

[SCG] - SCANA Corporation - Analyst Call  
Wednesday, August 16, 2017, 8:30 AM Eastern

Officers

Jimmy Addison; CFO, SCANA  
Kevin Marsh; CEO, SCANA

Analysts

Paul Patterson; Glenrock Associates  
Kamal Patel; Wells Fargo  
Shar Pourreza; Guggenheim Partners  
Paul Fremont; Mizuho  
David Frank; Corsair Capital Management

Presentation

Operator: Good morning, ladies and gentlemen. Thank you for standing by. I will be your conference facilitator today. At this time I would like to welcome everyone to the SCANA Corporation conference call. (Operator Instructions)

As a reminder, this conference call is being recorded on Wednesday, August 16th, 2017. Anyone who does not consent to the taping may drop off the line.

At this time I would like to turn the call over to Jimmy Addison, SCANA's Chief Financial Officer. Please go ahead.

Jimmy Addison: Well, good morning and thank you for joining us. We're hosting this call to discuss the announcement we made yesterday regarding the decision to voluntarily withdraw our abandonment petition that was filed with the Public Service Commission of South Carolina two weeks ago.

Kevin Marsh, SCANA's Chairman and CEO, will lead you through some prepared remarks, and then we will be available for questions.

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 illustrated on Slide 2 of our second quarter earnings call presentation, which can be found in the Investors section of our website under Webcasts and Presentations.

The Company does not recognize any obligation to update 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 Investors section of our website under Webcasts and Presentations.

I'll now turn the call over to Kevin.

Kevin Marsh: Thanks, Jimmy, and good morning. As you already know, we recently announced our decision to abandon the new nuclear project, and on August 1st, we filed an abandonment petition with the Public Service Commission of South Carolina. We filed this application based on the provisions of the South Carolina Base Load Review Act.

Since making this filing, members of our senior management team and I have been meeting with a variety of stakeholders, with Governor McMaster, and with members of the South Carolina General Assembly, including their legislative leaders, to discuss their concerns and explain the path that led us to our decision to abandon the project.

Both bodies of the General Assembly have formed committees to review the project, including impacts on SCE&G and Santee Cooper customers as well as the regulatory oversight provided throughout the process.

As a result of these conversations, we have decided to withdraw our abandonment petition. Withdrawing this petition allows the governmental officials time to conduct their reviews. We welcome these discussions and intend to support the review process and look forward to sharing information regarding the project and the basis of our decision to abandon construction.

We recognize that this process creates some uncertainty regarding the timing and impact of our abandonment decision. As we work our way through this process, we will continue to provide you with any relevant information.

We'll now be happy to take your questions.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions) Paul Patterson of Glenrock Associates.

Paul Patterson: Just given the complexity of the project and the apparent desire of some for the project to continue, I'm just wondering, practically speaking, how should we think about the potential for the plant to go forward, given that we've already sort of -- we're underway with the abandonment process, if you follow me, on the ground?

Kevin Marsh: Yes, that's a question we've gotten from a number of folks, Paul. And the answer is, for us to restart the project, number one, we'd have to have a willing partner. And I've had this conversation with the governor, because I know he's actively seeking

for someone to take over Santee Cooper's share. So we'd have to identify a willing partner to come to the project.

We would have to start with drafting a new partnership agreement to determine who would own what percentages of the project going forward. Are you going to try to do one? Are you going to try to do two? So all those negotiations would have to occur upfront.

At that point, we'd have to negotiate a construction contract with the contractor, whether that be Fluor or someone else. And we also have to reengage Westinghouse in a services agreement because the plant is their design and we would need their design engineering support if we were to go forward.

Once all that was accomplished, you then have to go back to the Public Service Commission and have them review the project and agree to the reconstitution and a plan to go forward.

I think at that time it would also depend on the status of the Base Load Review Act. The General Assembly has indicated they intend to review that act on a go-forward basis and look at their decisions on that, how that might impact the project going forward and the risks associated from everybody's perspective.

So the message I have tried to be clear on is it's not something that will happen overnight. There would be significant negotiations to pull a project team back together. And then once you've done that, you would then have to begin to assemble the construction team and the oversight team back on site.

