLER: Yeah. Yeah, we do. No, we  
14 have that projected as part of the rates.

15 SENATOR GROOMS: And what would that number  
16 be?

17 MR. MILLER: I'll look up the number and  
18 give it to you, rather than quoting off the top of my head.  
19 But it's certainly on the order of 5.65 minus some  
20 depreciation, you know, plus 2.3 billion for new generation  
21 assets.

22 SENATOR GROOMS: Plus upgrades to the  
23 transmission --

24 MR. MILLER: Yeah, the upgrades to the  
25 transmission. I mean, the depreciation is on the order of

1 a hundred million a year, so it's sort of down and then up.  
2 Like I said, I'd rather get the numbers straight from our  
3 projections and give that to you, than quote something off  
4 the top of my head.

5 SENATOR GROOMS: Are your projections  
6 contemplated in the enabling legislation, of what is  
7 prudent?

8 MR. MILLER: Our projections.

9 SENATOR GROOMS: Like the 90 million dollar  
10 upgrade to the transmission, or other things that might not  
11 come to your -- come to your mind right now, that you'd be  
12 able to find. I mean, you've got them somewhere. But I'm  
13 trying to figure out the rate base --

14 CHAIRMAN LEATHERMAN: You want to let him  
15 answer one question at a time?

16 SENATOR GROOMS: Yes.

17 MR. MILLER: Yeah, so I'm just thinking  
18 through. The terms legislation --

19 MR. FARANO: They apply to generation and a  
20 couple of additional things. So anything that's directly  
21 related to the generation are part of the mix. But it is  
22 pretty much a generation --

23 MR. MILLER: It's a generation prudence.

24 MR. FARANO: -- mix prudence review.

25 MR. MILLER: Yeah.

1 MR. FARANO: It's not apply to other assets.  
2 It's not TND. It's not synchronous condensers. It's not  
3 stuff that's being done, that they would choose to do  
4 outside the plan that gets presented, in connection what  
5 they're asking of you.

6 SENATOR GROOMS: So in the enabling  
7 legislation are we giving them a blank back by saying  
8 whatever you do is prudent?

9 MR. FARANO: No.

10 MR. MILLER: No. No.

11 SENATOR GROOMS: So there is a limit --

12 MR. MILLER: Oh, yes.

13 SENATOR GROOMS: -- like the rate base would  
14 be.

15 MR. MILLER: Yes, there is a limit. The  
16 prudence -- the deemed prudence of a -- of approval in the  
17 legislative ask relates to the new generation plan. Not to  
18 transmission, assets, distribution assets, other, you know,  
19 upgrades to the headquarter facilities or anything  
20 envisioned under the normal course of business.

21 It is entirely focused around the combined  
22 cycle gas turbine of 1265 megawatts, the 800 megawatts of  
23 solar and the 50 megawatts of battery as its spelled out.  
24 Each of those three has a cost cap, as you recognized  
25 earlier in your question.

1           SENATOR GROOMS: And there's a -- we have a  
2 schedule that will be made available to us?

3           MR. MILLER: Yes. In the legislation  
4 itself, actually, are the cost cap numbers for those --

5           SENATOR GROOMS: I was able to --

6           MR. MILLER: -- type of assets.

7           SENATOR GROOMS: I was able to pull that off  
8 the NextEra website last night, the proposed legislation,  
9 after I read in the Post & Courier that it was available to  
10 them but not us.

11           Let's talk a little bit about the generation  
12 plans, the Santee Cooper plans versus the NextEra plan.  
13 Santee Cooper proposes to do things, and it seems to me --  
14 and tell me if you agree with me on this -- that they're  
15 changing the generation mix goes forward for about ten  
16 years.

17           MR. MILLER: Yeah.

18           SENATOR GROOMS: And then after ten years,  
19 it allows certain flexibility where they can -- where they  
20 can change the plan. But we're still projecting things out  
21 30 years, based on what's going to happen over the next ten  
22 years.

23           MR. MILLER: Yeah, broadly speaking, that's  
24 accurate. I mean, I would characterize that with one  
25 additional important condition, which is that once you make

1 a generation investment of any particular magnitude, it  
2 does have a certain path dependency attached to it.

3 In other words, it would be prudent,  
4 generally, to once you invest in something that is and  
5 continues to be cost effective to serve customers, that you  
6 continue to maintain and operate that asset for that  
7 purpose.

8 SENATOR GROOMS: And under the NextEra plan  
9 by building this -- by building the large generation asset  
10 within the first four years, would that offer the same type  
11 of flexibility that you see in the Santee Cooper reform  
12 plan?

13 MR. MILLER: I see your question. I would  
14 say a couple of different points worthy of your  
15 consideration. The first is, since you are building what  
16 NextEra is putting into place in the generation mix during  
17 the first four years, is largely adequate to serve load and  
18 combine -- in combination with the other existing assets  
19 for the majority of the 20-year period. Then not -- there  
20 is not a significant need for additional generation  
21 investments once those initial investments are made.

22 Now, in contrary, on the Santee Cooper side,  
23 because the retirement of Winyah is delayed, then you do  
24 have a longer period of time, or a slower introduction of  
25 new resources over time, if you will.

1                   Now, consequently, the earlier retirement of  
2 the coal and the addition of the new combined cycle in the  
3 NextEra plan does generate near-term savings that are not  
4 there in the Santee Cooper plan. So it's really a trade-  
5 off. They are basically building a new generation mix that  
6 will last for the better part of 20 years, within the first  
7 four, generating some additional savings up-front that are  
8 passed to customers. And then those assets -- you know,  
9 presumably, there will be some additional need for  
10 generation investments in year 15 or year 18.

11                   In the Santee Cooper plan, it is more of a  
12 step-by-step approach in the retirement of Winyah and the  
13 introduction of more solar to the system.

14                   SENATOR GROOMS: Really, you said once you  
15 build it, it's sort of there and you need to use it. Is  
16 that --

17                   MR. MILLER: In so --

18                   SENATOR GROOMS: Or if we're talking about -  
19 -

20                   MR. MILLER: Insofar as it remains a cost  
21 effective resource on the margin, taking into account the  
22 proper treatments on cost, yes.

