[SCANA] - SCANA Corporation
Third Quarter 2016 Earnings Conference Call/Webcast
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Presentation

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. I will be your conference facilitator today.

At this time, I would like to welcome everyone to the SCANA Corporation conference call. All lines have been placed on mute to prevent any background noise. 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, October 27, 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. Please go ahead.

Susan Wright: Thank you, and welcome to our analyst call. As you know, earlier today we announced financial results for the third 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 and Steve will provide an update on our restoration efforts after Hurricane Matthew and our new nuclear project.

After our comments, we will respond to your questions. Please note that the presentation slides referred to during the call are only available through our webcasting service, until the Q&A session begins. When our Q&A session starts, the full presentation will be available at Scana.com in the Webcasts and Presentations section of the Investor webpage.

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 post directly to our website may be deemed material information that has not otherwise become public. You can sign up for email 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. The required Reg G information can be found in the Investor section of our website under Webcasts and Presentations.

I'll 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. Earnings in the third quarter of 2016 were $1.32 per share, compared to $1.04 per share in the same quarter of 2015. Electric margins benefited from a Base Load Review Act rate increase, customer growth, and extremely hot weather in the third quarter of 2016 when compared to the same quarter of last year. As an example, Charleston, South Carolina, one of our largest metropolitan areas, registered their hottest month on record in July.

Results also improved due to increased gas margins. As a reminder, during the third quarter of 2015, SCE&G adopted new depreciation rates for electric plant as a result of a study. These new rates, which produce an annual decrease in depreciation expense of approximately $29 million, were effective as of January 1, 2015, resulting in the application of three quarters worth of depreciation savings being applied during the third quarter of 2015. Additionally, increases in O&M, interest, and property taxes had a negative impact on earnings.

At the bottom of the slide you will note that abnormal weather increased electric margins by $0.27 per share in the third quarter of 2016 and $0.11 per share in the third quarter of 2015, resulting in a positive $0.16 per share impact to earnings quarter-over-quarter.

Slide 4 shows earnings per share for the 9 months ended September 30, 2016 were $3.29 per share versus $4.53 per share in 2015. The decline is mainly attributable to the net of tax gains on the sales of CGT and SCI. Otherwise, higher electric margins, due primarily to a Base Load Review Act rate increase, customer growth, and the positive impact of abnormal weather year-to-date would have resulted in improved comparative results.

These increases were partially offset by lower gas margins and expected increases in O&M and CapEx related items, including depreciation, interest and property taxes.

Abnormal weather increased electric margins by $0.27 per share for the three quarters ending September 30, 2016 and $0.22 per share for the same period in 2015, resulting in a favorable $0.05 per share impact to earnings.

Now on slide 5, I'd like to briefly review results for our principal lines of business.

South Carolina Electric & Gas Company's third quarter 2016 earnings were up $0.26 per share compared to the same period of 2015. The increase in earnings is due to higher electric margins principally as a result of the continued recovery of financing costs through the BLRA and customer growth, in addition to abnormally hot weather.
These items were partially offset by an increase in operations and maintenance expenses, as well as increases in expenses related to our capital program including interest, depreciation, and property taxes. Year to date, SCE&G's earnings were up by $0.20 per share in 2016 over the same period of 2015.

PSNC Energy reported a seasonal loss of $0.05 per share in the third quarter of 2016, compared to a loss of $0.04 per share in the same quarter of the prior year primarily due to higher interest expense and depreciation related to the expansion of PSNC Energy's system. For the 9 months ended September 30, earnings were down $0.01 per share in 2016 over the comparative period of 2015.

SCANA Energy provided a $0.02 per share increase in third quarter earnings over the previous year primarily due to higher margins during the third quarter of 2016 as compared to 2015. Year-to-date earnings are $0.16 per share compared to $0.17 per share in the prior year, down primarily due to milder weather in the first quarter.

