SCANA Corporation [SCG]
Analyst Conference
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Company Representatives:
Iris Griffin; VP, Finance
Kevin Marsh; CEO, SCANA
Jimmy Addison; CFO, SCANA

Analysts:
Travis Miller; Morningstar, Inc.
Michael Lapides; Goldman Sachs
Mike Weinstein; Credit Suisse
Kamal Patel; Wells Fargo Securities
Steve Fleishman; Wolfe Research
Ashar Khan; Virition Asset Management
Paul Patterson; Glenrock Associates
Mitchell Moss; Lord Abbett & Co.
Dan Jenkins; State of Wisconsin Investment Board
Stephen Byrd; Morgan Stanley
Angie Storozynski; 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'd like to welcome everyone to the SCANA Corporation conference call. (Operator Instructions) As a reminder, this conference call is being recorded on Monday, July 31, 2017. Anyone who does not consent to the taping may drop off the line.

At this time I would like to turn the call over to Iris Griffin, VP of Finance.

Iris Griffin: Good afternoon, and thank you for joining us.

We're hosting this call to discuss the announcement we made earlier today regarding the decision to cease construction and pursue abandonment of the new nuclear project under the provisions of the Base Load Review Act, what you can expect from the regulatory process to follow, and SCANA's strategy going forward.

Kevin Marsh, SCANA's Chairman and CEO, and Jimmy Addison, SCANA's Chief Financial Officer, will lead you through some brief prepared remarks and then will respond to any questions you have. Steve Byrne, SCE&G's Chief Operating Officer, is at the plant site briefing our new nuclear team, and will not be available for today's call. After our comments we'll respond to your questions.

The slides referred to in this call are available at scana.com.

Finally, before I turn the call over to Kevin I would like to remind you that certain statements that may be made during today's call are considered forward-looking statements and are subject to a number of risks and uncertainties, as shown on Slide 2. The Company does not recognize an obligation to update any forward-looking statement.

Additionally, we may disclose certain non-GAAP measures during this presentation, and the required Reg G information can be found in the Investors section of our website under Webcasts and Presentations.

I will now turn the call over to Kevin.

Kevin Marsh: Thanks, Iris. And I'll ask you to please turn to Slide 3. As you aware, the Westinghouse bankruptcy removed the benefits and protection of the Fixed Price Option. This caused SCANA and our project co-owner, Santee Cooper, to reevaluate the entire new nuclear project from all perspectives. To accomplish this task we formed a review team supported by external consulting firms and industry experts. This team conducted a thorough evaluation of the cost and completion schedules for the new units.

Our evaluation process included recomputing of required units of labor and construction commodities needed to complete construction of the nuclear units and creating models, developing staffing plans and scrutinizing available information to fully vet multiple planning scenarios and arrive at the most prudent decision.

Slide 3 outlines some of the results from that evaluation. As you can see, we projected revised in-service dates to be December of 2022 and March of 2024 for Units 2 and 3, respectively. These projected revised in-service dates exceed the regulatory 18-month contingency window in our current order from the Public Service Commission of South Carolina and the dates provided by Westinghouse earlier this year. In addition, the costs associated with completing both units, net of the anticipated Toshiba guaranty payments materially exceeded the fixed-price cost amounts last approved by the Public Service Commission and important construction and financial risk still existed.

Completing Unit 2 and abandoning Unit 3 would have reduced our exposure to construction and financial risk. We determined that completing one unit and supplementing our remaining generation needs with a natural-gas-fired facility resulted in a combined cost that was less than the cost approved by the PSC and the fixed-price option for the two new nuclear units. This solution, though subject to significant challenges, would have provided roughly the same amount of generation capacity. The cost estimate was one of several factors considered during our evaluation. Slide 4 lists some of the additional risks included in our assessment for completing Unit 2 and abandoning Unit 3.

While we were still evaluating the viability of this option, senior management of Santee Cooper informed us of their evaluative results and the likelihood that their board would approve a plan to suspend construction of Units 2 and 3. As noted in our press release, the Santee board approved that plan today.

Santee's decision to suspend construction of the project made further analysis of this alternative unnecessary, as SCG concluded it would not be in the best interest of its customers and other stakeholders to continue construction of the project on its own. In an effort to consider all possible avenues, we reached out to other potential partners and pursued governmental support. Neither of those efforts has been successful. As a result, SCE&G will cease construction of both new nuclear units.

Additionally we will conduct an allowable ex parte communication briefing with the Public Service Commission of South Carolina tomorrow, and file a petition to seek recovery of the project costs under the abandonment provisions of the Base Load Review Act.

