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SCANA 4th Quarter and Full Year 2013 Earnings Conference Call/Webcast

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Jim Von Riesemann; CRT Capital Group
Andy Levi; Avon Capital
Julien Dumoulin-Smith; UBS
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Andrew Weisel; Macquarie Capital

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, February 20th, 2014. 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 fourth quarter and full year 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 again that we now post new nuclear project-related information directly to our website at scana.com.

On SCANA's homepage, there is a yellow box containing a link to the new nuclear section of the website that contains a link to project news and updates. It is possible that some of the information that we will be posting from time to time may be deemed material information that has not otherwise become public.

In connection with this process, we have discontinued our prior practice of furnishing on 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 for SCE&G's new nuclear project. Instead, the Company now posts copies of these 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 today on the call are considered forward-looking statements and are subject to a number of risk 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 Company's 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 fourth quarter of 2013 were $0.73 per share compared to $0.79 per share in the same quarter of 2012. Higher margins from base rate increases and customer growth were more than offset by expected increases in operation and maintenance expenses and CAPEX related items, including depreciation, property taxes, and share dilution.

You will also note in the footnote at the bottom of the slide that Other Income in Q4 of 2012 included the impact of some tower sales at our telecom subsidiary as we do in the normal course of business from time to time. There were no such sales in 2013.

Please turn to slide 4. Basic earnings per share for the full year of 2013 were $3.40 versus $3.20 in 2012. Increases in electric margin due primarily to base rate increases and customer growth, as well as higher gas margins, were partially offset by increases in O&M and higher expenses and dilution related to our capital program. Results in the upper half of our guidance are consistent with our message on the third quarter call in October.

For the year, our O&M increased approximately 2.5% over 2012, principally due to specific rate case-related expenses and the amortization of previously deferred items.

The additional O&M increases that we had projected at the beginning of the year were largely mitigated by cost-control efforts, such as lower labor cost due to attrition. These cost-control efforts, along with other items, such as lower incentive comp accruals, resulted in relatively flat O&M growth year over year except for the regulatory amortizations.

Now on slide 5, I'd like to briefly review results for our principal lines of business. South Carolina Electric & Gas Company's full-year 2013 earnings were up $0.13 compared to 2012, driven largely by higher margins from an electric base rate increase, as well as increases under the Base Load Review Act and the Gas Rate Stabilization Act, along with customer growth. These increases were partially offset by increases in operation and maintenance expenses, property taxes, interest, and depreciation expenses, and share dilution. For the fourth quarter, SCE&G's earnings were $0.03 lower than the same period last year, due mainly to dilution.

PSNC Energy's earnings for 2013 were $0.37 per share compared to $0.38 per share in 2012. Increased margins from customer growth were offset by higher operations and maintenance expenses, depreciation, and dilution. Similar to the full year, the fourth quarter was down $0.01.

The earnings for SCANA Energy, our retail natural gas marketing business in Georgia, in green, showed an increase of $0.09 over last year, primarily due to a return to normal weather during the first quarter of 2013. For the quarter, SCANA Energy's earnings were $0.06, equal to the same period of last year.

SCANA's Corporate and Other Businesses reported flat earnings in the fourth quarter compared to a gain of $0.02 in 2012 related to the 2012 tower sales noted earlier. For the full year, these businesses reported basic earnings per share of $0.04 in 2013 compared to $0.05 in 2012.

I would like to touch on economic trends in our service territory on slide 6. We continue to see new business growth and expansion of existing businesses. During 2013, companies announced plans to invest approximately $2.5 billion with expectations of creating approximately 10,000 jobs in our Carolinas' territories. We're excited about the continued economic development in our region.

At the bottom of the slide, you can see that -- the national unemployment rate, along with the three states where SCANA has a presence and the SCE&G electric territory. While all these states continue to show marked improvement, the Carolinas are benefiting greatly from the industrial expansion. Specifically, South Carolina's jobless rate dropped below the national average for the first time since 2001. South Carolina's unemployment rate is now 6.6%, and the rate in SCE&G's electric territory is estimated at 5.4%.

Another positive data point on the economy is the recent United Van Lines' Annual Migration Study. South Carolina and North Carolina ranked second and third, respectively, in terms of domestic migration destinations, corroborating our realized customer growth. These are all very positive signs for our territories.

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 to see strong customer growth in our businesses and in the region.

SCE&G's electric and gas growth rates for the year are 1.2% and 2.1%, respectively. Our regulated gas businesses in North Carolina added customers at a 2.3% rate.

