Scana Corp (SCG) Earnings Report: Q3 2015 Conference Call Transcript

The following Scana Corp conference call took place on October 29, 2015, 03:00 PM ET. This is a transcript of that earnings call:

Company Participants

- Susan Wright; SCANA Corporation; Director Financial Planning & IR
- Jimmy Addison; SCANA Corporation; CFO
- Steve Byrne; SCANA Corporation; COO of SCE&G
- Kevin Marsh; SCANA Corporation; CEO

Other Participants

- Andrew Weisel; Macquarie Capital Securities; Analyst
- Julien Dumoulin-Smith; UBS; Analyst
- Jim von Riesemann; Mizuho Securities USA; Analyst
- Travis Miller; Morningstar; Analyst
- Paul Patterson; Glenrock Associates; Analyst
- Felix Carmen; Visium Asset Management; Analyst
- Michael Lapides; Goldman Sachs; Analyst
- Dan Jenkins; State of Wisconsin Investment Board; Analyst
- Mitchell Moss; Lord Abbett; Analyst
- David Fishman; Goldman Sachs; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

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 Thursday, October , . 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, ma'am.

Susan Wright (Director Financial Planning & IR):

Thank you. Welcome to our analysts call. As you know, earlier today we announced financial results for the third quarter of and earlier in the week we released an update on our settlement with a consortium regarding disputes on our new nuclear project.

Joining us on the call today are Jimmy Addison, SCANA's Chief Financial Officer; Steve Byrne, Chief Operating Officer of SCE&G; and Kevin Marsh, our CEO. During the call, Jimmy will provide an overview of our financial results, Steve will provide an update of our new nuclear project, and Kevin will cover the key points of our settlement. After our comments, we will respond to your questions. The slides and the earnings release referenced 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 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 . 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'll now turn the call over to Jimmy.

Jimmy Addison (CFO):

Thanks, Susan, thank you all for joining us today. I'll begin our call by thanking those of you who reached out to us during the historic rainfall and flooding that hit South Carolina earlier this month. It was and continues to be a trying time for a state and we appreciate your thoughts and prayers as things continue to progress. While our system was restored very quickly, the property damage of the citizens of South Carolina will take a long time to restore and, tragically, several lives were lost and families altered forever.

Now on slide , we'll begin our earnings discussion. GAAP earnings in the third quarter of were $. for share compared to $. per share in the same quarter . The improved results in the third quarter are mainly attributable to higher electric margins due primarily to serve the, a Base Load Review Act rate increase, and customer growth, as well as lower depreciation expense as I will discuss shortly. These were partially offset by lower gas margins, primarily due to lost gas margins of $. per share resulting from the sale of CGT, an increase in O&M expense, and expected increases in CapEx-related items, including interest and share dilution. Note that abnormal weather contributed $. per share and $. per share of additional electric margin in the third quarters of and respectively.

SCE&G periodically conducts depreciation studies related to electric plant to better determine the proper annual depreciation accrual rates. A new depreciation study performed earlier this year resulted in the adoption of depreciation rates which produced an annual decrease to depreciation expense of approximately $ million. The PSC authorized SCE&G to implement the new depreciation rates effective January , , and at the Company's request, the retroactive $. million credit from the application of the new rates from January through June of this year has been used to offset a portion of the deferred fuel balance related to its retail electric operations. For the third quarter of , and all subsequent periods, the incremental reduction to depreciation expense will flow through income. Please turn to slide .

Earnings-per-share for the nine months ended September , , were $. versus $. in . The improved results are mainly attributable to the net of tax gains on the sales of CGT and SCI, higher electric margins due primarily to a Base Load Review Act rate increase and customer growth, as well as lower depreciation expense as described earlier. These were partially offset by lower electric margins due to weather from the first quarter, lower gas margins primarily due to lost gas margins of $. per share resulting from the sale of CGT, an increase in O&M expense, and expected increases in CapEx-related items including interest, property taxes, and share dilution. Although electric margins reflected a negative $. per share due to weather year-over-year, abnormal weather increased electric margins by $. per share year-to-date compared to $. per share in .

Slide shows earnings on a GAAP adjusted, weather-normalized basis. Earnings in the third quarter of were $. per share compared to $. per share in the same quarter of . Year-to-date September, earnings were $. per share in compared to $. per share in the prior year. 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 sale of CGT and SCI from the first quarter of . Based upon our results to date and our expectations for the balance of the year, we are reaffirming our GAAP adjusted weather-normalized earnings guidance of $. to $. per share.

Now on slide , I'd like to briefly review results for our principal lines of business. On a GAAP basis, South Carolina Electric & Gas Company's third quarter earnings were up $. compared to the same period of . Increases in earnings were due primarily to weather, the continued recovery of financing costs through the BLRA and customer growth. The application of the previously mentioned new depreciation rates also positively contributed to earnings for the quarter. These items were offset by increases in O&M expenses and expenses related to our capital program, including interest expense and share [dilutions].

Year-to-date earnings were higher by $., due primarily to the same drivers as the quarter with the exception of weather. PSNC Energy reported a seasonal loss of $. per share in the third quarter of compared to a loss of $. per share in the same quarter of the prior year, primarily due to increased O&M, depreciation, and property taxes, partially offset by customer growth. Year-to-date earnings are $. per share compared to $. per share in the prior year.

SCANA energy, our retail natural gas marketing business in Georgia, showed a decrease in third-quarter earnings of $. per share in over the same quarter of last year, primarily due to increased O&M. For the nine-month period ended September , earnings were up $. per share.

On a GAAP basis, SCANA's corporate and other businesses reported a loss of $. per share in the third quarter of , consistent with the prior year. Lower interest expense at the Holding Company and increased margins in our marketing business were primarily offset by foregone earnings, contributions from the subsidiaries that were sold during the first quarter of this year. For the nine-month period, these businesses reported earnings per share of $. in compared to $. in . Excluding the net of tax gains on the sales of CGT and SCI of $. per share, GAAP adjusted weather-normalized EPS was down $. from the prior year, again due to forgone earnings from the sale of the businesses earlier this year.

I would now like to touch on economic trends in our service territory on slide . So far in , companies have announced plans to invest over $ billion with the expectation of creating over jobs in our Carolinas territories. We're excited by the continuous growth in our service territories as the Carolinas continue to be seen as a favorable business environment. 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 then SCE&G electric territory. South Carolina's unemployment rate is now at .% and the rate in SCE&G's electric territory is estimated at .%. Of particular interest, and attesting to our state strong economic growth, approximately , more South Carolinians are working today than a year ago.

Slide 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 .%. Our regulated gas businesses in North and South Carolina added customers at an accelerated rate of .% and .% respectively. We continue to see very strong customer growth in our businesses and in the region.