Abandoning a project has always been our least desired option because of the long-term hedge, the new nuclear generation provided our customers against carbon legislation or regulation, and volatility and natural gas prices. We kept an open mind throughout our evaluation and allowed facts and sound business judgment to drive our decision to determine the most prudent path forward.

Obviously this news is very disappointing to our employees, contractors and others who have supported the project since inception. Our new nuclear team consists of some of the most dedicated, hardworking and passionate people you will find anywhere and we're proud of the work they have done. We are sensitive to the hardship this decision will cause for all connected to the project.

Slide 5 presents the timeline for the filing of the abandonment petition, as well as a request for revised rates to seek recovery of the costs spent on the project since July 1, 2016. As a reminder, the Commission must take up a vote on our petition within six months from the date it is filed. We expect to continue to work with the Office of Regulatory Staff and any other intervening parties to attempt to reach a fair and balanced resolution to this matter.

I will now turn the call over to Jimmy to further discuss our regulatory strategy and how this decision affects our company's financial plan.

Jimmy Addison: Thanks, Kevin.

Please turn to Slide 6. As Kevin mentioned, we will be filing a petition with the PSC tomorrow, seeking approval to abandon the project and to present a rate mitigation plan under the abandonment provisions of the BLRA. We will seek to amortize the asset over 60 years. Importantly, 100% of the anticipated net cash payments from the Toshiba settlement will be used to provide rate relief for our customers over the next few years.

Additionally, I want to highlight the abandonment provisions of the BLRA law that we will be seeking to apply to our project costs. The law contemplated this type of scenario when it was written. It allows for the recovery of project costs as well as an earned return in an abandonment scenario.

We went through an extensive prudency review as part of the original decision to build nuclear. The costs spent through June 2016 have been deemed prudently incurred. The question at this point is whether the decision to abandon is prudent, and whether the costs incurred after June of 2016 are prudent. Based on the facts Kevin presented, particularly the suspension of construction of our project co-owner, we are confident we're making a prudent decision that is in the best interests of our customers.

Now please turn to Slide 7. This slide presents the overall expected economic impact of the abandonment, including the cost increases to date and those expected over the next few months to wind down the site, the expected benefits under the anticipated Toshiba guaranteed payments, and the tax impacts of both. This is not a proposed rate base adjustment, but simply the overall economics.

As part of the petition we plan to propose a rate mitigation plan to the PSC. Here you can see the current cost of the abandoned units is approximately $4.9 billion, for which we will seek recovery. The cash anticipated from the Toshiba settlement, as well as the cash from tax deductions from writing off the asset and the previously claimed 174 expenditures will be used to mitigate pressure on customer rates.

The Toshiba settlement will be refunded over a short time period with a decrement rider, while the tax deductions will be used to maintain the electric ROE and avoid future rate increases in the near term.

I'd now like to discuss the implications of this decision on SCANA's operations and financial plan.

Slide 8 presents our updated CapEx forecast. This forecast reflects the Company's CapEx projections through 2019, with the principal change being related to the new nuclear project, but it includes other minor updates as well. You can see at the bottom of the slide, cumulative CapEx through 2019 has decreased by approximately $2 billion, largely due to the decision to abandon the new nuclear project, which will significantly reduce our reliance on external financing during this time period.

Now please turn to Slide 9 to review our updated financing plan over the same period. As you will notice, we plan to refinance debt at SCE&G next year due to the timing of anticipated cash flows from the Toshiba settlement and the implementation of the customer decrement rider. We no longer have a need to issue new debt at SCE&G during the next few years, as it transitions from a net cash user to a net cash producer.

On Slide 10 we present the net change in our estimated financings from what was presented during our Q1 earnings call. As you can see, the results of this decision is almost $1.6 billion less in debt issuances through 2019 than previously estimated, with the only new issuances planned for PSNC Energy to support its relatively large capital program with a balanced capital structure.

Additionally, you will notice that our net equity need has decreased by approximately $900 million through 2019, as we intend to initiate a share buyback program. While we have only presented this information through 2019 to accompany the CapEx plan, we expect to be able to continue the buyback for a few more years. As a result, our aggregate buyback could reach $1 billion over the next five years. Of course we will evaluate this strategy dynamically while maintaining our commitment to our current dividend policy. Upon concluding regulatory proceedings our goal would be to resolve negative credit outlooks and maintain investment-grade credit ratings at the operating companies and at the holding company.

On Slide 11 we are reaffirming our 2017 GAAP-adjusted, weather-normalized earnings guidance range of $4.15 to $4.35 per share, and our internal target of $4.25 per share.

Our long-term GAAP-adjusted, weather-normalized annual growth guidance target remains unchanged, as we plan to deliver 4% to 6% earnings growth over three to five years using a base of 2016's GAAP-adjusted, weather-normalized EPS of $3.97 per share. We plan to deliver this EPS growth through organic net growth, O&M control, and our previously mentioned share buyback program.

