[SCANA] - SCANA Corporation First Quarter 2016 Earnings Conference Call/Webcast
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Mike Weinstein; UBS
Stephen Byrd; Morgan Stanley
Feliks Kerman; Visium Asset Management.
Travis Miller; Morningstar
Dan Jenkins; State of Wisconsin Investment Board
Paul Patterson; Glenrock Associates
Andy Levi; Avon Capital
David Paz; Wolfe Research
Andrew Weisel; Macquarie

Presentation

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

As a reminder, this conference call is being recorded on Thursday, April 28th, 2016. 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 Susan Wright, Director of Financial Planning and Investor Relations.

Susan Wright: Thank you, and welcome to our analyst call. As you know, earlier today we announced financial results for the first quarter of 2016.

Joining us on the call today are Jimmy Addison, SCANA's Chief Financial Officer, and Steve Byrne, Chief Operating Officer of SCE&G. During the call, Jimmy will provide an overview of our financial results. Steve will provide an update on our new nuclear project.

After our comments, we will respond to your questions.

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

Additionally, we post information related to our new nuclear project and other investor information directly to our website at scana.com. On SCANA's homepage, there is a yellow box containing links to the nuclear development and other investor information sections of the website.

It is possible that some of the information that we will be posting from time to time may be deemed material information that has not otherwise become public.

You can sign up for e-mail alerts under the investor section of scana.com to notify you when there is a new posting in the nuclear development and/or other investor information sections of the website.

Finally, before I turn the call over to Jimmy, I would like to remind you that certain statements that may be made during today's call are considered forward-looking statements and are subject to a number of risks and uncertainties as shown on slide 2. The Company does not recognize an obligation to update any forward-looking statements. Additionally, we may disclose certain non-GAAP measures during this presentation. And the required Reg G information can be found in the investor section of our website under webcasts and presentations.

I will now turn the call over to Jimmy.

Jimmy Addison: Thanks, Susan, and thank you all for joining us today. I'll begin our earnings discussion on slide 3. GAAP earnings in the first quarter of 2016 were $1.23 per share, compared to $2.80 per share in the same quarter of 2015. Excluding the net of tax gains on the sales of CGT and SCI, positive earnings drivers from electric margins, primarily due to a Base Load Review Act rate increase and customer growth, as well as the positive impact of the depreciation study were more than offset by the negative impact of weather on both electric margins, as well as on gas margins in our Georgia business.

Gas margins were also down due to CGT operating for a month during the first quarter of 2015, before it was sold. Additionally, expected increases in O&M expenses and CapEx-related items, including interest and property taxes, had a negative impact on earnings.

At the bottom of the slide, you will note that abnormal weather decreased electric margins by $0.05 per share in the first quarter of 2016, and increased electric margins by $0.05 per share in the first quarter of 2015, resulting in a $0.10 per share negative swing.

Slide 4 shows earnings on a GAAP-adjusted weather-normalized basis. Earnings in the first quarter of 2016 were $1.28 per share, compared to a $1.34 per share in the same quarter of 2015.

As a reminder, GAAP-adjusted weather-normalized EPS excludes the impact of abnormal weather on electric margins, and the net of tax gains on the sales of CGT and SCI from the first quarter of 2015.

Abnormal weather on gas margins is not adjusted in this measure, as gas margins are weather-normalized for the North and South Carolina gas businesses, and the direct impact of abnormal weather on the Georgia business is generally insignificant on an annual basis.

Now on slide 5, I'd like to briefly review results for our principal lines of business. On a GAAP basis, South Carolina Electric & Gas Company's first quarter 2016 earnings were down $0.08 per share compared to the same period of 2015.

The decrease in earnings is due to lower electric margins, principally as a result of abnormal weather in both periods as well as higher O&M expenses and higher expenses related to our capital program, including interest expense and property taxes. These decreases more than offset increases from the continued recovery of financing costs under the BLRA, customer growth in both the electric and gas businesses, and the application of the previously mentioned new depreciation rates.

PSNC Energy reported earnings of $0.25 per share in the first quarter of 2016, compared to $0.24 per share in the same quarter of the prior year, primarily due to higher margins from customer growth.

SCANA Energy, which includes SCANA Energy Marketing and SCANA Energy Georgia, showed a decrease in first-quarter earnings of $0.06 per share, primarily due to lower throughput attributable to the warmer weather during the first quarter of 2016, as compared to 2015, and higher transportation costs.

On a GAAP basis, SCANA's corporate and other businesses reported relatively flat earnings in the first quarter of 2016, compared to $1.44 per share in the comparative quarter of the prior year.