The bottom table outlines our actual and weather-normalized kilowatt hour sales for the months ended September , . Overall, weather-normalized total retail sales were up .% on a -month ended basis. We continue to be encouraged by the strong industrial expansion that has in turn led to strong sales growth not only in the industrial sector, but also in the residential and commercial markets. Now, please turn to slide , which recaps a regulatory rate base and returns.

The pie chart on the left present the components of our regulated rate base of approximately $. billion. As denoted in the two shades of blue, approximately % of this rate basis 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 .% return on equity. The earned return for the months ended September in the base electric business is approximately .%, meeting our stated goal of earning a return of % 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. Our regulated gas businesses in the Carolinas continue to perform well. We're allowed a return on equity of .% and .% in South and North Carolina, respectively.

Slide % presents our CapEx forecast. This forecast has been updated to reflect our most current CapEx projections for and , and is now inclusive of our estimates. This forecast also reflects the Company's current estimate of new nuclear spending through , including an estimate of the impact of the settlement with a consortium, which Kevin will address later. At the bottom of the slide we recap the estimated new nuclear [equip] from July through June to correspond to the periods on which the BLRA rate increases are historically calculated.

Now, please turn to slide to review our updated estimated financing plan through . As a reminder, on May of this year SCE&G issued $ million of -year bonds at .%. Also in January, we issued approximately $ million in equity through our (k) and drill plans before turning off the plans to new shares. By acquiring shares on the open market to satisfy the needs of these plans, we can further utilize the cash proceeds from the sales of CGT and SCI. We do not anticipate the need for further equity issuances until and will turn back on the (k) and drill plans to satisfy those needs.

On the debt side, and based upon cash flows and planned construction payments to date, we have deferred $ million of Q planned debt issuances and accelerated some issuances from the out years to better align with their expected funding needs. This plan also anticipates debt to be issued at PSNC to fund its anticipated CapEx spending. While these are our best estimates of incremental debt and equity issuances, it is unlikely musicians will occur is exactly as presented as they are subject to changes in our body needs for planned project expenses and we continue to adjust the financing to match the related CapEx on a / debt and equity basis.

Now, I'd like to discuss our earnings guidance and related assumptions as shown on slide . Our GAAP adjusted, weather-normalized preliminary earnings guidance is $. per share to $. per share and our internal target is $ per share. Due to the cyclical nature of our business, we expect to earn approximately % of this amount in the first quarter, approximately % in each of the third and fourth quarters, and the remaining % in the second quarter. In computing this guidance range, we have included the impact of a base rate increase from our new nuclear filing under the BLRA, the accretive impact of the sales of CGT and SCI, and our view of the economy. This guidance also incorporates the CapEx and financing plans we presented earlier.

We forecast electric customer growth to be at approximately .%, offsetting our assumption that customer average use of electricity will be slightly lower in . We anticipate overall weather-normalized retail electric sales growth for to decline by approximately .%. We expect operating and maintenance expenses to be approximately % higher in than where we project to finish for the end of . We also expect continued growth in the CapEx-related cost of property taxes, depreciation, and interest.

For the remainder of , exclusive of the taxes on the gains on the sales of the subsidiaries and looking out into , we project an effective tax rate of approximately %. We continue to be cautiously optimistic about our long-term view and are reaffirming GAAP adjusted, weather-normalized average annual growth guidance as we plan to deliver % to % earnings growth over the three to five years using a base of 's

GAAP adjusted weather-normalized EPS of $. per share. Hopefully, this will provide you with some clarity of our view of as you update your models. I'll now turn the call over to Steve to provide an update on our nuclear project.

Steve Byrne (COO of SCE&G):

Thanks, Jimmy. I would like to begin by addressing the impact that the recent rainfall and flooding in South Carolina had on the new nuclear construction project. As you probably have already seen on our website, we estimate that this weather event resulted in a loss of about four days of work effort. I wanted to clarify that the construction schedule has a contingency for weather delays and other events, so this day should not impact the planned in-service dates for the new units. We have had very little weather impact to date, which is why this event should not have an impact on the project. Please turn to slide .

I would now like to address the Public Service Commission of South Carolina's unanimous approval of the petition that SCE&G filed in March of this year, seeking approval to update the construction milestone schedule as well as the capital cost schedule for the two new nuclear units. The approval of the petition, along with the settlement agreement entered into with the South Carolina office of regulatory staff and the South Carolina Energy Users Committee, adjusted the commission approved substantial completion dates to June of for unit and June of for unit . This agreement also allowed for the inclusion of incremental capital costs that totaled $ million and revised the allowed return on equity to .% from % for calculating perspective revised rates under the BLRA on or after January , .

Moving on to some of the activities at the new nuclear construction site. Slide presents an aerial photo of the site from June. This photo gives you a view of the layout of the site and I have labeled both units and as well as many of the areas that make up what we call the construction tabletop. On slide you can see a picture of the unit nuclear island. In this picture you can see module CA on the left side of the slide along with the containment vessel first ring which has been placed on and welded to the lower bowl. If you look through the personnel and equipment hatch openings in the containment vessel ring you can see superstructure module CA which is, as you recall, was placed back in July. We continue to make progress with the fabrication and complacent of containment vessel structure modules.

Slide presents a schematic view of the five, large structure modules located inside the containment vessel. This exploded view of CA through gives you a better feel for how they fit spatially inside said containment vessel. As you may know, we have now placed CA , CA , and CA for unit .

Slide shows a picture of CA which will be the next structural module placed in the Unit you containment vessel. Module CA is a wall section that forms part of the in-containment for fueling water storage tank. As you see here, all five sub modules have been assembled and CA is now structurally complete and has been moved outside of the module assembly building, or MAB. This module scheduled to replace sometime during the first half of .

Slide shows a picture of CA , which is the west wall of the in-containment refueling water storage tank. Four of CA's sub modules are on site and three have been fabricated in the MAB.

Slide shows a picture of the unit nuclear island. Module CA placed inside of the containment vessel lower bowl back in June and the auxiliary building walls, as you can see, continue to take form.

Slide shows an aerial view of the low profile for cooling towers from June. Three of the four cooking towers are now structurally complete with the fourth, Bravo shown on this slide -- sorry, shown on slide , being about % complete. Please now turn to slide .

Here you can see the placement of the concrete foundation for the unit turbo building first bay. The -foot thick base mat took hours to pour and consisted of cubic yards of concrete. This first bay is the transition from the [ox] building to the turbine building.

Slide shows the completed unit transformer bays. These transformer bays are constructed with reinforcing bar and concrete and serve as a firewall partially enclosing the transformers. These nine transformer bays for unit were completed during August.