The bottom table outlines our weather-normalized kilowatt hour sales for the quarter and the full year. Overall, weather-normalized total retail sales were up 1.9% for the fourth quarter and down 0.5% on a 12-month-ended basis.

We are particularly encouraged by the industrial expansion, which has been mitigated by the efficiency and conservation into residential and commercial markets.

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. As 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 2013 earned return in the electric business is approximately 9.5%, well within our stated goal of earning a return of 9% or higher 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. We're very pleased with the execution of our strategy.

Continuing down the page, on our new nuclear business, we are allowed an 11% return on equity. The South Carolina PSC approved our Request for Revised Rates under the BLRA, which added incremental CWIP of approximately $570 million to our rate base and increased rates just under 2.9% in November.

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 operate these businesses close to those returns.

Along the bottom of the page is our regulatory schedule exclusive of BLRA filings. These items are fairly routine annual filings.

Slide 9 presents our updated CAPEX forecast. The CAPEX at new nuclear reflects Westinghouse and CBNI's projected cash flow estimates supporting the current in-service ranges for Units 2 and 3. The projected cash flow reflects changes made by the consortium and the timing of certain payments. These projected cash flow estimates do not include the estimated $200 million in service delay cost. The previous cash flow estimates were SCANA's internal estimates, with input from Westinghouse and CBNI.

Forecasted CAPEX in SCE&G outside of the new nuclear deployment increased slightly due to increased projected capital expenditures in our Generation, Transmission, and Distribution categories. Capital expenditures at the remaining subsidiaries remained largely consistent.

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.

Now, please turn to slide 10 to review our estimated financing plan through 2018. This slide is consistent with the forecast from our last call other than the addition of 2018. To summarize our financing for 2013, we successfully settled our equity forward, resulting in the issuance of 6.6 million shares in early March and executed on planned equity financing through our 401K and reinvestment plans.
SCE&G also issued $400 million in first mortgage bonds in June.

The financing plan, CAPEX plan, and in-service dates for Unit 2 and 3 reflect the current assessment of our new nuclear construction project, as well as other projects. Of course, the amounts and timing could change due to inflation, the construction schedule, or other factors.

I would now like to discuss our 2014 weather-normalized earnings guidance and related assumptions, as shown on slide 11. Our 2014 guidance is $3.45 to $3.65 per share, and our internal target is $3.55 per share. Due to the cyclical nature of our business, we expect to earn approximately 30% of this amount in each of the first and third quarters, approximately 25% in the fourth quarter, and the remainder in the second quarter.

Additionally, we are resetting our base year to 2013 based on 2013 GAAP basic EPS of $3.40 per share.

In computing this guidance range, we have included the impact of base rate increases from our new nuclear filings under the BLRA. This guidance also incorporates the CAPEX and financing plans we presented earlier.

Additionally, while we anticipate the number of customers will continue to increase, our assumption of customer average use of electricity is slightly lower next year to reflect current energy efficiency trends.

We anticipate overall retail sales growth for 2014 to decline by approximately 0.2%.

We forecast customer growth to be similar to 2013.

We expect operating and maintenance expenses to be approximately 3% higher in 2014 compared to 2013 actuals.

We also expect continued growth in the CAPEX-related cost of property taxes, depreciation, and interest.

Our effective tax rate for 2013 was approximately 32%, and we estimate the rate for 2014 will be similar.

Keeping in mind our internal target of $3.55, let's discuss potential up-side and down-side variables to our 2014 earnings range. There are several factors that could cause us to trend towards the lower end of our guidance. We continue to see fluctuations in average use. There continues to be industry uncertainty around electricity consumption, and as a result, we have forecasted average use to be slightly lower. Average use could come in lower than forecast due to higher efficiency adoption rates or simply conservation.

Customer growth continues to be a bright spot in our service territory. We are currently forecasting an increase for 2014. However, if customer growth comes in lower than expected, this could negatively impact earnings.
Additionally, if nuclear spending were to shift to later years, it would impact our earnings.

In contrast, there are several factors that could push us towards the upper end of our guidance. If average use were to increase or come in better than 2013, or if customer growth accelerates beyond 2013 levels, we could have potential up-side.

Finally, as we reported last year, the pilot Weather Normalization Program in the electric sector ended as of December 2013, and we will see the impact of weather in our financials prospectively.

Hopefully, this should provide you with a line of sight into our view of 2014 as you update your models.

