SCG - SCANA Corporation
Q3 2013 Earnings Conference Call
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Ashar Khan; Visium Asset Management; Analyst
Travis Miller; Morningstar; Analyst
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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 speakers' remarks, there will be a question-and-answer period. (Operator Instructions)

As a reminder, this conference call is being recorded on Thursday, October 31st, 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 third 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, economic development in our service territory, and regulatory activity. Additionally, Steve will provide an update on our new nuclear project. After our comments, we'll respond to your questions.

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

I would also like to mention that we recently began a new process of posting new-nuclear-project-related information directly to our website at scana.com. On the SCANA homepage, there is a yellow box containing a link to the New Nuclear section of the website. That section contains a yellow box with a link to project-related news and updates. It is possible that some of the information that will be posted from time to time may be deemed material information that has not otherwise become public.

This new process replaces our prior practice of furnishing a Form 8-K, the quarterly reports that SCE&G submits to the Public Service Commission of South Carolina and the South Carolina Office of Regulatory Staff in connection with SCE&G's new nuclear project. Instead, the Company now posts copies of those reports in the New Nuclear section on the SCANA website.

Finally, 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 third quarter of 2013 were $0.94 per share compared to $0.93 per share in the same quarter of 2012. Higher electric and gas margins were principally offset by increases in CapEx-related items, including depreciation, property taxes, and share dilution and a minor increase in O&M.

Please turn to slide 4. Basic earnings per share for the nine months ended September 30, 2013 were $2.67 versus $2.41 in 2012. Similar to the quarter, increases in electric and gas margins were partially offset by higher expenses and dilution related to our capital program and minor increases in O&M.

Now on slide 5, I'd like to briefly review results for our principal lines of business. South Carolina Electric & Gas Company's third-quarter basic earnings, denoted in blue, were down $0.01 compared to 2012. Earnings were $139 million for the third quarter of 2013 compared to $132 million for the third quarter of 2012. Higher margins from base rate increases, along with customer growth, were offset by increases in operating and maintenance expenses, as well as CapEx-related costs, including property taxes, depreciation, and share dilution.

Year to date, basic earnings were higher by $0.16, due primarily to higher electric and gas margins.

PSNC Energy reported a seasonal loss of $0.03 for the third quarter of 2013, in line with the same period of last year. For the nine-month period ended September 30 shown in red, basic earnings were $0.21 per share, also in line with the prior year.

SCANA Energy, our retail natural gas marketing business in Georgia, shown in green, reported a seasonal loss of $0.03 per share for the third quarter, consistent with last year. Year-to-date earnings are up $0.09, primarily due to a return to normal weather during the first quarter of 2013.

Additionally, I'm pleased to report that SCANA Energy has been granted a one-year extension to serve as the regulated provider for the State of Georgia. This additional year will be added on to the current two-year term and will end in August 2015. SCANA Energy has served as the regulated provider since the program's inception in 2002.

SCANA's Corporate and Other businesses reported flat earnings in the third quarter compared to a loss of $0.02 in 2012. For the nine-month period, these businesses reported basic earnings per share of $0.04 in 2013 compared to $0.03 in 2012.

Now I would like to speak about our operation and maintenance expenses for the year.

As we've previously mentioned, a strategic goal for 2013 and beyond will be to manage our base retail electric business to prevent the need for base rate increases during the peak nuclear construction years. One of the instruments in achieving this goal is O&M cost control. We estimated during the Q2 call that O&M expenses would be approximately 3.5% higher in 2013, with 2.5% driven by specific rate-case-related expense and amortizations of previously deferred items.

While these amortizations are occurring as projected, the other projected expense growth has been mitigated by cost control efforts such as lower labor costs. Currently we have approximately 100 fewer employees, excluding our nuclear construction activity, than we had at the end of September 2012. The reduced headcount, along with lower incentive compensation accruals, have resulted in lower O&M labor costs of approximately $10 million compared to last year. These savings have offset increases in pension costs, which were anticipated in our electric rate order and higher healthcare costs.

Considering the cost control efforts, we now project full-year O&M expenses to grow at approximately 2.5% over 2012 levels, or basically flat, excluding the rate-case-related items.

I'd like to touch on economic trends in our service territory as shown on slide 6. We continue to see new business growth and expansion of existing businesses. Through the third quarter of this year companies have announced plans to invest approximately $1.75 billion, with expectations of creating approximately 7,000 jobs in our Carolinas territories.

