

[SCG] - SCANA Corporation 3rd Quarter 2017 Earnings Conference Call/Webcast  
Thursday, October 26, 2017, 3:00 PM Eastern

Officers:

Iris Griffin; VP, Finance  
Kevin Marsh; Chairman, Chief Executive Officer  
Jimmy Addison; Chief Financial Officer

Analysts:

Julien Dumoulin-Smith; BofA Merrill Lynch  
Ashar Khan; Verition  
David Frank; Corsair Capital Management  
Travis Miller; Morningstar  
Shar Pourreza; Guggenheim Partners  
Chris Ellinghaus; Williams Capital  
Dan Jenkins; State of Wisconsin Investment Board  
Michael Lapidus; Goldman Sachs  
Steve Fleishman; Wolfe Research  
Paul Fremont; Mizuho  
Paul Patterson; Glenrock Associates  
Kamal Patel; Wells Fargo

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. (Operator Instructions)

As a reminder, this conference call is being recorded on Thursday, October 26th, 2017. 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 Iris Griffin, Vice President of Finance.

Iris Griffin: Thank you and welcome to our Analyst Call. As you know, earlier today we announced financial results for the third quarter of 2017. Joining us on the call today are Kevin Marsh, SCANA's Chairman and Chief Executive Officer, and Jimmy Addison, SCANA's Chief Financial Officer. During the call, Kevin will provide an update on the regulatory and legislative process surrounding our decision to abandon construction of VC Summer Units 2 and 3. Jimmy will provide an overview of our financial results. After our comments, we will respond to your questions. The slides and earnings release referred to in this call are available at [scana.com](http://scana.com).

Before I turn the call over to Kevin, 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 in the Investors section of our website under Webcasts & Presentations.

I'll now turn the call over to Kevin.

Kevin Marsh: Thanks, Iris, and thank you all for joining us today. I'd like to begin our discussion on Slide 3, with an update on activities associated with our decision to abandon the new nuclear project. As I have said before, the decision to stop work on the project was always our least desired option. However, it was the right decision for our customers based on the impact of the bankruptcy of Westinghouse, their refusal to honor their fixed price contract, as well as the withdrawal of our project partner, Santee Cooper.

The top of the slide lays out some of the events that have transpired over the last few months. We have appeared before special committees of both the South Carolina Senate and House of Representatives to explain the details of our project and the evaluation which was the basis of our decision to abandon the project. We hope to work with the legislature and other parties to develop a reasonable and comprehensive settlement of the issues relating to the abandonment decision.

Our focus is on finding a solution that mitigates the cost impact on customers while positioning the company to continue to be able to serve our customers and meet the state's growing electric demands.

At the end of September, the Office of Regulatory Staff filed a petition with the Public Service Commission of South Carolina requesting that the commission issue an order directing SCE&G to immediately suspend the collection of revised rates currently being collected under the Base Load Review Act. SCE&G filed a motion with the PSC to dismiss the ORS request, citing numerous legal deficiencies. The PSC later chose to defer action on the ORS request in order to establish a briefing and hearing schedule. The PSC took this approach to allow for careful consideration of the arguments given, the potential impact of the proposed actions, not just on the company, but also the customers in the long run.

Additionally, the ORS filed a separate motion requesting that the PSC consider the most prudent manner in which SCE&G should pass the value of the Toshiba guaranty payments to customers. We have consistently stated that we intend to use the value of these payments to mitigate cost to our customers. Our goal is to establish this through a comprehensive settlement with the interested parties which can be presented to the PSC for consideration and approval.

The bottom of the slide lists the corresponding briefing and hearing schedule associated with the September 26th ORS petition.

I would now like to turn the call over to Jimmy to discuss our financial results.

Jimmy Addison: Thanks, Kevin. Before I discuss earnings, I wanted to go over two significant financial events that occurred this quarter - the receipt of proceeds from the Toshiba guaranty and the impairment charge associated with the nuclear project. Slide 4 presents a breakdown of the cash received both through the monetization on September 27th, and the receipt of the initial payment from Toshiba on October 2nd. The total amount realized is approximately 92% of the Toshiba guaranty. And as previously stated the value of these payments will be used to mitigate cost to our customers.

Slide 5 depicts the impairment loss recorded for the quarter as it relates to the new nuclear project. While we believe that the issues regarding the recovery of these costs and the rates being collected under the BLRA for financing cost should be resolved in future proceedings before the South Carolina Public Service Commission, the public, political, and regulatory response to the abandonment decision has been extremely contentious.

In light of this and under applicable accounting guidance, SCE&G took a \$210 million pretax impairment charge, or \$132 million net of taxes. The estimate was determined by taking the total cost expended on the new nuclear project that have not been included in revised rates and offsetting those with the approximate net value of the Toshiba settlement proceeds.

As you are aware, there remains great uncertainty as to the eventual regulatory outcome regarding the abandonment of the project, but it is our current estimate of an impairment charge that is both probable and reasonably estimable under applicable accounting principles.

The recording of this impairment loss under the accounting rules does not mean that we will not seek full recovery of our prudently incurred cost as there are many possible outcomes to the upcoming regulatory process and this estimate is subject to change as that process unfolds.

I'll now begin our earnings discussion on Slide 6. Earnings in the third quarter of 2017 were \$0.24 per share compared to \$1.32 per share in the same quarter of 2016. This decrease is primarily related to the impairment loss. As explained in the footnote, abnormal weather increased earnings by \$0.08 per share in the third quarter of 2017, compared to abnormal weather contributing \$0.27 per share in the third quarter of 2016, resulting in a negative \$0.19 per share impact to earnings quarter-over-quarter.