I also wanted to mention that earlier today we announced an increase to our annual dividend rate for 2014 to $2.10 per share, a 3.5% increase. The results of 2013 and confidence in the long-term strategy were key considerations. We are now back within our stated payout policy of 55% to 60% and expect to grow dividends fairly consistent with earnings prospectively.

Please turn to slide 12. On January 27th, we announced plans to increase our ownership in the VC Summer new nuclear units by 5% in the future. I will comment on a few financial matters related to this transaction, and Steve will comment later on the incremental capacity.

As noted on the table, each increment and ownership interest will be funded with internal cash flow, driven largely by depreciation associated with the two new units. As a result, we do not expect to access the capital markets to fund this increase. This transaction will not occur until Unit 2 is complete, and therefore, no change in the base load review formulaic increases will occur.

Additionally, the estimated $500 million purchase will add to SCE&G's rate base incrementally with each annual purchase, and we will work to develop a plan to mitigate and possibly eliminate any upward pressure on customers' rates due to this purchase in the future.

In summary, we're very pleased with this transaction as it will add to base load generation for the long-term benefit of South Carolinians. We plan to file a petition with the Public Service Commission of South Carolina for approval of the transaction later this year.

I'll now turn the call over to Steve to further describe the impact of the transaction on our reserve margin and operations, as well as an update on our nuclear project.

Steve Byrne: Thanks, Jimmy.

I'd like to continue the discussion on the agreement with Santee Cooper. In looking at our future generation needs in the Integrated Resource Plan, the Company decided that purchasing additional nuclear power was a great fit to help us replace a portion of the older coal-fired plants we expect to retire over the next few years and delay our need to build new gas-fired capacity after the year 2020. The structure of the 5% acquisition will happen in three stages.

The first stage is triggered by the commercial operation date of the first new nuclear unit, which is currently anticipated to be late 2017 or the first quarter of 2018.

At the time of commercial operation of the first new nuclear unit, we will acquire 1%, or approximately 22 megawatts, with an additional 2%, or 44 megawatts, to be acquired no later than the first anniversary of the commercial operation date, and the final 2%, or 44 megawatts, being acquired no later than the second anniversary of the commercial operation date. This approach keeps our reserve margins within our committed targets of 14% to 20%.

Now, I'd like to outline the impact of the additional 110 megawatts on our generation mix as we dispatch our plants. On slide 13, you can see our generation mix by dispatch and capacity. This has been updated to reflect the effects of the additional 5% share of the new nuclear generation through 2020. This additional phased increment still maintains our balanced approach to capacity, keeping nuclear, coal, and gas at roughly a third each, with the remainder of our generation in hydro, biomass, and solar.

From an operational perspective, this non-emitting base load generation will fit nicely into our system and allow us to forestall the addition of peaking generators while satisfying Santee Cooper's needs to divest of some of their share.

I'll now provide an update on our new nuclear construction project. Please turn to slide

14. The Company is reaffirming that we expect Unit 2's in-service date to be between the fourth quarter of 2017 and the first quarter of 2018. This date 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 for roughly 12 months after Unit 2.

The Company is also reaffirming the previously reported estimate of approximately $200 million of additional costs associated with this schedule change.

While we continue our discussions with the consortium, 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.

I'll now provide a brief update to the on hook dates for some of our structural modules. As I previously mentioned, the on hook date is when fabrication of an assembled module at our VC Summer site will allow it to be placed on the hook of the heavy-lift derrick.

Module CA-20, seen on slide 15, is an auxiliary building module that would be located outside and adjacent to the containment vessel. All CA-20 structural sub-modules have been received on site, and two of the four major sub-assemblies up-righted and set into place on the assembly platen in the module assembly building, as well as parts of the third and the fourth sub-assembly. The remaining few components of the sub-assemblies are being inspected, repaired on site, and are being prepared for installation on the platen. This module is schedule for an on hook date of the first quarter of 2014.

Module CA-01, on slide 16, is the steam generator and refueling canal module that will be located inside the containment vessel. Here, you can see a photo provided by Westinghouse of CA-01 at one of the China sites. On-site fabrication of this module should begin soon. This module has an on hook date of the third quarter of 2014.

Module CA-03, on slide 17, it's the southwest wall of the in-reactor water storage tank located inside the containment vessel. Fabrication of module CA-03 is progressing at Pegasus Steel's fab facilities in North Charleston, South Carolina. 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 the fourth quarter of 2014.

