

Westinghouse Bankruptcy

On March 29th, Westinghouse Electric Corporation (Westinghouse), the primary contractor for the SCE&G new two nuclear units (the Project), filed Chapter 11 bankruptcy in the state of New York.

Interim Agreement between Westinghouse, SCE&G and Santee Cooper

Also on March 29, an interim agreement between Westinghouse, SCE&G, and Santee Cooper was filed with the New York Bankruptcy Court as part of the bankruptcy filings. This interim agreement allows work to continue on the Project during a transition and evaluation period, set initially as 30 days, with an overall goal of determining the most prudent path forward. The Bankruptcy Court approved the interim agreement on March 30. Pursuant to the interim agreement, Project owners (SCE&G and Santee Cooper) agreed to fund the prospective work during this time. Fluor will continue as construction manager and will continue to provide craft staffing. It is anticipated that Westinghouse will continue to operate while moving through the Chapter 11 proceedings.

During this 30-day period, SCE&G will evaluate the estimate that Westinghouse has provided of the additional cost needed to complete the Project, beyond the cost provided for under existing agreements. According to SCE&G, “We expect that the resources available from Westinghouse and Toshiba, including its parental guarantee, are adequate to compensate us for the Westinghouse estimate of additional costs.”

Project Options

Options for going forward will be evaluated in order to select the most prudent path. Toward this end, the ORS is formulating a written plan to contain time-based objectives to assist in determining and evaluating paths forward for South Carolina. Some of the options being considered are as follows:

- Continue with the construction of both new Units;
- Focus on construction of one unit and delay construction of the other;
- Continue with construction of one unit, abandon the other, and seek recovery of the abandoned unit under the Base Load Review Act (BLRA); or,
- Abandon the Project and seek recovery under the BLRA.

The ORS is in the process of retaining a bankruptcy attorney to represent the ORS and the public interest in the bankruptcy proceedings.

Fixed Price Agreement on Project Costs and ORS Monitoring

The ORS, SCE&G, the electric cooperatives, Central Electric Cooperative, large industrial customers, and the SC Small Business Chamber of Commerce have an agreement approved by the Public Service Commission that limits SCE&G from passing further price increases to

customers. It is the ORS' position that any costs that do not fall within this fixed-cost agreement should not be passed on to the customers.

On March 20, 2017, the ORS wrote to SCE&G seeking the following information, which is needed to monitor the Project and make a decision on the options:

- the fully resource-loaded integrated schedule, to include at minimum a level 2 summary of activities;
- density studies and other supporting studies behind the schedule, including an explanation of how revisions to man hours and commodity estimates have impacted the schedule;
- a full explanation of the unit rate assumptions behind the revised schedule, how these differ from the previous schedule, and how they compare to industry standards;
- productivity and production metrics based on the new schedule and unit rates so that we can accurately monitor what is being achieved versus what should be achieved;
- detailed plans for how the productivity assumptions underlying the schedule and the production levels outlined in the metrics will be achieved;
- publicly reportable schedule adherence metrics;
- an assessment of the escrowed documents that discusses whether they are useable; and
- an understanding of what plans SCE&G is making in the event Westinghouse does not fulfill its contract to build the plants.

SCE&G Rates

There is no pending rate increase for SCE&G customers related to the Project.

Costs for the Project's capital costs, commonly referred to as the brick and mortar costs, are not in SCE&G customer rates.

Financing costs for the Project are in customer rates. SCE&G is allowed to file a rate increase for the recovery of financing costs associated with the Project each year, subject to review by ORS, and approval by the Public Service Commission. These financing cost filings are based only on expenditures within the currently approved Project budget, and the rates associated with these filings have historically gone into effect in October or November.

A request to increase the Project budget would have to be approved separately by the Public Service Commission after both public notice and a hearing.