We are pleased that this year is shaping up to be another solid year in terms of economic development in our region. You can see the national unemployment rate, along with the three states where SCANA has a presence. The unemployment rate in SCE&G's electric territory, denoted in blue, of 7% is 200 basis points better than during the peak of the recession, and both continues to be favorable compared to the national rate and continues to decline, due to the industrial expansion.

The Port of Charleston continues to see increased traffic and finished its June 2013 fiscal year with container volume up 9%. Also going into fiscal year 2014, the Port handled approximately 145,000 units in August, which is the highest recorded monthly volume since October of 2008. Year-to-date fiscal year 2014 container volumes are up 4.5% over the prior year and 1.8% ahead of their plan. As I mentioned before, it's estimated that 1 of every 5 jobs in South Carolina is related to port volume. This increased traffic is a very good sign for the local economy.

Slide 7 presents customer growth in electric sales. On the top of the slide are the customer growth rates for each of our regulated businesses. We continue accelerating customer growth in our businesses and in the region.

SCE&G's electric growth is 1.3%, the highest it's been since the first quarter of 2009, and SCE&G's gas growth is at 2.2%, its highest level since the third quarter of 2007. Our regulated gas business in North Carolina grew at 2%.

The bottom table outlines our weather-normalized kilowatt hour sales for the quarter and the 12 months ended September 30. Overall, weather-normalized sales were down 0.9% for the quarter, and 0.6% on a 12-month-ended basis.

Industrial sales are showing the most improvement, driven by the expansion discussed earlier, but are more than offset by the residential and commercial decline. As I've mentioned previously, there continues to be uncertainty around residential average use, driven by conservation, CFL white bulb adoption rates, and more energy-efficient appliances. As our customers change their spending habits, we tighten our O&M cost control. I also believe the uncertainty in Washington has been a serious concern to all and has likely impacted spending habits.

Please turn to slide 8, which recaps our regulatory rate base and returns. The pie chart on the left presents the components of our regulated rate base of approximately $8.2 billion. You can see from the items denoted in the two shades of blue, approximately 85% of this rate base is related to the electric business.

In the block on the top right you will see SCE&G's base electric business, in which we are allowed a 10.25% return on equity. The third-quarter earned return in the electric business is approximately 9.7%.

Again, a strategic goal for 2013 and beyond will be to manage our base retail electric business to prevent the need for non-BLRA-related base rate increases during the peak nuclear construction years. Control of O&M and non-new-nuclear CapEx, while monitoring and responding to margin fluctuations, is essential to achieving this goal.

Continuing down the page, on our New Nuclear business we are allowed an 11% return on equity. The South Carolina PSC recently approved our Request for Revised Rates under the BLRA, which added incremental CWIP of approximately $570 million to our rate base. We will implement a rate increase in November of just under 2.9%.

Our regulated gas businesses in the Carolinas continued to perform well. We're allowed a return on equity of 10.6% and 10.25% in North and South Carolina, respectively. And we continue to run those businesses close to those returns.

Along the bottom of the page is our regulatory schedule outside of any Base Load Review Act, or BLRA, filings. These items are fairly routine annual filings.

Slide 9 presents our CapEx forecast. This forecast was updated using the preliminary estimated BLRA third-quarter quarterly report cash flows and reflects lower escalation and a shift in the in-service dates by up to 12 months for Unit 2, and a similar delay for Unit 3, as we previously presented.

Along the bottom of the slide you can see our anticipated incremental CWIP from July 1 through June 30 for each period on which the BLRA increase is calculated.

Please turn now to slide 10 to review the net change. This reflects the shift in construction cash flows due to the change in in-service dates and the lower escalation. You will note that incremental CWIP from 2014 to 2016 is lower than filed in the last quarterly BLRA report, driven by the lower escalation.

Steve will provide an update on nuclear construction in a few moments.

Now, please turn to slide 11 to review our estimated financing plan through 2017. Earlier this year we settled our equity forward, resulting in the issuance of 6.6 million shares in early March. And we do not anticipate any additional equity issuances for the balance of 2013, other than through our 401(k) and dividend reinvestment plans.

In June SCE&G issued $400 million in first mortgage bonds. $150 of this issuance was used to refinance maturing first mortgage bonds, with the remainder used to repay short-term debt primarily incurred for construction of the new nuclear units.