The Unit 2 Contained Vessel Ring 2, shown on slide 18, is the second ring of the containment vessel. This structure has an on hook date of the fourth quarter of 2014. The first ring of the Unit 2 containment vessel, which I'll show you in a picture shortly, is scheduled to be placed during the second quarter of 2014.

On slide 19, you can see a summary that outlines the on hook dates for these four module structures.

I would now like to discuss some recent activities at the site. Slide 20 presents an aerial view of the new nuclear site. In the center of the picture is the MAB, or module assembly building. To the right of the MAB, you can see Unit 2, and to the left is Unit 3. We are also making progress on the low-profile cooling towers, along the bottom of the picture. I'll discuss this slide in more detail shortly, but here you can get a feel for the layout of the site, and you can see that things are really starting to take form.

On slide 21, you can see the picture of Unit 2 Nuclear Island. As previously mentioned, during 2013, we completed the over-50-hour continuous pour of the nuclear island base mat, also referred to as "First Nuclear Concrete." Then, using the heavy-lift derrick, we set the 500-ton CR-10 module on the base mat, as well as the containment vessel bottom head on the CR-10 module. The containment vessel will house numerous reactive system components, such as reactor vessel piping, steam generators, and the pressurizer. As you can see on the bottom right of the slide, work continues to form the concrete walls and other structures that comprise the Unit 2 Nuclear Island.

On Slide 22 you can see a picture across the top of the slide showing the successful pouring of the Nuclear Island basemat for Unit 3, which took place in November. Again, this basemat provides a foundation for the containment vessel, [shield] building, and auxiliary building that make up our Nuclear Island for Unit 3.

On the bottom left side of the slide, you can see the finished product of that pour. Currently, construction of the CR-10 module is taking place on the Unit 3 Nuclear Island basemat, as you can see on the bottom right of the slide.

On the top left of Slide 23, you can see a picture of the Unit 3 Containment Vessel Bottom Head. Similar to Unit 2, this Bottom Head will be placed on the Nuclear Island on top of the CR-10 module for Unit 3.

On the top right of the same slide, you'll see the first Containment Vessel Ring for Unit 2. As I mentioned earlier, this ring should be placed on top of the Unit 2 Containment Vessel Bottom Head during the second quarter of this year.

The two pictures along the bottom of the slide show Cooling Towers 2 Alpha and 3 Alpha. Both of these cooling towers are now structurally complete. All four of the low profile, forced draft cooling towers continue to progress as anticipated.

On Slide 24 you can see a schematic of the Turbine Building that illustrates how the various Turbine Building modules will look when complete. The modules that are highlighted in green have been placed in their final locations, with work continuing to progress for Modules CH-81Charlie and CH-82.

On Slide 25 you can see a picture of the Unit 2 Turbine Building. Comparing the schematics from the previous slide, you can see all of the previously mentioned modules in place on the Turbine Building basemat.

On Slide 26 you will see a few of the components that have arrived on site. On the top left you'll see a picture of the Unit 2 Reactor Vessel. This vessel is thick metal clad with stainless steel and houses fuel assemblies. On the top right you'll see Units 2 and 3 Accumulator Tanks on site. These Accumulator Tanks are safety-rated tanks that hold water and would be used to inject that water into the Reactor Vessel if there happened to be a loss-of-pressure event.

On the bottom left, you're seeing one of two Moisture Separator Reheaters being lifted with the heavy-lift derrick. The Moisture Separator Reheaters take steam coming out of the high-pressure turbine and super-heat that steam before it enters the low-pressure turbines, to ensure that it's all steam and no water.

And at the bottom right, you'll see the Unit 2 and Unit 3 Core Makeup Tanks. Core Makeup Tanks contain (inaudible) water and are a component of the passive core cooling system that assists in safely shutting down the plant.

On Slide 27 you will see the New Nuclear CAPEX over the life of the construction. This chart shows the CWIP during the years 2008 to 2018 and has been updated using the fourth-quarter 2013 BLRA quarterly report, which we filed on February 11th of this month.

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. As Jimmy stated earlier, the 5% future acquisition will not affect these projected BLRA increases.

Please now turn to Slide 28. As we mentioned on our third-quarter call 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 and after October 30th.

Our BLRA filings for 2014 are shown at the bottom of the slide.