SCANA's corporate and other businesses reported a loss of $0.05 per share in the third quarter of 2016, compared to a loss of $0.06 per share in the comparative quarter. For the 9 month period, these businesses reported a loss of $0.10 cents per share in 2016, compared to earnings of $1.32 in 2015 primarily due to the net of tax gains on the sales of CGT and SCI of $1.41 per share, as well as the 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. We are pleased by the continued economic growth in our service territories as evidenced by announcements to invest approximately $1.2 billion, with the expectation of creating approximately 4,600 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 SCE&G's Electric territory. South Carolina's unemployment rate is now at 4.9%, as is the estimated rate in SCE&G's electric territory. Attesting to our state's strong economic growth, almost 56,000 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 Carolina and South Carolina added customers at a rate of 2.8% and 2.9%, respectively. As you can see, the rates are trending fairly consistent over the year.

The bottom table outlines our actual and weather normalized kilowatt hour sales for the 12 months ended September 30, 2016. Overall, weather normalized total retail sales were basically flat on a 12 month ended basis.

Now please look 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 $10.6 billion. As denoted 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 are allowed a 10.25% return on equity.

The earned return for the 12 months ended September 30th, 2016 in the base electric business continues to meet 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.

Continuing down the page, on our new nuclear business, we were allowed an 11% return on equity under the Base Load Review Act for all Annual Requests for Revised Rates that were approved prior to 2016. The approval of our 2015 Petition revised this allowed ROE down to 10.5% for prospective Requests for Revised Rates, which applied to the request that was approved last week and will become effective in November.

Under the terms of our recently announced Settlement Agreement with the ORS and four other interveners -- and which Steve will discuss in more depth shortly -- the allowed ROE for the new nuclear business will be 10.25% for all prospective Requests for Revised Rates beginning in 2017, if approved by the Public Service Commission of South Carolina.

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

As of March 31, 2016, the 12 month earned return for SCE&G Gas was below the band and we filed for an annual increase in mid-June. The Public Service Commission approved an annual increase of $4.1 million in September with rates going into effect with the first billing cycle of November.

As you are also aware, during the first quarter of 2016, we filed an application with the North Carolina Utilities Commission requesting an annual revenue increase at PSNC Energy in response to the normal attrition in the earned returns in that business. In late August, PSNC Energy entered into a settlement with the Public Staff, and we expect a decision from the NCUC to be made sometime shortly.

As part of the Settlement Agreement, PSNC Energy agreed to a $19 million revenue increase and an authorized ROE of 9.7%. In addition, the settlement agreement allows PSNC Energy to track and receive ongoing recovery of capital expenses related to its distribution and transmission pipeline integrity management programs.

We estimate that slightly more than 20% of our CapEx over the next three years will be subject to this integrity management rider. The new rates associated would be effective beginning November 1, 2016.

Slide 9 presents our CapEx forecast. This forecast reflects the Company's current estimate of new nuclear spending through 2018 and reflects the Fixed Price Option spending as represented in the ORS Settlement Agreement as filed September 1.

As a reminder, these schedules reflect the existing payment plan and do not incorporate the construction milestone payment schedule, as it is still being addressed through the dispute resolution board process. Therefore, it is unlikely that the timing of these expenditures will occur exactly as presented.

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.

Next, on slide 10, I would like to mention a recent tax election we made to claim section 174 research and experimentation deductions for some of our new nuclear costs. After evaluating this section of the tax code, including recent court decisions and recently issued final regulations, and after obtaining extensive external advice, we concluded that the regulations allow application of section 174 research and experimentation deductions to our AP 1000 units as a pilot model. We first claimed these deductions on our 2015 return which was filed last month and plan to make similar claims on our prospective returns. Essentially, this code section allows a current tax deduction for certain costs incurred, in the year they are incurred, rather than waiting to receive the deduction through accelerated or bonus tax depreciation once the units are placed in service.

By claiming these deductions as costs are incurred, we will forego the depreciation deduction later. In short, it functions much like bonus depreciation in that the deduction is simply accelerated, although in this case it is accelerated and is realized as the money is spent rather than at the time the units are placed into service.

This election will result in an increase in available cash in the near term, and will therefore lessen the need for debt and equity issuances. This should benefit customers in several ways and also benefit existing shareholders through lower dilution. While the exact amounts are not completely known, we have estimated the impact by year through 2018.

