SCANA - SCANA Corporation
1st Quarter 2013 Earnings Conference Call
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Dan Jenkins; State of Wisconsin Investment Board; Analyst
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Tim Winter; Gabelli & Co.; Analyst
Andy Levi; Avon Capital; Analyst

Presentation

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. I will be your conference facilitator today. At this time, I would like to welcome everyone to the SCANA Corporation conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer period. (Operator Instructions) As a reminder, this conference call is being recorded on Thursday, April 25th, 2013. Anyone who does not consent to the taping may drop off the line.

At this time, I would like to turn the call over to Byron Hinson, Director of Financial Planning and Investor Relations.

Byron Hinson: Thank you, and welcome to our earnings conference call, including those who are joining us on the webcast.

As you know, earlier today we announced financial results for the first quarter of 2013. Joining us on the call today are Jimmy Addison, SCANA's Chief Financial Officer, and Steve Byrne, Chief Operating Officer of SCE&G. During the call, Jimmy will provide an overview of our financial results and economic development in our service territory. Steve will provide an update on our new nuclear project.

After our comments, we will respond to your questions.

The slides and the earnings release referred to in this call are available at scana.com.

Before I turn the call over to Jimmy, I would like to remind you that certain statements that may be made during today's call are considered forward-looking statements and are subject to a number of risks and uncertainties as shown on slide 2. The company does not recognize an obligation to update any forward-looking statements. Additionally, we may disclose certain non-GAAP measures during this presentation, and the required Reg G information can be found on the Investor Relations section of our website.

I'll now turn the call over to Jimmy.

Jimmy Addison: Thanks Byron, and thank you all for joining us today.

I'll begin our earnings discussion on slide 3. Basic earnings in the first quarter of 2013, were $1.13 per share, compared to $0.93 per share in the same quarter of 2012. Higher electric and gas margins were primarily offset by increases in CapEx-related costs such as depreciation, property taxes, interest expense, and share dilution. Our results during the first quarter of 2013, were slightly better than our forecast due primarily to timing of O&M expenses.

As we projected in our February call, we took down the 6.6 million shares under our equity forward during March. For the remainder of the year, we expect comparable basic earnings per share to moderate due to the related dilution.

Now on slide 4, I'd like to briefly review results for our principal lines of business.

South Carolina Electric & Gas Company's first quarter 2013 earnings, denoted in blue, were up $0.13, compared to 2012, driven largely by base rate increases along with customer growth. These increases were partially offset by increases in interest and depreciation expenses and share dilution.

PSNC Energy's earnings for the first quarter of 2013, shown in red, were $0.24 per share, consistent with the first quarter of 2012. Increases in margin due to customer growth were partially offset by higher operations and maintenance expenses and depreciation expenses.

SCANA Energy, the company's retail natural gas marketing business in Georgia, reported first quarter 2013 earnings of $0.16 per share, compared to $0.09 per share, in the first quarter of 2012. The increase is primarily attributable to a return to normal weather.

SCANA's corporate and other businesses, which include Carolina Gas Transmission, SCANA Communications, ServiceCare, SCANA Energy Marketing, and the holding company, reported earnings of $0.05 per share, consistent with the first quarter of 2012.

Next I would like to touch on sales growth as shown on slide 5.

We continue to see growth in weather-normalized sales volumes. For the 12 months ended March 31, 2013, total weather-normalized electric sales to residential and commercial customers were up approximately 2.5% and 0.7%, respectively. Industrial sales were down approximately 0.9%, primarily due to reduced production at one of our largest customers as a result of a fire, as we've discussed in prior quarters.

As we have mentioned previously, we evaluate weather-normalized sales on a 12-month rolling basis in order to capture an entire business cycle. Because of this, the impact of the fire is reflected in our industrial volumes. Excluding the impact of the fire, we estimate industrial sales would have increased approximately 0.5%, while total weather-normalized retail sales would have increased approximately 1.4%.

On the bottom left-hand side of the slide, you will find information about economic trends in our service territories. We continue to be encouraged by the level of economic development activity, with approximately $1.1 billion announced investment and over 2,600 jobs in our Carolinas territories this year.

A significant portion of the these investments and jobs are due to a recent announcement by Boeing

Corporation that it plans to invest another $1 billion and add at least 2,000 more jobs at its North Charleston campus.