Slide 12 compares some of the various aspects of our five-year plan before and after our decision to cease construction of the new nuclear project.

To summarize, as we move from being a net cash user to being a net cash generator, we plan to focus our strategy around our core electric and gas businesses. This strategy will put us in an advantageous position to redeploy capital, as previously discussed.

Obviously, the nuclear construction risk has been abated with this decision, and we will soon reach a regulatory conclusion providing much more clarity to our shareholders and rating agencies. Additionally, we'll be able to capitalize on our existing growth strategy and focus all of our attention on executing our plan.

And, finally, before I open up the Q&A session, I want to take a minute to thank all of our stakeholders, including our employees and communities, for being patient while we worked through this complex situation. Throughout this process we've had to negotiate both the time zone differences when trying to work with Toshiba, and public disclosure logistics due to Santee Cooper's public board meetings. Attempting to be transparent and timely with communications is always one of our priorities, and balancing those aforementioned issues has made sequencing these announcements challenging.

We will now be glad to take your questions.

Questions & Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions)

Travis Miller; Morningstar.

Travis Miller: I was wondering what happens if the Public Service Commission comes back and says, "No, we don't accept your proposal to abandon the project, or even to stop construction." What happens in that case?

Kevin Marsh: Well, that is certainly an option. I think they could choose to reject the decision we've made. However, I feel comfortable once we've presented them with the evidence of our evaluation and the basis for our decision, we believe they will find that prudent. Certainly there have been groups in the State that have asked us for several years to stop construction of the plant. I don't think that will drive the Commission's decision.

But we've taken a full review of the project and we've evaluated it from every angle we're aware of. And that has all been pulled together to help us make the decision. It was not a decision we made lightly. As we told the Commission back in April, I think when we were there for our ex parte briefing, that our preference was to finish the plants. I've also talked to the Governor and he's disappointed we were not able to finish the plants but understands it's due to the failure of Westinghouse to deliver on its Fixed Price contract. That's what led to this evaluation and got us into this predicament.

So when we take that information back to the Commission, I believe it's in a complete enough form that they will understand our rationale in trying to balance the interests of all of our stakeholders and especially the impact it will have on our customers' rates going forward. And I can't speak for the Commission because they've got to hear all the evidence, but I'm confident in the presentation we will make before them.

Travis Miller: Okay. And then what's the option of another party coming into it, either as an investor or on the construction side?

Kevin Marsh: Well, clearly, with Santee in the project it made sense for us to continue evaluating the build one plant and cancel one plant option. Unfortunately, because they did their evaluation and determined that because of lower customer growth they were experiencing and some slowing in their demand for new generation, they felt like the additional cost to their customers was too great for them to proceed.

And I do want to say Santee has been a great partner. They've been a loyal partner in Unit 1 for over 30 years. They've been a loyal partner throughout this process. But we understand they had an independent evaluation they had to make, and in making that evaluation it left us without a partner to proceed. So without an additional partner it made it difficult for us to go forward.

We did reach out to a couple of utilities to find out if we could find some that would have interest in joining the project and we did not find any interest that materialized from those discussions.

So it is possible that someone could step forward and say, "We'd like to consider joining this project." I would have to be realistic with you though and tell you I think that would take many months for us to come to a new construction agreement, determine what percentages everybody would be willing to participate, draft those agreements, go back before the Public Service Commission and have the project reconstituted. I think that would be a challenging effort, although it could be -- it could happen if the right information were to materialize or right partner were to step forward. But we don't know of an option along those lines at this point, which is what led us to the abandonment decision without having Santee.

Travis Miller: Okay, great. Appreciate it.

Operator: Michael Lapides; Goldman Sachs.

Michael Lapides: Got a question for you, Jimmy. Slide 7 -- can you walk us through the tax deduction component of this? I'm not entirely sure I understand, and you kind of went through that a little bit quickly. Can you walk us through the 38.25% times the $4 billion, so the $1.5 billion, how that can -- when you'll be able to take that deduction and when that deduction actually converts into cash? How should we just be thinking about this and then how you actually file for that component of it when you make your filing?

Jimmy Addison: Sure. So statutory tax rate times the tax basis -- let me start off there and then I'll get into your cash part of the question.

One of the unique parts of this is that the tax basis is higher than the book basis, because for tax purposes we're not able to deduct the interest we've been incurring along the way. So that's been capitalized on top of the project costs for tax purposes. So there's a larger tax deduction than you would just get off the face of the book basis, since we've been expensing that book interest, treating it differently along the way.