While at a minimum, customers will benefit from the impact of this cash source in the form of enhanced credit metrics supporting credit ratings, these deductions will also result in accumulation of a deferred tax credit. Deferred taxes are not contemplated by the BLRA law and will, therefore, be associated with our base electric business as a reduction to rate base.

As such, we have proposed to the ORS that, as this credit to retail electric rate base builds, and our resulting retail earned returns increase, we will also flow benefits directly back to customers through a credit or decrement rider to base electric rates.

We also plan to propose this to the PSC in an accounting petition for their approval. This strategy does not change the timing or amounts of the BLRA revised rate increases through the remainder of the new nuclear construction.

We believe this decrement rider treatment will allow us to offset some of the BLRA rate increases our customers will see during the peak construction years. Additionally, it allows for market ROEs for our shareholders consistent with our stated strategy of earning a reasonable return on the base business while avoiding rate increases other than those associated with the BLRA.

We do not project this election and proposed treatment will change our earnings guidance, as lower dilution and the rate decrements essentially offset one another from an EPS perspective.

Now, please look to slide 11 to review our estimated financing plan through 2018. This plan has been updated to reflect our results year-to-date, the election of the fixed price option, as well as the expected impact of the section 174 deductions. Note that we have completed all of our planned financings for 2016.

As a reminder, we have switched to open market purchases instead of issuing new shares to fulfill our 401(k) and DRIP plans until we have incremental equity needs which we currently estimate to be in 2018.

Again, 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 and may change based upon the outcome of the Petition filing, the dispute resolution board, and the actual achievement of milestones. 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 is $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 3 to 5 years using a base of 2015's GAAP-adjusted weather-normalized EPS of $3.73 per share.

We plan to address 2017 earnings guidance on the fourth quarter call after the receipt of the construction milestone payment schedule and the conclusion of the Petition process.

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

Steve Byrne: Thanks, Jimmy. On slide 13, you can see a photo of Hurricane Matthew making landfall on the South Carolina coast, almost a year to the date of the historic flooding that happened in South Carolina in 2015. I'd like to thank those of you who reached out and continue to appreciate your thoughts and prayers for those who were affected by this storm and in some cases, are still trying to recover from last year's flood.

I'd also like to thank our linemen, tree crews, and support staff, as well as those who were dispatched from other areas as far away as Oklahoma, Texas, and Mississippi. Immediately following the impact of the storm, we had approximately 290,000 customers who reported outages. Within 48 hours, we had restored power to 190,000 and in 72 hours had restored 250,000. Restoration was complete within 8 days.

Over the next few months, we will try to measure the Company's impact from this storm, but it will not compare to the significant upheaval in the lives of those who were ultimately affected.

Please now turn to slide 14. I'd like to discuss the Petition that SCE&G filed with the Public Service Commission of South Carolina on May 26 of this year seeking approval to update the construction milestone schedule, as well as the capital cost schedule for the two new nuclear units. We are hopeful that the PSC will approve the Settlement Agreement we entered into with the ORS and four other interveners related to the aforementioned Petition.

This settlement agreement signifies that no contested issues exist among the settling parties and supports the approval of the revised construction and capital cost schedules. As Jimmy has already mentioned, the settling parties also agreed to revise the allowed return on equity to 10.25% from 10.5% for calculating prospective revised rates sought under the BLRA on or after January 1 of 2017. In addition, SCE&G will not file for future requests to amend capital cost schedules until after January 28, 2019.

Slide 15 presents the relative schedule for the Petition filing. We filed our direct testimony at the beginning of July and the ORS followed suit with their testimony and the Settlement Agreement at the beginning of September.

Our hearing with the PSC took place at the beginning of this month, concluding after a minor delay due to Hurricane Matthew. The ORS presented the terms of the Settlement Agreement at the hearing. A decision by the PSC will come no later than November the 28th.

Moving to some activities at the New Nuclear Construction site, slide 16 presents an aerial photo of the construction tabletop from June of this year. Here you can see the significant progress that has been made so far on the project, and I have 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 or CA modules that are located inside the containment vessel. We have now placed all of the major CA modules for Unit 2, as we have previously placed CA-01, CA-03, CA-04, and CA-05, and have more recently placed CA-02. We have also placed CA-04 and CA-05 for Unit 3.

