

SENATE FINANCE COMMITTEE

REPORT OF THE DEPARTMENT OF ADMINISTRATION
PURSUANT TO ACT 95 OF 2019 REGARDING THE
SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
(SANTEE COOPER)

H E A R I N G

OF PUBLIC TESTIMONY BY SANTEE COOPER

DATE TAKEN: Tuesday, March 3, 2020

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GIVEN BY: MARK BONSALE, President & Chief Executive Officer	
M. MICHAEL BAXLEY, Vice President & General Counsel	
PAMELA WILLIAMS, Senior Vice President and Chief Financial Officer	
CHARLES DUCKWORTH, Deputy CEO & Chief of Planning	
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(None were proffered.)

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P R O C E E D I N G S

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CHAIRMAN LEATHERMAN: We'll go ahead and get started. We've got some members on the way. Calls are being made. So we'll get them here shortly.

Senator Grooms, good morning.

SENATOR GROOMS: Good morning.

CHAIRMAN LEATHERMAN: You almost made a quorum. We'll get some members here and we'll proceed. Thank you all for coming, everybody.

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(Discussion off the record.)

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CHAIRMAN LEATHERMAN: Looks like we have a quorum now, so we'll get started. Others will come in as they need to.

So just a couple things. Santee Cooper, thank you for coming. We appreciate it. Do you have more to present to the finance committee?

MR. BONSALL: Thank you, Mr. Chairman.

We do not have a formal presentation this morning. We did submit answers to the

1 questions as we understood we have been asked,
2 and we're here to respond to any subsequent
3 questions that you may have, but we do not have
4 a formal presentation this morning. Thank you.

5 CHAIRMAN LEATHERMAN: So looking at your
6 cover letter you sent to me and others -- thank
7 you for doing that.

8 MR. BONSALE: Yes, sir.

9 CHAIRMAN LEATHERMAN: I'm looking down at
10 the -- one, two, three -- fourth paragraph.
11 I'll start this and I'll turn it over --

12 SENATOR SETZLER: Mr. Chairman.

13 CHAIRMAN LEATHERMAN: -- to Senator
14 Setzler. Yes, sir.

15 SENATOR SETZLER: I hate to interrupt you,
16 but I think the court reporter may be having
17 problems being able to hear you. So if you
18 don't mind, I will remind you of that, please,
19 sir, as the day goes on.

20 CHAIRMAN LEATHERMAN: Please do. And I'm
21 probably doing that on purpose, but I see that
22 I can't correct that.

23 SENATOR SETZLER: We're used to it,
24 Mr. Chairman, trying to figure it out, but
25 she's not.

1 CHAIRMAN LEATHERMAN: Okay. If you can't
2 hear, you just let us know.

3 Down in the fourth paragraph, Santee
4 Cooper respectfully asks that you list the
5 previous business restrictions composed here in
6 the Act 95 process. Act 95 is a joint
7 resolution passed by both houses and signed by
8 the governor. That means there's no way I or
9 Chairman Smith, or even the Finance Committee,
10 the Ways and Means Committee, can lift those
11 restrictions, unless you're asking us not to
12 comply with the law of the State of South
13 Carolina. Are you doing that?

14 MR. BONSALL: Certainly not. It's just a
15 conversation that we need to have. What you
16 have in front of you, all told, is basically a
17 comprehensive solution to the questions in
18 front of you that -- and it includes now a
19 commitment in the -- as we had previously
20 indicated, a commitment in the Cook settlement
21 to basically contractually commit to the
22 four-year rate freeze. That's public knowledge
23 and that was -- it was approved for us to say
24 that.

25 But in order to do that, in the Cook

1 settlement, we need greater certainty to enact
2 certain of the things that we've talked about
3 during the Act 95 process, specifically fuel
4 hedges, et cetera, so that we can make more
5 certain that commitment, which will help us
6 bring the Cook settlement to fruition.

7 And, frankly, Senator, at this point, with
8 all due apologies, we don't know who to ask the
9 question of. And if I ask the question of the
10 wrong person, I apologize. We don't really
11 know who can give us that authority, if at all.

12 CHAIRMAN LEATHERMAN: We'll address that
13 as we go along, I guess. And I've listened
14 very carefully to your comments. Does that
15 mean that you are withdrawing that request?

16 MR. BONSALL: No. No. I think it's a
17 question -- it's a conversation that we need to
18 have. Please advise us on how to go forward.

19 CHAIRMAN LEATHERMAN: I'm trying to advise
20 you. We will not, cannot, complying with the
21 laws of this State. I understand what you're
22 saying, but it still doesn't change the fact
23 that we, the committee, are bound by that joint
24 resolution. It is the law of the State.

25 MR. BONSALL: And we would not ask anyone,

1 including ourselves, to violate that. I'm
2 simply pointing out that if there's an
3 opportunity --

4 CHAIRMAN LEATHERMAN: I'll ask you again.
5 Are you still going to ask us to do that, based
6 on what the conversation that just transpired?

7 MR. BONSALL: Given what you just said, I
8 would ask if we could have a conversation about
9 how we might do that going forward, because
10 it's essential to being able to secure the
11 future and --

12 CHAIRMAN LEATHERMAN: The only way we can
13 do what you're requesting, that I know of, go
14 back to the General Assembly and do another
15 joint resolution. We can't do that.

16 MR. BONSALL: Okay. So I take it that
17 your answer is no. That's fine, and we'll
18 continue to operate as we have.

19 CHAIRMAN LEATHERMAN: The answer is no,
20 but it's based on the fact that we cannot. Do
21 you understand that?

22 MR. BONSALL: If that's in fact the case,
23 that's fine, but it -- but it exposes us to
24 risk in the Cook settlement which we may have
25 to thus address.

1 CHAIRMAN LEATHERMAN: Well, I understand
2 all that, but that doesn't change, I don't
3 think, my conversation with you. We can't do
4 it.

5 MR. BONSALL: And that's fine. Okay. The
6 answer is no. I understand that.

7 CHAIRMAN LEATHERMAN: Okay. So any
8 member --

9 SENATOR GROOMS: Excuse me.

10 CHAIRMAN LEATHERMAN: I'm sorry. Senator
11 Grooms.

12 SENATOR GROOMS: Does that mean the
13 committee won't be able to pass a Santee Cooper
14 reform if that's what the committee chooses to
15 do?

16 CHAIRMAN LEATHERMAN: No, sir. We're
17 planning on working on a reform, Senator
18 Grooms.

19 SENATOR GROOMS: Because if legislative
20 changes need to be made, wouldn't this be the
21 committee that would make those
22 recommendations?

23 CHAIRMAN LEATHERMAN: I don't think
24 legislative changes need to be made for us to
25 deal with reorganization.

1 Any member of the committee have a
2 question or comment? Senator Setzler.

3 SENATOR SETZLER: Mr. Chairman.

4 Mr. Bonsall, I don't know whether you need
5 to answer these, or is it Ms. Williams, who is
6 the CFO, but I want to talk about your
7 responses and the utility infrastructure.

8 MR. BONSALL: Right. That would be
9 Ms. Williams.

10 SENATOR SETZLER: Can we get her up here
11 just a minute, please, sir?

12 MR. BONSALL: Certainly. Pamela.

13 SENATOR SETZLER: Good morning,
14 Ms. Williams. How are you?

15 MS. WILLIAMS: Good morning, Senator
16 Setzler. I'm very well.

17 SENATOR SETZLER: I'm looking at what you
18 replied to as utility infrastructure, and I'm
19 trying to compare apples to apples.

20 What you've listed is net book value and
21 replacement cost. Do you have a current market
22 value of those four assets or do you consider
23 the replacement cost the market value?

24 MS. WILLIAMS: That's the best proxy that
25 we could come up with.

1 I'm going to -- can you still hear me?

2 SENATOR SETZLER: Yes, ma'am.

3 MS. WILLIAMS: Because, as we talked about
4 a little bit last time, I believe,
5 Mr. Duckworth said a market value, what someone
6 would pay for an asset that's embedded in
7 someone else's system, is difficult for us to
8 come up with. And we felt like this
9 replacement value was the best proxy we could
10 come up with, albeit not perfect, to answer the
11 question that you asked.

12 SENATOR SETZLER: All right. So let me
13 ask you this way: A potential purchaser of
14 these four assets, in your opinion, does it
15 have the value that you have listed here to a
16 potential purchaser? Because they continue to
17 use that asset.

18 MS. WILLIAMS: They do. So, again, this
19 is what it would cost them to replace the
20 asset. I don't know what they would pay for a
21 used asset, if you will, but it is what it is,
22 and there's no way to replicate the asset.

23 One way would be to build a new one. And
24 so, yes, sir, that's why we've presented it
25 this way.

1 SENATOR SETZLER: Okay. And you've not
2 had these appraised?

3 MS. WILLIAMS: We have not.

4 SENATOR SETZLER: Okay. And then you go
5 to -- then you go to your other real estate.
6 Is that correct?

7 MS. WILLIAMS: That's correct.

8 SENATOR SETZLER: And you have a fair
9 market value listed for those, as I understand
10 it, of \$186 million.

11 MS. WILLIAMS: 246 million.

12 SENATOR SETZLER: Yeah. Am I correct or
13 within a range, if you add the values of the
14 assets, starting with the transmission,
15 distribution, and the other real property, that
16 you come to a total of somewhere around
17 \$10.5 billion? Is that correct?

18 MS. WILLIAMS: If you've done the math,
19 then I'll take your word for it.

20 SENATOR SETZLER: Well, look at it and
21 tell me if you think that's correct, that it is
22 roughly \$10.5 billion.

23 MS. WILLIAMS: Yes, sir.

24 SENATOR SETZLER: All right. So currently
25 the proposal to purchase that we have before

1 us, if you add up all the benefits alleged, or
2 claimed the benefits of what's being paid, it
3 comes to about \$8.5 billion. You agree with
4 that?

5 MS. WILLIAMS: I agree.

6 SENATOR SETZLER: Okay. So there's a
7 positive of \$2 billion that's going to the
8 purchaser of this property at the expense of
9 the taxpayers and the ratepayers of South
10 Carolina, is it not?

11 MS. WILLIAMS: Yes, sir. And I would add,
12 if I may, there were other benefits that I
13 think aren't captured in the numbers in terms
14 of employment, of the people we employ, our
15 economic development efforts, and just the
16 purchasing power. We buy goods and services
17 both in and outside of South Carolina. And
18 there is -- there is a factor, an economic
19 factor associated with that spend, as well,
20 that benefits all of South Carolinians.

