[SCG] - SCANA Corporation - New Nuclear Project Analyst Call
Wednesday, March 29, 2017, 3:00 PM Eastern

Officers
Kevin Marsh; Chairman, CEO
Jimmy Addison; CFO
Steve Byrne; SCE&G COO

Analysts
Julian Dumoulin-Smith; UBS
Jim von Riesemann; Mizuho
Ashar Khan; Visium
Stephen Byrd; Morgan Stanley
Paul Patterson; Glenrock Associates
Eugene Hennelly; Guggenheim Partners
Michael Lapides; Goldman Sachs
Steve Fleishman; Wolfe Research
Vedula Murti; BlueCrest Capital
John Alli; Castleton
Jonathan Reeder; Wells Fargo
Dan Jenkins; State of Wisconsin Investment Board
Michael Weinstein; Credit Suisse
Chris Woodward; Breckenridge

Presentation

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. I will be your conference facilitator today. At this time I would like to welcome everyone to the SCANA Corporation conference call. All lines have been placed on mute to prevent any background noise. (Operator Instructions)

As a reminder, this conference call is being recorded on Wednesday, March 29th, 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 Jimmy Addison, SCANA's Chief Financial Officer.

Jimmy Addison: Good afternoon, and thank you for joining us. We are hosting this call today to discuss the potential impact of Westinghouse's bankruptcy petition on our new nuclear project.

Kevin Marsh, SCANA's CEO, will lead you through some brief prepared remarks, and then he, along with Steve Byrne, SCE&G's Chief Operating Officer, and myself will be available for questions.

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. Please refer to slide 2 of our presentation, which can be found in the Investor Relations section of our website, to review our Safe Harbor statement.

I'll now turn the call over to Kevin.

Kevin Marsh: Thank you, Jimmy. And I would also like to thank all of you for taking time to call in this afternoon.

Please turn to slide 3. As you are aware, we have been closely following the Toshiba and Westinghouse financial situation since Toshiba's December 27th announcement, and have been aware of the potential for Westinghouse to file for bankruptcy protection.

Prior to Westinghouse's Chapter 11 filing, we, along with our project partner Santee Cooper, have worked with our bankruptcy counsel, financial advisors, and Westinghouse to reach an agreement, subject to Bankruptcy Court approval, that allows for work on the project to continue during a transition and evaluation period.

During this period, we will provide funding for prospective work. This transition and evaluation period is initially 30 days and is intended to initiate the process for us to determine the most prudent path forward for the project.

This agreement, which will be filed with the U.S. Bankruptcy Court, is part of Westinghouse's bankruptcy filings, and we anticipate that they will continue to operate its business while they move forward through the Chapter 11 bankruptcy proceeding.

During this transition and evaluation period, we expect that construction at the site will continue toward completion of the units, with approximately 5,000 workers on site daily.

Fluor will continue as the construction manager and will provide craft staffing as they have been.

We intend to have an allowable ex parte briefing with the South Carolina Public Service Commission sometime during the coming weeks to walk them through the current situation and this agreement with Westinghouse.

Please turn to slide 4. Westinghouse has provided us with its estimate of the additional cost needed to complete our project beyond the cost provided for under existing agreements with Westinghouse.

We cannot currently validate this estimate, as we have yet to conduct our evaluation. We will be reviewing the inputs and assumptions used to generate this estimate during this transition and evaluation period.

At this time, we expect that the resources available from Westinghouse and Toshiba, including its parental guarantee, are adequate to compensate us for the Westinghouse estimate of additional cost.

Additionally, we also have a surety bond in the form of standby letters of credit.

We will consider all this information, along with access to the escrowed intellectual property and software for the AP1000 design, as we seek to make the most prudent decision for our path forward.

There are various paths that we could take if we decide is it prudent to continue construction. We discussed those with you during our fourth-quarter earnings call and have outlined some possible options on slide 5.

However, if continuing the construction is not determined to be the most prudent path forward for either or both of the units, we will look to exercise the abandonment clause under the provisions of the Base Load Review Act. This clause would allow us to recover the costs that were prudently incurred to date.

We plan to analyze a variety of options in order to make the most prudent decision that enables us to satisfy the generation needs of our customers.

As always, we continue to focus on operating all of our businesses in a safe, reliable, and efficient manner.

We will now be happy to take your questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions) At this time, we will pause momentarily to assemble our roster. Julian Dumoulin-Smith of UBS.

Julian Dumoulin-Smith: So just a couple quick questions if you can. First, in terms of the cost estimate provided, you said it's sufficient, vis-a-vis the parental guarantees from Toshiba.

Can you give us a sense on what the nominal numbers are there first?

And then secondly, to the extent to which you have a sense, how much of that is labor versus equipment, and just a little bit more of an understanding of what the nature of the cost increases are?

I suppose the purpose for asking is, in part, to what extent are there contingencies and/or non-cash or already realized items provided in the initial write-down estimate from Toshiba?

Jimmy Addison: Julian, this is Jimmy. Let me start with that. And as far as the percentage, I'm sure we don't really know the complete answer to that. But I'll see if Steve wants to add anything at the end of this.

There's a public document that's out there that's Westinghouse's initial declarations filing, which you can find out there electronically or our IR staff can direct you to it, if you haven't seen it already.

In not document in one of the supplement schedules, they've got their financial statements, and they show a reserve for contract losses on most financials of $4 billion.

Unfortunately, I can't give you the specific answer to your question at this point because we're bound under confidentiality from telling you exactly what part of that $4 billion relates to our project versus other projects that they have. I suspect that'll become public at some point through the bankruptcy proceeding or other regulatory proceedings.

But that gives you really the only benchmark I can give you at this point for the AP1000 project is what the cost is.

Now, I will tell you, also in that same document that you asked about the offset with the guarantee, back on page 24 of that document under section 61 of their initial declarations, they state that the V.C. Summer EPC agreement caps liability of Toshiba at 25% of the payments made to the consortium as of the date of the event giving rise to the claim.