Slide 18 shows an aerial view of the Unit 2 nuclear island and containment vessel. Looking down into the containment vessel, you can see the first ring section and the aforementioned structural modules, as well as the reactor vessel which was recently placed and which I will discuss more shortly. Outside of the containment vessel, you can see Auxiliary Building module CA-20 and the shield building, which surrounds the containment vessel.

Slide 19 shows a picture of the Unit 2 CA-02 module being placed back in early August. CA-02 is a wall section that forms part of the in-containment refueling water storage tank.

On slide 20, you can see a picture of the Unit 2 reactor vessel being placed. On August 30, this reactor vessel was placed on top of module CA-04 inside the containment vessel. This is a significant milestone for our project, as this is the first reactor vessel to be set at a new nuclear plant in the United States in more than 30 years.

Slide 21 shows the placement of the second half of the Unit 3 module CA-20, which is an auxiliary building module that is located outside and adjacent to the containment vessel. As you may recall, the first half of this module was previously placed in order to move forward with shield building erection.

Slide 22 shows a picture of the fabrication of the Unit 3 module CA-01. This module houses the steam generators and the pressurizer and forms the refueling canal inside of the containment vessel. Currently, all 47 sub-modules are on site and 44 of those sub-modules are upright and being welded together in the Module Assembly Building or MAB.

Slide 23 shows a picture of the Unit 3 module CA-02 being fabricated in the MAB. Currently 2 of the 5 sub-modules have been upended and all 5 sub-modules are on site.

On slide 24, you can see a photo of the Unit 2 deaerator being placed on the Unit 2 Turbine Building in late August. We have previously shown pictures of this massive 140 foot long, 18 foot diameter component as it was transported to the site by truck. This component purifies feed water by removing dissolved gases.

Slide 25 shows the generator stator being lifted up to the Unit 2 Turbine Deck. This is the stationary portion of the main generator and was set on Tuesday this week.

Lastly, on slide 26, you can see the Unit 3 Turbine Building where we placed the upper and lower sections of all three low-pressure turbine condensers in September.

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

Question-and-Answer Session

Operator^ We will now begin the question-and-answer session. (Operator Instructions). Michael Weinstein with Credit Suisse.

Michael Weinstein: Glad to hear that the storm recovery efforts are going well and my best wishes to everybody.

Jimmy Addison: Thank you.

Michael Weinstein: The cash benefit from the R&D tax credit, the total you show there is $1.1 billion. Is that the total that you anticipate or are there further benefits in 2019 and 2020 through the construction period?

Jimmy Addison: Yes, these are the substantial benefits that are applicable to 2015 and forward that we would realize in cash. There are some substantial benefits in 2014 and earlier that would require amended returns; and, frankly, we would not get the benefit of any cash from until the issue will resolve. So we've not delineated those here on this chart, but these are the substantial benefits that we expect to see a cash benefit from until the issue is resolved which we expect to take likely several years.

Michael Weinstein: Do have an estimate for what the total benefit could be upon resolution?

Jimmy Addison: The periods from the time we began the project up through 2014 -- and, let me clarify. 2015's return, as I said in the prepared remarks, was filed September 15, so that number is in the 2016 benefit. We're showing the year that the cash benefit would show up. So 2014 and earlier could amount to in excess of $500 million on a comparable basis.

Michael Weinstein: Okay. And how much nuclear rate base do you anticipate will be assigned to 10.5% ROE in 2016, and how much has already been assigned 11%?

Jimmy Addison: Let's see, the chart on page 8 shows our nuclear CapEx of about $4.2 billion and that includes some of all three. I don't know that I have it at my fingertips, but we can break that down for you and the IR staff can provide that afterwards. So this includes some -- the majority is at the 11% and then would include some at the 10.5% as well, that the new rates will be effective next week -- or excuse me -- in December.

Michael Weinstein: All right. Thank you.

Operator: Julien Dumoulin-Smith of UBS.

Julien Dumoulin-Smith: So perhaps just to go back to this issue really quickly on taxes -- just to clarify twofold. One, in terms of the impact, basically if you think about it in a bonus depreciation comparable way, this is effectively equal to the $125 million you previously forecast for 2017 equity issuance, give or take $0.04, kind of cumulative through the forecast period here?