23                   SENATOR GROOMS: And the next -- in the  
24 NextEra plan cost of building this asset in Fairfield  
25 County, 1250-something megawatt combined gas cycle turbine,



1 would that meet the demand of the Santee Cooper system? Or  
2 would it exceed the demand of the Santee Cooper system?

3 MR. MILLER: When we talk about demand, we  
4 need to kind of characterize it according to how utilities  
5 plan to meet their peak load. So we're talking about  
6 planning reserve margin here. We also have to talk about  
7 how you meet -- so there is the peak load of the system,  
8 and there's also the energy need, you know, kilowatt hours/  
9 megawatt hours in the system.

10 So under the NextEra plan, the larger  
11 combined cycle and the retirement of Winyah combined with  
12 the addition of the solar and batteries, does take them  
13 above a planning reserve margin for a few years.

14 However, the larger combined cycle also  
15 allows it to run at a higher capacity factor, which then  
16 has cost savings passed on from the replacement of coal  
17 generation with gas generation.

18 So there is some additional capacity beyond  
19 the planning reserve margin during the first number of  
20 years, and a trade-off with the capability of running gas  
21 to serve a larger share of your energy demand.

22 SENATOR GROOMS: I guess what I'm getting  
23 at, the Santee Cooper plan allows flexibility after year  
24 10; the NextEra plan pretty much locks in for at least a  
25 20-year, and possibly ever longer period, the type of

1 generation that their resource plan would have. The gas  
2 plan would be at you're above -- you're above-peak  
3 capacity, well above it for the first few years as -- and  
4 then demand will eventually catch up to it, but you're sort  
5 of locked out of flexibility for a while. Is that not  
6 correct?

7 CHAIRMAN LEATHERMAN: Senator, is that a  
8 question or a statement?

9 SENATOR GROOMS: It's a question.

10 CHAIRMAN LEATHERMAN: Thank you.

11 MR. MILLER: Yeah, so I would say certainly  
12 because NextEra is supplying the large transmission of  
13 generation mix earlier on, then those investments are, you  
14 know, already made and part of rate base, and sort of  
15 locked in, by your characterization.

16 In terms of flexibility, I mean, Santee  
17 Cooper, relatively earlier on is signing PPAs for a 1000  
18 megawatts of solar. Those contracts are usually pretty  
19 firm. And it's a -- it's not easy to get out of those  
20 contracts when you are bringing a new asset into place with  
21 financing behind it.

22 So there is -- they're going to be needing  
23 to off-take that energy serve from those contracts, which  
24 come on fairly earlier as well.

25 I would also say -- so in a sense, there may

1 be somewhat greater flexibility in terms of optionality in  
2 the phased approach to Santee Cooper's reform plan, at the  
3 cost of some incremental savings that are achieved by the  
4 earlier introduction of more gas and solar than the Santee  
5 Cooper plan.

6           SENATOR GROOMS: Some of Santee Cooper's  
7 criticism was that it built too much coal and it relied on  
8 coal too heavily. Could the same be said of NextEra by  
9 building too much firm -- too much gas earlier in the  
10 system without the ability to switch in case the fuel  
11 prices were to rise on gas?

12           MR. MILLER: Yeah, I would say, in general,  
13 you know, there is a larger build on gas. And, certainly,  
14 whenever you bring a new thermal resource on-line, you are  
15 making a fundamental economic judgement that -- as to what  
16 will be cheapest for customers over a longer economic life,  
17 a longer planning period.

18           So certainly, there is, I would say,  
19 optionality on different time frames, for instance,  
20 Senator. So what I would say is first, there is the  
21 decision-making around what to build, right? So you have  
22 the capability in your system to run gas or coal, based on  
23 how much you build and at what time frame you build it.

24           But then as prices change, that is then a  
25 second order of optionality, where you are looking at what

1 is your contractual position for fuel. And you have some  
2 flexibility within your dispatch, subject to what kinds of  
3 capacity you have and when, as to how best run the existing  
4 assets that you have, relative to fuel prices.

5 So having a large combined cycle definitely  
6 gives you a larger optionality to use gas. If gas prices  
7 were to spike tomorrow and remain very high, then, yes,  
8 that would be an impact.

9 Now, it's also worth saying that over the  
10 first 10-year period of operations there are, you know,  
11 market contracts by which you could lock in and hedge, you  
12 know, yourself out for the benefit of customers at an  
13 additional cost of that forward contract position, to  
14 continue to sort of get access to gas at a known price  
15 forecasted into the future by a degree of --

16 SENATOR GROOMS: Would spiking gas prices be  
17 more detrimental to the NextEra proposal or to the Santee  
18 Cooper reform platform?

19 MR. MILLER: So the combined cycle unit --  
20 it's also worth mentioning that, fundamentally, Santee  
21 Cooper is bringing on the same combined cycle technology  
22 and H-Series gas turbine as the NextEra plan, just at a  
23 different time scale, and using only half of a two-by-one  
24 rather than a full two-by-one combined cycle.

25 When you look at the fuel efficiency of that

1 plant, and the load profile of the utility, you can see  
2 that the gas is a cheaper option for customers, relative to  
3 the costs of keeping the coal on-line from year to year, as  
4 well as its fuel costs, up and, you know, through around 4  
5 dollars per BTU, which is significantly higher than gas  
6 prices today.

7 So an initial, you know, swing in gas prices  
8 would still be to the benefit of ratepayers, with a larger  
9 gas system earlier under the NextEra plan. A larger swing  
10 than that would then tip the needle in favor of a more  
11 coal-heavy mix.

12 It's also worth noting, in general, when you  
13 think about the future -- and these are excellent  
14 questions, Senator -- that, you know, coal and gas, in  
15 addition to hydro, are kind of the only firm resources that  
16 are really available economically to serve, you know, load  
17 and to meet peak right now.