Components continue to arrive on site. On slide you can see some pictures of the unit pressurizer arriving in the Port of Charleston. It was then transferred via rail car to the site. Pressurized will be (inaudible) inside the containment vessel and will be used to control the pressure and the reactant coolant system.

Please now turn to slide . As we mentioned during our second-quarter call we filed our annual request for revised rates under the BLRA in May. In response to that request, in September the PSC improved an increase of $. million. The new rates are effective for bills rendered on or after October . Our BLRA filings for are shown at the bottom of the slide, and as you can see in August we filed our quarterly status report on our new nuclear project with the commission and the office of regulatory staff for the second quarter of . We intend to file a quarterly status report for the third quarter in November. I'll now to the call over to Kevin.

Kevin Marsh (CEO):

Thanks, Steve. I'm glad to be with you today to provide some details in connection with our amendment to the EPC agreement for the new AP units at the V.C. Summer site we announced earlier this week. A number of the key points are summarized on slide .

As you know, these plants were being constructed under an EPC agreement with a consortium of Westinghouse and Chicago Bridge and Iron Subsidiaries, Stone and Webster. Westinghouse has announced that it tends to acquire Stone and Webster from CB&I. Following that acquisition, Stone and Webster will continue to be party to the EPC agreement but as a subsidiary of Westinghouse instead of CB&I. The amendment to the EPC agreement allows CB&I to exit its guaranteed obligation to the project. Obligations under the EPC agreement are joint and several obligations of Westinghouse and Stone and Webster and the October amendment provides for Toshiba Corporation, the parent company of Westinghouse, to reaffirm it's a guarantee of the Westinghouse payment obligation.

In exchange for the release of the CB&I guarantee, the amendment of the EPC contract, and an option to fix project costs, SCE&G, Santee Cooper, and Westinghouse have agreed to a full resolution and settlement of substantially all known claims and disputes outstanding under the EPC agreement. Under this amendment, SCE&G has agreed to pay Westinghouse incremental capital costs of cost of approximately $ million over the $. billion approved in the Public Service Commission's recent order number -. This, along with estimated escalation and AFUDC, would bring the total gross construction cost of the project to approximately $. billion. The amendment also revises the guaranteed substantial completion dates of units and to August , and respectively.

SCE&G share of liquidated damages would increase from $ million to $ million. The new liquidated damages are tied to the new guaranteed substantial completion dates and the eligibility of the units to earn federal production tax credits. Westinghouse also has the opportunity to earn, from SCE&G, completion bonuses of approximately $ million or $. million for each unit, depending on the timing of the plants been placed and the service. In addition, this amendment provides SCE&G for itself and its agent for Santee Cooper, an exclusive and irrevocable option until November , , to further amend the EPC agreement to fix the total amount remaining to be paid for the entire scope of work on the project after June , , at approximately $. billion, which is SCE&G's % portion of $. billion. This fixed price option result in SCE&G paying Westinghouse incremental project costs of approximately $ million over the previous escalated amount approved by the PSC of $. billion. Combined with estimated escalation and AFUDC, this would bring the total gross construction cost of the project to approximately $. billion.

If the fixed price option is exercised, SCE&G's share of the delay related liquidated damages amounts previously referred to would then be capped at approximately $ million or $ million per unit. The completion bonus to be paid by SCE&G with this option is approximately $ million or $. million for each unit, depending on the timing of the plants being placed in service. Our team worked very hard to include the unilateral fixed price option into this settlement. We will be evaluating the potential benefits of this option over the next several months. If elected, this option would fix all costs to Westinghouse at an approximate % increase over the current PSC approved budget. We, along with our partner, Santee Cooper, believe this option has significant value.

Once our evaluation of this option is complete, we will discuss with the South Carolina office of regulatory staff, our conclusion regarding our decision whether to exercise the option and make a filing with the Public Service Commission of South Carolina. An important part of the amendment is the development of a new, revised construction payment milestone schedule. Over the next five months, or until the new payment schedule is agreed upon, SCE&G will make monthly payments of approximately $ million per month, of which our share is $ million. Thereafter, payments will be made to Westinghouse based on construction milestones achieved.

After this milestone schedule is agreed upon, and if the fixed price option is selected and approved, our CapEx schedule Jimmy reviewed on slide , will be updated and our financing schedule will be conformed as well. The amendment also modifies the EPC agreement to explicitly define what constitutes a change in law to reduce the likelihood of certain commercial disputes. A dispute resolution board will be established for resolution of disputes as the requirement or ability to bring suit before substantial completion of the project has been eliminated.

Finally, I'm excited to have Fluor Corporation involved in the project. Fluor was established in South Carolina and has a deep nuclear pedigree with this nuclear division being headquartered in Greenville, South Carolina. We've had a long relationship with Fluor and believe they have an excellent record of delivering on commitments. That concludes our prepared remarks and we will now be glad to respond to any questions you might have.

QUESTIONS & ANSWERS

Operator:

We will now begin a question and answer session.

(Operator Instructions)

Andrew Weisel of Macquarie Capital.

Andrew Weisel (Analyst - Macquarie Capital Securities):

Hi, good afternoon, guys.

Kevin Marsh (CEO):

Hey, Andrew.

Andrew Weisel (Analyst - Macquarie Capital Securities):

First question is an option to switch fixed cost for the construction. What would be some of the reasons not to do it? You mentioned a lot of the benefits. What might be some reasons why you wouldn't exercise it and when do you think you might make that decision?

Jimmy Addison (CFO):

Well, we'll make the decision of the next to months. We have months to make the final decision. We want to take some time to let Fluor get acclimated to the project, have them look at the project schedule, the timetable associated with the completion dates and get their opinion combined with our evaluation of how they intend to approach the completion of the project so we can evaluate the option we're and are today, which is to complete the project with the target pricing along with fixed and firm.

The bulk of the project left to be done is in the target category, which means we pay the cost of that they incur. That is important to us because we want to get their feedback on the achievement of the milestones and what risks we think we may have there. We think we've strengthened our risk position there because we've increased the LD's on the project significantly. I think it is six times if we go under the existing option today. Once we get a chance to fully evaluate the schedule, the new completion dates along with their oversight and our complete the evaluation, I think we'll be in a better position to make that decision.

We certainly think that fixed price option is very appealing. We worked hard to negotiate that option into our settlement because it does gives us additional protections for rising cost. Certainly interest rates and projected escalation rates between now and the time we make that decision will have an impact on which way we might go. We just need some more time to evaluate that more fully.

Andrew Weisel (Analyst - Macquarie Capital Securities):

Okay, but it sounds like you're leaning toward taking that option or is it too soon?

Jimmy Addison (CFO):

No, I wouldn't make that decision today. I still think it's very appealing. It certainly gives us a backstop if we were to be comfortable with existing option, but I don't want to leave the impression that we've made that decision today because we want that time to evaluate where the project is going, to what we think interest rates might do in the future, what impact they can have on escalation and just the overall time schedule.