Jimmy Addison: No, you're going to have to run that one by me again, Julien. I'm not sure I'm following you.

Julien Dumoulin-Smith: All right. So I just wanted to make sure I heard you guys right. So when you discussed the negative earnings impact of recognizing the taxes, as you've just filed on a prospective basis, that is equal through the 2018 period to the reduction in equity issuance, i.e., the less dilution that you would suffer [to] the $125 million of equity.

Jimmy Addison: Let me recap it. So the positive benefit is obviously from less dilution and less interest related to debt that will not be issued as well. Offsetting that would be when our returns increase on the base electric business because of the accumulation of this deferred tax credit reducing rate base. We're proposing to offset electric rates in the future, lower base electric rates, to mitigate that. So that would be the offset.

Julien Dumoulin-Smith: Right. And perhaps could you quantify, what's the reduction in rate base cumulatively through the 2018 period that you're showing?

Jimmy Addison: It'll be the amount of cash that's shown on here, so cash is what would be offset against rate base.

Julien Dumoulin-Smith: Okay. One for one, right?

Jimmy Addison: Right.

Julien Dumoulin-Smith: Okay, great. Thank you. And then so separately, what's the status on the Dispute Resolution Board? Just I suppose they gave you an update or there was a production of a press release that said negotiations should continue. What is the latest perhaps or why the continuation as such?

Steve Byrne: This is Steve. The continuation was because we were really not in disagreement over the total amount and we were in general agreement on the milestones. The only disagreement was on timing. So the dispute resolution board, this is the first issue that's come before them, so they were kind of getting up to speed on the project as well on the parties. And they wanted to give us basically an extra month or so to see if we could reach agreement before they would hand one back to us.

So we're in discussions now with Westinghouse to see if we can come to an agreement and give that back to the Dispute Resolution Board prior to them issuing a ruling to us.

Julien Dumoulin-Smith: Okay. And then a last quick clarification here -- in terms of any risk of delay of the project, what's the status of the efforts to extend the PTC? And then also I suppose before, at least in the case of your peer who's pursuing this, I suppose if the project wasn't completed by 2020, there would also be a potential less qualification of bonus depreciation for the asset? But given the shift in tax recognition, is that also another implicit benefit or offset should there be a further delay?

Jimmy Addison: That is an implicit benefit. We're essentially taking some of that -- economically at least -- earlier. The other implicit benefit we haven't really talked about or focused on to this point is that by moving this, what would’ve been bonus depreciation or MACRS depreciation earlier, it gives us more headroom to deal with PTCs down the road in general.

Julien Dumoulin-Smith: Right, absolutely. And then where does that effort from a legislative process stand?

Steve Byrne: We're not directly plugged into the effort. Our understanding is that it came out of committee favorably, that it may be taken up by the Congress shortly, so it is a -- that date isn't a law, so it would require a change in law to change the in-service date.

Julien Dumoulin-Smith: Got it, great. Thank you so much.

Operator: Travis Miller with Morningstar.

Travis Miller: I was wondering on the petitions, the settlements and as it relates to both the capital cost and milestone revisions in the fixed-price option, what are the tracks there for those? You laid out pretty clearly that the petition was a capital cost adjustment and the milestones. What's the track look like for the fixed-price option and how closely related are those two?

Jimmy Addison: Travis, do you mean timing-wise or -- they were all part of the same settlement heard by the Commission in the same docket. So we would expect all to be ruled on likely in the next 30 days.

Travis Miller: Okay. So just one ruling on the whole thing?

Jimmy Addison: Yes, yes.

Travis Miller: Okay. Okay. And then the petition numbers would also include those updated numbers for the fixed costs?

Jimmy Addison: That's right.

Travis Miller: Okay. That's all I had at this time. Thanks a lot.

Operator: Chris Ellinghaus with Williams Capital.

Chris Ellinghaus: Do you have any -- is the goal with the conversation with Westinghouse to meet the deadline for the resolution board? Are you optimistic you can achieve that deadline?