But when it gets to your tax -- cash question, roughly that part on the R&E deduction we've been taking along the way. So about a quarter of the cash has been realized to this point, the $0.5 billion. And of the other $1.5 billion, by the end of 2018 we'll get about a third of that. So about $1 billion of the tax cash we project to be realized by the end of 2018, with the balance to be handled over the next few years, part of it, or most of it, in NOL carryforwards over 2019, 2020 and 2021. So virtually all of it will be realized by the end of 2021.

Michael Lapides: Got it. And I understand you're making the filing tomorrow. But can you talk to us about what this means to the customer bill over the next couple years?

Jimmy Addison: Yes. So our intention -- obviously we've got the -- everything through the middle of 2016 is already in rates for return on -- for carrying costs. We will have to either mechanically through a revised rates filing or through the abandonment procedure itself, we're going to work with ORS to determine the best path there. We'll have to get those additional costs in for the remaining 15 months, from July of 2016 through basically the end of this third quarter as we wind down. So those have to go in.

But our proposal will include a plan to mitigate all of that. So our intention would be to not have a customer's bill go up as a result of bringing in that last increment and, in fact, not have a customer's bill go up for the next several years, even for the amortization of the return of the total cost of $4.9 billion.

So we've got a plan we're going to present tomorrow initially to the Commission. And it will be in our application we'll file tomorrow that would mitigate any increase in customers' bills for the next several years, while still allowing for the amortization of the $4.9 billion and a return on it based upon cap structure.

Michael Lapides: But the real amount you're going to see amortized isn't the full $4.9 billion; it's really just the $4.2 billion.

Jimmy Addison: No, it initially is the $4.9 billion, because we don't have those other components yet. There will be quite a period of time before we get those. And those costs don't get netted against rate base until you realize the cash.

Michael Lapides: Got it. Okay. So you would then reduce effectively that $4.9 billion amount as you get the other sources of cash outlined on the slide in the door?

Jimmy Addison: That's right. Those will go to offset it. Now the Toshiba guaranty, we're going to want to pass that back, if you will, almost immediately to customers to help mitigate any of these rate increases. So that will be almost like in and out to the customers' benefit. So that will not be there to really mitigate rate base, if you will. We're going to pass it back directly to customers.

Michael Lapides: Got it. Thank you, Jimmy. Much appreciated.

Operator: Mike Weinstein; Credit Suisse.

Mike Weinstein: I know this was a tough decision. Just wanted to extend my sympathies for you on that one. I wanted to ask you though, is there any possibility that the Commission could make a decision to securitize rather than allow you to recover over 60 years?

Jimmy Addison: Yes, Michael, really securitization, our awareness of it, has really been used mostly in a reactionary mode in the past. And while we thought it was a very small possibility, the abandonment was contemplated in the original BLRA law. And in our opinion, investors based their investments upon that law as they went around.

In fact, when I was still a young man 11 years ago and first started coming around to you guys talking about this plan, even as we originally pitched it we said, "This is a key provision because of the challenges of doing something that hasn't been done in 30 years." It was in the original pitch books back in 2006 when we were going around the Street talking about this before there were any investments made.

So it's been contemplated all along, and of course includes the recovery of and the return on capital. So I believe that the ORS and the Commission will be in a position to support the law as it's written.

Mike Weinstein: Okay. Thank you very much.

Operator: Kamal Patel; Wells Fargo.

Kamal Patel: Jimmy, going back to the Toshiba guaranty, customers would realize the benefit up front, but you will still be realizing that cash through installment payments through 2022. Is that correct?

Jimmy Addison: Well, we're really going to -- it's kind of going to be like a flow-through. So you might think of it almost like a fuel clause kind of deal where we're going to get the cash and use it to give customers decrement riders in these first few years, just to keep there from being any impact of bringing in this remaining 15 months of the CWIP and from the amortization of the entire abandonment balance.

Kamal Patel: So from a net cash perspective you're not ending up in a shortfall for a long period.

Jimmy Addison: That's exactly right. There might be a little working capital issue one way or the other intra-year, but we don't expect there to be any significant impact either way.

Kamal Patel: Okay.

Jimmy Addison: Nothing we can't handle through our liquidity facilities.

Kamal Patel: Okay. Michael's question on securitization, is it -- my understanding is that legislatively it still has to be cleared. But independent of that, will there be a breaking point between, for example, if the Staff or the Commission comes back and says you have to take a ROE haircut on your asset base, where it makes for sense for you to securitize and clean up the balance sheet of this issue so you can move forward with anything else that you want to build in the future?

Jimmy Addison: Like I said earlier, I think that the law provides a way for us to deal with this, especially since our rate mitigation plan keeps any increases off of customers for several years. We're interested in entertaining those settlement discussions with ORS and other interveners. We've been able to reach those in every proceeding so far related to these nuclear plants, at least with some parties, and in each case ORS.