Andrew Weisel (Analyst - Macquarie Capital Securities):

Got it. Okay. Next question is my understanding so far your payment schedule hasn't really been based on the completion of milestones, so you'll need to have a true-up of what has been paid so far. Are you expecting to be ahead or behind? In other words, are you expecting to get some cash back from cost overruns today?

Jimmy Addison (CFO):

We're certainly not ahead on the schedule because that was one of the things that drove -- that was behind many of the (inaudible) on the project that we resolved with this amendment. In the original agreement, there were two types of payments to be made. Some of those were based on time, just passing the timetable on the schedule, and others based on actual work done. That got to be fairly contentious because we felt like in some circumstances we were being billed for work that was not being completed consistent with the schedule we had agreed to in the original contract. What this amendment does is it resolves those differences, so everything that has been paid to date I think I'm confident in saying that was for work that's actually been performed on the project. We're certainly not ahead of schedule.

So what we'll do is we're going to work with Westinghouse and Fluor very carefully to come up with a new construction payment milestone schedule. It will take about five months to do that, we've estimated, so during that time on % basis we'll be paying $ million and then at the end of six months that will be trued up so we won't be ahead or behind at that point, and then from that point on once we agree to the schedule, payments will be made as milestones are achieved. And that will be very simply if the work's done they'll be paid. If the work is not done in accordance with the schedule, regardless of how much time has passed, there will not be a payment required from us.

Steve Byrne (COO of SCE&G):

And that $ million is % basis, so our % share will be $ million.

Jimmy Addison (CFO):

That's right. Thanks, Steve.

Andrew Weisel (Analyst - Macquarie Capital Securities):

Okay and all of that is embedded in the financing slide you showed?

Jimmy Addison (CFO):

It is, Andrew. So what we did in updating that schedule is simply took the formula that Kevin and Steve just alluded to and recast the first seven months according to that basis and the next five months of we just used an estimate of what we had there existing. So we have at least improved it or what we know for those first five to seven months. We're just going to need to refresh everything once we get to that point where we're ready to take this before the commission and we will refresh our CapEx and financing schedule at that point.

Andrew Weisel (Analyst - Macquarie Capital Securities):

Okay, great. Lastly, is it safe to assume that the financing plan, equity in particular, assumes no bonus depreciation? What would that look like if you do have an extension?

Jimmy Addison (CFO):

Bonus depreciation is in the ballpark of $ million a year. That's the value of it to us and you are right, it does not assume that.

Andrew Weisel (Analyst - Macquarie Capital Securities):

Great, thank you very much.

Jimmy Addison (CFO):

Thanks, Andrew.

Operator:

Julien Dumoulin-Smith of UBS.

Julien Dumoulin-Smith (Analyst - UBS):

Good afternoon.

Jimmy Addison (CFO):

Good afternoon.

Julien Dumoulin-Smith (Analyst - UBS):

So, with the depreciation benefits in earnings now helping you, I suppose you tell me, drive towards close to your authorized ROE, how are you thinking about your earnings growth rate here? Obviously it's better than the % to %. Just thinking more [mathematically] here.

Jimmy Addison (CFO):

First of all, we do have historically done and a formal commitment with the commission to refresh our depreciation rates every five years or so. And that's simple enough to do and get into the rate process when you have an inflation-related driven rate case every two, three, four years. Since we have the strategy of staying out of any base rate increases other than the BLRA, we were getting on outside of that timeframe, so we refreshed it, went to the commission, asked them to approve it, they did and we have implemented that now for and forward. So, it is kind of a one-time reset if you will.

Ultimately, it will all be kind of put back into the whole rate process at some point down the road after the BLRA is over and the new units are in place. In the meantime you could say we might be on the upper edge or slightly outside the band in the very short run, but that guidance is a three- to five-year intermediate band and not just a one-year band. I don't know that that really puts us outside of that three- to five-year band because we reset that every year.

Julien Dumoulin-Smith (Analyst - UBS):

But just to clarify real quickly, in terms of earning your ROE next year, there's no reason why this step up that you're seeing with the depreciation study that's a real sustainable benefit accruing to you guys?

Jimmy Addison (CFO):

It is.

Julien Dumoulin-Smith (Analyst - UBS):

Until the next rate case presumably, as you said?

Jimmy Addison (CFO):

That's right and everything gets reset then, but we're comfortable with our strategy of earning in that % to .% range on the base electric business for the next three years based on what we know today, obviously.

Julien Dumoulin-Smith (Analyst - UBS):

Got it.

Jimmy Addison (CFO):

Based on what we know today, obviously.

Julien Dumoulin-Smith (Analyst - UBS):

Right. And then let me cut back to the sales growth expectation. Did I hear you right in saying a slight decline next year in the baseline forecast for the guidance? And can you expand on why that might be given the year-to-date experience?

Jimmy Addison (CFO):

Yes, because the year-to-date experience is inconsistent with the last two years. If we were confident that we were going to get growth year-over-year from to we would have more upside. Honestly, I hope we experience that because that is a great signal of the economy in South Carolina if that is the case. But at this point our best modeling says that for the first time it will be almost a wash between the incremental margin from new customers offset by the slight margin decline from all customers due to energy efficiency, et cetera. Honestly, that's a good sign for us because as our whole industry has dealt with the last several years, the customer growth has been overwhelmed by the efficiency and the decline in average use. We're glad we're back to be able to project the breakeven and I hope we have the challenge that you alluded to because that's good news for the economy.

Julien Dumoulin-Smith (Analyst - UBS):

Right. And there is no specific customer class here that you're highlighting that would drive that, right?

Jimmy Addison (CFO):

No, but the predominance of it is in the residential commercial classes.

Julien Dumoulin-Smith (Analyst - UBS):

Right. Absolutely. Alright. Great. Thank you. Congrats again.

Operator:

Jim von Riesermann of Mizuho Securities.

Jim von Riesemann (Analyst - Mizuho Securities USA):

Hey, guys. Congratulations on the settlement.

Jimmy Addison (CFO):

Thank you, Jim.

Jim von Riesemann (Analyst - Mizuho Securities USA):

I just wanted to follow-up on some of Julien's questions. How much is the depreciation effect supposed impact fourth quarter earnings?

Jimmy Addison (CFO):

Jim, it's about a $. per quarter run rate, so $. a year.

Jim von Riesemann (Analyst - Mizuho Securities USA):

Okay. And then -- so I guess a followup question to that is your trailing is, what, $[] to $[] and your internal midpoint before was $[] on a weather-normalized basis. Do you expect to hit that number?

Jimmy Addison (CFO):

Do expect to hit which number?