Gas revenues offset by higher gas cost contributed to the earnings for the quarter. Lower O&M expenses and higher other income offset increases in depreciation, property taxes, and interest expense.

Please turn to Slide 7. Earnings per share for the nine months ended September 30, 2017, were \$2.28 per share versus \$3.29 per share for the same period in 2016. Again, this decrease is primarily related to the previously mentioned impairment loss associated with the new nuclear project.

Higher electric revenues were more than offset by expenses related to fuel for generation, purchase power cost, and the impact of abnormal weather compared to the prior year. As noted at the bottom of the slide, abnormal weather decreased earnings by \$0.12 per share for the first nine months of 2017, while weather increased earnings by \$0.27 per share for the comparable period of 2016, for a year-over-year decrease of \$0.39.

Additionally, increases in gas revenues partially offset by gas costs, as well as lower O&M expenses and higher other income boosted earnings for the year. Interest expense, depreciation, and property taxes all increased compared to the prior period.

Now on Slide 8, I'd like to briefly review the earnings results for our principal lines of business.

SCE&G's third quarter 2017 earnings decreased versus the same quarter of 2016, due primarily to the impairment loss and the quarter-over-quarter impact of abnormal weather and lower O&M.

PSNC's earnings were up \$0.04 per share for the third quarter of 2017 over the comparable period in 2016, due to higher gas revenues as a result of a rate increase and customer growth, as well as lower O&M.

SCANA Energy's earnings for the quarter increased due to lower bad debt expense and lower O&M.

I would now like to touch on economic trends in our service territory on Slide 9. Through the third quarter of 2017, companies announced plans to invest approximately \$1 billion with the expectation of creating over 10,000 jobs in our North and South Carolina territories.

At the bottom of this slide, you can see the South Carolina unemployment statistics as of September 2017 and 2016. South Carolina's unemployment rate is 3.9%, the lowest the state has seen since November of 2000, and a full percentage point below a year ago.

South Carolina continues to see a decrease in unemployment despite continued growth in the labor force. The other states in which we have service territories, North Carolina and Georgia, also continue to see declining unemployment rates of 4.1% and 4.5%, respectively.

These positive business developments continue to play a significant role in strong customer growth presented on Slide 10. The top half of the slide shows the customer growth rate for each of our regulated businesses. SCE&G's electric business added

customers at a year-over-year rate of 1.3%. Our regulated gas businesses in South and North Carolina added customers at a rate of 2.9% and 2.6%, respectively.

The bottom table outlines our actual and weather-normalized kilowatt hour sales to retail customers for the 12 months ended September 30, 2017. On a twelve-month ended basis, weather-normalized sales are eight-tenths of a percent higher versus the prior period.

Now please look at Slide 11, which recaps our regulatory returns. SCE&G's base electric business in which we are allowed a 10.25% return on equity, earned a return for the 12 months ended September 30, 2017, of 8.93%, down 95 basis points due to the negative impact of weather.

We're allowed a return on equity of 10.25% in our gas LDC in South Carolina. These rates are set according to the Rate Stabilization Act. If the earned ROE of the gas business for the 12 months ending March 31st falls outside of a range of 50 basis points above or below the allowed ROE, we file to adjust rates.

As of March 31, 2017, the twelve month earned return for SCE&G gas was below the band and we filed for an annual increase. The PSC approved the request for an \$8.6 million revenue increase, and the new rates will become effective beginning with the first billing cycle in November.

As of September 30, 2017, the 12-month earned return for PSNC Energy was 11.61%. This situation is a result of a timing difference on a large capital project scheduled for completion in December of 2017. PSNC does not include CWIP in its rate base. However, once this project is completed, it will be added to rate base and the earned ROE should more closely approximate the allowable ROE.

Slide 12 presents our estimated CapEx forecast. We have removed the base electric business in South Carolina from this forecast as that plan is highly contingent on the outcome and treatment of the new nuclear abandonment decision. However, this forecast highlights our renewed focus on the regulated gas businesses in North and South Carolina.

As you can see, the total investment in these gas businesses will exceed \$1 billion over the next three years. Customer growth is the most significant driver for these investments, and continued pipeline integrity investment is also an ongoing focus.

Once the NND abandonment process is resolved, we will update the full CapEx and financing plans accordingly.

I would now like to discuss our 2017 earnings guidance on Slide 13. We are reiterating our 2017 GAAP-adjusted weather-normalized earnings guidance range of \$4.15 to \$4.35 per share, and our internal target of \$4.25 per share. This measure excludes the impact of abnormal weather and the impairment loss.

At this time, we're unable to provide long-term earnings guidance. While there are fundamental positive factors such as our strong customer growth and the continued expansion of our regulated gas businesses, the key consideration will obviously be the treatment of the abandoned new nuclear project. Once the nuclear abandonment recovery has been addressed, we will provide updated long-term guidance.

Before I conclude our prepared remarks, I wanted to set the tone for our Q&A session. As we have said in various legislative hearings, we believe our actions related to the nuclear project have been prudent and were in the best interests of our customers. While it is always our intention to be as transparent as possible, please understand we are not in a position to discuss the possible timelines and outcomes of any pending litigation or investigations surrounding the new nuclear project.

We'll now be glad to respond to your questions on other matters.

### Question and Answer

Operator: We will now begin the question-and-answer session. (Operator Instructions)  
Julien Dumoulin-Smith with Bank of America Merrill Lynch.

Julien Dumoulin-Smith: So perhaps just, I know it's a little bit tricky for you guys to talk. But perhaps could you elaborate a little bit on thinking of recovery of sort of related capital expenditures? For instance, the \$300 million to \$400 million on the associated transmission and how you think about that in the context of your lag into 2018, as well as potential replacement capacity today and what the timeline, at least to address that conversation might be, despite everything else going on.