Steve Byrne: Yes, the Dispute Resolution Board has given us a deadline that's in about 10 days, I think it is, maybe a little less than that. Do I think we could? It really depends on how much both parties want to meet the deadline to avoid going back before that Dispute Resolution Board. I don't know that I'd handicap what the odds are, but yes, the goal is that we -- for both sides is that we reach resolution and go back to the Dispute Resolution Board with a solution such that they don't have to issue us a ruling. Both sides are clear on that one.

Chris Ellinghaus: Okay. Jimmy, it's not entirely clear on a couple of issues relative to the Section 174 discussion. I appreciate that you removed the 2017 dilution. One, this wasn't originally in your growth expectations, the selection of using the credits?

Jimmy Addison: You're speaking of earnings growth?

Chris Ellinghaus: Yes.

Jimmy Addison: No, it was not, and nor was the rate decrement rider which I referred to, and as I said in the prepared remarks, they essentially offset each other from an earnings perspective. So it really doesn't alter the earnings growth, our forecast.

Chris Ellinghaus: Great. And particularly since you had a bit of a windfall in the third quarter -- it's almost $40 million from weather -- is there a chance that the 2018, after you've gone through the process with the commission in terms of the decrement rider and having a really good third quarter, that there could be additional changes to the 2018 equity expectation?

Jimmy Addison: As I also said, there's always a chance that those equity expectations could change, but I'd say much more significant than that are likely due to the timing of the payment milestone schedule that we've been talking about with several questioners earlier. So that's going to cause us to readjust our nuclear CapEx once that comes out and that's more likely to be a significant driver than anything else. Of course, that will be timing.

Chris Ellinghaus: Okay. And one last thing -- as far as the PSNC order goes, is there anything that's leading them to take the maximum time or is that just traditional regulator scheduling?

Jimmy Addison: We haven't been in front of them in 8 years, so we don't have a lot of experience there. But I'd say that from what I know, it more has to do with one intervener who did not settle, the North Carolina Attorney General, and some back and forth between her and our attorneys with the commission just clarifying some positions.

Chris Ellinghaus: Okay, great. Thanks for the color.

Operator: Paul Patterson with Glenrock Associates.

Paul Patterson: Most of my questions have been answered. Just I think on sales growth, it seems that residential made a big change, the trailing 12 months versus last quarter. It looks like it was up plus 2% and now it's only 0.3% or something. I've got to look at the numbers again. But it seemed like quite a big change. I was wondering what -- this is the weather normalized is what I'm talking about. What happened?

Jimmy Addison: Yes, you have the numbers correct, and I can't answer your question specifically. That's why we try to really look at these things over time to come up with any trend. One thing I will tell you is it's the hottest quarter that I remember in my career, my 25 years here at SCANA.

And as I have said to you before, there's not an exact science in separating the weather and the average usage. And I wouldn't get too hung up about something to the 10^{th} of a percentage in one quarter, with a quarter -- with this extreme weather.

Paul Patterson: Right. But this is for the last 12 months though; that's the reason why. I can understand in the quarter, things are a little bit wacky. It just seems like, if I might, this is the trailing 12 months and it seemed like it was a big delta. Let me ask you this -- is leap year in this number?

Jimmy Addison: Yes, it is.

Paul Patterson: So in other words, it includes an extra day for that?

Jimmy Addison: It does.

Paul Patterson: Okay. And then just in general, going forward, could you just refresh my memory as to what your retail sales growth is embedded in your numbers, your outlook?

Jimmy Addison: For 2016 or longer term?

Paul Patterson: Yes, longer term, but 2016, sure, whatever you have.

Jimmy Addison: Sure, I'll give you both. So for 2016, it was virtually flat. There's just a slight negative that we'd expected overall for the year for 2016 in our plan that the $4 and $3.90 to $4.10 are based off of. Longer term, in our IRP, we expect about 1.3% net and that's 1.6% gross, net of about 30 basis points of energy efficiency demand-side management.

Paul Patterson: Okay. And that's over a 10-year period?

Jimmy Addison: 15.

Paul Patterson: 15-year period, okay.

Jimmy Addison: Yes. And a lot of that is being driven off of industrials, especially in the nearer term and we continue to have incredible economic growth here in South Carolina. So that's driving it as well.