18 Certainly, in the future you have the  
19 potential introduction of more solar and batteries to do  
20 that. But at the moment, really, you're -- especially  
21 given the fact that you're a winter-peaking system here  
22 with electrical -- electrical load, you know, moving from  
23 coal to some diversified position into gas is probably a  
24 reasonable economic decision for any planner looking at  
25 this region and this resource mix.

1           The exact timing of, you know, when you do  
2 it and how much and what fuel prices are then does have  
3 certain cost implications depending on how things move.

4           SENATOR GROOMS: It looks like one plan's  
5 betting a billion dollars more on gas than the other. And  
6 it could pay off if gas stays low and it --

7           MR. MILLER: Yeah, I --

8           SENATOR GROOMS: -- would be detrimental if  
9 gas does not.

10          MR. MILLER: Yeah. Broadly speaking, that's  
11 a property characterization of --

12          SENATOR GROOMS: I'd like to bet --

13          MR. MILLER: -- the differences.

14          SENATOR GROOMS: -- Santee Cooper would have  
15 coal a while back, it's not paying off as well as they had  
16 hoped at this point.

17                 Let me ask you about the FERC license.  
18 Who's our FERC license person? Would that be -- would that  
19 be you too?

20          MR. FARANO: The FERC No. 199 license.

21          SENATOR GROOMS: Yes, the FERC license 199.

22          MR. FARANO: Yeah.

23          SENATOR GROOMS: Right now Santee Cooper's  
24 been in the process of renewing the FERC license.

25          MR. FARANO: Yes.

1 SENATOR GROOMS: It hasn't been renewed.

2 MR. FARANO: Correct.

3 SENATOR GROOMS: As you know, there's  
4 ongoing issues regarding shortnose sturgeon and other  
5 things.

6 MR. FARANO: That's correct.

7 SENATOR GROOMS: What requirement -- should  
8 we move forward with the sale of NextEra, what requirements  
9 are there to ensure that NextEra would move forward with  
10 the re-licensing of the project?

11 MR. FARANO: Sure.

12 SENATOR GROOMS: If the project was re-  
13 licensed, there would certainly be obligations that would  
14 go along with it. But a -- but a license that has not be  
15 renewed, would those same obligations be there?

16 MR. FARANO: It's an excellent question,  
17 Senator. And you go to the heart of the issue around the  
18 FERC No. 199 license. I think the issue there is that its  
19 transfer would be subject to FERC approval. And so,  
20 presumably, NextEra would have to work out with the FERC.

21 I don't imagine that the FERC would give up  
22 what leverage it may have in respect of any license  
23 provisions, if it thinks there's going to be a change of  
24 control of the asset. And so what will happen is that will  
25 likely, you know, be a discussion, and it will, that the

1 FERC and NextEra will have to have around that license.

2                   Because as a condition preceding to closing,  
3 because they are in fact taking all of the assets, that  
4 FERC license transfer has to take place.

5                   So I think I -- I think I'm addressing your  
6 question, which is there are -- there are some issues  
7 around it right now. You're absolutely correct. I don't  
8 want to speak for the Federal Energy Regulatory Commission,  
9 but I imagine that they may well use a change in ownership  
10 that warrants a license transfer approval to try to resolve  
11 those issues in its favor. But I would be surprised if  
12 they permitted a transfer of the license with any of these  
13 issues unresolved.

14                   SENATOR GROOMS: Does the -- does the  
15 enabling legislation require that the FERC license be  
16 obtained by NextEra?

17                   MR. FARANO: So the enabling legislation, as  
18 a state law creature, doesn't speak to the approval of the  
19 FERC No. 1 -- No. 199 license transfer by the FERC. But  
20 the Asset Purchase Agreement itself does. So where you  
21 will find the requirement of that license transfer  
22 happening is in the APA rather than in the enabling  
23 legislation.

24                   SENATOR GROOMS: Well, it's contemplated  
25 that there would be a license granted.



1 MR. FARANO: Yes. There has to be.

2 SENATOR GROOMS: Okay. Let me get to this  
3 issue called ring fencing. That seemed to be an important  
4 issue in other states.

5 MR. FARANO: Yep.

6 SENATOR GROOMS: Could you explain to the  
7 Committee what is ring fencing?

8 MR. FARANO: Sure. I'll turn it over to  
9 John, to talk about ring fencing.

10 MR. COLELLA: Yeah, so ring fencing is a set  
11 of provisions that have been employed in certain  
12 circumstances around utilities in other parts of the  
13 country, whereby the owner, or the acquiror, agrees as part  
14 of their acquisition, to abide by certain what I'll call  
15 maintenance covenants which are designed to protect the  
16 utility from any financial distress that might occur at the  
17 holding company level above the operating utilities.

18 So in this particular case, that would be  
19 NextEra. Those kinds of provisions could range from  
20 anything from dividend restrictions that maintain cash  
21 inside of the utility, to balance sheet covenants such as  
22 debt equity ratios, credit ratings and other mechanisms  
23 that again are designed to create an entity that is  
24 effectively bankruptcy of a note, so that it would not be  
25 effected, you know, really, by any financial distress in

1 the case of the -- or in the circumstance of the owner.

2 Does that answer your question?

3 SENATOR GROOMS: So ring fencing, sometimes  
4 it's implemented and sometimes it's not.

5 MR. COLELLA: Correct.

6 SENATOR GROOMS: And ring fencing would --  
7 if there were -- if we're requiring ring fencing, the  
8 assets of Santee Cooper Power and Light would be protected  
9 for the customers of Santee Cooper Power and Light, in that  
10 they could not be pledged against other obligations of the  
11 parent company. Is that -- is that --

12 MR. COLELLA: That's a fair assessment. So  
13 you can think of it as a -- an extra set of provisions that  
14 would serve to further protect the ratepayer from, again,  
15 any financial consequences or distress that could occur.  
16 In this case at the NextEra ownership level, yes.

17 SENATOR GROOMS: I know part of the Joint  
18 Resolution, we required the bidders to speak to why they  
19 were not able to complete other transactions. So you  
20 probably looked at the -- one of the transactions that was  
21 contemplated in Texas with NextEra. Did you have any  
22 comments, or did you look into the ring fencing issue with  
23 that?