Jimmy Addison: Julien, it's Jimmy. I'll start off on that. So the transmission is roughly 75% of it is in service today, completed construction, and the other is progressing. So it's already strengthened the system and is used and useful today. So we don't really see a concern in that and what our proposal was in our original petition and we'll take this back up at some point is for that to be considered down the road as part of the base electric business. So we would propose to incorporate that into kind of the returns of the base business and that be considered in a base rate case down the road.

As far as current capacity, et cetera, we're buying on the open market today. It's fairly available out there. We're buying 300 megawatts today. So we'll reevaluate that once we get this situation cleared up with the new nuclear here.

Julien Dumoulin-Smith: Got it. And so basically there could be a potential replacement as gas capacity, or extensions just in terms of continuing the open market purchases for a time being?

Jimmy Addison: Yes, no commitment either way at this point. The current purchase runs through the end of 2019. So we've got some room to evaluate that.

Julien Dumoulin-Smith: Excellent. And then turning to the gas utilities side of the business. Obviously, with a reduced CapEx budget today, how are you thinking about a potential to accelerate spend on the PSNC and the South Carolina Gas utility piece today? And when would you expect to update or discuss your capital budgets on that side? Again, trying to be respectful of ignoring the other questions at large here.

Jimmy Addison: Yes. So on the two gas LDCs, we'll update that CapEx quarterly as we have project changes, et cetera. And I would say, I wouldn't characterize it as accelerating spend necessarily as it is responding to the customers' needs and demands. So as the lower natural gas price is projected for quite a period of time, there's been a lot of demand for it from industrial customers for electric generation and from other IOUs, et cetera. So it's really responding to that.

And we'll keep updating that CapEx every quarter as we reevaluate the projects over the next kind of 36-month view. That's typically what we disclose.

Julien Dumoulin-Smith: Excellent. Thank you all very much.

Operator: Ashar Khan with Verition.

Ashar Khan: Can I just ask you, I don't know if you can respond to that. Has the board responded to the letter that was sent by the governor or not?

Kevin Marsh: Yes, we had a board meeting this week. And certainly the board is aware of the letter that came out from the governor. Those are issues that have previously been raised by the Office of Regulatory Staff in their filings or other filings before the commission. So it was not really a new issue. So it didn't surprise me that the governor sent the letter. Those are topics that have gotten a lot of attention from a variety of parties. It certainly doesn't have any weight in terms of authority from a law perspective. But we don't want to ignore his opinion. Those are facts that'll be evaluated in the hearings as we address the issues that have already been filed at the commission by the Office of Regulatory Staff.

Ashar Khan: Okay. And then I know we're just trying to get a little bit because we are in kind of no man's land. Kevin, from your perspective, when do you think, knowing what you know now, is that we get some kind of settlement or resolve of this case one way or the other as we look into the future? Could you kind of walk us through what this petition, the timing, and when does it get addressed in terms of some kind of a clarity to your shareholders? Could you just walk us through some timelines or something?

Kevin Marsh: Sure. And that's a fair question. There are a couple of things I believe could have an impact on that. We back up just a little bit and remind you when we filed our petition with the commission in early August for our abandonment decision or the treatment under the abandonment clause under the Base Load Review Act, that would have triggered a six-month period based on a normal hearing schedule at the commission.

When we were asked by the leaders of the House and the Senate to withdraw that to give them a chance to go through their review process, we did that, which I still believe was a good idea to give everybody a chance to understand all the facts and circumstances around the decision that we made. That kind of put that process on hold.

So once we re-file with the commission that would again start the six-month process. And we have told the House and the Senate and other leaders around the state that at some point we will need to go back and file with the commission because that is the avenue for a final decision. When we were in front of both of the House and the Senate committees giving explanations and details behind a decision to do the abandonment, we talked about our goal and desire to find the right parties to bring together that would include both of their representatives to try to find a comprehensive settlement that would be in everybody's best interest and mitigate cost to customers going forward.

And we envision that that would be done through a settlement process that typically took place as part of the regulatory process. This is a very different situation given the attention that's been given to it. So my belief at this point is we will find a settlement process outside of the commission filing, probably before we actually make the filing with the commission.

We have had some preliminary conceptual discussions with some of the parties. Out of respect for the process and the parties, I don't want to get into the details at this point because we don't have anything definitive. But we will certainly make a disclosure when there's something substantive to discuss.

All that being said, the House and the Senate, I believe are close to concluding their review process. Their goal is to, as they've indicated to us, is determine what changes, if any, they want to make to the regulatory structure or the Base Load Review Act on a go-forward basis, their desire to have that prepared to go when the session comes back in, in early January.

So it would be my hope, we've got a settlement position in place that hopefully we've all agreed to that we can file with the commission prior to the session coming back into play, in early January or shortly thereafter. But that's dependent, I think, upon the direction of the settlement discussions and different opportunities we might have as part of that process.

We would like to do that before the end of the year, but we want to be respectful to the process and give this settlement option an opportunity to work itself through, which I think will be helpful to the overall regulatory process when we do file.

So I know that's not a definitive answer, but we're not talking a year. I think we're talking within the next six months that we would file and hopefully get a decision from the commission within that six-month time frame.

Ashar Khan: Thank you so much. Really appreciate it.

Operator: David Frank with Corsair Capital Management.

David Frank: A question just assuming that you fail to reach a settlement, hypothetically here. If the legislature took action against South Carolina Gas and Electric to disallow recovery of some or all of its investment in VC Summer, would that same law also apply to the recovery for Santee Cooper? And if not, why?