Excluding the net of tax gains on the sales of CGT and SCI of $1.41 per share, GAAP-adjusted weather-normalized EPS was down $0.03, due primarily to foregone earnings contributed by CGT and SCI prior to the closing of the sales in the first quarter of 2015.

I would now like to touch on economic trends in our service territory on slide 6. The Carolinas continue to have a favorable business environment and we are pleased by the continuous growth in our service territories as evidenced by announcements to invest approximately $380 million with the expectation of creating approximately 1,300 jobs.

At the bottom of the slide, you can see the national unemployment rate, along with the rates for the three states where SCANA has a presence and the SCE&G Electric territory. South Carolina's unemployment rate is now at 5.7% and the rate in SCE&G's Electric territory is estimated at 5%.

Of particular interest in attesting to our state's strong economic growth, almost 80,000, or 3.7% more South Carolinians are working today than a year ago.

Slide 7 presents customer growth and electric sales statistics. On the top half of the slide is the customer growth rate for each of our regulated businesses. SCE&G's electric business added customers at a year-over-year rate of 1.5%. Our regulated gas businesses in North and South Carolina added customers at a rate of 2.5% and 2.7%, respectively. We continue to see strong customer growth in our businesses and in the region.

The bottom table outlines our actual and weather-normalized kilowatt hour sales for the 12-months ended March 31, 2016. Overall, weather-normalized total retail sales were up 1.3% on a 12-month-ended basis.

Now please turn to slide 8, which recaps our regulatory rate base and returns. The pie chart on the left presents the components of our regulated rate base of approximately $9.5 billion. As noted in the two shades of blue, approximately 86% of this rate base is related to the electric business.

In the block on the right, you will see SCE&G's base electric business in which we're allowed a 10.25% return on equity. The earned return for the 12-months ended March 31, 2016 in the base electric business continues at approximately 9.75%, meeting our stated goal of earning a return of 9% or higher to prevent the need for non-BLRA-related base rate increases during the peak nuclear construction years.

We continue to be pleased with the execution of our strategy.

As a reminder, we're allowed a return on equity of 10.25% in our LDC in South Carolina. And if the earned ROE of the gas business for the 12 months ending March 31st falls outside a range of 50 basis points above or below the allowed ROE, then we will file to adjust rates under the Rate Stabilization Act in June. As of December 31st, 2015, the 12-month earned return for SCE&G Gas was 9.65%.

As you are aware, we recently filed an application with the North Carolina Utilities Commission requesting an annual revenue increase of $41.6 million at PSNC Energy in response to the normal attrition in the earned returns in that business. This rate increase is a result of PSNC's need to recover costs to operate and expand its pipeline system and to implement a pipeline integrity management rider. This rider would allow PSNC to track and receive ongoing recovery of capital expenses related to its distribution and transmission pipeline integrity management programs.

Slide 9 presents our CapEx forecast. This forecast reflects the Company's current estimate of new nuclear spending through 2018, and is consistent with last quarter's call and the February quarterly BLRA report, which also reflects the amended EPC agreement that was announced in October of 2015.

At the bottom of the slide, we recap the estimated new nuclear CWIP from July 1 through June 30, to correspond to the periods on which the BLRA rate increases are historically calculated.

Slide 10 presents the transition payments information and an expected timeframe for the filing with the Public Service Commission of South Carolina. Once these events are complete, we will update the CapEx schedule and the corresponding financing plan.

Now please turn to slide 11, to review our estimated financing plan through 2018. As a reminder, we have switched to open-market purchases instead of issuing new shares to fulfill our 401(k) and DRIP plans, at least until we have fully utilized the net cash proceeds from the sales of CGT and SCI.

We do not anticipate the need for further equity issuances until 2017. The election of the fixed-price option would likely change planned equity issuances after 2016.

It is unlikely that these issuances will occur in the exact amounts or timing as presented, as they are subject to changes in our funding needs for planned project expenses. We continue to adjust the financing to match the related project CapEx on a 50/50 debt and equity basis.

On slide 12, we are reaffirming our 2016 GAAP-adjusted weather-normalized earnings guidance as $3.90 per share to $4.10 per share, with an internal target of $4 per share.

Our long-term GAAP-adjusted weather-normalized average 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 2015's GAAP-adjusted weather-normalized EPS of $3.73.

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

Steve Byrne: Thanks, Jimmy. I'd like to begin by addressing the status of the settlement with the Consortium and the PSC approval process.

Slide 13 presents the settlement agreement outline that we have previously shown. Westinghouse closed on the transaction to acquire Stone and Webster from CB&I at the end of December, and Fluor began work as the subcontracted construction manager for the new nuclear construction site, on January the 4th. The craft employees transitioned to Fluor on April the 4th.