21 SENATOR SETZLER: I understand that, but
22 the devil is in the details.

23 MS. WILLIAMS: Yes, sir.

24 SENATOR SETZLER: To me, in the details
25 here is that we have assets that are valued at

1 \$10.5 billion that we're getting paid a max of
2 \$8.5 billion, with a \$2 billion plus to the
3 purchaser, not counting tax incentives, not
4 paying property taxes, setting their rates,
5 et cetera.

6 MS. WILLIAMS: Yes, sir. I agree.

7 SENATOR SETZLER: I hope that everybody
8 understands that that's the case. Have you
9 ever sold a business, or do you think it's
10 proper to sell a business without valuing the
11 market value of what you're selling?

12 MS. WILLIAMS: I would get a market value
13 before I sold, Senator Setzler.

14 SENATOR SETZLER: And the market value
15 might prove that those numbers are not correct,
16 out of fairness to everybody.

17 MS. WILLIAMS: That's right. What it's
18 worth is what somebody would pay for it, yes,
19 sir.

20 SENATOR SETZLER: Mr. Chairman, if I
21 could, I'd like to ask Mr. Bonsall a couple
22 questions, please, sir.

23 Mr. Bonsall --

24 MR. BONSCALL: Yes, sir.

25 SENATOR SETZLER: -- talk to me a little

1 bit about the gypsum contract that you have.

2 MR. BONSALL: I'm probably going to have
3 to ask Ms. Williams to come back up here again,
4 because she's our expert on the gypsum
5 contract, if that would be okay with you,
6 Senator. I apologize.

7 SENATOR SETZLER: Sure.

8 MR. BONSALL: Okay. Pamela.

9 SENATOR SETZLER: Ms. Williams, on the
10 gypsum contract, that is where you sell gypsum
11 as a result of the production through the coal
12 process to somebody, correct?

13 MS. WILLIAMS: Yes, sir, that is correct.
14 It's a byproduct of our scrubbers, of our
15 emissions reduction equipment, at Cross and
16 Winyah.

17 SENATOR SETZLER: How long is that
18 contract for? When was it signed, and when
19 does it expire?

20 MS. WILLIAMS: Going on memory, it was
21 signed, I want to say -- does anyone know?

22 Around -- I was thinking 2005/'06. So
23 that's, I think, two thousand -- let's say
24 2005.

25 SENATOR SETZLER: Okay. And is it a 20-

1 or a 30-year contract?

2 MS. WILLIAMS: It's longer than that.

3 There was an initial --

4 SENATOR SETZLER: It's longer than
5 30 years?

6 MS. WILLIAMS: Yes, sir. There was an
7 initial 20-year term, and then two additional
8 20-year terms. There was a 60 -- either party
9 has the option to extend for the additional
10 terms, so it has a potential term of 60 years.

11 SENATOR SETZLER: And you've been in it,
12 roughly, 15 years?

13 MS. WILLIAMS: I believe that actually the
14 term started on the commercial operation date,
15 which I think was 2008. We can get those
16 details for you. We signed the contract, and
17 it took them a while to build the facility. So
18 my recollection is it's 2008.

19 SENATOR SETZLER: Oh, geez. So you're
20 telling me Santee Cooper has a contract for
21 60 years to provide gypsum from the coal
22 production to a customer; and is it at a fixed
23 price?

24 MS. WILLIAMS: No, sir. The -- well, what
25 they pay initially to us is a fixed price. It

1 is confidential information. They have asked
2 us not to disclose the price that they pay.
3 It's competitive for them. But they pay a
4 fixed price to us.

5 There are some adjustments through the
6 term of the agreement, and there are some --
7 there's a shift in the responsibility for
8 transportation. Some of the gypsum has to be
9 trucked from our Cross station to our Winyah
10 station, and they pick that up at some point in
11 the future.

12 SENATOR SETZLER: Isn't it true that you
13 don't now generate enough gypsum from your coal
14 production that you have to buy gypsum to meet
15 that contract?

16 MS. WILLIAMS: Yes, sir, it is --

17 SENATOR SETZLER: And how much do you have
18 to buy?

19 MS. WILLIAMS: I believe the net cost to
20 us, it's significant, Senator. It's in the
21 neighborhood of \$10 million a year.

22 SENATOR SETZLER: So you're losing
23 \$10 million a year on the gypsum contract that
24 goes now for another 48 years, roughly, that
25 you can't get out of?

1 MS. WILLIAMS: That's right.

2 SENATOR SETZLER: Geez.

3 Mr. Chairman, I just -- that's beyond
4 explanation to me. I mean, it really is, if
5 they're losing \$10 million a year on a contract
6 that they enter into for 60 years with no way
7 to get out of it.

8 MS. WILLIAMS: I understand your reaction.
9 I do. And I don't -- at the time it was
10 entered into, yeah, the belief was that it was
11 the best for the environment. It took that
12 byproduct; it allowed it to be beneficially
13 reused. It brought jobs to Georgetown. The
14 facility currently employs more than 100 people
15 in Georgetown.

16 That -- those were the reasons the
17 decision was made. I understand that it is --
18 it was a bad decision.

19 SENATOR SETZLER: So under the terms of
20 the purchase proposal that the General Assembly
21 has before it, that liability remains with us,
22 with the State of South Carolina.

23 MS. WILLIAMS: Senator Setzler, my
24 understanding is that that would be picked up
25 by the purchaser in the purchase bid. That's

1 my understanding of the --

2 SENATOR SETZLER: We need to get some
3 clarification, because that's a lot of
4 liability if we get stuck with it,
5 Mr. Chairman.

6 All right. Can I ask Mr -- can I go back
7 to him just a minute?

8 Talk to me about your Central coordination
9 agreement opt out provision. I'm not sure I
10 quite understand the "opt out."

11 MR. BONSALL: Well, I'm going to ask for
12 some help on this one myself, Senator, but the
13 opt out is not as straightforward as "opt out"
14 would tend to lead you to believe.

15 SENATOR SETZLER: They can opt in or they
16 can opt out?

17 MR. BONSALL: They can be in. They can
18 bring their own money. They can serve their
19 own load for that portion of the projected
20 load, et cetera. It's not -- and it's all
21 oriented towards whatever new resources are
22 necessary to serve the joint load, the
23 aggregated load between Central and Santee
24 Cooper.

25 So there are choices that Central can make

1 in regard to how do they participate in serving
2 that load. That's what the opt out
3 provision -- it's not a simple single option
4 provision in the contract. There are
5 alternatives that they can --

6 SENATOR SETZLER: Right, they can opt out,
7 take their portion.

8 But my question is: What impact does that
9 have on the rates of Santee Cooper? If they
10 opt out, you can't pass the cost on to them,
11 but you pass it on to your direct customers?
12 Explain how that works to me.

13 MR. BONSALL: Well, if there was an
14 incremental 100-megawatt load, let's say, and
15 Central decided that they wanted to opt in,
16 incremental 100-megawatt load over the combined
17 two systems, opt in, then it would be a
18 resource that was brought to bear in serving
19 the aggregate load.

20 If they decided they wanted to opt out on
21 that, there's different ways to do that. They
22 could -- they could opt out of us, Santee
23 Cooper, financing it and bring their own money.
24 That's one option. They could opt out of that
25 resource serving the joint load, in which case

1 they would bring their own resource to serve
2 that portion of the load and finance it
3 themselves.

4 So there's kind of different approaches.
5 The point is, in the final analysis, the
6 aggregate load gets served. There may be
7 differences of ownership and operation.
8 There's even differences involved in whether
9 it's, quote, a shared resource or not, meaning
10 it can be used to serve either load, jointly
11 dispatched.

12 It's a complicated portion of the
13 coordination agreement. But to your point, and
14 importantly, it's oriented towards the future
15 addition of resources. So the system, as it
16 sits now, is all committed to, and that
17 provision applies only to future needed
18 resources if you can't opt out of past load and
19 past decisions that have been made.

20 SENATOR SETZLER: I'm not making a
21 judgment of whether it's good or bad. I'm
22 trying to understand.

23 If they opt out totally -- they don't
24 bring their money; they just say we're not
25 going to participate -- does that impact the

1 rates of your customers, other customers? Do
2 you pass that cost to the other customers?

3 MR. BONSTALL: Basically, it could to some
4 degree affect those prices, because if then we
5 were left with, in serving the remainder of the
6 load, a less economically efficient alternative
7 to serve that load, it could affect the prices
8 of the other customers, yes.

9 SENATOR SETZLER: So here's where I'm
10 trying to get to, or what I'm asking. In
11 reading what you all have responded to --
12 again, I don't have a judgment at this point of
13 whether it's right or wrong --

14 MR. BONSTALL: Right.

15 SENATOR SETZLER: -- it appears to me that
16 the amount of your revenue from Central is
17 declining.

18 If that is the case, is that impacting
19 your rates? And if your revenue from Central
20 continues to decline, does that impact your
21 rates?

22 MR. BONSTALL: It certainly could in the
23 future. But, again, the basic system, and
24 who's serving how much of the system today, is
25 set on the increment, on the margin. If

1 resources are added in the future and they're
2 split between the two loads, you could end up
3 with a little bit less efficient set of
4 resources to serve the remaining load for
5 Santee Cooper and the remaining load for
6 Central.

7 So until those decisions are made, I can't
8 give you an affirmative answer. Part of the
9 suggestions that we have made here are that if
10 we want a comprehensive -- if you want a
11 comprehensive solution to this -- and I know
12 the history is a mess here; it's a mess. I
13 understand that. I'm talking about the
14 resource planning process. It's a mess.

15 If we want to get past that, it would be
16 best if Central and we work very well together.
17 And that's why we're making the proposals to
18 work well together to see if we can come to an
19 agreement on what the right reform plan is.

20 We think they like it. We haven't gotten
21 a response from them directly on that point,
22 but we think if we can work together for the
23 benefit of the entirety of the State of South
24 Carolina, you get a more optimal solution.

25 SENATOR SETZLER: Well, I think you said

1 what I am trying to understand. That is, the
2 more you all work together, the less impact it
3 has on your rates to all of your customers,
4 whether they be direct or wholesale?