And if you want to compute that, you can go to our BLRA filing that you're familiar with, and you'll see in appendix 2, as of the end of 2016, at 12/31, we'd spent in total about $4.5 billion, a little less than $1 billion, about $900 million was related to owner's cost, transmission, AFC, at cetera.

That leaves about $3.6 billion estimate, just working from that BLRA filing, as far as an estimate of the payments. That's not an exact calculation. And then you can apply the 25% to that to get just under $1 billion, about $900 million related to our portion of the project for the guarantee, at this point in time.

Of course, that's just our 55%. If you get the total 100%, you'd have to divide it by 55% and get approximately $1.7 billion.

So that's about what I can tell you about those two sides of the equation that Kevin commented on in his prepared remarks.

And, Steve, you want to add anything about the components?

Steve Byrne: Yes. Julian, the majority of the increase in cost is coming from an increase in the number of labor hours, followed by commodities, things like concrete, structural steel, cable, reinforcing bar.

There's not much in components. In fact, most of the components have been purchased and are on site. So it's not a component issue. It's really labor hours is the predominant one followed by commodities.

Julian Dumoulin-Smith: Excellent. And if I can just follow up on timeline here, I suppose the 8-K you provided has an April date here, at least through the time you'll be putting in and funding the work.

What should we expect by that timeline? Or at least what are the next milestones as best you delineate them, in terms of negotiation?

Kevin Marsh: Well, I think in terms of the interim period, the 30 days set fourth in the agreement, that's our study and evaluation period. Depending on what we learn during that period, will inform our decision on what we think may be the most prudent path forward.

I think at the end of that period, once we are close to making a decision that would lead to further discussions with Westinghouse.

If for some reason we're not through at the end of the 30-day period, I'm confident we would seek to extend that while we finish our evaluation.

Julian Dumoulin-Smith: Excellent. But that would begin the negotiation? Is that a fair way to frame that?

Kevin Marsh: Depending on what we find, Julian, I think that will drive that. But it's safe to say we are in regular conversation with Westinghouse. I don't think that's going to cease while we go off and do our evaluation of the options. We're going to need to engage them throughout that process as we try to make a determination.

It's pretty clear, I believe from their filings,that they're looking for us to take over these projects. So before we commit to doing that, we just got to understand the details behind it, the breakdowns of the cost that they've got included in their estimate, so we can compare that to the parental guarantee and find out what the total impact would be on our Company and our customers.

So as we become more informed about those details, I suspect the conversations will pick up on how that will be structured at the end of the day, which I'm confident we'll have to go back to the Bankruptcy Court for approval.

Julian Dumoulin-Smith: All right. Excellent. Thank you.

Operator: Jim von Riesemann of Mizuho.

Jim von Riesemann: Couple questions here. Actually more than just a couple.

Can you talk a little bit about the regulatory process here? Meaning that under a bankruptcy thing, do prudence determinations need to be re-made or do you risk prudence altogether under a bankruptcy?

Kevin Marsh: I mean, Jim, I suspect that the prudency determination will be based on what we've spent to date as approved by the commission in our previous filings.

Fortunately, we've never had to go through a bankruptcy situation like this with the commission, so we will be plowing some new ground. But the law was pretty clear that if it's deemed it's not prudent to continue the project, that the prudently incurred costs to date can be recovered through the abandonment clause.

I don't expect that to be changed. The law is pretty straightforward on that. So I think [from] our part needs to be determining what is the most prudent path forward?

The fact that Westinghouse went into bankruptcy, in my mind, doesn't change the legitimacy of the costs that we have spent to date.

Jim von Riesemann: But that cost level may go up materially, correct?

Kevin Marsh: You talking about the cost to complete the project?

Jim von Riesemann: Correct.

Kevin Marsh: That's what we're going to investigate. And that's what Jimmy was talking about earlier when he said, based on what we see in the financial reports from Westinghouse and based on we know from the parental guarantee that Toshiba has indicated they intend to stand behind, based on what we've seen based on the Westinghouse estimate of cost to complete at this point, that that parental guarantee would be sufficient to cover those costs.

Now, that being said, we've got to validate those numbers from Westinghouse and make the determination that we believe is most appropriate, given the inputs to that process that Steve alluded to earlier.

Jimmy Addison: And Jim, it's Jimmy. Just to add, there's going to be some value to that Westinghouse bankruptcy estate. We think there's some substantial value to that, given the EBITDA that's coming out of those good businesses, if you will. Those are delineated in their initial declarations filing. It's now a public document.

So we think we certainly will be a substantial creditor at the table looking for that before we even get to the Toshiba guarantee.

So that's why we're comfortable with that earlier statement about Westinghouse's estimate of the cost at this point, we see offset with the options we have for financial backstop.

Kevin Marsh: Yes. I think (inaudible) Jimmy made, that the backstop from Toshiba is only if Westinghouse or the Westinghouse bankruptcy court doesn't determine their assets sufficient from their operations to pay the claims.

Jim von Riesemann: Okay. I think I understand. Separate question. I'm sorry to take up some time here.

But are you working jointly with Southern to putting something in place formally with Fluor or is it every company for themselves at this point in time?

And do you think Fluor would actually commit to another or support another fixed price option?

Kevin Marsh: I certainly can't speak for Fluor. That'll be a decision we'll have to address as we go through the process.

We are in contact with Southern. We've had permission from both Westinghouse and Toshiba to communicate with Southern. But their contract is still different from our, in many respects.

And while we both have an interest in completing the projects, I think we both owe a responsibility to our customers and shareholders and companies to make sure we do what's in our best interest.

But certainly, we are having communications and working together to get this interim agreement. We had a number of discussions to get all this in place.

Jim von Riesemann: And the very last question before I go back into queue is, does your partner, Santee Cooper, have any caps on the total cost that it can spend for the plant?

So right now I think their share is what, a little above $6 billion or something? Are they capped at a certain level, like they can't spend more than $6.5 billion or $7 billion or anything?

Kevin Marsh: Well, I'll speak for Santee Cooper based on what they have informed me of, is they have been going forward getting approval for the project based on the cost that they know them to date.

Last year when we did the fixed price option, they sought approval and gained approval from their board to cover the cost of all those dollars associated with a fixed price option.