24 MR. COLELLA: So we're aware of NextEra's  
25 history around Encore. And in terms of, you know, why they

1 ultimately were unsuccessful in consummating that  
2 transaction, you know, again we have views. But those  
3 would be -- you know, I think I'd prefer to defer -- you  
4 know, defer that to NextEra to answer for themselves.

5 SENATOR GROOMS: But you have views. And  
6 what would those views be?

7 MR. COLELLA: Well, I mean, ultimately, in  
8 that particular case, these views are based nothing -- on  
9 nothing more than sort of observations of public statements  
10 that were made which -- which in that particular case, you  
11 know, the -- there were, to our understanding, a set of  
12 provisions that NextEra was asked to agree to in that  
13 particular instance. And they were not willing to do so,  
14 and therefore, were not able to consummate the transaction.  
15 But I won't -- you know, I won't attempt to get into any  
16 more detail than that.

17 SENATOR GROOMS: Is ring fencing required of  
18 the other two utilities in South Carolina, the investor-  
19 owned utilities?

20 MR. COLELLA: Not that I'm aware of, no.

21 SENATOR GROOMS: Was there any discussions  
22 about the FEMA reimbursements? 'Cause right now Santee  
23 Cooper, as you know, is FEMA-eligible. So if there's a  
24 natural disaster, they're partially reimbursed, I think 75  
25 percent dependent on the disaster declaration to the system

1 for recovery. And NextEra is not. How does that work for  
2 NextEra, for Florida Power and Light?

3 MR. FARANO: That's a good question,  
4 Senator. Candidly, I don't know the FP&L situation well  
5 enough to have an answer. We could certainly take a look  
6 at that. I think -- you know, one of the issues that I  
7 think made the NextEra bid compelling was its just sort of  
8 capital structure and the ability, if necessary, to infuse  
9 capital -- or to get into and access the capital markets  
10 regularly in the event of a disaster. That is something we  
11 took into consideration.

12 We understand the history here. And it's a  
13 difficult one for ratepayers and the folks who provide  
14 power to them. And one of the things we took into  
15 consideration with respect to NextEra, was sort of  
16 historically what have it's -- it has done in its access to  
17 capital in order to address those issues.

18 SENATOR GROOMS: Do you realize we get hit  
19 more with hurricanes than Florida?

20 MR. FARANO: I do realize that, yes. Yes,  
21 sir.

22 SENATOR GROOMS: And that we had a big one  
23 in 1989, that basically took down the entire Santee Cooper  
24 transmission system.

25 MR. FARANO: Yes, sir. We know that.

1                   SENATOR GROOMS: Another element about FEMA  
2 reimbursements, if there's a natural disaster, the total  
3 amount of the disaster ends up determining whether counties  
4 or political subdivisions are entitled to disaster relief,  
5 and that within the last three years, Santee Cooper's  
6 received twenty -- 25 million dollars in FEMA  
7 reimbursements that not only help Santee Cooper, but also  
8 help the individual counties that were hit hard, so that  
9 they would then be eligible. I was wondering was any of  
10 that taken into consideration.

11                   MR. FARANO: Again, I think we looked at  
12 what in the private sector has been done in respect of  
13 providing relief to ratepayers in localities, be it if you  
14 look at the Ike bonds that were issued in Texas. And so  
15 there are a number of different approaches that folks have  
16 taken. Those were taken into consideration. But we  
17 didn't, you know -- more than that, there was no  
18 requirement of them, if you will.

19                   SENATOR GROOMS: Are you aware of submission  
20 with Florida Power and Light right now, with the Florida  
21 Public Service Commission, over storm damage and the  
22 changes in the federal tax code which resulted in revenue  
23 increases -- or projected revenue increases on those  
24 assets?

25                   MR. FARANO: That was not something that we

1 took into -- I am aware of that issue, myself. Yes.

2 SENATOR GROOMS: Let me ask you a little bit

3 --

4 MR. FARANO: Or one thing on the ring  
5 fencing and Encore, we can point out that it is probably  
6 the best example of ring fencing working under a -- an  
7 attack that you wouldn't otherwise expect it. It's  
8 probably the ring fencing poster child, that Encore was  
9 able to get the value that it ultimately received in  
10 respect of its sale.

11 SENATOR GROOMS: And I was thinking of an  
12 example back in -- oh, gosh, I'm trying to think of the  
13 year -- involving NextEra. Out in California and in Oregon  
14 there was a ring fencing provision when Enron collapsed  
15 because of other investments that the parent company had  
16 made. There was a call on some of the assets, and folks in  
17 Oregon, because they insisted on ring fencing, their  
18 utility was protected where the others were not.

19 MR. FARANO: Absolutely. Ring fencing is --

20 CHAIRMAN LEATHERMAN: Excuse me.

21 MR. FARANO: -- has served people well

22 CHAIRMAN LEATHERMAN: Excuse me. Senator,  
23 is that a question or a statement?

24 SENATOR GROOMS: Well, it's absolutely a  
25 question. It was a "Did you know?" And I'm almost

1 finished. Reliability is something that's important. I  
2 think you would agree with that.

3 MR. FARANO: Reliability is important.

4 SENATOR GROOMS: And what is the confidence  
5 level of reliability of both plans?

6 MR. FARANO: Both plans, did you say?  
7 Senator, may I just ask --

8 SENATOR GROOMS: The Santee Cooper resource  
9 plan and the NextEra plan.

10 MR. FARANO: The plan.

11 SENATOR GROOMS: I'm sorry.

12 MR. FARANO: Sorry, I heard "plants." I  
13 apologize. Could you -- could you just explain a little  
14 more? In terms of reliability, you mean reliability --

15 SENATOR GROOMS: Reliability to the system -

16 -

17 MR. FARANO: Reliability to the system.

18 SENATOR GROOMS: -- of staying up and not  
19 collapsing because we took too much power away from Winyah  
20 at a particular time --

21 MR. FARANO: Yeah. Sure

22 SENATOR GROOMS: -- and we didn't replace  
23 it.

24 MR. FARANO: That's a fair question. And  
25 that was looked into. I'll turn it over to Zach to answer

1 that question. We certainly took it into consideration.