Slide 13 presents costs as of the settlement date. In our next quarter BLRA update filing to be filed in the next couple of weeks, we plan to update the project costs for estimated change orders, primarily related items listed in Exhibit C of the settlement agreement.

As you may recall, Exhibit C described items not resolved in that settlement.

Listed on slide 14, are several of those items for which we now have estimated the cost. Also listed are the estimated change orders associated with escrowing the software and documentation necessary to complete the project, and new change orders initiated since the settlement that are owner-directed.

Additional sales tax, which has been excluded from the fixed-price option is also listed.

Slide 15 presents the relative schedules of both the filing of an updated petition and the annual request for revised rates. We continue our analysis of the fixed-price option, and will consider any input received from Fluor. As a reminder, we have until November the 1st of this year to unilaterally elect the fixed-price option.

Regardless of which scenario we choose, once a decision has been made, we will file a petition with the Public Service Commission to amend the capital cost and schedule for the project.

We continue to expect to reach a conclusion on the matter sometime during the second quarter, and expect to have a mine delay of a few weeks in filing our annual request for revised rates under the BLRA in order the coordinate the petition with the revised rates application.

Moving on to some of the activities at the new nuclear construction site. Fluor's integration into the project as Westinghouse's subcontracted construction manager continues to progress with the placement of managers in key positions of the construction areas and a series of assessments that are taking place to streamline processes and improve performance.

Slide 16 presents an aerial photo of the site from September of 2015. This photo gives you a view of the layout of the site, and I've labeled both units 2 and 3, as well as many other areas of the construction site.

Slide 17 presents a schematic view of the five large structural modules that are located inside the containment vessel. This expanded view gives you a better feel for how CA01 through 05 fit spatially inside of the containment vessel. As you will recall, we've now placed CA01, CA04, and CA05 for unit 2 and CA04 for unit 3.

Slide 18 shows an aerial view of the unit 2 containment. Looking down into the containment vessel, you see the first ring section with openings or penetrations sitting on top of the lower bowl.

I previously mentioned CA01, CA04, and CA05 have been placed and can be seen in the picture.

Slide 19 shows a picture of the unit 2 CA02 module. CA02 is a wall section that forms part of the In-Containment Refueling Water Storage Tank. As mentioned in previous quarters, CA02 is now structurally complete and is awaiting installation.

Slide 20 shows a picture of the unit 2 CA03, which is the west wall of the In-Containment Refueling Water Storage Tank. Fabrication continues as all 17 of CA03 sub-modules are onsite and standing on the assembly platform.

Slide 21 shows a picture of the first portion of the unit 3 module CA20, which was placed during March. This module consists of four subassemblies, and the decision was made to expedite placement of subassemblies three and four as they allow for work to move forward that is required in order to begin shield building erection, which is the next critical path item.

As you can see on slide 22, fabrication continues on subassemblies one and two inside of the module assembly building, or MAB. All 72 required submodules are onsite. These remaining subassemblies will be placed once they are completed.

As a remainder CA20 is an auxiliary building module that is located outside and adjacent to the containment vessel.

Slide 23 shows a picture of the unit 3 containment vessel ring one placement. Ring one was placed on top of the containment vessel lower bowl on April 13th.

Slide 24 shows a picture of the unit 3 module CA05. This module comprises one of the major wall sections within the containment vessel. Fabrication of the unit 3 CA05 has been completed and it has been staged outside of the MAB.

Slide 25 shows a picture of the beginnings of the unit 3 module CA01. Module CA01 houses the steam generators and the pressurizer and forms the refueling canal inside the containment vessel.

Currently, we have 24 of the 47 submodules onsite. Seven of those submodules are upright and being welded together in the MAB.

Now turn to slide number 26. I want to briefly mention that last week, the Public Service Commission of South Carolina approved SCE&G's request to reduce its electric rates to reflect lower fuel costs. Having a balanced and diversified fuel mix contributes to a lower fuel cost that will be passed on to our customers.

It is anticipated that this decrease should more than offset any increase to residential customers from the BLRA for the year.

Finally, please now turn to slide number 27 to discuss some of the SCE&G's solar initiatives. Under South Carolina law, or ACT 236, we are allowed to recover certain costs associated with our efforts to implement renewable energy incentive programs.

We officially rolled out our DER program in August of 2015, with the goal of adding approximately 84 megawatts of renewable generating facilities to our system by the end of 2020. We anticipate being almost halfway to our 2020 goal by the end of 2016.

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

Questions and Answers

Operator^ Thank you. (Operator Instructions) Jim von Riesemann at Mizuho Securities.