5 MR. BONSALL: No question. And we'd love
6 to get, you know, some affirmation of agreement
7 going forward from Central on the basic
8 direction of the reform plan, because we can
9 achieve those economies and we can lock in
10 the -- we can make certain the price forecasts
11 that are in the reform plan.

12 So yes, sir, absolutely, that is the case.
13 The more we can work together, the better off
14 everybody is.

15 SENATOR SETZLER: All right, sir.

16 Going back just a moment to the gypsum
17 contract, Mr. Chairman. I'll finish and let
18 others ask.

19 On that gypsum contract, can you provide
20 us -- since 2008, I believe, is when
21 Ms. Williams said that it was actually put into
22 effect, being what was signed in 2005 -- per
23 year, how much you have lost? Instead of just
24 saying approximately \$10 million a year, I'd
25 like to know per year.

1 And then the second question I've got for
2 you is, is the board aware of what's been lost
3 each year? Are they advised of that?

4 MR. BONSALL: I'm going to let the board
5 speak to that myself, but my understanding is
6 very clearly yes, and we can get you that
7 detail today.

8 SENATOR SETZLER: And I assume that
9 contract is FOIA? Somebody says it's
10 confidential, but I believe it would be FOIA.

11 MR. BONSALL: Sure.

12 MS. WILLIAMS: Yes, sir. There are some
13 redactions. So some of it's redacted, some of
14 the price information is redacted, at the
15 request of American Gypsum, the counterparty.
16 But the agreement has been turned over to the
17 local newspapers and others quite often in that
18 redacted form.

19 SENATOR SETZLER: Okay.

20 One final question relative to
21 Mr. Carter's retirement plan from one of you.
22 It's my understanding from your responses that
23 he gets \$37,000 per month until 2038. Is that
24 correct?

25 MS. WILLIAMS: \$37,000 from the Santee

1 Cooper plan. He also has a -- he has the State
2 plan that he's paid into and we've paid into on
3 his behalf.

4 SENATOR SETZLER: Right. I understand
5 that. But I'm talking about this particular
6 plan.

7 MS. WILLIAMS: \$37,000.

8 SENATOR SETZLER: And my calculations are
9 that he contributed \$525,000, and he's going to
10 receive \$8.8 million over that period of time.

11 MS. WILLIAMS: So you've calculated his
12 contribution, his personal contribution, to the
13 State retirement system?

14 SENATOR SETZLER: I'm understanding
15 it's 525. I'm trying to get you all to verify.
16 You can provide us that at any time.

17 Thank you, Mr. Chairman. That's all the
18 questions I have right now.

19 CHAIRMAN LEATHERMAN: Any followup?

20 SENATOR CROMER: Mr. Chairman, he
21 answered -- Senator from Lexington asked my
22 questions.

23 CHAIRMAN LEATHERMAN: Do you want to come
24 back up?

25 MR. BONSALE: Pamela?

1 And I think Chairman Ray would like to
2 respond to your earlier question, Senator
3 Setzler.

4 SENATOR SETZLER: Well, that's up to the
5 chairman.

6 MR. RAY: So excuse me. Senator --
7 Senator Setzler, with respect to your question
8 as to whether the board was aware of the gypsum
9 contract, my understanding is the board
10 approved the original gypsum contract for the
11 20-year duration, but that the two subsequent
12 extensions of the additional 40 and then
13 60 years was done by the CEO, without board
14 action, in 2009.

15 SENATOR SETZLER: Were you informed of it?

16 MR. RAY: Well, sir, I was not on the
17 board in 2009. But my understanding is that
18 the CEO took that action independent of board
19 action in 2009.

20 CHAIRMAN LEATHERMAN: Ms. Williams,
21 following up on a question by Senator Setzler.

22 I think I understood you to say that the
23 proposed purchase of NextEra, there's some tax
24 incentives in there. What would those tax
25 incentives be?

1 MS. WILLIAMS: Senator, I don't believe I
2 said that.

3 What I said was that they were going to --
4 I thought -- I have not seen -- I have not read
5 the final asset purchase agreement. We did see
6 drafts along and along. My understanding from
7 the DOA report and the drafts I saw is that
8 they were picking up responsibility for the
9 gypsum contract.

10 I'm not aware of -- I believe the tax
11 issue was in the legislation, the proposed
12 legislation that was submitted.

13 CHAIRMAN LEATHERMAN: I apologize.

14 Do you know anything about the tax
15 incentive's potential?

16 MS. WILLIAMS: I don't.

17 CHAIRMAN LEATHERMAN: Could you look at
18 that contract, maybe, and get back to us?

19 MS. WILLIAMS: You want us to get back to
20 you with what --

21 CHAIRMAN LEATHERMAN: I'd like to know
22 what your thoughts are, what kind of tax
23 incentives would be available to that
24 purchaser. Would you do that, and provide it
25 to us?

1 MS. WILLIAMS: We can do that, yes, sir.

2 CHAIRMAN LEATHERMAN: Also, mention was
3 made of property taxes.

4 MS. WILLIAMS: I'm sorry, sir?

5 CHAIRMAN LEATHERMAN: Mention was made of
6 property taxes.

7 MS. WILLIAMS: Property taxes?

8 CHAIRMAN LEATHERMAN: Would you look at
9 that and let us know what you think that --

10 MS. WILLIAMS: What we think it would be
11 if they paid property taxes as other IOUs in
12 the state do? Yes, sir, we can take a look at
13 that.

14 CHAIRMAN LEATHERMAN: That would be great.

15 Mr. Bonsall, if you could come back up,
16 sir.

17 I think I heard you say -- I apologize to
18 Ms. Williams if she didn't say what I thought
19 she said. But I heard you say Central and
20 Santee working together would be beneficial.
21 Did I understand that correctly?

22 MR. BONSTALL: Yes.

23 CHAIRMAN LEATHERMAN: Can you tell me your
24 opinion, what's the current relationship with
25 Santee and Central?

1 MR. BONSALL: Well, I will give you my
2 best answer to that. I arrived on July 9th.
3 We have been unable to have very many
4 conversations, myself and Charlie Duckworth.

5 CHAIRMAN LEATHERMAN: Excuse me. Why have
6 you been unable to have many conversations?

7 MR. BONSALL: Mainly because the Act 95
8 process precluded us having those
9 conversations.

10 So just as soon as we possibly can, we
11 want to get back to it. We had a brief period
12 of time where we were talking together, as I
13 think I mentioned in earlier testimony, between
14 November 25th and January 3rd. They asked a
15 number of questions, made a number of
16 suggestions. We responded to those
17 suggestions. That's all in the record. And,
18 hopefully, those suggestions will in fact
19 advance the ball.

20 There's quite an emphasis on our part to,
21 if there has been a difficulty in the past, to
22 get it back on the right rails and move forward
23 together. That's our --

24 CHAIRMAN LEATHERMAN: That would be
25 your position?

1 MR. BONSALL: Absolutely.

2 CHAIRMAN LEATHERMAN: I wonder what the
3 response to that would be, their response.

4 MR. BONSALL: You know, like I say, we
5 haven't had the opportunity much to talk to
6 them about it. I think they're similarly
7 disposed, but we haven't had much opportunity
8 to talk about it as of yet.

9 CHAIRMAN LEATHERMAN: Hopefully, we'll
10 find this out on Thursday. They're coming
11 before the Committee on Thursday, so we'll be
12 asking the same question.

13 Any other member of the committee have a
14 question?

15 SENATOR ALLEN: Thank you, Mr. Chairman.
16 This is, I think, for Mr. Ray.

17 MR. BONSALL: Chairman Ray?

18 SENATOR ALLEN: Yes.

19 MR. BONSALL: Okay. Thank you.

20 SENATOR ALLEN: Chairman, just quickly,
21 I'm a little confused on what the Senator from
22 Lexington is asking, and what she said and what
23 you say regarding the gypsum contract.

24 Could you clarify if the two 20-year
25 extension terms, I'll refer to them as, is that

1 mandatory or is that option? She seemed to
2 suggest that we had the option, each party, as
3 to whether that was extended. Could you
4 clarify that?

5 MR. RAY: Yes, sir, I'd be happy to. And
6 I'm going to go off memory from what I
7 understand; and if I get it wrong, I'm sure one
8 of the experts behind me will clarify.

9 SENATOR ALLEN: Who would be the person
10 that would have the correct answer?

11 MR. RAY: So I think --

12 MS. WILLIAMS: I will.

13 MR. RAY: -- general counsel? Okay.

14 Originally there were extension options.
15 Those options were exercised by the CEO,
16 therefore making them mandatory. So that's how
17 it went from a 20-year business arrangement
18 with two 20-year extension options to now a
19 60-year obligation.

20 SENATOR ALLEN: So then the extension
21 options were exercised prematurely, or early,
22 without letting the original 20-year expire or
23 the second year expire. So you just converted
24 a 20-year contract into a 60-year contract.
25 And the CEO did that? Is that what you're

1 saying?

2 MR. RAY: I think that's a fair analysis,
3 sir.

4 SENATOR ALLEN: Let's see if she agrees
5 with that. I'm sorry.

6 MR. RAY: Sorry. I got it wrong.

7 MS. WILLIAMS: The original contract has
8 two -- that was approved by the board, has two
9 20-year extension -- when I say "option," it's
10 at the option of either party. So if one party
11 wants to extend, the other party has to go
12 along.

13 SENATOR ALLEN: And so is it correct that
14 this party has already extended; they've
15 already exercised the option at 15 years into
16 the contract?

17 MS. WILLIAMS: No, sir. The chairman was
18 just remembering incorrectly. He was not on
19 the board at the time. So the original
20 contract, as approved, had the potential to go
21 60 years. And at this point we have not gotten
22 to the point where someone would exercise or
23 not exercise the option.

24 SENATOR ALLEN: So is that exercised -- at
25 what duration or point into the contract, the

1 first 20-year? Do you exercise the option at
2 15 years, or 18, or --

3 MS. WILLIAMS: Senator, I don't remember
4 off the top of my head. We'll go back and
5 look. But it would not be the last day. There
6 would be some notice period required.
7 Generally, two years sounds about right, but I
8 would have to take a look at that.

9 SENATOR ALLEN: So at 15 years into the
10 contract, we have already -- or you have
11 already seen that they've indicated they want
12 to extend it another 20?