For this interim agreement, they have also approved the dollars associated with the cost we expect to incur during the interim evaluation period. So they're doing that as we go.

Jim von Riesemann: Okay. Thank you.

Operator: Ashar Khan of Viritian.

Ashar Khan: I just wanted to find out, Kevin, why not, with all this uncertainty because, of course, the costs are going to be higher, the time period is going to be higher, then the tax benefits, whether we make the 2020 deadline are all higher, why does it not make sense, as you said, to abandon the project, we'll get what you have spent, and there will be no more regulatory uncertainty tied to the expenses, the timing and all that? It's a big thing with this [company], why is that not the preferred option right now?

Kevin Marsh: Well, we certainly have not evaluated all of those options. And as I told my employees this morning, in order for us to determine the best option and to be able to present that to the commission, we've got to evaluate all of the options.

So just to select that option today without making a determination of the options going forward, I don't really think would be prudent on our part.

We built these plants because we needed generation for our service territory. We were looking for a long-term clean energy solution, which these plants provide, and we want to make sure we've got the energy our state needs as we go forward and it continues to develop.

So we've got a commitment to our customers to make sure we can meet their needs. If we just cancel these plants, we still have a generation issue we need to face. So that needs to be worked into our analysis as we go forward.

I wish it were that simple, but unfortunately it's not. Our commitment is still to try to finish these plants. I mean, that would be my preferred option before we go through the evaluation.

I mean, the least preferred option, I think realistically, is abandonment, because we won't achieve our objectives that we set forth to the commission and the commitment we made to them to bring this power online to provide for the needs of South Carolina for the next 60 years.

So we've got to do the evaluation. We've got to get into the Westinghouse details and understand what's in their schedule. We'll be working with Fluor, as well as other team members, to help us complete that evaluation.

And once we're informed by all of that material, I think we'll be clearly in a position to evaluate the best option going forward from our perspective, which will ultimately lead to discussions with the office of regulatory staff and capped off with a presentation, I'm sure, and approval by the commission in terms of how we go forward.

So it's early in the process. It's way too premature to say this is the option we're going to end up with, and I just don't want to speculate on that until we've had a chance to fully evaluate each option that we might consider.

Ashar Khan: Okay. And if I can end up with, if I'm right based on what you filed, you have a 30-day evaluation period. So is it fair to say that after that 30 days, you will know what the higher costs are going to be to complete, what the timeframe is going to be to complete, and who is going to do it? So you would have made, as you have pointed out towards us the evaluations of the different options, you would have a decision-making matrix done in those 30 days and you'll be able to communicate to us?

Kevin Marsh: Our goal is to get to that decision point just as quickly and expeditiously as we can to make sure we considered all of the factors that need to roll into that.

I don't know and I can't commit to the 30-day period. We should be well into it at that point. As I alluded earlier, if we need more than that, I'm confident we would go back and look for an extension to that agreement so we could complete that evaluation appropriately.

Ashar Khan: Okay. Thank you so much.

Operator: David Arcaro of Morgan Stanley.

Stephen Byrd: It's Stephen Byrd. When you look at the value of Westinghouse assets versus liabilities and the value of the Toshiba guarantee, how do you think about, I guess at a high level the face value of that guarantee versus the achievable level relative to the budget as you're looking at it?

It sounds like on the face that the total guarantee should cover the overrun, at least based on the budget that the Westinghouse has.

But how have you assessed sort of the, I guess the pluses and minuses in terms of the value of those guarantees?

Jimmy Addison: The value of the guarantees?

Stephen Byrd: Well, I'm thinking of the Toshiba guarantee of Westinghouse, as well as Westinghouse's own financial position in terms of ability to satisfy their obligations.

Jimmy Addison: Well, it's extremely early in the process. But as I said earlier, we do see substantial value in the EBITDA of the other businesses of Westinghouse. So we think there will be substantial assets there for the creditors.

There'll be several creditors in line that are delineated in this filing, but we'll be one of them with a significant standing, we believe.

And then, if that's not adequate to cover their responsibilities to us, we have the backstop of the Toshiba credit. And, of course, they're taking steps to shore up their financial condition, too.

So it's just very early in the process to tell the quality of the standing of those.

Stephen Byrd: Understood. Understood. And just on the labor productivity and really the causes of the issues, would you mind just speaking a little bit more to what your understanding is of the core causes of those issues, how that can be mitigated going forward?

Steve Byrne: Yes. This is Steve. There's a couple things that go into the labor productivity or lack of productivity so far. Some of it has been in the procurement chain.

So, for example, if the schedule calls for a specific component, let's say a module to be installed, and that module's not ready, then that causes inefficiencies and you have to reschedule the workforce. We have run into a number of those.

I believe that with Fluor's assistance, Westinghouse has been working out the supply chain issues. But that's another area going forward where they can do better. Or conversely, if we brought somebody else in to manage construction, they could do better, or, if we managed ourselves, I believe that we could do certainly better. That's certainly one aspect.

Another one is the application to the whole project of nuclear safety-related construction techniques and documentation. So if you were just building a turbine building at a natural gas plant, you wouldn't employ the same levels of scrutiny, same level of detailed planning.

So there really is no reason on the non-nuclear safety-related portions of our plant that we need to do that. Heretofore, they have been applying the same standards, whether it was the nuclear island, the turbine island, the cooling towers, wherever it was.

So we're looking at changing that going forward with respect to the non-nuclear safety-related portions of the plant, and that documentation and oversight and inspection processes.

Ashar Khan: Okay.

Steve Byrne: So that's just a couple things. But there has been a study done on productivity on the site, and we've got things like work rules, break hours and times, even down to things like cell phone use at the site. There's a myriad of those kind of things that the contractors have been informed of and they're taking actions to rectify even as we speak.

So we would anticipate that all of those things in those productivity studies would be factored in going forward so that the existing workforce that's there, even if they've got the documentation correct, even if they've got all of the parts and pieces they need to go to work, can do so more efficiently.

Stephen Byrd: Okay. That's helpful. Thank you.