I would remind you that although we're at 10.25% ROE now on the new nuclear investment, the same as we are in our base business, that's an important point, because it makes sense to keep those at the same number, because at some point you're going to end up with all this rate base kind of melded together.

10.25% is not the cumulative number, if you will, because we had several vintages. The first several years we were at 11% and then a year or so at 10.5% and then the most recently at 10.25%. So the weighted average of what's in rates today is more like 10.9%. So I think there's some room in there for us to have some very constructive discussions with ORS and others that are reasonable to try to work on that some and still have a reasonable solution that we can handle within the existing law.

Kamal Patel: Okay. Thanks for your time.

Operator: Steve Fleishman; Wolfe Research.

Steve Fleishman: So just a couple questions. I'm not sure I understand the mechanics here. So at a high level, if you're getting this much cash back through Toshiba guaranty and through the tax deductions, in theory that should lower your rate base meaningfully, which would actually maybe be able to lower rates to customers. And it also creates kind of less earning rate base. And so I'm a little confused then in that light how you're still able to keep the same earnings growth rate.

Jimmy Addison: Well, our intention is to basically pass the Toshiba -- those back through a decrement rider so that we're just passing those back to the customers. So kind of set that one aside first. On the tax deductions, the taxes really aren't part of the BLRA law. And so we plan to use those tax benefits to offset the base electric business rate base growth that's out there -- we're still investing roughly $500 million a year in the base business due to the growing territory we're in.

So that helps mitigate any pressure for an otherwise base rate increase, which we think is important. I mean, customers have had a tough time with this the last several years. We're very aware of that. Our intention is to stay away from any kind of increases, on the backs of this and on customers' bills.

But what we still have, Steve, is a very robust customer growth area. We've got one of the greatest economies in the country. We've got almost economically full employment right here where our headquarters sits in South Carolina, around 4%. So we're still adding customers that are profitable, industrial customers, as well as our gas businesses, have become significant growth engines in North Carolina and South Carolina, too.

So I think what's really happening is getting this nuclear construction cloud off the large CapEx, the additional debt cost, the equity that we would have had to raise additionally in the future, has kind of made it clear the pure growth story we've had all along.

Kevin Marsh: Steve, this is Kevin. I think you actually will see a realization of these tax deductions coming off the rate base. It's just not the new nuclear rate base. It's our existing rate base. So your assumption was correct. And that's what helps us support a period of no increases for customers.

Steve Fleishman: Okay. But then -- and so just if you follow that, if you're lowering the rate base for that, that would have been there, and instead using extra cash for buyback, in theory there still should be some decrement to growth from that, because you earn a better return in your rate base than through buybacks, I think. Is there just other offsets that you earn? Like, are you going to earn a better return in the base business now? Because I know you've been under-earning there.

Jimmy Addison: I wouldn't say we've been under-earning. In our opinion we've got a reasonable ROE now of 10.25% allowed and we've been earning in the 9.5% to 10% range the last several quarters. So I wouldn't say under-earning. And I define that by is it enough that we would, if we weren't even having a nuclear construction program, would we go file a rate case for that. And, no, 25 or 50 basis points I wouldn't recommend that.

So I don't think we're going to be in a position where we have been or would be under-earning, except these tax assets as Kevin said, or tax receipts, are going to help offset that rate base growth.

Steve Fleishman: Okay. One last question -- any thoughts on when you would need to replace the generation and what type of generation?

Kevin Marsh: Well, we are currently purchasing 300 megawatts of generation today. That contract is in place to the end of 2019. Since these units were not anticipated to come on until around 2020, that gives us time to evaluate the exact source and the size of that generation that would come on. Based on what we know today, we believe that would be gas-fired generation that we could base load, because that's the generation we need.

But we've got time to evaluate that and make those decisions. We feel like there's ample capacity in the marketplace to continue some of those purchases if we needed to. But we don't want to get into a position where we're purchasing too much and then need to have that rate base replacement for the base load needs.

Steve Fleishman: Okay. Thank you.

Operator: Ashar Khan; Viritium.

Ashar Khan: So congratulations. I think this was the right decision. And took some time, but hopefully the regulators -- pretty clear to us in the financial community, so hopefully it's clear to the regulators as well.

Jimmy, just to understand the growth, so you're purchasing something like, by dollar amounts, approximately about 4% in 2018 and 2019. So is the earnings growth been really in those two years being driven by the buyback? Or is there some earnings growth just from the other businesses or from this recovery that you have assumed in the next two years?