Now, with all that being done, we still have the issue of the production tax credits to make sure we would qualify for those. And that continues to be pursued at the legislative level in Washington. That would be an important factor.

And then just the cost. I think the cost estimate of moving forward, whether it's with one or with two, would need to be evaluated very carefully to make sure that was in the best interest of our customers.

That's what you really led us to this decision on the abandonment was looking at the cost going forward. Of course, in our case, without a partner, it made that cost just too much for our customers to bear, and that's what led us to the abandonment decision.

So it'd take us awhile to get through those steps to get back to work if that appeared to be an option.

Paul Patterson: But it would seem to me though, that your decision to abandon largely because of cost and, of course, because of the partner, which was part of the partner's issues, it would seem to me that that cost, in all likelihood, would be considerably higher

given the fact that the project has been abandoned at this point and all the issues that you talked about in terms of getting it restarted. Am I wrong about that or?

Kevin Marsh: Well, our general discussions with the contractor have led us to believe that it would add about a year onto the life of the project, even if you were to start it back up. And that's consistent with that year I was talking about to pull everything back together. And there are costs associated with waiting.

But I'd be more concerned with a new construction contract and a new services contract with Westinghouse what those costs add up to, because it would not be the contract we have today. It'd be a very different contract.

Paul Patterson: Okay. And then, I guess what I'm also sort of wondering though, and you see this around the country on occasion, which is although your analysis, which I'm sure has been very thorough in terms of leading to the decisions that you've made, on a political level, sometimes the calculus is different. Sometimes what might not make economic sense to you or I or to people who are listening on the call, in a political realm, it actually does make sense simply politically speaking. And politically, it may be expedient to simply start to do it.

How should we think about that, I mean in the whole calculus of things? I mean, is this going to be a simple economic issue? Or should we think about, perhaps, the other sort of greater political issues that might be involved?

You see this with other infrastructure projects, if you follow what I'm saying, where the issue isn't just simply black-and-white sort of what's the cost for doing it, but just the fact that politically people want to do it?

Kevin Marsh: Well, the cost is important, primarily because that's the direct impact it has on our customers. And that's paramount to us as we make the evaluation and the ultimate decision.

But we also considered that while we were doing our evaluation of the project over the past four months to determine the best path forward, which is why we did go to the federal government, met with the Secretary of Energy, met with Department of Energy and other people that were interested in hearing our concerns.

And we sought a grant because we think there is a higher level of need for nuclear power in the United States to make sure we have a strong nuclear industry. It's in the best national defense of the company, protection for the country, and it's something that would be good for all of us.

We have an aging fleet of nuclear plants. And as that continues to decline, we're going to lose a large source of clean power producing assets in the country. And we just don't think that's a good political stature to be in, which is why we sought the relief.

We did hear back from the Department of Energy and the Secretary. What they told us was they didn't have a grant for us. But they offered us additional loans from the DOE. And while loans are nice, they don't reduce the cost of the project. What we were trying to do was to minimize the cost of the project.

So yes, I do believe there's a great reason to finish these plants because of the national interest in an industry that's provided clean air for this country for 30, 40 years. But without that governmental support, the impact to our customers was just too great.

Paul Patterson: Okay. I'll let other people ask questions. Thanks so much.

Operator: Kamal Patel of Wells Fargo.

Kamal Patel: Quick question. Given that it's a political process, I'm sure there's no specific timetable. So I'm wondering if this allows you to file your annual BLRA update to alleviate some potential regulatory lag.

Jimmy Addison: Yes, Kamal. This is Jimmy. I'm not sure exactly what you're talking about there. Of course we filed our quarterly report. If you're referring to the annual rate adjustment process...

Kamal Patel: Rate update, yes.

Jimmy Addison: So no, we have withdrawn that as well and we'll hold that in parallel with the application for the abandonment until we get through this process with these committees with the legislature.

Kamal Patel: Okay. Thanks.

Operator: Shar Pourreza of Guggenheim Partners.

Shar Pourreza: So just let me, is this withdrawal, is it a definitive withdraw or is this sort of a delay of your abandonment?