Kevin Marsh: Now let me see if I can sort through the couple of questions you've got there.

David Frank: Yes.

Kevin Marsh: The work that's being done by the legislature is not part of the official regulatory process. Certainly their opinions would carry a lot of weight. But my understanding is they cannot reach a decision on their own as to make something happen. It would ultimately have to go back through the commission. So they may have recommendations for the commission. They may have recommendations relative to the Base Load Review Act itself. But they would not be the ones that would make the decision as part of the regulatory filing we would make at the commission for the abandonment treatment.

If there were a settlement, I think that settlement would go to the commission. If there were not a settlement and for some unfortunate reason we were not able to reach a settlement, then the company would have the ability to file as it did back in August and go through the traditional regulatory process of which I'm sure the legislative bodies would likely intervene and give their opinions as part of that process. But they can't make the decision on their own from a regulatory perspective without going through the commission under the current law.

Santee Cooper is not subject to regulation by the Public Service Commission. So their board is the authority now that makes decisions relative to their rates and what rates they would charge their customers to recover their bond financing cost.

David Frank: No, I understand that. But my point is that if the legislature tried to pass a new law which somehow undid the BLRA or part of it, I think this is what every investor's -- or one of the two main things investors are most afraid of is that the legislature comes in and tries to rewrite a law.

And I'm just wondering, would they shoot the state in the foot if they try to draft a law that targeted just South Carolina Gas and Electric? Would a law, in order to be fair, would it also have to apply to Santee Cooper's investment since they were a partner with you in the nuclear plant, from the perspective of they wouldn't want to cost themselves, the state, billions of dollars. If they tried to somehow undermine your recovery, there would have to be a level playing field that a law would also have to apply to your partner.

I realize they're not regulated by the commission.

Kevin Marsh: Yes. Well, Santee Cooper does not fall under the Base Load Review Act. So if they took an effort to retroactively change the law or cancel the law altogether, that would not have a direct impact on Santee Cooper.

I don't know that there's anything that precludes them from taking action directly against Santee Cooper since the governor does have control over the board and the members of the board and the decisions I guess they would ultimately make, that would be part of that legal legislative process.

But Santee Cooper does not fall under the Base Load Review Act. I don't think they could reach out and try to apply that to them since it was designed to apply to the regulated utilities at the commission.

David Frank: Okay. And just on the \$1.5 billion that you have yet to recover under the abandonment, if you don't reach a settlement, I assume you would look to file for recovery prior to the legislative session coming back in place. And my real question here is, by filing, does that somehow preserve any legal rights to recovery, give you a placeholder should there be some tampering or attempt to tamper with the law later, rather than wait until after they try to change the law and then file?

Kevin Marsh: Well, we are certainly evaluating all of those options. And I'm comfortable saying that we are going to do everything we can to reach a settlement, because I believe that's the best solution for all the parties involved. But absent a settlement, we do believe we would need to file to protect our customers and our investors. We would do what we thought was in the best interest of those parties.

David Frank: Okay. Thank you very much.

Operator: Travis Miller with Morningstar.

Travis Miller: A bit of an accounting question here. On AFUDC, I'm thinking about in terms of the guidance what that AFUDC was projected back when you set that guidance, what it's developed into as you've added the one or so billion of capital throughout the year, and then how that fits into the guidance range today and then kind of what happens, given you're not investing any capital in the third and fourth quarter on the nuclear project.

Just wonder if you could walk me through kind of how that AFUDC built on the equity and the net interest would work.

Jimmy Addison: Yes. Travis, this is Jimmy. So you're definitely right, we do expect it to be lower. I'm not going to get into individual projections of line items, other than say

we got that all in the comprehensive evaluation of our guidance affirmation that we made earlier.

But I will say that you're right, that certainly with lower spend there's less AFUDC to be computed. And frankly, the rate has been lower this year as well because the way it works. We've had a lot of short-term debt outstanding during the first nine months of the year. So that rate has been lower too. So it's been lower for both of those reasons.

And then third, once we elect to abandon, we've really converted -- you no longer can really compute AFUDC kind of proper on it. We've computed a carrying cost, if you will, and as a proxy just based on the weighted average cost of our debt.

So really those three factors that are impacting it, but we have considered all of that in our guidance update.

Travis Miller: Okay, great. And then with the impairment, how does that then affect AFUDC? If I understand correctly, because you'd been carrying some of that kind of one-ish billion throughout the year, is AFUDC included in the impairment that you've recorded so far in the first and second quarter? Does that make sense?

Jimmy Addison: Yes. The impairment is the \$210 million. Travis, if I understand your question, is there some AFUDC included in that \$210 million --

Travis Miller: Yes.

Jimmy Addison: -- I believe so, but, frankly, I'm not completely sure. But I believe there would be a proportional amount in there.

Travis Miller: Okay, great. Yes, that was my question. Thank you very much. Appreciate it.

Operator: Shar Pourreza with Guggenheim Partners.

Shar Pourreza: I guess you didn't want to talk about timing, and I guess you got pushed into talking about timing.

I just need to just confirm just some things. So you're shooting for, hopefully, to file something within six months, beginning of the year, and you're looking at a settlement with lawmakers by year-end. Is that about right?

Kevin Marsh: Well, that would certainly be our goal is to reach a settlement as soon as we could. And I think a logical progression, assuming we make that settlement, would be we would file that along with the petition as soon after that as practical.

Shar Pourreza: Okay. And then 2018 outlook likely will be pending until we get past those proceedings?

Kevin Marsh: Well, I think we need to understand what the settlement would be, and that'll put us in a position with the data we need to do the longer term projection, based on that settlement.