And lastly, and then I'll turn it over to others, if you do decide to take over managing the project or perhaps it's SCANA and Fluor, I'm trying to think through just logistically, you have a lot of folks on site.

Is it essentially that those personnel will just essentially get transferred over and they're no longer affiliated with Westinghouse, but they would be, essentially, in, I guess some combination of your employ and Fluor's employ potentially? Or is there some other -- I guess I'm just trying to think about the physical changes, if any, and maybe there are none, when or if you are to sort of take over the project.

All the people are on site. So I guess I'm just thinking about the transfer of management of those people. How might that work, if you were to take over the project?

Steve Byrne: Yes. Stephen, there are a variety of ways to do that. Certainly, if Fluor is the constructor -- I've got 5,000 contract employees, plus, on site today. The majority of those, the vast majority of those are Fluor. So if Fluor stays on as the construction lead, then there's no change there.

The Westinghouse and WECTEC folks that are on the site, we'd have to evaluate what their role is going to be going forward. But a number of those folks are either going to have to change physically or change hats. Now, whether they change hats and become Fluor or whether they change hats and become our employees and we manage the project that remains to be seen.

But it's probably going to be some hybrid of those. So we want to make sure that we have the best organization going forward.

And remember, a lot of the craft folks and a number of the professionals [and field] non-manual folks at the site have gone through these transitions twice now. Started off with Shaw, changed to Chicago Bridge and Iron, and then changed to Fluor. So the transition is something that, unfortunately, we've got some good experience at.

Stephen Byrd: Understood. Thank you very much.

Operator: Paul Patterson of Glenrock Associates.

Paul Patterson: I guess what I'm sort of not -- and I apologize for being a little dense here. But if you see the assets of Westinghouse being as positive as they apparently are, combined with the Toshiba guarantee, why would Westinghouse be going into bankruptcy?

It would seem to me that it would be a simpler situation to simply have Toshiba, fund whatever needs to be funded, as opposed to taking the dramatic step of putting Westinghouse into Chapter 11, if, in fact, the obligations and the cost estimates weren't all that much out of whack? Do you follow what I'm saying?

Jimmy Addison: Yes. Paul, this is Jimmy. I certainly can't speak for them. My speculation is that what they're doing at this point is they really are at a point where they are drastically trying to de-consolidate that entity before their fiscal yearend, which is this Friday. And so this is an action that would allow them to do that.

And secondly, I would say it's a way that they are seeking to make sure they can quantify how large the losses are through this legal action - that's just my speculation - so that it doesn't become a different number in the future.

Paul Patterson: Okay. But, I mean, it seems like quite a dramatic move to do those things, no? I mean, I guess we'll just --

Jimmy Addison: It's certainly dramatic.

Paul Patterson: Right.

Kevin Marsh: Paul, this is Kevin. I think if you look at what we've heard since December the 27th, and again on February the 14th, when they disclosed the losses, it seems clear if they consolidate Westinghouse into the Toshiba financial results - I don't know they're numbers - but they would not be in a strong equity position, which I think would preclude them from being able to or could preclude them from securing financing from the banks to put money into the projects.

So by de-consolidating Westinghouse, they may actually strengthen their position if they can limit their liabilities on the Westinghouse commitments, which is disappointing to us, because we're the ones that are looking to try to work our way through that.

But if that puts them in a position to pay their parental guarantees, at the end of the day, it could be better for all parties concerned if able to support the completion of the construction of the projects.

That's our primary goal is to make sure that we can do our best to complete these projects within the prices we've committed to the commission, and recover any cost overages from either Westinghouse and the good assets they've got, and the absence of them being able to do that, turn to Toshiba and have them pay any balance or remaining liabilities out of the parental guarantee.

I can't speak for them. But it appears to me that that may be the logic of the moves they've made for the long term.

Paul Patterson: Okay. And then, just in terms of the process for getting the parent guarantee, would you have to show damages first?

Jimmy Addison: Yes. Essentially that's the case is there's got to be an event giving rise to the claim. So I mean, unless there was some kind of settlement that we reached with them. But, yes, to trigger it as it sits today, there would have to be some kind of event that triggered it, incurring the loss.

Paul Patterson: Okay. And then in terms of getting the PSC's approval going forward, what's the next date we should look at in terms of, I guess your filing with them or just what's the key date that we should be thinking of or key dates that we should be thinking of in terms of their saying, okay, yes or no, in terms of going forward?

Kevin Marsh: Well, we want to be as transparent and get through that process just as quickly as we can. We'll be over to brief the commission here within the next couple of weeks, so they can understand exactly what we're talking with you about today.

The only opportunity we have to do that is in an ex parte briefing. We're not allowed to have direct conversations with the commissioners over anything that might be the subject of a case. So we have to do that in an ex parte briefing. After that, and what I expect we'll tell them in that briefing is, when we get through the evaluation period and we believe we've come up with what we believe is the best and the most prudent option going forward, certainly we'll work with the office of regulatory staff before we make a filing with the commission, and then take that before them.

Once that filing is made, I suspect there'll be an opportunity for other parties to come share their beliefs about where we are on the project and what we should do going forward, and the commission would help us evaluate that decision.

That's my belief at this point. We do have an agreement with the commission that we wouldn't come back in for three years for cost increases once we settled the case last year when they approved the fixed price option.

So depending on what we believe the cost increase will be, if there's a determination that there's no cost increase, there could, and emphasize could, be a scenario where we don't believe we need to go back into the commission once we validate those options.

But I personally would prefer to give the commission a full update and have everybody validate the process we got going forward, and understand what the options are and what the risk would be associated with the option we would choose before we commit to going forward with the projects.

Paul Patterson: Okay. And that evaluation period is the 30 days, is that right? Or how should we think about that again? [I apologize].

Kevin Marsh: Well, we've started it now. I would certainly like to complete it in 30 days, but I can't commit that we'll be done by the end of the 30 days. If not, we'll seek to extend that 30-day period so we can complete the evaluations.

Paul Patterson: Okay, great. Thanks so much.

Operator: Eugene Hennelly of Guggenheim Partners.

Eugene Hennelly: Was just wondering if you could talk about how cost might be recovered if it's determined that it isn't prudent to continue construction and you go through with the abandonment clause.