So like I guess what I'm trying to figure out here is, the decision you made yesterday, was that a function of basically educating these legislators on why you got to where you got? Or is there something else at work where, I guess in some way you're trying to buy time in order to come up with another owner or risk mitigating measure or some other process.

So I guess, is this a temporary withdraw or is this something that there's more to it?

Kevin Marsh: Yes, actually it is temporary. This is Kevin. In our discussions with the legislature, we have not changed our position that abandonment, in our mind, was the prudent decision for us to make, given the facts we had in front of us.

We looked at the Base Load Review Act carefully. I would have preferred to be able to suspend that process, which would have done the same thing. It would have allowed us to halt while we worked through the issues with the legislature and allowed them to conduct their reviews. But there's simply not a provision in the law that allows us to do that.

So the appropriate way was to withdraw the application. And I fully expect that at appropriate time in the future we intend to refile that and move forward with those hearings at the commission.

But we've not changed our position on the decision. And we continue to wait for a potential partner to show up. But for all the reasons I discussed earlier, that wouldn't be an overnight case.

Shar Pourreza: Got it. And then, Jimmy, you provided the financials a few weeks ago. Is there, depending on how long this process takes, and I have to imagine legislators tend to take their time going through a process, is there any impact to the updated disclosures you provided?

Jimmy Addison: No, we don't have anything at this point. Of course, the good thing about this process is that now both committees have announced they'll have their initial meeting next week. The Senate committee on Tuesday and the House committee on Wednesday. So that's encouraging that they understand the gravity of the situation, and we're going to get the process moving.

And so I think what we're really interested in is learning more about how their process might work at those initial sessions and how long that process might last. But we don't have anything to change at this point.

Shar Pourreza: Okay. Is there sort of a point for you guys where you won't wait any longer where you will reenact the withdraw decision? Have you given some sort of an indication of how long you'll wait through this process?

Kevin Marsh: In our discussions with the legislature, we want to give them time to complete their process. We have discussed that there would be a time in the future that we would need to refile. We didn't draw any lines in the sand. We don't want to get out in front of them, which is why we decided to hold back so we wouldn't have two processes running at the same time.

I think that makes sense. And so we'll need to monitor the status of their reviews. And I'm sure that we'll reach a point where it's comfortable for us to refile and everybody will support that.

Shar Pourreza: Got it. That's helpful. And there's no construction workers sort of left really on the sites? Any activity's sort of been abandoned at this point?

Kevin Marsh: Yes, we've got a small contingent on site winding down the process, putting the site in a safe condition. But, no, there's a very small contingent doing that, not the large thousands of construction workers we had initially.

Shar Pourreza: Okay, great. Have a good morning. Thanks so much.

Operator: Paul Fremont of Mizuho.

Paul Fremont: I guess my first question really is procedurally I would assume that when you withdraw your application that that moots the motion to dismiss that was filed by ORS. Would that be correct?

Jimmy Addison: Yes, we believe so. Certainly Kevin or I, neither one are attorneys, Paul. But we believe that kind of makes that a moot point at this point in time.

Paul Fremont: But that would not moot the FOE and Sierra Club complaints that the commission docketed for hearing? So that proceeding potentially will move forward? Is that correct?

Kevin Marsh: I think there's a potential for that. But I suspect, I can't speak for the commission. But they would likely look at that and make an appropriate decision in light of what the legislature's doing and everybody else, hitting the pause button at this point.

Again, I can't speak for them. But I certainly feel comfortable they'll consider that.

Paul Fremont: Okay. And then from what you said earlier, your plan is to wait until the committees have reached a final conclusion before you file. Is that a fair characterization?

Kevin Marsh: Well, I think we need to let the process run at the legislature to see what direction they may decide to take or recommendations they have at the end of the process. I believe the process will dictate when and how the next step takes place.

I am confident there will be a next step, because at this point, the regulatory body that ultimately makes that decision is with the commission. If someone decides to alter that during the process, we'll need to manage that as we go forward.

But that's the way we expect the process to work. They'll get these reviews done. Don't know exactly when they'll finish those. The House and the Senate come back into session in early January and run through May. So you've got a time frame, I think that runs from now through the end of May in terms of a window that something could happen. I'm not going to predict the dates. We need to let the process go forward. But those are dates we know in front of us to kind of put some potential boundaries around it.