Jim von Riesemann (Analyst - Mizuho Securities USA):

The $[] number, your internal target number?

Jimmy Addison (CFO):

We do.

Jim von Riesemann (Analyst - Mizuho Securities USA):

Okay. Secondly, switching over to the settlement, are the bonus payments included in the capital costs or are those incremental?

Jimmy Addison (CFO):

They would be incremental, Jim. They are not included in the base cost we disclosed in the amendment.

Jim von Riesemann (Analyst - Mizuho Securities USA):

Are those shareholder born or customer born?

Jimmy Addison (CFO):

That has not been determined. We'll be before the commission and have a chance to explain both of these options and then which one we choose to go with. Since we don't know exactly whether or not those will be paid out at or what amounts they might be paid out in for one or both units because it is done on a per unit basis, we can't exactly determine if it's going to be paid. We would like to have these projects completed on time and have that a nice problem to have. We will address that with the commission. I am likely to be asked by the commission how we perceive that and my recommendation would be we wait until the end of the project to see what final costs come in. That is our most likely recommendation to the commission since we can't determine exactly what that would be today. That might be influenced by which option we take, too.

Jim von Riesemann (Analyst - Mizuho Securities USA):

Have you guys chatted with rating agencies yet?

Kevin Marsh (CEO):

Yes.

Jim von Riesemann (Analyst - Mizuho Securities USA):

What was the response?

Kevin Marsh (CEO):

Well, they have not published anything yet. I expect they will in the near term, but just to characterize the oil discussions I think it was generally neutral to positive with each of agencies.

Jim von Riesemann (Analyst - Mizuho Securities USA):

Okay. And then lastly could you just talk about how the risks get rebuked from under the settlement? I mean obviously you absolved some of your own risk that you bore, but how much -- what sort of risk would you say that you still retain and the risk that the construction consortium retains?

Jimmy Addison (CFO):

Well, I would say our risk profile under either option is significantly enhanced. Under the existing option we've resolved all of these outstanding issues eliminates the risk of potential litigation on those issues and the risks just inherent going through that process over time. I think the fact that we significantly raised the liquidated damages gives us a lot more protection. Under the existing contractual arrangement, our liquidated damages are six times what they were in the original contract. We still bear the risk of potential increased escalation and just increased interest expense during that time on the targeted dollars and the majority of dollars to be spent between now and the completion of the project are in that target bucket. But I think when you add all of those together, our risk profile is certainly reduced from where it was before we signed the amendment.

On the fixed price option that we have in front of us, I think that really enhances our risk profile because we shift that escalation risk back to Westinghouse and not only risk but the changes in law or change orders that might be associated with the project. We've still got incentives payable under either option that would encourage them to complete the unit sometime. Anything that helps that happen in accordance with the schedule and the guaranteed completion dates would lower our risk profile.

Steve Byrne (COO of SCE&G):

Jim, this is Steve. I would give one amplification to that. Under either scenario I think we've enhanced our risk profile because where we get into commercial disputes with the consortium today, they largely revolve around the definition of a change in law, and they would use the term regulatory-driven change, and the language around changes we've worked on and incorporated into this agreement significantly restricts what would be allowed as a regulatory-driven change, so we certainly improved it from that perspective. We also have a contract, EPC contract, remember that was signed in about , early , and that was based on that time on current revision of the design certification document, or DCD, which was rev . We are licensed to rev . So they submitted a couple of revisions between signing it and the final approval. So that has caused us some commercial issues in the interim. We resolved that disagreement by updating the contract DCD rev which is what we are licensed to.

Kevin Marsh (CEO):

And, Jim, just so we all get to pitch in on this one. One other from a financial perspective. Under the old agreement any time we disputed an invoice we paid % of it, as you are aware. Under the new arrangement, if we dispute it we don't pay anything and we get a fairly rapid resolution from a resolution board. So, we think that is a much better situation, too, to get all the parties to the table and of course there is one less party to get to the table than there was in the past.

Jim von Riesemann (Analyst - Mizuho Securities USA):

So let me ask like a worst case basis-type question. Has Fluor and Westinghouse looked at the quality work that has been done by CB&I?

Jimmy Addison (CFO):

Yes, I think that Fluor has not had an opportunity to look at the quality. Fluor will not take over until the deal is effective. There is a period of time or regulatory approvals of the deal, standard stuff, perhaps complicated slightly by the fact that Toshiba is a foreign entity, so there are regulatory approvals that need to take place. That is why we think that will be about a -day window and that is when Fluor will have their first opportunity to assess things like quality. But Westinghouse has had an opportunity to assess quality as have our folks, and so we don't just rely on the quality from the vendor, in this case CB&I. We have our own quality group, our own quality inspectors, and we send our folks not just of the site but we will send them to facilities that are manufacturing components, whether it be CB&I or somebody else, and we send them whether it is domestically or internationally, our QA QC inspectors have a lot of stamps on their passports. We will be able to assure Fluor of the quality of the construction so far.

Jim von Riesemann (Analyst - Mizuho Securities USA):

So you're happy with the quality, so there's going to be no ah ha moment is what you are saying?

Jimmy Addison (CFO):

We don't anticipate any ah ha moments.

Kevin Marsh (CEO):

Thank you, Jim.

Operator:

Travis Miller of Morningstar .

Travis Miller (Analyst - Morningstar):

Thank you, that afternoon. I was wondering on this regulatory stuff in terms of a settlement, how much were regulators involved in this? Either at the federal level, nuclear level, the state level, was anybody involved and what does that make up in terms of regulatory involvement?

Jimmy Addison (CFO):

They were not directly involved in the negotiations. Certainly we briefed the office of regulatory staff before we made a final announcement of the settlement agreement. It was our commitment to the commission when we were in there this year talking about the contract changes and getting the approvals at the time for the existing contract that we would come back to them and let them know of any changes in the status of the project. We expect to be before the commission here in the near future and the ex-parte communication which is the quickest way for us to get in front of them and educate them on more of the details of the contractual amendments involved and how the options would work for the Company going forward. And of course once we make a final decision we'd be obligated to go back and make that filing to adjust the timetables and the guaranteed -- excuse me, and the cost associated with it.

Travis Miller (Analyst - Morningstar):

Okay. You answered most of my second question there in terms of the regulatory process there. Is there a chance that regulators could deny a settlement, say it is not in customer's interest?

Jimmy Addison (CFO):

Certainly they have got that option. Every time we go in, our commission has been very supportive of what we've done on this project in the past. They view it as critical not just to provide energy to customers of South Carolina but as a key component of our response to the D clean power plants, so it is not just us but also for our partner, Santee Cooper. So we feel like we're within the guidelines of the challenges put before us to try to complete the project. Depending on which option we elect, we will go back and present our case to the commission as to why we decided to continue down the same path or why we believe it is the best interest to elect the fixed option. They generally listen to our testimony and evaluated that and made a fair decision. I certainly can't guarantee that but I feel like we would do a good job explaining our position to the commission in a way that they could make a very fair evaluation of our election.

