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South Carolina Senate  
V. C. Summer Nuclear Project Review Committee  
August 22, 2017

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SENATOR SETZLER: Good morning.

If we could, let's call to order the V. C. Nuclear Project Review Committee, which was appointed by the president pro tempore of the South Carolina Senate. I welcome each one of you. I thank the president pro tempore on behalf of Senator Massey and myself for appointing this special committee of the South Carolina Senate and outstanding members of the Senate and welcome them and thank them for being here.

This is the first of what will be numerous meetings relative to this subject. We have no way that we will conclude in one or two meetings, and so the membership is prepared throughout the fall to meet and deal with the issues that have been raised by this very difficult situation that we find ourselves in as a state.

I can say to you that I believe that this is one of the most serious business issues that the state has faced and maybe has ever faced. The decision by South Carolina Electric & Gas and Santee Cooper to abandon

1 and/or suspend the V. C. Nuclear Project has  
2 profound impacts throughout this state, not only  
3 on the ratepayers and the employees of those  
4 companies, but Fairfield County schools,  
5 unemployment, future economic development of  
6 South Carolina, and the state's energy policy.

7           And we want to make it clear that  
8 although the major coverage has been about what  
9 has transpired with South Carolina Electric &  
10 Gas relative to their decision to abandon the  
11 project, that it is not just about South  
12 Carolina Electric & Gas. It's about Santee  
13 Cooper, which is South Carolina's largest power  
14 producer and is state-owned. We will start the  
15 meeting the morning and then proceed. Senator  
16 Massey is co-chair of this committee, and at  
17 this time, I'm going to ask him if he has any  
18 opening remarks.

19           CHAIRMAN MASSEY: Sure. Thank  
20 you, Senator Setzler, and I, I agree with  
21 everything that, that you said, both about the  
22 -- and probably most importantly about the  
23 impact that's going to be felt -- already has  
24 been felt across the state and potentially for  
25 many years to come. And so I also appreciate

1 the opportunity to be a part of this committee  
2 because I think there's some important questions  
3 that we need to be asking, and there are some  
4 important, important answers that some folks  
5 need to be given, and not only to us, but I  
6 think the public needs to hear those questions  
7 and answers as well to -- so that we can figure  
8 out what's happened and how we go from here.

9 I will say, first of all, just to  
10 give a little bit of a roadmap to those who are  
11 watching but also to the, to the other members  
12 of the committee, we're -- as you know, we've  
13 already talked -- we've already got a date for a  
14 second -- for a subsequent meeting. We're going  
15 to probably have at least four, five, six of  
16 these meetings. It is not our intent to sit on  
17 it and wait for a period of time. As you can  
18 see, because we're meeting today, we're going to  
19 continue to meet in the off-season to try to,  
20 try to move forward. We want to be able to get  
21 to everything, and that's why we intend to have  
22 several meetings.

23 Today, what we would like to do,  
24 if we can, is to try to keep, try to keep it  
25 focused on right where we find ourselves right

1 now and what opportunities there may be to  
2 salvage the project or not to salvage the  
3 project, figure out where we are and what we can  
4 do immediately to try to address the situation.  
5 And then probably our next meetings, we're going  
6 to drop back and go chronologically from the  
7 beginning, if that makes sense.

8                   So there are 12 members on this  
9 committee, and we're all senators, which means  
10 that we tend to talk a little bit sometimes. So  
11 Senator Setzler and I may have to try to keep  
12 things focused a little bit today, so just  
13 please understand that if we do because we've  
14 got, we've got a good bit that we can get to  
15 today, even, even with that limited scope, but  
16 we're going to have an opportunity. We're  
17 definitely going to get to everything. We're  
18 just not going to be able to get to all of it in  
19 one day. Everybody okay with that? All right.  
20 Thank you, Senator Setzler.

21                   CHAIRMAN SETZLER: Are there any  
22 remarks from any other members of the committee?  
23 Okay. First on the agenda is an overview of the  
24 Public Service Commission process. Jocelyn  
25 Boyd, Chief Clerk of the Public Service

1 Commission, we welcome you. Please come  
2 forward.

3 MS. BOYD: Okay.

4 CHAIRMAN SETZLER: And we would  
5 ask that you would keep your comments to about  
6 15 minutes, please, ma'am.

7 MS. BOYD: (INDISTINCT) My name  
8 is Jocelyn Boyd. I'm the (INDISTINCT) Public  
9 Service Commission. Thank you for allowing the  
10 PSC to present an overview, first of all, on  
11 some of the traditional cases that have  
12 appeared, or that are filed before the PSC.  
13 Next, I'm going to transition into processes  
14 that are included in the Base Load -- under the  
15 Base Load Review Act.

16 After that, I'm going to talk  
17 briefly about the issue of prudence, and then  
18 finally, I'm going to end with public  
19 involvement in cases before the PSC. And  
20 several of these slides, I'm just going to  
21 mention it, Chairmans Massey and Setzler, and  
22 move on. The material is there, and most of it  
23 is supported. You'll see the statutory  
24 references to what I've included here. Okay.  
25 Move this way. All right.

1                   So our mission, first of all, is  
2                   to provide open and effective regulation and  
3                   adjudication of the state's public utilities  
4                   through consistent administration of the law and  
5                   regulatory process. Most cases, proceedings at  
6                   the Commission, begin with a pleading; could be  
7                   a complaint, a petition, an application. Other  
8                   types of pleadings as defined by our regs are  
9                   motions and requests. And here's a definition  
10                  of Commission proceedings, which basically says  
11                  they are initiated by the filing of a pleading.  
12                  The definition that I just reviewed with you,  
13                  reference to that regulation is there.

14                  what I tried to do to -- I looked  
15                  at our -- reviewed my procedures in my mind, and  
16                  tried to organize my slides so that I condensed  
17                  them and -- the information as best I could on a  
18                  high level as I was asked, and as I said, you'll  
19                  see, for each of these slides, the statutory  
20                  references that I relied upon.

21                  So if we start with our gas,  
22                  heat, water, and electric rate cases, those are  
23                  the typical rate cases that are remaining at the  
24                  PSC at this time. I have the statutory  
25                  references there. All those entities have to

1 file a 30-day notice of intent before they file  
2 an application. Thereafter, they file the  
3 application. We issue a procedural schedule.  
4 Prefiled testimony is filed. The Commission, by  
5 statute in these cases, must hold a public  
6 hearing, and then the statutory deadline for  
7 orders has -- is also included in our South  
8 Carolina code.

9 We also have fuel cases on an  
10 annual basis. These now also include  
11 incremental or avoided costs for the distributed  
12 energy resource programs of our electrical  
13 utilities. Similar type procedure: Notice of  
14 hearing is issued; prefiled testimony schedule  
15 issued; Commission conducts a public hearing;  
16 Commission issues an order.

17 Next types: Siting Act, which has  
18 been in effect for a long time. Commission --  
19 utility files a -- an application under 58-33-  
20 120. Statute provides that person can provide  
21 testimony before the Commission in writing or  
22 orally, and then upon the receipt of the  
23 application, we have a limited amount of time in  
24 which we have to schedule that hearing. In no  
25 less than 60, no more than 90 days after we

1 receive the pleading, we have to schedule it for  
2 a hearing. The Commission is responsible for  
3 concluding that proceeding as expeditiously as  
4 possible.

5 Another type proceeding you'll  
6 see on an annual basis at the PSC is purchase  
7 gas adjustment proceedings. Both of our gas  
8 utilities are, by Commission order, responsible  
9 for presenting their gas purchasing -- purchased  
10 gas adjustment clause and gas-purchasing  
11 policies to the Commission. Same type schedule:  
12 Prefiled testimony schedule is issued;  
13 Commission conducts a public hearing; Commission  
14 issues an order.

15 This act, Natural Gas Rate  
16 Stabilization Act, is a little bit different.  
17 I've included all the procedures here. You  
18 won't find a hearing included in these  
19 procedures, but the Commission is responsible  
20 for, once the gas utility files the pleading  
21 with the Commission on or before June 15th, the  
22 Commission has to issue an order by October  
23 15th, and that's pursuant to the statute that  
24 you'll see down there in the last bullet.

25 what I did for each procedure,

1           though, I provided a summary of -- that I  
2           thought might be helpful for the previous  
3           slides. This summary relates to prefiled  
4           testimony, hearing schedule, and statutory  
5           deadlines. You'll see -- for example, for fuel  
6           cost cages -- fuel cost cases and PGA cases,  
7           there isn't a statutory deadline for issuing the  
8           orders. But for rate cases, for Siting Act --  
9           and I included statutory deadline there because  
10          of the limited amount of time we have to  
11          schedule the hearing -- and Gas Rate  
12          Stabilization Act cases, there are statutory  
13          deadlines.

14                                Now, transitioning from our  
15          traditional cases to the Base Load Review Act, I  
16          cannot segregate in my slides those filings  
17          because the Base Load Review Act actually allows  
18          an electrical ut -- or a utility, rather, to  
19          file for a rate case under the BRLA, and that is  
20          my reason for saying I'm transitioning. There's  
21          not a clear separation of the two.

22                                And then here, I've defined a  
23          combined application. As you're aware, that  
24          involves Siting and involves Base Load Review  
25          order.

1                   what's the purpose of the Base  
2 Load Review Act? It's to provide for the  
3 recovery of prudently incurred costs associated  
4 with new base load plants when constructed by  
5 investor-owned electrical utilities, while at  
6 the same time protecting customers of investor-  
7 owned electrical utilities from responsibility  
8 for imprudent financial obligations or costs.

9                   How is a utility defined under  
10 the Base Load Review Act? *Utility* means "a  
11 person owning or operating equipment or  
12 facilities for generating, transmitting, or  
13 delivering electricity to South Carolina retail  
14 customers for compensation, but it shall not  
15 include electric cooperatives, it shall not  
16 include municipalities, and it shall not include  
17 the South Carolina Public Authority or Santee  
18 Cooper." Okay, and then the remaining of the  
19 definition is there and the statutory reference.

20                   Here, I've just defined a base  
21 load plant based on the statute -- I haven't  
22 defined it; it is defined in the statute. And  
23 then I start the process. What can, what can  
24 an entity file under the Base Load Review Act?  
25 what type of filing? First one is a Project

1 Development Application. Basically, those are  
2 for the preconstruction costs of a nuclear power  
3 facility. The Commission is responsible within  
4 six months of that filing, issuing a project  
5 development order.

6 Entities can also find a -- file  
7 a combined application or a Base Load Review  
8 application, and I've included statutory  
9 references to those applications there. The  
10 Commission is responsible for issuing a Base  
11 Load Review Order, establishing that if a plant  
12 is constructed in accordance with approved  
13 construction schedule, approved capital costs  
14 estimates, and approved projections of in-  
15 service expenses, the plant is considered to be  
16 used and useful for utility purposes such that  
17 its capital costs are prudent utility costs and  
18 are properly included in rates.

19 Okay, here, I've just included  
20 the definition of capital costs because that's  
21 really important as it relates to base load  
22 plants, or the Base Load Review Act, rather  
23 really.

24 In the next several slides,  
25 you'll see where I just included flow charts of,

1 basically, the process. What happens when  
2 certain types of filings are made before the  
3 Commission? So, for example, for a Base Load  
4 Review application, it's filed under those two  
5 sections that you see there in the second box.  
6 Then, we issue a procedural schedule: Prefiled  
7 testimony; Commission conducts a hearing; and  
8 then the Commission issues an order.

9 The next type of filing is a  
10 procedure -- a filing to modify the original  
11 schedule that the Commission approved in the  
12 Base Load Review order. Okay, and that's filed  
13 under 58-33-270(E). Procedural schedule to  
14 prefile: The Commission conducts a hearing;  
15 Commission issues the order.

16 What's another type? Request for  
17 revised rates. Okay, and under this one, it's a  
18 little bit different: Company files a request;  
19 written comments are due within one month of the  
20 filing; ORS files its comments -- rather, its  
21 report within two months of the filing; and then  
22 one month later, written comments can be  
23 submitted and considered by the ORS. The  
24 Commission has a statutory deadline here of four  
25 months to issue the order in a revised-rates

1 case.

2 Under 285, an aggrieved party can  
3 file for review of revised rates. They petition  
4 -- the aggrieved party petitions the Commission  
5 under 285. The statute says specifically, "The  
6 intervenor shall identify with particularity the  
7 specific issues they intend to raise." Prefiled  
8 testimony is filed at the Commission. The  
9 Commission, by statute, though, allows limited  
10 discovery and restricts issues for discovery and  
11 hearing. Commission has six months to issue the  
12 order. If a settlement agreement is filed,  
13 though, the Commission is responsible for  
14 disposing of that settlement agreement within 45  
15 days.

16 Here's my summary, again, of what  
17 I just told you in the previous slides regarding  
18 prefiled testimony, hearings, and statutory  
19 deadlines.

20 I just put this slide in here. I  
21 found it interesting that, in doing my research,  
22 before Act 175, it looks like maybe back even  
23 into the 1960s, the Commission had the authority  
24 to adjust rates. Right now, the statute reads  
25 as "the Office of Regulatory Staff," but the

1 previous statute did not include Office of  
2 Regulatory Staff because they weren't in  
3 existence.

4 Basically allowed the Commission,  
5 after preliminary investigation and upon such  
6 evidence it deems sufficient, to order an  
7 electrical utility to put into effect a schedule  
8 of rates. But the utility and any adversely  
9 effected member of the public could petition the  
10 Commission for the review of that order after  
11 the fact. I just wanted to include that. I  
12 thought it was interesting, considering this was  
13 here, and then the Base Load Review Act was  
14 enacted. Two Commission orders there are  
15 referenced, so you know that the Commission has  
16 used that -- those statutes.

17 Prudency: I was asked to talk  
18 about that briefly, and I struggled with how to  
19 present that so I didn't overstep any lines that  
20 I'm not supposed to. Of course, I went to  
21 Black's Law Dictionary first, and I've given you  
22 the definitions here, first from the Sixth  
23 Edition, which is in my office, the 8th Edition,  
24 which I found in Thomas Cooper's Library at USC,  
25 and it's much shorter. *Prudent*: "circumspect or

1           judicious in one's dealings; cautious."

2                         So then the next thing I asked  
3 myself was, with all the Commission's orders,  
4 how do I, how do I relate that to what the  
5 Commission is responsible for, its  
6 responsibilities? So I thought about doing an  
7 analysis of its orders and then also looking at  
8 the Base Load Review Act.

9                         I did basically a control-F in  
10 the -- for the Base Load Review Act, members of  
11 the committee, and these are the numbers of  
12 times some variation of the word *prudence*  
13 appears in the act, and I've cited there where  
14 you can find that variation, whether it's  
15 *prudence, prudence, prudent, prudently,*  
16 *imprudence, imprudent, or imprudently.* Then the  
17 next slide references the Base Load Review Act  
18 orders where you will find those terms  
19 mentioned.

20                         I just have a reference here to  
21 preponderance -- preponderance of the evidence  
22 because it, too, is mentioned in the statute.  
23 And if I can move on to public involvement, Mr.  
24 Chairman, I'm only going to play a little bit of  
25 this because I realize I have limited time.

1                   RECORDED MALE VOICE: Email  
2                   subscriptions: Email subscriptions allow a user  
3                   to sign up for, receive, and manage email  
4                   subscriptions. If you are already signed up to  
5                   receive email subscriptions from the system,  
6                   then simply enter your email address in the  
7                   “manage subscription” section and click  
8                   “manage.” Sign up by first entering your email  
9                   address and then typing in the numbers that are  
10                  shown to the left of the appropriate box.

11                  MS. BOYD: Okay, Mr. Chairman and  
12                  members of the committee, I just put that there  
13                  -- this is a free service. We found a press  
14                  release from -- in our records that our email  
15                  subscription service for filings made at the  
16                  Commission has existed actually, since 2003.  
17                  We've issued -- we issued a press release back  
18                  in 2003. This is a free service to the public.  
19                  The information filings that are made, unless  
20                  they are confidential, the substance can be  
21                  found on our website, and it's free. We push  
22                  that information out to anybody who wants to  
23                  subscribe on a daily basis.

24                  Okay, I was -- next, other public  
25                  involvement, which I'm sure you're aware of. I

1 have some slides here from night hearings.  
2 That's an SCE&G case in Charles -- in Columbia.  
3 This is one in Columbia; the next one is in  
4 Columbia, rather. It's where we have people  
5 sign up once they appear at the Commission  
6 meetings, and then typically they're seated down  
7 front and testifying before the Commission.  
8 This one is at Daufuskie, and this one is in  
9 Campobello.

10 Okay, another way that members of  
11 the public can participate in Commission  
12 meetings is as an intervenor. Individuals can  
13 represent him -- an individual can represent  
14 himself or herself in any proceeding before the  
15 Commission. If that -- if an entity wants to be  
16 -- wants to make a case before the Commission or  
17 has an interest and standing in a filing before  
18 the Commission, the entity must be represented  
19 by an attorney.

20 we, recently, in one of our  
21 modifications in the last couple of years,  
22 included -- modified our docket file to include  
23 the tab "Public Comments," and I only place that  
24 there for your -- so that you know. "Matters"  
25 is where the majority of the filings are

1 located. Public comments, though, are located  
2 on the Public Comments tab.

3 we also have a Consumer  
4 Information tab. Years ago, within the last  
5 seven and a half years, we created what you see  
6 there, a pro se litigant guide for the public.  
7 You'll also see down there some public night  
8 hearing procedures, letter of -- and some forms  
9 like complaint forms and letter of protest  
10 forms.

11 We have a Twitter page that we  
12 use, and these are some of the next -- some  
13 projects that we're working on currently right  
14 now to further involve the public.

15 Thank you, Mr. Chairman.

16 CHAIRMAN SETZLER: Are you  
17 through, Ms. Boyd?

18 MS. BOYD: Yes, sir. Yes, sir.

19 CHAIRMAN SETZLER: Okay. Thank  
20 you. We're going to ask that members of the  
21 committee hold their questions until after we  
22 hear from Mr. Scott, and then we'll ask you and  
23 Mr. Scott questions.

24 MS. BOYD: Yes, sir.

25 CHAIRMAN SETZLER: The next item

1 on the agenda is the overview of the Office of  
2 Regulatory Staff's role. Mr. Scott, Executive  
3 Director at the Office of Regulatory Staff. Mr.  
4 Scott, come forward, please.

5 MR. SCOTT: I know how to use  
6 notebooks but not this thing, so I'm trying to  
7 make room, sir.

8 CHAIRMAN SETZLER: If you would,  
9 pull your mic towards you, Mr. Scott, please,  
10 sir. There you go. Thank you.

11 MR. SCOTT: You want me to start?

12 CHAIRMAN SETZLER: Yes, sir.

13 MR. SCOTT: Okay. Mr. Chairman,  
14 Mr. Co-chairman, and the members, I'm Dukes  
15 Scott. I'm the executive director of the Office  
16 of Regulatory Staff. The Regulatory Staff has a  
17 unique mission, and it's unique to the Office of  
18 Regulatory Staff. The code section which talks  
19 about the definition of *public interest* as it  
20 applies to us is only in the ORS's section and  
21 only applies to ORS.

22 And that mission is a complicated  
23 one. We have to balance the interests of the  
24 using and consuming public, regardless of the  
25 class of customers, so we're talking not just

1 about residential or industrial or commercial.  
2 we've got to balance the interests of all those  
3 classes of customers, and they do have  
4 conflicts, not so much in the total revenue  
5 requirement, but how you allocate that revenue  
6 requirement. That's the first goal, which is  
7 complicated in and of itself.

8 The second is, we have to look  
9 out for the economic development of our state.  
10 It specifically requires us to look at job  
11 retention and job creation. So it -- and then,  
12 you've got the consumers, the classes of  
13 consumers. You've got economic development,  
14 you've got jobs, and then we have to maintain  
15 the financial integrity of the utility so that  
16 it can invest in facilities.

17 Everything the Office of  
18 Regulatory Staff does, we do with that overall  
19 goal in mind, and there are conflicts at times.  
20 And so what you have to do is to try to balance  
21 them. Not all -- everything we do, the  
22 consumers will like. Not everything we do, the  
23 utilities like. And sometimes we can't save  
24 jobs.

25 FEMALE SPEAKER: Please speak up.

1                   MR. SCOTT: But all of that --  
2 I'm speaking about as loud as I can. Is thing  
3 on?

4                   FEMALE SPEAKER: Thank you  
5 (INDISTINCT).

6                   MR. SCOTT: I got this thing here  
7 in front of me. So everything we do, everything  
8 we do, we have to do with that in mind. And in  
9 the case at hand, we have to -- we really need  
10 to go back -- I never tell senators, as Senator  
11 Rankin will tell you, what they have to do. But  
12 we went back -- we, we, we go back to 2005 and  
13 2006 and the circumstances we thought we were  
14 facing then.

15                   Natural gas prices got to \$15-18  
16 a dekatherm. Traditionally, those gas prices  
17 were volatile. They went up 130 percent in 11  
18 months. They went back down to about \$6 a  
19 dekatherm in 2006. Went to nine in 2007, and  
20 about 14 by 2008; very volatile, very high  
21 compared to less than \$3 this morning at Henry  
22 Hub. Before I, before I left the office, I  
23 checked Henry Hub, less than \$3 and been that  
24 way, but we didn't have fracking.

25                   Congress passed the Energy Policy

1 Act of 2005, which encouraged nuclear  
2 generation. The South Carolina General Assembly  
3 passed a -- what I think was a unanimous  
4 resolution encouraging the Office of Regulatory  
5 Staff and the PSC to encourage the consideration  
6 of building electric -- nuclear electric  
7 generation.

8 We were in a situation where 61  
9 percent of the electricity assigned to South  
10 Carolina customers -- 61 percent -- was coming  
11 from coal-fired plants. We were being allocated  
12 42 -- 47 million tons, 47 million tons of carbon  
13 dioxide at \$30 a ton, which was basically a  
14 medium price at what we were looking at. It  
15 would have cost customers \$1.4 to \$1.8 billion a  
16 year just in carbon tax.

17 And Alexander -- Senator Alex --  
18 Rankin and Senator Hutto, along with Senator --  
19 then-Senator McConnell as well as some House  
20 members went to Washington, D.C, where we met  
21 with every member of the Congressional  
22 delegation together. We were told that was  
23 highly unusual to have all six -- excuse me,  
24 eight, excuse me -- we had six congressmen then.  
25 It was unusual for six -- excuse me -- all eight

1 of them to be even in the same room. They  
2 listened intently at what we had to say.

3 Carbon tax or -- carbon tax or  
4 cap-and-trade was a given. Sixty-four percent  
5 of SCE&G's base load capacity at this time was  
6 coming from coal-fired plants built between 1953  
7 and 1973. Those, those plants were going to  
8 have be shuttered under a carbon tax. We were  
9 facing load growth as well.

10 So the, the, the nuclear power --  
11 and everybody didn't agree with this, believe  
12 me. But nuclear power seemed to be the way to  
13 go. But because of the issues that we had in  
14 the '70s and '80s, the investor community would  
15 not invest in nuclear power generation under the  
16 regulatory scheme at the time. They had lost  
17 too much money. The Harris plant was supposed  
18 to be four units. They abandoned three.  
19 Investors got their money back, but no return.  
20 Cherokee was, was abandoned, as we know. The  
21 investors got their money back, but no return.

22 I believe that they could have  
23 gotten a return had they sued us, but, but with  
24 Carolina Power and Light, with Harris, we only  
25 had about 17 percent of the, of the, of the

1 cost, and with Duke, it was about 25 percent, so  
2 the accepted it, but I, I don't know that we  
3 could have gotten away with -- that was a  
4 negotiated settlement at the time.

5 So the Base Load Review Act came  
6 about, the Base Load Review Act, which is  
7 drawing a lot of criticism now, and, and there  
8 may be some things that could be changed with  
9 the Base Load Review Act. But as an overall  
10 policy, the Base Load Review Act was the only  
11 way to get nuclear generation, and if you --  
12 and, and, and, and if you -- and, and, and, and  
13 remember, at this time, renewables aren't --  
14 weren't where they are today. I mean, we've  
15 got, we've got solar prices going down, down,  
16 down. We've got battery technology going up,  
17 up, up.

18 But that wasn't the case for us  
19 or for the General Assembly or for the people of  
20 the state in 2005. I think -- and I think --  
21 and people around here know more about solar  
22 than I do, but I think you were talking about  
23 18, 19 cents a kilowatt hour coming out of a  
24 solar panel, and the battery wasn't there. You  
25 were averaging probably four or five hours a

1           day. So base load solar really wasn't the  
2           option that it may be today.

3                        So when you, when you look at  
4           those things, we needed the Base Load Review Act  
5           if we were going to get to generate nuclear. If  
6           you -- and at this time, if you wanted to reduce  
7           carbon, if you wanted greenhouse-free base load  
8           units -- everybody doesn't agree with this, and  
9           there's people behind me that don't agree with  
10          this, but it seemed like nuclear was the way to  
11          go.

12                       In the 1980s, it was very  
13          difficult to get cash coverage of the  
14          construction work in progress. As the company  
15          puts construction work in progress, they  
16          accumulate AFUDC, and it's just like  
17          accumulating interest on a loan, and it's  
18          interest on interest on interest. You could do  
19          it. The Base Load Review Act didn't invent cash  
20          coverage of CWIP. There was \$150 million, as I  
21          recall, in V. C. Summer 1, but you had to come  
22          in for a rate case and you have to redo the  
23          prudence every time.

24                       So this was a way -- and in fact,  
25          Duke Energy said they couldn't build Cherokee

1 unless North Carolina came along with a similar  
2 revised rate methodology. Revised rate  
3 methodologies are coming under a lot of attack  
4 now, but the -- if the things had worked, we  
5 wouldn't be standing here today. We'd be out  
6 watching Unit 2 generate electricity.

7 But that -- the revised rate  
8 methodology was trying to attract the capital at  
9 a reasonable cost to build a nuclear unit. It  
10 wasn't designed to attract capital abandon one,  
11 which is where we are today, but that wasn't the  
12 -- that wasn't what the purpose of it was. But  
13 it's, it's under attack, and, and, and, and I  
14 can understand that.

15 So we had the Base Load Review  
16 Act, and SCE&G comes in for a Base Load Review  
17 order to build Units 2 and 3. The Office of  
18 Regulatory Staff presented eight witnesses in  
19 that case. We had three staff members testify.  
20 We had -- we, we had electric, we had the  
21 economist, and we had auditors testify. We put  
22 a very good lawyer, Ms. Hudson, on top of it,  
23 and you can see her, as was referred in the  
24 paper, her dog-eared Base Load Review law in her  
25 hands.

1                   we hired five outside experts,  
2           five, Ph.Ds in economy, registered professional  
3           engineers. They reviewed everything from load  
4           forecast to fuel forecast. They reviewed the  
5           AP1000. They reviewed the schedule. And we  
6           asked that team to come up with a  
7           recommendation. Now, we didn't ask that team to  
8           come up with a recommendation to go forward or  
9           not to go forward. We said, we need a  
10          recommendation, and those five experts -- and  
11          one of them, I think, is working for the Georgia  
12          commission today on, on the Vogtle plant.

13                   But they came to the conclusion  
14          that it was reasonable and prudent to go  
15          forward. There was no settlement agreement in  
16          that case. That case was fully litigated  
17          without a settlement, and the Commission issued  
18          its order. And when the Commission issued an  
19          order that approved it and approved a budget --  
20          and gross-cost budget -- of \$6.3 billion, ORS  
21          began its monitoring process.

22                   Our monitoring process considered  
23          -- consisted -- consists now of Allyn Powell,  
24          who's got a physicist degree from Carolina and a  
25          masters in nuclear -- in physics -- got a

1 physics degree from Carolina, a masters in some  
2 kind of nuclear physics, which I don't know  
3 enough about to even tell you what it was in,  
4 but it was in some, some kind of particles of  
5 nuclear -- very well-educated. She works for a  
6 registered professional engineer, and we have  
7 Gary Jones as our outside expert as we monitored  
8 this process, and, yes, there were issues as we  
9 went along; no question about it.

10 In 2016, we had Mr. Jones review  
11 it. And if you will go -- if you would go to  
12 our website and look under, I think it's Tab 10,  
13 you'll see an analysis that Mr. Jones did in  
14 April of 2016, and he talks about what looked  
15 right, so right in 2008 and the issues that came  
16 from 2008 to, I think it was April 2016. But  
17 his conclusion was that nuclear's a diverse and  
18 non-greenhouse gas-emitting source of power, and  
19 the project faces significance but not  
20 insurmountable challenges.

21 In October of 2015, SCE&G announces a  
22 new contract, and that new contract was -- I'm  
23 not sure about time, but -- I'm, I'm about to,  
24 I'm about to finish. But that new contract had  
25 a fixed-price portion to it, but it also had a

1       portion to it that was very -- that we couldn't,  
2       that we couldn't trace, I mean, because, as  
3       Gary's testimony, and if you want some good  
4       reading, if you will go back and look at Gary  
5       Jones's testimony in that case, he lays it all  
6       out. All the problems, he lays out right there  
7       in that case.

8                       But we were at a situation where,  
9       what do you do? Do you pull the plug? Do you,  
10      do you -- and keep in mind that I'm looking at  
11      this from a standpoint of consumer, financial  
12      integrity of the utility, and economic  
13      development and jobs. And there were 6,000 jobs  
14      out there.

15                      So what we did was -- what ORS  
16      did, we went to -- not to SCE&G. We went to the  
17      intervenors. We went to the people representing  
18      customers. We went to Frank Knapp, president of  
19      the Small Business Chamber of Commerce. We went  
20      to Scott Elliott, who represents the large  
21      industrial customers, and Bill Cummings, who was  
22      chairman -- Bill Cummings is with Kimberly-  
23      Clark, one of the largest, probably the largest  
24      electric user in -- that SCE&G has on its  
25      system, retail. We went to Kimberly-Clark, its

1 chairman.

2 We went to Mike Couick with the  
3 electric co-ops. Mike's people have 753 --  
4 750,000 meters out there. They serve over 1 1/2  
5 million customers, most of whom are rural. Yes,  
6 they got Kiawah, yes, they got Hilton Head, but  
7 most of those million and a half people are  
8 rural people with low income -- and Central  
9 Electric. We also went to the other  
10 intervenors, but, but didn't get any, didn't get  
11 any traction for a settlement.

12 But we went to those people, and  
13 we said -- those people. We went to Scott and  
14 Frank and Mike and John Tiencken with Central  
15 Electric, and we said, what do we do? We cannot  
16 trace \$300 million -- \$300 million was besides  
17 the half billion -- the fixed price was a half  
18 billion. We can't trace that, not all of it. I  
19 think we could trace a hundred-something million  
20 dollars. But what do you do? And the unanimous  
21 consensus was, you don't abandon now -- of those  
22 intervenors, the co-ops. I mean, I'm talking  
23 customers. People say I'm pro-utility. I'm  
24 talking customers. I'm talking to the customers  
25 now.

1                   And so when Mike Couick and John  
2                   Tiencken with Central and with Frank Knapp and  
3                   with Scott Elliott and Bill Cummings, we did not  
4                   want to -- we came to the conclusion that  
5                   abandoning the project was not good, that it  
6                   wasn't, but -- and the fixed-price portion, the  
7                   analy -- our analysis of what that would save  
8                   the customer was greater than the analysis that  
9                   SCE&G said we'd save the customer because we, we  
10                  didn't have the confidence in the schedule that  
11                  they had, and we thought the schedule was going  
12                  to get delayed, which would have cost more, but  
13                  that fixed price was going to fix 98 percent of  
14                  the cost.

15                  So we said, what would it take to  
16                  resolve this case? Not what ORS said or what  
17                  Dukes said. What did we all say to resolve the  
18                  case? And that resolution was that we'll get  
19                  SCE&G to guarantee the fixed price because we  
20                  had no confidence in Westinghouse to do it. So  
21                  S -- we said, SCE&G, we need you to guarantee  
22                  the fixed price. We need you to guarantee you  
23                  will not come back to the Public Service  
24                  Commission for an increase in the fixed price.

25                  As to the non-fixed portion --

1 and 2 percent of the EPC contract wasn't, and  
2 then the cost of -- the owner's costs weren't  
3 fixed. But as to those -- and transmission --  
4 but as to those, you won't come back before  
5 2019. The other thing that we're -- that we  
6 said was, Lower your rate of return from ten and  
7 a half to ten and a quarter. That had --  
8 originally, it was 11. And in the last case,  
9 with the energy users' help, we got the comp --  
10 the company agreed to reduce it to ten and a  
11 half. Now, it's ten and a quarter.

12 Did the company jump all over  
13 that and love us for it? No. They, they, they,  
14 rightfully so, pushed back, but at the end of  
15 the day, to their credit, they stepped forward,  
16 and we carried an agreement to the Commission  
17 between the electric cooperatives, Central  
18 Electric, the large industrial customers, and  
19 the president of the Small Business Chamber of  
20 Commerce, and SCE&G said, Yes, we've had  
21 problems. Yes, there have been issues. But  
22 this is the best path forward. This is the best  
23 path forward we can go to. And the Commission  
24 adopted it. We thought that we had accomplished  
25 something very good for the people of South

1 Carolina.

2 December 27th, I wake up and I  
3 got a call from Mike Couick. Mike said, we've  
4 got to get together. Toshiba is talking about  
5 financial issues. So from then on, the  
6 financial issues were at the forefront. We had  
7 -- we still didn't have a fully integrated  
8 resource schedule. SCE&G didn't have it either.  
9 We were putting demands on SCE&G to give us  
10 something. They couldn't give it to us because  
11 they didn't have it, I mean, in all fairness to  
12 SCE&G.

13 But we were putting demands on  
14 them. We needed that because what we thought  
15 was happening was, we thought -- and we turned  
16 out to be correct. Now, it wasn't no genius to  
17 take it. I mean, I think any -- every -- all of  
18 us thought that there was something in that  
19 schedule that caused Toshiba to put off its  
20 financials.

21 Then, the -- Westinghouse filed  
22 bankruptcy. We knew they were going to reject  
23 the contract. We, nevertheless, publicly and  
24 privately held to the, to the fixed-cost  
25 agreement. We, we, we, we held to that, to the

1 fixed-price agreement. On July 31st, SCANA and  
2 SCE&G's board met, and they elected to abandon  
3 the units. On -- about, what, the next day,  
4 they informed the Commission -- which they did  
5 in the exact lawful way to do it. I mean, there  
6 was no other way to do it, other than through a  
7 lawful ex parte communication.

8 So anyway, they informed the  
9 Commission, and then they filed a petition for  
10 abandonment. We took issue with the petition  
11 for abandonment, and we filed a motion to  
12 dismiss it. In the meantime, I think there were  
13 some, some conversations with members of the  
14 General Assembly and others, and SCE&G, the  
15 following week, withdrew that.

16 It is before the General Assembly  
17 at this point in time. There is a petition  
18 filed by the Sierra Club and Friends of the  
19 Earth at the Commission, but SCE&G has nothing  
20 at the Commission seeking the abandonment  
21 prudence nor the rate case. It is before the  
22 Commission. I think that's where it belongs. I  
23 think there are significant policy decisions  
24 that need to be made -- be made that is beyond the  
25 regulatory process, and that's nothing against

1 the regulatory process. It's nothing against  
2 the Public Service Commission. It's nothing  
3 against their ability to do it. It's just too  
4 big of a deal, and the Public Service Commission  
5 can't review the Santee Cooper issue.

6 So I think that's where we are.  
7 That's where we are now. We're before y'all.  
8 We, we got a House meeting tomorrow as well, and  
9 I think that the General Assembly will be the  
10 best to send us, at least, a signal as to the  
11 solution that you think we ought to have.

12 CHAIRMAN SETZLER: Mr. Scott,  
13 would you comment relative to Santee Cooper and  
14 their rates and whether or not you have anything  
15 to do with their rates and how their rates are  
16 set?

17 MR. SCOTT: We have nothing to do  
18 with how their rates are set. I believe that  
19 they are about \$115 a thousand, is what I  
20 understand on their rates, but we have nothing  
21 to do with how their rates are set. They are  
22 exempt from the Siting Act. They're exempt from  
23 the Base Load Review Act.

24 People talk about the Base Load  
25 Review Act being the problem. Well, Santee

1 Cooper doesn't even have a Base Load Review Act.  
2 They're not -- they're in the same situation,  
3 but, no, sir, we don't -- and they don't, they  
4 don't come under the Siting Act. The only, the  
5 only thing we have now with Santee Cooper --  
6 only since July 1, 2015, is, they do file their  
7 IRPs with the Energy Office, which is now housed  
8 with ORS.

9 CHAIRMAN SETZLER: Okay. Senator  
10 from Horry, Senator Rankin. Ms. Boyd, if you  
11 want to come back up, we're going to open it up  
12 to questions by members of the committee for  
13 both of you.

14 MS. BOYD: Yes, sir.

15 SENATOR RANKIN: Thank you both  
16 for your presentation; heartfelt and factual on  
17 both counts. Both descriptions apply to both of  
18 you. Dukes, heartfelt is always your mantra, so  
19 this is difficult for you, difficult for us,  
20 difficult for the State of South Carolina, the  
21 customers, and folks in Fairfield County and the  
22 adjoining areas, obviously, who have lost a  
23 major economic engine, short-term and long-term.

24 So that, with my recognition, I  
25 want to just quickly mention or confirm, Santee

1 Cooper's rates are not subject to PSC review,  
2 but neither are the municipalities, neither are  
3 the electric cooperatives, and, Jocelyn, I think  
4 you listed a couple of others that are exempt  
5 from PSC Base Load Review Act consideration.

6 MS. BOYD: Yes, sir. That is  
7 correct, Senator Rankin. The co-ops, Santee  
8 Cooper, and persons who are providing  
9 electricity, just for example, to their -- for  
10 their employees. That was another part -- or  
11 just for themselves. And that -- there are  
12 other exceptions, as you mentioned. Santee  
13 Cooper's not. The municipalities are not  
14 included.

15 SENATOR RANKIN: And either one  
16 of you, why did we, in 2007, decide to exempt  
17 them? What was the -- and Dukes, the historian  
18 in this vein, what was the rationale for  
19 exempting them?

20 MR. SCOTT: Senator, there never  
21 was a -- there wasn't ever a move to exempt  
22 them. They never were considered to be a part  
23 of that. The Base Load Review Act turns the  
24 decision-making over to the Public Service  
25 Commission, which they weren't subject to. So I

1 believe you -- I believe the whole discussion  
2 was around the Public Service Commission  
3 regulatory authority, and none of those were  
4 subject to the Public Service Commission's  
5 regulatory authority.

6 SENATOR RANKIN: Okay. And was  
7 that a mistake?

8 MR. SCOTT: Well, I mean --

9 SENATOR RANKIN: Chasing a rabbit  
10 here just for a moment, but do you think that  
11 that was a mistake?

12 MR. SCOTT: You know, it's hard  
13 to say. I mean, we -- they, they -- SCE&G had  
14 it, and Santee Cooper didn't have it, and  
15 they're in the same position, so I don't know.  
16 You know, there would have been some review. I  
17 do know -- and I know Santee Cooper, actually,  
18 is not like this -- but when they were building  
19 the Pee Dee coal-fired plant, the biggest, the  
20 biggest criticism, or one of the biggest  
21 criticisms I heard about that is, there was  
22 nobody to review it but the board. You know,  
23 anybody else who builds a major generating  
24 facility in South Carolina, regardless of who it  
25 is, does have to have the PSC review of it, with

1 the exception of Santee Cooper, and that was the  
2 criticism, Senator.