2 MR. MING: So as presented today in these  
3 plans and rate projections, we view reliability to be equal  
4 between the two plans. In NextEra's original proposal, we  
5 actually thought that it wasn't quite as reliable as Santee  
6 Cooper's. And so we added the 90 million dollars that  
7 represents cost of transmission upgrades, to bring it to an  
8 equipment level of reliability. And that's reflected in  
9 the rates.

10 SENATOR GROOMS: And that's what I was  
11 getting at. That 90 million dollars would be for  
12 transmission upgrades.

13 MR. MING: It could be for transmission  
14 upgrades. It would, theoretically, be for additional sort  
15 of peaker generation in the Myrtle Beach load pocket area.

16 SENATOR GROOMS: And how long would it take  
17 to make those upgrades?

18 MR. MING: If it were generation? Very  
19 quickly. Transmission? Potentially longer.

20 SENATOR GROOMS: And those -- and so there's  
21 -- there's a -- there's a plan for additional generation  
22 immediately in the Myrtle Beach area?

23 MR. MING: The 90 million dollars reflects  
24 our judgement of additional costs that would be required to  
25 bring the system to an appropriate level of reliability.



1 If it was generation, you could bring that on-line within  
2 the period of about a year.

3 SENATOR GROOMS: I know you have some  
4 synchronization occurring in the Myrtle Beach area, but  
5 would you not need additional power on the -- on the  
6 transmission to get to Myrtle Beach, for them to be  
7 effective?

8 MR. MING: The new generation that I'm  
9 talking about, that would be within the 90 million dollar  
10 budget, would be within the Myrtle Beach load pocket area.  
11 So it wouldn't need additional transmission to get to that  
12 load pocket.

13 SENATOR GROOMS: And where would that  
14 generation be?

15 MR. MING: There is -- there is existing  
16 generation -- peaker generation in the Myrtle Beach load  
17 pocket, already, that Santee Cooper owns land on.

18 SENATOR GROOMS: So that would be a peaker.

19 MR. MING: Yes.

20 SENATOR GROOMS: And explain to us, what is  
21 a peaker?

22 MR. MING: It is a relatively simple form  
23 and a cheap form of natural gas generation. It's  
24 essentially a jet turbine. It could be operated on natural  
25 gas or oil.

1                   SENATOR GROOMS: Thank you, Mr. Chairman.

2                   CHAIRMAN LEATHERMAN: Thank you, Senator  
3 Grooms. Let's see, Senator Bennett, you're up next.

4                   SENATOR BENNETT: Thank you, Mr. Chairman.  
5 I'll be brief. I just need a couple of reference points,  
6 really, going forward.

7                   Going back to slide 16, where you outline  
8 these rates. Can you provide me, or us, whether you have  
9 it now or at some point, what those rates represent as far  
10 as a average -- there you go -- as an -- as an average  
11 Santee Cooper customer bill right now, what that 70 -- what  
12 the 60 -- the 64 is currently, as well as five years out  
13 when it -- when it jumps up? Just to give us an idea what  
14 we're really talking about from a -- from a user  
15 standpoint.

16                   MR. MILLER: No, I appreciate that question.  
17 And, certainly, it's worth clarifying, Senator, that these  
18 are, you know, average total system rates. So it's all  
19 customer classes. For a number of reasons, we're not  
20 projecting rates by customer class. But we did consider  
21 rates by customer class, based on cost allocation  
22 methodologies employed by Santee Cooper now, and any  
23 information we received from Santee Cooper to do so.

24                   So I would just simply note that the, you  
25 know, reform plan rates of 70 to 71, the 70 are

1 approximately, you know, consistent with current rates at  
2 Santee Cooper. There's no, you know, substantial change in  
3 generation mix during that time. And it generally reflects  
4 their existing practices; there's no sea change that  
5 materially moves, you know, that level.

6 Obviously, fuel moves from year to year. So  
7 I would contextualize those as a baseline customer bill  
8 today, and probably direct you towards evaluating  
9 everything else from there in relative terms.

10 SENATOR BENNETT: So, I guess, what's that  
11 number?

12 MR. MILLER: Yeah, in terms of --

13 SENATOR BENNETT: If I were a Santee Cooper  
14 direct-serve member right now, what's my average will as a  
15 resident look like currently? And what will it look like  
16 if we translate these rates?

17 MR. MILLER: Yeah, I'd have to get back to  
18 you on that.

19 SENATOR BENNETT: That's fine.

20 MR. MILLER: Because that's -- that  
21 obviously --

22 SENATOR BENNETT: That's fine.

23 MR. MILLER: -- depends on billing  
24 determinates, the year, the usage --

25 SENATOR BENNETT: Sure.

1 MR. MILLER: -- fuel costs and a whole host  
2 of factors.

3 SENATOR BENNETT: And that's fine. I don't  
4 need it right now. The other thing is, while you're doing  
5 that, I had particular -- I had some interest in the  
6 conversation with Senator Grooms, behind me, on the -- on  
7 the base rate calculation going forward, say, five years  
8 from now, ten years from now.

9 I'd also like to see on that Santee Cooper's  
10 side. I know you are kind of engaged more from a NextEra  
11 side. I'd like to see what that expectation is in your  
12 rate calculations as a base rate for Santee Cooper.

13 Because here -- here's an area that's been  
14 difficult for me to wrap my arms around. There's a lot of  
15 things that are difficult to wrap, with a complex  
16 transaction.

17 But one of the things that I wrestle with  
18 myself on is, if it is determined that a sale is  
19 appropriate -- is today appropriate, I guess -- and I kind  
20 of use the comparison, if I were starting one of those new  
21 fancy home improvement shows on Discovery Network, starring  
22 my friend Senator Corbin as the handsome lead character,  
23 and I had a -- an old house that needed a lot of work to  
24 it, and I sold it to Senator Corbin for his show and I got  
25 out from under that house, there's a certain value to me

1 for that.