Our electric customer base grew at a rate of 0.8% this past quarter, continuing to show stable growth. Growth at our regulated gas businesses in South and North Carolina continues to be strong. As of March 2013, those rates were 1.8% for SCE&G Gas and 2.2% for PSNC. PSNC had its best growth rate since 2008. PSNC also hit a milestone this quarter as they exceeded 500,000 customers.

Slide 6 presents our CapEx forecast, which has not changed since our previous earnings call. This forecast reflects new nuclear spending as reported in our latest BLRA quarterly report filed on February 13th, and reflects our new CapEx budget for 2013 through 2015.

Along the bottom of the slide, you can see our anticipated Incremental Nuclear CWIP as of June 30th. This represents the incremental CWIP from July 1 through June 30, for each period on which the BLRA increase is calculated. As you can see from the slide, we're beginning to enter a period of peak nuclear spending.

Please turn to slide 7 to review our financing plan. This slide presents our estimated financing plan through 2017, and is also consistent with the forecast on our last call. As I mentioned, we settled our equity forward, resulting in the issuance of 6.6 million shares in early March. We don't anticipate any additional equity issuances for the balance of 2013, other than through our 401k and dividend reinvestment plans. We continue to anticipate new first mortgage bond issuances to support new nuclear construction later in the year.

Please turn to slide 8. We are reaffirming our earnings guidance of $3.25 to $3.45 basic earnings per share, along with our internal target of $3.35 per share.

Our long-term outlook remains unchanged as we plan to deliver 3 to 6 percent earnings growth over the 3- to 5-year period, based on 2012 GAAP basic earnings per share of $3.20.

I'll now turn the call over to Steve to provide an update on our nuclear project.

Steve Byrne: Thanks, Jimmy. Let me start by addressing an issue we have been dealing with since last year, but that has gained notoriety in the past few days based on a press release issued by the Nuclear Regulatory Commission on Monday.

SCE&G has requested a regulatory conference with the NRC based on the NRC's preliminary categorization of a finding during a construction inspection. The NRC assigns a color coding to findings based on their determination of safety significance. The range of colors is green, white, yellow, and red, with green being the least significant. A green finding is defined as one of having very low safety significance.

In this instance, we were preliminarily issued a white finding, the next lowest level, which indicates a low to moderate safety significance. We have not previously received a finding of greater than green on the construction, and we believe that this one should also be green, which is why we requested the conference. This is not a new issue, having first been raised last September, and we have discussed it on previous earnings calls. It deals with shear reinforcement spacing and the use of T-Heads in the concrete base mat. We corrected the problem prior to pouring the base mat, which was completed on March 11th, and no additional work on the base mat will be needed, regardless of the outcome of this conference.

In addition, we identified a similar condition that exists in other wall sections of the nuclear island. We are submitting license amendment requests, or LARs, to document the change and gain NRC approval, and we expect to receive those LARs shortly and will then be able to begin pouring these wall sections. We continue to anticipate that unit 2 will become operational in 2017, and unit 3 in 2018.

I would now like to direct your attention to slide 9. As I mentioned previously, in March we completed the placement of the nuclear island base mat, sometimes referred to as first nuclear concrete, or FNC. That event marked the first new such construction of nuclear concrete to be poured in the United States in three decades. The base mat provides a foundation for the containment building, shield building, and auxiliary building that make up the nuclear island. Measuring 6 feet in thickness, the base mat covered a surface totaling 32,000 square feet, and it took just over 50 hours of continuous pouring to complete. We're very pleased with the collaborative efforts of our partners in making this concrete pour a success.

Please turn now to slide 10. At the beginning of April, we set the 500-ton CR10 module on the unit 2 base mat. This module had been previously assembled onsite and was lifted into place using the Heavy Lift Derrick. CR10 supports the containment vessel. One of the next steps for unit 2 will be to set the containment vessel bottom head in the CR10 module. The bottom head has also been previously assembled onsite.

On the top left of slide 11, you can see a picture of the switchyard. The switchyard was energized and turned over to SCE&G in January of this year. This gives us the ability to back-feed to the two new nuclear plants to perform testing when the time comes.