On Slide 29 you'll see a breakout of total New Nuclear project costs. On the far right you can see our current projected costs as filed in the fourth quarter 2013 BLRA quarterly report. Project costs are down approximately $633 million from the original approval received from the Public Service Commission of South Carolina. As you can see, this change is largely attributable to lower escalation.

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

Questions and Answers

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Travis Miller; Morningstar.

Travis Miller: Wondering at SCE&G -- let's talk about the non-nuclear. What's the primary thing that's holding back that earned return from the allowed return, that 100 basis points or so?

Jimmy Addison: Well, Travis, it is the kind of headwind of just general consumption, non-weather-related consumption of, really, what's going on across the industry, accordingly with us too, with more efficient light bulbs, more efficient HVAC, et cetera. So that's kind of the large headwind that we're working against and offsetting it with cost control.

Travis Miller: Okay. Is there any point -- you've talked about customer growth, obviously the demand growth slowing. Is there a point at which you see that demand growth stop slowing and perhaps start picking up again? Is there a trough point that you see that reaching?

Jimmy Addison: Well, it certainly does in the midterm. I don't have a calendar point to put on that now. But to draw you two points in time, in the short term here we're expecting it about flat, slightly less in 2014, 0.2% down, whereas in our longer-term IRP that's out there now, we're expecting something over a 1% growth over a 15-year period. So I can't tell you exactly at what point that turns and in what year, but we do see it turning in the long run.

Travis Miller: Okay, great. Thanks a lot.

Operator: Jim Von Riesemann; CRT Capital.

Jim Von Riesemann: Before we get run over on all the nuclear questions, couple questions on my end. Jimmy, would you mind explaining this interest rate derivative, the uncollected fuel issue, in a little bit more detail and kind of walk us through the geography on the income statement in the fourth quarter of 2013 so we could think about our models in the future a little bit more clearly?

Jimmy Addison: Yes, be glad to. So what happens there, if you want to kind of gross the income statement back up absent this accounting, you basically need to add $50 million back to margins and remove $50 million from other income. So we took these interest rate hedges that were substantially in the money and went to the regulator and said -- core to our strategy over these next three nuclear peak construction years is not having any other increases to bear on customers' rates, like fuel.

And we were substantially in the money on these hedges because interest rates have risen and, instead of the customer getting the benefit over the next 30 years and lower interest rates related to the bonds when we had amortized the hedges, we'll cash them in and take all of the benefit back to the customer now, by offsetting under-collected fuel costs, avoiding a potential fuel increase.

So the regulator agreed to that and there's a net $50 million of that that netted down margins and increased other income.

Jim Von Riesemann: Okay. Super. On the Georgia retail, I know you guys have had some significant cold weather down there. Can you talk about what you've been experiencing in the first quarter thus far, and how your contracts work down there? Are you guys variable or fixed?

Jimmy Addison: So our customers' contracts with us are both. And I would say a slight majority of them now are in the fixed area compared to variable, which is consistent with the entire market, based upon our understanding of it. So more customers are in fixed contracts with marketers than are in variable contracts.

And if they're in a fixed contract we have a financial hedge in place based on any contracts entered into in any one month that aggregates all those contracts and plans for normal weather. So when there's abnormal weather, abnormally cold, of course we've got some financial risk associated with that. But we're very comfortable -- I'm not going to get into forecasting January's earnings, but we're very comfortable that January will be a good financial month for the Georgia business.

Jim Von Riesemann: Okay. And then, let me kick off the nuclear stuff. Your friends a few miles to the south of you are thinking about doing a nuclear loan, or get loan guaranty, or at least that's what every press report is telling us. How are you guys thinking about nuclear loan guarantees from the government?

Jimmy Addison: Yes, nothing's changed on our side. We continue to provide our information to the DOE on a periodic basis, to keep them updated on our information since we initiated the application several years ago. And if ultimately we believe there's some benefit for the customer in that arrangement, we would examine possibly doing it. But at this point we've not seen the benefit.

Jim Von Riesemann: Okay. Thanks.

Operator: Andy Levi; Avon Capital.

Andy Levi: Your guidance for this year, the $3.45 to $3.65, that's, I guess, based on kind of year end. Does it incorporate any weather in that, pro or con?

Jimmy Addison: That's correct.

Andy Levi: Right, whether it's upside or storms or anything like that.

Jimmy Addison: Right. The only thing I would say is that in our operating forecast on the electric business we do have in our operating costs $2.5 million of potential cost that is basically a deductible, if you will, before we can use our storm damage reserve. And based upon our experience to date, I can assure you we've exceeded that amount. So I'm glad we had that in our forecast.