Travis Miller (Analyst - Morningstar):

Okay. And what kind of timeline would that be on?

Jimmy Addison (CFO):

When we make the decision, once we make the filing they have six months to render a decision. So if we were to make a decision, for example, to elect the fixed price option in early June next year, they would have to make that decision by early December. So it's a six-month window from start to finish.

Travis Miller (Analyst - Morningstar):

Got it. Thanks so much. I appreciate it.

Jimmy Addison (CFO):

Yes, sir.

Operator:

Paul Patterson of Glenrock Associates.

Paul Patterson (Analyst - Glenrock Associates):

Good afternoon.

Kevin Marsh (CEO):

Hey, Paul.

Paul Patterson (Analyst - Glenrock Associates):

Does the fixed price options cover all materials and labor or just some of them?

Jimmy Addison (CFO):

It covers all remaining work to be done under the contract from now or actually from June until completion.

Paul Patterson (Analyst - Glenrock Associates):

So it covers everything?

Jimmy Addison (CFO):

Yes.

Paul Patterson (Analyst - Glenrock Associates):

Okay. And then is there any change in your financing expectations or anything as a result of if you did move to the fixed price?

Jimmy Addison (CFO):

Paul, let me go back and add one thing to my previous answer. It does cover construction costs. We still have transmission work to be done, but that is included in the total expected project costs we provided, so those numbers are all included in there because the transmission is outside of the EPC contract as well as owner's cost.

Steve Byrne (COO of SCE&G):

On to your next question about financing. No change in our philosophy of / debt and equity. We just need to get through the process of reassessing Fluor , making our option choice, going to the commission and getting that approval hopefully, and then recasting the payments accordingly and conform our financing schedule to that.

Paul Patterson (Analyst - Glenrock Associates):

Okay. And then there's some fabrication discussion of moving the fabrication from Florida to other places. Is that affected by the amended agreement?

Steve Byrne (COO of SCE&G):

Paul, this is Steve. The discussion about the facility in Florida that was fabricating some of the sub modules, that was going to be the case whether we stayed under the existing contract or go under either the two options that we're proposing. So there's a facility in Florida and they are moving that work from that facility in Florida back to the Lake Charles facility for the trailing unit, and for the leading unit we're actually taking those components to our site and we're finishing the sub module fabrication there before we fathom into the larger modules.

Paul Patterson (Analyst - Glenrock Associates):

Why is that? Why is it being moved? What was the reason for the change?

Steve Byrne (COO of SCE&G):

I think it is two things. One, that facility had some issues between themselves and CB&I and, secondly, they had a lot of work to do, things were backing up. They did have some quality issues while they came up to speed and we just think we can do it more expeditiously at our site.

Paul Patterson (Analyst - Glenrock Associates):

Okay, great. Thanks so much.

Kevin Marsh (CEO):

Thanks, Paul.

Operator:

Felix Carmen of Visium Asset Management.

Felix Carmen (Analyst - Visium Asset Management):

Hi. Good afternoon. Congratulations on the quarter. Sorry if this was already asked. I just wanted to clarify. In our guidance number, what are we assuming for the base electric business?

Jimmy Addison (CFO):

We haven't been explicit about an ROE, but today we're at about .% and we're comfortable we'll be in that band of % to .% for the next three years based on our assumptions to date.

Felix Carmen (Analyst - Visium Asset Management):

So is it okay to assume that the next time we follow rate case there would be after the three-year cycle?

Jimmy Addison (CFO):

We clearly set our strategy to not file a base rate increase while we're doing these nuclear peak construction years so, yes, that is a safe assumption.

Felix Carmen (Analyst - Visium Asset Management):

Okay, thank you.

Jimmy Addison (CFO):

Share.

Operator:

Michael Lapides of Goldman Sachs .

Michael Lapides (Analyst - Goldman Sachs):

Hey, guys. Congrats on the arrangement with Westinghouse, Toshiba et cetera. It sounds like a great deal and look forward to chatting with you about in more detail. A couple of minor questions. First of all, can you give us an update on how nuclear CapEx is progressing? I noticed the table did not have numbers on it and just wanted to see relative to your last disclosure whether there's been any change to be expected spend this year on the project?

Jimmy Addison (CFO):

Yes, Michael, we are a little behind. Our expected spend there I'd say in the $ million or so range. I don't know a lot of that will be made up between obviously with only a couple months left in the transition going on now, but that's kind of where we are through the year, year to date.

Michael Lapides (Analyst - Goldman Sachs):

Got it. Okay. So we should bring down our number a little bit and just assume that is embedded in either the - timeline or in the last year or so of the project?

Jimmy Addison (CFO):

You can in your assumptions. I would tell you that from our basis it is in our guidance both for and .

Michael Lapides (Analyst - Goldman Sachs):

Got it, okay. Real quick on the DNA study and the impact, I want to make sure I'm capturing the EPS impact of this correctly. So, next year what is the incremental EPS impact in that you're not going to recognize in ?

Jimmy Addison (CFO):

About $. will impact and an incremental $. in for an aggregate $. and that will be the run rate for forward.

Michael Lapides (Analyst - Goldman Sachs):

Got it. I want to make sure I tie that back because in the slide deck it mentions $. in this quarter in third quarter. Is that just -- it's not the full $. because of the rate credit that was done or the reduction that was done on the deferred fuel balance?

Jimmy Addison (CFO):

That's exactly right. We did record three quarters' worth in into third quarter because it applied back to

January , but the first two quarters went to offset the fuel so you only got net income impact of one quarter in through the Q recording.

Michael Lapides (Analyst - Goldman Sachs):

Got it. Last thing. In looking at the CapEx schedule the utility CapEx in North Carolina at the gas utility there, it seems like it's a good bit higher when we get out to and . Can you talk about that, talk about the timing and plans for potential rate case filings and how you would or are there other mechanisms that can give you great relief after spending and significant capital level there?

Jimmy Addison (CFO):

Obviously the low price of natural gas is driven a lot of opportunity for industry for electric generation from gas plants, et cetera, and that has certainly been the case in North Carolina. We have had a lot of opportunities that have popped up. We have executed some contracts in the last quarter or two that have driven this need to enhance our existing plans to grow the transmission system, so that's what really driving these numbers. Clearly it is starting to drive down the earned return and so it will drive the need for a rate proceeding it sometime in the future. We've not made any final decisions on that, but I expect we will have some announcement around that in .

Michael Lapides (Analyst - Goldman Sachs):

Got it. So maybe a case in implemented in or a case in implemented in , kind of somewhere in that time horizon?