Paul Fremont: And that really last question. I mean, without knowing sort of what the legislature is ultimately going to come up with, does that potentially create a situation

where you would suspend guidance until you had a better sense of where the legislature and the regulatory process, what direction it was going to move in?

Jimmy Addison: Paul, this is Jimmy. We don't envision a situation that would require that at this point in time. That's not part of our consideration.

Paul Fremont: Okay. That's it. Thank you.

Operator: (Operator Instructions) David Frank of Corsair Capital Management.

David Frank: I was curious as a result of this decision to withdraw the filing, could you please speak to any changes to, A, the current accounting treatment of the non-cash AFUDC for the new nuclear spending that you've done to date, your current stated earnings growth rate, and also your current buyback plans?

Jimmy Addison: Yes. David, let me take the middle question first. This is Jimmy.

On the growth rate, all we've done is withdraw the application. We haven't changed anything at this point. And as Kevin said a couple of times, we need to let the process run.

So the short of it is, we don't know anything at this point that impacts what we previously disclosed around the earnings guidance.

Now, on the other accounting matter, your first question, we're evaluating what is the best way to handle that situation. And in our withdraw letter to the commission yesterday, we reserve the right to come back to them to handle some of these miscellaneous accounting matters. You picked out one of them regarding AFUDC.

Another key one that probably is going to need timely response is and, frankly, the principal one is what starts happening with the cash that comes in from these Toshiba parental guaranty, the installment payments that are scheduled to start in October?

We would hope for a timely process with these committees, that there is no way that I see now for that process to be resolved and certainly get back through the regulatory process in time to deal with that.

So there are going to be some of these, I'll call them more regulatory housekeeping matters that we need to go before the commission and ask for some direction on, as we have in the past. None of those are binding on any party. They're just for some interim direction until the items can be addressed in a formal regulatory proceeding. And that would preserve the option for the committees to fully vet any of those items and have their input as well.

Now, your third question has slipped my mind.

David Frank: It was regarding the stock buyback plan.

Jimmy Addison: Yes. Well, certainly, we're not going to execute any on that until we get some clarity on the whole situation. So that would be on the side burner.

Kevin Marsh: And this is Kevin. Let me add one more comment to what Jimmy said about the potential receipt of some Toshiba proceeds from the parental guaranty.

The accounting for those would need to be specified by the commission to get some actual direction on how we would do that. But the plan of providing the benefit of those parental guaranty funds going to customers, that has not changed.

All those funds will go to benefit customers. I want to make sure we're clear on that. It's not a matter of some of that being diverted to the company's benefit. That would all ultimately go to the customers, no matter how we do the final accounting.

David Frank: Right. But at this point, you don't see any need or you're not making any changes to your current earnings guidance for 2017?

Jimmy Addison: No.

David Frank: Okay. All right. Well, I would just say, given that this is such a huge far-reaching issue, and this is my personnel take, that your choice to delay the abandonment in order to give all parties a chance to examine your decision was very smart.

And I'm not quite sure how anyone after any comprehensive review could come to any other decision. I mean, even if you had someone with half a brain, to spend the amount of money with all of the risks and potential risks that are still ahead, not to mention you don't have a partner or the PTC guaranty anymore, I mean, you could probably build five or six times the amount of generation in a shorter period of time with the money that you're estimating it would take to just complete the plan today.

So it'll be interesting. All these people, I'm sure they're very upset. It's very emotional. But I don't know if, I'd be curious to really hear someone make a solid argument for going ahead and spending and taking on all that risk. So I think it was a good decision.

Jimmy Addison: Thank you very much, David. And if you think about all these folks that have now been thrust into the process, this is not what they do every day. And what they want is to be educated on the process and have their chance for input. And we completely respect that process and will comply with it.

David Frank: Thank you.

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

Kevin Marsh: Thank you. As you can tell, this has been a very dynamic situation. As this process continues over the coming months, we will continue to provide you information regarding the regulatory process and any related developments.

Thanks again for joining us on the call today and for your interest in SCANA. Have a great day.

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