13 MS. WILLIAMS: They have not told us that,
14 but given the economics of it in their favor,
15 I'm sure that they would want to extend -- we
16 have asked them about the term, and they have
17 indicated verbally that, given what they know
18 right now, they would like to continue the
19 contract.

20 SENATOR ALLEN: Because they've got
21 excellent terms.

22 MS. WILLIAMS: That's exactly right.

23 SENATOR ALLEN: So they would benefit that
24 way.

25 And if they exercise that, if I'm hearing

1 you correctly, then there is no opt out or
2 anything; it's just mandatory. If one party
3 says it, they want to do it, you've got to do
4 it.

5 And so that's where we get to the 60-year
6 provision, because as long as it's financially
7 feasible for them to do it, and profitable,
8 common sense would say they're going to do it.

9 MS. WILLIAMS: That's right.

10 SENATOR ALLEN: Do you agree with the
11 conclusion that this 20-year contract is
12 probably, at least 99.9 percent certainly,
13 going to be a 60-year?

14 MS. WILLIAMS: I would agree with that.
15 Let me give one caveat. The question is, we
16 are required to provide synthetic gypsum to the
17 wallboard company.

18 As power plants close down, I just
19 question, in 40 years, how much synthetic
20 gypsum will be available to buy. So at that
21 point we would have to have -- some point
22 before then -- a conversation about what's the
23 feasibility of the arrangement going forward.

24 But in our reform plan, we're continuing
25 to run Cross, you know, for the next 10 years.

1 So there's not a near-term --

2 SENATOR ALLEN: But if you were at -- I'll
3 use this as an example: If you were a Las
4 Vegas gambler, and you had to gamble right now
5 on the terms that's beneficial to them, the
6 contract, as you know it, are we talking about
7 a 60 --

8 MS. WILLIAMS: Yes, sir. I'm not trying
9 to dodge. Assuming you could continue to get
10 the byproduct from somewhere, because we're
11 required to bring it in from other places, yes,
12 I would put a lot of money on that bet, yes,
13 sir.

14 SENATOR ALLEN: Thank you.

15 Thank you, Mr. Chairman.

16 CHAIRMAN LEATHERMAN: Ms. Williams,
17 Senator Allen asked a question, and the
18 question was who -- Mr. Bonsall said he'd need
19 help, and he said you would be the one to give
20 us a correct answer. It looked to me like he
21 turned to you, and you stood up and came to the
22 speaker stand. I think he said "the general
23 counsel." Are you general counsel for Santee
24 Cooper?

25 MS. WILLIAMS: No, sir, I'm not, but I

1 have been --

2 CHAIRMAN LEATHERMAN: Who is general
3 counsel?

4 MS. WILLIAMS: Mike Baxley is general
5 counsel.

6 CHAIRMAN LEATHERMAN: I wonder if he'd
7 have an answer to this question.

8 MR. BAXLEY: Thank you, Mr. Chairman.
9 Madam Court Reporter, I'm Mike Baxley and serve
10 as general counsel at Santee Cooper.

11 Just a couple of things that I would add
12 about the gypsum contract, because it's been
13 universally criticized here, and understandably
14 so, because of the cost of it. But if we could
15 go back in time, in 2005, '06, and then
16 particularly 2008, significant economic
17 downturn in South Carolina, and specifically in
18 Georgetown County; the steel mill perennially
19 closing; the harbor silted.

20 If you will recall, Santee Cooper has a
21 best interest test that has three components to
22 it. One of those is the operation of the
23 business and sound business principles. The
24 second is economic development for the areas
25 which we serve, and indeed the entire State of

1 South Carolina. And the third one is following
2 the laws of South Carolina.

3 So at that time -- I will tell you, this
4 is not a criticism of the present governor, but
5 there was a press from economic development
6 officials, as well as the governor's office and
7 others, to assist in citing this plan, which
8 was a \$200 million investment and also 100
9 jobs, again, for Georgetown.

10 And just going back a little bit further,
11 as well, at the time we were running sufficient
12 coal to more than supply the contract. So if
13 you just go back in time and look at it, in the
14 moment that the contract occurred, it was not a
15 nonsensical decision.

16 Now, as time has evolved and coal has
17 become persona non grata from a regulatory
18 standpoint, and the coal infrastructure begins
19 to dismount in the United States, then that
20 byproduct -- which, again, we were having to
21 landfill at the time. So if you have to go to
22 a Class 3 landfill, now you're looking at
23 roughly \$30 a ton to take that and just throw
24 it away, and pay to throw it away, when it
25 could be used in a facility like the wallboard

1 plant in Georgetown. Those are the reasons
2 that at the time, at that moment in time, that
3 contract was entered into.

4 For a plant to build -- again, if you'll
5 go to Winyah Generating Station, right next
6 door, with basically a conveyor belt running
7 between the two entities, is the Georgetown
8 plant for wallboard. And of course that
9 substantial investment required, and this is
10 why the counterparty asked that we have that
11 sort of lengthy period in the contract, that
12 they would be able to recoup their investment,
13 and they stepped up and paid to build that
14 plant.

15 Again, none of that resolves this answer
16 and says, "Well, okay; you did the right
17 thing." That's not the point that I'm making
18 here.

19 The point is that there were economic
20 development reasons that that contract was
21 entered into at the time.

22 And I appreciate the opportunity to
23 expound a little further on the background of
24 the gypsum contract. Thank you, Mr. Chairman.

25 CHAIRMAN LEATHERMAN: Mr. Baxley, before

1 you leave there, it seems like I read
2 somewhere, the opt out requires Santee Cooper
3 to work out numbers and details of any proposed
4 generation. Am I recalling correctly?

5 MR. BAXLEY: So, typically, the way I
6 would answer that question, Mr. Chairman, if I
7 understood it correctly, is that whenever you
8 cite or intend to cite a generation resource,
9 which would be a new facility, that obviously
10 you have to work out the cost, the time
11 involved, the ongoing operation costs. And all
12 that is known before you put down brick one, at
13 least supposedly.

14 And then Central, of course, who is part
15 of that joint planning process, has the
16 opportunity as those -- as that information is
17 known, for their own flexibility purposes in
18 the contract between Santee Cooper and Central,
19 to opt out of that particular resource if they
20 wish. That's the reason that that opt out is
21 in there.

22 CHAIRMAN LEATHERMAN: You used the term --
23 the word "supposedly." Tell me what that
24 means. What did you mean by that?

25 MR. BAXLEY: Well, because the very next

1 question that would come behind what I just
2 said, the reason I said "supposedly," is, okay,
3 well, then how did the nuclear project just get
4 completely and totally out of control when you
5 sat down and did your calculations?

6 So that's why I used the word
7 "supposedly." I would say that the nuclear --
8 you know, as we've heard said earlier, when
9 we appeared before the Committee, short of
10 putting someone on the moon, building a nuclear
11 plant is about the most complicated thing that
12 one can do. And of course we were beset with
13 cost and time overrun. So that's why the term
14 "supposed" was put in my answer, sir.

15 CHAIRMAN LEATHERMAN: Let me ask you this:
16 Those details you're talking about, is that in
17 your reform proposal?

18 MR. BAXLEY: So whether or not Central
19 would exercise an opt out is not in the reform
20 proposal itself. We have stated in the reform
21 proposal that we hope, when we're allowed to,
22 through the Act 95 process, sit down with
23 Central, determine between ourselves that the
24 costs associated with the new generation plant,
25 and Santee Cooper and Central going forward

1 together, that the costs are such that their
2 cost of service come down; they would be
3 satisfied; they would not opt out.

4 But ultimately that is a contractual right
5 that they have, which they of course can
6 determine their best self-interest and make
7 that determination.

8 CHAIRMAN LEATHERMAN: So I think I heard
9 you say something about doing this will make
10 their costs come down?

11 MR. BAXLEY: Yes, sir, it would.

12 CHAIRMAN LEATHERMAN: Is that your
13 opinion, or their opinion, or whose opinion?

14 MR. BAXLEY: No, sir. Actually, I would
15 refer you to the reform plan and the appendices
16 that are attached to it, and the costs going
17 forward of changing our generation mix from a
18 more coal-dependent product to a newer, more
19 innovative, more modular approach that's less
20 costly, less fuel costly, at this time and
21 moving forward.

22 And I think that was -- that information
23 is amply provided within the reform plan
24 itself, sir.

25 CHAIRMAN LEATHERMAN: So it sounds like

1 you all made that decision to be in your best
2 interest.

3 MR. BAXLEY: Well, we would recommend to
4 them that it would be. But again, they're a
5 business that's an intelligent, self-preserving
6 business going forward and can make that
7 decision for themselves. But that would be our
8 recommendation to them, yes, sir.

9 CHAIRMAN LEATHERMAN: Make that decision
10 for themselves. If the General Assembly
11 adopted your reform plan, it would not be in
12 that equation, would it?

13 MR. BAXLEY: Well, it's not in the
14 specifics of math that's in the reform plan.
15 We would approach that one resource at a time,
16 which is how the opt out works. Every time we
17 propose one, we sit down and have that future
18 consideration.

19 CHAIRMAN LEATHERMAN: Any other member of
20 the Committee?

21 MR. BAXLEY: Thank you, Mr. Chairman.

22 CHAIRMAN LEATHERMAN: Mr. Grooms?

23 SENATOR GROOMS: Thank you, Mr. Chairman.

24 Could you talk with me a little bit about
25 Santee Cooper's coal ash? The new -- the

1 coal-fired generating station produces coal
2 ash; is that right?

3 MR. BAXLEY: Yes, sir, it does.

4 MS. WILLIAMS: Could you compare your coal
5 ash liabilities with, say, that of Duke? Are
6 you familiar with some of Duke's coal ash
7 issues?

8 MR. BAXLEY: Yes, sir. Just one moment,
9 please.

10 May I recommend that Pamela Williams, who
11 has been working with removable coal ash and
12 has more current information than I do, may she
13 respond to your question, Senator?

14 SENATOR GROOMS: Yes.

15 MR. BAXLEY: Thank you.

16 MS. WILLIAMS: Thank you, Senator Grooms.

17 We have coal ash that was stored
18 in pond -- we had, I'll say, at three
19 generating sites, two of which are closed;
20 Jefferies in Grainger, and then at Winyah.