So assuming the balance of construction work in progress is determined to be prudent and that represents the amount of abandoned costs to be recovered, would the entire balance there be carved out and amortized or securitized separately, recovered over a different period of time? How would that work?

Jimmy Addison: Yes. Eugene, this is Jimmy. So that obviously has not been implemented before under the BLRA law, since we're the first ones to use the BLRA to construct generation facilities.

Of course, we're already getting return on the investment today. So everything that was incurred through the last BLRA increase is already getting return on. So what we're clearly talking about is return of.

And we would have to make some proposal to the commission through the ORS. We would look to reach some kind of agreement with the ORS that we would take into the commission.

We remind you everything that we proposed to date on this project, including any adjustments in cost, we've been able to reach agreement with the ORS and several of the interveners in some cases.

So we would propose something and take it to them for some period of recovery.

As for securitization, if that were to occur, that's certainly something we could explore. It would, obviously, require specific legislation to allow for that.

But if we were in the situation of an abandonment, and I stress if, we would certainly explore that and determine if that were beneficial for our customers to take that financial path to, and, if so, we would pursue that financial legislation.

Eugene Hennelly: That's helpful. Thanks.

Operator: Michael Lapides of Goldman Sachs.

Michael Lapides: A follow-up on the abandonment. In your interpretation of the Base Load Review Act from 2007-2008 session, does it guarantee that you continue earning a return on both equity and debt capital for the money spent to date or is there a scenario or could one read this and interpret that you're guaranteed to get a recovery of capital but there isn't necessarily certainty around whether you earn an equity return on the full amount spent to date?

Jimmy Addison: Well, Michael, there's really nothing that speaks to it being different than anything else than rate base. And if the investors have made the investment in it under a prudent, being prudent basis, which we have, remind you that the commission just ruled in November that the fixed price option was prudent and that the new rates are prudent, then there's no basis that I'm aware of to say that there's any carve-out of the equity return on it.

So there's nothing related to the abandonment specifically that talks about changing the cap structure or the components of cap structure.

Michael Lapides: So your interpretation of the law from 2008, is that you would still be allowed to earn an equity return, despite the fact that you'd have an asset that isn't actually creating any customer benefits that is several billion dollars of rate base?

Jimmy Addison: If, as the law says, if the preponderance of evidence is that it's prudent not to proceed. That's what the law says.

If we meet that test and the commission supports that, then, yes, I believe we would.

Michael Lapides: Okay. The other thing is, can you -- who makes -- I mean, I assume the commission, obviously, makes the final decision on an abandonment.

But do you have to present -- does the Base Load Review Act require that you present a here's what our expected cost is and here's our recommendation? What happens in a scenario, if anything, where the commission's view and your view about whether to go forward or not go forward differ?

Kevin Marsh: Michael, this is Kevin. I would imagine in a hearing before the commission that we would certainly present evidence based on our evaluation as to how we concluded or why we concluded, if we concluded that abandonment was the best option, the foundation for that decision process.

So I can't imagine going to the commission saying we think it's imprudent to go forward, without having a basis and providing testimony to support that decision. So I'm assuming there'll be a significant amount of evidence before the commission as they evaluated our recommendation.

Michael Lapides: Okay. And then in the Westinghouse docs from today, the contract losses of $4 billion that are outlined in the declaration or pleading, that's $4 billion above and beyond the value of the fixed price contract and that's combined for both Vogtle and Summer?

Jimmy Addison: That's correct.

Michael Lapides: Okay. Guys, thank you. I appreciate you taking my questions.

Operator: Steve Fleishman of Wolfe Research.

Steve Fleishman: My question was actually related to what was just brought up, that $4 billion number.

Just to clarify, is that, you think kind of ties well to the value of the Toshiba guarantees?

Jimmy Addison: Well, Steve, what Kevin said in his comments is that we expect the resources that are available from Westinghouse, from the bankruptcy estate, and the Toshiba guarantees, are adequate to compensate us for the amount that Westinghouse has estimated that the cost exceeds the project revenues at this point.

So there's obviously moving parts on both sides of that equation. But based upon what they represented to us at this point, their numbers support that that is the case.

Now, we've got to get inside of it. Steve's team's got to peel apart the estimated cost, et cetera, over the next 30, or 30-plus days, as Kevin's delineated, and then we'll have time with our outside experts to evaluate the, kind of the financial resources of both of those entities going forward, too, in parallel with that.

Steve Fleishman: Okay. I guess question on timeline. I may have missed this. But is it fair to say that the timeline -- have they given you an updated estimated timeline for the project versus what you got and announced back in late February?

Steve Byrne: No. This is Steve. The substantial completion dates that they announced, I think it's February the 14th, those are the latest dates that we have from them. No change there.

Steve Fleishman: Okay. Do you expect that those will get extended?

Steve Byrne: I expect that we'll do a review of what they have to present to us in the next month or, if it takes longer, we will take longer. And that at the end of that process, we will have an opinion as to weather or not we think those dates are achievable or need to be moved or adjusted.

Up to date, quite frankly, we've had a difficult time getting good information out of Westinghouse. There's a lot of things that they would consider business sensitive and proprietary. And while I understand that, they need to understand that I have a need for the information.

Since we got into this bankruptcy issue, they have become much, much more open. And I'm optimistic that their new openness will spread down to the project, and we'll have an easy time of getting information from them.

Now, is 30 days enough to do that evaluation? I couldn't tell you today, but we've already started.

Jimmy Addison: And, Steve, this is Jimmy. That interim assessment agreement of ours requires that cooperation that Steve just discussed, and we have certainly found that on the financial side in the last several days.

Steve Fleishman: Okay. And I guess just in trying to think about the -- before you had more recently, at least a fixed cost commitment that gave both you certainty and the commission certainty. And both of you have now been through a lot with this project.

So just in thinking about whenever we get an estimate or a number, how are both you and the commission going to be comfortable, and the investors protected, that this is really the number? Because I would assume, if I'm the commission, I'm not going to want to keep going through this any more times after this next time, certainly.