3 SENATOR RANKIN: The -- and  
4 they're -- we'll have lots of conversations  
5 about this, but I'm curious to know --

6 MR. SCOTT: You mean this is not  
7 my last time?

8 SENATOR RANKIN: No, no, no, but  
9 -- the time frame that you had this, this  
10 conversation with all the potential intervenors,  
11 I think you described them, everybody that --  
12 the stakeholders, that was pre-June of '16?

13 MR. SCOTT: That would have been  
14 around that time because I think the hearing was  
15 in September, so it would have been in that 2016  
16 time frame. The announcement about the contract  
17 would have been in October of 2015. I think  
18 they waited till about May of that two thousand  
19 -- and I know they're going to testify about two  
20 thousand -- I think they waited till about May  
21 to file the application, so that was probably  
22 over the summertime of 2016.

23 SENATOR RANKIN: A lot has been  
24 talked about -- and, Mr. Chairman, I'll finish  
25 with this --

1                   CHAIRMAN SETZLER: You're fine.

2                   SENATOR RANKIN: -- the, the  
3                   apparent poor contracting assigned to either  
4                   SCE&G and/or to Santee Cooper with Toshiba/  
5                   Westinghouse in terms of, from a -- just a big,  
6                   big overview, no performance guarantee, no, no  
7                   bond behind the, the pledges to do. Is ORS in  
8                   the middle of that contract? Do you have  
9                   oversight of what -- the bet made at the outset,  
10                  whether it was a poor bet for Santee Cooper, a  
11                  poor bet for SCE&G? Did PSC or ORS have  
12                  anything to do with insisting on adequate  
13                  bonding, adequate protection for the South  
14                  Carolinians?

15                  MR. SCOTT: Our experts -- the  
16                  experts we had reviewed it and thought that what  
17                  -- that the process was reasonably prudent. As  
18                  -- we didn't have any input into the contract  
19                  itself. Basically it was, this contract, we  
20                  didn't have any ability to modify the contract,  
21                  so I, I, I, I think -- I don't think we had --  
22                  you know, and it's a big distinction to make,  
23                  but there's a big distinction between regulation  
24                  and managing.

25                  And so what we have to do is

1 react to what they did. They were asked about  
2 the federal guarantee, and, and they -- and I  
3 can't remember them, but they'll be here to  
4 answer the question. They had a list of reasons  
5 why they didn't take the federal guarantee or  
6 the federal, federal insurance. And that  
7 reasoning, at the time, satisfied the  
8 regulators, both ORS and -- obviously I don't  
9 speak for the Public Service, Public Service  
10 Commission on that. All those --

11 SENATOR RANKIN: And that, again  
12 -- specify "they" meaning Santee Cooper or  
13 SCE&G, or "they" being Westinghouse/Toshiba, not  
14 to take the federal guarantee? I'm --

15 MR. SCOTT: No, SCE&G and Santee  
16 Cooper didn't take the federal guarantee, as I  
17 understand it.

18 SENATOR RANKIN: Okay. All  
19 right, last question, and, and -- is South  
20 Carolina an anomaly in the nation with its need  
21 for going forward to wean ourselves off of the  
22 carbon or coal-fired generation from 61 percent  
23 down to what, again, the federal regulatory  
24 folks in the political environment at that time  
25 said? Were we so different than other states

1 that we had to go in this direction, or did we,  
2 did we make a mistake?

3 I mean, and hindsight is 20/20.  
4 We understand that, but in terms of the Base  
5 Load Review Act, we are the only one in the  
6 country that has something exactly that.  
7 Georgia has a similar model. But where else in  
8 the country is similar or analogous to what we  
9 have in South Carolina, if you follow me?

10 MR. SCOTT: It's seven, it's  
11 seven or eight or nine other states -- and I got  
12 a list of them -- that have some type of form of  
13 what we're talking about. Keep in mind that, if  
14 you would, that there were 27 applications filed  
15 with the F -- to, to -- with the NRC for  
16 licenses to build these plants.

17 I mean, we thought we were going  
18 to have a renaissance, but I've always told  
19 people that, you know, it's kind of like being  
20 on the beach and everybody says, we're going to  
21 go jump in that water, and they say, Go, and you  
22 go jump in that water, and you look back, and  
23 you're the only one in the water, and you start  
24 beginning to wonder what in the world happened.  
25 That was kind of how it was because only Vogtle

1 followed suit. Tennessee finished a plant that  
2 they started years ago, but that was a  
3 government-owned plant.

4 But no, sir, other states had to  
5 do the -- have to do the same thing, but keep in  
6 -- but the other thing is that the carbon tax  
7 never materialized. The cap-and-trade never  
8 materialized. The Clean Power Plan, which was  
9 going to make those plants worth a billion  
10 dollars, by some estimates -- a billion dollars,  
11 just based on the Clean Power Plan -- was stayed  
12 by the United States Supreme Court.

13 Now, we, we thought that  
14 ultimately, particularly after the death of  
15 Scalia, or what -- however you pronounce his  
16 name, and if -- depending on who got to be  
17 president and made the next Supreme -- we  
18 thought that was going to come back, but the  
19 Clean Power Plan's gone now. We lost a billion  
20 dollars of benefit to those nuclear plants when  
21 that Clean Power Plan was stayed.

22 So I don't think we made a  
23 mistake. I think that we were conscientious,  
24 and the truth of the matter is, we need clean  
25 power anyway. We don't need the federal

1 government telling us that we need greenhouse-  
2 free gas, and, and, and not that I've got  
3 anything against the federal government. I --  
4 I'm -- I, I, I send a good portion of my  
5 paycheck to them. But they -- but, but we need  
6 clean power regardless of what the federal  
7 government says, and whether these other states  
8 were satisfied with producing carbon or -- and  
9 then other states had a better access to  
10 renewables, have a better access to solar,  
11 better access to hydro than we did.

12 But I will say that, as going  
13 forward, we would be remiss if we don't consider  
14 -- if these plants stay abandoned, if we don't  
15 consider something, something other than just  
16 gas. We need to consider solar. We need --  
17 because solar is getting cheaper. We need to  
18 consider -- and the battery technology is  
19 getting better. We need to consider wind. We  
20 need to consider a more aggressive energy  
21 efficiency. We shouldn't just go out and jump  
22 into something else. We need to consider all  
23 these things before decisions are made.

24 CHAIRMAN SETZLER: Okay. Senator  
25 from Horry, are you through? Senator from

1           Fairfield is next.

2                           SENATOR FANNING: Thank you, Mr.  
3           Scott, for being here with us today. I  
4           appreciate that, and as the Senator from  
5           Fairfield, I do have a number of questions, but  
6           out of respect for the process, I understand  
7           that the, that the questions about what's  
8           happened in the past may occur at other  
9           meetings.

10                           And so really, I just have one  
11           question, then, about today. I wasn't in office  
12           when SCANA requested to build two reactors and  
13           was given permission to -- for rate increases of  
14           billions of dollars to build two reactors, but  
15           today, we stand where are, and so my question  
16           is, what is specifically needed to finish what  
17           we started, to finish the two reactors and, and  
18           to give some kind of return to the ratepayers on  
19           their investment?

20                           MR. SCOTT: Specifically needed  
21           to do that? well, first of all, it -- you're,  
22           you're going to need a -- you're going to need  
23           probably more than one partner to come in. I  
24           don't know, I don't know that you -- I don't  
25           know you're going to get one partner, and I

1 don't think one partner can do it. We're going  
2 to need a partner to help out Santee Cooper. I  
3 think we're going to need a partner to work --  
4 to, to, to work with, with SCE&G as well.

5 We -- and those partners are  
6 going to have to -- need to be substantial, and  
7 they -- and, and we need to keep -- I keep  
8 telling what you need to keep in mind, Senator.  
9 I don't tell y'all what to do; please, excuse  
10 me. But I think we, I think we need the -- a  
11 third or fourth partner to come in to finish  
12 those plants.

13 I think that we -- it would be  
14 helpful if the federal government -- I mean,  
15 they -- you know, this is important. This  
16 thing's not just important to South Carolina.  
17 This, this nuclear is important to this nation,  
18 and, and, and I -- we got people behind me that  
19 don't agree with that, and they're going to --  
20 they're not going to hold their criticism of  
21 what I'm saying. But, but we got -- but we need  
22 -- and, and, and we're going to need -- I mean,  
23 it -- we're, we're going to need a federal  
24 government who's willing to come in and, and do  
25 like they did for General Motors or do like they

1 did for some of these other people on a much  
2 smaller scale.

3 And we're, we're going to need to  
4 -- we're going to need the General Assembly to  
5 help us decide how much more you're willing for  
6 the customers to pay, more than they've paid so  
7 far. "Greenville News" asked me what it would  
8 take from the state to finish the Cherokee  
9 plant, and my answer was, "A miracle." What I  
10 just described is close to that.

11 But I don't think just one, one  
12 partner's going to do it. I don't think, I  
13 don't think we can do it -- I don't think the  
14 customers can bear the cost alone. This thing  
15 needs to be a statewide -- and we need, we need  
16 help from other, other suppliers, both in, in  
17 the state or out of state, one or the other.

18 SENATOR FANNING: As, as a social  
19 studies teacher, I, in teaching economics, I --  
20 we talked about cost, but we also talked about  
21 opportunity costs and the opportunity of -- the  
22 cost of doing nothing, and so can you talk a  
23 little bit about the cost of, of, of literally  
24 walking away with billions of, of ratepayers  
25 that have paid in, never to see anything from

1       it, and then whether a plan is proposed or not  
2       proposed to pay for the 4.9 billion to walk  
3       away? Talk a little bit about the opportunity  
4       cost of doing nothing.

5                   MR. SCOTT: Well, I, I think the,  
6       the co-chair made that plain. This is the  
7       biggest thing -- I've been, I've been around a  
8       long time. This is the biggest, biggest,  
9       biggest issue I've ever seen. It's the one  
10      that's caused me the more issues. walk -- you  
11      know, that -- it, it, it is not good -- I mean,  
12      it's not going to be good to walk away from it.

13                   And, and, and I tell this story.  
14      When, when V. C. Summer 1 was started, the first  
15      number I heard, and I was, I was around -- I've  
16      been around that long -- it was going to be 300,  
17      \$350 million. It was 1.4 billion. So when you  
18      talk about throwing, I mean, that's, what, four  
19      times what we thought it was going to cost.

20                   And we caught a, we caught a lot  
21      of grief at the Public Service Commission. I  
22      mean, Public Service Commission actually was  
23      reformed, largely as a result of that at that  
24      period of time. But if you look back today,  
25      what would you do without Summer 1? And I know

1       there's some people who are going to sit -- tell  
2       me what we could do without it. But, but, but  
3       that is -- and you go up to Oconee. Now, Oconee  
4       didn't have the issues then because Three Mile  
5       Island hadn't happened. Robinson -- I think  
6       Robinson was built for, what, \$250 a kw.

7                        So you didn't -- but, but look,  
8       look at the value that Oconee has. Look at the  
9       value that Catawba has. And although Harris is  
10      in wa -- in North Carolina and Brunswick's in  
11      North Carolina and McGuire's in North Carolina,  
12      they produce electricity for us, and it's a  
13      stable, low-cost fuel.

14                      I tell people that, you know, I,  
15      I took a lot of beatings at the Commission on V.  
16      C. Summer 1. Thirty-something years later, you  
17      know, we're, we're kind of patting ourselves on  
18      the back for it. My problem is, I don't have  
19      another 30 years to wait till these things will  
20      start producing electricity.

21                      But you've got a great point of  
22      opportunity costs as well. The problem is,  
23      again, it's economics. You know, I think  
24      there's the ability to build it. I mean, the  
25      AP1000's been built in China. China doesn't

1 have an NRC, and China has their own  
2 contractors, but, but it's all a matter of  
3 dollars, and I think there's a desire, but it's  
4 dollars.

5 CHAIRMAN SETZLER: All right.

6 SENATOR FANNING: Thank you, Mr.  
7 Chair.

8 CHAIRMAN SETZLER: Senator from  
9 Fairfield is finished. We have three or four  
10 other Senators all ready to ask. Senator from  
11 Oconee is the next to ask, and I'll get to  
12 everybody as you've raised your hand. I've got  
13 a list.

14 SENATOR ALEXANDER: Thank you,  
15 Mr. Chairman, and thank both of y'all for being  
16 here. I wanted to go back to the Senator from  
17 Horry to clarify and make sure that we  
18 understand that even prior to 2007, the rate  
19 structure of Santee Cooper, the municipalities,  
20 and others were not regulated by the Public  
21 Service Commission. That was not something new  
22 that was changed at that point. Historically,  
23 that had been the case, so there was no  
24 contemplation of changing that at, at that  
25 particular time.

1                   MR. SCOTT: You're exactly right.  
2           There's 40, I think 44 electric suppliers  
3           supplying electricity to retail customers in  
4           South Carolina, and four of them are regulated.  
5           Out of, out of -- I think it's 44. You've got  
6           those four. You've got 20 -- you've got about  
7           44 electric suppliers supplying electricity  
8           directly to the customers, and they're not  
9           regulated by the Public Service Commission.  
10          You've got four -- you've really got, basically,  
11          two now because Duke owns both Progress and --

12                   SENATOR ALEXANDER: And, and we  
13          refer to -- you'd referred to -- both of y'all  
14          have referred to nuclear as a clean energy. But  
15          also, from a cost standpoint, you mentioned  
16          Oconee and other nuclear that's, that's already  
17          being produced in the state. Was it anticipated  
18          that, under the information that was provided at  
19          the time from a cost standpoint that it would be  
20          a viable, cost-effective, reliable electricity  
21          to add to the grid with these two additional  
22          units?

23                   MR. SCOTT: Absolutely, sir.  
24          Yes, sir. That was, that was the testimony.  
25          That was -- and, and like I said, Senator, you

1 know, it's, it's not like we, you know, we had  
2 in-house people who took directions from us. We  
3 had five outside experts who didn't take  
4 directions from me or anybody else. I hired  
5 them because they were well qualified; ORS hired  
6 them. I, I don't, I don't even think I made the  
7 decision, other than to okay the decision, to  
8 come in and do that same thing.

9                   So did, did it, did it turn out  
10 that way? Maybe not, but, but we -- but, you  
11 know, if you look at it at the time -- I mean,  
12 who knew we were going to have a recession, the  
13 greatest recession of ever? I mean, there might  
14 be people now that said, well, I knew that was  
15 coming, but. Five -- you -- so we had that  
16 recession you had. So you had the gas, you had  
17 the carbon, you had a recession hit you.

18                   Gas price is down. You know, as  
19 long as fracking is still allowed, and  
20 apparently it is -- at least it's going to be  
21 for the next three and a half years -- the gas  
22 prices will stay low. But, but even now, I  
23 don't think you can go out more than ten years  
24 with a hedging on gas, and I, I think that's --  
25 I think you got to be a pretty powerful company

1 to get that.

2 SENATOR ALEXANDER: Thank you.

3 Thank you --

4 CHAIRMAN SETZLER: Okay, Senator  
5 from Richland, Senator Scott.

6 SENATOR SCOTT: Thank you, Mr.  
7 Chairman. And thank y'all so much for coming  
8 and for sharing information. I've got one, one  
9 major question. Walk me through the  
10 Westinghouse -- we start with an original  
11 contract in 2008 at \$5.1 billion. We end up  
12 with a contract, prior to 2012, of \$8 billion.  
13 With an increase in interest, it takes us to  
14 11.4. And then we get a go-ahead in '12.

15 There is some indication in the  
16 path followed, followed through that by '12,  
17 they did what's called a -- an adjusted  
18 completed comprehensive analysis, which has  
19 brought us to \$8 million, which created all the  
20 overrun on Westinghouse. What happened? Was  
21 there a change in the order of design and  
22 construction? Was the project redesigned? What  
23 there a change in federal regulations? Was  
24 there a change in management? Was there a  
25 change in project management?

1                   what created this large overrun?  
2           Because they accepted a contract, and I'm pretty  
3           sure there was some analysis done because each  
4           -- because SCE&G had to come back in for rate  
5           changes to offset those increases in costs based  
6           on Westinghouse, which, of course, would have  
7           opened the door back up for the Public Service  
8           Commission then to begin to take a review and  
9           ask the question if the taxpayers are going to  
10          pick up this cost, tell us what's creating this  
11          kind of overrun that what Westinghouse had  
12          originally bid, now was twice as much money as  
13          they started in 20 -- in 2008?

14                   MS. BOYD: Senator, if you let me  
15          -- I told Dukes I can at least refer to  
16          Commission orders, if nothing else. I don't  
17          have his historical knowledge, but I recall  
18          reading in the Commission's first order, Order  
19          2009-104(A), the relationship that SCE&G and  
20          Westinghouse -- appeared to be a longstanding  
21          relationship.

22                   SENATOR SCOTT: Right.

23                   MS. BOYD: Some of the -- I'm  
24          looking on page 65 of that order, and it  
25          basically shows that -- well, what the

1 Commission stated at that time was, "...the  
2 selection of Westinghouse and Stone & Webster to  
3 construct units 2 and 3 as reasonable and  
4 prudent. ...they are well qualified for the  
5 work. Westinghouse is recognized worldwide as a  
6 major supplier of nuclear technology. ...has  
7 been involved in nuclear power technology since  
8 the inception of the industry. In the '50s,  
9 they built both, both the first military and  
10 first commercial plants."

11 The Commission's order goes on to  
12 say that, on page 66, "Westinghouse is clearly  
13 poised to continue to maintain a strong position  
14 in the industry and is fully qualified to be the  
15 supplier of nuclear systems." And then on page  
16 67, it says, and there's some other language in  
17 there, that Westinghouse has a longstanding  
18 relationship with E&G -- South Carolina Electric  
19 & Gas " ...involving maintenance and  
20 improvements to its existing nuclear and fossil  
21 facilities." So I wanted to add that, Dukes,  
22 before you --

23 MR. SCOTT: No, that's fine.

24 MS. BOYD: This is the reference  
25 in the Commission's order.

1                   SENATOR SCOTT: Thank you. Now,  
2 my question again is, what created --

3                   MS. BOYD: Oh, I'm sorry.

4                   SENATOR SCOTT: What created,  
5 what created --

6                   MS. BOYD: I apologize.

7                   SENATOR SCOTT: -- a \$3 billion  
8 change in four years? We're at '12, looking to  
9 get a go-ahead to complete the project, but on a  
10 roughly \$3 billion overrun. Were there, were  
11 they ongoing analyses of this project? What  
12 created this kind of change? Was the contract  
13 originally just underbidded, or Westinghouse did  
14 a poor job in  
15 -- for the sake of just trying to get you to  
16 understand where I'm coming from, a poor job in  
17 estimating what this project should have  
18 actually cost in the long run?

19                   Because each time they came back  
20 to the Public Service Commission for rate  
21 increases to offset the increasing in cost --  
22 this project should have first -- Phase 2 should  
23 have been completed in '16 -- 2 in '16 and 3 in  
24 '19. We get to '17, we abandon the project, but  
25 we still can't follow where the extra \$3 billion

1 would have come from because they've had to give  
2 that information back to the Commission just to  
3 get those rate increases.

4 MR. SCOTT: Let me -- I'm looking  
5 for something here.

6 MS. BOYD: And Senator, I  
7 apologize for being off point. I wanted to  
8 start from the beginning as to why the  
9 Commission would have approved because I think  
10 the statute requires them to approve the  
11 suppliers and contractors. That's why I started  
12 there.

13 SENATOR SCOTT: Yes, but I don't  
14 have a problem with that.

15 MS. BOYD: Okay. Yes, sir.

16 SENATOR SCOTT: We, we, we  
17 approved.

18 MS. BOYD: Yes, sir.

19 SENATOR SCOTT: (INDISTINCT) the  
20 construction of a large facility, and that  
21 facility was supposed to be complete, at first  
22 in '08 and a second in '19, which talks about  
23 the two to ten-year expansion you talked about.  
24 Now, I just want to find out what created -- in  
25 four years, the project costs almost doubled.

1                   MR. SCOTT: Senator, there's  
2 apples and oranges here, and that's one of our  
3 problems with, with this. The original, the  
4 original -- there was -- and I don't know how  
5 else to say it, but there was two budgets.  
6 There was a budget based on 2005 dollars  
7 originally approved for 4 1/2 billion. Then --  
8 now, out of that 4 1/2 billion, there was a 10  
9 percent contingency fee which was knocked out by  
10 the Supreme Court, so it went to 4 billion.

11                   The Supreme Court made it plain  
12 that, although they were knocking out the  
13 contingency when OR -- when, when they could  
14 come in and deny -- when they could come in and  
15 identify those costs, and those costs not being  
16 the fault or the imprudence of the utility --  
17 now, that's a key in this Base Load Review Act,  
18 and the House amendment changes this -- but that  
19 they would, that they would be entitled to an  
20 increase in the budget. And, and, and so that  
21 happened.

22                   In 2010, I believe it was, they  
23 came in and we -- the Commission removed the 439  
24 million and approved a hundred-and-something  
25 million. And then a few years later, they came

1 in and approved another 270 million in about  
2 2012, but we were -- you know, it was just \$18  
3 million -- and that's a lot of money -- but it  
4 was \$18 million over the original approved in  
5 2000. But some of the numbers that you're using  
6 now relate more to the 6.3 billion gross costs,  
7 so it's -- and the 5.1 related back to what,  
8 what you -- we were talking about. So you're  
9 not, you're not complaining.

10 SENATOR SCOTT: Well, talk to me  
11 a little bit about the, the growth costs.  
12 Because whether it's the growth costs --

13 MR. SCOTT: Right.

14 SENATOR SCOTT: -- you've got --  
15 you start with a base contract.

16 MR. SCOTT: Here's, here's --

17 SENATOR SCOTT: -- and the base  
18 contract, even with a 10 percent contingency,  
19 you're still not going to have me 57 percent  
20 more than originally got started with in the, in  
21 the original contract.

22 MR. SCOTT: If you -- if, if --  
23 with your permission, I will actually read what  
24 our cons -- our construction expert said, or I  
25 will provide this to you afterwards, whichever

1           you would (INDISTINCT), but I've got a litany of  
2           things that didn't go like we thought they were  
3           going --

4                           SENATOR SCOTT: Okay.

5                           MR. SCOTT: -- right here. Would  
6           you want me to just give it to you afterwards?

7                           SENATOR SCOTT: You, you can just  
8           tell me a little bit about it, and I'll look at  
9           the hard copy.

10                          MR. SCOTT: Okay. Well, first of  
11           all, the federal regulatory environment was not  
12           as good as we hoped it was going to be in 2008.  
13           Am, am I okay? I'm okay then.

14                          CHAIRMAN MASSEY: Yeah.

15                          CHAIRMAN SETZLER: All right.

16                          CHAIRMAN MASSEY: Mr. Chairman, I  
17           --

18                          CHAIRMAN SETZLER: Yes, sir.  
19           Senator from Edgefield.

20                          CHAIRMAN MASSEY: Mr., Mr. Scott,  
21           I think, I think you're okay. I do think we're  
22           going to have to try to -- let me say this. I  
23           think the questions that Senator Scott is asking  
24           are very important, and I think they're very,  
25           very insightful questions. We're going to have

1 to try to keep it focused to what we'd talked  
2 about doing for today.

3 MR. SCOTT: Oh, okay.

4 CHAIRMAN MASSEY: Because if we  
5 start going down this path, there's no way we're  
6 going to get finished with what we wanted to get  
7 to today.

8 MR. SCOTT: I'll be glad to --

9 CHAIRMAN MASSEY: Those questions  
10 have to come -- in fact, you, you've actually  
11 created some questions that, that I have now,  
12 based on those -- based on the questions that  
13 you've asked. But I do, Mr. Chairman, if we  
14 could -- I mean, I, I would -- and I'm fine with  
15 Mr. Scott finishing his answer, but I do think  
16 that we need to try to keep it focused on where  
17 we are right now and if there's anything we can  
18 do in the immediate future. I mean, I  
19 appreciate the, the overview that, that, that  
20 we've received so far, and I think that's really  
21 what we prepared them -- what we had asked them  
22 to do.

23 MR. SCOTT: Right. I can  
24 certainly --

25 CHAIRMAN SETZLER: Mr. Scott, if

1 I would ask you to keep your answer as brief as  
2 possible, I think Senator, Senator Scott's  
3 question is tremendously important, but I also  
4 think it's going to probably take a lot more  
5 time than we've got today to delve into those  
6 issues because there are a lot of us that have a  
7 lot of issues, and we don't intend to only look  
8 forward. This committee intends to look  
9 backward as to what was done, and I think that's  
10 the point the Senator from Richland is making.

11 MR. SCOTT: The gist of it is, we  
12 have problems, problems with modules directly  
13 coming out of Lake Charles. They were -- they  
14 -- they were -- they didn't fit. And, and, and  
15 you know what? One of the things that was  
16 shocking about this is, they were a lot -- there  
17 were modules coming from overseas, and, you  
18 know, the thinking was, those were going to be  
19 the problem, but it was the American modules  
20 that were the problem.

21 So you had problems with modules.  
22 You had delays. Delays cost money. You had  
23 change orders. You had NRC inspectors. The NRC  
24 system was supposed to be simpler, but it didn't  
25 get simpler. You were supposed to be -- back in

1 the '80s, you built it, and then you li -- tried  
2 to get a license to operate it. Here, you were  
3 supposed to get the license to operate, and you  
4 built it.

5           So you, you licensed -- instead  
6 of licensing what you built, you built what you  
7 licensed, and that inspector could come along  
8 and say that -- it could be nothing, but that  
9 inspector could come along and say, You got to  
10 change that. And when that inspector said, You  
11 got to change that, you had two choices. Even  
12 if you were right, you had to change it because  
13 by the time you could contest it, get a hearing  
14 before the NRC, and win the case, you've lost  
15 eight, nine, ten months, so you're better off  
16 just listening to the inspector. It, it was --  
17 it just wasn't a -- it's not a fair system, the  
18 way that they do things. That was probably one  
19 of the principle things.

20           Change orders happened. Delays  
21 happened. Modules didn't fit. And those would  
22 be the highlights of what I would say. Now, you  
23 will have SCE&G, I think, later on today that  
24 can give you some better ans -- some, some more  
25 detailed answers, but those are things that our

1 people saw as they were reviewing and monitoring  
2 it.

3 CHAIRMAN SETZLER: All right,  
4 Senator from Dorchester, and then the Senator  
5 from Orangeburg. Senator from Dorchester,  
6 Senator Bennett.

7 SENATOR BENNETT: Thank you, Mr.  
8 Chairman. I think my questions may be a little  
9 backward-looking as well, so I'll defer to you  
10 to, to call me off, wave me off on the flyby  
11 there if I need to.

12 I, I join with everyone else  
13 appreciating you being here, you know, and  
14 sharing your thoughts. Mr. Scott, my, my  
15 question -- couple of questions for you,  
16 specifically, is, particularly in light of your  
17 opening comments where you talked about the  
18 inherent conflicts between the different class  
19 of ratepayers, as well as the economic  
20 development that, that ORS is, is involved in  
21 really kind of gets to the question, you  
22 mentioned one, in particular, of a situation  
23 where a rate increase was adjudicated as opposed  
24 to a settlement. How many other of the rate  
25 increases along the way were actually fully

1 adjudicated in front of the Public Service  
2 Commission?

3 MR. SCOTT: You're -- now, are  
4 you talking about rate, rate cases or --

5 SENATOR BENNETT: Whatever --

6 MR. SCOTT: -- (INDISTINCT)  
7 cases?

8 SENATOR BENNETT: Whatever,  
9 whatever function causes you to go to the Public  
10 Service Commission for approval, how many of  
11 those were actually adjudicated versus settled  
12 before they got there?

13 MR. SCOTT: Generally, our  
14 electric cases have been -- we have been  
15 successful in settling the cases, generally with  
16 all of the -- all -- all of the intervenors.  
17 There have been times when we have settled with  
18 customer intervenors, but not -- perhaps not  
19 with the conservationists or other parties. But  
20 generally speaking, we, we try to resolve it  
21 through a settlement.

22 SENATOR BENNETT: That, that --

23 MR. SCOTT: And our statute --

24 SENATOR BENNETT: That's all your  
25 cases, or specific to the V. C. Summer?

1 MR. SCOTT: No, sir, that's  
2 generally speaking of electric cases.

3 SENATOR BENNETT: Specific to V.  
4 C. Summer.

5 MR. SCOTT: V. C. Summer, we had  
6 a, we had a -- what I call a partial settlement  
7 in the last case. We also had a settlement -- a  
8 partial settlement in the next to the last case.  
9 The energy users joined us on that one. The  
10 first case, we didn't have a settlement, and the  
11 second case, we -- I, I, I imagine we did have a  
12 settlement, at least with some of the parties.

13 SENATOR BENNETT: Give -- given,  
14 given these conflicts, these inherent conflicts,  
15 isn't it more, more -- I hate to use the word  
16 *prudent* because I don't want to get us confused  
17 here. But isn't it more prudent to have more of  
18 those cases reviewed by the full Commission as  
19 opposed to settling?

20 MR. SCOTT: Keep in minds, when  
21 we settle a case, it's reviewed by the Public  
22 Service Commission. They've got no obligation  
23 and do not assume any obligation to approve any  
24 settlement we get. When we settle a case, every  
25 witness that the parties to the settlement would

1 have otherwise presented with their testimony is  
2 present -- is presented in that hearing.

3 Now, sometimes, when we have a  
4 settlement, Commission might say, well, you got  
5 a witness from California. There's no cross  
6 examination of that witness. We will put it in.  
7 But that testimony is in the record. So it's  
8 not like a court case.

9 Or when I was an administrative  
10 law judge, you know, when somebody called me up  
11 and said they settled a case, it was gone; I  
12 didn't listen to it. You know, it might be as  
13 complicated as a, as a certificate-of-need case  
14 for a hospital, but if all the parties settled  
15 the case -- I remember one was settled on Good  
16 Friday, and the response was, This, indeed, is a  
17 good Friday.

18 The Commission doesn't do it that  
19 way. They go ahead and they, they hear the  
20 case. We have to convince the Commission -- we  
21 have to convince the Commission that the  
22 settlement is a reasonable -- and results in  
23 reasonable rates or a reasonable conclusion.  
24 It's, it's not like we settle a case and walk  
25 away. The Public Service Commission reviews

1 every settlement we do, and they have -- we have  
2 to convince them, through our testimony, that  
3 it's a, it's a fair and reasonable result.

4 SENATOR BENNETT: And Mr.  
5 Chairman, this may be the, the backward-looking  
6 question. So I'll give it a shot, and if we  
7 need to move on, we'll move on. In, in January  
8 of 2016, your office released a press release  
9 where there was a third-party review of, of  
10 Summer.

11 MR. SCOTT: I missed that. I  
12 should have said that. I'm sorry.

13 SENATOR BENNETT: That's, that's  
14 the -- that was done by Elliott Davis Decosimo;  
15 I hope I'm pronouncing that right. And in that  
16 statement, it says that the results of the  
17 Elliott Davis analysis confirm that "The revised  
18 rate methodology under the Base Load Review Act  
19 is cost beneficial to the customers. In  
20 addition to being in the customers' financial  
21 best interest, it's in the state's public  
22 interests. The cost savings is confirmed by  
23 Elliott Davis' analysis, and the coverage of the  
24 costs of the capital under the BRLA allow for  
25 the construction of a reliable, greenhouse gas-

1 free source of generation for decades to come.”

2 But then in your discussions, it  
3 wasn't long after this that we're getting  
4 comments by you where you had no confidence in  
5 Westinghouse' ability to honor their fixed  
6 price. We've got comments that said no one  
7 could come up with a -- engineering and  
8 construction schedules. How do we get from,  
9 This is a third-party accounting firm review  
10 that says everything is good to go, to, we don't  
11 even have data to, to be able to trust  
12 Westinghouse?

13 MR. SCOTT: The third-party  
14 review was not on the contract. It wasn't on  
15 the budget. It wasn't on the schedule. What  
16 was happening, the revised rate methodology was  
17 becoming under attack, and for years, we had  
18 heard SCE&G said -- say that it was a billion-  
19 dollar savings. The capital costs, \$4 billion  
20 savings to, to the -- over -- as you go forward.  
21 And, and, and also, that -- you know, it wasn't  
22 -- it, it was put out in January of 2016, I  
23 guess, but it took the year from before.

24 The only thing they were testing  
25 -- they weren't testing Westinghouse's ability.

1 They weren't testing Westinghouse's schedule.  
2 They weren't testing, testing whether, you know,  
3 the, the project was going to be successful.  
4 They were only testing the mathematical  
5 calculation of doing it this way versus  
6 accumulating the AFUDC.

7 well, there's no inconsistency  
8 there. We were just testing the revised rates  
9 to make sure the revised rates, if it were  
10 completed, would, would provide for that. So  
11 that -- so it's -- they didn't look at  
12 Westinghouse. They didn't look at  
13 Westinghouse's financials. That wasn't their  
14 task. It was just the calculation as to whether  
15 paying the interest up front produces a result,  
16 not an opinion as to whether this thing's on  
17 schedule and on time.

18 SENATOR BENNETT: Thank you.

19 CHAIRMAN SETZLER: Okay, Senator  
20 from Orangeburg, Senator Hutto.

21 SENATOR HUTTO: Thank you, Dukes.  
22 I was there when you were there and we were  
23 told, back pre-2008, that nuclear was the way to  
24 go, that that really was the way South Carolina  
25 should go, and there didn't seem to be a whole

1 lot of argument about that. But from what I  
2 understand, you say historically, the last few  
3 attempts to license and build a nuclear plant in  
4 this country, the investors in it weren't  
5 getting any return.

6 MR. SCOTT: They were taking a  
7 bath -- some of them took a complete bath. Some  
8 of them had them 98 percent, and they ended up  
9 turning them into gas.

10 SENATOR HUTTO: So the way that  
11 it was envisioned that we would be able to build  
12 these plants is that we would have the investors  
13 and shareholders pay part of it and the  
14 ratepayers pay another part; is that right?

15 MR. SCOTT: Ratepayers pay the  
16 financing costs as it goes forward.  
17 Shareholders and debtholders pay the capital  
18 costs as it goes forward.

19 SENATOR HUTTO: And that's what I  
20 want to ask you about. What are those  
21 percentages? How much percentage of the  
22 construction cost was, at the beginning, were  
23 the investors and the rate -- stockholders to  
24 pay, and what percentage of that cost were the  
25 ratepayers allocated?

1                   MR. SCOTT: Well, the, the, the  
2                   ratepayers are paying probably about a -- and  
3                   I'm guessing here. Wait a minute; I don't have  
4                   to guess. If you'll give me a minute, and I can  
5                   find it.

6                   SENATOR HUTTO: I'll, I'll give  
7                   you a minute, but I bet your guess is going to  
8                   be pretty good.

9                   MR. SCOTT: But -- and at this  
10                  point in time -- you know, of course, at this  
11                  point in time, the approved rate increases for  
12                  the revised rates are \$1.4 billion. That's the,  
13                  that's the, that's the approved. That's \$445  
14                  million in rates today on an annual basis to  
15                  cover the financing costs associated with 3.7  
16                  billion investment.

17                  SENATOR HUTTO: So 15 percent?

18                  MR. SCOTT: Well, right now,  
19                  that's, that's, that's probably about right.  
20                  The -- so you -- I got copy here. Gross of tax,  
21                  they, they -- it's a -- they're paying 11.62  
22                  percent return on that investment, 11.62.

23                  SENATOR HUTTO: So the total cost  
24                  of what was supposed to be the cost of the, the  
25                  plant, the ratepayers were slotted to pay a

1 little over 11 percent, and the shareholders and  
2 debtholders were about 90 percent?

3 MR. SCOTT: I don't know whether  
4 that's, that's the question now. There, there,  
5 there were some estimates involved, but the --  
6 but the customers of schedule -- I, I hope that  
7 -- this thing's up to y'all now, not us, but if  
8 -- under the present law, the customers would be  
9 scheduled to pay a -- some percentage like that  
10 over the recovery pro -- period of -- it's, it's  
11 going to be much higher than that. You're going  
12 to pay --

13 SENATOR HUTTO: It's going to be  
14 much higher in terms of dollars, but percentage-  
15 wise, I'm just trying to get that percentage of  
16 who was initially allocated to pay what between  
17 the traditional investors in a nuclear power  
18 plant and this new hybrid which was going to  
19 allow the ratepayers to front some of the money.

20 MR. SCOTT: I need to get you  
21 that. I've got it.

22 SENATOR HUTTO: Okay. well,  
23 give, give me, give me that answer because  
24 ultimately, at the time, weren't -- wasn't the  
25 thinking that, because you were going to have a

1       stable, long-term, clean power, that the  
2       ratepayers, in the long run, would be better off  
3       because the rates would come down, compared to  
4       other possible sources of energy?

5               MR. SCOTT: Absolutely. Now, the  
6       capital costs are high, but, but the, but the  
7       fuel cost is, is, is stable, and, yes, sir, when  
8       -- the idea, when these plants came online, you  
9       wouldn't see a bump in the increase.

10              SENATOR HUTTO: Right.

11              MR. SCOTT: Now, when V. C.  
12       Summer 1 came in line, because it was so  
13       difficult to get this cash, there was a heck of  
14       an increase. I think they came in at 50-  
15       something percent increase in rates, and that's  
16       when -- see, Santee Cooper wasn't an original  
17       partner in V. C. Summer. That happened because  
18       the rates were going to have such a big impact  
19       that they were -- SCE&G was encouraged to sell a  
20       third to, to V. C. Summer.

21              But you weren't going to have,  
22       you weren't going to have that. In fact, the  
23       rate impact, when V. C. Summer 1 was coming  
24       online, the Commission deferred any return on  
25       600 of the average megawatts of capacity that

1 SCE&G had at the time and it got put back in  
2 when the income tax rates went down.

3 But, but, but you're exactly  
4 right. The, the, the -- at the end of the day,  
5 you know, when you, when you started -- when,  
6 when, when you started having your depreciation  
7 rates and you got that fuel in, the idea was,  
8 you weren't going to have some 50 percent  
9 return like we faced in, in 1984. It was going  
10 to actually be very level. So you're exactly  
11 right there.

12 SENATOR HUTTO: But the, but the  
13 premise is still true. If, if the plants  
14 weren't delayed and the plants had actually been  
15 constructed, the premise that the ratepayers  
16 would have, in the future, been paying a more  
17 stable, lower rate is still true.

18 MR. SCOTT: You're exactly right.  
19 That's very true, and I'd be standing up here  
20 getting complimented rather than questioned.

21 SENATOR HUTTO: Right. But the  
22 fact is, there were cost overruns, and now, now  
23 it has been, at least for now, abandoned.

24 MR. SCOTT: But you're right.  
25 Yeah, when this thing -- the way this thing was

1       planned and the way that it seemed reasonable at  
2       the time, this thing was going to be an economic  
3       development windfall for the State of South  
4       Carolina for the next 50 or 60 years.

5                    SENATOR HUTTO: All right, and  
6       one other question. Was the ratio of ratepayer  
7       costs different at Santee Cooper? IN other  
8       words, they didn't have to go through PSC. They  
9       were going to be -- but they could pass some of  
10      it on to their rateholders as well, but was the  
11      ratio -- and this might be a question for them,  
12      but you might know -- about the same?