As a result of the shift in our nuclear spending and lower escalation, SCE&G will not need to issue any additional debt in 2013, eliminating the previously planned $200 million Q4 issuance. We do project that we will need an additional $50 million in the 2016/2017 timeframe. But the overall debt plan has been reduced by $150 million over the remaining construction cycle.

As it relates to our equity issuances, our additional equity needs denoted in the blue box are projected to be lower over the four-year period by $75 million. The new projected additional equity is approximately $425 million, rather than the previous estimate of $500 million.

We now estimate that we will issue approximately $100 million in late 2014, $125 million in 2015, and $200 million in the 2016/2017 timeframe, reducing the overall equity plan by $75 million over the remaining construction period. Of course the amounts and timing could change due to a change in inflation, bonus depreciation, the construction schedule, or other factors.

The financing plan, CapEx plan, and in-service dates for Units 2 and 3 now reflect the current assessment of our new nuclear construction project.

We're very pleased to report that earlier this month we successfully extended our credit facility by one year. As you may recall, the committed lines of credit total $1.8 billion. $1.6 billion covers the entire five years and will expire in October 2018, and an additional $200 million, which was added for peak construction liquidity, covers three years and will expire in October 2016. The additional liquidity is important to our nuclear construction and the tenor spans substantially all of the planned peak construction periods of the new units.

I would again like to thank our banks for their enthusiastic support of our liquidity needs and support of our nuclear expansion plans. We're also pleased that we've received an excellent response for our liquidity needs during nuclear construction from our equity and debt investors.

Now please turn to slide 12. We are reaffirming our earnings guidance of $3.25 to $3.45 per 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% earnings growth over the 3-to-5-year period based on 2012 GAAP basic earnings per share of $3.20.

We plan to provide 2014 annual guidance on our year-end call in February.

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

Steve Byrne: Thanks, Jimmy.

I will begin by providing an update on the schedule, a few details on the related costs, progress at CB&I, and on hook dates for our critical path components.

Please turn to slide 13. The Company is affirming that we expect Unit 2's in-service date to be between the fourth quarter of 2017 and the first quarter of 2018. This range is still within the Public Service Commission's 18-month scheduled contingency window for the currently approved in-service date, which is March of 2017.

The in-service date for Unit 3 will be similarly delayed, or roughly 12 months after Unit 2.

The Company is also affirming the previously reported upper bound estimate of approximately $200 million of additional costs associated with this schedule change, driven by three factors -- owners' cost, EPC costs, and escalation. This $200 million represents SCE&G's 55% share of the project's costs, including escalation.

It's important to note that SCE&G has not accepted responsibility for any of the delay costs and expects to continue discussions with the consortium regarding responsibility for any increase.

Additionally, our EPC contract provides for liquidated damages in the event of a delay in the completion of the facility, which have not been factored into our estimate and would also be included in the discussions with the consortium.

In summary, we believe SCE&G's responsibility for any portion of the $200 million estimate, should ultimately be limited to substantially less once all of the relevant factors are considered.

Now I'd like to turn your attention to slide 14. CB&I Lake Charles has taken numerous steps in the last quarter to mitigate further delays to the project. Some of the changes include -- CG&I Lake Charles facility is now working two 12-hour shifts, seven days a week. CB&I facility has also moved fabrication of several components to other vendors in an effort to relieve the burden on the facility.

Fabrication of module CA-03 has been moved to Pegasus Steel's facility in North Charleston, South Carolina. Fabrication of shield building structural modules has been assigned to Newport News Industries, or NNI. CB&I also moved fabrication of CA-04 to the VC Summer site for completion.

As it relates to submodules, all of the submodules required to assemble CA-20 to be able to meet its on hook date, are now on site at VC Summer. I'll address CA-20 and on hook dates later in my comments.

The de-scoping and shipment of submodules has opened up floor space allowing fabrication of more submodules for the critical path component CA-01. I'll discuss this a little more in detail later in my comments.

The cost of moving fabrication activities to other vendors in an effort to relieve the burden on the facility are at the contractor's convenience and, as such, would be the responsibility of the consortium.

Additionally, we have visited both Pegasus and NNI and feel confident in their nuclear safety culture of these facilities and that they meet industry expectations.

I also wanted to give you a brief update on the on hook dates for some of the structural modules. The on hook date is when fabrication of an assembled module at our VC Summer site will be complete and it is ready to be placed on the hook of the heavy-lift derrick.