Kevin Marsh: Well, that is the primary purpose of having this interim period to do the evaluation. We're going to have access to information we have not seen heretofore. And having access to that information and the project assumptions, being labor rates, productivity, all the different things that Steve alluded to earlier, will help inform our evaluation of what they've provided us.

We're going to start with what they've given us, understand the assumptions, and then I'm sure we'll stress that and see how much further you could go and still be within the bounds of the parental guarantees. To give our commissions and customers protections we're looking for, is part of the process we're trying to complete in the next 30 days.

Steve Byrne: In addition, we have access not just to the Westinghouse schedule, cost, productivity factors, unit rates, but the Fluor information, which we think is important, because Westinghouse, I think their understanding, they're not a constructor and they really need to stick to their knitting, which I think as where we're going to end up. And the information we get from Fluor, I think will be better information.

We are also, in addition to our folks reviewing that information, some of which they'll be seeing for the first time, we're going to bring in a couple of outside entities to give us an independent look, including some folks who have had experience recently on the TVA project construction at Watts Bar.

Jimmy Addison: And, Steve, this is Jimmy again. And let me just add, too, that a key part of that assessment is going to be, as we've discussed earlier and as well as with other Q&A in the Q here, is going to be the other side of the equation, which is what financial resources do we assess are there from the Westinghouse bankruptcy estate, as well as the Toshiba guarantee?

I'm not saying there is, but there could be more cushion than our current cost estimate. So there could be, if you will, some contingency built into that. Of course, that's dynamic and changes over time. But that will be a key part of that assessment as well.

Steve Fleishman: Okay. Thank you.

Operator: Vedula Murti of BlueCrest Capital.

Vedula Murti: Can you explain to me, if I try to recall bankruptcy properly, business goes on as usual, so to speak, right now, and they have debtor-in-possession financing.

So in terms of where people are in the pecking order, they obviously have first dibs on everything in terms of DIP financing providers.

Where do you stand as a creditor relative to other creditors when then trying to ascertain your ability to access the value of the Westinghouse assets?

Kevin Marsh: Vedula, we're going to go through the bankruptcy proceedings, and, certainly, our bankruptcy counsel will be representing us as we go before the courts.

I don't think they have had their first -- I think the first presentation to the court is on Friday morning. So that a lot of those outlines may be set as we go through that initial process.

My understanding is, we are an unsecured creditor and, along with the other unsecured creditors, who all have got to be identified as to process. And then the rights would follow whatever rules are followed by the court as we go through this process and they try to satisfy the claims of all the creditors.

There has been DIP financing put in place. I think it was $800 million that was provided for the ongoing businesses, the non-AP1000 business. So certainly, they've got a claim. I don't know where our claim will stack up against those as we go through the process.

But certainly, I haven't seen the details of their financing agreements. But I think it's safe to say they've protected themselves as they've gone through that process, and we'll need to see how the Bankruptcy Court aligns this up as we present the information to them.

Vedula Murti: What is your understanding as to how much secured debt or secured claims exist in aggregate, prior to them trying to satisfy the unsecured claims?

Jimmy Addison: Yes. Our understanding, I think this is delineated in detail. I didn't see it until this morning, those initial filings. But I think there's only this $800 million that Kevin referred to, and there's no other secured debt at the Westinghouse level.

Vedula Murti: Okay. Does the contract that you have with Westinghouse as part of resolving bankruptcy, does that contract have to be reaffirmed by the court and does Westinghouse have to go through all their major contracts and decide whether they want to maintain them or reject them, and then we have to figure out which one is correct? Is that the way this works?

Kevin Marsh: Vedula, I don't know exactly what they might do in terms of affirming the contract. We do understand they did have the right on day one, when they walked into the bankruptcy court, to reject the contract. That is not what we wanted to have happen. That's not what they wanted to have happen, which is why we have structured this interim agreement.

They would like to continue in the nuclear services business. They just don't want to continue in the nuclear construction business.

So I believe we all think it's in everybody's best interest to look really hard to find out a way to finish these projects so that we can have those for our benefit and they can certainly remain in the business of providing engineering services associated with the AP1000. I'm confident they won't sell elsewhere around the world.

So they have the right to reject the contract. They've agreed not to do that as we go through this interim period while we try to find an amicable solution that we can present to the court.

Vedula Murti: That's during the interim period. But once the interim period is over, that does not preclude them from doing that is kind of what I understand you're saying.

And secondarily, if they were to recommend rejecting the contract, what effect or any does that then have in relationship to the parent guarantee?

Jimmy Addison: This is Jimmy, Vedula. So assuming if we moved forward in that situation and incurred cost above and beyond the fixed price contract today, that would be one of those events that we believe would trigger that parental guarantee.

Steve Byrne: So the parental guarantee survives the EPC contract.

Vedula Murti: So the parental guarantee remains in place irrespective of whether Westinghouse chooses to maintain or reject the contract as part of trying to resolve the bankruptcy?

Steve Byrne: That's correct.

Vedula Murti: Okay. All right. I'll let other people ask. Thank you.

Operator: [Stephen Dambrizi] of Castleton.

John Alli: This is John Alli, actually. Just to clarify a few things. When was the most recent cost estimate that Toshiba provided you with? When was that given to you?

Kevin Marsh: Well, it wouldn't have come from Toshiba. It would have come from Westinghouse.

John Alli: Or Westinghouse, yes.

Steve Byrne: I think that most recent cost estimate to us -- when you say cost estimate, what they give us was a fixed price option.

So that that fixed price option was given to us in an agreement that was October of 2015. Beyond that, they have been working on their, I think they call it an estimate at completion, others call it an estimate to complete.

But that really, that process led to Westinghouse and Toshiba deciding that they had this large $6.3 billion write-off or impairment.

So we haven't really been given an accurate assessment. Now, in their evaluation, as Jimmy pointed out earlier, they've estimated how much of that overage would be attributable to our project. But we have not gotten into the details of that yet.

But, the last estimate we got from them really was in the fixed price cost estimate in 2015, before they announced December the 27th, this large impairment.