At top right of that same slide, you will see a picture of Cooling Tower 2 Alpha. Progress on all four, low-profile, forced-draft cooling towers continues to progress as anticipated.

On the bottom left, you will see the unit 2 Turbine Building. The base mat for the unit 2 Turbine Building is complete and the forming and pouring of the walls has begun.

At bottom right, you will see a picture of the unit 3 nuclear island. Leveling concrete has been poured and the lower mud mat is complete. Installation of the waterproof membrane and the upper mud mat will be completed in the coming months, and the base mat will follow.

Again the schedule continues to support commercial operation dates in 2017 for unit 2, and 2018 for unit 3.

As you can see on slide 12, we have two Base Load Review Act or BLRA filings coming up in May. Around mid-May, we will file our quarterly status update with the Public Service Commission. And on May 30th, we'll make our annual request for revised rates under the BLRA. Both of these filings will be made available for review on the Investor Relations section of scana.com.

That concludes our prepared remarks. We will now be glad to respond to any questions you might have.

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Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions) At this time, we will pause momentarily to assemble our roster. Our first question is from Travis Miller with Morningstar. Go ahead, please.

Travis Miller: Thanks. Good afternoon. Wonder if you could walk through some of the cost implications that might be related to the NRC finding, the meeting, anything related to that potentially.

Steve Byrne: Travis, this is Steve Byrne. At this point in time, we're still hopeful that we will be able to make our case that this is a lower safety significant item than the NRC perhaps preliminarily thought it was. And that if that's the case, we won't see any changes to the cost of the project based on this.

Really, when you look at the significant determination process that the NRC goes through in categorizing these findings, even if it were to be categorized as a white finding, what that would mean for us is increased inspection. And, of course, I don't know at this point how much increased inspection. That really becomes a burden on our staff, the cost of which would be difficult to quantify.

But there is no direct correlation to say that if you get a finding it's going to cost you X, because we would not anticipate a fine from this. So from a cost point of view, we don't think it's going to be material.

Travis Miller: Okay. And that relates to capital investment potentially, or CapEx also? You wouldn't expect to see much impact on that side?

Steve Byrne: That's correct, we would not.

Travis Miller: Okay. Great. Appreciate it.

Operator: Our next question is from Julien Dumoulin-Smith with UBS. Go ahead, please.

Moshe: Hi. This is Moseh for Julien. Just a quick question on retail. Any chance you guys can give us an update on your outlook and expectations for retail in Georgia prospectively?

Jimmy Addison: Yes. It really hasn't changed since what we guided at the year-end call in February. So we expect that business, on a normal-weather basis, to be about $0.18 to $0.20 a share in earnings for 2013, and the first quarter of 2013, was normal. It's just that the first quarter of '12, that it's compared to was so abnormal, almost 50% below in heating degree days. So we're right on track so far.

Moseh: Okay. Great. And just going back to nuclear for a second, just kind of help us understand how this safety violation differs from Southern's rebar issue.

Steve Byrne: It's the same issue. The rebar issue that they had at Southern initially was the same issue that we had, and, in fact, came up at our plant. So when we talk about the rebar issue for the base mat, this is the same issue. And again, it was corrected prior to us pouring the base mat. And the same thing would be the case for Southern, corrected prior to them pouring their base mat. So there's no impact to the base mat from this violation.

Moshe: Okay. Great. Thanks.

Operator: Our next question is from Leslie Rich with JP Morgan. Go ahead, please.

Leslie Rich: Hi. I wondered if I could ask you to review again, you said you need to file another license amendment request for the walls. I wondered if you could just go through that again.

Steve Byrne: Sure. Similar to the way we handled the base mat, we filed a license amendment request to handle the changes that we wanted to make to the base mat. And if you remember that issue, probably from our last earnings call, we did some physical changes to the reinforcing bar in the base mat. And we also changed the applicable code section from the concrete code from one section to another.

So for the wall section, we're going to do the same thing. So we'll change the reference from ACI349 to ACI318, and then we'll do some physical changes to the reinforcing bar itself. Now, those for the lower levels, the critical sections, the ones that we're going to need next, we have already submitted that license amendment request to the Nuclear Regulatory Commission, and expect approval of that relatively soon.