13                   MS. BOYD: Santee Cooper.

14                   MR. SCOTT: No, sir. Their cost  
15      of money is cheaper. First, they issue debt-  
16      free bonds. I'm not -- I mean, I'm not trying  
17      to make -- but they don't have shareholders. So  
18      when you look at the cost of money, the, the  
19      long-term debt that we're looking at, gross of  
20      tax -- of course, tax is, you know, it's  
21      deferred, so gross of tax, just saying, 2.84  
22      percent, as opposed to 11.62 percent when you  
23      throw in a gross cost of equity of 8.77.

24                   So certainly I would think that  
25      -- and I don't know, but I would think that

1 Santee Cooper can borrow money, tax-free money  
2 cheaper than -- as cheap as SCE&G. You're  
3 talking about a 2.84 return as opposed to 11  
4 percent. You're talking 9 percent return. When  
5 I, when I did loan closings, 9 percent on a 30-  
6 year mortgage -- Senator Setzler, I'm sure, has  
7 done it -- you don't have that, but 9 percent  
8 mortgage was good. You pay three times back.  
9 You pay three times what you borrowed if you  
10 stayed -- kept that mortgage over 30 years, so,  
11 yes, sir.

12 I mean, you -- they -- and they  
13 can explain their financing better than I can,  
14 but, yeah, we're -- all, all we had debt, which  
15 SCE&G can't do because they, they can't get that  
16 much debt -- you would be looking at 2.84  
17 percent, not 11.62.

18 SENATOR HUTTO: Thank you.

19 CHAIRMAN SETZLER: All right,  
20 sir. Senator from Fairfield, Senator Fanning,  
21 and then the Senator from Williamsburg, and then  
22 we're going to break for lunch, so I'd ask you  
23 to keep it short.

24 SENATOR FANNING: Just a quick  
25 follow-up. We keep talking about if on

1 schedule, if on time, if on budget. When did we  
2 ever see a full construction schedule?

3 MR. SCOTT: We, we had  
4 construction schedules all along, and I can get  
5 Allyn Powell to, to, to go in there because  
6 she'll be here and need to be here for when you  
7 start looking backwards. But you had a  
8 schedule; never had one that was followed, never  
9 had one that was done, but you had a schedule.  
10 In fact, you had a schedule at the end; it just  
11 wasn't a fully resourced, integrated schedule.

12 SENATOR FANNING: Thank you. So  
13 we had a schedule. The problem was that the  
14 schedule was not followed.

15 MR. SCOTT: You had a, you had a  
16 schedule when the application was filed, as I  
17 recall.

18 SENATOR FANNING: Thank you.

19 MR. SCOTT: I'm getting yeses  
20 back from the people who -- from my staff who  
21 know.

22 CHAIRMAN SETZLER: Senator from  
23 Williamsburg. Senator from Williamsburg,  
24 Senator Sabb.

25 SENATOR SABB: Thank you, Mr.

1 Chairman, for recognizing me, and also thank you  
2 for making it clear that I'm what stands in  
3 between us and lunch. Thank you, Mr. Scott, for  
4 the information that you've, that you've shared.  
5 I understood you to say that there was an  
6 opportunity for both SCE&G and Santee to get  
7 federal insurance or some sort of federal  
8 guarantee and that that was declined; I believe  
9 I understood you to say that.

10 MR. SCOTT: That is my  
11 understanding, and I did say that. And they'll  
12 be here this afternoon to explain that.

13 SENATOR SABB: Sure. One of the  
14 things that I read in some of the testimony  
15 before the Commission talked about a parental  
16 guarantee by Toshiba. Help me understand what  
17 the difference is between the federal insured  
18 guarantee and the guarantee given by Toshiba as  
19 the parent company.

20 MR. SCOTT: And, and that's --  
21 I'm -- that's, that's important. Now, I, I  
22 can't really go into the federal guarantee.  
23 They're going to need to do that, but the  
24 Toshiba guarantee, one of the things out of that  
25 October 2015 contract, I think -- they can back

1 -- they can correct me if I'm wrong -- was the  
2 Toshiba guarantee. I don't think they had it  
3 before that, so that -- we wouldn't have had  
4 that \$2.2 billion guarantee. But that's coming  
5 from Toshiba and not the federal government.

6 SENATOR SABB: I, I understand.  
7 I guess I was curious as to why -- and obviously  
8 \$2.2 billion if a boatload of money, but I was  
9 curious as to how the amount of the guarantee  
10 was determined.

11 MR. SCOTT: The ultimate  
12 determination was by negotiation. The contract  
13 provided for 25 percent of what they had  
14 invested. Now, if you take 25 percent of what  
15 they had invested, it would have been more like  
16 1.7 billion, but SCE&G and Santee Cooper  
17 negotiated a higher -- and the other key thing  
18 about that, too, is, the Toshiba guarantee read  
19 as if it only would apply if they finished the  
20 plants. SCE&G and Santee Cooper were successful  
21 in getting that guarantee even for an abandoned  
22 plant in a recent negotiation.

23 CHAIRMAN SETZLER: Okay. We have  
24 members of the committee who suggest we continue  
25 going forward instead of having lunch, so we

1 will take a ten-minute break and come back. Ten  
2 minutes to get you a pack of crackers and be  
3 back, and y'all can be there, please.

4 If we could, we're going to go  
5 ahead and start back because we think we're  
6 going to be here awhile. Mr. Scott, if you  
7 would come back, please, sir, you and Ms. Boyd.

8 MR. SCOTT: Mr. Chairman and co-  
9 chairman, if I might make a correction. Ms.  
10 Wright says she was not an intervenor when she  
11 met with us, and she wasn't contacted after she  
12 was an intervenor. I want to make that clear on  
13 the record.

14 CHAIRMAN SETZLER: That is fine.  
15 All right, Mr., Mr. Scott, you made a comment  
16 that interests both the co-chairs. Tell us what  
17 you know about federal guarantee insurance that  
18 was not placed or used on this project and  
19 exactly what you're talking about.

20 MR. SCOTT: I need -- if I might,  
21 S -- I need SCE&G to talk about that because it  
22 was --

23 CHAIRMAN SETZLER: We want to  
24 know what you know about it.

25 MR. SCOTT: I know nothing --

1                   CHAIRMAN SETZLER: You mentioned  
2 it, not them. We'll get to them. How about  
3 tell us what you know about it, Mr. Scott?

4                   MR. SCOTT: And, and that's  
5 nothing, other than they didn't take it. I know  
6 they didn't take it, and I know we examined as  
7 to why they didn't take it, but I -- if I'm  
8 -- if I raised that issue, that was bad on my  
9 part. I thought I was responding to a question  
10 on that. I do know there was a federal contra  
11 -- guarantee, and I do know they, they did not  
12 take it. I know they were asked about not  
13 taking it, and they had a litany of responses.

14                  CHAIRMAN SETZLER: Okay. Any  
15 other questions by any member of the committee  
16 of these two witnesses? Thank both of you for  
17 being here. We appreciate it, and I don't  
18 believe it will be your last time, but we're  
19 glad to let you go today. Thank you.

20                  MR. SCOTT: Well, give me time to  
21 get another prescription of these things before  
22 you call me back.

23                  CHAIRMAN SETZLER: All right.

24                  MR. SCOTT: Thanks.

25                  CHAIRMAN MASSEY: And fill it.

1 MR. SCOTT: Sir?

2 CHAIRMAN MASSEY: Go ahead and  
3 fill it.

4 MR. SCOTT: I didn't get them  
5 till Thursday. I've got three left, but that's  
6 for tomorrow.

7 CHAIRMAN SETZLER: All right,  
8 let's, let's, let's stay on point. All right.  
9 Next on the agenda is hearing from SCE&G and  
10 also Santee Cooper, and I believe what we're  
11 going to do is ask y'all, Santee Cooper, to get  
12 on one side of this lower level and SCANA on the  
13 other and let you go, and then we may ask quest  
14 -- we're going to ask questions as we finish.  
15 So if we can get all those (INDISTINCT) -- you  
16 cut us off.

17 CHAIRMAN MASSEY: I did that  
18 intentionally.

19 CHAIRMAN SETZLER: Oh.

20 MR. ADDISON: Excuse me, Mr.  
21 Chairman, so you would like us all seated here?

22 CHAIRMAN SETZLER: Yes, sir.

23 MALE SPEAKER: Okay.

24 CHAIRMAN MASSEY: Why don't you  
25 make that point.

1                   CHAIRMAN MASSEY: Mr. Addison,  
2 will the clicker work from right there?

3                   MR. ADDISON: (INDISTINCT) Yes.

4                   CHAIRMAN MASSEY: All right.

5                   FEMALE SPEAKER: (INDISTINCT)

6 y'all may want to go one seat down so

7 (INDISTINCT) podium is blocked. You

8 (INDISTINCT) so that y'all (INDISTINCT).

9                   CHAIRMAN MASSEY: Mr. Chairman, I  
10 -- we've had some conversation about this  
11 before, but I think, I think it would probably  
12 be appropriate to swear in any witnesses who are  
13 going to be talking.

14                   CHAIRMAN SETZLER: Okay, then  
15 I'll ask you to swear them in, Co-Chair.

16                   CHAIRMAN MASSEY: All right. Who  
17 all's going to be -- are all four of you  
18 planning to speak? All right. Well, then all  
19 four of you raise your hand -- right hand,  
20 please. Do you solemnly swear that the  
21 testimony you are about provide will be the  
22 truth, the whole truth, and nothing but the  
23 truth, so help you God?

24                   MR. ADDISON: I do.

25                   CHAIRMAN MASSEY: All of them

1 said, "I do."

2 CHAIRMAN SETZLER: Okay. Mr.  
3 Addison, you're going to go first?

4 MR. ADDISON: Yes, sir.

5 CHAIRMAN SETZLER: Okay.

6 MR. ADDISON: That was not our  
7 intention. Let me start off and say that Mr.  
8 Marsh, our CEO, was here and was prepared to  
9 lead our comments. He has developed a medical  
10 emergency and has -- one of our coworkers has  
11 taken him to the ER, so I've had a --

12 CHAIRMAN SETZLER: Our thoughts  
13 and prayers are with him.

14 MR. ADDISON: Thank you. I've  
15 had an interim message back from him, and it, it  
16 seems promising. They're doing some tests, but  
17 it was some, some severe pain.

18 CHAIRMAN SETZLER: Okay.

19 MR. ADDISON: So I appreciate the  
20 opportunity to, to be with you, Chairman Setzler  
21 and Chairman Massey, today. I'm Jimmy Addison,  
22 CFO of the company, and with me is Steve Byrne,  
23 the chief operating officer of SCE&G. And we're  
24 here to give you some background. I've got just  
25 a few opening comments and then a few slides to

1 give you kind of a, a status of where we are on  
2 the project and a little background. If I'm  
3 drifting into too much background as opposed to  
4 where we are today, please let me know. We'll  
5 try to move ahead expeditiously.

6 First, I'd like to say that I'm  
7 sorry we're in this situation. We're all sorry  
8 we're in this situation. The decision to  
9 abandon the project is deeply disappointing for  
10 all of at SCE&G and, I'm sure, Santee Cooper.  
11 We sincerely apologize for the impact that our  
12 decision has had on our customers, the  
13 individuals that worked in Jenkinsville on our  
14 project, their families, and the communities and  
15 counties where they reside.

16 Completion of the new nuclear  
17 units has always been our plan, and the option  
18 of abandonment was never our goal.  
19 Unfortunately, Westinghouse, who's the designer  
20 and contractor for the project, filed for  
21 bankruptcy. Westinghouse informed us that they  
22 plan to reject our fixed-price contract to  
23 complete the units, as well as two other units  
24 under construction in Georgia. And simply  
25 stated, Westinghouse is using U.S. bankruptcy

1 laws to avoid honoring their fixed-price  
2 commitment to SCE&G and Santee Cooper.

3 That decision required SCE&G and  
4 Santee Cooper to evaluate the status of the  
5 project to determine the most prudent path  
6 forward. Our presentation today will cover  
7 some -- cover some of the history of the  
8 project, the evaluation undertaken as a result  
9 of the Westinghouse bankruptcy, and the basis  
10 for the decision to abandon the project in the  
11 interest of our customers.

12 So I'm going to start through the  
13 slides now. First of all, why did we choose  
14 nuclear? Well, we had growing customer demand,  
15 as you had heard earlier, that required the  
16 addition of new base load generation, and  
17 nuclear was really the only non-emitting base  
18 load source that we had that would address each  
19 of these matters that are noted on the screen as  
20 far as different types of, of emissions.

21 Nuclear generation provided us  
22 with a balanced generation portfolio, and  
23 SCE&G's goal at the end of this was to have  
24 roughly a third of our portfolio in scrubbed  
25 coal, a third in natural gas-fired generation,

1 and a third in nuclear generation. It also  
2 provided a hedge against volatile natural gas  
3 prices, as you've heard from our earlier  
4 presenters.

5 And Santee Cooper, our partner  
6 for over 30-plus years in Unit 1, desired us to  
7 join in -- desired to join us in the new nuclear  
8 construction. And we had certain government-  
9 provided tax incentives to encourage nuclear  
10 construction, including production tax credits.

11 Regarding the initial project  
12 approval and the prudency review, we presented  
13 testimony to the Commission to support the need  
14 for the generation, the sel -- why we selected  
15 nuclear, why we selected the contractor, the  
16 various risk factors that were associated with  
17 the project, and the cost projection for the  
18 project. The proceeding involved testimony from  
19 more than 20 experts, both for and against the  
20 project, over a three-week period, and the  
21 Commission issued an order granting SCE&G's  
22 request for a certificate to construct and  
23 operate the new nuclear units.

24 That was challenged and was later  
25 confirmed by the South Carolina Supreme Court in

1 their decision in 2009, saying that the decision  
2 to construct the new nuclear generation was  
3 prudent and supported by substantial evidence on  
4 the record from those three weeks' worth of  
5 proceedings.

6           We had five subsequent prudency  
7 reviews. Those were in 2010, '11, '12, '15, and  
8 '16, and those were fully litigated reviews.  
9 And just to clarify some of the discussion from  
10 earlier, none of the proceedings regarding new  
11 nuclear, to my -- best of my recollection, were  
12 ever settled completely. There was always some  
13 party challenging those, so those moved through  
14 the Public Service Commission process with full  
15 litigation, if you will. Mr. Byrne was in each  
16 of those proceedings. I believe Mr. Marsh was  
17 in all but one, and I have been in several of  
18 those myself where we were -- each submitted  
19 testimony in every case and were cross-examined  
20 in each case.

21           In '12 -- 2012, '15, and '16, we  
22 again put detailed studies in the record  
23 establishing that it was prudent to continue  
24 constructing the units, and these were all --  
25 all of these reviews were in addition to 34

1 detailed quarterly reports that we rev -- filed  
2 with the Public Service Commission and the ORS,  
3 fully available to the public since the project  
4 began. We have to file a report 45 days after  
5 the end of each quarter, both with where the  
6 project is as well as any issues we see on the  
7 horizon with the project.

8 And we've had several challenges,  
9 obviously, along the way, some of which have  
10 been mitigated, some not. So we had original  
11 delay in obtaining the license from the Nuclear  
12 Regulatory Commission. This was the first  
13 project under the new -- NRC's new Part 52  
14 regulation, which Mr. Byrne can go into more  
15 later. We had module fabrication issues,  
16 principally here, domestic issues, as Mr. Scott  
17 referred to.

18 We had issues with the nuclear  
19 supply chain, design modifications of the AP1000  
20 itself, and then we've had productivity issues  
21 onsite with the, with the consortium. And let  
22 me say, the consortium is Westinghouse and their  
23 construction partner, and that partner changed  
24 -- their construction partner changed along the  
25 life of the project. It originally started out

1 with the Shaw corporation and then moved to  
2 Chicago Bridge & Iron, and then ultimately, with  
3 this fixed price option in 2015, there was no  
4 longer a consortium, and Westinghouse engaged  
5 Fluor Corporation to directly be a subcontractor  
6 but not a consortium partner.

7           There's been a lot of confusion  
8 about what the status is of the project today.  
9 Overall, the engineering is substantially  
10 complete, as you see here on the screen. The  
11 procurement of the various modules is over 90  
12 percent complete. The construction, a little  
13 over a third onsite itself, and some of the  
14 startup processes, about 10 percent for an  
15 overall weighted average of about two-thirds  
16 complete.

17           Represented on the screen now and  
18 in your materials that you have in front of you  
19 are the various points in time cost estimates of  
20 where we were when the project began and as we  
21 moved through the various orders that we  
22 received from the Public Service Commission.  
23 You heard Mr. Scott reference earlier the 6.3  
24 billion when we started, and about 4 1/2 billion  
25 of that was the construction cost in 2007

1 dollars. That's when the contract was based, in  
2 2007. It was actually executed, I believe, in  
3 2008.

4 Then on top of that were  
5 inflation, projected inflation, so about half of  
6 the project originally was fixed, and part of it  
7 was more time and materials, and there was  
8 inflation associated with certain parts of the  
9 contract, so we forecasted what inflation would  
10 be, but it was tied to specific indices along  
11 the way.

12 And that inflation, as you might  
13 imagine, varied a lot over time. We started  
14 this right at the beginning of the great  
15 recession, and there was a lot of difficulty in  
16 forecasting what inflation might be. So the  
17 original move up in 2010 to almost 6.9 billion  
18 was due to an increased expectation of  
19 inflation.

20 You may remember, interest rates  
21 were, were -- when interest rates were first cut  
22 radically, the thought was that they would be  
23 increased fairly fast, and that just has not  
24 happened, and as that did not occur over the  
25 last several years -- in fact, they're just now

1 starting to rise -- some of that inflation came  
2 back out over time.

3 You heard referenced earlier the  
4 contingency that was removed by the Supreme  
5 Court. That came out along the way, and then  
6 couple of points of emphasis I'll add on the  
7 screen now. Over in 2015 was the first point  
8 that, other than inflation, the raw cost of the  
9 project was projected to be more than when we  
10 began the project at \$6.3 billion.

11 So the point of this is that at  
12 no point, based upon the information that we and  
13 Santee Cooper had up until 2015, did we expect  
14 the cost of the project to be significantly  
15 above what had occurred, and -- what we had  
16 originally projected. And I think some of the  
17 confusion that may have come up earlier may have  
18 had to do with dollars in 2007 dollars.

19 I believe from Senator Scott,  
20 maybe some of the questions were the dollars --  
21 comparing the dollars in 2007 dollars to the  
22 forecasted cost upon completion. Any project  
23 that takes more than ten years, there's going to  
24 be inflation associated with it, and I think  
25 there was some comparison of maybe an apple and

1 orange there. But you can see, these are the  
2 costs that we filed in each of those quarterly  
3 reports, and they've not varied that  
4 significantly.

5 Of course, along in 2016, after  
6 we executed the fixed-price option, we projected  
7 a cost increase of 21 percent, and that's where  
8 we were when Westinghouse went bankrupt. We  
9 still expected the cost to be roughly 21 percent  
10 above where we originally started. That was  
11 something that none of us liked, but we all felt  
12 like, for the long-term hedge that we've talked  
13 about before against carbon tax, for portfolio  
14 variation of generation, that it was worth it,  
15 and both ourselves and Santee Cooper and most of  
16 our customers, in SCE&G's case, signed on to a  
17 settlement that said that it still made sense.

18 The Westinghouse bankruptcy: On  
19 March the 29th, they told us that they would not  
20 honor our fixed-price contract. As I said in my  
21 opening comments, they used the U.S. bankruptcy  
22 laws to not honor those contracts. It is the  
23 law of the land. We don't have any choice but  
24 to respect that.

25 We began a transition and

1 evaluation period to determine the most prudent  
2 path forward, whether it would be to complete  
3 both units; complete one unit and delay  
4 construction of the other; complete one unit and  
5 abandon the other; or abandon both units. And  
6 we stressed to everyone involved that we were  
7 going to be unbiased about this evaluation  
8 throughout the process, and I believe we've  
9 honored that, that commitment.

10 Both SCE&G and Santee Cooper  
11 conducted this four-month comprehensive  
12 evaluation. We considered the cost and risk to  
13 customers. It was conducted by an internal team  
14 supplemented by external experts that Mr. Byrne  
15 can go into more detail on. And we analyzed the  
16 cost impact to customers and the level of risk  
17 involved with each option.

18 Key considerations were the  
19 benchmark that had been approved of that \$7.7  
20 billion fixed-price contract, and at the time of  
21 the bankruptcy, Westinghouse provided us an  
22 estimate that they felt that it was going to  
23 cost a billion and a half dollars more to finish  
24 these units, for us together, us and Santee,  
25 than the \$7.7 billion. So \$9.2 billion, they

1       said -- they said that's what it would cost to  
2       finish those plants.

3                       we knew we had a billion, seven  
4       parental guarantee from -- either to be realized  
5       from Westinghouse through the liquidation of the  
6       bankruptcy estate or through the parental  
7       guarantee from Toshiba, their Japanese parent.  
8       So we felt at the time that that would cover  
9       their -- this estimated overage if that were to  
10      be the case.

11                      Unfortunately, what you see on the  
12      screen is, our results determined that the  
13      additional cost to complete -- in other words,  
14      that 1 1/2 billion -- was almost three times  
15      what they had told us. And although the Toshiba  
16      guarantee, we negotiated up to \$2.2 billion, as  
17      Mr. Scott said, \$500 million higher than the  
18      contract, it was still not enough to cover those  
19      cost estimates.

20                      And I'll tell you chronologically  
21      how this happened along the way. As we were  
22      getting traction on these negotiations for this  
23      settlement and we knew it was inching up -- it's  
24      never a done deal till you get across the finish  
25      line -- but along with our partners, we were in

1       lots of negotiations along the lines, and so we  
2       were feeling better and better about getting the  
3       parental guarantee up until we got the results  
4       from the project team about what the cost would  
5       be.

6                       And has already been said  
7       earlier, we negotiated that that guarantee is  
8       payable regardless of the project outcome. And  
9       of course, compared to our planned in-service  
10      dates of August of '19 and August of '20, the  
11      projected in-service dates from our evaluation  
12      came back to be Dec -- 2022 and 2024.

13                      So on the screen now, I've got  
14      some information about the two-unit cost.  
15      Again, we had the fixed-price contract at \$7.7  
16      billion. The Westinghouse bankruptcy, they  
17      estimated our share of the 1 1/2 billion; 55  
18      percent is 800 million. It would have been 8  
19      1/2 billion, so again, would have been just  
20      about slightly over-covered by the parental  
21      guarantee. But what we found was to complete  
22      two units, SCE&G's share would be close to 10  
23      billion, and the parental guarantee would be  
24      woefully short, over a billion dollars short.

25                      And let me just say that it

1 wasn't just that it's over a billion dollars  
2 short. It's that you no longer have a fixed-  
3 price guarantee. If there -- every incremental  
4 dollar, there's an issue, someone would have to  
5 bear that incremental dollar, be it the  
6 partners, our customers, et cetera, so it was  
7 lack of, of surety about that, especially when  
8 stretched out over a longer time period than  
9 2019 and 2020.

10 We were evaluating a one-unit  
11 option. We, SCE&G, had currently spent \$4.9  
12 billion on the project. We estimated to  
13 complete a one-unit option with a partner, our  
14 partner of 45 percent, Santee Cooper, would cost  
15 \$7.1 billion. And we were interested in  
16 evaluating this because we thought, given the  
17 variety of factors under consideration, the  
18 impact on the economy, the long-term hedge these  
19 units would provide, et cetera, that it was  
20 possible that we could complete a one-unit  
21 option and supplement it with some natural gas-  
22 fired generation, get close to the same amount  
23 of megawatts that we had originally committed to  
24 the public, our customers and the Public Service  
25 Commission with, at about that same cost of \$7.7

1 billion. Santee came to us during that process  
2 and said, This option is not going to work for  
3 us.

4 And Santee has been an  
5 outstanding partner of ours. They have for 30-  
6 plus years in Unit 1. They have in this  
7 situation. I understand how they get to their  
8 conclusion too. They've got a different load  
9 demand than we do. They've got different  
10 implications.

11 We're buying 300 megawatts today.  
12 We need the power of some variety in the future.  
13 In fact, I said to Mr. Carter in a meeting we  
14 were in along the way, I said, I said, Lonnie, I  
15 can see where we could almost switch roles and  
16 come to the very same conclusions because of the  
17 different implications on our companies and our  
18 customers. We're just in a different spot there  
19 today. So it's not any -- it's not something  
20 that Santee did to us, and I want to be very  
21 clear to the committee about that. It was them  
22 making the decision that was best for, for their  
23 customers and their company.

24 And of course, we also evaluated  
25 completing one unit -- or we were evaluating

1 completing one unit without a partner, and that  
2 was extremely cost prohibitive of almost \$10  
3 billion for just one unit as compared to two.

4 You may have seen some of this  
5 publically before. We have about \$4.9 billion  
6 into the plant, including what's invested today  
7 and what we think it will take to wind the  
8 project down over the next few months, stabilize  
9 the site, et cetera. SCE&G's portion of the  
10 parental guarantee would be about \$1.1 billion  
11 -- excuse me -- after satisfying any liens that  
12 are attached to the current project.

13 We have to pay tax on that. It's  
14 income, as a tax-paying entity, so we would  
15 realize an estimated 700 million after tax.  
16 There would be a tax deduction available on the  
17 abandonment cost itself, the \$4.9 billion, of  
18 about \$2 billion, so in the long run, we  
19 estimate that the impact on our customers would  
20 be approximately a two point billion -- \$2  
21 billion net unrecovered balance that we've got  
22 to deal with over time.

23 So when you compare the cost of  
24 \$2.2 billion to abandon the project to any of  
25 these other options of completing -- well, our

1       only option here, really, today is to complete  
2       it on our own of \$9 1/2 billion, it's really not  
3       feasible for us, it's not prudent for us to go  
4       forward and, and complete the project, certainly  
5       not on our own. We respected the process to  
6       look for other partners. We still are open to  
7       that if that made sense, but I point out again,  
8       there are additional risks associated with going  
9       forward as well.

10               So there was a -- and Mr. Marsh  
11       would really be better to comment on this. I  
12       was not involved in a, in a great deal of this.  
13       Mr. Byrne was involved in some of it. But we  
14       did seek federal assistance. Mr. Carter was  
15       involved directly. He can respond as well. But  
16       we looked for governmental -- U.S. governmental  
17       support in terms of a grant.

18               And let me say, there was,  
19       originally, in the Energy Policy Act of '05,  
20       governmental loan guarantees available. Those  
21       were not grants; those were loan guarantees. We  
22       have applied for those in case we needed those.  
23       Those do not do anything to lower the cost of  
24       the project. Those are only there -- we viewed  
25       them as a hedge in case the public debt markets

1 were not available. We could use those  
2 government loan guarantees to potentially get  
3 into the debt market.

4 There was also government backup  
5 that I believe may have been subject to some of  
6 the questions earlier for 250 to \$500 million.  
7 Those were there only in the case of a delay  
8 caused by the U.S. federal government, not for  
9 anything to do with a contractor, so we  
10 evaluated that at the time and felt like that  
11 was not worth the cost, and I don't recall the  
12 cost of that off the top of my head. We can  
13 certainly research that, but we viewed that as  
14 fairly expensive compared to the risk of a delay  
15 being caused by the federal government. Again,  
16 those were not there for the contractor.

17 We had unresolved risks to  
18 customers of completing Unit 2 and abandoning  
19 Unit 3 being the availability of production tax  
20 credits. Our South Carolina delegation and,  
21 frankly, some of the delegation in the other  
22 states that we operate in, has been very helpful  
23 in getting this through the House of  
24 Representatives, but it is not through the  
25 Senate today, and there are some risks that

1 those production tax credits never are realized.  
2 That is worth -- our estimate of over \$2 billion  
3 to SCE&G customers alone.

4 There's a potential for future  
5 cost increases, as I said earlier, and then, of  
6 course, as we said today, we don't have a, a  
7 replacement partner. So our conclusion was that  
8 the most prudent path forward to manage the risk  
9 for our customers is to cease the construction  
10 of both new units.

11 So in summary, we negotiated a  
12 fixed-price protection for our customers, and  
13 the bankruptcy took it away. The additional  
14 cost to complete the units is significantly  
15 higher than Westinghouse projected at the time  
16 of the bankruptcy just a few months ago. The  
17 schedule to complete the units would extend to  
18 2022 and 2024. We can't continue alone without  
19 a partner. And without the fixed-price  
20 contract, construction and cost risk remain a  
21 factor, including these production tax credits  
22 from the U.S. government. Given the  
23 Westinghouse bankruptcy, the decision to abandon  
24 the project is in the best interest of our  
25 customers.

1                   And that's all of our prepared  
2                   comments, Mr. Chairman.

3                   CHAIRMAN SETZLER: And we'll wait  
4                   to ask questions till we also hear from the  
5                   Santee Cooper, and at this point, we'll turn it  
6                   over to Mr. Carter -- and Leighton.

7                   MR. LORD: Senator, I  
8                   (INDISTINCT) Mr. Carter.

9                   CHAIRMAN SETZLER: Okay. Before  
10                  you start, let me also say we've -- we have the  
11                  committee here, but to show you the significance  
12                  of the -- and the importance of this issue,  
13                  you've had numerous members of the South  
14                  Carolina Senate come in and -- either here now  
15                  or have left, and that's Senator Leatherman,  
16                  Senator Timmons, Senator Davis, Senator Malloy,  
17                  and Senator Senn that I've seen that I know have  
18                  been in here. So we appreciate their interest.  
19                  Mr. Lord, we'll call on you.

20                  MR. LORD: Okay. Senators,  
21                  staff, thank you for this opportunity to be  
22                  (INDISTINCT) today. I agree with the comments  
23                  made earlier about the importance of this  
24                  decision. Our board deciding to suspend  
25                  construction of nuclear was probably the biggest

1 decision that Santee Cooper's board has ever had  
2 to make, and I can tell you, the board did not  
3 take it lightly, and you'll see in a few minutes  
4 how often we met, how often we talked, how often  
5 we agonized about this decision. We applaud  
6 this committee and the Senate for trying to get  
7 the facts to understand how we got to this point  
8 so we can, we can move forward as a state.

9 I want to make three preliminary  
10 comments off-script before I go into the  
11 PowerPoint. First, we all got to this point  
12 together. A lot of different parties, as Dukes  
13 Scott put together, believed that nuclear was  
14 the direction for the State of South Carolina.  
15 The federal government believed that nuclear was  
16 the right direction for the country. I believe  
17 everyone that made those decisions was correct.  
18 We got into this together, so we need to get out  
19 of this together.

20 Second, when we all embarked on  
21 this project over ten years ago, it was for the  
22 right reasons. Santee Cooper's coal generation  
23 was even higher than the state average, almost  
24 80 percent. Greenhouse gas regulation of some  
25 sort was coming down the pike. We saw it. We

1 needed better diversity of our generation.

2 And we also needed to make sure  
3 we had the power to supply power to industry and  
4 customers, including our number-one customer,  
5 the electric co-ops, because in late 2007, 2008,  
6 we thought we could possibly run out of power.  
7 We got very close to it several times, and no  
8 one predicted that the great recession would  
9 reduce demand for electricity, that efficiency  
10 expert -- efforts would have the effect that  
11 they have. So we were facing not enough  
12 electricity, greenhouse gasses, and the desire  
13 to wean ourselves off of coal.

14 And finally, the third point -- I  
15 believe our partners at SCANA just said this --  
16 if Westinghouse and its parent company, Toshiba,  
17 had lived up to their promise to complete these  
18 units at an agreed-upon fixed price -- and  
19 remember, that agreed-upon fixed price was about  
20 21 percent higher than we had originally agreed  
21 to -- we would have complete these units.

22 Our board was ready to complete  
23 those units for the agreed-upon fixed price,  
24 even though natural gas prices, the cost of  
25 renewables had all changed in ten years to make

1 the economics not as good as they were ten years  
2 ago. We would have completed construction of  
3 those units if Westinghouse and Toshiba had  
4 stood by their contract and not filed for  
5 bankruptcy.

6 The Westinghouse bankruptcy is a  
7 key party to these hearings and to what has  
8 happened. Senator Scott, you asked the right  
9 questions: What happened? I've been asking  
10 that question almost every day. I don't know.  
11 Westinghouse -- I'll give them the benefit of  
12 the doubt and say that it was a level of  
13 corporate incompetence that I don't think I have  
14 ever witnessed in my career as a corporate  
15 lawyer. They, they failed us, and they failed  
16 the state, and they failed the country.

17 We had two choices after  
18 bankruptcy. Those choices were to move forward  
19 and raise rates for our customers at about 41  
20 percent, or stop and save our customers \$7  
21 billion. We felt like we made the right  
22 decision at the time. We would not be  
23 competitive as a utility if we had moved  
24 forward. We would have not been able to handle  
25 the economic development responsibility that we

1 have to this state if we had moved forward.

2 Our charge to the State of South  
3 Carolina is to supply reliable, affordable  
4 electricity and water. As some of you know,  
5 we're an electric utility, but we're also a  
6 water utility; very small part, but that's what  
7 we do. Part of our charge is economic  
8 development. I can proudly say the Volvo  
9 project would not be possible without Santee  
10 Cooper. There are projects all across the state  
11 in almost every county of this state that we had  
12 a hand in; Wyman-Gordon in Dillon County.

13 Yesterday, on my way back from  
14 Santee Cooper, I decided I had to pull off of I-  
15 26 to see the eclipse because the state troopers  
16 weren't going to let me pull over, and I pulled  
17 over in Orangeburg in the John Matthews  
18 Industrial Park, and I pulled up behind a  
19 building. I didn't recognize the building. I  
20 realized it was Sigmatex, which is a new  
21 employer in the State of South Carolina that  
22 Santee Cooper helped make possible.

23 Second, we have a strong  
24 environmental record, one that we're proud of.  
25 This body has not had to deal with the issue of

1 coal ash. Santee Cooper has dealt with coal ash  
2 in a way that has been a model for the country.  
3 We are reprocessing it and selling it back to  
4 our customers. I can say SCE&G has also dealt  
5 with coal ash in a way that it has not become an  
6 issue in the State of South Carolina like it has  
7 in North Carolina. We're one of the largest  
8 public utilities in the United States, and we  
9 have one of the top credit ratings of all  
10 utilities, public utilities.

11 We have a great board of  
12 directors. You all know many of these. We are  
13 selected by the governor, approved by the  
14 Senate, confirmed by the Senate, and the board  
15 is made up of some at-large members that  
16 represent some of the counties where we operate  
17 -- Horry County, Georgetown County, and Berkeley  
18 County -- but also the congressional districts  
19 of the State of South Carolina. I serve as  
20 chairman, which is an at-large position. I've  
21 been the chairman for four years. Before that,  
22 I served from the 2nd District, where Jack Wolfe  
23 now occupies.

24 This is a great board and a very  
25 dedicated board. The attendance of these board

1 members at board meetings, I think, is  
2 unparalleled of any, any state agency in South  
3 Carolina.

4 This is a little example of what  
5 we have been living through as a board since  
6 approval of the EPC Amendment on October 27,  
7 2015. This included the fixed-price contract,  
8 which we elected in 2016. We've had 36 board of  
9 directors meetings: 16 regular meetings and 20  
10 special-called board meetings, two with members  
11 of the SCANA board and SCANA executive  
12 leadership.

13 Since the Westinghouse bankruptcy  
14 on March 29, 2017, we've had 12 board meetings.  
15 Our board has been fully briefed, not only by  
16 Santee Cooper staff but by experts, expert  
17 legal, expert banking, expert regulatory  
18 counsel. At times, we've hired outside counsel;  
19 for example, when we entered into the fixed-  
20 price contract, the board hired its own outside  
21 expert counsel to give us advice on whether or  
22 not that was the right course in which to go.

23 Two quick agreements before I  
24 turn it over to our CEO, Lonnie Carter. We  
25 operate under an agency agreement with our

1 partner, SCANA. Under that agency agreement,  
2 it's important to understand that SCE&G has lead  
3 in planning, developing the project, working  
4 with governmental authorities and third-party  
5 vendors. SCE&G also managed daily design and  
6 construction, including scheduling, financial,  
7 engineering, operational, and conceptual  
8 aspects.

9 SCE&G develops the project budget  
10 and the projection to complete the project and  
11 leads the negotiations with vendors and other  
12 third parties for project-related agreements and  
13 amendments. Santee Cooper does have to consent  
14 to any third-party contracts with a value  
15 exceeding \$1 million

16 This is a very busy slide to show  
17 you sort of how the structure looks. The second  
18 agreement, which is important, is one we call  
19 the DCA, the Design and Construction Agreement.  
20 Under that agreement, SCE&G managed the project,  
21 subject to a limited agency agreement, which I  
22 just mentioned. SCE&G is the majority owner and  
23 the project manager. Santee Cooper is the  
24 minority owner. The owners held quarterly  
25 executive steering committee meetings. Owners

1 and consortium meetings, and the consortium are  
2 the folks that were trying to build this.  
3 Santee Cooper approved projects and POs greater  
4 than \$1 million.

5 One thing that's interesting to  
6 note is, and I don't know the exact number, but  
7 SCE&G had approximately 600-some employees in  
8 nuclear. We had three, so we are -- we were the  
9 minority partner in this, but I will tell you,  
10 we were a very active minority partner.

11 We started to worry about  
12 Westinghouse probably as early as 2014, just  
13 because of some things Jimmy Addison mentioned:  
14 inability to get things done, inability to  
15 perform. We started to have very great  
16 concerns. At that time we asked that there be  
17 an independent study of what Westinghouse was  
18 doing, what would happen. The parties  
19 eventually engaged a firm named -- known as  
20 Bechtel in order to do that independent study  
21 and to try to help us better understand the  
22 problems that we were facing and better deal  
23 with those problems.

24 There were some recommendations.  
25 There were some criticisms of Westinghouse. One

1 of those was to slightly change the structure to  
2 impose an independent EPC manager. That  
3 recommendation from us was not received. And  
4 here we are.

5 One thing I want to mention as I  
6 close my comments is, Lonnie Carter is the CEO  
7 and the president. He's been intimately  
8 involved in this process from day one. The  
9 board has had great faith in Lonnie's management  
10 of this project. I can tell you Lonnie's been  
11 all over the world. He's been to Japan to try  
12 to get Toshiba to do the right thing. He's been  
13 to the White House to try to see if the federal  
14 government wouldn't step in and make this  
15 happen. He's lived this every single day, and  
16 I'll let him take it from there. Thank you, Mr.  
17 Chairman.

18 MR. CARTER: Thank you. Thank  
19 you. I'm going to attempt not to cover -- I'm  
20 going to attempt to not cover some of the same  
21 things that's been covered, Mr. Chairman, in the  
22 interest of time so we can get to questions.  
23 But back -- you know, in order to figure out  
24 where we are today, you have to go back a decade  
25 ago when we started. And at that time, as has

1       been said, we were considering facing rapid  
2       load-growth projections, and we have to build in  
3       time to make sure that we, we have capacity  
4       available.