Jim von Riesemann: Let me just ask the elephant in the question room. You know there's been a lot of these conflicting signals in the marketplace about Toshiba. And you know investors are obviously expressing some concern here.

So with that being said, how does the fluidity of their situation affect your calculus with potentially accepting the fixed-price option?

Jimmy Addison: Well, we're certainly monitoring the situation to the extent that we can get public information about it. I think the things that are important for our consideration are, unlike the previous contract where we had certain calendar-based payments, in the new arrangement, we're only paying for work completed.

So we should be in a good kind of a equivalent cash flow situation compared to the work completed, and not be behind or, if you will, ahead on the cash payments at any point in time from here through the completion. So it's really, the progress payments are aligning with the work as it's completed.

We are also very focused on the next six months. You know we got six more months before we have to make that decision. And while we'll likely file before then, we don't have to make the technical election with Toshiba until that point. So we plan to monitor the situation.

And of course, they've taken some actions already on disposing some of their non-core assets. They've said that this business is core to them, and they have backed that up with the decisions they've made to this point.

So it's obviously dynamic, Jim, and we're going to continue to monitor it over the next several months.

Jim von Riesemann: It's safe to say that you're not worried, though, is that what I'm hearing you say?

Jimmy Addison: I mean, it's certainly something we're monitoring it. We're paying attention to it. But I wouldn't say it's a worry, no.

Jim von Riesemann: Okay. And did I hear Steve correctly, so you're going to delay the BLRA filing maybe until mid-June, and at that time you'll give us either a strong signal or you will have decided which option you're going to choose? Is that correct?

Steve Byrne: Yes. Jim, we think we'll have made our decision, as we said before, in the second quarter. We anticipate the filing for both in the second quarter. We just want to make sure that we align one filing with the other.

They're slightly different timeframes. The update petition has, by law, six months before a decision has to be rendered by the Public Service Commission. The annual BLRA filing is a five-month time frame. So we would like them to be aligned with each other.

Jim von Riesemann: I get it, okay. And then finally, on the equity question, how should we think about incremental equity? Is that really one half a difference between the amended EPC price and the fixed-price option if you go that way?

Jimmy Addison: Yes. Well, our strategy hasn't changed. That's correct. We expect to finance roughly half and half with debt and equity between the two. What we don't know at this point is when will we need it if we go that direction? We've got to wait until we sort out the progress payment schedule.

Jim von Riesemann: Yes, got it. Thank you.

Operator: Mike Weinstein at UBS.

Mike Weinstein: With trailing 12 months weather-adjusted retail kilowatt hour sales at about 1.3% now, right, for the last six months, can you just remind us again what's the guidance for 2016? And at what point would you consider increasing it because of this?

Jimmy Addison: Well, the guidance as it relates to --

Mike Weinstein: Retail kilowatt hours.

Jimmy Addison: -- Weather-normalized sales growth?

Mike Weinstein: Yes.

Jimmy Addison: Yes. So our overall plan was for slightly negative, like just slightly below flat for the year compared to 2015, on a weather-normal basis.

So we're not at the point we're too concerned about that yet. As far as its impact on EPS, we had a very mild first quarter, obviously, $0.10 in the electric business quarter over quarter. So we're not at any position here to consider revising that at this point.

Mike Weinstein: And when you guys report or when you guys guide to $3.90 to $4.10, that's weather-normalized guidance for the entire year, not just from this point forward, right?

Jimmy Addison: That's right.

Mike Weinstein: Okay. So you intend to report whether you've achieved that guidance weather-normalized at the end of the year, even despite mild weather?

Jimmy Addison: That's correct. And the reason we're not making any change at this point is we're only three months into the year.

Mike Weinstein: Yes.

Jimmy Addison: So we've got a substantial amount in front of us now. If we get three quarters through the year and we're in that situation, then it may be a different discussion.

Mike Weinstein: Got you. And one last question. On slide 14, the additional costs since the settlement agreement, so this would be in addition to the $288 million additional cost, right? It'd be $56 million above that and $66 million above the fixed-price option, incremental, right?

Steve Byrne: Yes, Michael, that's essentially correct. When we signed our deal with Westinghouse in, let's see October, we had attached an exhibit, we call it Exhibit C, that had some things that we were working on that we hadn't yet resolved and were not resolved with this agreement. So a bulk of what we see here is items that we've now resolved from that agreement -- or that exhibit.

Mike Weinstein: Right. And I know there's been some confusion out there over the performance bond that you have with Westinghouse. And I mean, I'll just give you an opportunity now to explain it to everybody in case you still are getting phone calls on it.