Jimmy Addison: Yes. Of the earnings growth over the next several years, about two-thirds of it is driven by core absolute dollar net income growth, and about a third is driven by the incremental EPS growth on top of that from share buybacks.

So there is some -- you know our business. There is some lumpiness in that based upon when there are rate cases, for example, in the gas businesses, that kind of thing. When the integrity management work closes at PSNC that would create additional rates there, et cetera. So there is some lumpiness to that. And there is a bit of lumpiness to the share buybacks, too, based upon when we expect to receive the benefits from the tax cash.

What you've got is a palatable plan at this point. We would expect to refine that plan as we learn more about how those dollars materialize. One of the things that could occur, we expect probably will occur, for example with the Toshiba guaranty, is the Westinghouse estate will be liquidated at some point. And a significant piece, maybe even up to a half, of the Toshiba overall liability might be satisfied through that. That could accelerate some of those payments, give us more flexibility, et cetera.

So we're giving you our best estimate now and we'll have to just refine that dynamically each time we update you each quarter.

Ashar Khan: Okay. But just to repeat it, you said for the next two years, two-thirds is coming from other stuff and one-third you presumed from buybacks in terms of growth.

Jimmy Addison: What I responded to -- I'm giving you over the entire earnings period that we're giving you guidance on. So over the three- to five-year period, my comment applies to that three- to five-year period.

Ashar Khan: Okay. But what about specifically 2018 and 2019, because you gave --

Jimmy Addison: I'm not going to get into individual years. There's too many moving parts here for me to try to nail down any of those. I'm going to give you long-term guidance and how it contributes there.

Ashar Khan: Okay. Thank you.

Operator: Paul Patterson; Glenrock Associates.

Paul Patterson: So just to clarify two things -- first of all, you guys don't project any needed rate increase at all for the next couple of years due to your plan. Correct?

Jimmy Addison: In the electric business, correct.

Paul Patterson: Okay. And then, the timing of the Toshiba --

Jimmy Addison: Paul, let me clarify. None that's not equally offset by decrement rider. So we've certainly got to get these remaining 15 months of CWIP into rates. And as I said earlier, we're working with ORS to determine if that's best done through the revised rates mechanism or do you do it as part of the abandonment process itself. That will create a rate increase that we will equally offset with a rate decrement. So the customer will not feel any difference. I just want to make sure I'm straightforward with the answer.

Paul Patterson: I got you. And then the timing of the Toshiba proceeds -- I'm sorry if I missed it -- when are the proceeds supposed to be coming in?

Jimmy Addison: So they start in installments beginning in October, couple months from now. And they continue for up to five years. And the Westinghouse liquidation I guess is the largest variable in there. Whatever comes out of that to SCANA will take the installments off the back end of that cycle.

So basically they're about five years worth of monthly installments. And when the Westinghouse liquidation happens it will remove several months off the back end of it. So it could be anywhere from a five-year period to a three-year period. And if Toshiba chose to pay it off early they have that flexibility in the settlement agreement as well.

Paul Patterson: So the proceeds from Westinghouse will essentially offset the Toshiba guarantee?

Jimmy Addison: That's right. Essentially the guarantee is a wrapper on top of it that says whatever's not satisfied from that liquidation, here's the balance that we owe you.

Paul Patterson: Okay. And then the 60 years, is that simply being done for ratepayers' benefit? It seems like a long time for an amortization.

Jimmy Addison: Yes. It's primarily for the ratepayers' benefit. And I guess the objective part of it is that's the life we would have amortized the asset over likely anyway if we had put it into service. But it's really meant to help mitigate the rate impact.

Paul Patterson: And what's the amount of the post-prudency costs that haven't yet been found prudent? What's the estimate that you have that in terms of the cost for that?

Jimmy Addison: Yes. Don't know if I have that nearby.

Paul Patterson: Roughly speaking.

Jimmy Addison: Yes, about $1.5 billion.

Paul Patterson: Okay. Just finally I guess, so I guess Steve was sort of asking this question. The generation -- so it looks like there's really not a big increase in generation spend in the normal part of the business. Although you have a contract that I think expires in 2019, you guys are going to wait before you start developing a new gas plant or anything like that. Is that the thinking or is that going to be revised or ?

Kevin Marsh: Well, we've got the commitment on the 300 megawatts that goes out through the end of 2019. So we'll be evaluating between now and then what the size and specific need would be. I believe now is that that would be base load gas-fired generation.

Paul Patterson: So we might be seeing some spending maybe in 2019?

Kevin Marsh: I can't give you a specific year. I think it depends on the actual timing of when that would come on, based on our load growth we see over the next two to three years. We just believe we've got some flexibility to evaluate that before we make the firm decision. It might be that there's additional capacity out there that's in the best interest of our customers to continue buying capacity, depending on what the requirements are.