5                       of course, you've heard about  
6       rising natural gas prices, but coal prices were  
7       also forecasted in going up also. Of course,  
8       the talk about CO2 regulation, and we had had  
9       good experience before, as has been said today,  
10      with Summer Unit 1, and we, Santee Cooper,  
11      really needed more fuel diversity. We had about  
12      -- a little over the peak of our use of coal, we  
13      had over 80 percent of our energy coming from  
14      coal-fired generation. And then, of course, as  
15      has been mentioned, the Energy Policy Act of  
16      2005 that was passed by the federal government  
17      really was intended to create a renaissance in  
18      nuclear energy in this country.

19                      This, this is just -- I'm not  
20      going to read all of these, but back, again, at  
21      that time, in 2007, there were ten different  
22      bills in Congress considering -- that would have  
23      increased the cost of running coal-fired  
24      generation. As you can also see down at the  
25      bottom, we had a presidential candidate

1       campaigning at the time -- that ultimately  
2       became president and served two terms -- that  
3       said that utilities that -- if somebody wants to  
4       build a coal-fired power plant, they can, it's  
5       just that they -- it'll bankrupt them. So  
6       that's what we were facing back at that time.

7                 why, why, why didn't we build a  
8       gas-fired unit at the time? Of course, natural  
9       gas just was not a good option. It's been said  
10      earlier that historically, at that time, prices  
11      had been volatile, but there were also four  
12      times higher at that time than they are today.  
13      And of course, it's still -- while it em -- it  
14      still emits CO<sub>2</sub>, it emits about half of, of what  
15      coal-fired units emit.

16                And if -- the other dilemma that  
17      Santee Cooper has is is that gas transportation,  
18      gas pipelines that are necessary to carry  
19      natural gas sufficient to fire the kind of  
20      generation that we're talking about only exist  
21      in this state along the I-85 corridor, the  
22      Transcontinental Pipeline, as it's referred to,  
23      owned by the Williams company. It's why Santee  
24      Cooper owns a gas-fired generation in Anderson  
25      County.

1                   But about 70 percent of Santee  
2 Cooper load is east of I-95, meaning that we  
3 need -- one of the infrastructure needs of this  
4 state and certainly of Santee Cooper would be a  
5 pipeline that would run sort of along I-95 and  
6 connect down into something that's known as the  
7 Sonat Express, and there have been some  
8 discussions about that and strategies associated  
9 with it.

10                   Just a quick couple of facts  
11 about nuclear: 20 percent of all U.S. power  
12 comes from nuclear generation. That's 60  
13 percent of the emissions-free generation in this  
14 country, so it far outclasses hydro and wind,  
15 which are the next two largest. So it was  
16 important. There are currently 99 reactors  
17 operating in the country to provide electric  
18 energy for commercial use. There were 104 at  
19 the time we started, I believe.

20                   we had to look to at both the  
21 environmental and safety issues and, of course,  
22 the risk and cost associated with the project.  
23 So this, this was base load generation that was  
24 reliable and low cost. It would have -- it did  
25 -- would reduce our reliance on coal and give us

1 the diversity we were looking for. We have,  
2 since the start of this project, retired four  
3 coal units and two oil units, and it would have  
4 contributed to our goal that the board adopted  
5 of trying to reduce our carbon footprint and get  
6 40 percent of our generation from non-greenhouse  
7 gas-emitting resources.

8 And of course, this AP1000 design  
9 that Westinghouse had come up with featured a  
10 new -- passive safety features which were new --  
11 I guess you would say a new generation of type  
12 nuclear reactors that would produce commercial  
13 energy. We, we also had to consider schedule  
14 and cost; our load projections, which I'll  
15 cover; industry expectations for coal; natural  
16 gas costs; the regulations that I've talked  
17 about. All these ultimately proved to change.

18 Another thing that I think is  
19 important to remember is, we went into this,  
20 that this industry had been dormant. So the  
21 nuclear supply chain had laid dormant for 30  
22 years. We were having to restart that, and that  
23 certainly was known to be a challenge. That  
24 supply chain was also hurt by Westinghouse  
25 design changes.

1                   The AP1000 engineering design,  
2 maturity, and changes -- the maturity just was  
3 not there. These were the first units being  
4 built of this design, and frankly, I believe  
5 Westinghouse repeatedly misled the owners about  
6 the status of that design. There were -- those  
7 design impacts showed up at the fabrication  
8 facilities first and then in the work packages  
9 that were necessary to complete work on the site  
10 and led to complexity and certainly hurt the  
11 productivity and performance of construction on  
12 the site.

13                   It's already been mentioned  
14 earlier, but the consortium's inability -- and  
15 remember, consortium are the two parties that  
16 were building the units at the time. That would  
17 have been Westinghouse and Shaw and then CB&I.  
18 Westinghouse was unable to do what I would call  
19 integrate the project. This was actually  
20 Westinghouse's first attempt at a turnkey EPC  
21 delivery. As a company, they had not done that  
22 before. They had brought the Stone & Webster  
23 company in, which had built nuclear plants, at  
24 least in name, earlier, decades earlier, and  
25 they brought them in under the Shaw Group

1 originally, but they were not able to deliver  
2 the integration skills that I'm speaking of.

3           There were commercial disputes  
4 between the consortium. We had limited  
5 visibility into those disputes that were between  
6 those. And then ultimately, the project  
7 schedule, again, an area where I believe  
8 Westinghouse misled the owners. The consortium  
9 CEOs were engaged early on, meaning the CEOs  
10 from SCANA and Santee Cooper. Myself, Kevin  
11 Marsh, and then also the CEOs at the two  
12 consortiums met periodically. The CEOs made  
13 commitments to us but failed to deliver  
14 repeatedly on those commitments, which  
15 ultimately led us to a -- the need and the  
16 desire for a fixed-price option, which I'll  
17 cover next.

18           In, in the amendment that's been  
19 referred to, to the original EPC contract with  
20 Westinghouse, the, the, the delay-related  
21 liquidated damages went from the original amount  
22 of 150 million -- these would be 100 percent  
23 numbers that I'm talking about, complete numbers  
24 under the contract, and those, those were  
25 increased to 676 million. And that's in

1 addition to the fixed price and what's been  
2 referred to as the Toshiba guarantee.

3 The amendment would also, more  
4 importantly, in my opinion, it would require  
5 construction milestone payments; in other words,  
6 we would go to a method where we would only pay  
7 for work that you could see completed on the  
8 site or a piece of equipment that had been  
9 delivered to the site.

10 So -- and I will point out that  
11 Westinghouse argued about those milestones, made  
12 it difficult to establish those milestones, and  
13 it took -- ultimately took 11 months to get the  
14 milestones actually completed where we could pay  
15 under that methodology. It actually --  
16 ultimately, to get that done, we actually had to  
17 take the item before a dispute resolution board  
18 to get that resolved.

19 So, you know, as I just  
20 mentioned, there were warning signs that led the  
21 owners to want to fix the price. And so that --  
22 as part of the overall EPC, it was amended, and  
23 that amendment was approved on October 27, 2015.  
24 The fixed price shifted the risk for cost and  
25 schedule to Westinghouse, but that process

1 consumed another 17 months and ultimately that  
2 fixed price contributed to Westinghouse's  
3 bankruptcy.

4 So Westinghouse has failed to  
5 deliver on the fixed price, the schedule, and  
6 the contract as a whole, and that's why we're  
7 here today. The, the, the incomplete and  
8 changing designs tied to the issues with modular  
9 supply and construction productivity really led  
10 a lot to the problems that we've experienced.  
11 Westinghouse's leadership: a consistent trend in  
12 failing to meet commitments. They just weren't  
13 forthright. The leadership turnover at, at, at  
14 our consortium: The CEO position turned over six  
15 times during the course of this project; the  
16 site vice-president changed five times since  
17 2008; and the construction manager changed  
18 ownership three times.

19 The repeated promises to provide  
20 what's been referred to as a fully resource  
21 loaded schedule: we requested one of those, and  
22 one of the things that I learned in the course  
23 of this project, there are high-level schedules  
24 in a project, and then there are detailed  
25 schedules that are necessary to actually

1       implement that plan on the ground. That is the  
2       type of schedule that we're talking about that  
3       did not get promised -- or kept getting  
4       promised, but didn't get delivered.

5                So without a fully loaded --  
6       resource loaded schedule, Westinghouse worked  
7       off a series of high-level, six-month, look  
8       ahead-type schedules, not, not an efficient and  
9       a productive way to, to build a project of this  
10      size. And so what would happen is, is you would  
11      see them work on these schedules, and then  
12      they'd stray off of them in four to six weeks,  
13      and then they'd need to reschedule and reset  
14      what they were tracking.

15               So Westinghouse filed for  
16      bankruptcy on March the 29th, and here are just  
17      some of the main activities that Santee Cooper  
18      has been involved with between now and the  
19      Westinghouse bankruptcy and what ultimately led  
20      to our board's decision on July the 31st to  
21      suspend construction. We certainly -- the first  
22      thing we needed to do was, we needed to get  
23      what's been referred to as an interim assessment  
24      agreement with Westinghouse, and that was to  
25      allow the project to continue under the

1 oversight of the Bankruptcy Court so that this  
2 four-month project comprehensive analysis could  
3 get completed.

4                   Of course, there were -- my, my  
5 guess is that the SCANA folks can tell you  
6 better than I. There are probably over a  
7 hundred people involved in working on developing  
8 this schedule. We were very, very surprised and  
9 disappointed to see how little -- how poorly  
10 Westinghouse had pulled all of that together and  
11 what -- how little, quite frankly, they really  
12 had in the way of putting together this fully  
13 resource loaded schedule that even just a few  
14 months before, we had -- really, just a few  
15 weeks before, we had been promised by the CEO of  
16 Westinghouse.

17                   So they worked at Jenkinsville.  
18 They went through hundreds of Westinghouse  
19 spreadsheet workbooks that had multiple tabs  
20 behind them. Involved a number of outside  
21 folks, including Fluor, who was working on the  
22 site and actually building it to help validate  
23 and unravel the estimates and to ultimately  
24 build our own schedule and our own estimate of  
25 cost to complete.

1                   we even -- because of the lack of  
2                   clarity and data in what was received from  
3                   westinghouse, we had to have folks walk around  
4                   on the site and actually validate what has been  
5                   installed and what was actually on the site and  
6                   located there.

7                   And then, of course, in addition  
8                   to those items, we had to look -- and we'll --  
9                   I'll talk about in a minute, we had to look at  
10                  our load forecast. We had to look at power cost  
11                  to our customers. We had to follow up on the  
12                  bankruptcy itself. We needed to continue to  
13                  pursue the production tax credits that were,  
14                  were not going -- we were not going to be able  
15                  to meet the deadline in the current federal  
16                  legislation that provided those, and Santee  
17                  Cooper needed an amendment in order for it to be  
18                  able to what I call monetize those production  
19                  tax credits. In other words, they had been  
20                  allocated to us by the Treasury Department, but  
21                  because Santee Cooper's not a federal taxpaying  
22                  entity, we had to have a way to be able to  
23                  deploy those tax credits and receive benefit of  
24                  them to the site so that our customers would pay  
25                  less.

1                   And then, of course, we had to  
2                   enter into Toshiba settlement negotiations  
3                   because that was the item that was -- as I -- we  
4                   could later figure out pretty quickly that it  
5                   was going to be is what I would call the long  
6                   pole in the tent. It was the one that was going  
7                   to take us the longest to get done.

8                   This is a little bit complicated,  
9                   but I think it's a good summary of the project  
10                  schedule and delays. So I'm going to start out  
11                  and say that the first two -- if we look at the  
12                  red boxes first, the first two are Santee  
13                  Cooper's 45 percent budget on top of -- you see  
14                  them at the top of the yellow lines. The, the  
15                  last red box all the way to your far right is  
16                  the owner's estimate to complete at 45 percent.

17                  Then, if you look at the first --  
18                  I guess it's right after that green bar, but  
19                  that -- I can't tell what color that is exactly,  
20                  but it's very top one. There was an 11-month  
21                  delay shown here. My slides say it's green, but  
22                  it doesn't look green to me from here. But  
23                  anyway, that was a delay that was granted  
24                  because of the construction license, the license  
25                  to operate, to construct and -- what we call the

1 COL, the license to construct and operate the  
2 unit, which was what the federal government  
3 provided with the Energy Policy Act of 2005 was  
4 -- where you could get -- you got both at one  
5 time.

6 So as Mr. Scott tried to indicate  
7 this morning, what you had at this case was, you  
8 had a design that you were approved to build,  
9 and if you build it to that design, then you  
10 could go operate it. You didn't have to go back  
11 and apply for an operating license, which had  
12 been a problem back in the late '70s and '80s.  
13 So once we had a, a license, we, we began.

14 So the first three yellow arrows  
15 show delays attributed to the consortium or to  
16 contract issues associated with them. That's  
17 the first two. The longest yellow arrow, the  
18 48-month delay, was based on the midsummer or  
19 mid-June owner estimate to complete, and that is  
20 what Santee Cooper completed our analysis off  
21 of. So if you look at the red arrow, which is  
22 all of the delays other than the one that was  
23 associated with the getting the license to build  
24 a unit, adds up to 77 months, or six and a half  
25 years in delays, all because of contractor

1 performance. So -- and I just need to note, and  
2 I'll show it here in just a minute, additional  
3 time is costly because it adds interest costs.  
4 Not just inflation, but it adds interest costs,  
5 and that will be very clear on this chart.

6 So what, what we have here are  
7 trying to compare -- we have three sets of bar  
8 and three charts. I'm going to take you through  
9 each one. The three sets of bars, "original"  
10 means the original budget when we started the  
11 project. The middle bar is the October  
12 amendment, the October 2015 amendment that we  
13 referred to earlier which gave us the fixed  
14 price. And then the final bar on the right is  
15 the estimate that was created by our joint  
16 teams.

17 So if you look at the first set  
18 of bars in the first -- in the upper left-hand  
19 corner, construction costs have -- are projected  
20 to have increased 57 percent. What's worse is  
21 is when you move over to the right. The  
22 interest cost that, again, Mr. Scott referred to  
23 earlier, because of the delays, that has  
24 increased 143 percent. The delay in time is  
25 just costly. It's a killer for these projects.

1 And then, of course, the bottom, you see the  
2 total. So -- and you can see there, from where  
3 we are today -- or, or I should say when we had  
4 the fixed price option before Westinghouse  
5 bankruptcy -- it would cost Santee Cooper's  
6 customers an additional \$3.3 billion.

7 And so we also would tell you  
8 that I'm concerned -- I will speak for me. I'm  
9 con -- believe that these numbers are  
10 optimistic. Based on the performance we've seen  
11 to date, I would tell you they're optimistic.  
12 Things would really have to go very well for us  
13 to be able to achieve those numbers, I believe.

14 There's one other thing that I  
15 should note at this point, and keep in mind that  
16 the state of South Carolina does not back Santee  
17 Cooper's bonds. Santee Cooper's bonds are  
18 backed by a pledge of Santee Cooper's revenues,  
19 which is important because if customers can't  
20 afford it, then the market will leave us.

21 I'm just going to touch on these  
22 quickly. I know we've been here awhile, and I  
23 know you have questions. This chart is just  
24 looking at from where we began, where we were  
25 projecting our energy requirements all the way

1 down to where they are today, and there are a  
2 number of factors that contribute to those.  
3 when we did our analysis, it's important to note  
4 that this -- and you'll see in a minute, Santee  
5 Cooper does not need new capacity now because of  
6 this forecast.

7                   And that's some of what Mr.  
8 Addison was referring to earlier about our  
9 different circumstances. We have plenty of  
10 capacity to meet the power needs of the  
11 customers that we serve for the foreseeable  
12 future. But when we analyze this, we analyze  
13 this as though we would go ahead and compare it  
14 to a natural gas-fired unit. And I'll, I'll  
15 touch on that in just a few minutes also.

16                   I, I don't need to say anything  
17 other than this is -- I would say this is sort  
18 of my bona fides. This will just show you  
19 what's going on with the gas market over the  
20 years. I thought you might find it interesting.  
21 This is, of course -- also, I mentioned that  
22 coal prices were projected to go up. They  
23 actually have come down also.

24                   So we -- as I mentioned just a  
25 few minutes ago -- so we did -- we considered --

1 we compared, which would have been about the  
2 equivalent amount of megawatts, 1,081 megawatt  
3 natural gas combined cycle, a type facility that  
4 -- for those that want to know the type, it was  
5 a GE HA machine, which is a very -- that's the  
6 class unit. It's a very efficient unit. The  
7 capital cost associated with that unit would be  
8 somewhere in the order of \$680 a kw, as compared  
9 to these units that, as you can see, are well  
10 over that, substantially over that.

11 when you complete -- when we  
12 completed that analysis, in looking at a range  
13 of variables, the outcome was that it was the --  
14 completing the nuclear units and con -- and, and  
15 one of the things I think is important to say  
16 here is, when we did that analysis, any money  
17 that we had already spent was considered sunk,  
18 so we were just at the going forward cost. Am I  
19 making sense?

20 In other words, we didn't  
21 consider what we'd already spent. You're only  
22 looking at, if you continue this project, is it  
23 still viable against an alternative? And all of  
24 those alternatives that we looked at ranged from  
25 a 1 1/2 billion to \$3 billion higher than

1 compared to this -- what I'll call proxy natural  
2 gas unit. And again, keep in mind, we don't, we  
3 don't need the capacity, which -- I'll show you  
4 a chart in just a few seconds.

5 what else did we do while all  
6 this was going on? We continued to work with  
7 our South Carolina delegation to get the  
8 production tax credit issue fixed. And I can't  
9 say enough good things about our South Carolina  
10 federal delegation. They were very supportive.  
11 It was passed through the House as freestanding  
12 legislation, which I find -- that's not my area  
13 of expertise, but I find that remarkable. It  
14 now is waiting for consideration by the Senate.

15 In addition to our South Carolina  
16 delegation efforts, we did meet with top  
17 administration officials. The governor was  
18 helpful in setting up some of these meetings, I  
19 understand. But no, I guess, relief or  
20 assistance has been provided yet at this point.

21 We certainly also had to consider  
22 and continue to monitor the bankruptcy  
23 proceedings and evaluated all of the legal  
24 filings. Of course, that work continues, and  
25 will continue for some time. And then, of

1 course, I mentioned earlier, we had to push very  
2 hard on closing the Toshiba settlement and  
3 ultimately got it approved on July the 27th.

4 It was, it was critical for us to  
5 get that done because by the time we got our  
6 estimates in and our schedule, we knew that the  
7 project was not viable, and we worked very care  
8 -- closely with our partner in SCANA to try to  
9 move that along then as quickly as we could  
10 because Santee Cooper alone was spending a  
11 little over \$2 million a day on the site. So it  
12 really did become a real issue for us. And then  
13 ultimately, we knew we needed to get this done  
14 in order -- so that we could make sure that the  
15 Toshiba board would ultimately approve the  
16 settlement.

17 So com -- there were a number of  
18 risks and uncertainties that continued.  
19 Completing one or both units would expose Santee  
20 Cooper to a significant additional risk, as was  
21 referred to by Mr. Addison. We would not have a  
22 fixed price, so we would be back to having to  
23 worry about the schedule and whether it could be  
24 completed efficiently on time and whether it  
25 could be completed for the cost that we

1 estimated that it could be done on time.

2 we had the AP1000 design issues  
3 that still -- some still exist. And of course,  
4 it certainly was having an impact on the entire  
5 industry. We also have the risk associated with  
6 -- the party that was doing that design is in  
7 bankruptcy, so we don't know what they might  
8 look like coming out of bankruptcy as well. So  
9 as has been said, there were different risks,  
10 and they would be borne differently by  
11 differently utilities. The fixed-price costs of  
12 the nuclear project are projected to be three to  
13 three and a half times higher than this natural  
14 gas alternative.

15 Here's ultimately, I believe,  
16 what drove the decision. If, if you look,  
17 there, there are basically three columns of  
18 numbers here. What is it if we complete both  
19 units? What is it if we complete only one unit  
20 and a natural gas combined-cycle unit to make  
21 the other piece? And then, finally, what is it  
22 if we just suspend and don't complete either of  
23 the two units and ultimately went to a natural  
24 gas unit? I want to again emphasize, we don't  
25 need that, but that's what we were comparing it

1 to, and that's going to be important in the way  
2 that, at least, I would look at these numbers.

3 First, first of all, if we  
4 completed both units, we were looking at a 41  
5 percent rate increase to our customers. Now,  
6 there are two lines there. One, the, the -- you  
7 see the bottom line actually takes out fuel  
8 escalation, and that's important because notice,  
9 the fuel escalation doesn't change the answer if  
10 you build both units. What that means is what's  
11 been said earlier today. It's a capital-  
12 intensive unit. Once you've spent your money,  
13 you've spent it. You've got the unit, and you  
14 have to run it.

15 If we go all the way over to the  
16 right -- well, before I do that, let's take the  
17 middle column. The 30 percent is actually what  
18 it would cost us, again, fixed price if we built  
19 two -- just built the single unit and  
20 supplemented it with natural gas.

21 And finally, if you look all the  
22 way over, if we suspend, the 15 percent is not  
23 fixed. We don't have to build that unit now.  
24 We can defer those costs for a number of years,  
25 so we have a great deal of flexibility in the

1 far 15 percent that we do not have in the 41 or  
2 the 30 percent. We, we, we have a strong belief  
3 we would face those numbers. We believe we  
4 could reduce the 15 percent substantially going  
5 forward in this analysis.

6 I put this in -- this is -- this  
7 will let you see that -- why we do not need  
8 capacity at this point, so we -- one of the  
9 questions I've frequently been asked is, Do we  
10 have enough? Santee Cooper has plenty for the  
11 load that it's estimating to have to serve now.  
12 As you can see, as part of this, one of the  
13 things that we would -- we have is we have Cross  
14 2, which we are not currently operating because  
15 we can save some money by not doing that. Cross  
16 2 acts as a great hedge against gas prices for  
17 us. Right now, today, in today's market, we  
18 would not run that unit. We would be able to  
19 buy natural gas-fired capacity and energy to  
20 meet that need, again, back to my point earlier  
21 about how we could reduce the 15 percent that we  
22 were looking at there.

23 So if gas prices continue to stay  
24 where they are, then we'll be able to bring this  
25 unit back and carry ourselves to 2030, into the

1       2030's. If gas prices go up, then we'll bring  
2       this unit back online, bring it into compliance  
3       and get it back online and use coal, which would  
4       be cheaper.

5                       We were asked about mitigation  
6       steps. Of course, the first was to suspend  
7       construction. We continued to seek federal help  
8       on the production tax credits and other  
9       resources. I believe that nuclear power is very  
10      important to this country in the long run. We  
11      need diversity of generation resources. I  
12      personally see us com -- repeating what we did  
13      in the first 25 years of my career, which was  
14      build a bunch of coal units because that's what  
15      the Southeast needed and what was available to  
16      us and was cheapest. And now what we're going  
17      to see is a bunch of natural gas-fired units  
18      built because that's what's cheapest.

19                      We are seeking additional  
20      partners. We have been trying to do that since  
21      2010. I just want to point that out because as  
22      our -- we saw our load starting to drop, we know  
23      -- knew we needed to seek additional partners.  
24      We have been working to try to monetize the  
25      Toshiba settlement, and hopefully that will make

1 sense for us. And of course, we are pursuing  
2 westinghouse in the bankruptcy process. If  
3 we're unsuccessful at securing partners, at some  
4 point, we will need to consider salvaging and  
5 selling components. I'm coming, I coming in for  
6 a landing, Mr. Chairman. Last, last -- two more  
7 charts.

8 So here's the customer impact.  
9 what, what, what is the, the impact today?  
10 Across the Santee Cooper system, current  
11 customer rates have increased by 4.3 percent  
12 since the project started in 2009. So Santee  
13 Cooper has collected \$540 million through  
14 electric rates from all customers; that would be  
15 including wholesale, retail, all of our  
16 customers, industrial since 2010. We're doing  
17 all that we can to avoid future rate increases.  
18 As you know, we just cancelled plans to raise  
19 rates in '18 and '19. Included in those rate  
20 increases were increases for other parts of the  
21 business, which we are going to try to work to  
22 resolve. We will be using the Toshiba  
23 settlement and debt restructuring to help.

24 We certainly will have to tighten  
25 our belts and hold the line to avoid those rate

1 increases also, and the board has asked us to  
2 look at our overall financial plans now that we  
3 have the Toshiba settlement and know these  
4 estimates and present that to the board in  
5 October. And then they've also asked us to hold  
6 town hall meetings with our customers in our  
7 direct service territory in September.

8 So Santee Cooper will continue to  
9 provide competitive electricity and water. Our  
10 rates continue to be lower than the state, South  
11 Atlantic, and national averages. We provide  
12 reliable power through our transmission and  
13 distribution systems. Our customer satisfaction  
14 is good.

15 what, what's led us here today?  
16 Our loads decreased, gas prices have fallen,  
17 environmental regulations seem to have been  
18 pulled back and pushed back. And of course, the  
19 one that's been said the most is Westinghouse's  
20 inability to deliver according to the fixed  
21 price, and that has made this project become  
22 uneconomical for our customers. Thank you, Mr.  
23 Chairman.

24 CHAIRMAN SETZLER: Okay. Mr.  
25 Byrne, we went by you. Did you have something

1           you wanted to add before we open it up for  
2           questions? Because I'm -- I've already got a  
3           list of members wanting to ask questions.

4                       MR. BYRNE: Well, Senator, I'm  
5           here to help answer questions.

6                       CHAIRMAN SETZLER: Okay.

7                       CHAIRMAN MASSEY: Thank you,  
8           (INDISTINCT).

9                       CHAIRMAN SETZLER: Yeah. I've,  
10          I've got a -- as one of the co-chairs, I've got  
11          a bunch of questions, but I'm going to ask one  
12          first and then turn it to the other co-chair,  
13          and we've got four members of the committee  
14          already asked to be recognized.

15                      Mr. Carter, let me direct this  
16          question, I guess, to you and Mr. Addison.  
17          We've heard a lot about Westinghouse's  
18          bankruptcy -- and, and, and I want to try to do  
19          this with as much respect and responsibility as  
20          we can -- about Westinghouse's bankruptcy and  
21          the impact and the failure of what Westinghouse  
22          did. But we haven't heard anything -- I heard  
23          testimony that when you entered into the  
24          contract, you knew Westinghouse had never built  
25          one of these units before.

1                   we've heard about the schedule,  
2                   and they couldn't come up with the schedule.  
3                   well, according to the information you provided  
4                   us in 2012 when it was licensed, they wouldn't  
5                   give it to you. In 2014, they wouldn't give it  
6                   to you. In 2015, you enter into another  
7                   agreement with them, which is, three years  
8                   later, you still don't have it. And now, you're  
9                   saying that's the problem.

10                   At some point, a monopoly has a  
11                   responsibility. When you're granted a monopoly  
12                   -- what did y'all do from 2012 till the time  
13                   they went bankrupt when they wouldn't give it to  
14                   you instead of entering into additional  
15                   agreements, which now the ratepayers are paying?

16                   MR. CARTER: Yes, sir. From  
17                   Santee Cooper's perspective, as early as 2013,  
18                   we raised concerns because what we began to see  
19                   was in the failure of the modules that were  
20                   supposed to be coming out of a facility down in  
21                   Louisiana. They weren't coming, and they  
22                   weren't coming on time and on the schedule that  
23                   they were promised. And so that's the first  
24                   time we raised -- that we raised concerns.

25                   And it ultimately led to us

1       actually asking to the study that the Chairman  
2       referred to to take a look at, what, what could  
3       and should be done? Because as he also showed,  
4       we, we -- there were just a few of us working on  
5       it. We relied on the expertise of our partner  
6       and ultimately then felt like we needed to bring  
7       in some outside expertise to review the project  
8       and take a look at and see what could be done to  
9       address the issues that we were seeing.

10               And early on, it was pretty clear  
11       to me, listening to what we were being told,  
12       that the engineering really was not what I would  
13       call mature, and it was standing in the way of  
14       the productivity of developing the modules and  
15       actually getting the work done onsite.

16               CHAIRMAN SETZLER: So y'all were  
17       partners. Who was responsible for the day-to-  
18       day management and working with Westinghouse in  
19       the construction of this facility?

20               MR. ADDISON: Mr. Chairman,  
21       that's our responsibility, and I'll start off  
22       responding to your question.

23               CHAIRMAN SETZLER: Sure.

24               MR. ADDISON: And then, if it's  
25       okay, have Mr. Byrne supplement my answer.

1                   CHAIRMAN SETZLER: Sure.

2                   MR. ADDISON: So I would say that  
3 we were very involved all along during the,  
4 during the construction. We have, as I said  
5 earlier, filed 34 quarterly reports with the  
6 Public Service Commission. I don't believe  
7 there's anything material that's come up as an  
8 issue during this construction that we didn't  
9 note in one of those reports in an area of  
10 concern along the way.

11                   We had folks stationed at various  
12 production facilities, not just domestically,  
13 but we had folks at hold and witness points  
14 internationally, checking the status of what's  
15 going on with the various modules, etcetera, so  
16 it isn't that, from my perspective, that we  
17 weren't involved and aware of it. It was a  
18 matter of, what exactly could we do at that  
19 point contractually? What were we limited or  
20 available to do. So it it's, if it's okay, I'd  
21 like to hand off to Mr. Byrne to have him give  
22 some more depth.

23                   CHAIRMAN SETZLER: Sure.

24                   MR. BYRNE: To, to add to the  
25 depth, Mr. Chairman, you have to go back to the

1 2006 time frame. We actually put out a request  
2 for proposal to three different companies to, to  
3 build a nuclear reactor for us. There was  
4 AREVA, General Electric, and Westinghouse. We  
5 selected Westinghouse for a variety of reasons,  
6 but all three of those vendors came with a  
7 consortium model.

8           They took a look at the  
9 construction that had -- that went on in the  
10 1970s, '80s, perhaps up to early '90s, and they  
11 were actually trying to address issues with the  
12 model that they employed at that time, which was  
13 basically, those vendors only supplied the  
14 design, and they -- you had to contract  
15 separately with a -- an engineering company or a  
16 construction company to actually go and build  
17 it, so the utilities oftentimes were work --  
18 were acting as their own general contractor, the  
19 same as you would building a house. So you,  
20 then, become responsible for, for everything if  
21 it doesn't work well and things aren't aligned.

22           So when we selected Westinghouse,  
23 they aligned with a company called the Shaw  
24 Group, which was an engineering procurement and  
25 construction company. Now, their, their nuclear

1 experience was probably light, but they had a  
2 lot of large project experience.

3 But each of the reactor vendors  
4 that we had an opportunity to choose from would  
5 have come with a consortium partner, and all of  
6 them were proposing to do this in an EPC fashion  
7 -- engineer, procure, construct -- as opposed to  
8 just doing it T&M (PHONETIC), where the utility  
9 acts as a general contractor. So --

10 CHAIRMAN SETZLER: But your  
11 contract as the owner, I assume, gave you a  
12 right to terminate from nonperformance.

13 MR. BYRNE: Well, the, the  
14 contract did have rights to terminate, but the  
15 -- those rights would probably have, have been  
16 litigated.

17 CHAIRMAN SETZLER: But they  
18 wouldn't be on the ratepayers five years later.

19 MR. BYRNE: Well, that -- you  
20 could, you could look at it that way. I  
21 certainly understand that. However, we were  
22 building a Westinghouse reactor, and once you  
23 start construction of a Westinghouse reactor, it  
24 isn't like I can swap to somebody else's design.  
25 So we really had to finish with Westinghouse.

1                   Further on your question about in  
2                   the 2012 time frame or later, why did we believe  
3                   Westinghouse? First of all, they did give us  
4                   schedules. We had schedules from the start.  
5                   And as Mr. Carter points out, there are  
6                   different levels of schedules. We had what's  
7                   called the Level 2 schedule right from the  
8                   start.

9                   They have given us a number of  
10                  schedules. Now, their ability to live up to  
11                  those schedules is, is questionable, and then  
12                  the fully integrated schedule, which integrates  
13                  things like man-hour loading and, and congestion  
14                  factors -- you know, how many people can you  
15                  really fit in one specific area -- that's what  
16                  we had been pushing for, and that's what we were  
17                  promised a couple of times, and they didn't  
18                  deliver on it.

19                 We also had a different  
20                 constructor. As Mr. Addison pointed out, we  
21                 transitioned from the Shaw Group to Chicago  
22                 Bridge & Iron as the constructor. And then with  
23                 the, the -- this last change that we negotiated  
24                 in 2015 to get the fixed-price option, that  
25                 brought Fluor in. Now, we've had a lot of good

1 experience with Fluor. Fluor is a South  
2 Carolina-based company. They run their nuclear  
3 operations out of, out of Greenville. They  
4 built V. C. Summer Unit Number 1, and when we  
5 looked at it, from the last couple of EPC  
6 contracts that we had on our non-nuclear  
7 facilities, Fluor was the EPC counterparty.

8 So Fluor brought with them a lot  
9 of credibility. So they were working to give  
10 input to the, to the schedule that Mr. Carter  
11 talked about that we, that we didn't get, and  
12 it, and it appears that the, the Fluor inputs  
13 were not well received by Westinghouse, and they  
14 were pushing back on those. And then right up  
15 to the point where they announced, right at the  
16 end of 2016, this huge impairment, \$6.3 billion  
17 for the two U.S. AP1000 projects, our project  
18 and the one -- the similar project in Georgia.

19 It appears to us that the, the  
20 Fluor inputs were not well received by  
21 Westinghouse, but they were under a one-year --  
22 I think it's some kind of a financial rule to,  
23 to disclose impairments, and they ran right up  
24 to that time frame and then disclosed a, a very  
25 large impairment that we were not expecting.

1                   CHAIRMAN SETZLER: All right, and  
2 let me ask you one final question. From the  
3 time you entered into a contract with  
4 Westinghouse to the time they went bankrupt, did  
5 you ever get the resource loaded, integrated  
6 project schedule you requested from them? From  
7 Westinghouse.

8                   MR. BYRNE: We, we did not get  
9 that from Westinghouse.

10                  CHAIRMAN SETZLER: So for five  
11 years, you never got it.

12                  MR. BYRNE: We had, we had  
13 schedules. We didn't get the fully integrated,  
14 resource loaded schedule that we had been  
15 looking for.

16                  CHAIRMAN SETZLER: Senator from  
17 Edgefield, Senator Massey.

18                  CHAIRMAN MASSEY: Thank you, Mr.  
19 Chairman. Mr. Addison, I think I understand  
20 that SCE&G's expense so far is 4.9 billion; is  
21 that right?

22                  MR. ADDISON: Close. So it's --  
23 there's a couple hundred million in there of  
24 estimate of -- to wind down the project. So --  
25 but most of that is cost to date.

1                   CHAIRMAN MASSEY:  What has been  
2                   spent so far?  It's 4.9 plus a little bit for  
3                   what you've done for winding down?  Is that  
4                   right?

5                   MR. ADDISON:  There's some  
6                   estimate for wind-down for the next few months  
7                   that is in the 4.9.  So most of it's historical;  
8                   not all of it.

9                   CHAIRMAN MASSEY:  All right.  So  
10                  Mr. Carter, what's Santee Cooper's expense so  
11                  far?

12                 MR. CARTER:  The total project, I  
13                 believe that number's is 4.4, right?

14                 CHAIRMAN MASSEY:  (INDISTINCT)

15                 MR. CARTER:  A little over 4  
16                 billion.  That would include --

17                 CHAIRMAN MASSEY:  4.4?

18                 MR. CARTER:  I think it's  
19                 actually 4.3, now that I think about it.  And,  
20                 and that includes transmission, owner's cost,  
21                 everything, yes, sir.

22                 CHAIRMAN MASSEY:  All right.  Mr.  
23                 Addison, I understand from, from one of your  
24                 slides that the abandonment -- the projected  
25                 abandonment cost is 2.2 billion; is that right?

1 MR. ADDISON: Correct.

2 CHAIRMAN MASSEY: Well, what is  
3 Santee Cooper's projected abandonment cost?

4 MR. CARTER: The, the cost to  
5 Santee Cooper is whatever it's already expended.

6 CHAIRMAN MASSEY: So there, there  
7 would be no cost for Santee Cooper to wind down?

8 MR. CARTER: Well, we will have  
9 whatever the wind-down costs are and, and  
10 maintenance costs are, but I -- if I'm  
11 understanding your question correctly, whatever  
12 we have spent, that's what our costs are.

13 MR. ADDISON: But Senator, if I  
14 --

15 MR. CARTER: We, we don't --

16 CHAIRMAN MASSEY: Why is it going  
17 to cost SCE&G 2.2 billion and it's to going to  
18 cost Santee Cooper anything?

19 MR. CARTER: Because we don't pay  
20 federal income taxes, so we won't get a federal  
21 income tax benefit.

22 CHAIRMAN MASSEY: You, you agree  
23 with that?

24 MR. ADDISON: I do. I was going  
25 to, I was going to offer -- that's the, that's

1 the significant difference. Of course, they  
2 won't have to pay income taxes on the parental  
3 guarantee that we get from Toshiba, but the  
4 costs we've incurred to date are significantly  
5 higher, so they do not have a tax deduction.  
6 And that's \$2 billion of the difference.

7 CHAIRMAN MASSEY: All right. Mr.  
8 Addison, I understand from your slide 15 that  
9 the projection to cost -- that the projection to  
10 build one reactor going forward, if you were at  
11 the current partnership rate, would be 7.1  
12 billion; is that right?

13 MR. ADDISON: Correct.

14 CHAIRMAN MASSEY: All right. So  
15 that would be an additional 2.2 billion over  
16 what you've spent now.

17 MR. ADDISON: That's correct.

18 CHAIRMAN MASSEY: All right. So,  
19 so it's basically a wash for you. If you've got  
20 the existing partnership arrangement, it would  
21 be a wash; 2.2 to abandon, or 2.2 billion to  
22 build the one reactor. Am I, am I looking at  
23 that right?

24 MR. ADDISON: Well, no. I would  
25 say it's going to cost -- well, first of all,

1 with the caveats we both gave earlier that there  
2 is no fixed-price option on the 7.1 anymore. It  
3 could be higher. So --

4 CHAIRMAN MASSEY: All right, but  
5 with the projection you've given us was 7.1.

6 MR. ADDISON: Yes.

7 CHAIRMAN MASSEY: Right. And I  
8 understand it could change. It could -- well,  
9 it's not going to go down. It would go up. But  
10 -- and I guess I'm -- I mean, my question is, I  
11 see 2.2 to complete it, the existing partnership  
12 arrangement, and I see 2.2 just to abandon. Is  
13 it really not 2.2 on each side?

14 MR. ADDISON: No, it's 2.2 to  
15 abandon, net of the tax deduction and the  
16 parental guarantee. So that's what we estimate  
17 to abandon the cost. There's just no assurance  
18 that the 7.1 would be all there is, and  
19 unfortunately, we don't have a partner, so that  
20 would drive us to the far right column on page  
21 15.

22 CHAIRMAN MASSEY: I understand  
23 that. I understand. All right, so --

24 MR. BYRNE: I think, I think --  
25 if I might help a little bit, the, the amount --

1 the 4.9 billion that we talk about that is, is  
2 the cost that we've expended to date, not all of  
3 that is in rates. In fact, a good majority of  
4 that is not in rates. So we only recover  
5 currently under the Base Load Review Act the  
6 financing costs of the plant. So those, those,  
7 those costs would need to be recovered. That's  
8 the 2.2. Those costs would be in the, the 7.1  
9 that we would have to have going forward. So  
10 it's an amount that's in the 7.1.