Module CA-20, seen on slide 15, is an auxiliary building module that will be located outside and adjacent to the containment vessel. Here you can see a portion of this module on site in the module assembly building at the VC Summer facility. This module has an on hook date of Q1 of 2014. We recently agreed to receive certain CA-20 submodules from the Lake Charles facility that will allow minor rework and paperwork completion at the VC Summer site. This will free up additional space at the Lake Charles facility.

Module CA-01, on slide 16, is a steam generator and refueling canal module that will be located inside the containment vessel. Onsite fabrication of this module for our project has not yet begun, but here you can see a photo provided by Westinghouse of CA-01 at one of the China sites. This module has an on hook date of Q3 of 2014.

Finally, Module CA-03, on slide 17, is the southwest wall module of the in-reactor storage tank inside of the container vessel. Fabrication of this module for our project has also not yet begun. Here you can see a photo provided by Westinghouse of a portion of this module at a similar AP1000 plant being lifted for placement. This module has an on hook date of Q4 of 2014.

On slide 18 you can see a summary that outlines the on hook dates for these three modules.

I would now like to direct your attention to the recent activities at the site on slide 19. As I have mentioned previously, we completed an over-50-hour continuous pour of the nuclear island basemat, sometimes referred to as first nuclear concrete, for our first new unit, which can be seen in the picture at the top of the slide. The basemat provides a foundation for the containment vessel shield building and auxiliary building that make up the nuclear island.

At the beginning of April we set the 500-ton CR-10 module on the Unit 2 basemat. You can see this module at the bottom-left of the slide. This module had been previously assembled on site and was lifted in place using the heavy lift derrick. CR-10 supports the containment vessel.

As you can see at the bottom right, the containment vessel bottom head, which was also assembled on site, was lifted into place by the heavy lift derrick in May. The containment vessel will house numerous reactor system components, such as reactor vessel, piping, steam generators, and pressurizer.

On slide 20 you can see pictures of the placement of the CA-04 reactor vessel cavity for Unit 2. This component was built on site. In late September this module was placed in the containment vessel bottom head. Its purpose is to house the reactor vessel, which we will show you a picture of shortly.

On the top of slide 21, you can see a picture of the first containment vessel ring for Unit 2, which will be placed on the containment vessel bottom head. As pointed out in the photo, this section of rings contains penetrations for equipment and personnel access.

At the top right of the same slide, you'll see a picture of Cooling Tower 2 Alpha. Cooling Tower 2 Alpha is structurally complete and is being fitted with electrical and mechanical components. All four of the low-profile, forced-draft cooling towers continue to progress as anticipated.

At the bottom left you will see a picture of the Unit 3 nuclear island. We completed the placement of the dental concrete, the leveling concrete, the lower mud mat, the vapor barrier, and the upper mud mat. Reinforcement [barricades] has been assembled and we plan to pour the first nuclear concrete for this unit this quarter. Again, this basemat provides a foundation for the containment vessel, shield building, and auxiliary building that make up the nuclear island for Unit 3.

On the bottom right you will see the Unit 2 turbine building. Placement of the Unit 2 turbine building and basemat and associated walls has been completed.

On slide 22 you can see where the first of three lower condenser sections was set in the Unit 2 turbine building in July. This was the Bravo condenser. The Charlie condenser has also been set, and the Alpha is scheduled to be set sometime soon.

On slide 23 you can see a schematic of how the various turbine building modules will look when complete. The five modules that are highlighted in green have been placed in the final locations. That's CH-80, CH-81 Alpha, CH-81 Bravo, and the previously discussed two lower condensers.

Slide 24 shows the turbine building with the aforementioned modules in place. The Alpha condenser will be set between CH-81 Alpha and CH-80.

On Slide 25 you'll see some components that have arrived on site. On the top you'll see a picture of the Unit 2 reactor vessel. The reactor vessel will sit inside of module CA-04, which has been placed in the Unit 2 containment vessel bottom head and will house the fuel assemblies.

On the bottom right you see the low-pressure turbine rotors, 2 Alpha and 2 Bravo, as they arrive via railcar. There are three low-pressure and one high-pressure turbine rotor for each of the new units.

On the bottom left you see one of two moisture separator reheaters being lifted with the heavy lift derrick.

On slide 26 you can see the new nuclear CapEx over the life of construction. This chart shows the CWIP during the years 2008 to 2018 and has been updated to reflect our estimates that will be in our Q3 2013 BLRA quarterly report. That report will be filed around November the 8th of this year.