21 So what we have committed to do is that we
22 will remove all of the ash from those unlined
23 ponds. We are attempting to beneficially reuse
24 as much of it as we can. We take it to cement
25 companies. They use it as a raw material in

1 their product. What we can't take to the
2 cement companies we are putting into Class 3
3 lined landfills.

4 So we are handling this, we believe, in
5 the most environmentally friendly way of any
6 utility in the country. I believe you have
7 heard folks in the environmental community
8 commend us. Southern Environmental Law Center
9 has commended us as being best in class in this
10 regard, in the country, in our handling.

11 Some other utilities have attempted to
12 either cap the ponds in place, not remove it
13 from the unlined ponds. And I think there's
14 been a lot in the press about those efforts.
15 But Santee Cooper is a leader in that regard.

16 SENATOR GROOMS: Did the gypsum contract
17 help reduce Santee Cooper's liabilities in
18 terms of coal ash?

19 MS. WILLIAMS: The gypsum is different
20 from the coal ash. What it did was keep the
21 gypsum out of the landfill. So that means that
22 if the -- the landfill that would have been
23 taken up with gypsum can now be used for coal
24 ash, potentially.

25 SENATOR GROOMS: Synthetic gypsum is --

1 it's a byproduct of burning coal?

2 MS. WILLIAMS: Of sulfur emissions. It's
3 the emissions reduction process. So it's
4 the -- pollution control technology produces
5 the synthetic gypsum, takes the sulfur out of
6 the emissions.

7 SENATOR GROOMS: Do you have any idea of
8 what would be the cost of cleaning up all the
9 coal ash ponds?

10 MS. WILLIAMS: We are estimating right now
11 it's about 300 million. It's a little south of
12 \$300 million.

13 SENATOR GROOMS: Are you aware that Duke
14 is spending, in a recent lawsuit,
15 2.4 billion -- they may have spent 2.4 billion
16 and plan to spend 8 to 9 additional billion to
17 clean up their coal ash ponds?

18 MS. WILLIAMS: Yes, sir. They have a lot
19 more ash than we do.

20 SENATOR GROOMS: And one of these
21 facilities is on Lake Norman, which feeds into
22 the Catawba system, which feeds into the
23 Santee system, where many South Carolinians get
24 their drinking water?

25 MS. WILLIAMS: I can tell you, beside a

1 river is not a good place for a coal ash pond.
2 At our Grainger station, we have successfully
3 removed all of the ash at that site to get it
4 away from the river.

5 SENATOR GROOMS: Following back up on the
6 Senator from Lexington's comments about value,
7 he was adding some numbers earlier, and I think
8 he came to 10 billion.

9 And I was looking at your report, the
10 transmission replacement value, 5.4 billion;
11 distribution, just under a billion; 30 percent
12 stake in V.C. Summer 1, 4.8 billion; in Rainey,
13 at 800 million.

14 That seems like that's closer to
15 12 billion, just on those assets.

16 MS. WILLIAMS: Okay.

17 SENATOR GROOMS: And Santee Cooper has
18 more assets than just the transmission,
19 distribution, V.C. Summer 1, and Rainey.

20 MS. WILLIAMS: That's right. In the real
21 property numbers that we gave you, that's just
22 the value of the real property. So there are
23 office buildings, other improvements on real
24 property that in the time frame we did not
25 include. And then obviously, as I said, the

1 economic benefit we bring to our communities.
2 There's computer systems; there's other value
3 that's not reflected on that sheet, yes.

4 SENATOR GROOMS: One thing I noticed, is
5 there value in Cross Generating Station?

6 MS. WILLIAMS: There is. And the problem
7 there, we just struggled to find a replacement
8 value for apples to apples, because people
9 aren't building coal-fired plants anymore, so
10 the replacement value was hard to get at. We
11 took the assets that we believed we could get a
12 good proxy for the replacement cost.

13 SENATOR GROOMS: With Cross units 3 and 4
14 producing electricity around \$30 a megawatt, it
15 seems like that would have some market value.

16 MS. WILLIAMS: It does. Those are
17 valuable to the system, yes, sir.

18 SENATOR GROOMS: That's all, Mr. Chairman.

19 CHAIRMAN LEATHERMAN: Thank you, sir.

20 Ms. Williams, Senator Grooms asked you a
21 question. Taking care of that coal ash and
22 removing it, whatever term you want to use,
23 there's liability due to the coal ash. Your
24 answer, I think, was yes.

25 MS. WILLIAMS: Yes.

1 CHAIRMAN LEATHERMAN: Obviously, that
2 would be correct. But by doing that with that
3 contract with whomever, are we adding --
4 according to Senator Setzler's numbers, adding
5 a \$10 billion a year liability?

6 MS. WILLIAMS: To -- I'm sorry. I'm
7 not --

8 CHAIRMAN LEATHERMAN: I think he came up
9 with -- Senator Setzler, do you want to run
10 through that again for us?

11 MS. WILLIAMS: On the gypsum contract? Is
12 that what --

13 SENATOR SETZLER: I'm sorry, Mr. Chairman.
14 I don't understand what you mean.

15 CHAIRMAN LEATHERMAN: The gypsum contract,
16 what was your number for adding liability to
17 Santee Cooper under the terms of that contract?

18 SENATOR SETZLER: Well, as I'm
19 understanding Ms. Williams, you're saying that
20 you're losing approximately \$10 million --

21 MS. WILLIAMS: That's approximately;
22 that's not exactly right. Yes.

23 SENATOR SETZLER: I'm not holding you to
24 that. \$10 million per year. When did that
25 start?

1 MS. WILLIAMS: In the early years, we
2 weren't losing money. And we'll get you that
3 number. We were producing --

4 SENATOR SETZLER: You started in 2008.
5 How many years before you started losing money?

6 MS. WILLIAMS: I'll have to get -- I would
7 guess five or six, but let me get back to you
8 on that.

9 SENATOR SETZLER: Okay. So that would
10 take you to 2013, and this is 2020. So for the
11 last seven years, you've lost approximately
12 \$10 million a year. And then for the balance
13 of the contract, which would be 45 years, round
14 numbers, \$10 million per year?

15 MS. WILLIAMS: That's current projections,
16 and that's what was included. So that was the
17 question. I think your question is, how does
18 that relate to the coal ash?

19 CHAIRMAN LEATHERMAN: No, ma'am. My
20 question was -- Senator Grooms wanted to point
21 out, and he did a good job pointing it out --
22 reducing -- or removing that coal ash reduced
23 the liability from coal ash, if I understood
24 him correctly. I think your answer was yes.

25 MS. WILLIAMS: I think I understand now.

1 CHAIRMAN LEATHERMAN: My question is, even
2 though we reduce liability from the coal ash,
3 according to what you and Senator Setzler just
4 exchanged, you're adding about 10 million a
5 year due to that contract.

6 MS. WILLIAMS: Yes, sir. I think Senator
7 Grooms' point was --

8 CHAIRMAN LEATHERMAN: We'll let him speak
9 for himself. He's capable of doing that.

10 MR. BONSALL: Let me add a point. May I
11 respond to it?

12 SENATOR GROOMS: Do I get to chime in now?
13 Were you referring to me?

14 CHAIRMAN LEATHERMAN: Yes, sir. You were
15 talking about reducing the liability by
16 removing the coal ash. And we agreed with
17 that.

18 SENATOR GROOMS: Yes.

19 CHAIRMAN LEATHERMAN: Then aren't we --
20 I'm asking, aren't we increasing the liability
21 by about 10 million a year due to that
22 contract?

23 SENATOR GROOMS: The synthetic gypsum and
24 the coal ash are related, but they're not the
25 same.

1 CHAIRMAN LEATHERMAN: What does the
2 contract do? Doesn't it add about 10 million a
3 year liability?

4 SENATOR GROOMS: Santee Cooper's got a
5 liability, yeah. I believe in the -- the DOA
6 report, Santee Cooper would be able to continue
7 with the gypsum contract and still be able to
8 produce electricity cheaper than NextEra
9 proposes.

10 CHAIRMAN LEATHERMAN: Senator Matthews,
11 you caught my eye. You're next.

12 MR. BONSALL: May I add to Ms. Williams'
13 response on that question?

14 CHAIRMAN LEATHERMAN: Sure.

15 MR. BONSALL: Thank you, sir.

16 One, the assumption of the gypsum contract
17 is assumed in our reform plan and projected out
18 into Senator Grooms' point. We still are
19 projecting actually lower prices and stable
20 prices for a long, long period of time, even
21 assuming that.

22 CHAIRMAN LEATHERMAN: I'll remind you like
23 I reminded Ms. Williams, Senator Grooms is
24 capable of responding for himself.

25 MR. BONSALL: Okay.

1 And the operating economics associated
2 with -- the operating economics associated with
3 the gypsum contract is we may incur a loss on
4 the gypsum contract because we generate less
5 gypsum ourselves at our plants, but that's a
6 conscious decision to run those plants less,
7 because we can buy energy less expensively on
8 the market, and the savings helps offset the
9 cost of the gypsum contract.

10 So you really should look at it on a total
11 system economic basis as to the net impact to
12 the system. We're in fact buying off the
13 market, lowering the energy cost. That means
14 we generate less gypsum. That does incur a
15 loss over here, but we're more than offsetting
16 that loss with the savings on the energy side.

17 So we really need to provide you with the
18 net overall operating economics of that
19 contract relative to energy purchases.

20 Am I clear?

21 SENATOR SETZLER: You're crystal clear.
22 But it's still, in my opinion, a horrible
23 decision to enter into a 60-year contract.

24 MR. BONSALL: I don't disagree with you at
25 all, Senator. Absolutely, I agree, yeah; a bad

1 decision in that regard. It would be a lot
2 better if we didn't have it, no question.

3 CHAIRMAN LEATHERMAN: Senator Matthews?

4 SENATOR MATTHEWS: Thank you,
5 Mr. Chairman.

6 I'm trying to get my arms around it. I
7 think the more you talk, I kind of get my arms
8 around it a little better. I'm trying to walk
9 you through my thoughts, so if I'm wrong, you
10 tell me.

11 You have a 60-year contract to remove that
12 coal ash. If you did not sell it to whatever
13 that plant's name is that are using it, what
14 would it cost Santee Cooper to remove it?

15 MR. BONSALL: Yeah, it's a 60-year
16 contract to sell the gypsum to a wallboard
17 company. If we did not do that, we would have
18 to put it in a landfill.