11 CHAIRMAN MASSEY: All right. So  
12 Mr. Carter, what, what would be Santee Cooper's  
13 projection if, if we were to build one, one of  
14 the reactors?

15 MR. CARTER: If we were to  
16 complete one reactor, we would, we would be  
17 looking at a 30 percent increase in costs to our  
18 customers.

19 CHAIRMAN MASSEY: I understand  
20 that, but what's the number?

21 MR. CARTER: The number -- hold  
22 on.

23 CHAIRMAN MASSEY: Mr. Addison  
24 tells me 9.5. Do you agree with that number?

25 MR. CARTER: Is that --

1 (INDISTINCT) my colleagues had, but one thing  
2 that I think -- and Mike may be looking at that  
3 -- one of the things that you face if you build  
4 one unit is, you still have all of the risk that  
5 you would, even if you were building two. And  
6 so there was a reason that two units were being  
7 built in the first place.

8 I mean, if you -- if there were  
9 -- the real economics come in the second unit  
10 because once you can build one -- and on the  
11 site you've got to have the security people  
12 there, you've got to have the quality control  
13 people, you've got to get the design done. And  
14 once you've got it designed and actually being  
15 built for one -- so the, the real -- so you  
16 would end up paying -- the number that I recall  
17 is 59 percent of the total, so 59 percent of  
18 what it would cost you to finish both is what  
19 you have to pay to just build one.

20 CHAIRMAN MASSEY: If you're going  
21 to build one, you might as well build two,  
22 right?

23 MR. CARTER: Yes, sir.

24 CHAIRMAN MASSEY: All right. So  
25 do you, do you agree with the 9.5 billion dollar

1 figure to complete one?

2 MR. CARTER: That's (INDISTINCT).  
3 I want to make sure I give you the right number.

4 CHAIRMAN MASSEY: Me, too

5 MR. CARTER: We, we can get you  
6 that number. Just, just a minute. It sounds  
7 right.

8 CHAIRMAN MASSEY: All right. So  
9 then if --

10 (INDISTINCT)

11 CHAIRMAN MASSEY: All right, and,  
12 and, and that's -- and I guess that kind of  
13 confuse me because it looks like SCE&G's would  
14 be 2.2, but Santee Cooper's would be 2.4? Is  
15 that right?

16 MR. CARTER: No, sir. I don't  
17 think you're comparing apples to oran -- you're  
18 not comparing apples to -- if I'm understanding  
19 --

20 CHAIRMAN MASSEY: Y'all get me in  
21 the right fruit basket.

22 MR. CARTER: Okay. We would --  
23 the amount to complete one unit from where we  
24 are today, that's the number that we're looking  
25 for -- yeah, here we go.

1                   CHAIRMAN MASSEY: Right. That's  
2 the number I'm looking for.

3                   MR. CARTER: Let's see if I can  
4 --

5                   CHAIRMAN MASSEY: Mr. Addison,  
6 while he's looking, I'm interpreting that right,  
7 right? That your projection is that to complete  
8 one unit would cost an add -- would cost \$9.5  
9 billion total.

10                  MR. ADDISON: That's correct.

11                  CHAIRMAN MASSEY: Okay.

12                  MR. ADDISON: And if I could  
13 offer, I -- I believe some of the difference is  
14 -- as you saw in one of Mr. Carter's slides, is  
15 with the Base Load Review Act, we are currently  
16 -- the customers are currently most of the  
17 carrying cost every year, the interest, if you  
18 will, on the capital that's been put up by --

19                  CHAIRMAN MASSEY: Right.

20                  MR. ADDISON: -- equity and bond  
21 investors. In their case, they're -- the  
22 customers are, I believe, only paying a portion  
23 of that, so there's interest getting compounded  
24 on top of compounding, and I believe that's why  
25 these -- the numbers look inverted, why does

1 their 45 percent appear to be higher than ours.

2 CHAIRMAN MASSEY: And, and, and I  
3 guess, really, what I'm -- well, what I'm  
4 ultimately getting at -- I mean, I'd like to  
5 know what the -- what we think the number would  
6 be, but I want to make sure we're agreeing on  
7 what the numbers are.

8 MR. CARTER: I've got them now.

9 CHAIRMAN MASSEY: Okay.

10 MR. CARTER: Let, let me -- it is  
11 based on the estimate -- estimated cost to go,  
12 meaning what would it cost to complete -- five  
13 point -- 5,455,000,000 was our estimate for a  
14 hundred percent, and then Santee Cooper's 45  
15 percent would be 2,455,000,000. So --

16 CHAIRMAN MASSEY: It would cost  
17 an additional 5.5 billion from where you are  
18 now, what you've spent so far.

19 MR. CARTER: Yes, sir. Based on  
20 this information, yes, sir.

21 CHAIRMAN MASSEY: All right. So  
22 Mr. Addison, it looks like, from your slide,  
23 you're estimating about 4.6.

24 MR. ADDISON: Right.

25 CHAIRMAN MASSEY: So we've got a

1 difference of a billion dollars?

2 MR. CARTER: I believe that  
3 difference is likely to be the Toshiba  
4 settlement. That's what that sounds like.

5 MR. ADDISON: Yep.

6 MR. CARTER: Because the Tosh --  
7 in our analysis, because the Toshiba settlement  
8 does not have to be spent, we can cover the  
9 Toshiba settlement money, and we do not --

10 CHAIRMAN MASSEY: Speak in the  
11 microphone (INDISTINCT).

12 MR. CARTER: I'm sorry.

13 CHAIRMAN MASSEY: I can hear you  
14 because you're looking right at me, but  
15 (INDISTINCT).

16 MR. CARTER: I'm sorry.

17 CHAIRMAN MASSEY: Yeah.

18 MR. CARTER: The Toshiba  
19 settlement, because it does not have to -- we  
20 don't have to finish the units to recover that  
21 money -- that was a big deal that we needed to  
22 negotiate, as Mr. Scott alluded to this morn --  
23 or earlier today. So that is considered the  
24 same as a sunk cost. It didn't -- in our  
25 analysis, we did not consider it.

1                   MR. ADDISON: And it, and it is  
2 netted off of my information on page 15.

3                   MR. CARTER: That's the  
4 difference.

5                   MR. ADDISON: That is the  
6 difference.

7                   CHAIRMAN MASSEY: You've included  
8 that in there.

9                   MR. ADDISON: Included the  
10 reduction of it, that footnote 1, yes, sir.

11                  CHAIRMAN MASSEY: All right, so,  
12 so -- and I guess, ultimately what I want to get  
13 to -- because we're going to throw numbers  
14 around, and it's -- y'all are going to have me  
15 spinning pretty quick. But I guess what I  
16 really want to know is, y'all agree on what it  
17 would cost to finish one reactor.

18                  MR. ADDISON: With the exception  
19 of the difference in how we account for our  
20 interest in the two companies -- we've got,  
21 we've got different methodologies that we have  
22 to follow, different accounting that we have to  
23 follow, so there's some difference there, but  
24 the cost, I believe, we have agreement on.

25                  MR. CARTER: Yes, sir.

1                   CHAIRMAN MASSEY: All right, so,  
2 Mr. Carter, I think I understood that you told,  
3 you told us that to complete one reactor would  
4 result in a 30 percent increase to your  
5 customers.

6                   MR. CARTER: Yes, sir.

7                   CHAIRMAN MASSEY: Is that right?  
8 Mr. Addison, what would be the increase to your  
9 customers if you complete one reactor?

10                  MR. ADDISON: I believe the  
11 increase -- I don't have the specifically here.  
12 I've got it for, for two units, but I believe it  
13 would be in excess of 20 percent.

14                  CHAIRMAN MASSEY: All right,  
15 well, what's the number for -- if you complete  
16 both reactors?

17                  MR. ADDISON: Twenty-five  
18 percent.

19                  CHAIRMAN MASSEY: Okay, so that  
20 kind of gets to Mr. Carter's point earlier, and  
21 that is, if you're going to build one, you might  
22 as well build two?

23                  MR. ADDISON: Exactly.

24                  CHAIRMAN MASSEY: All right. Mr.  
25 Carter, let me go back to the fixed-price

1 agreement with Westinghouse. Was Santee Cooper  
2 involved in the negotiation of that agreement?

3 MR. CARTER: Yes.

4 CHAIRMAN MASSEY: Who was at the  
5 table for Santee Cooper?

6 MR. CARTER: Let's see. Gosh,  
7 myself, Mr. Crosby, Mr. Baxley; that's who was  
8 there.

9 FEMALE SPEAKER: Speak directly  
10 into the (INDISTINCT).

11 MR. CARTER: I'm sorry.

12 CHAIRMAN MASSEY: He was looking  
13 around (INDISTINCT).

14 MR. CARTER: I was having -- I'm  
15 trying to remember who was at the table.  
16 Myself, Michael Crosby, who is our senior vice-  
17 president for nuclear energy, and our general  
18 counsel, Mike -- Michael Baxley.

19 CHAIRMAN MASSEY: All right, so,  
20 so Santee Cooper -- not only did you have people  
21 at the table, but you, you had input into the  
22 negotiation of that --

23 MR. CARTER: Yes, sir, we did.

24 CHAIRMAN MASSEY: -- of that  
25 agreement; is that right?

1 MR. CARTER: Yes, sir.

2 CHAIRMAN MASSEY: Who, who, who  
3 was, who was at the table for SCANA?

4 CHAIRMAN MASSEY: Certainly. Our  
5 team was led by Mr. Marsh, our CEO. Mr. Byrne  
6 and I both participated. We had a lot of  
7 support staff involved since we were responsible  
8 for the project; general counsel for sure, but a  
9 lot of onsite support team as well.

10 CHAIRMAN MASSEY: And then, who,  
11 who had to approve it for SCANA?

12 MR. ADDISON: Ultimately, our  
13 board of directors had to approve it because of  
14 the magnitude of it, and then we ultimately had  
15 to take that to the Public Service Commission,  
16 which we did.

17 CHAIRMAN MASSEY: All right, and,  
18 and what kind -- did the board have to approve  
19 your agreement as well?

20 MR. CARTER: Yes, sir.

21 CHAIRMAN MASSEY: What kind of  
22 discussion did the board have about making that  
23 fixed, fixed-price agreement?

24 MR. CARTER: I'll start, and then  
25 the chairman --

1                   CHAIRMAN MASSEY: Mr. Lord may,  
2                   may be a better person to respond to that.

3                   MR. LORD: Sure. Well, Senator,  
4                   we wanted the project to go forward, and we  
5                   hired outside counsel, the Dentons firm, an  
6                   international law firm who had a team of lawyers  
7                   who were expert in looking at massive,  
8                   complicated construction. And we had them  
9                   review the options, review where we were, and  
10                  opined to us that they that it was, it was, it  
11                  was the, the best possibility of moving forward.

12                  CHAIRMAN MASSEY: That, that was  
13                  after -- was that during the negotiations,  
14                  before negotiations, or after there was, there  
15                  was a proposal on the table?

16                  MR. LORD: It was after a  
17                  proposal, before we voted.

18                  CHAIRMAN MASSEY: All right, so  
19                  -- all right, so the board -- was the board  
20                  getting updates prior to that?

21                  MR. LORD: Yes. The board was  
22                  getting updates at every meeting, and I don't  
23                  remember if we had a special meeting. I think  
24                  we did have a special meeting. We had at least  
25                  one special meeting that was dedicated solely to

1 giving the board an understanding of how the  
2 fixed-price contract would work. And when we  
3 entered into the 2015 amendment, the board also  
4 studied the fixed-price option because that was  
5 embedded in that amendment that that was a  
6 possibility.

7 CHAIRMAN MASSEY: All right. Mr.  
8 Byrne, Mr. Addison, same question. Was, was the  
9 board -- was the SCANA board actively engaged  
10 in, in discussing that fixed-price agreement?

11 MR. ADDISON: Very active.

12 CHAIRMAN MASSEY: All right.  
13 were they -- was the board engaged prior to the  
14 proposal being given to them? And, and, and  
15 what I'm looking at is, was the board, was the  
16 board giving you direction on, These are some  
17 things that we need to get out of this contract?  
18 If we're going to renegotiate a contract, is the  
19 board actively participating in saying, This is  
20 what we want to do, or is that an executive  
21 decision being made about what's going to be in  
22 that agreement?

23 MR. ADDISON: So, so neither Mr.  
24 Byrne nor I sit on the board, and certainly some  
25 of their discussions are in executive session

1 without us present, so I can't respond for all  
2 of the discussions. But they were very actively  
3 engaged in it. They were kept aware along the  
4 way, not just presented a final proposal to  
5 approve. That was not the case. They were  
6 presented along the way what was going on, and  
7 I'm sure -- although I wasn't in all the  
8 discussions, I'm sure they offered opinions as  
9 to what type of, of items should be there.

10 For example, Mr. Carter mentioned  
11 earlier, we significantly increased the  
12 liquidated damages by hundreds of millions of  
13 dollars. In fact, the liquidated damages in the  
14 prior contract, I believe, were around a  
15 hundred, \$150 million, and between the  
16 liquidated damages and any incentives for  
17 completing on schedule, they totaled a billion  
18 dollars under the new fixed-price agreement.

19 I'd say one of the most  
20 significant things under the fixed-price  
21 contract was changing the definition of what  
22 created a change in law, and that was a huge  
23 amount of the debate in the past, caused a lot  
24 of differences in -- differences between us that  
25 could have ended up in lawsuits. Caused the

1 same in Georgia that were in lawsuits, and we  
2 resolved all of those differences through the  
3 fixed price agreement as well.

4 CHAIRMAN MASSEY: All right, and,  
5 and I, I understand the significance of getting  
6 the fixed-price agreement, especially based on  
7 what you had been dealing with with Westinghouse  
8 up to that point, and an incentive package for  
9 them to complete on a different -- on a  
10 specified schedule, I mean, that makes sense to  
11 me. And guess I'm, I'm curious as to what else  
12 was in there.

13 And the reason I ask that is,  
14 both of y'all, I think, both sides have  
15 expressed that there were concerns about  
16 Westinghouse well before this happened, and part  
17 of that, of course, is -- part of that leads to  
18 the increase cost, which leads you to wanting a  
19 fixed price. But there are other concerns. I  
20 mean, that -- I heard Mr. Carter talking about,  
21 I mean, they're not doing anything on schedule.  
22 We've got concerns about the design of, of, of  
23 what they're doing. I mean, we've got all sorts  
24 of concerns which, I heard Mr. Carter say that,  
25 that they had concerns that were expressed, and

1 I'm -- who did you express the concerns to?

2 MR. CARTER: We certainly  
3 expressed them to our partner, but, Senator  
4 Massey, to your question about what other things  
5 were there, there were two other things that I  
6 think were very important that haven't just been  
7 mentioned. One is, is the construction  
8 milestone payment provisions, meaning that we  
9 were going -- not going -- prior to that, we had  
10 been under, under a contract where we made what  
11 was called progress payments.

12 we literally had to -- what, what  
13 brought this, I guess, brought Westinghouse to  
14 the table is, we quit making payments. We quit  
15 making those progress payments at the risk of  
16 them suing us in breach of the agreement because  
17 they weren't actually making the progress that  
18 they were getting paid, getting paid for. And  
19 so that was a significant change that I believe  
20 -- Director Lord can speak for himself, or  
21 Chairman Lord can, but that was something that  
22 we, we wanted stopped at Santee Cooper.

23 We only wanted to be paying for what was  
24 actually complete on the site so if something  
25 did happen, we could pick up from there and go

1 from there and wouldn't have overpaid. That was  
2 at least the concept that was there.

3 The other important thing that  
4 was done at that time also, and one of the  
5 lawyers could explain this better than I, but  
6 remember, we had a guarantee by the parent  
7 company, Toshiba -- Toshiba owns Westinghouse,  
8 so they were guaranteeing and providing that the  
9 guarantee actually is in the Westinghouse EPC in  
10 that agreement. The 25 percent that's been  
11 referred to today, it's actually in the EPC.

12 There was a separate, standalone  
13 agreement with Toshiba that said if Westinghouse  
14 didn't live up to that -- this is in layman's  
15 terms -- if they didn't live up to that, Toshiba  
16 would step in its shoes and actually pay it,  
17 which is what the settlement is also all about.  
18 We had the -- had Toshiba reapprove or authorize  
19 that, that guarantee, thinking that we wanted to  
20 make sure that they understood that their  
21 subsidiary was making this big fixed-price  
22 commitment to us and that they were going to be  
23 on the hook if they didn't live up to it.

24 So I think those are two -- the  
25 milestone payments and re -- getting Toshiba on

1 -- to re-up, if you will, that they were on the  
2 hook for the 25 percent were also important  
3 elements that we were looking for in the  
4 negotiation because they -- we, we -- if we were  
5 going to believe them any further, if you will,  
6 and go any further with them, we needed to know  
7 that they were all in.

8 CHAIRMAN MASSEY: Right. And,  
9 and, and I -- understand me, I share some of  
10 Senator Setzler's concerns on this, and it may  
11 be that we should leave that for another  
12 meeting, but, but I'll tell y'all, like, I, I  
13 don't have any question, question in my mind  
14 that Westinghouse has some fault here, okay? I  
15 guess what, what baffles me is the significant  
16 investments that both of y'all made, and there  
17 doesn't really seem to be a lot of oversight of  
18 Westinghouse at all, other than saying, well,  
19 you're not doing what you're supposed to do.

20 And maybe that is a topic for  
21 another hearing because I do want to keep us  
22 focused today, but, but I want to, I want to  
23 explore that at some point because -- and the  
24 reason I asked the question about this, two  
25 things, is that, one, this, this, this contract

1 negotiation for the fixed-price agreement seemed  
2 to be an opportunity for both utilities to be  
3 able to try to extract more from them, and maybe  
4 you were successful in that and that's what  
5 ultimately what pushed them into bankruptcy, all  
6 right? But, but I do have a concern that we  
7 went a number of years with Westinghouse just  
8 screwing you over, and we just let it happen.

9 I understood what you said, Mr.  
10 Byrne, that we started with them, it's their,  
11 it's their product, and we can't just -- there's  
12 not a generic that we can put in there. I get  
13 that, but, but I'm concerned about that, that it  
14 -- it seems to me -- I mean, we can sit here,  
15 and we can blame Westinghouse all day, we can  
16 blame a partner or two on this, but at some  
17 point, y'all, we can't pass the buck anymore.

18 I mean, at some point -- I mean,  
19 there's got to be some responsibility for both  
20 Santee Cooper and, and SCANA on this in letting  
21 this continue, and I'm interested in knowing  
22 whether these were executive decisions, whether  
23 these were board decisions. Who was making that  
24 decision? I mean, who, who was managing the  
25 project? It was -- I think, Mr. Addison, you

1       said that -- how many people did y'all have out  
2       there on the site?

3                       MR. ADDISON: We, we had -- at  
4       the time we negotiated the fixed-price option,  
5       we probably had 550 to 600 people at the site,  
6       SCE&G employees at the site, not contract  
7       employees. Now, a lot of those would have been  
8       folks that we were trying to get licensees for  
9       because we -- and maintenance, but we probably  
10      had, I don't know, a hundred to 200, somewhere  
11      in that range involved in either contract  
12      negotiation, legal, construction management  
13      oversight, quality assurance, quality control.

14                      And I don't want, I don't want to  
15      leave you the impression that we, were hands-off  
16      with Westinghouse. Normally, and EPC-type  
17      contract is, is just that. You say, Go build me  
18      this, and they give you the keys when they're  
19      finished. Nuclear doesn't work that way, so we  
20      have to be very intrusive, and once we got the  
21      license issued to us, we were then responsible,  
22      as the licensees, for everything that went on at  
23      the site, even if the contractor made a mistake.  
24      So, we, we had a large quality control, quality  
25      assurance organization that was there at the

1 site.

2 when we started running into  
3 problems, they had vendors -- because the supply  
4 chain or procurement was one of the issues. We  
5 actually put resident inspectors in those  
6 locations so that they could report back to us  
7 on what the, what the issues were and how things  
8 were or were not getting fixed. So it, it isn't  
9 as if we just were hands-off and said, Okay,  
10 Westinghouse, just try harder.

11 As Mr. Carter points out, we did  
12 stop paying them at one point, and prior to  
13 that, we were rejecting invoices as deficient,  
14 again, probably at our peril. But we, we, we  
15 cut their payments. We then eliminated  
16 payments. When we restarted payments, we  
17 actually prorated them based on efficiency. So  
18 we were telling the contractor, You're not  
19 working to the efficiency standards that you  
20 should be, so we're going to, we're going to cut  
21 your payments back. Now, none of that was  
22 really allowed by the contract, but these were  
23 all things that we did. In that --

24 CHAIRMAN MASSEY: You were trying  
25 to pressure them.

1                   MR. ADDISON: We were trying to  
2                   pressure them to the extent that we could. We,  
3                   we were trying to help them to the extent that  
4                   we could. One of the issues was that they  
5                   butted heads with the regulator on a number of  
6                   occasions, you know, and even though they may  
7                   have been technically correct, butting heads  
8                   with the regulator, you're going to lose. So  
9                   there were a number of times we had to tell  
10                  them, Look, you're going to have to stop  
11                  fighting this because we're losing time.

12                 CHAIRMAN MASSEY: Yep.

13                 MR. ADDISON: So, you know, we,  
14                 we didn't, we didn't take a hands-off approach,  
15                 and a number of things that we did in this  
16                 opportunity to settle, you might ask, why did  
17                 Westinghouse agree to these changes? Well, they  
18                 had an issue with their partner, their  
19                 consortium partner which, at the time, was  
20                 Chicago Bridge & Iron, and they came to us in  
21                 mid-2015 and said, Look, we want out, and  
22                 Westinghouse said, we want them out.

23                 And that was our opportunity to  
24                 renegotiate because we had to relieve them of  
25                 their parental guarantees. So the parental

1        guarantees were joint and several, so they were  
2        both responsible for each other, the two  
3        consortium partners, Westinghouse and CB&I.  
4        CB&I wanted out, so we had to relieve them of  
5        that parental guarantee. And Westinghouse  
6        wanted them out badly enough that they were  
7        willing to renegotiate with us.

8                        So at the -- at that time, we, we  
9        reset the guaranteed substantial completion  
10       dates for something we thought was much more  
11       realistic. We increased the liquidated damages;  
12       the, the stick, if you will. We increased the  
13       performance bonuses if they completed on time  
14       and qualified for production tax credit, so  
15       there's the carrot. We changed the contract to  
16       specify how a change in law is defined because  
17       prior to that, the, the contractor or the  
18       consortium was claiming that any issue they had  
19       with the Nuclear Regulatory Commission was a  
20       change in law, and, you know, we, we did not see  
21       things that way and were probably heading  
22       towards litigation on that point.

23                        CHAIRMAN MASSEY: Did you ask  
24       them for a performance bond at that point?

25                        MR. ADDISON: Well, we, we had a

1 parental guarantee, and we had a small  
2 performance bond on the project already. We did  
3 ask them to increase --

4 CHAIRMAN MASSEY: How much was  
5 that -- how much -- how small was that small  
6 performance bond?

7 MR. ADDISON: It was between 45  
8 and a \$100 million, depending -- it depended on  
9 certain aspects, but it was between 45 and a  
10 hundred. We did, at that point in time, ask to  
11 increase the performance bond. We also looked  
12 at increasing the parental guarantee, but  
13 Toshiba seemed unwilling to do that at that  
14 point in time, and we thought it was more  
15 important to increase the liquidated damages and  
16 to -- because remember, at this point in time,  
17 we didn't think we had a, a, a counterparty that  
18 was in any kind of financial trouble -- increase  
19 the liquidated damages and get the fixed-price  
20 contract.

21 CHAIRMAN MASSEY: Right. Yeah,  
22 you, you, you just had a party that wasn't doing  
23 the work.

24 MR. ADDISON: They were, they  
25 were doing work, and, you know, we make it sound

1 blithely like Westinghouse was, was incompetent.  
2 They, they did do some things right. Their  
3 counterparty did do some things right. We had a  
4 new constructor onsite now in Fluor Corporation,  
5 who was doing some things right. So Fluor  
6 didn't really have a lot of run time on the  
7 project. And when we negotiated the EPC  
8 contract, they were going to come in as the, as  
9 the contractor. This is October of 2015, but  
10 they hadn't shown up yet, okay? So they didn't  
11 show up till January of 2016.

12 CHAIRMAN MASSEY: So did, did,  
13 did, did -- you told me that Toshiba did not  
14 agree to increasing the parental guarantee. Did  
15 --

16 MR. ADDISON: If I, if I could  
17 amplify that point.

18 CHAIRMAN MASSEY: Yes, sir, and  
19 when you're amplifying, tell me this. What was  
20 Westinghouse's response to an increased  
21 performance bond?

22 MR. ADDISON: So first of all, on  
23 the parental guarantee, they did not change the  
24 percentage. It was still 25 percent, but it  
25 applied to the fixed-price portion of the

1 contract. So at the time before the fixed-price  
2 option, there was about -- two-thirds of it was  
3 fixed. That would have resulted in a round  
4 number of about a billion dollars in aggregate  
5 between the two of us. Because the entire  
6 contract converted to fixed, it now applied to  
7 the entire contract, which resulted in the 1.7  
8 billion that we negotiated up to 2.2 billion  
9 between the two partners.

10 We did not seek -- we, we thought  
11 what was most important was to get things on the  
12 table that would make the biggest difference in  
13 their performance, in the results, and  
14 ultimately the cost of the customers, and that's  
15 the things that, between the three of us, we've  
16 outlined. The performance bonding issue is a  
17 challenging one on a project of this size.  
18 Although I was not involved originally, over a  
19 decade ago, when this negotia -- was negotiated  
20 -- I spoke to one of our brokers last week, and  
21 it is extremely difficult to get a performance  
22 bond on a mega-contract of this size.

23 If you aggregated the largest  
24 providers of bonds, syndicated them, in the  
25 world, you might get 1 1/2, \$2 billion back at

1 the time we, we entered into the contract, so  
2 there's -- and, and typically, those are 24- to  
3 36-month periods, so you would end up having to  
4 break it into a lot of phases or subcontracts.  
5 So that's a -- that was a very difficult ask.  
6 We had an investment-grade parental guarantee.  
7 They were rated the same as SCANA at the time,  
8 and so unfortunately, that was based upon some  
9 inaccurate financial records.

10 CHAIRMAN MASSEY: Okay. So, so  
11 after that agreement was, was finished, SCE&G  
12 had 550, 600 people out there on the site; is  
13 that right? And do I understand correctly,  
14 y'all had three?

15 MR. CARTER: Yes, sir. Yes, sir.

16 CHAIRMAN MASSEY: And did you  
17 deem that sufficient?

18 MR. CARTER: Yes, sir, because we  
19 were not managing the -- we were not managing  
20 the contract or the project. We were simply  
21 reviewing the work, and we certainly were seeing  
22 the problems and raising them.

23 CHAIRMAN MASSEY: All right, and  
24 so -- I mean, I understand you weren't managing  
25 the project, but, I mean, you had invested a

1           heck of a lot of money out there.

2                   MR. CARTER: Yes, sir.

3                   CHAIRMAN MASSEY: And you also  
4           had concerns that you've told us about already.  
5           why not have more than three people onsite?

6                   MR. CARTER: Adding people  
7           weren't -- wasn't going to address the issue, I  
8           don't believe, Senator Massey. What we needed  
9           was actually action to be taken by, really,  
10          quite frankly, the contractor, and that pressure  
11          needed to be applied by, of course, our agent  
12          who was actually managing it, and then -- like I  
13          said, we raised several issues during the course  
14          of all of this. One of the -- again, one of the  
15          big things for us was to make sure that we  
16          stopped paying them for work that wasn't being  
17          done.

18                   CHAIRMAN MASSEY: All right, so  
19          --

20                   MR. CARTER: And so that, and so  
21          that they -- if we were going to pay for  
22          something, we had it. We had it on the site,  
23          and if they didn't finish, we would have -- at  
24          least sitting there, we could pick up and go  
25          from there if we had to ourselves.

1                   CHAIRMAN MASSEY: So you were  
2 essentially relying on SCE&G to tell you whether  
3 the work had been done.

4                   MR. CARTER: No, sir. I mean, we  
5 got reports. We could see whether the  
6 productivity --

7                   CHAIRMAN MASSEY: Who produced  
8 the reports?

9                   MR. CARTER: Pardon me?

10                  CHAIRMAN MASSEY: Who produced  
11 the reports?

12                  MR. CARTER: Some of them were  
13 reported -- were prepared by SCANA employees,  
14 but some of them were prepared by the  
15 contractors themselves, so you --

16                  CHAIRMAN MASSEY: Westinghouse  
17 was telling you whether they were doing the work  
18 or not?

19                  MR. CARTER: Yes, sir, but they,  
20 you know -- you can, you -- it doesn't take a  
21 lot of people to look out there and see whether  
22 they've set modules and things like we're  
23 talking about. So it wasn't like they could  
24 completely hoodwink you about what they had  
25 done.

1                   CHAIRMAN MASSEY: well, it sounds  
2 like they did.

3                   MR. CARTER: where they, where  
4 they, where they were missing --

5                   CHAIRMAN MASSEY: I mean, you  
6 told us earlier that they were misleading you  
7 and hiding stuff from you the whole time. I  
8 mean, it sounds like they were hoodwinking the  
9 whole time.

10                  MR. CARTER: what they were  
11 telling you is -- what they were telling us is  
12 that they had the engineering much further along  
13 and that the schedule, the resource loaded  
14 schedule was coming. Things --

15                  CHAIRMAN MASSEY: wouldn't it  
16 have made sense to have somebody out there who  
17 could figure out whether the engineering was  
18 coming along and whether the scheduling was  
19 coming along?

20                  MR. CARTER: Based on our  
21 reports, it was not. So I guess I'm trying to  
22 answer your question. More people would not  
23 have given us, I don't think, better  
24 information. We, we did not see it getting  
25 done, and we were raising that as an issue, both

1 to our partner and to the consortium.

2 CHAIRMAN MASSEY: And just  
3 nothing was happening because of it.

4 MR. CARTER: No, sir.

5 CHAIRMAN MASSEY: And this was  
6 after the fixed-price agreement was, was opted.

7 MR. CARTER: Yes, sir. We  
8 continued to see problems with the work packages  
9 that were coming to the site; organizing the  
10 work would be the way that I would say it. Some  
11 of that, too -- remember what Mr. Byrnes [sic]  
12 was telling you is that Fluor was coming on the  
13 site, trying to get up to speed.

14 Fluor -- we had been promised  
15 that Fluor would take a look at the project from  
16 their perspective and provide us the information  
17 about the resource loaded schedule. I believe  
18 that was due -- they started in January of 2016.  
19 That was due to us, I think, originally, maybe,  
20 in June. Then it got pushed back to September,  
21 and then ultimately, when it was provided to  
22 Westinghouse, because Westinghouse didn't like  
23 it, they wouldn't provide it to us.

24 And so there were a number of  
25 cases along the way where -- I mean, we -- the,

1 the transparency from the -- from Westinghouse  
2 and prior to Westinghouse, the consortium, was  
3 not there like it needed to be, and that's why  
4 we needed some of the changes that we asked for.

5 CHAIRMAN MASSEY: Mr. Byrne and  
6 Mr. Addison, who made the decision from SCE&G's  
7 perspective, to abandon?

8 MR. BYRNE: That was a decision  
9 that was, that was made by our management team  
10 and recommended to our board, and our board made  
11 the decision to cancel.

12 CHAIRMAN MASSEY: And who, who  
13 makes up the management team?

14 MR. BYRNE: Mr. Marsh, Mr.  
15 Addison, myself. We've got a chief nuclear  
16 officer, Mr. Archie. So there's probably a half  
17 a dozen folks that I would say that were in  
18 senior leadership. And we had a number of folks  
19 below that level that worked for, for about four  
20 months on the evaluation process that were  
21 giving us inputs out at the site, and then we  
22 had also another team on -- back in our  
23 corporate campus that were evaluating the, the  
24 costs against other options and giving us input  
25 to that as well.

1                   CHAIRMAN MASSEY: So you were  
2 getting progress information from the 550, 600  
3 people onsite, and then you had some folks who  
4 were crunching numbers, looking at the financial  
5 side of it too. All those folks were advising  
6 the management team?

7                   MR. BYRNE: Let me be clear. Of  
8 the 550 or 600 folks --

9                   CHAIRMAN MASSEY: However many  
10 were out there; yeah, I got you.

11                  MR. BYRNE: Yeah. When the --  
12 when Westinghouse -- when it became obvious to  
13 us that Westinghouse was headed towards  
14 bankruptcy, just prior to them filing for  
15 bankruptcy, we segregated a team to say, we've  
16 got to be able to come up with our own schedule  
17 and our own costs to complete, independent of  
18 Westinghouse. And with the bankruptcy, we got  
19 access to information that we didn't previously  
20 have.

21                  So that access to that  
22 information, our dedicated team, a team that we  
23 supplemented with resources from outside that  
24 had expertise in costing and scheduling, they  
25 went through about a four-month evaluation and

1           then reported out to both the management teams  
2           of, of, of SCE&G and Santee Cooper about what  
3           they found about completing the two-plant  
4           option. It became obvious that that two-plant  
5           option was pretty high, so we turned around and  
6           said, Go tell me what it would cost to finish  
7           one plant. So that, that smaller team -- not  
8           500 or 600 people, because a lot of those 500 or  
9           600 people were in training and that kind of  
10          thing.

11                           CHAIRMAN MASSEY: And, and I  
12          think y'all told us earlier that that was an  
13          internal -- that was done internally with some  
14          outside experts; is that right?

15                           MR. BYRNE: Right. Correct.

16                           CHAIRMAN MASSEY: All right.  
17          Well, were y'all involved in that review as  
18          well, that SCE&G internal review? Were you a  
19          part of that?

20                           MR. CARTER: We had people that  
21          were watching and working with them, yes, sir.

22                           CHAIRMAN MASSEY: Did, did Santee  
23          Cooper conduct a separate review, or were y'all  
24          just partnering together on this one review?

25                           MR. CARTER: Just partnering

1 together with -- to come up with the cost, the  
2 cost to complete that we referred to earlier.

3 CHAIRMAN MASSEY: Okay. All  
4 right.

5 MR. BYRNE: I should point out,  
6 Senator, that we also would, would touch base  
7 with Southern Company along the way because they  
8 were in exactly the same position that we were  
9 in. They got notified about this large  
10 impairment. They find out about the bankruptcy  
11 the same time we did. They entered into an  
12 interim assessment agreement to allow work to  
13 continue while we did the evaluation. So we  
14 touched base with Southern along the way to find  
15 out if we're looking at things any differently  
16 than they are.

17 CHAIRMAN MASSEY: And I  
18 understand. Southern's in a much different  
19 position than you're in.

20 MR. BYRNE: Their company is,  
21 yes.

22 CHAIRMAN MASSEY: Right? I mean,  
23 they're, what, four times the size?

24 MR. BYRNE: Roughly.

25 CHAIRMAN MASSEY: Roughly.

1                   MR. BYRNE: At Georgia Power,  
2 they're about four size -- four times the size  
3 of SCE&G.

4                   CHAIRMAN MASSEY: So they can  
5 absorb a lot of the costs more so, maybe, than  
6 you can. I, I understand that. All right, so,  
7 so then ultimately, we had a recommendation from  
8 the four, five, six members on the management  
9 team to the board?

10                  MR. ADDISON: Right.

11                  CHAIRMAN MASSEY: Is that right?

12                  MR. ADDISON: Correct.

13                  CHAIRMAN MASSEY: And then it was  
14 presented to the board?

15                  MR. ADDISON: Yes, but I don't  
16 want to leave the impression that it happened at  
17 any one point in time. They were kept up to  
18 speed on an interim basis with multiple  
19 meetings. I don't think there was any month  
20 that didn't have multiple meetings in it over  
21 the last several months.

22                  CHAIRMAN MASSEY: Mr. Byrne, when  
23 did you know you were going to have to bail on  
24 this?

25                  MR. BYRNE: When did I know I was

1 going to have to bail?

2 CHAIRMAN MASSEY: When, when were  
3 you -- well, we'll use the term --

4 MR. BYRNE: I would say --

5 CHAIRMAN MASSEY: We'll use the  
6 term of art. When did you know that you were  
7 going to have to abandon?

8 MR. BYRNE: I knew that there was  
9 a possibility of that when Westinghouse declared  
10 bankruptcy and we had to evaluate. And we told  
11 people publically we were evaluating a number of  
12 options, but abandonment was one of the options.  
13 And we told people we were going to evaluate  
14 finishing both plants, and we told people we  
15 were going to evaluate finishing one and either  
16 canceling the second one or laying it up for a  
17 period of time, that kind of thing.

18 So while we were working through  
19 the evaluation, I'd say that the -- I knew we  
20 were not going to be able to finish the two-  
21 plant option when the team brought back the, the  
22 cost and the schedule to us. That was probably  
23 mid-June, and then the -- we had them go back  
24 and work on the one-plant option, so it was end  
25 of June, first of July when we figured out that

1 the one-plant option was going to be difficult  
2 for us.

3 So then we started looking at the  
4 one-plant option and supplementing with gas, and  
5 we, we hadn't actually completed that evaluation  
6 at the time that, you know, we came to the  
7 conclusion, along with Santee, that they were  
8 not going to continue, and that rendered it moot  
9 because we couldn't continue without the  
10 partner.

11 CHAIRMAN MASSEY: And Mr. Carter,  
12 who, who, who made the decision on Santee  
13 Cooper's part to suspend, I think is the term  
14 that, that Santee Cooper used; is that right?  
15 who made that decision?

16 MR. CARTER: Ultimately, we took  
17 the costs that were prepared by the team at the  
18 site and then --

19 CHAIRMAN MASSEY: The same costs  
20 that SCE&G had; y'all had the same numbers?

21 MR. CARTER: Yes, sir, working  
22 from the same information. And then we -- it  
23 was led by, let's see, our chief financial  
24 officer, Jeff Armfield, who is here with us;  
25 again, Mike Baxley, our senior vice-president

1 and our general counsel; Michael Crosby, who is  
2 our nuclear engineer; and myself. Those were  
3 the four executives that were involved.

4 And there was a team of folks  
5 internally that completed an evaluation, again,  
6 like I spoke of earlier in my presentation, that  
7 evaluated those costs, those costs to go forward  
8 to complete -- you know, to finish, not anything  
9 that had already been sunk, but what it would  
10 cost to go forward compared to a natural gas-  
11 fired unit. And of course, it showed that it  
12 was much, much more expensive. We also had  
13 hired a consultant to help be part of that  
14 evaluation. And of course, all along the way,  
15 that information is being reported to the board.

16 CHAIRMAN MASSEY: All right. And  
17 so who made the recommendation to the board?  
18 Did that come from you?

19 MR. CARTER: Yes, sir, from that  
20 team, the team of those four individuals, and  
21 our consultant.

22 CHAIRMAN MASSEY: All right, and  
23 then -- and I know there -- I've been  
24 monopolizing the -- that's an interesting word.  
25 So I apologize for that. I'm -- but one other

1 question, and then I'll let somebody else ask  
2 some questions. And, and that is -- and I guess  
3 from Santee Cooper's perspective, one of the  
4 things that kind of caught my attention from  
5 some of the things that y'all have said already  
6 is that in looking at the, the need, the  
7 generation project -- you know, what your  
8 projections were for how much power you were  
9 going to need to generate, y'all came to the  
10 conclusion that you didn't need this, this plant  
11 anyway; is that fair?