As you can see, the next several years are considered the peak nuclear construction period. The green line represents the related projected customer rate increases under the Base Load Review Act.

Please now turn to slide 27. As we mentioned in our second-quarter call, we filed our annual request for revised rates under the Base Load Review Act in May. In response to that request, in September the Public Service Commission of South Carolina approved an increase of $67.2 million. The new rates were effective for bills rendered on or after October 30th.

Our BLRA filings for 2013 are shown at the bottom of the slide and, as you can see, in August we filed our quarterly status report on our new nuclear project with the Commission and the Office of Regulatory Staff for the second quarter of 2013. And, as I mentioned, we intend to file our quarterly status report for the third quarter of 2013 in November.

On slide 28 you will see a breakout of total new nuclear project costs. On the far right you can see our estimate for the November 2013 BLRA project costs, which is down approximately $150 million from our August 2013 BLRA report, and approximately $663 million from the original approval received from the South Carolina Public Service Commission. As you can see, and as Jimmy mentioned earlier, this change is largely attributable to lower escalation.

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

Questions and Answers

Operator: (Operator Instructions) Julien Dumoulin-Smith; UBS.

Julien Dumoulin-Smith: I just wanted to kind of talk to you about this, for the longer-term growth rate here. You heard your colleague to the south talk about it yesterday. As you see beyond the current construction program, how do you think about your EPS growth rate and the 3% to 6% you've discussed?

Jimmy Addison: Well, our range is for a three-to-five-year period and that really takes us through -- I mean, we still have construction going on through that entire period. So we really haven't provided any outlook beyond that period, and I'm not prepared to today.

Julien Dumoulin-Smith: Got you. Thank you.

Operator: Ashar Khan; Visium.

Ashar Khan: So if I look at slide 4, we are $2.67 basic EPS year to date. And if I'm right, last year we earned around $0.78 in the fourth quarter, in December. So if one assumes that we earn a similar level, we come to, like, $3.45 for the whole year, so right at the top of the guidance. Is there something in the fourth quarter which is going to be abnormal or anything? I'm just trying to see why the guidance was -- why aren't you pointing towards the upper end of the guidance for the year? Or am I missing something which is there in the fourth quarter?

Jimmy Addison: I'd say, Ashar, two primary reasons. Number one, we continue to watch this consumption issue that was highlighted over on page 7, I believe it is. So we've got a little bit of a hedge built in for what we've seen the last couple of quarters there, with lower consumption particularly in the residential, small commercial side.

And then the second is, and my comments there earlier, year to date we're basically flat year-over-year O&M. But we really project our year-over-year as of 12/31 to be more like 2% to 2.5% above last year. So we have some projects in the fossil hydro area that are going to occur in the fourth quarter that are O&M related. We have healthcare cost trends that we know are going to impact us. We got in one of our property tax bills after we closed the books for September for one of our larger counties. So that's part of what we're contemplating in there as well.

But I understand your comment, and if you ask me my bias today it's on the upper end of the $3.35. I would have more of a bias towards being above that than below it.

Ashar Khan: Okay. Thank you so much.

Jimmy Addison: And, frankly, most of the guys on the Street are already there. I looked at it earlier today and I think a half dozen or more are between $3.35 and $3.40 already.

Ashar Khan: And then, to build up on that, Jimmy, 2014 as usual in your slides, the AFUDC is higher. The rate increase in the BLRA is higher. And now, of course, the equity is going to come in at the end of the year, which was always forecast but of course now the amount is more. And the debt requirements you have also lowered. So does that not -- should one not assume that we should be again at the upper end of the growth rate as we move from 2013 to 2014?

Jimmy Addison: Well, costs are changing, too. So we're in an economy now that has some inflation in it. So we are granting pay increases year over year now. We're hiring folks at the nuclear project, so we're bringing more folks on line there.

And I'd say the main thing, Ashar, though, is just continued just watching this consumption issue, what's going on in the base business. Even though our growth rates of number of customers is accelerating, folks are still concerned about the economy and that's clear in our data as well as others.

I saw just yesterday consumer confidence dropped over 15% from quarter to quarter. So I think until there's a clearer picture nationally that Washington has gotten their act together and that the economy is going to get on some solid footing, I think we're all wiser to be a little cautious.