Shar Pourreza: Okay, got it. And just lastly, appreciate the sensitivity with the conversations with lawmakers. But is there any sort of any kind of visibility you can give us as far as what some of the pushes and takes are, or at least how the conversations are going and how they're progressing, at more of a top level?

Kevin Marsh: I really can't talk about the individual components of the conversation. There are a variety of issues on the table, certainly customers and legislators. And our team have different views on many issues regarding recovery. We're looking for the solution that we'll try to balance those as best possible and maintain the financial health of our company so that we can continue to serve the customers that depend on us every day.

We're at the very early stages. I just don't have anything definitive to report. I look at it as a positive that we're having discussions, and that process is, hopefully, going to continue to increase.

Shar Pourreza: Got it. And it's fair to say that the settlement discussions pretty much relate to abandoning the nuclear plant, right? There's no path to continue?

Kevin Marsh: Well, we believe abandonment is the right decision in the best interest of our customers. We don't have any other potential partners that have stepped up and been willing to join the discussion. We did the comprehensive evaluation that shows from a customer perspective, that while disappointing, abandonment is the best option. And once we chose that option, we look to determine how we could lower the impact on customers. And that's why with the money coming in from Toshiba settlement, the benefit of the tax deduction, we believe abandonment is in their best interest.

We don't know of anyone that's expressed an interest to complete those plants any time in the near future. I don't know what discussions the governor has had with the different people. But my understanding from my sources is that no one has expressed an interest in completing those plants today.

Shar Pourreza: Okay. No white knight, okay. I appreciate it. Thanks, guys. See you soon.

Operator: Chris Ellinghaus with Williams Capital.

Chris Ellinghaus: Couple of things about sort of the abandonment process itself. Have you made any sales or have any serious prospects for monetizing any equipment at this point?

Jimmy Addison: Yes, Chris, we are looking at that, of course, in concert with our partner in that. But I don't believe that, based upon what we know today, that any of that would be material in relation to the cost incurred.

Chris Ellinghaus: Okay. And are you spending any money today to sort of button up the site? Or do you have any expectations that there'll be future expenditures required to sort of mothball the site, sort of akin to the way Santee Cooper has spoken about it in hearings?

Kevin Marsh: Yes. We're going through an evaluation now to determine what's necessary. And we have been taking steps to put the site in a safe condition, removing all of the cranes and construction equipment that was onsite to facilitate the work that was being done. We have materials and parts that are stored in warehouses. We're certainly doing inventories of those and sharing the listing of those of people that might have an interest in possibly purchasing those down the road.

From a mothball perspective, under the abandonment provisions under the Internal Revenue Code, if we intend to mothball the plant to potentially start it back up at a future date, that could put our decision to take the abandonment deduction in jeopardy. So we're studying that very carefully now, knowing what you can preserve for potential future sale versus what you would truly abandon, so you would qualify for the tax deduction.

We don't have to make those decisions today, but we will need to make those by the end of the year. And we continue that evaluation with Santee Cooper to understand where that line would be drawn and what opportunities we would have. But our priority is to make sure we can preserve the ability to take the abandonment deduction because that's worth \$2 billion to our customers, which is three times the value of the Toshiba money that came in on after-tax basis.

So it is significant benefit for the customers, and we believe that's critical as part of our settlement discussions and try to minimize the impact to our customers over the long term.

Chris Ellinghaus: Okay, great. Can you talk about what you're spending today for legal and regulatory cost? Is it material?

Jimmy Addison: It's certainly ramped up compared to what we've normally incurred, that's for sure, Chris. But I would not say that it is material in relation to our financial statements in that context. It's a significant sum of money, that's for sure. But I would not say its material to our financials at this point.

Chris Ellinghaus: Okay. And one last question. Kevin, you were sort of talking about you've had some modest talks with the legislature so far about settlement. Can you tell us, are they thinking similarly to you? Or is your thought process about trying to have a

settlement by the end of the year sort of your hope? Or are they thinking along the same lines?

Kevin Marsh: Well, I believe what I said earlier is we were having some discussions with some of the parties that would be involved in the settlement. I don't believe I called out the legislature directly. There are people with different views on the timing and what their views would be on settlement.

What I meant to indicate was, based on what the House and the Senate committees have shared with us is they do plan to conclude their processes before the end of the year. And I'm hopeful that concluding their processes will give us an opportunity to conclude some successful settlement negotiations which will drive our filing with the commission. That's how I got to my year-end timeframe.

Chris Ellinghaus: Okay, great. Thanks for the clarity. Appreciate it, guys.

Operator: Dan Jenkins with the State of Wisconsin Investment Board.

Dan Jenkins: So first I had a couple questions. The Toshiba guaranty, you've already recovered it looks like \$1.1 billion. So I assume that's already on your balance sheet. Like how are you viewing that cash in terms of uses? Is that just going to sit there kind of as a rainy day fund until you get more clarity? Or I guess how should we think about that cash that you currently have?

Jimmy Addison: Yes. Dan, two different parts of that. So the cash in the short term, we have used to pay down the commercial paper that was incurred to support the construction payments over the last several months. So that's the cash side of it. So we have essentially paid down most of that commercial paper as it's matured over the last 30 days. And there'll be some residual there that will be in cash, a minority of the amount.

The separate track to that is how is that ultimately used for the benefit of our customers, which we said from day one it would be? So that will be wrapped up, we hope, in this comprehensive settlement that Kevin's talked about earlier. That would be the regulatory treatment of it.

Dan Jenkins: Okay. And similarly, you mentioned that the potential tax benefit from the abandonment is worth \$2 billion. Is there anything additionally you need to do to kind of solidify that deduction for the current year tax return or whenever that would become eligible as a tax write-off?