12 MR. CARTER: We knew as far back  
13 as 2010 that we needed -- we didn't need as much  
14 as we had contracted, and we went through a  
15 period where we tried to sell an ownership  
16 interest.

17 CHAIRMAN MASSEY: And you, you've  
18 explored selling your interest?

19 MR. CARTER: Yes, sir. We  
20 started in 2010 and looked very hard at selling  
21 a piece. I believe we were authorized up to 25  
22 percent to only retain, so of the 45, we would  
23 have gone down to 20.

24 CHAIRMAN MASSEY: Any bites?

25 MR. CARTER: We did, for -- we

1 had, really, our two neighbors that, if you go  
2 all the way back to that time, Progress Energy  
3 still was independent or separate from Duke  
4 Energy, so we had both of them express some  
5 interest. And ultimately, what was referred to  
6 earlier by Mr. Scott was what -- but what  
7 ultimately -- it's interesting. They -- the  
8 merger also got in the middle of all that.

9           Initially, the CEO at Progress  
10 and Duke both expressed an interest, and both  
11 expressed it terms of needing to be able to get  
12 recovery, similar recovery in North Carolina.  
13 Early on, the Progress CEO said, Hey, I don't  
14 believe I can get it. No, thank you. And the  
15 Duke CEO thought he could get it longer and  
16 longer.

17           Their merger took place. That  
18 sort of held it up, and then ultimately, he left  
19 and the current CEO said, I can't get it -- she  
20 basically came to the same conclusion that the  
21 Progress CEO reached. We also marketed it  
22 beyond just those two parties. We, we covered  
23 anybody that was within two transmission wheels,  
24 which is about what would make it work,  
25 physically work, and make it economical.

1                   CHAIRMAN MASSEY: Thank you.

2                   CHAIRMAN SETZLER: Okay. I'm  
3 going to call on Senator Scott, Senator from  
4 Richland, but before I do that, I want to ask  
5 one quick question back over here. When you,  
6 when you talk about whether you're going to go  
7 forward with building one plant or two plants,  
8 how do you do that when Westinghouse, if I  
9 understand correctly, owned the intellectual  
10 property, and it's tied up in the bankruptcy?  
11 How can you do anything when they, they own your  
12 intellectual property?

13                   MR. BYRNE: Yes, so we, we --  
14 even back in the original EPC contract from  
15 2008, we had in a provision that we would escrow  
16 -- we would have the ability to escrow  
17 intellectual property, and should they not be  
18 able to perform, we could, we could withdraw  
19 that intellectual property from an independent  
20 third party.

21                   CHAIRMAN SETZLER: So it's still  
22 in escrow.

23                   MR. BYRNE: Still in escrow.

24                   CHAIRMAN SETZLER: Not impacted  
25 by the bankruptcy?

1                   MR. BYRNE: Not impacted from the  
2 bankruptcy.

3                   CHAIRMAN SETZLER: Senator from  
4 Richland, Senator Scott.

5                   SENATOR SCOTT: Thank you, Mr.  
6 Chairman. I want to go back to that question I  
7 left off with. Senator Massey was, when you  
8 started to -- when Santee Cooper tried --  
9 started to sell in 2010, how much you had  
10 already invested at that point in 2010?

11                  MR. CARTER: Senator Scott, I'd  
12 have to --

13                  SENATOR SCOTT: A billion?  
14 Because keep in mind, Westinghouse had come to  
15 you around 2010 and said they need -- 2010, '11,  
16 said they needed more money to move forward.  
17 And that's with the change order from the 5.1 to  
18 the \$8 million we talked about early on, if you  
19 want me to read that to you again, based on  
20 Westinghouse's original contract of \$5.1 billion  
21 and a little bit later on, y'all approved an  
22 extension of the contract in 2012, which was an  
23 earlier question.

24                  If you were trying to sell in  
25 2010, how much was your investment at that point

1 in time? Because you had a perfect opportunity  
2 at that time to pull out, say, I'm not going any  
3 further. I'm not going to expend any more  
4 money. We were in this deal with a fixed-price  
5 contract at 5.1. You're back at the table with,  
6 with, with the 8 billion -- \$8 billion instead  
7 of the 5.1.

8 MR. CARTER: At the, at the -- in  
9 2010, we had not received a license yet.

10 SENATOR SCOTT: Okay.

11 MR. CARTER: We didn't get the  
12 license until two thousand -- I believe May or  
13 sometime in early 2012, so we were actually out  
14 trying to sell a piece before we even had the  
15 license.

16 SENATOR SCOTT: So really, you  
17 didn't have any money invested at that point.

18 MR. CARTER: I, I -- we could  
19 tell you --

20 SENATOR SCOTT: Minimum, minimum  
21 dollars.

22 MR. CARTER: We could tell you  
23 exactly what we had in it. So that -- the delay  
24 that I spoke of earlier in my chart, the initial  
25 11-month delay was because of the time, the

1 additional time that the NRC took to render the  
2 license, yes, sir.

3 SENATOR SCOTT: I want to back to  
4 the contract, especially in 2012 when the  
5 contract was extended, Mr. Addison. Were there  
6 contingencies in this contract for profit in --  
7 because most large contracts such as that,  
8 there's 20, 25 percent to make sure there's a  
9 completion?

10 Because I see all kinds of  
11 indications that if the 25 percent contingency  
12 was being held, especially with performance and  
13 penalties because they were not doing the work,  
14 it was a perfect time to have some real  
15 discussion about back in '12 when you went to  
16 eight and looking at the performance for the  
17 four years that Westinghouse was really not  
18 performing. Do you care to elaborate on, on  
19 that and whether or not your contract had that  
20 kind of opportunity for SCANA and Santee Cooper  
21 to protect themselves because of Westinghouse's  
22 nonperformance?

23 MR. ADDISON: I want to clarify  
24 first. So the contract was converted to the  
25 fixed-price option in October of 2015, not 2012.

1                   SENATOR SCOTT:  What did you have  
2                   in 2008 when you started at 5.1?  It's based on  
3                   Westinghouse's original contract to Santee  
4                   Cooper, the \$5.1 billion for its 45 percent  
5                   share of the, of the building of the two units.  
6                   So what did we have initially in 2008, no  
7                   contract at all?

8                   MR. BYRNE:  No.  We had a  
9                   contract in 2008.  I think, Senator, what you're  
10                  referring to is that in 2012, we extended the  
11                  guaranteed substantial completion dates.

12                  SENATOR SCOTT:  Right.

13                  MR. BYRNE:  But the contract was  
14                  still the same contract.

15                  SENATOR SCOTT:  Don't --

16                  MR. BYRNE:  It's the contract  
17                  with different guaranteed substantial completion  
18                  dates which would trigger liquidated damages  
19                  from the contractor should they not be able to  
20                  deliver by those, those guaranteed substantial  
21                  completion dates.  And to further answer your  
22                  question, on profit, the, the profit scheme was  
23                  that they would go up to a certain level.  If  
24                  they exceeded that certain level, their profit  
25                  would start to come down to some minimum, which

1 I think was about 30 percent of their total  
2 profit in the project.

3 SENATOR SCOTT: It appeared -- it  
4 really never, it really never -- you never  
5 really got a chance to perfect that.

6 MR. BYRNE: No. Their -- based  
7 on, based on where they were headed at the time,  
8 it was obvious to them that they were only going  
9 to qualify for that 30 percent profit.

10 SENATOR SCOTT: I want to also  
11 talk about Westinghouse. They served as just a,  
12 just a general contractor on this project, or  
13 were they performing -- a performing contractor?

14 MR. BYRNE: They were --

15 SENATOR SCOTT: Or were they  
16 both?

17 MR. BYRNE: Yeah. They -- so  
18 the, the way that the contract was set up,  
19 Westinghouse was the -- it was a -- the contract  
20 was signed with a consortium. So we got the --  
21 Westinghouse and the consortium partner. They  
22 had a consortium agreement, something that we  
23 were not privy to, that outlined their roles.  
24 But by contract, Westinghouse was the lead.

25 SENATOR SCOTT: Okay, and also,

1       you talked how many employees that SCE&G had on  
2       -- at the two reactors at the time of  
3       construction.  Were there -- was there an  
4       outside consult -- construction consultant to  
5       protect your interests and provide your  
6       employees some direction and also to, to take a  
7       real closer look?

8                        Because you can't -- because you  
9       told me up front that this was the first time  
10      that Westinghouse had built out, and I'm pretty  
11      sure there are some folk out there who -- or  
12      outside construction managers who could have  
13      really helped this thing along and identified a  
14      lot of indications long before nine years later  
15      with the contractor having only completed 30  
16      percent -- 36 percent when, in fact, one of the  
17      reactors should have been completed the year  
18      before.  You want to elaborate and tell me a  
19      little bit about what happened in that  
20      particular case?

21                      MR. BYRNE:  Yes.  So the, the,  
22      the large EPC contractors that would have  
23      nuclear experience in general were -- had been  
24      associated with the project.  So we started off  
25      with Shaw.  It transitioned to Chicago Bridge &

1 Iron, and then it was going to be Fluor. So  
2 their --

3 SENATOR SCOTT: They're working  
4 for you, or working for Westinghouse?

5 MR. BYRNE: Well, they're working  
6 for -- the, the, the first two were in a  
7 consortium arrangement with Westinghouse. The  
8 last one, they were working for Westinghouse.

9 SENATOR SCOTT: Anybody working  
10 for you?

11 MR. BYRNE: Not -- we, we, we did  
12 have some folks that had come in to evaluate the  
13 project. I think Bechtel was, was mentioned  
14 previously as one of those. We, we hired -- we,  
15 we tried to hire as much construction expertise  
16 as we could in-house, but most of the  
17 construction expertise that would have nuclear  
18 experience was working for one of those couple  
19 of companies.

20 SENATOR SCOTT: So you were, you  
21 were at a total disadvantage on this project.

22 MR. BYRNE: I don't know that we  
23 were at a disadvantage. I think that, that, you  
24 know, the contractual protections that we had --  
25 you know, people ask, what were the causes for

1 the delays? And up front, as Mr. Carter pointed  
2 out, we had a delay in getting the licensing.

3 A lot of that, really, was tied  
4 up in Fukushima-related issues, and, in fact, we  
5 actually had to ask for help from the -- again,  
6 from the South Carolina federal Congressional  
7 delegation to try to push that with President  
8 Obama to try to get our license even heard  
9 because the, the chairman of the Nuclear  
10 Regulatory Commission at the time was  
11 withholding it from, from a, from a public  
12 meeting.

13 They had to have that, that  
14 public meeting and, and take votes and approve  
15 it in order for us to get the license, and it  
16 was inexplicable to us as to why that wasn't --  
17 now, his -- the chairman of the NRC at the  
18 time's reasoning was Fukushima-related issues.

19 SENATOR SCOTT: The reason why,  
20 the reason why I go back to that, you told me  
21 how many times the management changed and how  
22 many changes that Westinghouse had had over that  
23 complete time period. And traditionally in a  
24 project of this size, there is a consultant who  
25 represents the people paying the bill.

1                   MR. BYRNE: Right. We had an  
2 option --

3                   SENATOR SCOTT: And to make sure  
4 you've got some kind of protection.

5                   MR. BYRNE: Right, so we had an  
6 option for what's called an owner's engineer.

7                   SENATOR SCOTT: Okay.

8                   MR. BYRNE: And what we've opted  
9 for is, instead of a single owner's engineer,  
10 that we wanted to bring onboard a construction  
11 oversight review board. So we have a  
12 construction -- should say had -- a construction  
13 oversight review board that was made up of about  
14 five members, each of whom had significant  
15 experience in construction, mega-projects, and  
16 nuclear. A number of those folks had had  
17 previous experience on a -- the last nuclear-  
18 completed project, which was called Watts Bar 2.

19                  SENATOR SCOTT: And tell me what  
20 went wrong with that much expertise that you've  
21 got on your team -- Westinghouse dragging  
22 heinie, trying not to finish the project or  
23 coming up with somebody leaving that project,  
24 with that kind of project overrun, you didn't --  
25 couldn't find an outside consulting company who

1           could actually be there for you, so you hired  
2           different individuals to try to -- and creating  
3           a team, what went wrong? Because there are so  
4           many red flags on this project, I mean, it's  
5           unreal.

6                           MR. BYRNE: Yeah. I think, I  
7           think knowing what went wrong and being able to  
8           impact what is going wrong are two different  
9           things. You know, as Mr. Carter pointed out,  
10          after the questioning from Senator Massey, why  
11          didn't you have more people on the project, I  
12          believe that Santee was fully up to speed on  
13          what was going on on the project. I think we  
14          understood what the problems were.

15                          I think we, we identified those  
16          problems to the, to the contractor. You know,  
17          if it was a natural gas plant or a coal plant,  
18          we may have been able to change contractors. On  
19          a nuclear project, you can't -- we couldn't dump  
20          Westinghouse. We really had to go with  
21          Westinghouse, so we were going to -- we had to  
22          ride the horse that we were on.

23                          SENATOR SCOTT: Okay, and we --

24                          MR. BYRNE: We did, we did a  
25          number of things to try to --

1                   SENATOR SCOTT: And you said you  
2                   can't dump Westinghouse. So if you chose to  
3                   complete one of the reactors, two of the  
4                   reactors, you've got to dump Westinghouse, but  
5                   they don't exist.

6                   MR. BYRNE: No, not necessarily.

7                   SENATOR SCOTT: So what do you  
8                   do?

9                   MR. BYRNE: We, we would -- we --  
10                  we were in the process of going through this  
11                  evaluation of what we would call an owner-  
12                  directed model, so it was going to be us  
13                  managing the construction. We would have to  
14                  bring in Fluor to actually do the physical  
15                  construction, which, they had about a year, 15  
16                  months' worth of experience on the project with  
17                  it. So that was, that was going to be fairly  
18                  positive.

19                 So we'd have a separate contract  
20                 with them to do the construction, and then we  
21                 would have had to had a contract with  
22                 Westinghouse to supply some level of engineering  
23                 and startup support. And Westinghouse, as  
24                 you're aware, Chapter 11 bankruptcy protection  
25                 allows the company that's in bankruptcy to

1 continue to operate. So they were continuing to  
2 operate under the protection of the Bankruptcy  
3 Court.

4 SENATOR SCOTT: Bankruptcy Court.

5 MR. BYRNE: So we would have --  
6 we were actually negotiating that services  
7 agreement with Westinghouse at the point in time  
8 where we had to come to the conclusion that we  
9 were going to stop.

10 SENATOR SCOTT: How interested  
11 was Westinghouse in doing that?

12 MR. BYRNE: How interested were  
13 they? They, they seemed very, very interested,  
14 and I believe if the Southern Company makes a  
15 decision to go forward with the same reactors  
16 they're building over at the Vogtle project,  
17 they have -- they will have a similar  
18 arrangement, and they have negotiated -- already  
19 negotiated that services agreement with  
20 Westinghouse.

21 SENATOR SCOTT: And we -- you  
22 talked a little bit earlier about what it's  
23 going to cost Santee Cooper and what it's going  
24 to cost you. Now you -- if you become the  
25 manager of the project, do you save any money?

1 Now does it make more sense to build those two  
2 reactors?

3 MR. BYRNE: Well, remember --

4 SENATOR SCOTT: Because you've  
5 got lim -- you've got limited profit now.

6 MR. BYRNE: Yeah, yeah. So we,  
7 we were, to the extent we could, going to  
8 minimize involvement from Westinghouse and try  
9 to negotiate better terms with contractors and  
10 subcontractors. But the, the estimate that we  
11 went through to complete with -- independent of  
12 Westinghouse showed that it was going to cost  
13 more money with Westinghouse in their current  
14 model, and it was going to take a lot more time,  
15 and time is money.

16 So a large portion of this cost  
17 was going to be because the project was going to  
18 stretch out to what we considered more realistic  
19 time frames. So the, the costs that we're  
20 presenting here today, those are the costs for  
21 us to finish in an owner's-directed model,  
22 minimizing the reliance on Westinghouse.

23 SENATOR SCOTT: So there would be  
24 no other company who could step in and do  
25 exactly what you said you were going to do

1           because it's westinghouse model, although you're  
2           bringing westinghouse back as a subcontractor  
3           rather than a general contractor in this  
4           project.

5                           MR. BYRNE: Right. So we, we  
6           would -- let's say westinghouse ceased to exist  
7           and we wanted to go forward. We would have to  
8           do exactly what you said with access to the  
9           intellectual property, more than likely trying  
10          to bring in another architect-engineering  
11          company to try to finish, a company like AREVA  
12          or General Electric or one those, one of the  
13          like.

14                           while westinghouse is still in  
15          existence, albeit in bankruptcy protection, they  
16          -- and while they're capable of performing, they  
17          would object, I think, legally to us bringing in  
18          a third party to have their intellectual  
19          property because they view that as having a lot  
20          of value.

21                           SENATOR SCOTT: I understand, but  
22          at the same time, as you indicated, time, time  
23          is money.

24                           MR. BYRNE: Correct.

25                           SENATOR SCOTT: And if you decide

1 to go forward and Westinghouse cannot perform --  
2 because it won't be -- they're not in a general  
3 contract position, you would be in the general  
4 contract position that you could either have a  
5 sub that's acting as a sub but really is a  
6 general contractor. Have you looked at the  
7 possibility of seeing what the real numbers  
8 would be if you did it -- if you did have to bid  
9 it to get a sub under you to get that work done?

10 MR. BYRNE: Yeah, what we didn't  
11 look to do is, is looking to bid another EPC-  
12 type arrangement with a fixed-price option  
13 because I don't, I don't know of anybody that  
14 would come in and try to give us a fixed price  
15 that they perceive to have this level of  
16 difficulty, particularly when they were going to  
17 try to build somebody else's design using their  
18 intellectual property, not, you know, not the  
19 company now that we would bring in to do that.

20 But we did look at bringing in  
21 other companies in order to facilitate the  
22 engineering and, and, and we think that having  
23 Fluor continue with the construction -- but  
24 there are other opportunities. We could have  
25 had a vendor other than Fluor. We're running

1 out of viable options, but we, we think the  
2 relationship with Fluor was good. So Fluor was  
3 going to handle the construction for us anyway  
4 and would have handled all of the non-nuclear-  
5 specific engineering for us anyway.

6 CHAIRMAN SETZLER: Next is the  
7 Senator from Horry, Senator Rankin.

8 SENATOR RANKIN: Thank you, Mr.  
9 Chairman. I want to kind of tack back and  
10 forth. Forgive me if I sound a little helter-  
11 skelter, but this, this Fluor role that you've  
12 just talked about, and Mr. Byrne and Mr.  
13 Addison, if you will, that is effectively the  
14 project manager that you hired Fluor to fulfill?

15 MR. BYRNE: Yeah. In our  
16 parlance, they would be the construction  
17 manager.

18 SENATOR RANKIN: Right. And in  
19 the -- from inception of this contract till that  
20 point, you never had a project manager?

21 MR. BYRNE: Well, the project  
22 manager was Westinghouse.

23 SENATOR RANKIN: So the one  
24 effectively getting paid was overseeing it for  
25 you and your, your subagent, or your partner.

1                   MR. BYRNE: Yeah. When you say  
2                   “getting paid,” they weren’t simply overseeing  
3                   it, but they were providing project management.  
4                   They had hundreds of employees. Westinghouse  
5                   had hundreds of employees at the site, and they  
6                   had probably a thousand employees off the site  
7                   in other locations, whether it be Charlotte or  
8                   Pittsburgh, which is where they’re headquartered,  
9                   that were supporting this project from a  
10                  procurement perspective, from an engineering  
11                  perspective. But they had a large contingent  
12                  onsite as well.

13                 SENATOR RANKIN: So --

14                 MR. BYRNE: In addition to that,  
15                 Fluor, working directly for Westinghouse, had  
16                 about 3,000 employees at the site that were  
17                 doing the day-to-day construction. And that --

18                 SENATOR RANKIN: That only began  
19                 thought -- let me interrupt you --

20                 MR. BYRNE: Yep.

21                 SENATOR RANKIN: -- at the time  
22                 of this amended agreement.

23                 MR. BYRNE: Yeah, actually that  
24                 began a little later than the amended agreement.  
25                 It actually began in about January.

1                   SENATOR RANKIN: And construction  
2 started when?

3                   MR. BYRNE: 2009.

4                   SENATOR RANKIN: So -- and  
5 forgive this analogy, but in my county, lots of  
6 schools being built. Horry County School  
7 District is the, the developer or the builder, I  
8 guess. They hire a, a construction company to  
9 build it. They hire a westinghouse. They also  
10 hire someone to be the project manager who is  
11 independent of -- pick the builder -- the  
12 westinghouse. Is that not common? Would that  
13 not have been the better practice here?

14                   MR. BYRNE: It's, it's a -- it's,  
15 it's a model. It's a model that we could have  
16 employed, but with an EPC contract, different  
17 from what you're talking about with the schools,  
18 an engineer-procure-construct contract, the, the  
19 onus really is on that EPC contractor or  
20 counterparty to provide you with a finished  
21 project.

22                   One of the dangers you run into  
23 is, if you direct their activities, they say,  
24 Oh, here's a change order for that change in  
25 direction of the activity. So I can't really

1 direct the contractor to go and do things  
2 differently than what they would intend from  
3 their means and methods and construction  
4 techniques and those kinds of things.

5 SENATOR RANKIN: But isn't that  
6 what you did?

7 MR. BYRNE: Well, we have an  
8 oversight, and we will work with their  
9 management team to, to try to change what their  
10 folks on the ground are doing.

11 SENATOR RANKIN: But that changed  
12 when you actually hired Fluor to do the very  
13 thing that you were relying on them to do in --

14 MR. BYRNE: It would have, it  
15 would have changed had we hired Fluor directly  
16 and gone forward with an owner-directed model.  
17 But when Fluor came onto the project in January  
18 of 2016, they were working for Westinghouse, so  
19 Westinghouse was, was still the -- they were our  
20 EPC partner. They were the contractor. They  
21 just opted to bring in Westing -- oh, sorry --  
22 bring in Fluor as the construction manager.

23 SENATOR RANKIN: But that was one  
24 of the terms that you and Santee Cooper insisted  
25 on when you amended that agreement.

1 MR. BYRNE: Correct.

2 SENATOR RANKIN: All right. The  
3 fear of change orders, in the construction  
4 parlance, that's always a big fear. You've  
5 gotten a hell of a change order by not having a  
6 project manager; isn't that fair to say?

7 MR. BYRNE: I, I don't know that  
8 having a project manager shields you from change  
9 orders.

10 SENATOR RANKIN: But you have one  
11 now in hopes that further change orders don't --  
12 or further costs don't get --

13 MR. BYRNE: You're talking about  
14 the, the, the fixed-price option? Yeah, so the  
15 fixed-price option was something that, we looked  
16 at the amount of time we were spending in  
17 commercial disputes, and a lot of those  
18 commercial disputes were stemming, not  
19 necessarily from things happening on the ground  
20 in construction, but, you know, the consortium  
21 making claims that the regulator was forcing  
22 them into changes.

23 So we, we had, you know, a lot of  
24 different commercial disputes, and I don't think  
25 a construction manager or outside expertise or

1 owner's engineer would have shielded you from  
2 those kinds of things.

3 SENATOR RANKIN: And I'm curious,  
4 too. Let me tack back, Mr. Addison. In terms  
5 of your distinguishing what I -- for the first  
6 time, I'd ever heard of when Mr. Scott testified  
7 this morning about a federal guarantee bond or  
8 insurance program. You, you distinguish that to  
9 say that that was -- would have helped folks  
10 only in the event that the federal government  
11 delayed or stopped? Define that, if you will,  
12 and --

13 MR. ADDISON: Right. So, so  
14 there were three components of the Energy Policy  
15 Act meant to help with nuclear plant -- new  
16 nuclear plant construction; the renaissance, if  
17 you would. One was the production tax credits,  
18 which we talked about earlier. You only get  
19 those if the plants go online, and you get those  
20 for the first eight years the plants produce.  
21 The second was loan guarantee programs, which we  
22 filed the paperwork for. We've never executed  
23 on because the public bond markets have been,  
24 have been healthy during this time period,  
25 especially after the great recession. The third

1 is this, this standby assurance, which Mr. Byrne  
2 is probably best to address what you're really  
3 asking your question about, about the bonding.

4 SENATOR RANKIN: But you, you  
5 spoke to it earlier.

6 MR. ADDISON: Yep.

7 SENATOR RANKIN: Are we talking  
8 about the same thing?

9 MR. ADDISON: We are.

10 SENATOR RANKIN: All right, so  
11 that is not a benefit -- that's not something  
12 that, had you bought it, had you paid for it,  
13 that would have helped us in the situation at  
14 all?

15 MR. BYRNE: No, this situation  
16 would have been excluded. The only thing that  
17 that -- it's called standby support in the  
18 Energy Policy Act of 2005. The only thing that  
19 standby support would have shielded you from is  
20 a delay that is caused by the federal government  
21 or litigation.

22 SENATOR RANKIN: So I'm curious.  
23 If there's an 11th -- 11-month delay -- and  
24 again, COL delay, in your slide show. Eleven  
25 months: Is that not a regulatory imposed delay

1 that, had you not had that bond, would have  
2 picked up the cost of that?

3 MR. BYRNE: I believe that the  
4 bond or the standby support, which is really an  
5 insurance policy, if you will -- that standby  
6 support would have precluded things that, that  
7 the government may not have had control over, so  
8 a Fukushima-type delay. We would have probably  
9 been able to make an argument for it, but we're  
10 -- we weren't talking about the whole 11 months.

11 A big portion of that delay was  
12 also that the -- Westinghouse was working with  
13 the regulator on things like aircraft impact and  
14 how you account for aircraft impacting the site.  
15 So they had to make some changes to their --  
16 what they call their certified design that ends  
17 up getting approved by the regulator. So that  
18 certified design wasn't approved, I don't think,  
19 until December of 2011.

20 So that would not have counted as  
21 a, as a delay as, as you're contemplating under  
22 that standby support. And the standby support  
23 was also limited to \$500 million for a plant --  
24 for the first two plants and then \$250 million  
25 for a plant for the next, either two or four

1 plants. It wasn't, it wasn't complete coverage,  
2 and it came at a cost.

3 SENATOR RANKIN: Would it have  
4 cost us to get partial coverage far less than  
5 the cost that South Carolina ratepayers,  
6 taxpayers, et cetera, are being asked to absorb  
7 on their own?

8 MR. BYRNE: Well, I think what we  
9 would have recovered under that kind of a claim  
10 for the Fukushima delay, should we have been  
11 able to recover it, would have been likely less  
12 than we would have been paid for that insurance.

13 SENATOR RANKIN: And I, again --  
14 this -- our Monday-morning quarterbacking here,  
15 I recognize, what, success has many fathers.  
16 Failure is a blank child, an orphan. I  
17 recognize that, but the idea of bonding this or  
18 some type of performance bond, some type of  
19 assurance, paper behind the paper, you've got a  
20 contract that wasn't worth much, apparently,  
21 that you then amend. You've got some leverage  
22 now because Cali -- or Chicago is trying to get  
23 out. You get extra -- far higher mitigation  
24 costs, from a hundred-something million to 500-  
25 something million. You agree with your partner

1 to do things differently. Again, you're doing  
2 all this in hopes that Westinghouse doesn't file  
3 for bankruptcy.

4 I understand that. Our  
5 difficulty here, and my difficulty is,  
6 effectively, we are Monday-morning  
7 quarterbacking, and things that just seem  
8 obvious that we are not aware of, you would  
9 think that would be insisted upon by folks that  
10 are in this business, like some type of a  
11 performance bond. And again, Mr. Addison, you  
12 mentioned to me, to the lack of that in the  
13 open market at the time.

14 But I daresay a billion dollars  
15 -- a billion and a half, if I heard you  
16 correctly, that might have been available would  
17 have been something y'all could have, would  
18 have, should have done at the cost, perhaps, of  
19 some increase, but far less of a cost to abandon  
20 or to suspend. Am I editorializing  
21 inappropriately or unfairly?

22 MR. ADDISON: No, I understand  
23 your point. It isn't that we thought it wasn't  
24 important. It's that we chose to go a different  
25 way and get it through the parental guarantee

1       rather than get, get it through some type of  
2       bond. The 2.2 billion that we realized -- well,  
3       it was 1.7 in the contract, but we negotiated up  
4       to 2.2.

5                       SENATOR RANKIN: And that's the  
6       parental guarantee with Toshiba that you hope  
7       will be fulfilled if they don't file, correct?

8                       MR. ADDISON: Well, the -- if you  
9       -- your point is a fair one that there is risk  
10      associated with it, but I will say that we  
11      expect a significant piece of it will be  
12      realized for both of us when Westinghouse is  
13      sold, and Westinghouse will be sold. That's  
14      part of the Chapter 11 process. We expect that  
15      will happen in 2018. So we would expect to  
16      maybe get half of it through that process, and  
17      we're also exploring other options for  
18      liquidating that, as Mr. Carter alluded to  
19      earlier, in advance of the current installment  
20      schedule.

21                      SENATOR RANKIN: Two last,  
22      hopefully, quick points. The -- or areas. Duke  
23      -- and Mr. Carter, y'all spoke about your  
24      efforts to sell upwards of -- you had 50. You  
25      sold 5 percent back to SCE&G in 2014, correct?

1                   MR. CARTER: Forty-five and sold  
2 five, down to --

3                   SENATOR RANKIN: Now you're --

4                   MR. CARTER: If we had completed,  
5 we'd be down to 40.

6                   SENATOR RANKIN: Right. Okay,  
7 and that would not occur until completion of  
8 A1000 (PHONETIC), so that effectively is -- you  
9 have not reached those milestones.

10                  MR. CARTER: Yes, sir, that's  
11 correct.

12                  MR. CARTER: What I'm curious  
13 about is the efforts with Duke and looking back  
14 at the announcement in 2014, when you did sell,  
15 or announce the sale to SCE&G, there's great  
16 press about efforts, ongoing efforts, 2010  
17 forward, to sell to Duke. I'm curious from Mr.  
18 Addison and Mr. Byrnes [sic], was there ever any  
19 attempt by SCANA to prevent Santee Cooper from  
20 selling its share or reducing its percentage in  
21 this deal to Duke?

22                  MR. ADDISON: I'm not aware of  
23 anything of that nature. Mr. Byrne can reply.

24                  MR. BYRNE: No, we were involved  
25 with discussions in Duke back in that time

1 frame, and it did become obvious that Duke was  
2 not looking at acquiring quite a large a share,  
3 I think, as Santee was looking to, to offload.  
4 And then their, their desire for rights on the  
5 projects would have given them and their  
6 customers preferential treatment over Santee and  
7 SCE&G's customers. So at that point, we asked  
8 Santee would us acquiring a 5 percent share, you  
9 know, satisfy you and your board, and the answer  
10 was yes.

11 SENATOR RANKIN: Okay, so other  
12 than that, no efforts rebuffed, no, no denial of  
13 the efforts in attempt to sell a greater  
14 percentage.

15 MR. BYRNE: No.

16 SENATOR RANKIN: Okay. This  
17 Bechtel report, I've heard it now from both of  
18 you -- first, Mr. Lord, now from Mr. Byrne, you  
19 mentioned it -- and I have asked for this, which  
20 apparently is some document that gave rise to  
21 changes that were made. Are you aware -- do  
22 y'all know about the Bechtel report? Have you  
23 seen it?

24 MR. BYRNE: The Bechler [sic] was  
25 something that was prepared -- requested by

1 counsel in preparation for potential litigation,  
2 and I would prefer not to waive privilege on  
3 that, so I don't -- I'm aware of it, yes.

4 SENATOR RANKIN: You've seen the  
5 report?

6 MR. BYRNE: I have seen an output  
7 from the report as in a presentation from the --  
8 from that company, yes.

9 SENATOR RANKIN: Mr. Addison,  
10 have you seen that report?

11 MR. BYRNE: No, I have not.

12 SENATOR RANKIN: Mr. Lord or Mr.  
13 Carter, have y'all seen or are you aware of a  
14 Bechtel report?

15 MR. CARTER: Yes, sir, I am, and  
16 I have seen it.

17 SENATOR RANKIN: And were y'all  
18 part of procuring that? Did y'all have -- did  
19 you help pay for it?

20 MR. CARTER: Yes, sir, we helped  
21 pay for it, and we asked for it.

22 SENATOR RANKIN: All right, and I  
23 don't want to get into the legal weeds  
24 necessarily, but I'm curious what was the --  
25 what happened as a result of that report, and

1        what, what changes -- give me a quick time line  
2        in what was done as a result of that report.

3                    MR. CARTER: Out of our concerns  
4        that I spoke of earlier, we asked that there be  
5        some additional oversight and advice counsel  
6        brought to the project. Of course, the board  
7        was aware of all of this and encouraging  
8        management to do so. And so that, that report  
9        -- the compromise was to have it -- because,  
10       because we had these issues, these ongoing  
11       issues with, with Westinghouse, and we -- if we  
12       -- at, at, at the time we were asking for it, we  
13       didn't know that CB&I was going to be wanting to  
14       get out and that we could have an opportunity to  
15       renegotiate, so I'm trying to put this in the  
16       right context.

17                    And so the decision was made to  
18        have it done through counsel that represented  
19        both of us that was looking at preparing,  
20        potentially, for litigation against  
21        Westinghouse. And not being a lawyer, I'm --  
22        that's the advice we were getting, and that's  
23        what we ultimately decided to do. And so that's  
24        why it falls into this category that I  
25        understand is attorney-client privilege.

1                   And so from that, we encouraged  
2                   some changes to be made in the way the plant --  
3                   that the -- our agent was running the project.  
4                   Ultimately, what ultimately got implemented was  
5                   the, the CORB, the Construction Oversight Review  
6                   Board that came out of that. Do you want to add  
7                   anything, Mr. Chairman?

8                   MR. LORD: No, other than the  
9                   fact that we thought it was important to get  
10                  that report, and after the attorney-client  
11                  privilege concerns about it, it wasn't given to  
12                  our board. I literally had it in my hands for  
13                  20 minutes. Mike Baxley handed it to me to look  
14                  at, and I, I looked at it, and we got counsel  
15                  got give us a summary of it, I think, like  
16                  SCANA, and we looked at it.

17                  But we put it -- we put into  
18                  writing some recommendations that we thought  
19                  that report was asking for. And I know on one  
20                  occasion, late February or early March, Lonnie  
21                  and I met with Kevin Marsh and their lead  
22                  director to try to talk about how we could put  
23                  some of the Bechtel recommendations into, into  
24                  effect.

25                  SENATOR RANKIN: And was that the

1 -- what developed or resulted in the amended  
2 agreement, those changes, or some of those  
3 changes?

4 MR. CARTER: No, sir, not in the  
5 -- not necessarily in the amendment to the EPC.  
6 The biggest thing that I think I would point to  
7 would be that this -- there was this group of  
8 four or five people that we call the CORB, the  
9 Construction Oversight Review Board, that was  
10 led by a gentleman that was -- had worked for  
11 TVA and led the project at Watts Bar to finish  
12 that unit.

13 So they had the most -- at least,  
14 he had the most current experience in actually  
15 building nuclear power plants. It was not the  
16 same design. It was an older design, but at  
17 least he had experience. And of course, they  
18 made several reports and several  
19 recommendations, including asking that  
20 additional -- at some point, they were  
21 recommending that additional oversight and --  
22 somebody that's more attuned to all this  
23 construction than I am -- but they were  
24 specifically recommending some specific  
25 organizations to come in and do -- to look at

1 specific aspects of the project; my recollection  
2 of some of their reports.

3 SENATOR RANKIN: And my questions  
4 have hopefully not been unfair to one or the  
5 other, but again, Mr. Carter, you have been the  
6 CEO of Santee Cooper for how many years?

7 MR. CARTER: Thirteen.

8 SENATOR RANKIN: And the board  
9 and management relies on you, ultimately. As  
10 the term was used, the buck's got to stop  
11 somewhere, us, everybody, and arguably with you  
12 as well, correct?

13 MR. CARTER: Yes, sir.

14 SENATOR RANKIN: Great  
15 conversation, great debate questions focused on  
16 why didn't you do X, Y, and Z, and it seems to  
17 me, asking them, the SCANA folks, questions, why  
18 would you not -- why would Santee Cooper not --  
19 kind of like playing golf and winning the bet  
20 before you hit the first ball. I don't play  
21 golf. I don't know how well. But you win the  
22 bet before you hit your first stroke.

23 CHAIRMAN SETZLER: Tee shot.

24 SENATOR RANKIN: Or your tee  
25 shot; thank you. And this same concept here in

1 striking that deal early on, that had you done  
2 it differently, had Santee Cooper insisted on  
3 things from SCANA earlier, would we have avoided  
4 some of this, or is it all the fact that you and  
5 SCANA chose Westinghouse and no one would have  
6 predicted? I mean, I'm not trying to blame, but  
7 by the same token, that's what folks want to  
8 know. Why didn't we do more? What could Santee  
9 Cooper have done better from the outset?

10 MR. CARTER: Sure. Always  
11 looking back, you know, you can do something  
12 better. At least that's been my experience. I  
13 will say, and I think it's fair to say, that we  
14 raised -- my team and I raised issues both with  
15 SCANA and made the board aware of those issues  
16 that we were concerned about, where this project  
17 was headed and its ability to get completed for  
18 the price and in the time frame that we were  
19 talking about. That started -- I can document  
20 it at least back to 2013. It's probably  
21 possibly even before.

22 But the, the -- one of the things  
23 that we continued to look at, too, was, what was  
24 our neighbor doing at the Vogtle facility?  
25 Because those were the two projects that we were

1        Looking at also, and a much bigger company with  
2        a much bigger nuclear staff than our partner  
3        here even. And they haven't done or fared any  
4        better than we have as far as completion on the  
5        site. I think that's fair to say, at least  
6        that's the reports that, that I've received.

7                        So I, I really do think that  
8        ultimately it boils down to, our contractor has  
9        really put us in a bad way, and I'm hopeful that  
10       at least one of the Vogtle units will get  
11       finished so we can really see what it takes to  
12       build one of these things because I believe  
13       eventually, these units are going to be needed.  
14       Whether they're needed -- it's much like it's  
15       been referred to earlier by Mr. Scott and his  
16       comments. There have been nuclear units that  
17       sat for, really, decades, but -- a decade and  
18       some in cases, decades -- and then ultimately  
19       finished.

20                        SENATOR RANKIN: Did, did Vogtle  
21       have an EPC manager from the get-go, or Southern  
22       and its consortium? Do we know?

23                        MR. CARTER: I don't know.

24                        MR. BYRNE: Yeah, I don't, I  
25       don't know what their -- we, we haven't seen

1 their contract, so I don't know exactly what  
2 their contract specifies. They did have an  
3 outside entity coming in to give them advice for  
4 a period of time, but I understood that they  
5 stopped that practice after a couple of years.

6 Now, they did hire into their  
7 project one of the people with that outside  
8 consultant, but that -- to the best of my  
9 knowledge, they are not doing that now. Now,  
10 they, they also have a -- I don't know if they  
11 call it a CORB, but they have a construction  
12 review board, similar to what we have.