And we think that more than likely there will be other license amendment requests for the upper levels. These will be levels that obviously we won't be needing for some time in the months or years to come.

Leslie Rich: So, and I guess this license amendment request process, is it getting a little bit more streamlined and -- when the first one was filed, it was sort of a potentially a big deal. Now is it just more, oh, we have a change here, we have a change there, it's not likely to be hung up at the NRC for any extended period of time?

Steve Byrne: Well, Leslie, I think as with everything else, the more often you do it, on our side and on the regulator's side, they become more efficient at handling and processing them. So I do expect some efficiencies to be gained there.

But to their credit, even with the base mat license amendment requests and preliminary approval requests that we submitted, the NRC did exactly what they said that they would do, and pretty well followed their timeline. So we have no complaints about how expeditiously they processed those changes. And we would anticipate similar handling of these changes.

Leslie Rich: Great. Thank you.

Operator: Our next question is from Michael Lapides with Goldman Sachs. Go ahead.

Michael Lapides: Hey, guys, Jimmy. Congrats on a really good quarter. Just some nuts-and-bolts questions. First of all, O&M was basically flat on a year-over-year basis. Just curious, because when you, in some of your prior slides from last year, you outlined some of the pressures like pension, like environmental costs that were embedded in the rate case, that would also create upward movement in O&M, didn't look like that flowed through. Just kind of would love your thoughts on what happened there.

Jimmy Addison: Sure. Those costs did flow through. The reason they might not appear on the surface is they were offset by other kinds of reductions. We had 2 or 3 things going on in the first quarter that will relate to what we call internally timing. They're going to show up later in the year, rather than in the first quarter when we initially expected them.

Let me give you a couple of examples. We had a really mild January and we had a really wet and cold February and March. Overall, it was statistically normal. So, for example, the Georgia business ended up, like I said earlier, with normal weather. However, with very mild weather in January and the colder weather at the end of the quarter, we really didn't see the same level of bad debts or write-offs that we had expected in Q1. A lot of those bills are just showing up in April and May to the customer. So we expect there might be a couple cents of that that trickles over into Q2.

We didn't have any significant storms that would require us to hit our storm deductible, which is $2.5 million a year, before we go against our storm reserve. So we didn't hit any of that, where we had hit some of it in the past comparative quarter. We were lower than expected on our vegetation management, our tree trimming, in Q1, because of that wet weather prevented the guys from being out there and executing on some of those plans.

So those were some of the things that were really netting and offsetting those costs that are there that we discussed earlier.

Michael Lapides: So when we think about what's embedded in your 2013 guidance, what should we assume kind of year-over-year O&M growth?

Jimmy Addison: Yes. Well, as we discussed a couple months ago on the year-end call, I said, overall we expect it to be in the close to 5% range, and about half of that is driven by amortized costs that are coming out of the rate case or pension costs, those kind of things.

So on the net at this point, I really see it maybe being slightly less than that, maybe 4% to 4.5%, but not significantly less. I think it'll still show up in the full overall period.

Michael Lapides: Got it. So a little bit more back-end loaded rather than kind of a spread? Like we were assuming it was just kind of spread evenly throughout the course.

Jimmy Addison: Yes. And, frankly, we presumed some of that in our plan, too. But we can't tell in advance what the weather's going to be and the rain's going to be and the storms and -- you know, that's just -- that's reality.

Michael Lapides: Yes, if you can do that, we all ought to be doing something else.

Jimmy Addison: That's right.

Michael Lapides: One follow-on. Just trying to get a feel for how much of the rate increases that were granted at SCE&G going into 2013, really just the core base rate, not the nuclear, how much of that has already been incurred that you've benefitted from versus what's left over to take rest of the year?

Jimmy Addison: Well, it started January 1st. So we've got a --

Michael Lapides: Right.

Jimmy Addison: -- full quarter in there. And I don't know the exact cyclical breakdown of it. But net of those related costs you and I were discussing earlier, it's probably $0.02 to $0.03 earnings contribution in Q1, net of those costs. But I don't really have the revenue breakdown on a cyclical basis.

Michael Lapides: Got it. And finally, just from a reporting perspective, how do you all allocate the holding company debt when you show your segment EPS?

Jimmy Addison: Yes, that's really rolled up in the holdco and others in that category that's not broken out in any of the separating opcos. So it remains in there netted with the others.