Jimmy Addison: Yes. Our current intention is to take that deduction this year, which has some benefits into reaching back a couple of years for taxes that were paid in earlier years. So we think that to get that cash as soon as we can for the benefit of customers is the most advantageous route.

So as Kevin elaborated earlier, we're doing everything we can understand to make sure that we qualify for that this year, because of the value of it. And so that's an ongoing process. Certainly a lot of things had to be done with the stoppage of the construction to make the site safe, to stabilize different equipment, let vendors remove equipment, et cetera, and secure the site. But our intention is to wrap that up before year end to solidify that deduction.

Dan Jenkins: So how should we think about just how that's going to flow through the cash flow statement in terms of, you know, how much of that \$2 billion would be seen in this current year? And then how much would be left over for future tax credits, so forth? How long would that probably extend? Do you have a feeling for that?

Jimmy Addison: Yes. So some of the \$2 billion, as you'll remember maybe from our application filing, about 25% of it, we had already claimed through the various R&E tax credits. The other 75%, or \$1.5 billion, is what we're talking about here. And there might be a couple hundred million dollars that we can -- \$200 million to \$250 million, that we can reach back into an earlier year if we claim the deduction this year. And then the balance of, let's say \$1.2 billion to \$1.3 billion, we would have to use prospectively over, we project it would take us probably four to five years to use that through NOL.

Dan Jenkins: And then I just want to make sure I'm understanding kind of the legal arguments being made. You know I'm not an attorney. I recognize you guys aren't either, but I imagine you've had quite a few meetings and conversations with attorneys.

So I just want to verify my understanding is correct. So the ORS, when they filed the petition to suspend the rate collections, that was primarily based on the AG opinion, right, that the Base Load Review Act law was potentially unconstitutional? Am I reading that correctly?

Kevin Marsh: Yes, part of the filing by the ORS did refer to the opinion that came from the Attorney General where he said that portions of the Base Load Review Act may be suspect as to their constitutionality. But that really doesn't have any weight in the law, because it's never gone through or contested by a court of the state. The opinion, while it is an opinion, has no weight at this point, in our opinion, which is why we challenged the filing with the Office of Regulatory Staff at the commission.

Dan Jenkins: Right. And, but that opinion, at least, and I looked it over somewhat, it sounds like the basis of that opinion primarily rests on kind of the concept of the plant's not used and useful. Is that your reading of that or what you've heard from your attorneys?

Kevin Marsh: You know, Dan, I can't make a legal judgment on the basis they determined their, their opinion. I just know we believe that the law that's on the books today is constitutional. We believe it's been in place for nine, ten years. It's been at the commission, been followed by the commission and it's been to the Supreme Court a couple of times and nobody has challenged the constitutionality of the law to this point.

And there's just a strong presumption that a law is constitutional when it's passed by the General Assembly. That's generally the case, and we would stand by that and intend to defend that, if necessary.

Dan Jenkins: Okay. And beyond just like there's been -- there's quite a bit of case law that has allowed recovery for like cost in plants that were abandoned because they become uneconomic and so forth, that would kind of go against the argument being made on the used and usefulness. Is that your understanding as well?

Kevin Marsh: Again, I just can't get into the legal opinions. We believe what we have done and invested under the law was appropriate. And under the law to the extent we reach a settlement or otherwise, would be recoverable under the terms and conditions of the law.

Dan Jenkins: Okay. And then speaking of the settlement that you're hopeful to reach, there's still probably a number of parties still that probably, it sounds like at least their current positions are something you wouldn't be able to agree to, particularly thinking of some of the environmental groups and so forth. So unless everybody agreed to the settlement, it's still likely to be or it's still potentially to be litigated through the courts. Is that your -- what we should expect? Or how should we think about that?

Kevin Marsh: Well, I can't speak for them. But I know we have had numerous settlements that have gone before the commission. To my knowledge, the environmental groups have not signed on to any of those. And I'm drawing on my memory, so I could be incorrect here. But some of those they have appealed and some of those they have not appealed when they've been approved by the commission. I don't believe it's gone all one way or the other.

Dan Jenkins: Okay. Thank you.

Operator: Michael Lapidés with Goldman Sachs.

Michael Lapidés: Simple question. How do reserve margins now look in South Carolina state as a whole and in your service territory over the next three to five years?

Jimmy Addison: Yes. Michael, I don't have anything on reserve margins at my fingertips now. But I go back to my comments earlier about capacity. We found a market where we could buy capacity when the plants were delayed and we're in that cycle now of where we purchase that capacity through the end of 2019.

So generally there's energy to be had in the southeast. So I just can't comment any more specifically about it right now in the near term.

Kevin Marsh: I can add a little bit to that, Michael. With the purchase we've got, we're within the guidelines that have been established by the commission. We typically follow with the commission for an adequate reserve margin. We've heard Lonnie Carter from

Santee Cooper, their former CEO, indicate they didn't need any generation for quite a few years. So I know they've got plenty capacity.

So our belief is there is available capacity in the marketplace for us to access, should the need be there for us to maintain our reserve margins.

Michael Lapidès: Got it. And where are you in terms of thinking about incremental renewable development in South Carolina?

Kevin Marsh: We have been doing renewable development for a number of years under Act 236. It was passed by the commission three, four years ago. We have guidelines set forth in that. We're well on our way to meeting those guidelines. There are certainly a lot of companies or investors that have looked to bring solar onto the system under the PURPA requirements. We have quite a few megawatts in the queue that we will continue to evaluate. We got about 50 megawatts on the system now. That could easily double here in the near future based on the interest we've seen.