2                   And Senator Corbin could spend some time  
3 designing that thing and putting together a nice -- nice  
4 additions and refurbishing that, and turn around and sell  
5 it at a much better price. Or I could have done that as  
6 well, if I wanted to take that -- to take that on. And I  
7 see that as a very simplified look here at Santee Cooper.

8                   I mean, I don't -- I think we all agree that  
9 we're dealing with a distressed business right now. If it  
10 wasn't a distressed business, we wouldn't be here talking  
11 about selling it.

12                   CHAIRMAN LEATHERMAN: Senator, is that a  
13 question or a statement?

14                   SENATOR BENNETT: So I'd like to see those  
15 numbers, to compare whether or not it makes sense to sell  
16 or use those multiples, moving forward at a different time.  
17 So as you're gathering those factors for NextEra, I'd like  
18 to see them for Santee Cooper as well.

19                   MR. MILLER: Thanks, Senator. I'd like to  
20 respond to that, in a couple of points for now, and, you  
21 know, we can obviously come back to you. I suppose the --  
22 just the first point is, as a minor point, and for the sake  
23 of the record in a public forum such as this, I've been,  
24 you know, speaking to the NextEra sales slides. I am not  
25 on NextEra's side. I'm not for NextEra.

1 SENATOR BENNETTE: No, I know you're --

2 MR. MILLER: I know you're thinking --

3 SENATOR BENNETT: And I'm not suggesting  
4 that.

5 MR. MILLER: I just wanted to make sure it  
6 was very clear, you know, we -- we have all worked on all  
7 parts of this process. My colleagues and I have worked  
8 alongside, equally in the nitty-gritty of all generation  
9 mixes that are presented.

10 Certainly, I think to one of the other  
11 senator's points earlier, it's a -- there's been a lot of  
12 discussion and a lot of time spent on the NextEra proposal  
13 because it is more complex, and not because we were  
14 advocating for any particular outcome.

15 SENATOR BENNETT: Sure.

16 MR. MILLER: It's simply because it takes  
17 more effort to explain the, you know, details. The second  
18 point I just wanted to address -- I appreciate the house  
19 analogy. I will say a couple of things, and I will stay  
20 within my lane, again, within the bounds of the process.

21 I think as we've mentioned, we believe that  
22 what we have brought before you today -- recognizing that  
23 none of these options may be perfect in everyone's eyes. I  
24 think none of them probably are perfect in everyone's eyes.  
25 But we also think that they are essentially the best

1 options that are out there.

2                   We ran a competitive process. We really  
3 talked to everyone who could be interested. And we were  
4 also at a time in the capital markets, where, you know,  
5 valuations are relatively high and there's a lot of equity  
6 looking for good projects. Natural gas prices are low,  
7 there's a lot of value -- you know, potential in changing  
8 generation mix. Oil prices are relatively low as well.

9                   So there's the fundamental interest rates as  
10 well. All of those factors together make, you know, this  
11 time running a competitive process, you know, very  
12 reasonably about as good as you could get from a basic  
13 transaction perspective.

14                   Now, that being said, obviously, as we have  
15 discussed, some of the additional costs associated with  
16 this particular asset, you know, might absorb some of the  
17 sale premium that might otherwise go to the benefit of the  
18 state in a different time, in a different process.

19                   I'd also like to note that, you know, in the  
20 interest of everyone here, and the work that we've done, I  
21 would not at all advocate for another process. I think  
22 that this process has been challenging; we've still brought  
23 viable paths forward.

24                   And one other point I would like to make,  
25 again for the sake of the public forum, is that, you know,

1 we in our evaluation also do not view Santee Cooper as a  
2 distressed asset. So, you know, a distressed asset has a  
3 very particular connotation within transactions relating to  
4 bankruptcy.

5 Santee Cooper has rate-making authority and  
6 is able to continue to service its debt, which we see in  
7 the reform plan, and draw that down slowly over time  
8 through its rate-making authority. It is not bankrupt. It  
9 is a viable entity. And their reform plan is a viable path  
10 forward.

11 And so it is not a sale of a distressed  
12 asset in a context that you might draw a parallel to a  
13 private process; but simply, it is that there is  
14 outstanding debt that has to be paid down somehow. And  
15 that's what brought us to the process where we are today.

16 SENATOR BENNETT: Thank you.

17 CHAIRMAN LEATHERMAN: Thank you, Senator  
18 Bennett. That's all?

19 SENATOR BENNETT: That's it. Yes, sir.

20 CHAIRMAN LEATHERMAN: The next one is  
21 Senator Corbin.

22 SENATOR CORBIN: I'm not going to sell that  
23 house I got from you, Senator. I like it.

24 Just real quickly, I was going to mention  
25 this earlier, but I was going to let the senator from



1 Beaufort talk about it -- on the floor.

2           When we were dealing with this about a year  
3 or so ago, some of us had some concerns with the assets  
4 still left onsite at the V.C. Summer site, and the value of  
5 those assets. Could you tell us what those -- roughly,  
6 what those values are and how that would be played out with  
7 each of these proposals?

8           MR. FARANO: Yeah. Thank you, Senator. I  
9 just want to make sure I'm thinking of the right assets.  
10 Are you talking about -- there is a host -- there are a  
11 host of spare parts and unfinished parts that were left  
12 behind --

13           SENATOR CORBIN: And we have --

14           MR. FARANO: -- at V.C. Summer.

15           SENATOR CORBIN: We have heard numbers  
16 batted around from 80 million to several hundred million.

17           MR. FARANO: Yeah. And that's -- that is  
18 fair. There are -- there are a host of numbers that are  
19 out there. I believe there was recently a resolution  
20 about, from a percentage basis, how any sort of proceeds  
21 from the sale of those assets would be shared.

22           As to their value, you know, for our  
23 purposes -- and I'll defer it to the folks over here -- I  
24 think we valued them at zero. And we did that for any  
25 number of reasons. One, it just permitted us to evaluate

1 all of the proposals was that at -- with that as the  
2 assumption.