Jimmy Addison (CFO):

Again, haven't made any final decisions but today I would say it's more likely your first scenario than the second.

Michael Lapides (Analyst - Goldman Sachs):

Got it. Okay. Thanks, guys. Much appreciated.

Jimmy Addison (CFO):

Sure.

Operator:

Dan Jenkins of State of Wisconsin Investment Board.

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

Hi, good afternoon.

Kevin Marsh (CEO):

Hi, Dan.

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

Just following on Michael's questions there on the CapEx changes. I was looking at the prior (inaudible - audio low) it looks like was up by about $ million -- no, about $ million and is up by about $ million versus what you had in last quarter's slides. Was that due to the additional delays or is that due to work not getting done in that's pushed into or how should I think about that?

Jimmy Addison (CFO):

Dan, are you talking about the total CapEx because the numbers I have are that we are up about $ million for and down about $ million for overall?

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

I'm looking at the bottom of the total estimated capital expenditures at the bottom.

Jimmy Addison (CFO):

We are only at to about -- sorry, you go ahead.

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

So the slide I'm looking at last quarter versus estimated at [] and for had []?

Jimmy Addison (CFO):

That is not what I have in front of me. We will have to clear that up.

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

This is what I -- I just pulled it up from the website.

Jimmy Addison (CFO):

Let me give you a little color on what we have changed. So, we've made the best estimate we can on the nuclear, as I described earlier for based upon the revised agreement. The other thing we have done is there are reductions in the SCE&G base electric business just based upon our commitment to scrub the CapEx for that business and try to avoid any base electric rate increases. The other significant change is adding the CapEx to the North Carolina gas system, PSNC Energy, and so we had about $ million in and $ million in from PSNC. So those are the three large changes. For , $ million down in electric, [] up at PSNC, and [] up in nuclear.

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

Okay. Then I had a question on slide on the customer sales and customer growth.

Jimmy Addison (CFO):

Yes.

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

Again looking at last quarter's (inaudible - audio too low), I realize these are -- I'm looking at the table at the bottom for kilowatt hours. I realize this is months ending numbers, but there are big changes and the weather normalized so the residential went from basically negative basis points to positive and commercial from positive to positive , and then conversely industrial went from .% down to .%, so are you seeing that kind of big changes from quarter to quarter or what? Can you give us more color on what's going on in the band from the various customer segments?

Jimmy Addison (CFO):

We are seeing that kind of change from quarter two quarter and I would tell you that it probably has more to do with the slide before that on the economy than anything else in our opinion. Let me give you a little more depth on that. So as I said in my earlier prepared comments, there are , more South Carolinians working today than there were a year ago. The unemployment rate has dropped from .% to .%, but that only tells part of the story. The workforce has expanded %. So, if the workforce were the same level today that it were a year ago, the unemployment rate would be less than % in South Carolina.

So the industrial recruitment in the state has been a real home run. Our governor has made that central to her platform and she has been extremely successful, and we've seen it in the RNC markets as a result of that. Now, contrast that to North Carolina where the workforce has expanded .% contrasted to Georgia where it's actually slightly down, almost breakeven, year-over-year. South Carolina is really growing.

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

I guess kind of the concern though is the big slow down in the industrial sector and what that might mean going forward. Do you maybe have any color as to why that dropped so much?

Jimmy Addison (CFO):

I don't. I don't have any specific large closings or anything like that that has driven it, that I'm aware. I'm not too concerned about them in the short run. I know the pipeline of projects that we're talking about that could be coming around the corner. I just met this week with our head of industrial area about two new potential large projects in the area, so I really don't have any specific concern there. I think some of those may be related to real-time pricing customers that chose to come off the system during the heat of the summer rather than pay some of the prices they might have had to pay.

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

Okay. And then my last set of questions is related to the nuclear construction schedule and kind of the critical path items. It sounds like maybe for unit it is the CA ? Is that correct?

Kevin Marsh (CEO):

Say again, Dan?

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

The critical path items both for unit and , so is the next one for unit that CA that you said is going to be placed in first half of or is there something else before that?

Kevin Marsh (CEO):

The next one of the structural modules to be placed will be CA you mentioned. The critical path right now on the unit really is still running through the shield building and we did place the first row of those shield building panels last quarter and we anticipate doing some more of those in the near future, but the critical path for the units, really both units, still runs through the shield building. Receive the shield building panels, fit up the shield building panels, and then pouring the concrete in the panels once they are in place and welded.

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

What about -- so for unit is pretty much the same as unit or is there given that there is a year difference in the kind of --?

Kevin Marsh (CEO):

Dan, it's basically the same story for unit .

Dan Jenkins (Analyst - State of Wisconsin Investment Board):

Okay. Thank you that's all I have.

Kevin Marsh (CEO):

Thanks, Dan.

Operator:

Mitchell Moss of Lord Abbett.

Mitchell Moss (Analyst - Lord Abbett):

Just wanted to get a couple clarifications on the nuclear costs? Looking at the slide that shows the different options, sorry just (inaudible -- audio too low).

Jimmy Addison (CFO):

I think that is slide .

Mitchell Moss (Analyst - Lord Abbett):

Slide , yes. Of the updated amounts comparing the old order to be amended EPC, is there a rough breakdown how much of that is related to the two months' delay and the substantial complete dates versus increase in construction costs or other stuff?

Jimmy Addison (CFO):

The biggest part of that would be about $ million a month and owner's costs, so approximately $ million of that would be related to that category.

Mitchell Moss (Analyst - Lord Abbett):

Okay. And then if I think about the added cost of going from the amended EPC to the fixed price option it looks like it's around $ million I guess of additional project cost. If I do the math from prior presentation, to CapEx is projected to be around $ billion. So should I think that that incremental $ million effectively would fix the to ? If you're not going to make your decision necessarily until late , then effectively you're really just fixing the to CapEx?

Kevin Marsh (CEO):

Well, Mitchell, we are fixing if we elected the fixed price option but it doesn't track we correlate to any kind of specific burn rate. Remember, the real difference as you look there at about $ million difference you point out, that really is the risk that the contractor will price in to fix it to us. So what you're doing is paying a risk premium and they're having to make assumptions around things like inflation, what the escalation rates are going to be. So that really was a negotiated number, but it really is reflective of the risk that now the contractor will have to take off.

Jimmy Addison (CFO):

Mitchell, reflective of all payments made after June of year. If we elect a fixed price option, anything we pay since June up until the time we elect that option we get credit for it %.

Steve Byrne (COO of SCE&G):

Mitchell, the CapEx schedule on page , we made our best estimate of how this amendment will affect the cash flow in the short-term but as Kevin said in his prepared comments, once this milestone payment schedule is developed, we're going to have to come from the CapEx schedule the matter which option we go with to match that. So those numbers will change I'm sure, I just don't know exactly how at this point.