Jimmy Addison: Yes, I don't know we've had much of an inquiry about the thing. But we've got the provisions out there basically to protect us in the short term as it relates to working capital, if they were to default and had not paid a sub or something like that and we had to pick that work up through someone else, paid a sub, that kind of thing, the formula is to help in that transition. But it's based on quarterly projected payments for the year.

Mike Weinstein: Right. So it's basically a bond that's intended to finance a transition, more or less --

Jimmy Addison: That's right. That's right.

Mike Weinstein: -- if needed, right? Okay. Thank you.

Operator: Stephen Byrd at Morgan Stanley.

Stephen Byrd: Just wanted to check in with you all on the status of the Sandman project in China, just your latest thinking in terms of how that's progressing.

Steve Byrne: Stephen, we think that that's progressing fairly well according to their latest-announced plans. We anticipate that they are getting close to doing the cold-hydro. So their reactive coolant pumps have been installed, which was the last thing that they were waiting for at Sandman unit 1. Their plan calls for them to load fuel yet this year, so sometime probably in the late third or early fourth quarter. And then the testing from that point is really up to the utility. So it's less in Westinghouse hands than it is the utility's hands.

But certainly sometime we think early next year. I'm not sure if going commercial is the appropriate term for China, but they'll be on the grid making power.

Stephen Byrd: Great. That's all I had. Thank you very much.

Operator: Feliks Kerman at Visium Asset Management.

Feliks Kerman: Most of my questions have been asked. But if you guys can talk a little bit about the pipeline integrity program you guys have asked for. What is the size? the scope? How long do you expect that program to last for?

Jimmy Addison: Yes. So in our capital that we disclosed there for the three years, there's a good bit of integrity management related in that entire CapEx period over the next three years, and I suspect there could be some beyond that, too.

But roughly, about 50% of that CapEx is related to integrity management in 2016 through 2018. Now, some of that would be picked up with the midyear CWIP in the rate base. So we'll get half of the year when we actually have the discussions with the North Carolina Commission staff in the middle of the year.

So we'll basically have the remaining half of 2016 and 2017 and 2018, so. But it's roughly half of it relates to integrity management.

Feliks Kerman: Okay. That's all I had. Thank you.

Operator: Travis Miller at Morningstar.

Travis Miller: You answered most of my clarifying questions on the nuclear stuff, BLRA, et cetera. Wondering, on the gas side, obviously you had really strong customer growth. Was wondering what that was doing to gas usage. And also then, the next step to gas margins at those businesses.

Jimmy Addison: Yes. Well, Travis, in the 2 LDCs, they really get handled through mechanisms in different ways. So in North Carolina there's the decoupler that handles any change in consumption and weather, et cetera. And then it doesn't handle rate base, which is why we have a rate case that we filed there now.

In South Carolina, we have the Rate Stabilization Act, which is basically a streamlined rate review that happens after every heating season at the end of March, and if there's more than 50 basis points variance, and it's adjusted in November. So it's really considered through both of those mechanisms, even though they differ a little in their process.

Travis Miller: Okay. And then that customer growth, if we see that kind of 2.5% type rate, does that mean substantial investment opportunity, either distribution or other, other value chain parts over the next couple years in addition to what you've already planned?

Jimmy Addison: Yes. Well, I wouldn't say a lot more than what we've planned. So what we've got in the plan now contemplates it. So in North Carolina and South Carolina, they differ somewhat. In South Carolina, we own very little of the transmission system. Of course, we used to own more of it through a different subsidiary, but we sold that a year ago.

There is still some transmission in the South Carolina Electric and Gas gas system, but it's not a tremendous amount. There's certainly distribution growth there in the South Carolina system. But that's not a significant amount above and beyond the depreciation that applies to that business each year.

In North Carolina, it's a different story because of significant transmission enhancements that are going on. Now, I actually visited one of those projects a couple of weeks ago, and it's a significant pipeline investment that's going on, and it's going extremely well, the majority of it, on existing right-of-way in western North Carolina.

Travis Miller: Okay. And that could lead to distribution investment options?

Jimmy Addison: Yes. I mean, the majority of this is related to growth in the territory. The areas we serve are growing very well. A lot of transmission enhancement in the next couple years will be up in the Research Triangle area, too, in addition to western North Carolina, because a lot of the industrials are really going, for example, the research universities are all going to complete gas supply as opposed to other fuels.

So I don't know that there's tremendous new frontier kind of distribution opportunities, but I think there's a lot of industrials that are really pushing it. Gas-fired electric generation, too.

Travis Miller: Okay, great. Thanks a lot.

Operator: (Operator Instructions) Dan Jenkins, State of Wisconsin Investment Board.