And again, I remind everyone, we're not opposed to renewables. We think they have a good, solid place on the system. We just got to make sure we do it in a way that we can meet our peak needs when that energy is available. We're a winter peaking company and that typically happens in the early morning hours before the sun has risen to the point that all of those solar farms would generate what we need. So we've got to be cautious on how we do that.

But certainly we're ramping up our efforts to bring solar onto the system. We just finished a solar farm close to two megawatts right outside of our campus here in the last 30 days, and it'll be online soon.

Michael Lapidès: Got it. Thanks, guys. Much appreciated.

Operator: Steve Fleishman with Wolfe Research.

Steve Fleishman: Maybe if you read the papers and listen to the hearings, it doesn't sound like you have a lot of friends down there right now. So just curious in terms of any settlement talks you've had so far. Is the tone of those different than what we hear in the papers and listen to in the hearings at all so far?

Kevin Marsh: We have had very preliminary discussions. The tone has been open, looking for ideas. We're talking about conceptual ways we might be able to find a solution. We don't have anything definitive yet, but I'm optimistic to the fact that people are talking to us, that we'll have some legitimate effort to find a solution.

Steve Fleishman: Thank you.

Jimmy Addison: Steve, this is Jimmy. I'd just offer one word. I would just say that the characterization would be professional. They're very, very professional discussions.

Steve Fleishman: Okay. And is there a breadth of parties involved here in terms of just the people that you would normally have to have an agreement with?

Kevin Marsh: I don't want to get into the particular parties at this point. But I would also tell you, though, we typically have a wide variety to include the Office of Regulatory Staff. I think in this case, for us to be successful, we're going to have to have input from the legislature. And we also typically have input from our large industrial customers, the small business chamber of commerce, and other large customers that may have an interest in the settlement.

I don't see that any different. The real difference I see at this point would be having the legislature involved. The Electric Cooperatives of South Carolina, certainly, I think, have a vested interest over the long term. And I think we're likely to see them at the table as we go through these discussions.

So it'd be a little broader group than we typically have. But most of the players we know well, we have good relationships with them. And, as Jimmy said, we'll have a professional discussion.

Steve Fleishman: Okay. And then just one numbers question. What is your total collection so far under the BLRA, like a cumulative number?

Jimmy Addison: It's about \$1.7 billion.

Steve Fleishman: Okay. And then one other, just a quick one. When's your 10Q going to be filed?

Jimmy Addison: It's got to be filed, I believe the deadline is like November the 9th. And we'll file it inside of that deadline.

Steve Fleishman: Okay, great. Thank you.

Operator: Paul Fremont with Mizuho.

Paul Fremont: I guess Southern Company basically has indicated that they're going to recommend using the Toshiba proceeds to reduce the regulatory asset. And I guess their claim is that in the long run rate payers are going to be better off because ultimately if you just use the money to pay out the refunds on a near-term basis, customers are going to end up spending a lot more sort of over the duration. Any thoughts on that?

And also, from a shareholder perspective, would not using the Toshiba proceeds to reduce the regulatory asset, wouldn't that essentially de-risk some of the investment that you've made in the plant?

Jimmy Addison: Paul, this is Jimmy. I would just say that certainly the settlement funds there are central to these discussions that we're having. I'm not going to get into characterizing individual parts of the process and all that Kevin said initially. But it's an important part.

But I would re-emphasize something else, which is this tax deduction is three times the amount of this Toshiba settlement, and it's cash, just from a different source. So both of those are on the table and key to these discussions.

Paul Fremont: Okay. And then if I look at your Slide 3 and the schedule, if oral arguments are scheduled right now on December 12th, would it be fair to say that within two to three months after that would be sort of the expected timeline for a final order in that proceeding?

Jimmy Addison: No. So, Paul, this is just the schedule around ORS' motions and our motions around their filing to stop collecting the rates, et cetera.

What Kevin described earlier is if we get a settlement process working, we'll need to, in accordance with the statute here in South Carolina, we'll need to file the abandonment proceeding again that we withdrew mid-August. And that was --

Paul Fremont: Right. No, I'm just saying on this motion when would sort of the expected time frame be for a final order on their motion?

Jimmy Addison: Yes. I don't know that that's specifically outlined. So I think that's probably up to the commission's discretion. But I don't know the specific answer to that.

Paul Fremont: Okay. And you were talking just now about sort of a separate abandonment filing. So I would assume that if you were to reach a settlement, it would be in the context of that filing that hasn't even yet occurred, right? That would be the proceeding in which it would most likely be applicable?

Jimmy Addison: That would be correct. And we would file that settlement and the support of it in that proceeding.

Paul Fremont: And then if you're unable to reach a settlement, is there sort of an expected time frame by which you would likely file the abandonment case?

Kevin Marsh: This is Kevin. We haven't given a particular time frame. We want to make sure we've exhausted all opportunities for a settlement before we consider that track.

Paul Fremont: Okay. And then my last question is, I think the legislature or certain individuals in the legislature have asked to become interveners in some of the cases, I guess maybe the ORS motion to dismiss as well as your original abandonment case.

Is there a potential conflict in them acting as an intervener in the case, given the fact that they select the commissioners?

Kevin Marsh: I don't know the answer to that question. But I can confirm they have intervened. I don't know that that's a negative at this point, because that gives us an opportunity to negotiate with them as interveners in any potential hearing which is, to me, a plus for the opportunity for a settlement process to occur.

Paul Fremont: Terrific. I think that's it in terms of questions for me. Thanks.

Operator: Paul Patterson with Glenrock Associates.