Michael Lapides: Got it. Okay. Thanks, guys. I'll follow up with Iris offline. Much appreciated.

Operator: Our next question is from Jonathan Reeder with Wells Fargo. Go ahead, please.

Jonathan Reeder: Good afternoon, gentlemen. Steve, you mentioned that you're still on track for 2017, and '18, for the new nuclear units. Is that still March and May, respectively?

Steve Byrne: Yes. Jonathan, we haven't had any changes to the in-service dates that we last took to our commission. Now, with the Base Load Review Act order, we do have some schedule flexibility. And so it's 18 months before we would have to go back and say we were not on schedule. So as of this point in time, I don't have any information to say that we're going to be outside of the specific dates that we have in our last order, which you've just mentioned, March and May.

Jonathan Reeder: Okay. Great. And then, Jimmy, on the trailing 12 months weather-normalized retail sales growth of 1.4%, the adjusted amount, is that net of the energy efficiency efforts? I'm just kind of wondering, since I believe your 2013 guidance embeds only 0.5% usage growth for the whole year.

Jimmy Addison: Yes, we're using 12 months rolling. So that's including 3 quarters from 2012, and the first quarter of '13. We try to do that to take out some of the -- to get a full cycle in there. And I think what you were talking about, our plan for '13, obviously, excludes those prior periods in 2012.

Jonathan Reeder: Right. But is the 1.4%, is that net of energy efficiency efforts? Because I know you're kind of indicating the 0.5% for 2013, reflected headwind from some efficiency efforts, in particular, kind of CFL blub adoption, stuff like that.

Jimmy Addison: Yes. Net we expect it to be somewhere around 0.5% or slightly less overall retail growth.

Jonathan Reeder: So I mean, I guess you feel pretty comfortable that that's on the conservative side, if anything, right now, based on how Q1 shaped up?

Jimmy Addison: No, I wouldn't really say that. I'd say I feel like it's pretty accurate at this point. I wouldn't characterize it as conservative or aggressive either way.

Jonathan Reeder: Okay. All right. Thank you.

Operator: (Operator Instructions) Our next question is from Dan Jenkins, State of Wisconsin Investment Board. Go ahead, please.

Dan Jenkins: Hi. Good afternoon. Going to your slide 6 on the CapEx, I was wondering if you could update what you've spent in the first quarter.

Jimmy Addison: No, Dan, I really don't -- I don't have that handy with me here now. But on the general part of the business, other than generation, which tends to be projects and when we do those in the shoulder months of either the spring or the fall, generally the other is going to flow fairly ratably throughout the year. And the new nuclear, Steve, I don't know if you have any comments to characterize --

Steve Byrne: I don't yet have a first-quarter update.

Jimmy Addison: Yes, we really don't -- we don't have that. I'm sorry.

Dan Jenkins: Okay. And I was curious on the prior slide, 5, if you could give any color. You talked a little bit about on the industrial with the impact for the customer with the first. But have you seen any change in trend among the industrial class? Is that improving or about the same or -- any color related to that?

Jimmy Addison: It's really a case-by-case deal. In fact, I was looking over those a couple days ago at our top 30 or 40 customers. And it's kind of a hodgepodge. There's not any one certain trend. It's not like all are flat like the averages. As you might imagine, there's some volatility on both sides of that. Somewhat sector specific, there'll be [fits in] starts with housing and chemicals and things of that nature. But nothing really stands out as a trend, Dan.

Dan Jenkins: Okay. Thank you. That's all I had.

Operator: Our next question is from Andrew Weisel with Macquarie Capital. Go ahead.

Andrew Weisel: Hi. You've already addressed most of them. Just a bookkeeping one. What was the basic and diluted share count ending the quarter after the equity floor was drawn?

Jimmy Addison: Yes. Page four of the press release, right at the bottom of that page, you can get those. So basic was 134.4, diluted 136.1.

Andrew Weisel: Wasn't that the average for the quarter? I'm asking the ending.

Jimmy Addison: Oh, you're looking for an ending --?

Andrew Weisel: Like going forward, what should we be assuming?