Mitchell Moss (Analyst - Lord Abbett):

Sorry, they will change based on what?

Steve Byrne (COO of SCE&G):

The milestone payment schedule that Kevin covered earlier, develop this milestone payment schedule is going to be tied to specific milestones being accomplished and then we'll perform our CapEx and financing schedule to that, depending upon which option we elect.

Mitchell Moss (Analyst - Lord Abbett):

Okay, but once the fixed price option is selected that milestone payment schedule won't matter so much?

Jimmy Addison (CFO):

The milestone schedule is really critical because what we're going to do here for the next four or five months is develop a schedule so there's clarity as to what needs to be completed for a payment to be made to Westinghouse. And so once that schedule is completed, there'll be dollars assigned to that if we continue under the existing contract, and then there will be dollars assigned to that if we were going under the fixed price contract. So the schedule will remain in place under either option, but the payments that go along with it will be based on whether we take the fixed price option or continue under the option we're working under today.

Steve Byrne (COO of SCE&G):

So to contract that, we're not going to make any payments in the future after this payment schedule is agreed to based upon the calendar. They're going to be based upon actual results.

Mitchell Moss (Analyst - Lord Abbett):

Okay, okay. Thank you very much.

Operator:

(Operator

Julien Dumoulin-Smith of UBS.

Julien Dumoulin-Smith (Analyst - UBS):

Hey there again. Sorry to follow up here. I just wanted to reach back on the fixed price option and just kind of understand where the potential liabilities still lie on your side if there is indeed a protracted schedule here? Could you perhaps give us a sense a little bit more -- I know you covered it a little bit with Paul, but to the extent you have a timeline shift, where are you responsible, what specific costs are you responsible for in the fixed price option that you've laid out if you choose to go that way?

Jimmy Addison (CFO):

Okay. The total fixed price option would be $. billion as we've laid out on slide , the third or fourth line down. That would be the total expect to project cost. Of that, the capital cost portion or the construction contract EPC contract would be $. billion. So the additional amount would be escalation to date on the existing work that's been done and then some additional dollars, the additional $ million associated with the schedule moving out two months for owners costs, but the bulk of that is fixed in the fixed price contract and that would be based on that guaranteed substantial completion dates. So unit August and unit August and the liquidated damages are keyed off each of those dates for specific units.

Julien Dumoulin-Smith (Analyst - UBS):

Got it. Could you give us a sense of how much you would be exposed to and by what variables if you were to have, for instance, the shift off of that August and date? Just to kind of give us a sense of the magnitude there? I appreciate that a lot of it would be presumably fixed but --.

Steve Byrne (COO of SCE&G):

Julien, this is Steve. The only thing that would be fixed would be the things we would be responsible for outside of the EPC contract, so that would be our owner's cost and then the transmission, but we can finish the transmission even if the plants are not finished. So, really it comes down to just owner's cost.

Julien Dumoulin-Smith (Analyst - UBS):

Can you remind us what that is per month?

Steve Byrne (COO of SCE&G):

Yes, we're looking at our burn rate on owner's cost somewhere in the range of $ million a month.

Julien Dumoulin-Smith (Analyst - UBS):

Got it, excellent. Well, thank you again.

Jimmy Addison (CFO):

Yes, Sir.

Operator:

Jim von Riesemann of Mizuho Securities.

Jim von Riesemann (Analyst - Mizuho Securities USA):

I'm going to go back to depreciation a second if you guys don't mind. So what were the assets that were changed in the depreciation lines to get such a big number on an EPS basis? I'm sorry I've forgotten that.

Steve Byrne (COO of SCE&G):

I don't know that you've forgotten it, I don't think it's been published anywhere, but we refreshed our entire comprehensive depreciation study across the whole electric system, so includes the T&D and the generation system.

Jim von Riesemann (Analyst - Mizuho Securities USA):

Can you bucket which might have been generation versus T&D? I'm trying to think of what your big generation assets are because one already has a long, useful life, right?

Steve Byrne (COO of SCE&G):

We're down to about five significant generating plants outside of new nuclear. And so I really can't give you the buckets here today, Jim. You can probably go to the PSE website and get more details on it publicly there.

Jim von Riesemann (Analyst - Mizuho Securities USA):

Okay.

Steve Byrne (COO of SCE&G):

Big picture, Jim. It is trying to match up the real expected lives to the depreciation schedule and for example at our nuclear facilities we would anticipate that as opposed to just a -year life extension that we will be pursuing a second life extension, so that would take that plant out to years total. And then we're using actual history on some of the plants we been operating and we're extending the depreciation scales out on those plants to again match up with what we really think is the useful life.

Jim von Riesemann (Analyst - Mizuho Securities USA):

Okay, that is what I was after. Thanks, Steve.

Operator:

David Fishman of Goldman Sachs .

David Fishman (Analyst - Goldman Sachs):

Hey, guys. Thanks for taking my call. I just have a quick follow-up on what Michael asked about. I was just wondering, does PSNC have historical or forward test years?

Steve Byrne (COO of SCE&G):

Historical.

David Fishman (Analyst - Goldman Sachs):

Historical. Alright. Great. Thank you. Congrats again.

Operator:

Felix Carmen of Visium Asset Management.

Felix Carmen (Analyst - Visium Asset Management):

Just a quick follow-up. When we come down to the point of making a decision between the fixed option and the current, would it make sense to get commission approval prior to choosing the fixed option or how should we think about that?

Jimmy Addison (CFO):

The way the process would work is we have an obligation to go back to the commission if there's a change in the price, the capital cost schedule that they've already approved, so either option would require us to go back to the (inaudible) at some point, so we need to make an election of which option we believe is superior so we can go back to the commission and ask for approval of that option. It wouldn't be likely that we would go back to the commission and say tell us which one you like and we'll have down that road. They'll look for us to make a specific recommendation to them.

Felix Carmen (Analyst - Visium Asset Management):

And when can we expect that to happen?

Jimmy Addison (CFO):

We have months from the effective date to make that option so -- excuse me, it runs through November , . That's the specific date in the contract.

Felix Carmen (Analyst - Visium Asset Management):

Okay, thank you.

Operator:

Ladies and gentlemen that will conclude our answer session. I would like to hand the conference back over to Jimmy Addison for his closing remarks.

Jimmy Addison (CFO):

Well, thank you very much and certainly so far this year has been very eventful. We're very pleased with our progress with the resolution to the negotiations and with our financial results for the first three quarters. We continue to focus on the new nuclear construction and operating all of our business in a safe and reliable manner, and we thank you all for joining us today and for your interest in SCANA. Have a good day.

Operator:

And the conference has now concluded.