John Alli: Okay. So when you say that the Westinghouse estate plus the Toshiba guarantee would be enough to complete, what are you comparing that to, the estimate from December?

Steve Byrne: No. It's the estimate that we got from Westinghouse that would say that in excess of the fixed price option, there's an amount that they would say is associated with our project.

John Alli: And that was from February?

Jimmy Addison: It was from last weekend.

Steve Byrne: We saw it last weekend. They may have known it in February. We saw it last weekend.

Jimmy Addison: So it's our portion of that $4 billion that's in that initial declarations filing back on their financial statements.

John Alli: Understood. And does that correspond with the in-service dates that you were given in February?

Jimmy Addison: Yes, we have no different in-service dates from them at this point.

John Alli: Okay. And then in the event that there is an overage, given the (inaudible) that you've agreed to with the commission, how do you work around that?

Kevin Marsh: Well, the agreement we had with the commission when they approved the fixed price option last year, says that if we have an increase, that we would not bring that back to the commission for consideration until we got past a three-year waiting period.

So I think that the simple answer is we'd have to wait three years to go back in.

Given these special circumstances, we would need to evaluate, if we're trying to make a decision on the prudency of the product going forward, we would need to evaluate whether that would require the need for a special hearing before the commission and how we would actually treat that under the most recent order.

I think I discussed earlier if we were to determine on our part if the estimate to complete is not greater than the fixed price option after you net out the benefit of any recoveries from Westinghouse or the parental guarantee from Toshiba, we might not need to go back to the commission.

But I'm confident in telling you, we are going to keep the commission informed of the analysis we've done and have them understand our logic in reaching those decisions so nobody is surprised down the road.

We've been transparent on this project since day one and we're not going to change that. So in any event, we will be back in front of the commission to have them understand the decisions we've made and the logic behind that.

John Alli: Understood. And whoever takes over this contract, would you expect them to be able to honor some sort of fixed price, maybe not the same fixed price, but some variation or some contract with some certainty in it?

Steve Byrne: Everybody that would give you a contract would be willing to do it in a variety of understandings.

The fixed price option, they would have to price in risk. And I'm going to guess here that if another entity picked it up, gave us a fixed price to finish, that their risk premium we would probably view as too high.

John Alli: Got it. Okay. So a fixed price option going forward's probably not likely. Okay. Thank you.

Operator: Jonathan Reeder of Wells Fargo.

Jonathan Reeder: Thanks for the call today. Just wanted to clarify some of your last comment.

So you don't think that you need a new BLRA order if the cost doesn't substantially change from the fixed price agreement? Just because the last contract was based on this fixed price EPC with Westinghouse, if that goes away it doesn't require a new order as long as the cost is in line still?

Kevin Marsh: I think we're going to have to get a clarification on that. But in my mind, if the estimated cost to complete net of the recoveries that we've got in hand from Westinghouse or Toshiba, might not require us to go back in.

If there's some uncertainty regarding recoveries from Westinghouse or Toshiba, I mean we've got to get a validation of the most prudent path going forward that could require us to go back to the commission.

Jonathan Reeder: Okay. And then can you just discuss, I guess other, I guess, conversation, interactions you've had with key parties in the state, whether it's on the political side, if you've had any preliminary discussions with ORS, things of that nature that will help frame your decision?

Kevin Marsh: Certainly. We've had a lot of discussion with ORS. We've kept them fully informed of this evaluation process as we begin to go forward and get those details.

We have kept Dukes Scott, who's the executive director of ORS, informed of some of these activities that have been taking place over the past three months based on the limited information we've been able to glean, or actually credible information. There's been a lot of information in the press from unnamed or unofficial sources.

So Dukes Scott has seen that, as well as the press. So we're doing our best to keep him informed directly.

We have spent a significant amount of time with a variety of legislators that are involved in the BLRA order and overseeing the commission and the ORS.

We have also spent time with the governor to make sure he's aware of where we are. He also serves as an official member of the Santee board of directors, given his position as governor. So we wanted to keep him informed. Our partner, Santee Cooper, has also spent time keeping him informed.

So we have spent a significant time with a variety of officials and the ORS to let them know what we know what is fact and not rumor, and we will continue to keep them informed as we go through this process.

Jonathan Reeder: Do you expect any support, I guess from the federal level officials as it might relate to the United States interests and Japanese interests?

Steve Byrne: Yes. Jonathan, this is Steve. We have had some conversations with administrations, energy and environment advisors, office of the vice president, that kind of thing.

I think they understand the situation. Their focus has been on the administration liaising with the Japanese government to ensure that Toshiba's in a position to stand behind their parental guarantees.

Obviously, our federal government is very concerned about a potential sale of Westinghouse and what that might mean. We happen to think a sale at Westinghouse would actually be positive and will be supportive of that.

We do think that the ongoing businesses at Westinghouse, they may or may not be in the national interest, but, certainly, we have an interest in those businesses going forward, because we operate a plant that relies on fuel from Westinghouse and services from Westinghouse.

So that's the profitable portions of their business that were outlined in the filing that Westinghouse gave today with the bankruptcy process. So we would hope to see a sale of the rest of the Westinghouse businesses.

Jonathan Reeder: Okay. Thanks for taking my questions today.

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

Dan Jenkins: So I just want to clarify, so currently my understanding is that Fluor is a contractor of Westinghouse, right, not of you, and, thus, they'd be a trade creditor of Westinghouse. Is that correct?

Jimmy Addison: That's correct.

Dan Jenkins: And are there any other significant subcontractors that are in that situation, like Newport News, et cetera?

Jimmy Addison: Yes. Those are or all delineated in that initial declarations filing that I mentioned earlier.

Dan Jenkins: Okay.

Jimmy Addison: Those are schedule one to that filing.

Dan Jenkins: Okay. And so are there any key subcomponents that aren't on site that these other trade creditors are currently working on that aren't on site, any key components?

Steve Byrne: Dan, from a component perspective, most of the components are on site. I think the only ones that are not are -- we've received a couple of reactor coolant pumps. We still have some yet to come. Let's see. Our last steam generator was delivered over the weekend. So that means that I think we've got one passive heat exchanger that has to come from Italy. I don't remember if that's on the high seas as we speak or not. That's coming from a Westinghouse subsidiary.