Jimmy Addison: Yes. We're going to put that in the 10Q. It will be filed in another week or so. But the year-end number, we took down 6.6 million shares. So I mean, the actual number outstanding is just slightly under 140 million. But it'll take a full 12 months for that to average into the annual average for sure.

Andrew Weisel: Got it. Thank you.

Operator: Our next question is from Tim Winter with Gabelli and Company. Go ahead, please.

Tim Winter: Good afternoon, Jimmy. I was wondering if you could just kind of talk about some of the puts-and-takes with the equity going forward. Your stock's hitting an all-time high against today. And the forward, how did that work out for you? What are you thinking going forward?

Jimmy Addison: Yes. Well, I might just refer those of you that have the slides nearby to page 7. So nothing's changed since the last call on this. We still estimate about $500 million of equity in addition to that, that would come through our K and dividend reinvestment plans. And that would cover the balance of the construction, the projects. We indicate that in kind of that blue hash box because it may or may not occur just like it's laid out there on the chart.

The forward helped us a great deal in that we did the forward originally in the middle of 2010. We had expected to take it down in 6 to 9 months, based on the planned construction schedule. Because of the bonus depreciation and stimulus passed by Congress, because of some of the change in our tax strategies, we really didn't need that cash at that point. So we extended the forward twice. So on one hand, it's really worked out well that we avoided the basic dilution for close to 3 years. On the other hand, the market, frankly you guys have been about 50/50. Some have included it in -- you've picked up diluted, some have picked up basic. So it's kind of a hodgepodge. So it certainly helped our actual earnings per share on a basic basis. But it's been a little bit of a disappointment that it's just a non-animal, as I've discussed before, [in] about half the markets followed on a diluted basis. So I just see it really different than options or something like that. So it does have that drawback.

How we do it going forward, we're going to continue to monitor this. The good news is we don't need any more for the balance of the year, other than what we will get through the plans, which is kind of pro rata each quarter. And we'll watch the market and see what's going on, watch the projected inflation with the project and the project schedule, and just too early to tell any more about when or how we'll do that.

Tim Winter: Okay. Thank you.

Operator: Our next question is from Andy Levi with Avon Capital. Go ahead, please.

Andy Levi: Hi. Actually, most of my questions were answered, but just a follow-up. I guess based on your comments, it's safe to kind of say that your opinion of a forward sale is not as favorable as it was -- or since you've experienced the forward sale. Is that kind of what you're trying to say?

Jimmy Addison: I'm glad we did it. I wish it did not come with the baggage of the dilution associated with it, because, again, about half of the market has focused on the diluted and about half have focused on basic. I wish it were more clear there. But no, if I had it to do over again, knowing everything we know now, it would still be the best option because it gave us that flexibility for such a period of time.

Andy Levi: Okay. Thank you very much.

Operator: Our next question is from Michael Lapides with Goldman Sachs.

Michael Lapides: Hey, Jimmy, real quick follow-up. Tax this year, how big of a difference do you expect between book and GAAP in cash taxes? Or how impactful, how much do you expect in terms of cash flow related to bonus D&A?

Jimmy Addison: Yes. Bonus D&A we expect to be somewhere in the $70 million to $90 million range for 2013. The effective tax rate we projected at the beginning of the year, and it's held true so far, about 32%. So I can't tell you exactly what the cash basis will be, but it will start ramping up here this year some.

Michael Lapides: Got it. Meaning the $80 million of bonus D&A is basically the only major offset to book taxes you can imagine from a cash tax perspective?

Jimmy Addison: Well, we've got one other one in that change in our tax strategy, the 263A. But it's not as significant as the bonus depreciation.

Michael Lapides: Got it. Okay. Thanks, Jimmy. Much appreciate.

Operator: This concludes our question-and-answer session. I would like to now turn the conference back over to Mr. Jimmy Addison for any closing remarks.

Jimmy Addison: Well, thank you, and thank you all. To summarize, we're very pleased with our results for the first quarter of 2013. We remain on track to meet our target and have met several major milestones with our new nuclear project.

And finally, I want to again mention our upcoming Analyst Day Event to be held in New York on June the 5th. Please mark your calendars and plan to attend either in person or online. And we thank you for joining us today and for your interest in SCANA.

Operator: The conference is now concluded. Thank you for attending today's presentation. Please disconnect your lines.