Andy Levi: Okay. So just explain that, I guess, real quick. So you have this $2.5 million deductible, which is in your forecast. But any incremental storm costs in South Carolina is covered through a clause or through insurance? What --

Jimmy Addison: Yes. So we have a storm damage reserve that we ceased adding to effective with the new base rates in the beginning of 2013. But it has about $25 million in it at this point. So anything related to storms above the $2.5 million annually would go against that reserve. If we were to exceed the amount in the fund at this point then we would simply defer that and go back to the regulator. Our agreement is through the last settlement we would go back for some type of mechanism to get that recovered.

Andy Levi: Okay. And then clearly there's upside from the weather as far as temperatures and things like that, but then also I guess you had some outages as well. But net/net would you think you're on the plus side there weather-wise?

Jimmy Addison: Yes. We did have outages. We had at the peak probably 140,000 customers out. That did not last very long, probably less than one day. We had them all back on within about five days or so. But we made a rough estimate of the actual revenue loss and that's less than $1 million.

Andy Levi: Okay. So, net/net weather should be a positive and that's not incorporated in your guidance for 2014.

Jimmy Addison: Financially it's a positive. It's a heck of a way to get there, with all that the State's been through in the last week, though.

Andy Levi: Oh, no, no. I get that. It's not good for the customers at all. And then, just on the Georgia side, how should we kind of think about that just at a very high level? I just remember when we had the warm winter there was a financial hit. Now we've had a really cold winter. So how should we kind of think about that business relative to what's the norm? Because your earnings are fairly consistent there.

Jimmy Addison: Well, what I would say is January's one of about five important months for the Georgia business. We're in the middle of February now. It's 82 degrees today. So we're not selling a lot of gas in Atlanta and the surrounding area. So I think we'll have a very good month in January. My gut feel, February, with part of it cold in the early part of the month and now it's in the 80s, we'll have to wait and see what the rest of the month brings. But there are really five -- January, February, March, November and December all are key to that business. So we're only 20% of the way through the real earnings season for 2014 for Georgia.

Andy Levi: Okay. And I wish it was 80 degrees here. But we're getting there. I guess it's coming our way, so.

Jimmy Addison: Well, I see 50s again in the forecast a week out, so that's back to more normal.

Andy Levi: Yes, well, I've got about two and a half feet of snow that needs to melt on my property, so.

Jimmy Addison: I get it.

Andy Levi: I think we'll take a couple weeks for that, but nothing you can do. Okay. Thank you very much.

Operator: Mike Weinstein; UBS.

Julien Dumoulin-Smith: Hey, it's Julien here, actually. Could you elaborate a little bit on the service delay costs, what the latest is there? And perhaps to the extent to which timing -- do you have any sense as to when this all might come to a head, if you will?

Jimmy Addison: You're talking about New Nuclear?

Julien Dumoulin-Smith: Yes, on the New Nuclear, the $200 million.

Steve Byrne: Oh, the $200 million? I think what you heard us say today was that we're reaffirming that we still think that value is good and that that's still our number, not a consortium number. But we are anticipating that the consortium is going to go through another estimate at completion through this spring and summer. And sometime perhaps third quarter, fourth quarter-ish of this year I would anticipate that they will give us an estimate that will include anything that they see from that delay from receiving the modules. And that will start our negotiations at that point.

Julien Dumoulin-Smith: Great. And how long would that take, just if you could kind of continue running out the --

Steve Byrne: Yes, I'm loathe to give you a time estimate. Our experience with negotiating with the consortium is that things take a long time, but it's worthwhile in the end. And then we've got an almost completely new management team at CB&I and a lot of new folks at Westinghouse since the last time we went through one of these kind of negotiations, which would have been the predecessor, Shaw. So it'll take a while. Now, whether that's a quarter, two quarters, three quarters, I don't know that I could tell you that.

Julien Dumoulin-Smith: Got you. And could you just elaborate a little bit more on the shift? It looked like some of the CAPEX that you were intending to spend in 2013 moved out 2014 and 2015. Could you just talk a little bit more about that?

Steve Byrne: Yes. I think what we're looking at now is that at our last quarterly call we were estimating spending about $897 million in 2014. We're now looking at some of the money from 2013 moving into 2014, so that's now increased by about $53 million in 2014. Now, that's largely a compression of the schedule. So when the end date stays the same and they don't spend as much in 2013, it's going to push into 2014 and 2015. So the 2014 number looks like about an additional $53 million.