From a component perspective, I think we're in very good shape. There are, yet, some modules, flooring modules, mechanical modules, structural steel modules, that are being built by a variety of entities, mostly in the U.S., that will be on that list that Jimmy talked about.

So we are still dependent and reliant on them finishing. NNI would be a good example. NNI is making the shield building modules for us, and I don't have all of those shield building modules on site yet. They're working at NNI. The delivery's been very good. But obviously, we'd be very concerned with keeping NNI going.

Dan Jenkins: Yes. So does this agreement that you filed concurrently, does that cover then how the subcontractors and trade creditors and so forth, how their work would -- so that it would continue, and so they wouldn't be worried that they're not going to get paid and would just stop work on your components?

Steve Byrne: Yes. So the agreement, Dan, that we've got in place calls for us to pay them through Westinghouse, as has been the case in the past for all of the prospective costs. So they estimate those costs to us, we'll pay Westinghouse, Westinghouse will pay them. And that agreement, again, is approved by the Bankruptcy Court.

Going forward beyond the evaluation period, we would have to then evaluate whether we want to negotiate a contract directly with those sub-suppliers or vendors or step into Westinghouse contracts that already exist. So that's another piece of work we've got to do in the next month or two.

Dan Jenkins: Okay. So currently the work hasn't stopped, as far as you know, though? Everything's still going on as of today?

Steve Byrne: Yes, Dan, as far as I know, all of those vendors are still performing.

Dan Jenkins: Okay. Thank you. Good luck.

Jimmy Addison: Thanks.

Steve Byrne: Thanks.

Operator: Michael Weinstein of Credit Suisse.

Michael Weinstein: For the guarantee from Toshiba, I know it's 25% of costs incurred, right, to date so far on the project?

Steve Byrne: Correct.

Michael Weinstein: And have you released what that number is, what the amount of the guarantee is?

Jimmy Addison: Yes. Michael, I went through this, I think on the first question that came up in the Q.

But the short answer is, no, we haven't disclosed it. But I'll tell you, you can get very close to it by going to the most recent public BLRA report from December 31st, that we filed in mid-February.

Michael Weinstein: Right.

Jimmy Addison: And you can go to appendix 2, and you'll see our total cost through the end of the year was about $4.5 billion.

To make an estimate of what we paid Westinghouse, you've got to back out the owner's cost, the transmission cost, and the AFC of about $900 million, and you get to about $3.6 billion on that public document.

Michael Weinstein: Got you.

Jimmy Addison: So that's a little dated now, so it's going to be higher than that.

Michael Weinstein: Right.

Jimmy Addison: And that would yield you, at the 25%, about $900 million. Of course, that's only our 55%. So depending on whether you're looking at it for 55% for SCE&G or the project as a whole, project as a whole, you've got to gross it up to about $1.7 billion.

Michael Weinstein: Right. Right. And I guess that's about it for now. I think all my other questions were answered. Thanks.

Operator: Andrew [Teras] of Breckenridge.

Chris Woodward: It's actually Chris Woodward, with a quick question.

I think it goes back to natural gas. And just as far as we get this, [correct if] wrong, the state being regulated before the hearing as this process goes on and the abandonment scenario is addressed, will it be SCANA or SCE&G alone who presents the option of alternative generation in the form of, perhaps, combined cycle, which -- and I think, anecdotally anyway, might price cheaper than the cost overrun at this point?

And, if you could, maybe comment, it may be too much to speculate, but whether they would presumably allow full cost plus ROE on that as well. Thanks.

Steve Byrne: This is Steve, Chris. We, every time we have gone in for an increase to our Public Service Commission, we have done a study that compares the cost to complete the plants, including abandonment, with the cost to construct new combined cycle natural gas. And each time we've done that evaluation, it has come back more beneficial, more prudent to the benefit of the customer to complete the nuclear construction.

There's not necessarily requirement for us to do that. So I can't say whether that would be part of another filing going forward or not. But SCE&G has been the ones doing that evaluation to date.

Chris Woodward: Okay. So there's no other generator who could come forward then and evaluate what they could -- it's not a solicitation for capacity, in other words. It's just a straight-up comparison that you'll be providing as to what's prudent based on the costs that you estimate.

And I think with this cost overrun, I think it's obviously topping the charts a little bit, and if it's $1 a watt or so, it does appear to be cheaper to, perhaps, consider it. So I don't know how you'd frame that. But --

Jimmy Addison: But I think you're presuming there is no recovery from any of these financial backstops that we've talked about extensively today.

If you're only considering the cost side, it might get closer, but if you're considering the net benefit of the Westinghouse bankruptcy estate or the Toshiba guarantee, not necessarily.

Chris Woodward: So those resources couldn't be spent in that direction, okay.

Kevin Marsh: I want to make sure we've answered your question correctly. Any cost overrun would be offset by potential recoveries from Westinghouse and then backed up by the parental guarantee.

And based on what we know today on the numbers presented to us by Westinghouse, which we're going to be validating over the next 30 days, the parental guarantee alone would be sufficient to cover those cost overruns that they provided to us over and above the fixed price option as it stands today, approved by the commission.

So if we were to go back and determine -- I think, running down your scenario, we would have to determine that the cost to complete the plant would exceed the numbers they've given us to the point that it would be cheaper to build a new gas-fired plant along with the recovery of the abandonment cost.

That's a pretty high hurdle, which is why we got to take a good, steep look at what we've got in front of us.

Based on what we know today, which is what we tried to clarify upfront is, based on Westinghouse has given us is the cost overruns that they presented in these filings with the Bankruptcy Court, our parental guarantee would exceed that amount or be very close to it.

Chris Woodward: Okay. Yes. Thank you. I know we're all looking at that detail ourselves as well. So thanks again.

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

Kevin Marsh: Thank you all for joining the call this afternoon. I know you've had a lot of questions. We're going to work as diligently as we can to get through this process and make your decisions going forward.

We appreciate your continued interest, and we will continue to keep you informed as we have new development. Thanks and have a great afternoon.

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