13 SENATOR RANKIN: Mr. Chairman.

14 CHAIRMAN SETZLER: Okay. You're  
15 through? Senator from Fairfield, Senator  
16 Fanning.

17 SENATOR FANNING: Thank you, Mr.  
18 Chair. Several questions: First, I did want to  
19 follow up the Senator from Horry's question.  
20 Mr. Byrne, we talked about an onsite oversight  
21 engineer and that we used -- I think you said an  
22 over -- owner management model that did not  
23 necessarily need that. Isn't that typical in  
24 most utility construction contracts to have an  
25 onsite engineer?

1                   MR. BYRNE: Yeah, I don't think  
2                   -- I don't know that it's typical. It would not  
3                   be unusual to have somebody giving you  
4                   evaluation or expertise, particularly if you're  
5                   not taking an active part in, in the, in the  
6                   project. But as has been pointed out, we, you  
7                   know, at the time that we, we ceased, we had  
8                   over 600 SCE&G employees. At the time we  
9                   renegotiated the EPC contract, I'll be we had  
10                  between 550 and 600. So we've started out with  
11                  a lot of, of, of our own construction oversight  
12                  on this project all along.

13                  But, again, it's not like we  
14                  needed to know what the problems were. The  
15                  problems were, were presented by our folks to  
16                  us, and we tried, to the best that we could, to  
17                  address those with the management team, trying  
18                  to operate in the confines of that contract.  
19                  So, you know, an owner (INDISTINCT) advisor --

20                  SENATOR FANNING: So we've talked  
21                  about --

22                  MR. BYRNE: -- would have given  
23                  you that.

24                  SENATOR FANNING: We've talked  
25                  about Westinghouse misleading us to some degree,

1 and, and what we're saying is, we now have infor  
2 -- we, we were receiving information they were  
3 misleading us, but we continued to allow them to  
4 mislead us.

5 MR. BYRNE: I, I don't know that  
6 I use the term "misleading us." I think that  
7 may have come from somewhere -- somebody else.

8 SENATOR FANNING: Okay.

9 MR. BYRNE: But, you know,  
10 Westinghouse, I believe, did struggle. I think  
11 that some of the turnover at the Westinghouse  
12 team was, was a problem. I think, in the final  
13 analysis, we really thought that when we  
14 negotiated this fixed-price contract with them  
15 -- because costing was the -- was probably the  
16 biggest factor that we were dealing with, how  
17 much is it going to cost? From the delay  
18 perspective, we could have tolerated some level  
19 of delay. Santee could certainly have tolerated  
20 some, some degree of delay. So the cost aspect  
21 of it became, became the most important piece to  
22 us.

23 And we really thought when we had  
24 negotiated the CPC contract that we were outside  
25 of cost-increase issues. At the time, we did

1 not -- you know, Westinghouse is not a publicly  
2 traded company, so you don't have insight,  
3 necessarily, into their financials. But Toshiba  
4 is, and Toshiba was a, was a -- I mean, it's one  
5 of the biggest companies in the world, so it was  
6 --

7 SENATOR FANNING: So our system  
8 was giving us good information about the delays.  
9 We just weren't able to do anything about the  
10 delays.

11 MR. BYRNE: Yeah, I don't think  
12 that we were, we were surprised by, by the fact  
13 that the contractor wasn't performing. We had  
14 efficiency measures that were demonstrating to  
15 us that the contractor wasn't performing in a  
16 number of different areas, and we had been  
17 addressing that with them.

18 SENATOR FANNING: Right.

19 MR. BYRNE: And they -- and to  
20 their credit, they did come up with improvement  
21 plans. Just a lot of those improvement plans  
22 didn't work out as well as they had hoped.

23 SENATOR FANNING: Thank you. Mr.  
24 Carter, talking about the Bechtel report, is  
25 there more than one Bechtel report, or is -- was

1           there just one Bechtel report?

2                         MR. CARTER: Just one report.

3                         SENATOR FANNING: Just one? And,  
4           and we've talked about the fact that, that you  
5           thought it was important and it influenced some  
6           of the actions or recommendations that we took  
7           afterwards that -- since we're now trying to get  
8           to the bottom of it, I understand SCE&G not  
9           wanting to waive privilege. Would, would you be  
10          willing to waive privilege to let us look at --

11                        MR. CARTER: I understand that --  
12          I'm not a lawyer. We probably need to let one  
13          of the lawyers answer this question.

14                        SENATOR FANNING: That was why I  
15          asked you.

16                        MR. CARTER: Yes, sir. Thank  
17          you. Thank you, Senator Fanning. I'll take  
18          that as a high compliment.

19                        SENATOR FANNING: Meant as such,  
20          yes.

21                        MR. CARTER: Maybe I shouldn't,  
22          though, Mr. Chairman. From a business  
23          perspective -- I'm going to answer you this way.  
24          From a business perspective, I would like for  
25          you to see it because we wanted it, and it

1 would, it would show you where we had concerns  
2 and where we tried to have them addressed.

3 And, and to Mr. Byrne's point,  
4 we, we were seeing -- and I think you understood  
5 that from your comments. We, we were seeing  
6 these problems and really trying to figure out  
7 how we could do something about them with our  
8 contractor. That's what it ultimately boiled  
9 down to. From a business perspective, this --  
10 I, I really would like for people to be able to  
11 see it. I can assure you my board would like  
12 for people to be able to see it. I think I  
13 certainly -- I've been -- certainly was told  
14 that Monday, yesterday.

15 But as I understand the legal  
16 aspects of this -- and Babs Warner, who is our  
17 deputy general counsel, is here; she could speak  
18 to it better than I can -- that if we waive that  
19 privilege, then we waive it for everything, and  
20 that could hurt our ability to pursue claims  
21 against Westinghouse or others that might have  
22 been involved with this project. So I'm not  
23 under -- I didn't under -- I will tell you,  
24 until this came up, I didn't understand  
25 privilege that way. I thought you could

1           discreetly waive it, but apparently you cannot.

2                           SENATOR FANNING: Thank you, Mr.  
3           Carter. Today, we've talked a lot about how we  
4           can't dump Westinghouse, but we've been dumping  
5           on Westinghouse for about two and a half hours.  
6           They're the only person not in the room, and  
7           they've been called everything but a child of  
8           God. Westinghouse is either incompetent,  
9           fraudulent, or both, but, but since we knew  
10          this, since 2014 we've spent another 2 1/2  
11          billion, knowing Westinghouse is incompetent,  
12          and, and, and, Mr. Byrne, we've been getting  
13          reports regularly from our 500, 650 employees  
14          showing, I won't say incompetent, that there  
15          were delays, that there were problems, there  
16          were issues.

17                           And so we've known that that is  
18          there. They've strayed off schedule. They've  
19          changed the schedule. The famous quote from  
20          this morning was, "We had a schedule, just no  
21          one followed the schedule." Going back to the  
22          Senator from Edgefield's question, who is  
23          responsible for knowing and getting information  
24          and not having anyone do anything about it?

25                           MR. BYRNE: I don't, I don't

1 think there's any, any question, and I think Mr.  
2 Addison outlined this earlier, that we are  
3 responsible for the construction. The, the, the  
4 delays in the construction, the issues in  
5 construction were not necessarily the surprise  
6 to us; we could see those. The issue was, how  
7 do you, how do you affect that change?

8           And we had been working with the  
9 contractor, and unfortunately, delays did cause  
10 it. The counterparty, the consortium partner  
11 changing a couple of times has, has complicated  
12 things. The regulator has complicated things.  
13 A big part of what Westinghouse would tell you  
14 is the problem -- if they were sitting here  
15 today, they would probably tell you that the,  
16 the changes in, in the design have largely been  
17 caused by changes in interpretations of rules  
18 coming out of the Nuclear Regulatory Commission  
19 or things that they have found under  
20 construction of these same units in China.

21           So, you know, that, that leads  
22 to, to some of those issues. But I think, as  
23 you saw when you were onsite not too long ago,  
24 that construction has been happening. We were  
25 making good progress. That first unit looks

1       like it's largely complete. So it, it isn't  
2       like we didn't ever think we could get these  
3       things done. I, I will tell you that I always  
4       thought we could get these things done and still  
5       do.

6                        SENATOR FANNING: Oh, go ahead.  
7       I'm sorry.

8                        MR. ADDISON: Thank you. If I,  
9       if I could offer to add to that. So when we  
10      renegotiated the, the contract in late 2015, we  
11      jointly negotiated in penalties and incentives  
12      over -- at close to a billion dollars, along  
13      with some other terms and conditions that we  
14      thought were really important. So we thought  
15      that was quite important to hold them  
16      accountable to it.

17                      And then the other thing we have  
18      to look at is, so what else are our options?  
19      well, if we stop construction and walk away, we  
20      have breached the contract then, and there are  
21      certain costs associated with that that we, we  
22      never felt that we got to the point where that  
23      was the prudent thing to do.

24                      SENATOR FANNING: But now it's  
25      the imprudent thing to do?

1                   MR. ADDISON: Well, they -- no,  
2 they've breached it now. They're going to  
3 reject it in Bankruptcy Court. We don't have  
4 that option anymore. We would love to have the  
5 fixed-price contract go forward.

6                   SENATOR FANNING: It, it --  
7 throughout the last several years, we've been  
8 monitoring what was Westinghouse's fault, what  
9 they had not done that they'd told you to do,  
10 and, and that was Westinghouse's fault. How do  
11 we then justify SCANA executive bonuses for  
12 hitting objectives while Westinghouse is  
13 refusing to meet its standards, its process that  
14 we are holding them accountable for?

15                   MR. ADDISON: Some of us do have  
16 -- did have incentives tied to achieving certain  
17 goals, and I'll, I'll speak to -- some of mine,  
18 personally, were associated with raising the  
19 money to fund the construction. There, there  
20 may still be some confusion. Customers are  
21 paying the interest on it. They're not paying  
22 the cost of the construction invoices.  
23 Investors, either bond investors or stock  
24 investors have paid for all of that -- from  
25 SCANA's perspective; I'm not speaking for Santee

1 Cooper.

2 So I had incentives tied to  
3 executing on raising that capital. I had some  
4 tied to tax strategies to help mitigate the  
5 costs along the way for customers, and I had --  
6 and all of us on the senior team had incentives  
7 tied to keeping costs down to make sure there  
8 were no other rate increases other than the new  
9 nuclear rate increases during these peak  
10 construction years, so cost control on the rest  
11 of the business.

12 SENATOR FANNING: But there was a  
13 lack of, of, of oversight, so there was no,  
14 there was no onsite person that was actually  
15 able to hold them accountable. We got reports  
16 for it, and there was no bonus that was actually  
17 tied to being able to hold someone accountable  
18 for the contract that we had.

19 MR. BYRNE: Yeah, I, I don't, I  
20 don't think that we were not trying ever to hold  
21 the contractor accountable. I think our -- we  
22 had concerted significant effort towards trying  
23 to hold the contractor accountable. And we did  
24 have, as Jimmy points out -- many of us had  
25 bonuses. Even though we have responsibilities

1 outside of just nuclear, we did have bonuses  
2 tied to nuclear. I have missed some of those,  
3 but also we had bonuses tied to things that were  
4 our responsibility.

5 So even under that engineer-  
6 procure-construction contract that Westinghouse  
7 has a lot of responsibility for, there are  
8 things outside of that that fall completely into  
9 our lap: you know, the license, license  
10 amendments, license changes, all of the permits,  
11 and there are, like 60 different permits that  
12 are at the site, the transmission. There's a  
13 slew of things that we are responsible for. I  
14 am responsible train -- to get the operators  
15 licensed to train the operators, so we tried to  
16 focus our bonuses on the things that we had  
17 direct control over that we had to hit or we  
18 were going to delay the contract.

19 SENATOR FANNING: And, and, and  
20 so the bonuses, then, were, were more proof that  
21 we were doing everything that we were supposed  
22 to do and that it was Westinghouse that was not  
23 doing their portion, which may beg the question,  
24 is -- there were no bonuses for that. There's  
25 -- the thing that ended up killing us here is

1 that westinghouse not being held accountable to,  
2 to finish on time, on budget, on schedule, there  
3 was no bonus for anyone anywhere for that being  
4 reached, which is the one thing that's  
5 (INDISTINCT) this apart.

6 MR. BYRNE: I, I, I don't know of  
7 a specific bonus to say they finished on time,  
8 on schedule, et cetera, et cetera. I do say  
9 there are bonus -- portions of my bonus that I  
10 didn't make that are tied to the, to the new  
11 nuclear project. And I, again, I think if we  
12 find ourselves still with the fixed-price option  
13 today, if westinghouse were to honor that today  
14 -- you know, I -- it's easy to bash  
15 westinghouse. I understand that, and if they  
16 were here, they would defend some of their means  
17 and methods and practices and scheduling, and  
18 they would talk about how difficult things are  
19 in the nuclear arena. If we still had that  
20 fixed-price option today, we would still be  
21 going forward.

22 SENATOR FANNING: A follow-up on  
23 the, the Bechtel report. Is, is -- could  
24 disclosing the contents of the report impact the  
25 parental guarantee in any way?

1                   MR. BYRNE: I'm not, I'm not  
2 aware, I'm not aware of that being the case.

3                   SENATOR FANNING: Okay.

4                   MR. ADDISON: I'm not either. We  
5 would really need counsel to -- our general  
6 counsel to reply to that.

7                   SENATOR FANNING: Mr. Lord,  
8 earlier you said that, that the level of  
9 corporate incompetence is as much as I've ever  
10 seen. Ironically, we were talking about  
11 Westinghouse; it's hard to believe that that was  
12 it again. And we mentioned that the board met  
13 36 times going over this. Do Santee Cooper  
14 board members get paid -- how much do they get  
15 paid per -- is it per meeting? Is it annual?

16                  MR. LORD: No. We get an annual  
17 salary that's a -- most board members, it's  
18 approximately 12,000. For the chairman, it's  
19 double. That's approximate, though.

20                  SENATOR FANNING: Okay. Thank  
21 you.

22                  MR. LORD: We get mileage.

23                  SENATOR FANNING: Thank you.  
24 Thank you. And the meetings were not in Seattle  
25 or something that allowed you to take advantage

1 of mileage.

2 MR. LORD: They're in Pinopolis,  
3 South Carolina.

4 SENATOR FANNING: It is similar  
5 to Seattle; obviously identical. Mr. Addison,  
6 we talked about the numbers and the percentage  
7 complete, and I think that, that if, if any  
8 numbers stick out today, one is the numbers we  
9 have, and then one is the, the number that the  
10 Senator from Edgefield was trying to get to  
11 earlier than we, that we -- that was hard to  
12 talk about.

13 But, but engineering, 96 percent  
14 complete; procurement, 88 percent complete;  
15 construction and, and when we hear different  
16 numbers like the 36 percent, it is -- we use the  
17 modular process, so even if the modules aren't  
18 in the reactor yet, they're constructed. They  
19 just haven't been dropped in by, as I was told  
20 on my visit, the world's largest crane, over and  
21 over again.

22 And so we've got two reactors  
23 that are, that are 67 percent complete that,  
24 that we had citizens in South Carolina paying  
25 18, 20 percent higher utility bills, billions of

1 dollars for, for reactors that are two-thirds  
2 complete. How do we give a return on that  
3 investment to South Carolinians?

4 And I know the cost of walking  
5 away, and I understand that, but I -- but, but  
6 we've invested billions of dollars through  
7 either ratepayers or, or the partnership that's  
8 here today, and they are 96 percent complete,  
9 engineering; 88 percent complete, procurement;  
10 overall, 67 percent. The fact that we built  
11 them in modules side by side, really, even  
12 though 2 is a little bit more ahead of 3, 3 is  
13 still significantly complete. walking away  
14 -- and I understand, really, the cost analysis  
15 of walking away, but, but what do we give the  
16 ratepayers in return for that investment, or all  
17 of the investors?

18 MR. ADDISON: well, you know, our  
19 charge -- obviously, just speaking for SCE&G --  
20 is to make the prudent decision based on what we  
21 know at the time, and each time that we've had  
22 to make one of these critical decisions --  
23 whether it was to start or to amend the contract  
24 -- it's been based on what's prudent at the  
25 time, and we, we don't get the benefit of

1           saying, well, what's behind us that we wish we  
2           had not done?

3                               We certainly wish we were not  
4           here. As I said earlier, I'm very disappointed.  
5           I'm sorry we're, we're in this situation. But  
6           what we've got to do is say, what's the most  
7           prudent thing to do for the customer from here,  
8           forward? And that's what we've attempted to do  
9           with our, with our analysis, and I think the  
10          facts bear that out.

11                            SENATOR FANNING: And, and  
12          "prudent at the time" is probably the key word  
13          because the time is today, but the time -- when  
14          we did "prudent at the time" six weeks ago, it  
15          was six weeks ago, and if we were gathering two  
16          months from now, that would be prudent at that  
17          time.

18                            Roughly a month and a half ago,  
19          I, I was, was fortunate enough to tour, and  
20          Senator from Greenville was there with me,  
21          Senator from Laurens was there as well, and we  
22          saw lots of work going on. I mean, it was, it  
23          was unbelievably a feverish pitch. That was two  
24          weeks before the abandonment plan was submitted.  
25          But, but at that time, it was still prudent to

1 finish work on the reactors. That -- you know,  
2 the time had not come yet.

3 At some point, you say that you  
4 -- that today you're making the decision, what's  
5 prudent for, for SCE&G and the ratepayers.  
6 Someone needs to look at the investment of  
7 billions of dollars, and that someone is us here  
8 today, is -- that, that in addition to looking  
9 what is prudent for SCE&G today and what we  
10 think will happen for the future with fracking  
11 and, and, and energy prices and the change in  
12 volatility, six years from now there's going to  
13 be another prudency of time point that we'll  
14 look at.

15 But the reason we're gathered  
16 here today is, we have some responsibility to  
17 say, we will look back, and we have invested  
18 billions of dollars for reactors that are 67  
19 percent complete, and we have to hand something  
20 to them. What both of you have said is that if  
21 we do walk away, at some point, there's going to  
22 need to be a rate increase, sometime in the  
23 history of the world, because there are costs  
24 associated with walking away of some sort.

25 So if, if walking away with, at

1       some point, a rate increase that pays for that,  
2       leaves us in the State of South Carolina with  
3       absolutely nothing, what is the cost of walking  
4       away and not completing reactors?  What, what  
5       investment -- what return on the investment are  
6       we going to give South Carolina taxpayers?  
7       That's why we're here.

8                       MR. ADDISON:  Again, just  
9       speaking for SCE&G's part, we, we filed our  
10      application a couple of weeks ago with the  
11      Public Service Commission.  What we envisioned  
12      at that time, based upon the law that's here, is  
13      for us to work with the various parties that  
14      intervene in that case to try to come to a  
15      reasonable solution, to answer your question, I  
16      believe, if I understand your question.

17                      We stand ready to do that today.  
18      We have a, we have a new process here of being  
19      before you today.  We wish we weren't here, as I  
20      said earlier.  We need to understand how to  
21      discuss that with the various parties, be it  
22      this legislative body, the House, the regular  
23      intervenors, the Office of Regulatory Staff, the  
24      Commission, et cetera.  But we stand -- we have  
25      -- we are very willing to try to work out a

1 reasonable solution with all the parties  
2 involved.

3 SENATOR FANNING: Mr. Lord. I  
4 would ask the same question of you, is, is that,  
5 that originally Santee Cooper believed that,  
6 that, that we wanted to be a partner in two  
7 reactors. Now, that may have changed from 45 to  
8 40 or to one reactor, but originally, that was  
9 our goal. And because of that, we now have  
10 construction that is 67 percent complete on two  
11 reactors. If, if Santee Cooper walks away, what  
12 is returned in value to the, to the consumers  
13 that paid for those 67 percent complete --

14 MR. LORD: That's a fair  
15 question, Senator. We met yesterday for over  
16 six hours, and what we've directed management to  
17 do is figure out how to make Santee Cooper  
18 leaner and meaner so that we can avoid rate  
19 increases. We already know that we can avoid  
20 the next couple of rate increases that were on  
21 the table, primarily because we don't have to  
22 continue to fund the nuclear construction.

23 We hope that management can  
24 monetize or securitize the Toshiba settlement in  
25 some way to bring money in. But also, we're

1 going to have to cut costs at Santee Cooper, and  
2 management is engaged in that. They already put  
3 proposals in front of us yesterday. We're doing  
4 things small, medium, and large to cut expenses.

5 So our charge is to run Santee  
6 Cooper as leanly and as meanly as we can so that  
7 we can continue to give low-cost, reliable  
8 power, we can continue to foster economic  
9 development, but, but keep rates down. And our  
10 rates are already some of the lowest rates in  
11 the Southeast.

12 SENATOR FANNING: And Mr. Lord, I  
13 appreciate that, and, and the work to keep rates  
14 down will be to work to try to mitigate a future  
15 rate increase to help pay for walking away,  
16 correct?

17 MR. LORD: Exactly.

18 SENATOR FANNING: And -- but I  
19 guess my question is, is, we've -- South  
20 Carolinians have -- ratepayers have, have put  
21 hundreds of millions, in maybe your case, and  
22 billions overall into it. Will they ever get  
23 that money back? And, and, and, and to me, I  
24 see three options.

25 Either -- one is, if they've

1 given billions, then those consumers deserve  
2 either that money back, or they deserve some  
3 kind of energy that they were promised when they  
4 -- when we gave the covenant to you that if we  
5 raise rate increase, we'll give two reactors.

6 Or I guess the third point, and  
7 we talked about how we no longer need this  
8 nuclear energy and that Santee Cooper originally  
9 thought they might need some, but over the  
10 years, it sounds like we've decreased those  
11 needs as well. And I'm now hearing from SCE&G  
12 that we don't need, necessarily, two reactors'  
13 worth; we could get by with one reactor's worth.  
14 Is -- if we completed the reactors and produced  
15 more energy than we needed, could we not sell  
16 that additional capacity that you said we don't  
17 need?

18 MR. LORD: Senator, let me  
19 explain. We, we still have two coal plants. We  
20 had idled a very large unit in one of those coal  
21 plants. Because we are not going to have this  
22 nuclear, we'll bring one of those back. The  
23 idea always was to lower our reliance on coal.  
24 We, we think coal's going to get regulated. The  
25 coal prices are unstable. Coal has a lot of

1 byproducts, such as coal ash, that make it very  
2 expensive.

3                   So when we say we don't need  
4 power, we still wanted this nuclear generation  
5 because it's clean, it would have gotten our  
6 carbon footprint down, and we believe we would  
7 have been a more stable utility with a more  
8 diverse generation mix. But, but we can do  
9 without it on gen -- on a power --

10                   SENATOR FANNING: And I, and I do  
11 hear that. We're hearing, we can do with coal.  
12 We hear, with gas prices come down, with  
13 fracking, we can do it with gas. Unfortunately,  
14 when we made the covenant with the people of  
15 South Carolina ten years ago, we didn't know  
16 that, right? We didn't know that we couldn't do  
17 it with the carbon footprint or with fracking.

18                   The problem is, is we now have  
19 new variables and we make changes, but the  
20 consumers are let holding the bag because  
21 they've been paying additional rates for ten  
22 years that either they need to get the rates  
23 back, or they need to get a return on the  
24 investment by having the reactors, and if it's  
25 more energy than we need because we're doing

1 nothing but coal and we're doing nothing but  
2 fracking, which sounds like a cuss word -- but,  
3 in other words, if we're doing nothing to that  
4 is that, couldn't we --- I'll go back to the  
5 question again -- sell the additional capacity  
6 to other parts of the country that might need  
7 energy?

8 MR. ADDISON: Well, there are  
9 physical limitations on how far that can go, as  
10 Mr. Carter alluded to earlier. And currently,  
11 in the Southeast, there is ample capacity to buy  
12 because of those same economic conditions we  
13 talked about earlier from the great recession.  
14 We are buying 300 megawatts a day today and have  
15 a contract for that for the next several years.  
16 So we, we still do need the energy. It's a  
17 matter of us determining what is the best value  
18 for the customer from this day forward, based on  
19 what we know today. That's our prudence  
20 decision we have to make.

21 SENATOR FANNING: And, and I do  
22 understand that. I just -- if I'm in debt  
23 because -- it may not feel that way, but the  
24 consumers feel like that they're holding debt;  
25 that is, that they've given money towards a

1 project that they were hoping to at least get  
2 the money back in reduced energy rates in the  
3 future years or something, or that the state's  
4 going to get something out of it. We can move  
5 on, and from this day forward, make more  
6 economical decisions, but consumers will get  
7 nothing back from that debt, and that, that was  
8 the question that I was getting to.

9 But I do -- two questions before  
10 I leave. On page 24 of, I believe, Santee  
11 Cooper's slides, we're talking about -- it was  
12 the slide that showed the cost of completing --  
13 remember, completing Units 1, 2 or 2 and 3 and  
14 the cumulative system base cost? And I wanted  
15 to ask a question about that 15 percent. And  
16 are -- am I at the right slide?

17 MR. LORD: You are.

18 MR. CARTER: Yes, sir.

19 SENATOR FANNING: I assume the 15  
20 percent is showing that if we do absolutely  
21 nothing, there is still a cost. Is that what  
22 the 15 percent is showing?

23 MR. CARTER: No, sir. What that,  
24 that's showing is, if you didn't build these --  
25 finish these two nuclear units and built a

1 combined-cycle facility that would be roughly  
2 the same size -- so it would be two combined-  
3 cycle units, as we think of them in our industry  
4 -- that that would be your power cost increase.  
5 And that's -- the importance of that is, is --  
6 what I was trying to say earlier is, is, we, we  
7 can -- there's one thing I know today. We can  
8 minimize that and reduce that significantly.

9 SENATOR FANNING: But it is  
10 showing that there would be a power cost  
11 increase of walking away from the two plants.

12 MR. LORD: Only if we build a gas  
13 plant.

14 MR. CARTER: And we don't need to  
15 build it. So that's not -- it's -- what we were  
16 trying to do, Senator, was give the full value  
17 that we could to the nuclear units that, that  
18 any reasonable person could have provided. The,  
19 the -- and what this really shows you is, is  
20 natural gas units are cheaper than these nuclear  
21 units.

22 MR. LORD: But -- and, Lonnie,  
23 correct me if I'm wrong. If we build no gas  
24 plant, that number is zero.

25 MR. CARTER: Yes, sir.

1                   SENATOR FANNING: That, that does  
2 help the question. I didn't understand that.

3                   MR. CARTER: Yes, sir.

4                   SENATOR FANNING: Final questions  
5 are with -- are for Mr. Addison. I'm brand new.  
6 I was not here when this process started. Now,  
7 I was in Fairfield. I was still alive at the  
8 time, but, but I wasn't here at the time. But  
9 just three questions to close. What is your  
10 current plan for the 5,560 workers that were  
11 recently left off? And, and, and I'm asking in  
12 today's -- right now, today, I've got 5,650  
13 workers -- admittedly, maybe only 2,000 live in  
14 Fairfield County, but what are -- what is the  
15 plan for those?

16                   MR. ADDISON: Mr. Byrne's  
17 probably better to answer.

18                   SENATOR FANNING: That's fine.  
19 I'm sorry. Mr. Byrnes [sic]?

20                   MR. BYRNE: Yeah, so we -- those  
21 -- I apologize. I'm really not trying to turn  
22 it back to you --

23                   SENATOR FANNING: That's fine.

24                   MR. BYRNE: but I can't make the  
25 microphone work and turn my head that way. The

1 -- we, we had about what has been reported as  
2 about 5600 employees impacted by this decision.  
3 About 3,000-plus were Fluor. Westinghouse had a  
4 number, and then there were a number of  
5 subcontractors, subvendors, and SCE&G had about  
6 650 employees that were impacted by this  
7 decision. We checked the rolls at, at Fluor,  
8 and they list 252 of their employees that lived  
9 in the county, in Fairfield County.

10 The -- when we made the decision  
11 to stop, and I know people think that this was a  
12 sudden decision, but we really didn't have any  
13 option then to report it the way we reported it.  
14 We have some legal obligations that would  
15 prevent us from disclosing this kind of  
16 information until we disclose it in a -- in an  
17 appropriated public format. So I couldn't tell  
18 the Public Service Commission because of ex  
19 parte rules, and we couldn't tell anybody else  
20 because of Regulation Fair Disclosure, Reg FD.  
21 So we, we announced it on -- basically all at  
22 the same time.

23 We directed the two contractors  
24 to, to, to cease work, and they decided how  
25 quickly they wanted to send their employees home

1 and in what fashion. For our employees, we did  
2 let them know on that same day; obviously, they  
3 were surprised. We have put in place a  
4 mechanism to help them with employment. We've  
5 operated -- we've opened up a job center on the  
6 site. We're getting terrific response for --  
7 from both the nuclear industry and the non-  
8 nuclear industry to job fairs. I think the  
9 29th, we've got a job fair that includes at  
10 least half a dozen other utilities that have  
11 nuclear operations, so we feel pretty  
12 comfortable that a lot of our employees will  
13 find employment elsewhere.

14 we're, we're, we're trying to  
15 help them -- those employees out to the extent  
16 that we can. With regard to the contract --  
17 contractors, you know, those are governed by the  
18 contracts. So our contract was with  
19 Westinghouse. We told them to cease. How they  
20 deal with their folks is, is up to them.

21 SENATOR FANNING: The only catch  
22 is, our decision impacts their ability to make a  
23 decision. They, they -- I assume you would not  
24 allow them to go back to work, even if, if Fluor  
25 said, we're working, no matter what.

1                   MR. BYRNE: Well, there's,  
2                   there's --

3                   SENATOR FANNING: Mr. Byrnes  
4                   [sic].

5                   MR. BYRNE: Yeah, there's little  
6                   point in them coming back to work if there's, if  
7                   there's no work for them to do. If we decided  
8                   we're ceasing and we're not going to -- we're no  
9                   longer going to, you know, pay Westinghouse for  
10                  going forward costs, they're not going to work  
11                  if we don't pay them.

12                  SENATOR FANNING: Well, just --  
13                  when we talk about going forward and making  
14                  decisions about going forward and not looking in  
15                  the past, there, there was a young lady that was  
16                  diagnosed with cancer the week before, and she  
17                  no longer has a job or health insurance.  
18                  There's a young lady that is out on maternity  
19                  leave, and her husband lost a job, her father  
20                  lost a job, and his daugh -- wife lost a job.  
21                  They could have been contractors, and they may  
22                  not have been part of your 650, but they were  
23                  affected by that decision.

24                  Fairfield County has been a  
25                  strong partner for 30 years, and, and, and a big

1 fan of SCE&G over those 30 years, and they have  
2 not only made plans over the last ten years in  
3 working with anything that might be needed  
4 there, rezoning land to hold tents so that  
5 people could stay in tents, which may be where  
6 my thousands are. But what are your plans for  
7 the partner, Fairfield County? Two-thirds of  
8 Fairfield County has no water and sewer. We had  
9 planned on using some of the revenue to, to get  
10 water and sewer. When we talk about making  
11 plans that are prudent at the time, what are  
12 your plans for Fairfield County?

13 MR. BYRNE: So our -- you say  
14 Fairfield County's been a good partner for 30  
15 years. I'd say they've been a good partner for  
16 over a hundred years. Our first facility went  
17 into Fairfield County in 1910s and is still  
18 operating there today. So we are still the  
19 largest taxpayer in Fairfield County. We're  
20 still the largest employer in Fairfield County  
21 and intend to be for the foreseeable future.

22 We've extended the license on our  
23 V. C. Summer Unit Number 1. Its original  
24 license would have expired in 2022. It now  
25 doesn't expire till 2042, and there's an

1 opportunity for us to extend that even further  
2 by another 20 years. So it's possible Unit 1  
3 could be operating till 2062.

4 We paid \$28 million in taxes in  
5 Fairfield County last year. That obviously is  
6 going to increase in years going forward, so I  
7 think our partnership with the county is still a  
8 good one. We went to Fairfield County last  
9 Tuesday, our CEO, our chief nuclear officer, and  
10 I, and we explained to them exactly what, what  
11 happened. I think they understood a lot of what  
12 happened, but I think they wanted to hear from  
13 us what happened.

14 Now, there's a, a brick-and-  
15 mortar postsecondary institution, Fairfield --  
16 Midlands Technical College, in Fairfield County  
17 now because of us. We've got a medical facility  
18 in western Fairfield County that's there because  
19 of us. We intend to continue that kind of  
20 partnership.

21 We heard a lot of, of issues  
22 about things like school supplies not being  
23 supplied to the, the county schools because of,  
24 of supply drives that wouldn't be initiated.  
25 We're, we're not going to allow that to happen.

1 we're going to make it up if, if, if, indeed, it  
2 did happen. So --

3 SENATOR FANNING: All right.

4 Final, final question to, to each of you: what  
5 will it take to finish the two reactors?

6 MR. BYRNE: From, from our  
7 perspective, I think Mr. Scott did a fairly good  
8 job of addressing that earlier. Right now, what  
9 we would need is, we would need help. You know,  
10 we've lost our --

11 SENATOR FANNING: Lost a partner.

12 MR. BYRNE: -- fixed-price  
13 contract. We'd need a partner or partners, and  
14 if we could get help from the federal  
15 government, that would be, that would be what  
16 would -- we think would be needed, and that's  
17 what we have, we have sought out for the last  
18 couple of months.

19 SENATOR FANNING: And a specific  
20 dollar figure. The Senator from Edgefield was  
21 trying to get to one. Just -- we're here today  
22 because we, we have to abandon because we can't  
23 afford X, and I think you were wanting to know  
24 what X equals. And so what is that dollar  
25 figure?

1                   MR. BYRNE: I, I, I don't know  
2                   what it is. I can tell you that at the time,  
3                   just prior to our decision to abandon, what we  
4                   were looking for was something along the lines  
5                   of 3 billion. As we go forward, every, every  
6                   delay means it's more difficult for me to get  
7                   those employees back, so the more that leave and  
8                   find jobs elsewhere, and that's happening fairly  
9                   quickly --

10                  SENATOR FANNING: They're,  
11                  they're calling me every day. The frustration  
12                  is, is if we're abandoning something because we  
13                  can't afford it, folks want to hear a number.  
14                  So even if -- if it's \$3 billion, say it with  
15                  confidence, It's \$3 billion, because if we're  
16                  abandoning something because we don't have it --

17                  MR. BYRNE: I just want to make  
18                  sure that you understand that if I give you a \$3  
19                  billion number today and it's six months from  
20                  how when you come back to me and say, Hey, is it  
21                  still 3 billion, I might say, No, it's 3.1 or  
22                  3.2 billion.

23                  CHAIRMAN SETZLER: Okay, so at  
24                  the next meeting, you can give us that number,  
25                  Mr. Byrnes [sic]. How about that? At the next

1 meeting --

2 MR. BYRNE: Absolutely.

3 CHAIRMAN SETZLER: -- you and  
4 Santee Cooper give us that number.

5 SENATOR FANNING: And Mr., Mr.  
6 Carter, your -- what would it take?

7 MR. CARTER: I think if you're  
8 looking for a number, the --

9 SENATOR FANNING: It would take a  
10 partner, or just a number?

11 MR. CARTER: I think it would  
12 take -- certainly take a partner, and I think  
13 what's more important, quite frankly, is,  
14 someone to help guarantee that the cost isn't  
15 going to run away, somebody that can step into  
16 that gap because that's, that's what brought us  
17 here today.

18 The cost has run away from us.  
19 The, the way I look at this is, it depends on  
20 which public number that you, that you see  
21 that's been published. I've seen numbers as  
22 high as 23 and 25 billion, and if you do the  
23 math on that, there's 14 billion under those  
24 numbers, under 23 billion that's left that would  
25 have to be -- so you've got more money left to

1 spend than you've already spent. And so -- and  
2 we've seen how unsure we can be of those  
3 estimates.

4 SENATOR FANNING: Thank you, Mr.  
5 Carter. Thank you, Mr. Chair.

6 CHAIRMAN SETZLER: Okay, Thank  
7 you, Mr. Carter and Mr. Lord. I'd ask you to do  
8 the same thing we're asking them: Give us a firm  
9 number at the next meeting, what it would take  
10 to go forward. And I think that's what the  
11 Senator from Fairfield's trying to find out.  
12 Senator from Oconee, you're next, and you've  
13 been very patient. Senator Alexander.

14 SENATOR ALEXANDER: Thank you,  
15 Mr. Chairman, Mr. Co-Chairman, and it's been  
16 very informative. I want to go over a few  
17 things here, and I don't want to rehash, but I  
18 do want to understand, make sure I understand,  
19 on, on SCE&G, you're buying, is it 300 today,  
20 300 megawatts?

21 MR. BYRNE: The actual number  
22 we're buying today may be in excess of 300. We  
23 have a contract, a long-term contract of 300.

24 SENATOR ALEXANDER: So, so was  
25 that where your projection was of where you

1 thought you would be today as far as five years  
2 ago or when, when you were considering the  
3 units?

4 MR. BYRNE: Yeah, no. When we  
5 were considering the units, we thought we would  
6 need much more than this -- than our load today.  
7 So our load has dropped. If you go back to that  
8 2006, '07, '08 time frame where we were making  
9 these decisions, our load was growing at  
10 something like 2.2 percent a year. It's, today,  
11 growing at about 1.2 percent a year. So it has  
12 come down, and energy efficiency, demand-side  
13 management has taken, taken a bite out of what  
14 the peak load would be. And solar is starting  
15 to finally add to, to our, our mix.

16 But we still have the need for in  
17 excess of 300. I, I need the 300 just to get to  
18 or keep my reserve margin. So I have a, a, a  
19 committed margin, so I have to take my peak  
20 load, which for us, generally, is summertime,  
21 and I have to have between 14 and 20 percent  
22 above that number for reliability purposes.

23 SENATOR ALEXANDER: So, so would  
24 your numbers and Santee Cooper's numbers be  
25 about the same as far as the demand reduction,

1 from that standpoint?

2 MR. BYRNE: I don't, I don't  
3 think so. I believe that Santee's was probably  
4 more impacted by the recession than we were.

5 SENATOR ALEXANDER: Okay. Okay.  
6 And they could get --

7 MR. CARTER: Ours would have been  
8 more because ours including allowing some load  
9 from the electric cooperatives to go off-system.  
10 That was done to avoid a coal-fired unit which,  
11 again, lowered costs to customers and gave more  
12 certainty to costs. And then we also had a  
13 large industrial customer -- many of our large  
14 industrial customers have not come back to the  
15 same energy usage that they had prior to the  
16 recession.

17 SENATOR ALEXANDER: So -- and I  
18 want to get back then, next, to the contractors,  
19 the delays, the delays here, the 77 months total  
20 in delay that we have from that standpoint. I  
21 understand that when you were going through  
22 that, if they weren't performing, they weren't  
23 getting paid, or at some point. When did, when  
24 did that start that if -- that you stopped  
25 paying them because of nonperformance?

1                   MR. BYRNE: It was a, it was a  
2                   graded approach, so we started to decline some  
3                   invoices. Then we went to stop paying for --

4                   SENATOR ALEXANDER: What time  
5                   frame was that? Ballpark?

6                   MR. BYRNE: Probably in the 2011,  
7                   '12 time frame. We started, and it was, it was  
8                   graded from there. It got more serious as we  
9                   went along.

10                  SENATOR ALEXANDER: So, so as  
11                  early as 2011, maybe as early as 2011, because  
12                  of -- you had already suspended some of the  
13                  payments as a result of their nonperformance of  
14                  the work.

15                  MR. BYRNE: Again, I think, I  
16                  think in 2011, we were declining invoices based  
17                  on them not performing the work.