19 SENATOR MATTHEWS: How much is that going
20 to cost you?

21 MR. BONSALL: And that costs us, I think
22 you said, \$30 a ton? Is that correct?

23 MS. WILLIAMS: The 10 million is the net.

24 MR. BONSALL: On a per-ton basis?

25 How much does it cost the landfill?

1 MS. WILLIAMS: More like 14.

2 CHAIRMAN LEATHERMAN: If you'll come up
3 there so the members can hear your answer.

4 MR. BONSALL: I turned to her. She said
5 basically it costs about 14, \$15 to landfill
6 the gypsum. Otherwise we'd have to stick it in
7 a landfill as opposed to having it fruitfully
8 reused.

9 SENATOR MATTHEWS: It costs you 14 or 15
10 what?

11 MR. BONSALL: Just to stick it in a
12 landfill. If that's what we had to do with it,
13 it would cost us 14 or \$15 just to stick it in
14 a landfill.

15 CHAIRMAN LEATHERMAN: Is that per ton?

16 SENATOR MATTHEWS: Per ton?

17 MR. BONSALL: Per ton.

18 SENATOR MATTHEWS: What would that total
19 cost, based on what you have in the landfill
20 now?

21 MR. BONSALL: Pamela, you'd better help
22 me. I think we're confusing gypsum and coal
23 ash.

24 Let me ask her to clarify.

25 MS. WILLIAMS: Senator Matthews, you're

1 asking about gypsum, and we continue to make
2 gypsum. And so I will get you -- I don't have
3 it off the top of my head. The gypsum that we
4 are projecting to make times 14, \$15 a ton,
5 we'll get you that number. And that continues
6 into the future.

7 The coal ash is already in the ponds, and
8 that's the 300 million number I gave you.
9 That's what it will cost to get that out of the
10 ponds and either into a landfill or
11 beneficially reused.

12 SENATOR MATTHEWS: I want to be absolutely
13 clear. Somewhere down the line, you're going
14 to have to remove it, the coal ash.

15 MS. WILLIAMS: The coal ash, yes, sir.

16 SENATOR MATTHEWS: And you're saying to
17 remove it, based on the volume that you have
18 now, will cost you about \$300 million?

19 MS. WILLIAMS: Yes, sir.

20 SENATOR MATTHEWS: How much are you
21 getting for selling it?

22 MS. WILLIAMS: For the coal ash --

23 SENATOR MATTHEWS: Coal ash.

24 MS. WILLIAMS: -- we're not making money
25 on it. Again, that's -- the cement companies

1 are -- we're paying them to take it. So all of
2 that is in that \$300 million number.

3 SENATOR MATTHEWS: Okay.

4 CHAIRMAN LEATHERMAN: So if you're not
5 making money on it, how much are you losing?

6 MS. WILLIAMS: We're not losing money on
7 the coal ash, Senator Leatherman. We've
8 determined that the costs we're paying the
9 cement companies to take it is a break-even to
10 putting it in the landfill. And so we are
11 beneficially reusing as much as we can, from an
12 environmental perspective, to get it out of the
13 environment.

14 CHAIRMAN LEATHERMAN: Any other member?
15 Senator Davis?

16 SENATOR DAVIS: Thank you, Mr. Chairman.

17 I've got a question, but then I have just
18 a general observation that I think might be
19 appropriate.

20 The first one is in regard to the assets
21 that Santee Cooper owns. Is it true that of
22 that universe of assets, that some are subject
23 to the FERC license and some are outside the
24 FERC license? Is that correct?

25 MS. WILLIAMS: That is correct.

1 SENATOR DAVIS: The reason I ask that,
2 Mr. Chairman, in looking at NextEra's asset
3 purchase, it appears to me that the real
4 property assets they're getting are only those
5 that are within that FERC license or permit.

6 And so I think we've been asking questions
7 about what the market value of real property on
8 your balance sheet would be if it's fair market
9 value instead of book value. It would be
10 helpful for me if it could be broken down into
11 properties that are subjected to the FERC
12 license and those that are not subjected to the
13 FERC license.

14 MS. WILLIAMS: And I believe -- I left my
15 cheat sheet in my chair. I believe that's in
16 there, but --

17 CHAIRMAN LEATHERMAN: Excuse me. You can
18 get your cheat sheet.

19 MS. WILLIAMS: Yes, sir. And my glasses.
20 Thank you.

21 But I want to start by saying my
22 understanding is that the NextEra proposal
23 would include buying all of Santee Cooper's
24 real property, not just the property that's in
25 the FERC boundary.

1 SENATOR DAVIS: In both the summary and
2 then in the appendices, in the DOA describing
3 it, it says that NextEra would acquire, quote,
4 Santee Cooper's electric utility assets, the
5 wholesale water systems operated by Santee
6 Cooper, and the hydroelectric facilities and
7 other assets operated by Santee Cooper under
8 the FERC license.

9 So if I'm mistaken in that regard, then
10 I'm mistaken; but in reviewing this, that was
11 my understanding. It may be an inartful
12 summary, but anyway, that's my understanding of
13 this, and that's why I asked that question.

14 MS. WILLIAMS: Okay. And we have not seen
15 the final asset purchase agreement. There are
16 schedules still to be developed, and some of
17 those include the excluded assets. So I can't
18 speak with one hundred percent certainty, but
19 our understanding, our working assumption has
20 been that they would be buying all the
21 property. And in fact they've asked for some
22 title work to be done on some of the property,
23 including Camp Hall.

24 SENATOR DAVIS: Would you agree with me
25 that that summary by the DOA in our packet

1 suggests that it's the real property or assets
2 within the FERC license?

3 MS. WILLIAMS: I think it's a point of
4 confusion. I guess the question is, would some
5 of those other assets be used in connection
6 with the generation, transmission of the
7 electric system, the office building, for
8 example.

9 SENATOR DAVIS: The other observation I'll
10 make is this, Mr. Chairman, and it goes back to
11 something the Senator from Lexington said
12 during NextEra's presentation. And it goes to
13 what is the scope of authority that this
14 Finance Committee has.

15 Throughout the NextEra process, there were
16 indications, I thought, by Mr. Robo that
17 certain points were negotiable. And during
18 this presentation by Santee Cooper, which I
19 have found to be a very good presentation,
20 there are lots of things that I would like to
21 see in the reform plan.

22 So to put meat on the bones, to paraphrase
23 what Mr. Bonsall said, particularly in regard
24 to assuring RFP processes, you know, fair
25 competition, things of that nature, PSE review

1 to a greater degree, State Court forums so that
2 they could challenge decisions made by Santee
3 Cooper, all of which the responses I received
4 was that they were open to exploring that.

5 So I guess my question is, are these
6 things presented to us as simply
7 take-it-or-leave-it proposals, both in regard
8 to NextEra and the Santee Cooper reform plan,
9 or is it within the authority of this Committee
10 to look at those various proposals and to,
11 quote, make them better, unquote, for the
12 people of South Carolina, and then for us to
13 decide, based on what those revised proposals
14 look like?

15 And so I --

16 CHAIRMAN LEATHERMAN: Senator, let me see
17 if I can help you on that.

18 SENATOR DAVIS: Sure.

19 CHAIRMAN LEATHERMAN: I'm struggling with
20 exactly the same thing you're struggling with.

21 Our members have expressed concern to me.
22 "Do you mean to tell me we can't negotiate with
23 NextEra?"

24 I said, "I'm not here to tell you
25 anything, because I'm not sure."

1 Also, "Do we have to take it or leave it?"

2 "I can't tell you that. I'm not sure."

3 So I'm struggling with that, like you are.

4 We'll sift through that; we'll make a
5 determination before we send it to the Senate
6 floor.

7 SENATOR DAVIS: Mr. Chairman, there are
8 certain aspects of the Santee Cooper reform
9 proposal that, in order for me to consider it
10 seriously, would have to be substantially
11 clarified, not only the processes, the
12 guarantee, the bidding processes, the oversight
13 by some sort of a public entity.

14 And in regard to the contingency or the
15 assumption being made regarding Central not
16 opting out from new power generation
17 facilities, that's a fairly substantial
18 assumption, especially given that Central
19 recently, I think, joined the PJM RTO, which
20 signals to me that they have a strong interest
21 in going out there and going to other power
22 producers; in other words, getting into the
23 market.

24 And, you know, if -- I guess we can ask
25 Central about that when they come here, but

1 given that action they took last fall in
2 joining that RTO, that signals to me that the
3 likelihood of an opt out in regard to using
4 future power generation by Santee Cooper is one
5 that's serious.

6 And that's why I raise those questions. I
7 just think -- and, again, I guess that goes to
8 my initial question, is what's the scope of
9 this committee? And you indicated that we can
10 have some discussion about that and maybe some
11 clarity given to us later.

12 CHAIRMAN LEATHERMAN: You're exactly
13 right. And actually, you're doing a pretty
14 good job with your ESP this morning. I'm
15 having the very same thoughts that you're
16 having, so we'll have to sift through it.

17 SENATOR DAVIS: Thank you, Mr. Chairman.

18 SENATOR SETZLER: Mr. Chairman, can I
19 respond?

20 Senator from Beaufort, if you look at
21 Section 9.(A)(1) of the resolution we passed,
22 it says that when DOA reports, it must include
23 a contract for each recommended bidder,
24 obligating the bidder to comply with terms of
25 its bid in the event it is approved by the

1 General Assembly.

2 It's my interpretation -- and I remember
3 the negotiations -- that we didn't want to get
4 in a posture, once we got a proposal, that when
5 the General Assembly acted, DOA was going to
6 sign the contract. End of conversation.

7 So, I mean, that's just what I believe.

8 SENATOR DAVIS: Might I respond,
9 Mr. Chairman?

10 And I understand that, and that is what
11 the language reads, and that's what gives me
12 concern, Senator from Lexington. That's why I
13 raise the question.

14 Because in a transaction as complex as
15 this, you know, certainly it's my impression
16 that Mr. Robo on behalf of NextEra and
17 Mr. Bonsall on behalf of Santee Cooper seem
18 prepared to sit down and either put meat on the
19 bones or sharpen pencils and make deals better.

20 And, I guess, that was fundamentally
21 different from how the four corners of that
22 resolution read. I guess, I was just raising
23 the issue for us to chew on, because as we go
24 about assessing these things, we learned a lot
25 during the NextEra presentation and a lot

1 during the Santee Cooper presentation that
2 would make both of those bids better.