So when the consortium doesn't hit milestones, and they get paid based on milestones, we withhold payment.

Julien Dumoulin-Smith: Got you. Excellent. And then lastly, could you just comment quickly -- you commented briefly in your remarks about the additional 100-some megawatts. Is that is for the time being in terms of ultimate ownership? If you could talk maybe about long term? Is there a desire for more, or how this negotiation ultimately happened in your mind in terms of the desire to take down more of the plant?

Steve Byrne: Our desire, really, was based on the desire of our partner, Santee Cooper, to divest of some of their ownership percentage. I think their appetite to sell off some of their piece has diminished over the last couple of years. At one point in time I think they were talking about a much higher percentage. And it looks like the 5% that we're going to take is satisfying their desire to divest of some of their ownership percentage.

So I don't foresee that changing. I think that the 5% that we've agreed to purchase pending the regulatory approvals, at least at this point in time, is it.

Julien Dumoulin-Smith: Great. And then, from a procedural perspective, the approvals, how long is that going to take here? I mean, how does that mesh into everything, if you will? Is there any kind of key date we should be bearing in mind there?

Jimmy Addison: No, nothing key. Really, the ball is in the court of us to pull that together and go to the ORS and ultimately to the Commission. And we would expect to do that sometime later this year. But there's no key requirement or timeframe around it.

Julien Dumoulin-Smith: Great. Thank you very much.

Operator: Michael Lapides; Goldman Sachs.

Michael Lapides: A couple of just nuts and bolts items and then one for Steve on the nuclear project. Jimmy, just real quick, on the gas RSA, what are you kind of expecting for that in terms of potential rate revenue changes at the back end of the year?

Jimmy Addison: Well, as we had on one of our slides there, the business has earned -- at this point we're earning up into 10.6%, 10.7% range, something like that. So that's in the upper end of the 50 basis point band. And the real contributor to that is the cost control efforts we've had across the enterprise, as well as really good growth on the gas system. So those new customers using more gas with the growth has really helped to keep that return up.

To me it's really kind of a high-class problem to have. We're likely in a situation where we'll not have an RSA increase this fall. But that's because we're earning the returns and we're controlling cost increases. And therefore we're running the business at the allowed return. So I really don't see a lot changing in that RSA.

Michael Lapides: And so, you're basically -- you don't assume there's a gas rate increase at SCE&G. And it doesn't strike me there's a general rate case process or much happening on the PSC NC side. Am I thinking about both of the gas businesses kind of correctly there from a revenue requirement change?

Jimmy Addison: Yes, I would certainly say that's the case for the next 12 months.

Michael Lapides: Okay. And then, O&M, I want to make sure I understood. You made a comment about expect O&M roughly up 3% year over year. Just curious, what's driving that? You all have a pretty good history of, I don't want to say -- giving an initial O&M level and then coming in and beating it. Give credit to you guys for doing that. But just curious what's driving -- given that we're in a low inflationary environment right now, what's driving that change in year-over-year O&M?

Jimmy Addison: I think it's -- if you look at our actual results, they've been basically flat the last couple years. Now, realizing on the face of the financials that 2013's actuals are up about 2.5%, but as I said in the earlier comments, all of that was really driven off rate case amortization. So despite wage increases, increases from contractors, et cetera, we were able to hold our real costs flat, other than those amortizations that flow through.

You can only do that so long. If you look across all of our customer base over the last couple of years we've added about 30,000 customers in all three states combined. And we're serving them with 200 fewer employees today outside of the folks that Steve's hiring in New Nuclear. And we've done a really good job of holding that back for a while. We've got to make sure in the longer run that we balance that against and don't cause damage to customer service, reliability, or safety. And we're just looking at balancing that.

Michael Lapides: Got it. And now that you don't have weather normalization now at SCE&G on the electric side, do you still have it on the gas side? And is it on the gas side for both businesses or just the SCE&G side?

Jimmy Addison: Yes, it's on both gas LDCs.

Michael Lapides: Got it. And then, Steve, in the BLRA filing there was a little of discussion about issues or concerns -- really more issues with the reactor coolant pump and piping. Can you just kind of rehash for us what actually is reactor coolant pump and the piping that goes in it and what are some of the issues or concerns that you touched on in the BLRA?