18                  SENATOR ALEXANDER: Was there a  
19                  penalty, other than -- obviously withholding the  
20                  funds is a significant penalty, but were there  
21                  additional penalties on top of that that was  
22                  invoked as a result of them not performing the  
23                  work?

24                  MR. BYRNE: Yeah, the ultimate  
25                  penalty that would have been invoked is if they

1 had not met the guaranteed substantial  
2 completion date. There were liquidated damages  
3 that were tied to them hitting or not hitting  
4 that, that --

5 SENATOR ALEXANDER: But they  
6 weren't hitting anything, correct? I mean --

7 MR. BYRNE: Right, but, but the  
8 liquidated damages were going to be at the tail  
9 end.

10 SENATOR ALEXANDER: So, but now  
11 they're in bankruptcy, so that becomes part of  
12 the -- so in essence, they've gotten by without  
13 any, any --

14 MR. BYRNE: In, in rejecting the  
15 contract, they've, they've done away with all  
16 those penalties.

17 SENATOR ALEXANDER: Okay. If I  
18 could, Mr. Chairman, just a couple other things.  
19 When you did the RFP in the contract, did you  
20 consider anything other than EPC?

21 MR. BYRNE: We put out the con --  
22 we put out the RFP to the three vendors. All  
23 three vendors came back with that model. And to  
24 be honest with you, I don't know that we would  
25 have wanted to take on a, a self-directed model

1 at that point in time, based on the  
2 uncertainties of the previous nuclear bills, the  
3 previous rounds from the '70s, '80s, and '90s.

4 SENATOR ALEXANDER: Was, was  
5 those -- was that RFP put out with outside  
6 counsel's involvement, or was that all done  
7 internally?

8 MR. BYRNE: I don't recall. That  
9 would have probably been in the 2005, '06 time  
10 frame, so I'd have to go back and look.

11 MR. CARTER: I don't know.

12 SENATOR ALEXANDER: So as far as  
13 y'all's involvement as a, as a partner from that  
14 standpoint, y'all would have just used inside?  
15 Were y'all involved in putting the contract out  
16 at Santee Cooper, or were y'all just, as  
17 partners, leaving that all to SCE&G?

18 MR. CARTER: I believe at that  
19 time, our chief operating officer was involved.  
20 We used an outside firm, and I can't recall the  
21 name of it, but we did have an outside firm that  
22 reviewed -- besides our internal counsel that  
23 did review it, yes, sir. I can think of the  
24 lawyer's name, but I can't think of the name of  
25 the firm.

1                   SENATOR ALEXANDER: That's all  
2 right. You can get, you can get that. Thank  
3 you. I, I understand in listening to the  
4 presentations that, of the three bidders that  
5 you had, that -- you said that Westinghouse had  
6 little -- they had a lot of experience but had  
7 little experience in the nuclear at that point,  
8 if I heard you correctly.

9                   MR. BYRNE: No, I would say that  
10 Westinghouse had probably the highest amount of  
11 nuclear experience. What they lacked was  
12 construction experience, which is why they  
13 brought in a consortium partner.

14                  SENATOR ALEXANDER: So, so were  
15 the other two companies equal in nuclear  
16 experience, or were they less in nuclear  
17 experience?

18                  MR. BYRNE: I will tell you that,  
19 from a -- from the perspective of nuclear  
20 experience, the other two companies were less  
21 than, than Westinghouse, but, but similarly,  
22 they were not constructors, so each of them came  
23 with a consortium partner to construct.

24                  SENATOR ALEXANDER: Was, was  
25 Fluor, by chance, a part of either of the other

1 two's --

2 MR. BYRNE: Fluor was a part of  
3 the bid with -- I believe it was General  
4 Electric. I'm not a hundred percent certain of  
5 that, but Fluor was, Fluor was a part of that  
6 early round of nuclear license applications. At  
7 one point in time, we had 18, I think it was,  
8 different locations that were going to build  
9 nuclear plants in this country, and they all  
10 submitted license applications to the Nuclear  
11 Regulatory Commission. So Fluor was a part of  
12 that, of that mix, and I don't remember which  
13 company exactly paired up with it. It might  
14 have been General Electric though.

15 SENATOR ALEXANDER: Okay. You,  
16 you mentioned that when you brought Fluor on, or  
17 when they became partner -- involved with  
18 Westinghouse, not a partner, that they provided  
19 -- did I hear you correct? Did they provide  
20 information to Westinghouse on a time schedule?

21 MR. BYRNE: Yes. So when they,  
22 when they joined the project in January of 2016,  
23 they were tasked, and it might not have been  
24 right away, but early on, they were tasked by  
25 Westinghouse with coming up with their inputs to

1           what would be an estimate to complete, or an  
2           ETC.

3                           So, so Westinghouse would have  
4           provided design inputs and amounts of  
5           commodities, things like concrete and cable and  
6           that kind of thing, but what Fluor would have  
7           been responsible for, looking at how the  
8           construction was going, providing hours, numbers  
9           of personnel that they would need, and then unit  
10          rates, which would be how many people it would  
11          take to pour a cubic yard of concrete, for  
12          example.

13                           SENATOR ALEXANDER: So did they  
14          have a time schedule involved in that?

15                           MR. BYRNE: Yeah. I believe Mr.  
16          Carter's recollections were pretty good, that  
17          originally we thought it was going to be about  
18          mid to -- mid, mid 2016 to the fall of 2016.

19                           SENATOR ALEXANDER: So they  
20          provided -- the schedule that they had, they  
21          provided -- did Westinghouse provide y'all that  
22          schedule, or they didn't --

23                           MR. BYRNE: They never, they  
24          never provided us with that schedule.

25                           SENATOR ALEXANDER: Y'all didn't

1 have the ability to get that schedule?

2 MR. BYRNE: We did not.

3 SENATOR ALEXANDER: As, as the  
4 owners of the contract, as the -- I mean, your  
5 contract was not written -- was not -- was --  
6 didn't allow you to have --

7 MR. BYRNE: They, they provided  
8 with schedules once a month, but those were  
9 schedules that, again, as Mr. Carter pointed  
10 out, they were looking at about six months ahead  
11 of time. So it isn't that they couldn't  
12 schedule, they didn't know how to schedule. I  
13 mean, we could see a schedule. But then, you  
14 know, they'd do a six-month detailed schedule  
15 and then a big-picture schedule for completion.

16 SENATOR ALEXANDER: I'm talking  
17 about once Fluor was brought in with a set of  
18 fresh eyes.

19 MR. BYRNE: Right. So Fluor had,  
20 Fluor had input to those, to those schedules we  
21 would get every month, but --

22 SENATOR ALEXANDER: Didn't I hear  
23 you --

24 MR. BYRNE: -- a fully-integrated  
25 version of that was not, was not what we were

1       seeing every month. So what we asked for and  
2       what they committed to give us was a schedule  
3       that not only looked at what activities were  
4       going to take place when, but, Do I have the  
5       right resources to enable that to happen, along  
6       with, Is all of the procurement done or  
7       scheduled such that I can get there, along with,  
8       Do I need any changes to the license from the  
9       Nuclear Regulatory Commission, and is that in  
10      the schedule?

11                    So when we say a fully resource  
12      loaded and integrated schedule, it integrates  
13      everything, not just what the constructor is  
14      responsible for. So that, that we viewed as  
15      very important. So that's what we had asked  
16      them to give us.

17                    SENATOR ALEXANDER: But they  
18      wouldn't provide it to you.

19                    MR. BYRNE: Well, they were -- I  
20      wouldn't say they wouldn't provide it. They  
21      were -- I think they were working on it. Now,  
22      you know, we may have differences in opinion on,  
23      on how cooperative Westinghouse was, but  
24      certainly they didn't give it to us. That's,  
25      that's clear, and then as, as has been pointed

1 out here, in, in late December of 2016 was when  
2 we got the announcement that, that Toshiba has  
3 this large impairment based on Westinghouse, and  
4 all their efforts then stopped.

5 SENATOR ALEXANDER: One final  
6 question, if I could. I heard one of y'all say  
7 that procurement became an issue, and you kind  
8 of -- and that was -- why did procurement become  
9 an issue?

10 MR. BYRNE: Procurement became an  
11 issue for a couple of reasons. One, the, the  
12 nuclear supply chain in this country has, has  
13 virtually evaporated for a lot of components.  
14 If I want to get a large forging done now, I  
15 cannot get it done in the United States.

16 SENATOR ALEXANDER: Did we not  
17 know that before the project was --

18 MR. BYRNE: We, we did, and we  
19 were concerned more with the international  
20 supply chain than we were the domestic supply  
21 chain. I think, as it's been pointed out here,  
22 that the domestic supply chain actually let us  
23 down a lot more than the international supply  
24 chain. So the ultralarge forgings were coming  
25 from places like Doosan in South Korea, Japan

1 Steel works in Japan, they actually did perform  
2 fairly well.

3 There were a lot of vendors that  
4 had stop-work orders issued by Westinghouse  
5 because they were responsible for the  
6 procurement under the engineering-procurement-  
7 construct contract. So a lot of these vendors  
8 had stop-work orders issued because of quality  
9 issues, and again, to their credit, the  
10 international vendors in general corrected their  
11 issues and then started to perform.

12 There was a couple of big-picture  
13 domestic vendors that did not perform. One of  
14 those was a company that was originally called  
15 Shaw Modular Solutions. And so another, another  
16 answer to your question about why is procurement  
17 a problem is, these are modular construction.  
18 It's, it's a lot like they build aircraft  
19 carriers or nuclear submarines. You build  
20 modules, you fly the modules in, then you weld  
21 the modules together. That's kind of the  
22 premise for a lot of the construction. That  
23 works great, except when the modules aren't  
24 there when it's time to put them into the, into  
25 the excavation or into the, into the hole.

1                   So we had some significant  
2                   problems, particularly early on, with a facility  
3                   that was built specifically to construct modules  
4                   in Lake Charles, Louisiana. So if you hear  
5                   about Lake Charles, SMS, CB&I Lake Charles, it's  
6                   all the same facility. And that facility became  
7                   a chokepoint. They actually -- I don't think  
8                   they were accustomed in the Gulf region to the  
9                   kind of scrutiny you get with nuclear projects.  
10                  I think they were accustomed to working on oil  
11                  rigs and LNG facilities.

12                  We implored them early on to  
13                  diversify. We didn't want to have one  
14                  chokepoint, particularly at a place that Katrina  
15                  had just been through. And, you know, Shaw, up  
16                  front, resisted that. CB&I, when they came  
17                  onboard, I think, again, to their credit, they  
18                  recognized that that was a, that was an issue,  
19                  and then we started to diversify that supply  
20                  chain.

21                  So they moved a lot of those  
22                  modules to other, other manufacturers who have  
23                  performed much better. Now, not every one of  
24                  them has performed better. We've had some other  
25                  subsequent failures as well. But in general, I

1 think we've got the supply chain issues now  
2 sorted out.

3 SENATOR ALEXANDER: Thank you.  
4 Mr. Chairman?

5 CHAIRMAN SETZLER: Senator Sabb,  
6 Senator from Williamsburg.

7 SENATOR SABB: Thank you, Mr.  
8 Chairman. And I, I -- we probably have, but  
9 gentlemen, I want to express our appreciation  
10 for you all being here. I know these are  
11 difficult circumstances, and I think all of you  
12 have shared the fact that we all regret where we  
13 are.

14 Just a couple of things, and I  
15 promised the Chair that I was not going to be  
16 long, but one of the things that I read in the  
17 transcript in preparing for this was that one of  
18 the reasons for the delay was unanticipated site  
19 conditions. Can somebody allude to that for me  
20 real quick, please?

21 MR. BYRNE: Yeah, so whenever you  
22 -- you're going to build something at a site,  
23 you map the site to the extent that you can  
24 without actually digging or disturbing. But it  
25 -- if, if, after you get in the excavation, you

1 find that, for example, you might core bore to  
2 try to find where the rock is -- and that was  
3 the case here. So we had clay, and then you  
4 have granite in Fairfield County.

5 So they did a lot of core bores  
6 to figure out where the, where the clay stopped  
7 and where the, the rock began. And so they  
8 mapped that out up front. That mapping in one  
9 area on Unit 2 proved to be inaccurate, inasmuch  
10 as between some of the core bores, there was a  
11 large depression in the granite that they had to  
12 fill in now with concrete to make it level.

13 SENATOR SABB: All of that's  
14 addressed, no issues going forward?

15 MR. BYRNE: Right.

16 SENATOR SABB: One of my  
17 takeaways is that I believe that all parties  
18 agree that there is a need for this kind of  
19 diversification in our energy portfolio; is that  
20 accurate?

21 MR. BYRNE: That's certainly the  
22 case for SCE&G, yes, yes, sir.

23 SENATOR SABB: All right, a  
24 couple more points, and then I'm finished. I've  
25 heard two things as it relates to the idea of

1 the federal insurance and federal guarantee.  
2 Initially I was under the impression that it was  
3 only applicable in instances where the federal  
4 government was part of the delay. Then I heard  
5 that litigation is also something that is  
6 covered. So I want to make sure that I'm clear.  
7 Does it cover delays that are associated with  
8 the federal government and delays that are  
9 associated with litigation?

10 MR. BYRNE: The short answer is  
11 yes. On the litigation piece, it would have to  
12 be litigation that would impact a hearing.

13 SENATOR SABB: Yes. And that's,  
14 in fact, a part of what we had in this case.

15 MR. BYRNE: I don't know that we  
16 had litigation that impacted a hearing.

17 SENATOR SABB: Well, would --

18 MR. BYRNE: The, the hearing  
19 process that we didn't have was, was delayed,  
20 but not as a part of litigation. It was delayed  
21 by two things. It was delayed by the fact that  
22 the design wasn't completed. Again,  
23 Westinghouse was responsible for designing for  
24 aircraft impact. They --

25 SENATOR SABB: Let me interrupt

1 one second, if I might, please, because I  
2 thought that, that I heard that there was either  
3 a protest or something along those lines and  
4 that it was litigated. It seems like it was  
5 almost a, a ten-month period. And when I say  
6 "litigation," I'm talking about hearings before  
7 the, the, the P --

8 MR. BYRNE: Public Service  
9 Commission.

10 SENATOR SABB: Public Service  
11 Commission, yeah, PSC.

12 MR. BYRNE: Those, those -- that  
13 type of -- yeah, people call those fully  
14 litigated hearings. I understand that. That is  
15 not the kind of litigation that was --

16 SENATOR SABB: I understand.

17 MR. BYRNE: -- forecast by the  
18 federal standby support.

19 SENATOR SABB: I follow you.  
20 when, when we talk in terms of Santee Cooper  
21 becoming leaner and meaner, does that include  
22 the layoff of employees?

23 MR. CARTER: No, sir, I don't  
24 believe that that will be necessary. As you,  
25 Senator Sabb, may be aware, that our employees

1 are in the State Retirement System, and the TERI  
2 program is coming to an end, and we have 155  
3 employees that will be leaving Santee Cooper  
4 between now and next June.

5 SENATOR SABB: So we may not be  
6 replacing all of those positions.

7 MR. CARTER: I am very confident  
8 we will not be replacing all those positions.  
9 And some of it, of course, will be where we have  
10 people, operating people, we will have to fill  
11 those positions, but that will allow us to move  
12 people out of other positions into some of  
13 those.

14 SENATOR SABB: I understand.  
15 we're not sending people to the unemployment  
16 lines.

17 MR. CARTER: No, sir, I don't  
18 believe that the board will tolerate such, no,  
19 sir, and that's not management's plan either. I  
20 don't believe it will be necessary to achieve  
21 what we need to achieve.

22 SENATOR SABB: I understand. I  
23 want to go back one more line of questioning,  
24 and then I'm, I'm finished. I want to go back  
25 to the idea of the guarantees for moment if I

1 can. Now, I understand that the parent company,  
2 Toshiba, guaranteed, as I understand, at 25  
3 percent.

4 MR. ADDISON: Up to 25 percent if  
5 it's not provided by Westinghouse.

6 SENATOR SABB: Okay.

7 MR. ADDISON: So the estate --  
8 the bankruptcy estate will be liquidated, and  
9 whatever portion's not satisfied, the parent  
10 would have to stand behind.

11 SENATOR SABB: Yeah, and, and I  
12 can't remember which one of us asked the  
13 questions as relates to instances where the full  
14 amount would not be paid, but under no  
15 circumstances would the full amount not be paid.

16 MR. ADDISON: Only if the parent  
17 company is not there, does not exist, or if they  
18 were to have further financial difficulties  
19 themselves.

20 SENATOR SABB: It's not in any  
21 way dependent upon what occurs with regard to  
22 the bankruptcy as relates to Westinghouse and  
23 being sold.

24 MR. ADDISON: No, sir, other than  
25 a practical implication. If, if Westinghouse

1 brings more, then it's easier for the parent to  
2 fulfill the balance of their obligation. If it  
3 brings less in the sale, then it'll be more  
4 challenging for the parent to.

5 SENATOR SABB: We don't know of  
6 any issues as relates to Shosh -- Toshiba and  
7 its financial wherewithal, with the exception of  
8 Westinghouse, do we?

9 MR. ADDISON: No, they are in --  
10 they have severe financial difficulties now.  
11 They are looking to sell probably the most  
12 valuable part of their business, their chip  
13 business, to help alleviate some of those  
14 challenges, but they're having severe  
15 challenges.

16 SENATOR SABB: I see. Okay. As  
17 I understand it, there was a point in the  
18 agreement where there was another company that  
19 was a part of the consortium. Who was that?

20 MR. ADDISON: So it originally  
21 started off with Shaw Corporation and  
22 Westinghouse as partners -- we say consortium --  
23 as partners in the arrangement.

24 SENATOR SABB: Right.

25 MR. ADDISON: And Shaw moved to

1 -- sold that subsidiary to Chicago Bridge &  
2 Iron. And then Chicago Bridge & Iron exited in  
3 October of '15 when we execute the fixed-price  
4 agreement, and Westinghouse took over the total  
5 responsibility but subcontracted for the work  
6 through Fluor Corporation. But Fluor's not a  
7 partner.

8 SENATOR SABB: And in terms of  
9 the parental guarantee, I understood that that  
10 company was also a part of a guarantee, where  
11 they not?

12 MR. ADDISON: Chicago Bridge &  
13 Iron was. At the time we moved to the fixed-  
14 price agreement, that was part of the  
15 negotiation is, they wanted out of that, and we  
16 used that as some leverage to get other  
17 variables included in the fixed-price agreement  
18 like --

19 SENATOR SABB: Sure. So what was  
20 the percentage of the guarantee that they were  
21 on the hook for?

22 MR. ADDISON: Yes, it was still  
23 25 percent, and I'm --

24 SENATOR SABB: Cumulatively  
25 between the two companies?

1                   MR. ADDISON: That's right, sir,  
2                   and I'm not sure what their arrangement was  
3                   between the two of them. We may have that  
4                   information; we may not. I don't personally --  
5                   I'm not aware of it.

6                   SENATOR SABB: But under what I  
7                   would consider to be regular circumstances as we  
8                   understand it, it was going to be up to 25  
9                   percent, not 50 percent, not 75 percent, but the  
10                  25 percent was a shared responsibility that the  
11                  two in the consortium would have; is that right?

12                  MR. ADDISON: That's correct. As  
13                  I said in my slides, though, we negotiated an  
14                  additional 500 million on top of that, so it's  
15                  probably another 6, 7 percent.

16                  SENATOR SABB: Yeah, and I follow  
17                  that, and, you know, just being a lawyer, I  
18                  concluded in my own mind as, rightly or wrongly,  
19                  that when I looked at what was classified as  
20                  being less than candid sharing of information,  
21                  sharing of information that's inaccurate, and  
22                  all of those kinds of things, I mean, depending  
23                  on the level of that kind of conduct, it could  
24                  reach a point where some might deem it as being  
25                  fraud.

1                    Obviously, if there's fraud  
2 relating to certain transactions and you're in  
3 bankruptcy, you can run the risk of, of having  
4 some serious problems there, and so as I  
5 listened to you all, I concluded in my own  
6 little mind that perhaps some of those kinds of  
7 things were used as leverage in the negotiation  
8 and obviously, you know, in a successful sort of  
9 a way. Last question: As it relates to industry  
10 standard and guarantees, would 25 percent be the  
11 norm?

12                    MR. BYRNE: It's, it's certainly  
13 a number that we have used in the past. I think  
14 our last big EPC contract was on the Jasper  
15 facility in Jasper County.

16                    SENATOR SABB: Yes, sir.

17                    MR. BYRNE: Fluor was the  
18 counterparty there, and it was a 25 percent  
19 parental guarantee. It was, it was a parental  
20 guarantee limited to 25 percent of their  
21 obligation.

22                    SENATOR SABB: Okay. That's all  
23 I have, Mr. Chair. Thank you.

24                    CHAIRMAN SETZLER: Senator, are  
25 you through?

1                   SENATOR SABB: I'm through.

2                   CHAIRMAN SETZLER: Okay, next is  
3 the Senator from Georgetown, Senator Goldfinch.

4                   SENATOR GOLDFINCH: Just a  
5 couple. I promise I will be quick. To Santee  
6 Cooper, Mr. Lord, Mr. Carter, have y'all been  
7 summoned by the governor to talk about the sale  
8 of Santee Cooper or the sale of your stake in  
9 the nuclear project?

10                  MR. LORD: Yes, we have.

11                  SENATOR GOLDFINCH: Okay.

12                  MR. LORD: Last week.

13                  SENATOR GOLDFINCH: Last week.  
14 And did you get an opportunity to talk to  
15 investors at that time?

16                  MR. LORD: There was a utility  
17 present who expressed an interest in purchasing  
18 Santee Cooper.

19                  SENATOR GOLDFINCH: Santee  
20 Cooper, but not the nuclear project.

21                  MR. LORD: Not the nuclear  
22 project.

23                  SENATOR GOLDFINCH: Okay. So  
24 investors that you have spoken with, are they  
25 interested in taking on -- let me ask this

1           instead. How much debt does Santee Cooper carry  
2           right now?

3                       MR. LORD: Seven and a half?

4                       MR. CARTER: About 8 billion.

5                       MR. LORD: Eight mill -- eight  
6           billion.

7                       SENATOR GOLDFINCH: Eight  
8           billion, with a B.

9                       MR. LORD: With a B.

10                      SENATOR GOLDFINCH: Okay.

11                      MR. LORD: Four of that is  
12           nuclear.

13                      SENATOR GOLDFINCH: And four of  
14           that is nuclear. Okay, and what -- in those  
15           discussions with those investors, what is the  
16           proposal -- what are we going to do with the  
17           debt if it's -- Santee Cooper was to be sold?

18                      MR. LORD: I think that the  
19           discussions are very preliminary, but I don't  
20           think any investor-owned utility would want to  
21           acquire \$4 billion in debt.

22                      SENATOR GOLDFINCH: Doesn't seem  
23           like it to me.

24                      MR. LORD: Yeah, I think it would  
25           kill their balance sheet.

1                   SENATOR GOLDFINCH: So where does  
2 that go? Assuming that they just buy the assets  
3 and no liabilities, where does that debt go?

4                   MR. LORD: I think it stays with  
5 Sant -- South Carolina or Santee Cooper.

6                   SENATOR GOLDFINCH: So a 7 1/2  
7 billion dollar debt goes on the back of  
8 taxpayers?

9                   MR. LORD: Well, I don't -- I'm  
10 not sure of that, and again, it's very  
11 preliminary, but I, I think any utility would  
12 not take that nuclear debt. They would want  
13 that to stay with Santee Cooper or the State of  
14 South Carolina. They may pay enough money to  
15 pay down the other 4 1/2, 5 billion.

16                   SENATOR GOLDFINCH: I mean,  
17 anybody would make that deal, it seems like to  
18 me. If you don't, if you don't have any debt  
19 attached to it, it seems like a pretty obvious  
20 deal.

21                   MR. LORD: If the State would  
22 like that \$4 billion of nuclear debt, we'd  
23 gladly give it to them.

24                   SENATOR GOLDFINCH: I'll bet you  
25 would, and I'll bet the investors wouldn't like

1 to have it either.

2 MALE SPEAKER: You'd be in the  
3 hospital (INDISTINCT).

4 SENATOR GOLDFINCH: Santee  
5 Cooper, assuming that the, the governor pushes  
6 through with this and convinces the legislature  
7 to sell Santee Cooper, right now, the only plan  
8 for that debt is to go on the back of the  
9 taxpayers, right now, from what you've heard.

10 MR. LORD: In those preliminary  
11 discussions, that's all we've heard.

12 SENATOR GOLDFINCH: Almost the  
13 entire budget of the State of South Carolina.

14 MR. LORD: Correct.

15 SENATOR GOLDFINCH: Yeah. Thank  
16 you very much.

17 CHAIRMAN SETZLER: Okay, I'm  
18 going to ask a couple of questions, and then  
19 we'll recess this hearing. Mr. Carter, there  
20 was a number of questions asked to SCE&G about  
21 bonuses. During the constructions of this  
22 facility, have there been bonuses at Santee  
23 Cooper, and if so, how many and how much do they  
24 total?

25 MR. CARTER: I believe we can

1 provide you that information.

2 CHAIRMAN SETZLER: Well, give us  
3 a rough estimate and then provide us information  
4 because we're going to ask it from both of you.

5 MR. CARTER: Right, we can  
6 provide that specifically. In fact, I thought  
7 it had been provided. Some -- I've already seen  
8 it, so I know -- it shouldn't take us long for  
9 us to get it to you. I've seen it produced  
10 because -- either it was for -- either this  
11 group asked for it, or maybe the House did.

12 But, but most -- very little of  
13 the incentive plan -- most of it was geared  
14 toward our cost and financial metrics which --  
15 cost of power and our financial metrics. There  
16 were -- my recollection is, at least in my case,  
17 there was -- getting the fixed-price contract in  
18 place and getting the milestone payments in  
19 place was an item that was included. Gosh, I  
20 can't remember any of the others.

21 MR. LORD: Senator, I'd like to  
22 clarify that the senior executive staff -- the  
23 board does not award bonuses. Part of their pay  
24 is performance-based on a formula that was  
25 developed years ago and is -- an outside

1 consulting firm helps. That formula typically  
2 deals with safety. There's a safety factor: How  
3 many accidents happen at Santee Cooper?

4 CHAIRMAN SETZLER: Right.

5 MR. LORD: It also has to do with  
6 our debt service coverage, which is our  
7 financial metric and our bond rating. If that  
8 goes down, their performance compensation goes  
9 down. The other thing, customer satisfaction  
10 and rates.

11 CHAIRMAN SETZLER: Well, how much  
12 of it was -- I'm a little confused because Mr.  
13 Carter says, Yes, we do, and then you say, No,  
14 we don't, and you say it's tied to performance.  
15 Was any of it tied to performance relative to  
16 this project? And if so, how much and who  
17 received it and when?

18 MR. CARTER: There were -- I  
19 guess there were three of us that had something  
20 associated with it. So one would have been  
21 making sure that we could borrow the money. I  
22 think the chief financial officer had a metric  
23 associated with it, but it would have been a  
24 small portion as a -- the piece that the  
25 chairman has referred to is the -- what I would

1 call the one -- those that are corporate, and  
2 then there's a 10 percent piece of it, of the  
3 overall award. So if the award was \$100, it  
4 would be \$10. It would be 10 percent of it.

5 And there were some components of  
6 the individual's -- individual metrics, that 10  
7 percent, some of us had. I remember -- I know  
8 -- I can recall for me that one of them was  
9 making sure that we got the -- this milestone  
10 payment issue resolved in 2016 because it was so  
11 important to us to make sure we were, were  
12 paying for what was on the site. And there was  
13 one the year before, and I cannot -- I, I, I --  
14 I believe the financial metric was there for me,  
15 also, Senator Setzler, and -- but they would  
16 have been small amounts.

17 CHAIRMAN SETZLER: So how much  
18 over the last -- life of this project for how  
19 many people? If I recall, Mr. Addison or  
20 somebody that's been in the press, that it was  
21 \$21 million for SCE&G last year. Is that a  
22 correct figure?

23 MR. ADDISON: I think those are  
24 the incentive numbers for the entire management  
25 team, and --

1 CHAIRMAN SETZLER: For one year.

2 MR. ADDISON: I, I, I honestly  
3 don't know what was in the press. Frankly, I  
4 haven't been able to keep up with all of it.

5 CHAIRMAN SETZLER: Okay.

6 MR. ADDISON: But I will say  
7 that, of, of us on the management team, in any,  
8 any one year, anywhere to 10 to 30 percent of  
9 our goals have been associated with the project.

10 CHAIRMAN SETZLER: Okay. Ten to  
11 30 percent of your goals.

12 MR. ADDISON: Yes, sir.

13 CHAIRMAN SETZLER: Okay, so I'll  
14 go back. Can you give us any rough estimate?

15 MR. CARTER: Our -- my -- ours  
16 would have never been more than 10 percent for  
17 any individual, so it would have been less than  
18 that, and, and an estimate in terms of -- I  
19 would -- I believe the entire incentive payout,  
20 somewhere in the range for us, a million  
21 dollars.

22 MR. LORD: I've got the total.  
23 From 2007 to 2016, the entire incentive given as  
24 incentive compensation was 70,000.

25 CHAIRMAN SETZLER: Seventy

1 thousand?

2 MR. LORD: Seventy thousand.

3 MR. CARTER: Is it -- okay. Yes,  
4 sir. That's -- this is what I --

5 CHAIRMAN SETZLER: Okay.

6 MR. LORD: Yeah.

7 CHAIRMAN SETZLER: And did I  
8 understand, Mr. Byrnes [sic], in response to  
9 Senator from Oconee's question, that you started  
10 cutting back on payments to Westinghouse as  
11 early as 2012?

12 MR. BYRNE: That's my  
13 recollection. I don't have the exact dates, but  
14 that's my recollection. But it, it's been over  
15 a number of years that we have cut back, and in  
16 one case, we decided that we were ahead of them  
17 on what Mr. Carter described as progress  
18 payments, so we said, we're not going to make  
19 any payments until we catch up.

20 CHAIRMAN SETZLER: And Mr.  
21 Addison, you have mentioned mechanics' liens,  
22 and I think that's probably the one  
23 underdiscussed issue. My information is there's  
24 roughly \$900 million in mechanics' liens been  
25 filed on this project that people who have done

1 work are owed money?

2 MR. ADDISON: I have not heard  
3 that number. I -- and I'm not the expert on it,  
4 but I've heard a number in the range of 200  
5 million, but I have not heard anything like 900  
6 million.

7 CHAIRMAN SETZLER: Well, then how  
8 do you get your figure of 700 million that goes  
9 -- that you're going to put back towards the  
10 ratepayers in reducing their rates in the  
11 future? Because if you subtract that number, I  
12 thought, from \$900 million, you get it.

13 MR. ADDISON: So the way we get  
14 ours is, the overall guarantee is 2.2 billion,  
15 and we are presuming that there may be 200  
16 million that I mentioned a moment ago associated  
17 with liens. We don't know that to be the case  
18 yet. That will -- there's a bar date when any  
19 liens have to be filed that we understand may be  
20 in early September, and that process will take  
21 some time to work down.

22 A lot of liens, as I understand  
23 -- I have no experience in this, fortunately,  
24 but as I understand, a lot of liens get filed  
25 that aren't proved to be worthwhile at the end

1 of the day, so those have to be sorted through.  
2 But the latest number I had seen was 200  
3 million. Take the 2.2 billion, 200 million off,  
4 our 55 percent was the 1.1 billion, less the  
5 income tax on it would yield the 700 million.

6 CHAIRMAN SETZLER: Well, I would  
7 ask you to check that --

8 MR. ADDISON: Certainly.

9 CHAIRMAN SETZLER: -- because I  
10 believe the company has gone into court and  
11 asked that those liens be stayed and the  
12 enforcement of those liens. And the last  
13 question would be, whatever money is paid for  
14 the liens, is it coming from just y'all, portion  
15 of the Toshiba money, or is it coming from both  
16 of you? It there going to be a 55-45 split?  
17 Because there was a little confusion there in  
18 that discussion. I wasn't real sure.

19 MR. ADDISON: So, so our position  
20 would be it be joint.

21 CHAIRMAN SETZLER: Okay.

22 MR. ADDISON: I hope theirs is  
23 too.

24 CHAIRMAN SETZLER: I would assume  
25 that is what it would be, but I want to be sure.

1           Okay. All right. Yes, sir. Senator from  
2           Horry.

3                           SENATOR RANKIN: I'm not  
4           interrupting you?

5                           CHAIRMAN SETZLER: No, sir. I'm  
6           going to you and the Senator from Edgefield.

7                           SENATOR RANKIN: And I'll be  
8           brief, and I think the -- I appreciate  
9           everybody's attention and presence today and the  
10          committee's as well on this task that is more  
11          akin to algebra or calculus or things that I  
12          just struggle with that we are going to have  
13          crash-course in.

14                          But I particularly am curious,  
15          given the tenor of the, we want to, but we  
16          can't, we aren't going to talk about it, and no  
17          disrespect to you, Mr. Byrnes [sic], but the  
18          Bechtel report, I would -- this -- I would ask  
19          that this committee subpoena that. We obviously  
20          have subpoena authority, and so no secret. I  
21          hope that the board, from its business side at  
22          Santee Cooper, gets to give what we seek and  
23          that your group, Mr. Addison and Mr. Byrnes  
24          [sic], will waive that privilege.

25                          That will be a matter for the

1 -- your lawyers to decide, but that is vitally  
2 important, I think, to show us exactly what went  
3 wrong and what steps could have, should have,  
4 would have been taken beyond the amended  
5 agreement that you struck that you went before  
6 and the fixed-price -- fixed cost price  
7 contract. So Mr. Chairman, with that, that  
8 would be my motion --

9 CHAIRMAN SETZLER: So are you  
10 making that in the form of a --

11 SENATOR RANKIN: That would be my  
12 motion, and to whatever degree is required, any  
13 other documents that have not been produced.  
14 Again, this is important and timely.

15 CHAIRMAN SETZLER: Okay, I have a  
16 motion by the Senator from Horry that we  
17 subpoena that report.

18 FEMALE SPEAKER: Second  
19 (INDISTINCT).

20 CHAIRMAN SETZLER: Do I have a  
21 second? I have a second from the Senator from  
22 Fairfield. Any discussion? Hearing none, all  
23 those in favor say aye.

24 SENATORS: Aye.

25 CHAIRMAN SETZLER: All opposed,

1 no. Let the record reflect that it was a  
2 unanimous vote. Okay, Senator from Edgefield.

3 CHAIRMAN MASSEY: Thank you, Mr.  
4 Chairman. And I guess just to follow up on  
5 that, I suspect there are going to be a good  
6 number of other documents that we're going to  
7 need, and I understand why the Senator from  
8 Horry decided to ask for a subpoena on that,  
9 based on the comments that were made today. I'm  
10 confident there are going to be a good number of  
11 other documents that we're going to need, both  
12 from Santee Cooper and from SCE&G in order to do  
13 our work.

14 I hope, I hope we can comply with  
15 those, and if there's a privilege, then I  
16 understand that. We can deal with that at that  
17 point, but our staff will be getting in touch  
18 with your folks and your folks, and hopefully,  
19 we can have some timely responses to those  
20 things.

21 MR. BYRNE: Certainly.

22 MR. CARTER: You have our  
23 commitment.

24 CHAIRMAN MASSEY: Okay. Thank  
25 you. And if there's somebody in particular that

1       our staff needs to talk to, if there's a point  
2       person that we need to -- they need to work  
3       through, then please let us know that as well so  
4       that we can do that. The other thing, Mr.  
5       Chairman, I just wanted to make a comment. I  
6       mean, there are a lot of rumors floating around,  
7       and we all know how those rumors are. You know,  
8       some -- lots of time they're not true.  
9       Sometimes they are. But they're --

10               CHAIRMAN SETZLER: well, well,  
11       hold, hold on just a minute. He's made a motion  
12       relative to subpoenaing one document. Do I have  
13       a motion to give the co-chairs the ability to  
14       subpoena other documents that may be determined  
15       that are needed?

16               MALE SPEAKER: (INDISTINCT)

17               CHAIRMAN SETZLER: Okay, I have a  
18       motion and a second. Any discussion? Hearing  
19       none, all those in favor, say aye.

20               SENATORS: Aye.

21               CHAIRMAN SETZLER: All opposed,  
22       no, and the ayes have it. Let it show it was  
23       unanimous. Okay, Senator from Edgefield.

24               CHAIRMAN MASSEY: Hopefully that  
25       won't be necessary --

1                   CHAIRMAN SETZLER: Right.

2                   CHAIRMAN MASSEY: -- but it's  
3                   good to have authority if you need it. The  
4                   other thing, Mr. Chairman, my, my last comment  
5                   was just that there are a lot of rumors floating  
6                   around, and hopefully we've been able to address  
7                   some of them today. But there are a lot of  
8                   rumors that are floating around about personnel  
9                   and who's going to still be there certain times,  
10                  whether some people are going to be resigning,  
11                  whether people are going to be fired, whatever  
12                  like that.

13                  Mr. Chairman, I don't want to get  
14                  into a situation where -- and, and -- I don't  
15                  want to get into a situation where somebody  
16                  leaves employment and there's some type of  
17                  nondisclosure agreement signed as part of that  
18                  termination from employment and then we're not  
19                  able to get information anymore. And so I'd  
20                  just like to make that comment, that, please  
21                  don't do that to us because then we're going to  
22                  get into a big fight on subpoenaing people to  
23                  come in and, and that type of situation, all  
24                  right?

25                  And, and, Mr. Chairman, I think

1           that probably, you know -- I think we've already  
2           got a tentative date for our next meeting, is  
3           that right, for September 13th? Is that right,  
4           the 13th? Thirteenth, because as you and I have  
5           talked about some, we want to try to move as  
6           quickly as we can, and we, we realize we've got  
7           a big learning curve.

8                           But I think that maybe the best  
9           scenario right now for us would be to recede  
10          until the next meeting with these gentlemen  
11          still being witnesses because I -- we may have  
12          more questions for them at some point. But I  
13          think if we could just recede with them still  
14          being, being witness and being under oath, I  
15          think that might be the best way to move right  
16          now.

17                           CHAIRMAN SETZLER:    Okay. Do I  
18          have a second?

19                           (INDISTINCT)

20                           CHAIRMAN SETZLER:    Any  
21          discussion? All those in favor say aye.

22                           SENATORS: Aye.

23                           CHAIRMAN SETZLER:    All opposed;  
24          noes have it -- I mean, ayes have it. I want to  
25          thank you for being here today, for staying with

1 us, and spending full five hours and working  
2 with us and look forward to being with you  
3 again. Thank you.

4 01:21:50

5 (END OF AUDIO FILE)

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CERTIFICATE OF TRANSCRIPTIONIST

I, Susan K. von Keller, do hereby certify:

That the foregoing audio file entitled  
“South Carolina Senate, V. C. Summer Nuclear  
Project Review Committee, August 22, 2017” was  
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I further certify that I am neither related  
to nor counsel for any party to the cause  
pending or interested in the events thereof.

Witness my hand, I have hereunto affixed my  
official seal this 5th day of September, 2017,  
at Columbia, Richland County, South Carolina.

---

Susan K. von Keller

Notary Public

State of South Carolina at Large

My Commission expires:

March 8, 2026