Ashar Khan: Okay. Thank you.

Operator: Travis Miller; Morningstar.

Travis Miller: I wanted to follow up a little bit on that demand stuff in slide 7 that you're looking at. If I look at that top box and I see the customer growth, and if I look over the last couple quarters maybe averaging 1% or so. But then I look at the bottom box and we see, especially the residential commercial down, I don't know, call it 1.5%. Does that mean that mean that your actual per-customer usage is going down, call it 2%, or something more than that, 1.5%? I wondered if I was reading that right and if you could clarify that.

Jimmy Addison: No, I think you're exactly right. That's what's going on the last couple of quarters. We have generally used 12-month numbers to present for this information. I got several requests last quarter from you guys to give separate quarterly data, so we've begun doing that.

But there's a lot of volatility in quarterly data. I looked back over the last three years and we've had six quarters where it's been up, five quarters where it's been down just over the last two years and three quarters here. So there's a lot of volatility that happens in there. And some of those have been up as much as 10% and down as much as 5%. So there's just -- you know, just the economy, the volatility, the fits and starts of the economy, there's no clear direction at this point.

The one thing I took away from this that is more consistent are the consistent two-plus years of good, solid economic announcements we've had here with good solid jobs. And a lot of those announcements from a year, 18 months ago are turning into hard jobs now, once the sites are built out, et cetera, from the tire industry, pharmaceuticals, and others. And the industrial sales are moving in the right direction. And that ultimately translates into more confidence in the local economy and in the commercial area. I think that the data I cited earlier around the Port of Charleston, their traffic, is a good, long-term indicator, too.

But folks are still concerned. And I still think their biggest kind of reservation may be the lack of coming to any conclusions in Washington.

Travis Miller: Okay. And then to follow up on that, kind of take the next step there, what's that long-term projection for demands that we should think about in that 3% to 6% earnings growth, and then tied to that that 9.7% earned ROE? How much of that is demand if we see -- I presume if we were to see continued 2% demand shrinking, that would have a big impact on that 3% to 6% earnings growth rate (multiple speakers) --

Jimmy Addison: Well, it would if that continued for a long period of time. So here's what we see. And it's just our projection, but what we see is industrial demand continuing to grow. And in the short term, the next 18, 24 months, we continue to see pressure on the -- particularly the residential segment, as more of the efficiency standards move through the residential class. CFL light bulbs, higher efficiency HVAC systems, lower electric-consuming TVs, et cetera. That's already happened in the industrial sector and to a large [sector] in the commercial segment as well. But that is really what we see driving the short term in the residential segment.

But in the long term, we really see kind of a net growth of slightly above 1% in the long-term demand, and that's what's really driving our generation expansion down the road.

Travis Miller: Okay, great. Thanks a lot for the clarity.

Operator: Paul Patterson; Glenrock Associates.

Paul Patterson: You know, I wanted to follow up on this a little bit because, you're right, it is volatile from quarter to quarter. But it's so volatile, it seems, that the last 6 months, the 12-month number has gone from a positive 1.3% to now a negative number. And the components there [above] have also changed. And to follow up on Travis's question here, it sounds to me like you're sort of projecting perhaps negative growth for the next 18 months. Is that right?

Jimmy Addison: Well, we certainly see the residential segment having pressure on it, just because of the efficiencies moving through. I mean, there aren't any more incandescent light bulbs being manufactured, so they have to, as light bulbs drop off now, they've got to put CFL bulbs in and they are more energy efficient. So we see that in our projections over the next couple of years.

Paul Patterson: Okay. So when you mentioned the Washington impact, or just the sort of economic uncertainty impact, would you say that's -- how would you compare that impact to what we're seeing in terms of energy efficiency for appliances, light bulbs, that kind of activity?

Jimmy Addison: Well, in our footprint -- let's take before any of the new lighting standards moved through. Roughly 12% of our residential sales were driven by lighting. Once all of the current technology efficiencies move through the entire run, we see lighting making up about 6%. So the question is, how fast does it move through? And then, what else is going on as far as conservation and just general uncertainty in the economy as if affects the residential customer, the price of gasoline fluctuations, et cetera? What else causes the fits and starts in between?

But we know somewhere at the end of this there's going to be about a 6% change in the overall footprint, if you will, of the residential consumption related to lighting.

Paul Patterson: Okay. So we're at 12% now, is that correct?

Jimmy Addison: Before the reduced consumption started.