Steve Byrne: Sure. The way the reactor coolant system works is that the fuel rods are there really to make heat and then the reactor coolant system water will remove that heat and it carries it to a steam generator where we make steam with secondary source of water. So that water never boils. It stays liquid. And we then pump it right back from the steam generator to the reactor vessel. So it just makes a big loop.

And on the bottom of the steam generators, in order to pump it back to the reactor vessel, we have two reactor coolant pumps. And these are new to the commercial nuclear industry type pump. So they've been used for decades in the military applications like the Navy.

So these are big canned rotor pumps, and then when they get the bugs worked out of them I think they're going to be much, much better than the previous version of reactor coolant pumps. But they are working through some of those bugs. So there's a lot of testing that's going on, particularly for the projects in China. And as they're going through those China check-outs and tests, they're finding some issues.

Michael Lapides: And what kind -- when you say issues, are we talking operational issues or are we talking kind of the stuff of like getting the materials delivered to your site on time and on schedule?

Steve Byrne: No, no. We're talking about operational issues found during the tests. We don't have any issues that we're aware of with supply chain or getting them delivered to the site. But they've had some issues with some bearings that have been overheating that's going to entail bearing redesigns and those kind of things. I'm not overly concerned about those.

They do have one issue with some parts of the [empower,] which is the motor force on this pump that drives the water. Some repairs were made to some of those for the China projects that created loose parts. And we discovered that we did not go through the same process, so we shouldn't expect the same kinds of loose parts.

So there's kind of check-out issues on the reactor coolant pumps. And I believe that the pressure being exerted on the supplier by the Chinese will solve the problems for us.

Michael Lapides: Got it. Okay. Thank you, Steve. And thank you, Jimmy. Much appreciated, guys.

Operator: (Operator Instructions) Andrew Weisel; Macquarie Capital.

Andrew Weisel: I was hoping you could elaborate a little bit on Julien's question about the timing of the nuclear CAPEX. I understand that some of the dollars that you expected to pay in 2013 spilled into 2014, but if I look at the BLRA from last week it looks like there was also a pretty big pickup in 2015 as well as 2016, and then reductions in the outer years. So am I right in reading that, that the spending almost got compressed even further into the peak years?

Jimmy Addison: Here's the situation. Let's look at it on the midyear basis, since that's the way the BLRA filings happen based on the CWIP that's expended through midyear. So what we forecast is that through midyear 2014 we'll be down $164 million compared to what we had earlier projected. And we will pick that up in 2015, 2016, and 2017. So it's just kind of a skewing to the right of the same dollars. There's no real change in the dollars overall related to this. But $164 million lower in 2014; add $96 million in 2015; $43 million in 2016; $45 million in 2017; and about $18 million less in 2018. So it's just a change of the distribution.

Andrew Weisel: Okay. Great. And then, one other question. This is just sort of -- maybe I'm misreading something in the press releases, but when I -- every quarter you detail how many customers you have for the electric and gas utilities. And the numbers I'm calculating are very different from what you're reporting. So when I compare this press release versus the one a year ago, I'm showing about two-thirds of a percent increase in the customer account versus you're reporting a number significantly higher. You're basically showing almost 2% on an average basis. Is there anything that would cause the year-ago numbers to somehow be restated? Was there any reclassification?

Jimmy Addison: No, there's no reclassification. There's no restatement or anything of that nature. So should be period-end date compared to period-end a year ago. So we've got -- I'm looking at them here now -- 675,000 electric, 325,000 gas in South Carolina and just over 500,000 gas in North Carolina. And that yields 1.2%, 2.1% and 2.3%, respectively.

Andrew Weisel: Okay. Maybe I'll follow up offline, but I just wanted to clarify that when you talk about similar growth in 2014 that you saw in 2013 on the customer counts, you are talking about those numbers that you just described. Right?

Jimmy Addison: Yes.

Andrew Weisel: Like the almost 2% on average?

Jimmy Addison: That's exactly right.

Andrew Weisel: Okay. Okay, great. Thank you very much.

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

Jimmy Addison: Well, thank you. And, to summarize, we're pleased with our results for 2013 and are optimistic about 2014.

And, finally, I'd like to mention a couple of opportunities to meet with you in person. Steve and I will be on the road the first week of March in New York and Boston at investor conferences and we hope to see many of you there.

And also, our upcoming Analyst Day event is going to be held in New York on June the 5th. We would encourage you to mark your calendars with a placeholder for that and plan to attend.

We thank you for joining us today and appreciate your interest in SCANA. Have a good day.

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