Jimmy Addison: And, Paul, I'd say obviously as soon as we get our hands around -- you might imagine it's been very, very busy the last seven months here. And as soon as we get our hands around what is the best answer there as we start moving through this regulatory process here, we'll certainly incorporate that into our CapEx plan.

Kevin Marsh: And also, Paul, we generally file our updated integrated resource plan in February with the Public Service Commission. And I believe we'll have some more insights -- if we've got updates that would be included in that plan that we could give you more information about that specifically at that time.

Paul Patterson: Okay, great. I appreciate it. Thanks so much.

Operator: (Operator Instructions) Mitchell Moss; Lord, Abbett.

Mitchell Moss: Most of my questions have been answered. Just wanted to reconfirm. So there's $1.5 billion of CapEx still to be recovered or that hasn't yet been deemed prudent. Is that correct?

Jimmy Addison: That's right. That's what's been spent or is projected to be spent between June 30, 2016 and the time we wrap this up as we wind it down. So some of it's behind us. And I would say probably $1 billion, $1.25 billion, is probably already spent and probably $0.25 billion of that is in the estimate to wind down of transitional costs.

Mitchell Moss: And then the $4.9 billion, is that part of the same prudency review that the $1.5 billion is falling under? Or is there a different kind of prudency recovery assessment on that?

Jimmy Addison: So the $4.9 billion is the aggregate total.

Mitchell Moss: Oh.

Jimmy Addison: And the $1.5 billion is the portion that has not gone through the process yet. So were we going forward with the units we would simply file a revised rates request like we have every year the last several years, and it would pick up that transitional CWIP. But since we're not, we've got to do it here as part of this process.

Mitchell Moss: Okay. So the $1.5 billion is not total abandonment costs, I guess.

Jimmy Addison: No, $4.9 billion is the total abandonment.

Mitchell Moss: Okay. Great. Thank you.

Operator: Dan Jenkins; State of Wisconsin Investment Board.

Dan Jenkins: So I was curious if you've considered or looked at if there's any salvage value related to the plant that could maybe mitigate the costs as well. I'm not -- so I think there's still some AP1000s being constructed in Asia -- you know, if any of the components could maybe be sold to those, since I think they're supposed to be interchangeable. Or have you looked at if you did build new generation at the site would you be able to likely use cooling towers or steam generators or any other components? Have you analyzed or thought about that at all?

Kevin Marsh: Yes, Dan. This is Kevin. We have not included any estimates for recovery in the filing we expect to file with the Commission. But there is the opportunity for that to occur. As part of the shutdown of the site, we'll be developing a plan that would allow us to continue the maintenance on the equipment that's on site, so if we do have an interested buyer it would still be in operating condition.

So it really depends on who's building AP1000s. I think if Steve were here he would tell you this is probably a binary decision. If there's somebody that's looking to build AP1000s in the near term, those parts would be available and there might be some real opportunities to recover the costs associated with them, or a portion of the costs associated with them. If nobody's building, I don't know that those parts can be effectively used in any other operation. But we will certainly do the research and evaluation to determine if that could occur.

If you're looking at a scrap proposition, there's probably not a lot more value in that equipment from a scrap perspective than there is in the benefit of a tax deduction. So we'd have to evaluate that just on a case-by-case basis.

I can't tell you if they'll be interest. We're anxiously waiting to see what China does. They have a number of AP1000s that are potentially on the board, once they get the Sanmen and Haiyang up and running. So there could be some interest there. We've had some parts we've exchanged with them because they were ahead of us that they replaced at later dates. So we know that process does work. If the projects in India get off the ground or some of those in the UK get started, there could potentially be a market for those.

With respect to using some of the equipment on site to provide additional generation through other configurations, with the size of the turbine it's not likely that that would be an efficient combination for our gas-fired units, because most of those are two on one, or three on one to get the most efficiency from the combined cycle configuration. So I don't think that would be a likely scenario.

With respect to the cooling towers, I'd have to confer with Steve. He'll be back on the call with us on Thursday. He can let you know for sure. But the cooling towers potentially could be used in another operation if they were on site. But I'll let Steve address that further with you on Thursday.

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

Operator: Stephen Byrd; Morgan Stanley.

Stephen Byrd: I wanted to just understand the net changes to your rate base investment I guess as a total company as a result of this. And I guess this goes back to Steve's point on the tax loss benefit reducing your net rate base. What would be the net change to your other, maybe 2016 or 2017 rate base, your sort of core earnings power as a result of these sort of series of changes that you walked us through?