Paul Patterson: Well, you'll be happy to know that most of my questions have been answered. But just sort of to follow up on the legislature and sort of the settlement process. It appears that the central issue of sort of abandonment and sort of the tax benefit, which is clearly a big mitigation element, is not fully understood by some of the commissioners and perhaps other party -- excuse me -- some of the legislators and perhaps some of the other parties. Insofar from what I've heard and in so far as if they don't want you to build it, they want you to mothball it, a number of them do. And even the ORS seems to be suggesting that that seems to be part of that.

I'm just wondering, I mean, in terms of your discussions with these guys, and I know I don't want to get too far ahead of yourselves on it. But just in general, how should we think about this, because it seems that there's a big disparity, one would think, in terms of how people are thinking about sort of this fundamental issue in terms of resolving and mitigating the issue for rate payers? Do you follow me?

Jimmy Addison: I do, Paul. And I understand where you're coming from that, especially if you're kind of watching from afar and seeing some of this.

I will say that some of the legislative committee members have understood this from day one, and I think it's becoming clear to most. And I think the local press here has even picked up on this issue today and have publicized it some more. So I think folks are starting to understand.

And the choice is really pretty simple. It's \$4.2 billion that we have to recover or get the tax deduction solidified, and its \$2.2 billion ultimately. So it's a huge difference, obviously almost 50%. And both of those are after the net, net of tax impact of the Toshiba settlement. So it is a huge issue. It's almost half of the difference. So I think everyone is catching onto this.

Paul Patterson: Okay. And then I have to think that this is somewhat of an expensive process, given all the sort of investigations and litigation and everything else. How should we think about, I mean, how material, if you can give us sort of a sense, just the cost of all this is and how that might, in fact, impact EPS and how we should think about that going forward?

Jimmy Addison: Yes. All I'll say about earnings is we have contemplated that in our updated guidance that we gave earlier this afternoon. So it's in that commitment to the \$4.15 to the \$4.35. Based upon what we know today, we've made an estimate of it and have it contemplated. But it is expensive, but it's not, I would say material to the financial statements. It's very expensive in time, too, and it is absorbing a lot of time of a lot of us. That's why it's important that we get to some conclusions on these settlements as well.

Paul Patterson: Okay. Well, that's it for me. Thanks a lot. Hang in there.

Kevin Marsh: Thank you, Paul.

Operator: Kamal Patel with Wells Fargo.

Kamal Patel: Have two questions. One regarding the impairment charge. So the \$1.22 billion is what was basically subject to review. Are you just making the assumption that that is no longer recoverable? And if so, given the past state court proceedings in support of the BLRA, why would you be inclined to make that decision?

Jimmy Addison: Yes, Kamal. It's Jimmy. So what we're doing there is, under the accounting principles, we've got to make our best estimate of what's probable and reasonably estimable. And that's what we've done under these accounting principles. And recording of the loss under the rules doesn't mean that we'll not seek full recovery of our prudently incurred costs. That's not what we're suggesting here at all. There's many possible outcomes to the proceeding and even to our settlement discussions to this point. We're just trying to, as best we can, apply these accounting rules to the situation at this point. So we're not giving up on asking for those costs at all.

Kamal Patel: So this in no way is a, I guess a view being taken on past legal decisions?

Jimmy Addison: No, it is not. It is simply an application of our application in a highly judgmental situation of the accounting rules. It's not a legal position at all.

Kamal Patel: Okay. And then just looking at capital structure, would this revision slow down, I guess your dividend growth, on one topic. And then, would there be explicit support given to ratings through equity infusion at the utility level or something like that, if needed?

Jimmy Addison: Let me make sure I understand your first question -- first part of this question. Was it tied back to this impairment?

Kamal Patel: Generally speaking, the slower earnings growth trajectory that you could realize from the project not being pursued any longer.

Jimmy Addison: Yes. Well, as we said earlier, I'm really not going to be able to answer that because we're not commenting on long-term guidance at this point. But we have not commented on anything on guidance. We've not said it will be slower. We've not said it will be the same. We've not said it will be faster.

So we've got to get through this process, get a new base, if you will, for what we're going to base that earnings growth off of, and then we'll comment on guidance- long term.

Kamal Patel: Okay. And then from a ratings perspective?

Jimmy Addison: Yes. Repeat your question there for me. I'm sorry.

Kamal Patel: From a ratings perspective, if there was additional equity needed by the utility, will there be an infusion of equity or would you let the ratings weaken?

Jimmy Addison: Well, I think the ratings today don't necessarily reflect the metrics because of all the uncertainty around the whole resolution to this matter. So I think we've got to get through the -- I know we have to get through the resolution of this matter so that the agencies can better project what the future's going to look like with some certainty, because the metrics we have today are different than the ratings because most of them have been adjusted here in the short term.

So I don't really want to get into the speculation of what we might do with different outcomes. But I think it's kind of the same answer as the other one. We've got to get to the resolution of this uncertainty, understand where we are, then we can update long-term guidance and look at the whole cap structure and see where we need to go.

Our desire would be, if we're in a fiscal position to do it after this legislative regulatory outcome, to have an investment-grade rated opco and holdco, assuming we've got the financial wherewithal to do that.

Kamal Patel: Okay. Sorry for throwing out unanswerable questions at this point, understanding --

Jimmy Addison: Had a few of those this year.

Kamal Patel: -- (inaudible). Thanks, and take care.

Jimmy Addison: Thank you.

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

Kevin Marsh: Thanks for taking time to join us today and certainly for asking your questions. I want to say our top priority remains finding this comprehensive settlement that will lead to a fair, regulatory decision on the abandonment of the new nuclear

project. However, as we work through that progress, we will continue to focus on operating our businesses in a safe and reliable manner. And again, I thank you for joining us today and for your continued interest in SCANA. Have a good evening.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.