3 I just don't know what the scope of our
4 authority is. And I don't have any answers. I
5 just raise that as a concern.

6 SENATOR SETZLER: I agree.

7 SENATOR CORBIN: Mr. Chairman?

8 MR. SHEALY: Senator Corbin asked to be
9 recognized next.

10 SENATOR CORBIN: Mr. Chairman, I'm sure
11 you all can't wait to go back to this
12 \$10 million gypsum contract, but I just have
13 one question.

14 That amount that you have to subsidize for
15 the gypsum, it's my understanding that it's due
16 to the volume you produce from -- is it
17 Winyah that it's produced from?

18 MR. BONSALL: Cross and -- both.

19 SENATOR CORBIN: Both. Okay.

20 And it's such a long contract. If those
21 plants were totally shut down and you had to
22 purchase all the gypsum to fulfill your
23 contract, do you know what that would cost?

24 MR. BONSALL: I believe Ms. Williams has
25 an estimate of that. We baked that into the

1 reform plan projections, but, Pamela, I don't
2 remember the specific number.

3 MS. WILLIAMS: We make about half of the
4 gypsum that we're required to provide. So you
5 could take the number I gave you and double it.

6 SENATOR CORBIN: So it could be as much as
7 20 million a year?

8 MS. WILLIAMS: Yes, sir, if we weren't --

9 SENATOR CORBIN: Where do you buy that
10 from to supplement?

11 MS. WILLIAMS: We buy it from other
12 coal-fired power plants in Georgia. We bought
13 it in North Carolina before.

14 SENATOR CORBIN: So what if the ones that
15 you're buying from now, that are, like, in
16 Georgia or whatever, what if they shut down and
17 quit producing and you have to ship it down
18 here from Indiana? Have you got any idea what
19 that would cost?

20 MS. WILLIAMS: It would be very expensive,
21 but it goes back to the point I was trying to
22 make with Senator Allen. I don't know -- the
23 life of coal-fired generation in this country
24 is a question mark; correct? So at some point
25 there may be no synthetic gypsum at any price.

1 We have -- we have machinery to make that.
2 Not all gypsum can be used for wallboard. So
3 there are specification requirements. And we
4 modified our equipment at Cross and Winyah to
5 make wallboard-quality gypsum. So there may be
6 coal-fired generating plants that just don't
7 make the right kind of gypsum as well.

8 SENATOR CORBIN: So that would be an issue
9 as well then?

10 MS. WILLIAMS: That would be an issue as
11 well. It would be an issue for us, and it
12 would be an issue for them.

13 SENATOR CORBIN: Thank you.

14 CHAIRMAN LEATHERMAN: Ms. Williams, let me
15 follow up with one short question.

16 You say the life of coal-fired plants --
17 and I agree with this statement -- are probably
18 short-lived.

19 MS. WILLIAMS: I don't know that I said
20 "short-lived," but if that's what you think.

21 CHAIRMAN LEATHERMAN: I mean, what's a
22 better description?

23 MS. WILLIAMS: I don't know, given what we
24 know today, whether the life of coal -- 50,
25 60 years. There are some plants out there that

1 will keep running.

2 Again, we've talked about other factors
3 that could come into play. There could be an
4 issue with fracking; natural gas prices could
5 rise. But I think what we're seeing is a move
6 away from coal. That's what, frankly, you have
7 been asking for.

8 So hard to predict the future. I don't
9 think it's all going away. Some of it is
10 there, and it's valuable, and it will continue
11 to be run.

12 CHAIRMAN LEATHERMAN: But if it's in
13 question, if that happens what you just
14 described, partial or whatever that term is,
15 what kind of money would it cost Santee Cooper
16 to comply with that contract?

17 MS. WILLIAMS: It may at some point become
18 impossible to comply with the contract.

19 CHAIRMAN LEATHERMAN: What do you do then?

20 MS. WILLIAMS: So I think that would be a
21 force majeure -- I know that would be a force
22 majeure, and the contract could not be carried
23 out by either party.

24 CHAIRMAN LEATHERMAN: I'll accept that,
25 because I'm not into attorney terms, obviously,

1 not being an attorney.

2 Who's next?

3 MR. SHEALY: Senator Cromer.

4 SENATOR CROMER: Thank you, Mr. Chairman.

5 Ms. Williams, I've heard so much
6 discussion about the two 20-year options, but I
7 just want to make sure. Did I understand that
8 the former CEO went ahead and exercised those
9 two 20-year options; so currently, as the
10 contract stands, there is no way for Santee
11 Cooper to get out of any of the rest of the
12 60-year term? Is that correct?

13 MS. WILLIAMS: Part of that's correct.
14 The CEO did not exercise the options. Chairman
15 Ray was just remembering that incorrectly
16 because he wasn't there.

17 The original contract provided for two
18 20-year extensions that either party had the
19 right to exercise. Santee Cooper, at the time,
20 wanted the ability to force the issue, because
21 we were making a lot of gypsum. And so the
22 folks making the decision at the time wanted to
23 lock in the wallboard company as much as the
24 wallboard company wanted to lock in Santee
25 Cooper.

1 So it's a one-party -- so the second part
2 is correct. Given what we know today, it's
3 likely that the wallboard company would
4 exercise the option to extend, which they can
5 do unilaterally, and it will continue for
6 40 years beyond the original term.

7 Does that answer your question?

8 SENATOR CROMER: Well, I'm just looking
9 for a simple answer. We're locked into
10 60 years total --

11 MS. WILLIAMS: We are.

12 SENATOR CROMER: -- from the initial date
13 of the contract; is that correct?

14 MS. WILLIAMS: For all intents and
15 purposes --

16 SENATOR CROMER: That's all I need. We're
17 locked into a 60-year contract.

18 The second thing I wanted to say,
19 Mr. Chairman, is the Senator from Beaufort
20 brought up something -- talk about ESP. We
21 were all thinking about this. In fact, I heard
22 it this morning on the radio, on some talk show
23 coming in, that the Speaker of the House wrote
24 some kind of an op-ed or whatever in The State
25 paper this morning and talked about the Santee

1 Cooper deal with NextEra and all. And
2 according to the talk show host, the Speaker is
3 saying that we can now go back and maybe get
4 NextEra to do some more negotiating and add
5 some more to it.

6 And I'm like, well, no. We were all told,
7 based on this resolution, that this was it. I
8 mean, Santee Cooper operated under the
9 assumption that they had to put the best deal
10 forward. And we, in our infinite wisdom, when
11 we wrote the resolution, unfortunately said
12 that there could be no communication amongst
13 the three of them.

14 And the only thing that NextEra could get
15 would be the assets, and they know what their
16 current production costs are, and they could
17 assume that this would be the cost of
18 generating the power to our ratepayers. Santee
19 Cooper was not able to go back to Central and
20 ask them, "Are you willing to continue on with
21 our relationship? And what are your feelings?"

22 I mean, nobody has been able to
23 communicate. So based on our resolution, now,
24 if we are going back now and ask for a
25 negotiation based on the instructions we gave

1 the Department of Administration, then I think
2 we're violating our resolution. And if we're
3 going to do that, then we've got to give all
4 parties equal access -- Dominion, Santee
5 Cooper, and NextEra -- equal access to be able
6 to do some kind of negotiations at this stage
7 of the game.

8 And, Mr. Chairman, I'm basing that on what
9 the op-ed was written by the Speaker of the
10 House this morning. So he sort of opened up a
11 can of worms there, I think, with that op-ed.

12 CHAIRMAN LEATHERMAN: Let me just restate
13 in response to Senator Davis. I'm struggling
14 like, I think, every member of this committee
15 is struggling right now. Can we or can't we?
16 Somewhere along the line we will sift through
17 that and make a determination and see what the
18 majority of the committee thinks the resolution
19 says to do or not to do.

20 Senator Davis?

21 SENATOR DAVIS: In response to Senator
22 Cromer -- and, I think, Senator Setzler also
23 raised this point -- my concerns in this regard
24 don't extend simply to Dominion, Santee Cooper,
25 and NextEra; it extends to the entire universe

1 of bidders who responded to the RFPs issued by
2 the DOA.

3 So in the event that there is some sort of
4 legal guidance or legal advice given to us by
5 staff or by somebody, I would like you to
6 address not only those three entities that are
7 before us, but what are the potential
8 ramifications in regard to the other parties
9 that bid and whose bids were not accepted. I
10 would feel more comfortable having some more
11 legal clarity in that regard before we go
12 forward and assess these options.

13 CHAIRMAN LEATHERMAN: Senator Davis, I
14 know you're not looking at me when you're
15 looking for that, because you know, an old
16 country boy don't know anything about the
17 legal.

18 SENATOR DAVIS: We've got a lot of smart
19 lawyers on this committee, Mr. Chairman.

20 CHAIRMAN LEATHERMAN: We do have. We do
21 have.

22 MR. SHEALY: Senator Peeler is next.

23 SENATOR PEELER: Thank you, Mr. Chairman.
24 First of all, I apologize for being late.
25 Senator Alexander, Senator Verdin, and Senator

1 Scott, and I were in screening. So if this has
2 been brought up earlier -- obviously it hasn't.
3 The senator from Newberry talked about the
4 commentaries in The Post and Courier.

5 Mr. Bonsall, did you see that this
6 morning? Did you see the commentary from the
7 Speaker?

8 MR. BONSALL: Yes, I did.

9 SENATOR PEELER: Would you like to respond
10 to that? And, specifically, adding what
11 Senator Setzler and Senator Davis were talking
12 about, what we can and can't do, and the
13 concern of the Senator from Newberry, did I
14 interpret that right, that the Speaker is -- we
15 have three options: Sell, manage, or reform?

16 I didn't think you said "reform, then
17 sell." Did I interpret that commentary right,
18 that the Speaker wants us to reform, then sell?
19 So if the Speaker -- and the Speaker's words
20 have strength. If the House sends us over
21 something with reform and sell, wipe out the
22 board. You're the last man standing. How are
23 you going to reform Santee Cooper and then sell
24 it?

25 MR. BONSALL: Frankly, Senator, I was

1 confused by that op-ed. I have a feeling I'm
2 not the only one.

3 I will tell you that what we responded to
4 at Santee Cooper was to respond to the Act 95
5 process. The date that we targeted was
6 January 3rd.