Dan Jenkins: I was wondering if you could give a little color on the, you had the $0.04 year-over-year for O&M. And I was just wondering, what's driving that? Is that timing or is that something that's going to continue on a comparison basis going forward?

Jimmy Addison: No, it's fairly consistent with our internal budget. It is a little more lumpy there in the first quarter. We don't expect it to be that significant throughout the year. The most significant thing is, we make compensation adjustments in the middle of the first quarter, so you've got some of that coming through.

And also, of the incentive-based compensation, the part that's driven off share price, has obviously been more than we had expected. And I guess that's a high-class problem to have with the stock performing pretty well, especially against the peer group over the last quarter.

Dan Jenkins: Okay. And then, I think you mentioned on the nuclear that the current critical path item is the shield building. And I know that in your report that you filed in February, that was mentioned there as well. I was just wondering if you could update us on the status of that in terms of the components that are being fabricated, and so forth.

Steve Byrne: Yes. Dan, the shield building is going probably better than we had anticipated. Our concern for the shield building really came from the contractor, their concerns, and at the time, that was Chicago Bridge and Iron. Now, Fluor has taken over. But we still retained the CB&I Services crew that is doing that welding. So even though CB&I Power exited the Consortium, the CB&I Services folks who are doing the containment vessel welding and the shield building welding stay. They're doing a tremendous job.

So we've got, there's about 16 courses of this steel that goes up to form the shield building. You'd lay a course at a time, weld it together, then fill that course with concrete. So we've got three of those courses that have been placed, welded, and filled with concrete. The fourth course has been placed, it's being welded. We anticipate filling that with concrete sometime in the next couple weeks.

The deliveries are coming in from an entity called Newport News Industrial, or NNI, in Virginia. And those folks are working very hard to meet our schedule. And we're looking at diversifying that supply chain a little bit by perhaps moving some of those modules to another vendor to free up a little bit of space at NNI.

So overall, I'd say the shield building's going a little better than we expected.

Dan Jenkins: How many of those components are you still waiting on for the shield building?

Steve Byrne: I would say that for the first unit, unit 2, we've probably got two-thirds of the shield building panels that we need. And for the trailing unit, unit 3, we probably have about a third of them in. So we're still waiting on about two-thirds.

Dan Jenkins: Okay. And then on unit 3, what's the current critical path item for that unit?

Steve Byrne: It runs through the shield building as well, Dan. So it's still shield building. Either unit we're talking about, it runs through the shield building.

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

Operator: Paul Patterson, Glenrock Associates.

Paul Patterson: Just wanted to ask you about the fixed-price option. And if you were to select that, what the impact is in terms of does it change the way the payments would go? Could you just elaborate a little bit more on that?

Steve Byrne: Yes. Paul, from a payment perspective, as Jimmy alluded to earlier, we are changing the way that we make the payments. Heretofore, we've had payments based on either hitting milestones or what we call progress payments. Progress payments is a bit of a misnomer. It really wasn't tied to actual progress.

So we've changed that. And when we go forward, we are negotiating a milestone payment schedule. So it's a construction milestone payment schedule, which will have us paying only for milestones achieved.

Paul Patterson: Okay. But, I mean, I guess what I'm wondering is, in terms of the -- you guys have not decided on whether or not you're going to go for the fixed-price option, is that correct?

Steve Byrne: That's correct.

Paul Patterson: Okay. And if you were to go for it, does that change the payments or does that change the schedule on payments? Do you pay anything upfront or is it pretty much the same way? Would you be paying over the same time frame, pretty much the same amount with this milestone? That's it.

Steve Byrne: Yes. So, Paul, what we've done is we've got an estimate for what is the non-fixed-price option. If we elect the fixed-price option, there's an added cost that comes with taking that risk away, if you will. And so what we'll do is we'll just pay that additional cost. It'll be stretched out over the entire project. So it won't necessarily be front-end loaded. We're just picking the milestones which indicate real progress. We'll attach payment to those milestones. And when Westinghouse hits those milestones, we'll make payment to them.

But the additional cost just gets spread out over the remainder of the project.

Paul Patterson: Okay. That's it for me. Thanks so much.

Operator: Andy Levi at Avon Capital.

Andy Levi: I guess I'm just going to go back to Toshiba, I think, because I just want to get something clarified. Because if you were to choose the fixed-cost option, which seems to be the right way to go, and, obviously, you got rid of CBI, so, now, that was a very good thing that you guys did, and have Fluor in there.