Paul Patterson: And when did that happen?

Jimmy Addison: Eighteen months, 24 months ago?   I don't know precisely, Paul.

Paul Patterson: Okay. I mean, I don't mean to put you on the spot here, but I'm just wondering do you know where we are right now, like, in terms of where we are in the forecasts on this? (Multiple speakers)

Jimmy Addison: I don't know on that specific item, no. And I don't know that it's -- that's a survey-type data. I don't know that -- it isn't like I don't have it at my fingertips; I don't know that we can get it.

Paul Patterson: Okay. I hear you.

Jimmy Addison: Because I don't know when every household has changed every bulb.

Paul Patterson: (Laughter) Yes, that would be a little intrusive.

Jimmy Addison: Yes.

Paul Patterson: Okay. Fair enough. Very interesting. Now, in terms of the -- have you guys had any update or any information from your partner, Santee Cooper, in terms of what might happen with the disposition of their ownership?

Steve Byrne: Yes, Paul, this is Steve. They're still interested in dispositioning their ownership. I think they're still interested in somewhere around a 10% share. As we understand it, they're still in discussions with Duke. And beyond that I don't know that I can comment any further. You'd have to ask Santee Cooper.

Paul Patterson: Sure. Any timeframe or any concept as to when we might get a decision one way or the other?

Steve Byrne: No, really that's up to Santee and Duke. But we would welcome Duke as a partner.

Paul Patterson: Okay. Sure. Thanks so much.

Operator: Michael Lapides; Goldman Sachs. Please go ahead.

Michael Lapides: Congrats on a good quarter. Jimmy, Steve, real quick, just when thinking about the revisions to the nuclear capital spending schedule. Big picture, relative to the last formal filing where you outlined it, a headwind or a tailwind when you think about the impact on near term, let's say, 2014 or 2015 earnings power?

Jimmy Addison: Well, if you think about -- if you're saying headwind in terms of lower BLRA increases, I think it is a headwind, because there's lower cash flows forecasted in the next two to three years, and also the lower escalation. I mean, inflation continues to come down compared to what we originally projected, another $140 million lower in this recent data we just received last week.

So that certainly would lower the expected increases and revenue increases related to that. But we don't necessarily view that as a negative. I mean, it really helps kind of flatten the impact on the customer. So we think that's a good thing in the long run.

Michael Lapides: But should we be thinking of it as it gives you lower CapEx, partially offset by lower financing needs, so lower revenue increases partially offset by lower financing needs? But then also it implies lower AFUDC. Am I kind of thinking about the three buckets in the right way?

Jimmy Addison: Yes, I think so. But the lower revenue and the lower financing costs, I mean, that's not a wash. Obviously there's return built into the BLRA revenue for the equity side.

Michael Lapides: Understood. Understood. And talking about demand, we've seen this with a couple of other Southeast utilities, where industrial demand is actually making a pretty positive uptick. Have you done any work around, historically, near term and long, the lag between industrial recovery and trends in residential and small commercial, maybe separate trends, kind of how they correlate to industrial recovery and how maybe that trend has changed versus industrial? Meaning do you typically or historically see a real-time change in residential and small commercial when you're seeing a change in industrial? Or does res and small commercial lag industrial recovery or precede it?

Jimmy Addison: Michael, I don't have anything objective to give you, a kind of a 6-, 9-, 12-month answer. But I'll tell you I do know that the residential customer generally lags going into a recession and kind of lags coming out, because those jobs have to come up. They have to become employed . They have to dig out of their own personal holes they might have been in. And then they feel freer to have some discretionary income to spend and they're less focused on conservation, that kind of thing. But certainly the dynamic is as you describe it, but I can't tell you exactly a timing around it.

Michael Lapides: Okay. Last item. Can you talk a little bit -- you gave a lot of great economic detail in terms of what's happening in your service territory. Can you talk a little bit about housing starts, what you're seeing locally, meaning in your gas and electric service territories in terms of housing starts growth rates, and occupancy rates?

Jimmy Addison: I don't have any of that objective data at my fingerprints. I've seen some recently. I just don't have it with me here, Michael. But it's fairly consistent, well, with last year. And on the occupancy rates particularly I was looking in a couple of our metro areas that we serve in the electricity footprint. And, for example, office occupancy is down to some of its lowest levels since before the recession in Columbia and Charleston. So both of those markets are getting fairly low levels of available office space, too.