Jimmy Addison: Well, I would say that on the tax issue, realize that, as we presented on Slide 7, about $0.5 billion of that has already been realized through the R&D tax deduction. So that's already built into the, if you will, offset against non-nuclear rate base. It's already out there in tax cash and is passed along as a net reduction against the rate base.

Of the other tax cash, we expect to get some refunds in both 2017 and 2018 that are in the ballpark of $350 million, or $375 million, something like that, in aggregate between the two years. And then the balance of it will be used in NOLs.

So it's not a huge offset to rate base in the early years. You've really got to work through it over the period from now through 2021 to get the entire effect of that additional $1.5 billion in.

Stephen Byrd: Okay. Understood. So it's gradual. It's not a huge impact in any one year. I understand that.

Jimmy Addison: Right.

Stephen Byrd: Okay. Thank you. That's all I had.

Operator: Angie Storozynski; Macquarie.

Angie Storozynski: I actually wanted to go back to this rate-based question. So I understand that it's a gradual reduction in the rate base. But I have a gradual reduction of the rate base, a falling ROE, given that the weighted average is 10.9 and you clearly seem open to some negotiations. Yes, so there are some share buybacks that will lessen the impact on the EPS growth. But is it simply that you're keeping the range 4% to 6% for EPS CAGR because you're going to be basically at the lower end of that range under the new plan than you would have been at the high end? Or is there another driver that I'm missing?

Jimmy Addison: Okay, fair question. First of all, let me start off with CapEx, post new nuclear. So if you look at that, we're going to be investing the $800 million to $900 million a year in new CapEx across the different businesses. So there is the tax benefits, if you will, that are coming in to offset that are not nearly enough to mitigate that. And a great deal of that are in our gas businesses, driven by the low cost of natural gas and the demand for it from industrials and others to expand the systems, along with integrity management. So it's not that rate base is declining at all. It's just would not be growing as fast as it would otherwise. So that's what -- I would start off with that.

Now about the 4% to 6%, our absolute dollar net income growth is within that range of 4% to 6%. And I also said earlier that the share buybacks were going to help boost about a third of that. So it isn't that we're -- on an EPS basis we're not at all near the lower end of the band. In fact, I'd say we're in the top end of the band on an EPS basis. The net income is in the lower half.

Angie Storozynski: Okay. But what's -- does it assume any detriment in the ROE on the nuclear portion of the rate base?

Jimmy Addison: No. That's the reason we give you a range, is we feel like we've got a range out there that reasonably allows for us to reach some type of negotiated settlement that would be considered reasonable to all. We'll have to see how that process goes. We're not bound to some kind of settlement. We're not required to take a lower ROE. The ROE can't be changed unless the utility suggests it be changed under the law. But like in these past couple of times we've had cost increases, we've been open to negotiating that with reasonable parties. And I would expect we'll find reasonable parties at the table again this time.

Angie Storozynski: Great. Just last question on the replacement of power generation capacity -- okay, so the 300 megawatt contract expires by the end of 2019. But it's just a fraction of what you would have added in the new generation capacity. And assuming that it takes two to three years to build a gas brand, when is the latest you can actually start a project like this?

Kevin Marsh: You know, you're probably right on the two- to three-year timeline for the project. But I would go back and point out if you look in our integrated resource plan, at the time that the two nuclears come online, we'd go over our 20% reserve margin for a small period of time, just due to the size or the capacity of the units. The flexibility of adding a gas unit is we could add it when we need it without having to go over the reserve margin. Our reserve margin's in that 14% to 20% range.

So we'll be nearing the low end of that reserve margin as we get to that 2020 timeframe. So we've got flexibility in making that decision. I don't think it's important to go in immediately in 2020. It might be able to come on in 2021. And do I don't think we're squeezed in a timeframe at this point to make that decision. I think once we evaluate this case, we get clear destination on the cash flows and decision by the Commission and we look at that in relation to our overall CapEx, we can time that to minimize the impact on customers.

Angie Storozynski: Very good, because your statements about the lack of increases in customer bills does not account for this additional generation capacity that would need to be added.

Jimmy Addison: Well, it does not, but I suspect based upon when we might need it that we would be able to gradually build that during the period and not impact customers over these next few years and just defer some of that cost until the project was moving along a little further before we would propose anything in rates.

But we really don't know the answer yet. It might be a combination of purchasing additional capacity for a slightly longer period and then adding an asset later. We just haven't sorted through that. We've obviously had our hands full over the last six months sorting through the right answer here.

The good thing is, there's plenty of power in the Southeast right now. We'll sort that out in the longer run.

Angie Storozynski: Thank you.

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

Iris Griffin: Thank you for joining us today. We hope this call has aided in your understanding of our decision, regulatory strategy and prospective plans. We'll be available again on Thursday for our regular quarterly call.

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