Paul Patterson: If we were to take that out, what would residential and commercial -- what are you guys just generally thinking about that?

Jimmy Addison: We don't break the IRP down into those categories. It's really there for planning for generation expansion. So whether it's industrial or residential, we've going to have the capacity there, so we really don't break it down over the long term by classes.

Paul Patterson: Okay. The rest of my questions have been answered. Thanks so much.

Operator: Dan Jenkins with State of Wisconsin Investment Board.

Dan Jenkins: First one, your changes to the financing plan, you eliminated the issuance for this year and then increased the debt issuance for 2017 and 2018. Is that being driven more by just construction payments requirements or is that the tax benefit or is it both?

Jimmy Addison: It's both, but I'd say more significantly the tax cash.

Dan Jenkins: Okay. And then I think you mentioned at Unit 3, you placed CA-20 and did you say CA-4, is that correct?

Steve Byrne: Yes, Dan, we placed the first half of CA-20; we placed it earlier in the year. The second half of CA-20, we placed recently. So the first half was in order so we could use it as framework to do other concrete pours to get moving with the shield building. But, yes, it is now -- all sections of CA-20 are now in place.

Dan Jenkins: Okay. So what's the next critical path on that? Is it the CA-01 or is it the shield building?

Steve Byrne: Yes, the critical path for both units now, after CA-20 was set on Unit 3, the critical path for both units now runs through the shield building. The CA-01 for Unit 3 is not far off, but right now, everything runs through the shield building from both units.

Dan Jenkins: So related to that, are you still waiting on some of the panels to get onsite for both units or --

Steve Byrne: Yes, Dan, still waiting for some panels; nothing that's holding me up right now. We're through 5 courses of the shield building on Unit 2. I've got all the [course 6s]. We weld the panels that come in together and lift them in 2s and place them, so I've got them all welded together in 2s already. So those are all ready to go, and I've got the first couple of courses for -- in fact, I think I've got the first 5 or 6 courses for this trailing unit, Unit 3. So I'm not waiting on construction for any of the panels. I still don't have all of them in, so some of the higher elevation panels are not in, but I'm not waiting on the panels for anything.

Dan Jenkins: Okay. And then I think in your last update report, there was also some discussion about Fluor maybe having some troubles in terms of staffing up for the evening shift or whatever. I wondered if you could update us on that.

Steve Byrne: Yes, Fluor, when they first came in, identified the need to increase staffing and wanted to staff a full back-shift or night-shift because we'd been operating with a skeleton crew night-shift or back-shift up to that point. Initially, they had some difficulty in hiring, but I'd say that they recently have rectified that. They're now hiring at about -- adding net about 150 people a month. So they laid out a target when they got here to hire 1,200 people this year. They will probably exceed that total.

So now what they're doing is they're focusing on the specific craft discipline needs. So if I hire 100 people that are all carpenters and I need welders, that doesn't do me any good. So right now, they're focusing on those craft that we need so they're doing well. The craft that we need are welders and fitters or rod-busters for conduit.
So they're doing a good job. They're trying some innovative things, implementing multilingual workforces, those kinds of things. So we're very happy with what Fluor is doing for us. So they've been very successful recently.

Dan Jenkins: Okay. So that second shift then is pretty operational then now?

Steve Byrne: The second shift is up and running; it's not fully staffed. They'd like to have probably 1,000 people on that second shift, which would include the craft plus [field] non-manual and supervision. They're probably somewhere along the lines of 60% to 70% of the way there.

Dan Jenkins: Okay. Thank you.

Operator: Jim von Riesemann with Mizuho Securities.

Jim von Riesemann: Three housekeeping items and then we're going to go back to this infamous slide #10. Can you just remind us on your targeted capital structure, the targeted FFO metrics and what your dividend policy is again?

Jimmy Addison: Yes. So FFO, we want to obviously be above 13 to be able to maintain credit ratings. And I'd say that obviously, this cash benefit of those taxes you referred to has a substantial benefit there. So we feel much better about that. The second part of your question?

Jim von Riesemann: (Inaudible) maybe the targeted capital structure and then the dividend policy.

Jimmy Addison: Yes, so the dividend policy is 55% to 60% payout and we're about the middle of that now. So we're in good shape there.