3           What ultimately comes from any sale of  
4 those, in both the context, I think, of the reform plan and  
5 of the NextEra plan, would be dollars that would come back  
6 to the company. Our expertise is not one of evaluating  
7 property like that.

8           Is there a market out there for the sale of  
9 these assets? Sure. Folks have spoken to the market in  
10 terms of it being Asia and in terms of it being Votal.  
11 There are parts in addition to parts that are AP-1000  
12 specific parts that would have value.

13           As to what that value might be, we didn't  
14 want to speculate. We've seen numbers anyplace from 35  
15 million to 425 million. In large part, due to the inchoate  
16 -- inchoate nature of any potential sale, and who those  
17 buyers might be, we simply chose to value them at zero.

18           SENATOR CORBIN: And has Santee Cooper taken  
19 any steps to protect the value of those assets? Because I  
20 would assume that they are declining, just sitting out in  
21 the weather.

22           MR. FARANO: You'd have to talk to them. I  
23 believe they have. I believe there is -- I believe some of  
24 them are covered. I believe there's a warehouse in which  
25 they are stored. I don't want to speak for Santee Cooper,

1 but I think they're aware of the value.

2 I think they put a -- sort of on the higher  
3 end of the value chain, a number in respect of those  
4 assets. So I believe they have taken steps to protect  
5 them, but you'll want to confirm that with them.

6 SENATOR CORBIN: And if I was NextEra and I  
7 was going to go through this deal, I would put a value on  
8 those assets. I would have looked at them. And you  
9 weren't -- nobody shared anything in regards to you? I  
10 mean, I know you put a value of zero on them. But did  
11 anybody --

12 MR. BARNES: Yeah.

13 SENATOR CORBIN: Is there any whispers in  
14 the hallway or anything to you?

15 MR. BARNES: No, we -- it's Nathan Barnes  
16 from Moelis. My colleagues have been doing an excellent  
17 job, so I've -- given a cold, I've allowed them to carry  
18 the load here today. But I will -- on this point --

19 CHAIRMAN LEATHERMAN: Speak into the mic.

20 MR. BARNES: On this point, specifically, we  
21 had -- we did hire a -- another advisor for a technical  
22 independent engineering report, Black and Veatch. They did  
23 a full review of those assets. They did an onsite visit.  
24 They noticed some problems with regards to the chain of  
25 custody, effectively, and the -- some weather elements that

1 impacted the value, that led them to some material concerns  
2 in regards to ultimate value and being able to realize  
3 that.

4 That value indication was in your report.  
5 And it was along the lower lines of what Jerry just walked  
6 through. And so that was accessible to all bidders, and we  
7 can make that accessible to you.

8 SENATOR CORBIN: Okay. So in other words,  
9 they sat out there a little too long and the value dropped,  
10 but you -- you'll let me know what they are.

11 MR. BARNES: Yeah, exactly. And we provided  
12 that as a third-party independent, competent technical  
13 review, with onsite diligence, to all bidders for their  
14 input into their valuation.

15 SENATOR CORBIN: 'Cause it will be an asset  
16 left to somebody at some dollar value, at some --

17 MR. BARNES: Yeah, certainly.

18 SENATOR CORBIN: That's all I have for now.  
19 Thank you.

20 CHAIRMAN LEATHERMAN: All right. The next  
21 one.

22 MR. SHEALY: Senator Davis. And then I have  
23 Senator Matthews after Senator Davis.

24 SENATOR DAVIS: Thank you. Along those same  
25 -- same lines in regard to the V.C. 2 and 3 assets. So I

1 understand the structure of the deal, and on page 13 of the  
2 report, it's an asset sale. And NextEra, through this new  
3 subsidiary, in addition to the productive assets, is going  
4 to require -- it says, "As well as all of Santee Cooper's  
5 interests in V.C. Summer 2 and 3 real property and related  
6 materials and equipment."

7 So whatever value may be assigned to it, is  
8 going to inert the benefit of NextEra's new subsidiary,  
9 correct? I mean, this asset is not going to be excluded  
10 from the conveyance. It's going to be included in what's  
11 conveyed to the new -- the newly formed subsidiary.

12 MR. FARANO: Yes, I believe you're looking  
13 at Section -- I want to say 2.1, probably, of the Asset  
14 Purchase Agreement, that the page that you referenced  
15 refers to, there are specifically acquired assets.

16 The assets that you mentioned, that way that  
17 you mentioned them, are going to be acquired, the real  
18 property and other materials. The regulatory asset and the  
19 associate regulatory liability are not being required --  
20 acquired, in large part because the monies are being put  
21 aside to pay to defease the -- that debt. And that's the  
22 3.6 billion-or-so that relates specifically to V.C. Units 2  
23 and 3.

24 SENATOR DAVIS: And as the senator from  
25 Greenville intimated, there was some indication, a year or

1 so ago, maybe two years now, that the equipment onsite,  
2 provided that the nuclear pedigree was retained and  
3 provided certain preventative measure which -- which I was  
4 told that Santee Cooper was expending 10 to 15 million  
5 dollars a year to preserve them, that the assets would have  
6 had a considerable resale value of 2- or 300 million  
7 dollars.

8 So I'd be interested in seeing what the  
9 onsite analysis by that third party was -- and to the  
10 degree that there was any deterioration of those assets,  
11 you know, what the deterioration was, and why it occurred.  
12 And just -- and, again, I think it does have a value in  
13 excess of zero, simply because of what I've heard from  
14 third parties beforehand. So I --

15 MR. BARNES: Yeah, and we will share that  
16 technical report with you. And that is consistent with  
17 your assumption that there is a value greater than zero.  
18 It is more of a lower end, though, of what the ranges that  
19 Jerry walked through from effectively 50 million to 425.  
20 It's much closer to the 50 million in their estimate.

21 And it was due to, again, weather damage and  
22 a lack of exact protocol with regards to a chain of custody  
23 in records, that would effectively allow for something as  
24 sensitive as nuclear equipment to be sold for use in a new  
25 reactor.