But I don't have any of the exact numbers with me. That's public information and we can get it and Christina can follow up with you later with it.

Michael Lapides: I'm happy to follow up with Byron or Christina. Thank you, Jimmy. Much appreciated. Thanks, Steve.

Operator: Andy Levi; Avon Capital.

Andy Levi: Just a couple questions. On the O&M going forward, I know you haven't given a forecast for 2014, but can you just talk on a high level your ability to keep O&M either growing slower or cut some costs relative to your lower residential sales expectations?

Jimmy Addison: Yes. I think there is still some more room there. I do think probably the pace that we've been on the last couple of years, particularly in retaining attrition, netting down lower headcount, I think the pace of that is going to have to slow. If you just look across the different regulated businesses we have, we've probably got 10,000, 12,000 more customers than we had a year ago and we're serving them with 100 fewer employees. You can't continue that long term and keep your focus on customer service, reliability, and safety. But I think there's still some more opportunity there, particularly as technology in a variety of areas offers more efficiency.

I'd say, kind of getting at the heart of your question, I do see O&M for 2014 likely higher. We'll be out with our official forecast in the year-end call, but I'd probably say it's going to be more like the year-end range we're expecting now, something around 2% or so.

Andy Levi: Okay. And just on the equity, so equity end of 2014, it's $100 million of DRIP and $100 million of new equity? Is that the way I read it?

Jimmy Addison: Right. We originally had $275 million of additional equity in 2014 and now, with the shift in the project and the lower escalation, we see only needing about $100 million, and late in 2014.

Andy Levi: And so CWIP is, what, about $141 million lower? Is that correct?

Jimmy Addison: Let's see here. CWIP is $141 million lower for the June 30, 2014.

Andy Levi: Right.

Jimmy Addison: For calendar 2013 and 2014 together it's probably about the same number, ironically, for different reasons, but about $140 million lower.

Andy Levi: So I guess if you kind of run through the numbers the lower equity kind of almost offsets the CWIP over a 12-month period.

Jimmy Addison: Yes, and there's lots of other moving parts, too, operating cash flows, et cetera. But, yes, on a simplistic basis that's true.

Andy Levi: Okay. And the last question I have, it just seems on the nuclear, just to make sure I understand what Steve went through. So schedule-wise, you're still very confident about your schedule that you reset in June. CBI and situations at Lake Charles seems to be improving. And bottom line is, you're actually spending less, not spending more, than what you [sought] in June. Is that kind of a fair summary?

Steve Byrne: Yes, I think you captured it pretty well.

Andy Levi: Okay, great. Thank you very much.

Operator: (Operator Instructions) Andrew Weisel; Macquarie.

Andrew Weisel: You've covered most of what I was going to ask about but, just briefly, the new nuclear project costs coming down from the BLRA to the November, did I hear you right that that's almost entirely just lower escalation?

Jimmy Addison: That's right.

Andrew Weisel: Okay, great. And then, lastly, the $200 million that's being negotiated, just conceptually, I mean, the Office of Regulatory Staff made it pretty clear in their report that the modules were delivered with welding that didn't meet regulatory requirements. Just wondering why is this even a debate? It seems like it's pretty clear from the outside that that should be paid for by CBI, not you guys. But maybe you can explain some of the counterpoints to that? And then, lastly, just touch on the timing. Do you still think that will be resolved by year end?

Steve Byrne: The resolution, I'm not sure it would be resolved by year end. And it isn't as if I'm going to be given a change order to say, here, you owe me $200 million more dollars. This is an estimate that we put together to try to bound what the costs would be. And obviously we believe that they will be less than that $200 million figure. That's our 55% piece, representing SCE&G's ownership in the project.

And while, on the surface, I would agree with you that the issues coming out of the modules at Lake Charles should be the responsibility of the consortium, I've been at this long enough to know that the consortium may not see it that way. So we're just anticipating a fervent discussion with them and we're hopeful of a positive outcome that will be fair to both sides.

Andrew Weisel: Got you. Thanks a lot.

Operator: And, ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Jimmy Addison for his closing remarks.

Jimmy Addison: Well, thank you. And just to summarize, we're pleased with our results through September. We remain on track to meet our internal target, as well as our guidance, while continuing to focus on providing safe and reliable energy, while also staying focused on executing the VC Summer construction project.

We appreciate you joining us today and for your interest in SCANA.

Operator: Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.