Jim von Riesemann: Okay. And I guess let's just go back to this slide 10 question. So trying to simplify everything you said -- so you get the cash benefit today; you get no rate base hit until the units are placed into service and the true-up happens, is that correct? Because you guys are basically a CWIP -- your BLRA is set up using CWIP, is that right?

Jimmy Addison: No, I don't think I've got that clear for you. Let me start over there. So you get the cash benefit today.

Jim von Riesemann: Right.

Jimmy Addison: And deferred taxes are not contemplated in the BLRA law. Therefore, it defaults over to the base electric business. Even though it originates from the new nuclear spending, the deferred tax credit and the credit to rate base will apply to the rest of the electric business, if you will.

So if we did nothing on the rate decrement, our strategy to keep earnings from -- returns from 9% to 10.25% would grow over the 10.25%. So our proposal to the Office of Regulatory Staff is to take those earnings that are above that band, or beyond that band, and pass those back to the customers through a base electric decrement that would coincide with the same timing that the BLRA increases occur through revised rates each year, basically at the end of --

Jim von Riesemann: I get it; yes, I get it. Okay. Thank you.

Operator: (Operator Instructions). Greg Rice with Millennium.

Greg Rice: I just wanted to kind of follow up on what Jim was talking about right there and the way this decrement rider is going to work. So basically, as your earnings on the base business increase, because I guess the rate base is decreasing, does this essentially mean that you'll be earning that 10.25% because you'll be refunding everything above the 10.25% to ratepayers through the rider?

Jimmy Addison: We haven't been that precise yet with our discussions with the regulators, with the ORS. What we're proposing -- what we've said all along is if we're in that 9% to 10.25% range, we feel good about that, about what we're doing in the base business. So we're not paying it at 10.25% necessarily. But we're in discussions with them as long as we can stay in that range of 9% to 10.25%.

And necessarily there's going to be a little bit of a timing issue here because we're going to need to see what did we earn and then pass it back kind of on a prospective basis. So I suspect we'll be more down in that range, not at 10.25%. You look at our track record and we've been earning right about 9.75%, 9.5%, this quarter 10.10%, but was driven about 50 bps driven off of weather there. So we've been in the 9.5%, 9.75% range. And hopefully, as we implement this, we could be in that range prospectively.

Greg Rice: Got you, got you. Okay. That makes sense. So maybe you kind of set a cap saying if you ever go above the 10.25%, you'll end up refunding. Is that the way to think about it? It seems like you shouldn't be refunding anything if you're in a 9.5% band.

Jimmy Addison: What we're doing here is trying to work, which we always do, with our regulatory staff to do something reasonable with the customers. And we're not trying to set up a mechanism that's completely mechanical, driven off the top of the 10.25%. We're trying to also mitigate the rate increases on the customer. The BLRAs work real well; we recognize that and we want to share these cash benefits back. And as I said, we don't really see it impacting our earnings guidance. So that's why we proposed what we have.

Greg Rice: And then just on the nuclear spend, how much have you spent year-to-date on the project?

Jimmy Addison: Year-to-date, let's see if I have that nearby. I don't even know that I have that at my fingertips. I really don't have year-to-date spend here at my fingertips.

Greg Rice: Not a problem; I could follow up afterwards.

Jimmy Addison: I know we're estimating for the entire year to be around $950 million or so and I don't think we will be off that substantially, but I don't have the through September 30 number.

Greg Rice: And I just wanted to confirm, I guess, for spend that's happened on the nuclear project after 6/30, 2016 which (inaudible) everything before that would have gone in this last BLRA. Would you be earning AFUDC earnings basically all the way through December of 2017 on that spend when you finally get the next BLRA increase?

Jimmy Addison: Yes.

Greg Rice: Okay, perfect. Thank you.

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

Jimmy Addison: Well, thank you. We look forward to concluding the regulatory proceedings before the South Carolina and North Carolina Public Service Commissions and the receipt of the construction milestone payment schedule.

And as a side note, we'll be attending the EEI Conference in a couple of weeks and hope to see many of you there. Thank you for joining us today and for your interest in SCANA.

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

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