But given Toshiba's continued financial issues and concern about the company's -- or our concerns and I guess sell-side analyst concerns about the long-term viability of the company, can you tell us what type of protections you have in place to protect SCANA and the Summer project from Toshiba's potential insolvency relative to the fixed-cost contract and their ability to execute it on that?

And then, can you get more into also the surety bond that you have, the amount that you have, and how that would work if you had to call on that, because we saw that with Portland General having to call on their surety bond with Abengoa, and it just wasn't that simple. Thank you.

Steve Byrne: All right. Andy, this is Steve. Let me start, and I'll want Jimmy to finish maybe a little bit on the surety bond. But the surety bond, as he pointed out earlier, was there really to create kind of a soft landing. So it would pay vendors that were in process and allow us to, in a systematic logical fashion, wind the project down to the point where Toshiba and/or Westinghouse could exit.

Now, if we're presuming some kind of insolvency or bankruptcy, you'd also have to presume that Westinghouse doesn't survive that. And so with that provision, and, as you're aware, there can be various kinds of bankruptcy and it doesn't necessarily mean that the contractor stops working.

But, so we're working hard to make sure that we're not in advance of payments. And then we have information which includes source codes, software, and proprietary design information that's being escrowed. And the bankruptcy or insolvency would be one of the triggers that gives me that information, and then we would look to finish the plant on our own.

We could do that one of a couple of ways. We could either act as our own general contractor, which we would be more comfortable doing now than when we originally signed up for the project since we've made so much progress, and we understand this construction progress. And we would go out and get a subcontracted construction vendor, presumably Fluor since they're already onsite, already familiar with the means and methods and know the project, or we could EPC it again. So we could give it to an EPC contractor. Certainly, Fluor would be in a good position. They are an EPC contractor, so we could give it to them.

The important part to me is that I have the information that I need to be able to finish the plant on my own, and that's the whole reason why we're escrowing.

Andy Levi: Well, but I guess the issue that I see, though, is, I guess the thing that was a big positive was this fixed-cost contract, right, because it kind of eliminates certain downside above the $500 million escalation in the cost of the contract.

And so if that contract is with an entity that is not a good counterparty, that fixed-cost contract is not really worth a lot, I guess. And that's what I'm really getting at, is not as much the ability to finish the plant or the construction aspect of it, but the ability to control the cost if, in a negative case, Toshiba doesn't have the money to pay above the $500 million escalation that you're willing to pay in a fixed-cost option.

Jimmy Addison: Well, as I said earlier, Andy, what we have on our side, though, is some time to watch how they progress and to see how that's going. I mean, we've got another six months before we got to make this call.

They have said publicly that this business is one of three key areas of focus for them, and they're shedding the other businesses. They brought in $6.5 billion, or will as soon as those sales close here shortly.

Everything they've said they're going to do, it appears they've done to this point in a very efficient manner. So we've got several more months to watch this and monitor the situation.

Andy Levi: Yes. I just get concerned because I see the stock trading a little over a dollar.

And then just on the surety bond, could you just go over that and the amount of that and how that would work and who would be paying you?

Jimmy Addison: Yes. So it can be either in a surety bond or in letters of credit. We've allowed them to provide that through letters of credit. And we're comfortable with the counterparties there. And it is an annual calculation based upon the estimated quarterly payments in the next year. So we've made that calculation for 2016. We've elected it. And those letters of credit are in place now.

Andy Levi: And who's the letter of credit -- is it funded, the letter of credit? How does that work?

Jimmy Addison: It's a letter of credit in case they default on any of the provisions.

Andy Levi: And that's for $100 million? Is that for $100 million?

Jimmy Addison: It's at a maximum of $100 million, based upon the projected cash flows of the year that's applicable. And so it will change each year.

Andy Levi: And then as far as on the creditor side, because Southern also has a fixed-cost contract, according to them, I mean, I guess -- I mean, who would get paid first? I guess we don't know that, right? I mean, because Southern would have the same issue.

Jimmy Addison: No, no, no. This is backed by --

Andy Levi: I don't mean on the surety bond. I'm talking about as far as the ability for Toshiba to perform on a fixed-cost contract.

Jimmy Addison: Yes. I can't answer that.

Steve Byrne: Right.

Andy Levi: Okay. Thank you very much.

Operator: Claire Tse at Wolf Research.

David Paz: Actually, it's David Paz. Just a quick question on your long-term growth rate. What earned ROEs are you assuming both at the SCE&G business and the PSNC business?

Jimmy Addison: Yes. So at SCE&G, David, we're consistent on the base business at above 9% is our strategy to stay out of any base rate increases outside of the BLRA. And the BLRA, of course, is at 10.5%.

And at PSNC, we've got a current allowed 10.6%.