1           SENATOR DAVIS: Do we know whether or not  
2 the nuclear pedigree is still in place for these --

3           MR. BARNES: We don't. And that is  
4 effectively the -- one of the challenges with trying to  
5 predict a value. So it is not in any way definitive. And  
6 it's effectively what you heard from Jerry. It is really -  
7 - what a buyer would need, really to pay for it, given the  
8 less than perfect chain of custody and some of the weather  
9 impacts that have been on the equipment.

10           SENATOR DAVIS: And one hears from time to  
11 time, the specter of somebody from out of the country, an  
12 investment company, a Korea base, wherever, coming in and  
13 breathing new life into V.C. Summer 2 and 3, and somehow  
14 that may be an effective way of moving forward.

15                   Is that -- is that a dead letter? Is that  
16 just sort of a -- you know, a rumor mill? Or should we put  
17 any credence in that whatsoever, that there's value there  
18 that could be, in the right hands, you know, brought to  
19 productive use?

20           MR. BARNES: I imagine that's outside of our  
21 perspective. But if under any current foreign gas price  
22 outlook that you could see today, it's hard to see how that  
23 would in any way be reasonable.

24           MR. COLELLA: Yeah. And I would just -- I  
25 would just add to that is, if that opportunity existed, our

1 process certainly provided a forum for any of those kinds  
2 of proposals --

3 SENATOR DAVIS: To come forward.

4 MR. COLELLA: -- to come forward. And they  
5 did not.

6 SENATOR DAVIS: Thank you.

7 MR. SHEALY: All right. We've got Senator  
8 Matthews.

9 SENATOR MATTHEWS: Thank you, Mr. Chairman.  
10 I got two questions. One of them is for clarification. In  
11 part of the discussion, you both said NextEra and Santee  
12 Cooper were moving forward with a new mix, and part of it  
13 is solar. Do you have -- do you know what percentage of it  
14 is solar and what's gas?

15 MR. MING: This is Zach Ming from E3. So on  
16 this slide here you can see in 2030, this is for Santee  
17 Cooper, they have a 19 percent of energy generation from  
18 renewables; 7 percent of that is already existing that's  
19 non-solar. Primarily, hydro and the other small bio-mass  
20 and bio-gas resources. So approximately 12 percent of  
21 Santee Cooper's energy would come from solar, and less for  
22 NextEra.

23 SENATOR MATTHEWS: My second question goes  
24 to the -- I know NextEra is expecting to -- for us to pass  
25 some legislation. And in this body, the legislation that



1 you're introduce and the legislation that you get at the  
2 end is always -- always never quite the same. Are there  
3 any triggers in that legislation, if we fail, that would  
4 allow them to walk away?

5 MR. FARANO: That's a really good question,  
6 Senator. And it's one that, obviously, we took into  
7 consideration. The nature of NextEra's proposal, when you  
8 look at it from an overall perspective, taking into account  
9 the Asset Purchase Agreement, the legislation, some other  
10 regulatory approvals, is intended to be sort of one  
11 contiguous opportunity.

12 As they have proposed their offer to acquire  
13 Santee Cooper, it is based on the enabling legislation that  
14 they have provided being passed, as it currently stands,  
15 before signing.

16 That said, to your point, I can't imagine  
17 they are unaware of the fact that the legislative process  
18 sometimes produces sausage that looks slightly different  
19 than the ground beef that may go in, in the beginning. But  
20 we'll leave it to them to answer that question more  
21 specifically.

22 But in terms of the proposal that we put in  
23 front of you, they're seeking to have the enabling  
24 legislation that they provided put in place as part of your  
25 approval, before they would sign the Asset Purchase

1 Agreement.

2 CHAIRMAN LEATHERMAN: Any others?

3 MR. SHEALY: No others.

4 CHAIRMAN LEATHERMAN: Thank you. First of  
5 all, it's been a long day. I don't know about y'all, but I  
6 want to thank the members and the consultants. Great job.  
7 And you did your work with dignity. And I thank you so  
8 much. Marsha?

9 MS. ADAMS: Yes, sir.

10 CHAIRMAN LEATHERMAN: Your consultants did a  
11 superb job. Thank you.

12 MS. ADAMS: Thank you, sir. I appreciate  
13 it.

14 CHAIRMAN LEATHERMAN: We'll convene in the  
15 morning at 9 a.m. in this room and -- session at noon. So  
16 with that -- yes, sir.

17 SENATOR CROMER: Mr. Chairman, before we  
18 adjourn can -- and I know you mentioned we'd come in at 9  
19 in the morning. This week, I think, we had planned --  
20 we'll be at 9, probably on Thursday. I'm just wanting to  
21 get an overview of what will be going on this weekend, next  
22 week. Will be in Finance Committee meeting part or all of  
23 next week?

24 CHAIRMAN LEATHERMAN: I think the agenda --  
25 Mike, help me a little bit. Will NextEra be here tomorrow

1 --

2 MR. SHEALY: Dominion the next day.

3 CHAIRMAN LEATHERMAN: Then we will not meet  
4 Friday?

5 MR. SHEALY: Correct.

6 CHAIRMAN LEATHERMAN: And we'll come back  
7 Monday?

8 MR. SHEALY: And we have Santee Cooper on  
9 Monday and Tuesday morning.

10 SENATOR CROMER: We'll back in session on  
11 Wednesday, hopefully. Is that correct? I mean, Tuesday.  
12 Yes, sir.

13 CHAIRMAN LEATHERMAN: Next week.

14 SENATOR CORBIN: Mr. Chairman, so we're  
15 going to gavel in to the core at noon tomorrow, with the  
16 expectation of not being there an extended period of time,  
17 and getting back to this. Is that correct? Is that what I  
18 understood you to say?

19 CHAIRMAN LEATHERMAN: We're going in at noon  
20 and call in --

21 SENATOR CROMER: Okay. So we will meet  
22 tomorrow after Session. What about Thursday, what's the  
23 plan for Thursday?

24 CHAIRMAN LEATHERMAN: At the time on  
25 Thursday?

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MR. SHEALY: Much depends on what is accomplished on Thursday morning.

(OFF THE RECORD AT 4:56 P.M.)

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