David Paz: Okay. So even in the PSNC case, we should think about even though rate base is growing faster than in the past, you still anticipate somewhere in that mid-10s earned ROE through your growth -- through the period of your long-term growth rate?

Jimmy Addison: Well, we've asked for 10.6% in the case. We'll have to wait and see how that situation comes out either through negotiations or through hearing with the Commission. But we'll know that within six months.

David Paz: Okay. And then also with respect to your growth rate, what sales growth are you assuming through that period?

Jimmy Addison: That's about --

David Paz: On the electric side.

Jimmy Addison: It's about 1.2%.

David Paz: 1.2%, okay. That's a CAGR?

Jimmy Addison: Yes.

David Paz: Okay. Okay, great. Thank you.

Operator: Andrew Weisel at Macquarie Capital.

Andrew Weisel: Thank you. I just want to clarify timing of this nuclear fixed option, if you do exercise it or not. It seems to me like there are a couple different steps here, and I just want to understand when we can expect each and what order.

So you're going to make a decision. You're going to file with regulators. You're going to tell us about it. And you're going to officially exercise the option with the contractors.

Is that the right order? And what might the timeline of those four pieces look like?

Jimmy Addison: Andrew, what we said is we're going to make that decision sometime in the second quarter. Then we will file. Between the filing and the Public Service Commission rendering an opinion in the six months, and in that intervening six months, we will file testimony. There'll be testimony filed from any interveners. And then we'll have a hearing, which will be a public hearing.

We have until November the 1st, to let Westinghouse know whether we have opted for that fixed-price option, and we can do that basically any time from now until November the 1st.

Steve Byrne: And I would just add, we're going to let you know exactly concurrently with the time we file.

Andrew Weisel: Okay. So the filing could come very shortly after you make your decision, and that process can be underway by the time you officially exercise the option with Westinghouse?

Jimmy Addison: Yes, I would think that it would be well underway before we officially exercise the option with Westinghouse.

Andrew Weisel: Okay. Thank you.

Jimmy Addison: Of course, the option with Westinghouse is subject to regulatory approval.

Andrew Weisel: Right. Good point. Then in terms of updating the CapEx and financing costs, would that update come only in the next quarterly earnings call or potentially when you announce to us that you've made a decision and are filing with regulators one way or the other?

Jimmy Addison: Yes. So there's two different moving parts there. One is which option? Do we go with just the amended contract or do we go with the fixed option?

The second moving part to that is getting the revised payment schedule worked out between us and the contractor.

So those two don't necessarily happen at the same time. So it may be that we are in a position and make the filing and notify you of which option we've chosen, but haven't yet completely agreed on the payment schedule. So we can't completely update the CapEx schedule until we get both of those done.

Andrew Weisel: What's the least time that you would get the updated payment schedule?

Jimmy Addison: I don't know a firm answer on that. I mean, because it could be that we have to use this option of the -- I don't know this. But it could be we have to use this Resolution Board to resolve any differences we have there. So that could add some time on the end of it.

But I would hope all of that we would -- Steve, is it reasonable to say we hope to get all that done this year?

Steve Byrne: Yes, absolutely.

Jimmy Addison: Yes.

Andrew Weisel: All right. Great. Looking forward to a decision. Thank you.

Operator: Feliks Kerman at Visium Asset Management.

Feliks Kerman: Jimmy, just to clarify on that last question, because the petition process takes six months for approval, is it fair to say that the associated increased equity needs would come more like a 2017 item at the end of the petition or more of an upfront-related issuance? Any color on the timing?

Jimmy Addison: We don't know of anything at this point that says we need any equity until 2017, at the earliest. Recall, we sold these two subsidiaries last year, realized about $425-plus million of cash after tax from that.

So in the short term, we've used that to defray some debt. But we've got plenty of that to sustain us through 2015.

Feliks Kerman: And that's even if you --

Jimmy Addison: Excuse me. 2016.

Feliks Kerman: -- select the fixed-price option?

Jimmy Addison: Yes. Excuse me. 2016. Again, I don't know what the revised payment schedule's going to be. So we just don't have that at this point. So we would have to have that. But nothing we know at this point says we've got anything additional related to that. Steve said earlier, we're planning on paying the, if we elected the fixed price, we would pay that ratably over the remaining life of the construction. It's not a lump payment.

Feliks Kerman: Okay. Thank you, guys.

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

Jimmy Addison: Well, thank you. And we look forward to finalizing this decision on the fixed-price option and the subsequent petition to be filed with the PSC.

We continue to focus on our new nuclear construction and on operating all of our businesses in a safe and reliable manner. And we thank you for joining us today and for your interest in SCANA. Have a good day.

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