7 We completed what we believe is a good
8 plan and a good proposal, a 440-page plan, well
9 vetted, submitted on January 3rd and fully
10 compliant, and then we put our pencils down.
11 And that's what we understood the process to
12 be.

13 I don't -- I don't understand the
14 extension of that process that was contemplated
15 in that op-ed this morning. All I'm telling
16 you is what we responded to as the rules as we
17 had understood them to be at that point in
18 time.

19 SENATOR PEELER: But that commentary is a
20 game-changer. If the game is changed, and if
21 it can change it -- which I don't think it can,
22 but I'm not one of those smart lawyers. If the
23 game changes, what would you do?

24 MR. BONSTALL: Well, if I were -- this is
25 a -- it's a tough response. Thank you for

1 putting me in this position, Senator. I
2 appreciate that.

3 SENATOR PEELER: I didn't do it. That was
4 the Speaker.

5 MR. BONSALL: You're right. You're right.
6 And there were trees there. I remember there
7 were trees there.

8 If I were a bidder looking from the
9 outside in to the State of South Carolina, I
10 wouldn't participate in bids going forward,
11 because you can't trust that the bid is done
12 when the bid said it's done.

13 I hate to be so brutal about it, but that,
14 to me, is -- one, two, three -- that's
15 quadruple jeopardy. And I don't feel good
16 about that at all.

17 And I'm not answering your question
18 directly, but I'm kind of answering your
19 question. I just don't -- I don't think that's
20 fair. I'm sorry. I really don't.

21 SENATOR PEELER: So, Mr. Chairman, are we
22 going to continue with these hearings in the
23 Finance Committee or is the situation out of
24 hand?

25 CHAIRMAN LEATHERMAN: We will continue

1 with the hearings. We are obligated by the
2 resolution on the Senate floor. What others
3 do, we have no control over that.

4 SENATOR DAVIS: Mr. Chairman.

5 CHAIRMAN LEATHERMAN: Senator Davis?

6 SENATOR DAVIS: May I respond to some of
7 the points raised by the Senator from Cherokee.

8 I've just got done reading Speaker Lucas's
9 piece in The Post and Courier. I had not read
10 it before it was just mentioned. But he talks
11 not only about the desire or the need to
12 sharpen our pencil in regard to NextEra; he
13 also talks about the need to put more meat on
14 the bones in regard to Santee Cooper's reform
15 proposal.

16 Those are the same concerns that I listed,
17 because a lot of the things that Santee Cooper
18 has shared with us, while they've indicated a
19 desire to move in that direction, they are not
20 part of the reform proposal per se.

21 So the concerns don't extend just to
22 NextEra; they also extend to the Santee Cooper
23 reform plans. I just wanted to make that
24 clear, that I have questions in regard to both
25 bids or both proposals, and what latitude do we

1 have.

2 SENATOR PEELER: Then you brought up
3 about -- I think it was the Senator from
4 Newberry -- the losing bidder. What do they
5 have to say about it?

6 MR. BONSTALL: May I respond to a degree,
7 Senator, to continue on?

8 The governance suggestions that we have
9 made, we know fully and appreciate those are in
10 your domain. Those are your decisions to make.
11 We made some suggestions from a governance
12 reform point of view. They may or may not be
13 sufficient from your point of view.

14 I deeply understand the reason for needing
15 reform as a function of broken trust in the
16 past. In good faith, we put those in front of
17 you. If you want to add to them, define them,
18 verify them, are we open to that? Of course we
19 are and need to be. I understand the need for
20 those particular reforms.

21 As to the basic construct of the economics
22 of the reform plan going forward, we took pains
23 at the beginning of the process, the very
24 beginning of the process, to make sure that the
25 load that everybody had the plan for was agreed

1 upon.

2 And that load is the sum total of Santee
3 Cooper's retail mode, wholesale cities,
4 industrials, et cetera, and the Central.
5 That's the sum total load that needed to be
6 planned for so that you could prepare responses
7 to serving that load on an apples-to-apples
8 basis. That's why it's important that the load
9 that was nominated be maintained. And that
10 load was nominated by us and it was nominated
11 by Central.

12 Am I making my point clear? You can't
13 take that load away, because if you do, then
14 you can't compare the alternatives one to the
15 other. You can serve it in a different way.
16 That's consistent with the opt out provisions
17 in the coordination agreement. But the load
18 itself, once nominated, needs to stay in place,
19 and then we need to engage the discussions
20 about how best to serve that load going
21 forward.

22 But the load itself, everybody needed to
23 be shooting at the same target. That's why we
24 took pains to make sure that that was
25 happening. And Central nominated the load, and

1 they agreed with that.

2 CHAIRMAN LEATHERMAN: Any other member of
3 the Committee?

4 SENATOR SETZLER: Mr. Chairman?

5 CHAIRMAN LEATHERMAN: Yes, sir, Senator
6 Setzler.

7 SENATOR SETZLER: I'd like to comment on
8 the Senator from Beaufort's question or
9 comment, and maybe the Senator from Cherokee.

10 I think there are issues and/or problems
11 or concerns about all three of the bids in,
12 again, how we proceed. However, I do think,
13 thinking about what the Speaker has said, that
14 the House or the Senate could conceivably
15 reject all three proposals -- and I'm not
16 proposing this -- could reject all three
17 proposals. And Santee Cooper, being a State
18 agency, quasi-tate agency, whatever you want to
19 call it, the General Assembly clearly has got
20 authority to then pass whatever reform they
21 want to pass for Santee Cooper.

22 That's just food for thought, and I'm not
23 suggesting that. I'm just saying that I think
24 there's problems with all three of the
25 proposals, and major concerns about them.

1 CHAIRMAN LEATHERMAN: I guess what some
2 folks may lose sight of, following up on your
3 comments, we're a legislative state the last
4 time I checked. The General Assembly will
5 decide what takes place with not only the State
6 quasi-agency, but any agency in the State of
7 South Carolina. So the things we're hearing
8 are not cast in stone, I can assure you of
9 that, as you well know. So we'll see where we
10 go from here.

11 SENATOR PEELER: Mr. Chairman, when do you
12 plan on taking a vote on the issue?

13 CHAIRMAN LEATHERMAN: We're getting pretty
14 close.

15 SENATOR PEELER: I think in the Speaker's
16 commentary, they were going to take theirs by
17 the end of the week.

18 CHAIRMAN LEATHERMAN: We'll let them do
19 what they want to. I want to make sure that
20 we've got -- we've all agreed on what they'll
21 vote on.

22 Let's see. I've heard people say, rightly
23 so, the Senate is a very deliberate body.
24 We're not a legislative racetrack. I bet
25 you've heard that term, too. In due time,

1 fairly soon, we'll decide where we're going on
2 it.

3 SENATOR NICHOLSON: Mr. Chairman, could
4 you speak up? Could you speak up? They cannot
5 hear you.

6 CHAIRMAN LEATHERMAN: Speak up, okay.
7 Maybe that was on purpose.

8 SENATOR CROMER: Mr. Chairman.

9 CHAIRMAN LEATHERMAN: Mr. Cromer.

10 SENATOR CROMER: We definitely want to ask
11 some questions of Central. Do we have -- I
12 know they're supposed to be here, but what is
13 our schedule for them to come in?

14 CHAIRMAN LEATHERMAN: Central will be here
15 9:00 Thursday morning.

16 SENATOR CROMER: Thursday morning?
17 Because we need to find out how they feel about
18 this whole situation. They are a key player in
19 this. And I don't think we can make any
20 decisions until we hear from them.

21 CHAIRMAN LEATHERMAN: Certainly. Any
22 other member?

23 SENATOR SETZLER: Mr. Chairman, I'm sorry.
24 I'm a little confused. Are you getting ready
25 to close down? I put my name down for second

1 rounds of questions, but I don't want to ask
2 anything if somebody else has got a first
3 round.

4 MR. SHEALY: Mr. Chairman, is there any
5 other member that would request a first-round
6 question?

7 Mr. Setzler asked to be recognized for a
8 second round.

9 SENATOR SETZLER: Mr. Bonsall, in
10 response, I think, to the Senator from
11 Beaufort's question, it was my
12 interpretation -- and maybe you need to clarify
13 this for the whole Committee -- you made
14 proposals to Central. I understood Central
15 never responded. It wasn't a matter of not
16 negotiating; they just didn't respond, which I
17 would interpret they didn't agree with you.

18 Am I misinterpreting what occurred?

19 MR. BONSALL: No, you're not. We do not
20 have responses to what we had suggested. I'm
21 not necessarily concluding that that means that
22 they disagree; I just think they didn't -- they
23 didn't respond at that time. So we don't have
24 answers to those questions.

25 SENATOR SETZLER: In your responses you

1 all provided to us yesterday, under fair
2 treatment of Central Electric, you, Santee
3 Cooper, includes this statement: Santee Cooper
4 proposes and agrees that both Santee Cooper,
5 Central, and the State's cooperative be placed
6 under the authority of the PSC commission to
7 the same extent.

8 Are you proposing that the co-ops of South
9 Carolina be placed under the PSC? And are you
10 proposing that Santee Cooper be placed under
11 the PSC for purposes of ratemaking?

12 MR. BONSTALL: Not for purposes of
13 ratemaking; for purposes of IRP, for the
14 preparation of the integrated resource plan.
15 We are in fact an integrated system, Senator,
16 and with G&T and D spread throughout the state
17 of South Carolina. So we would like to work
18 together jointly on the integrated research
19 plan going forward, because it's essential for
20 having an optimal solution for the service of
21 the entire system.

22 So we're suggesting that, that it would be
23 good to have a more formal partnership going
24 forward -- "partnership" is the wrong word --
25 more formal association going forward for

1 integrated resource planning purposes, yes.

2 SENATOR SETZLER: Have you had any
3 discussions with Central or the co-ops relative
4 to that?

5 MR. BONSALL: No, we have not. There are
6 conditions in the existing coordination
7 agreement that call for that. And those kinds
8 of discussions are normally ongoing. They have
9 not been ongoing during the Act 95 process
10 because of the limitations therein; but when
11 you add in the requirement to do a more public
12 version of integrated resource planning, then
13 the question needs to be answered: Well, how,
14 if we do that together or not. And we're
15 suggesting it would be better if we did it
16 together.

17 We already have the contractual obligation
18 to make those kinds of discussions within the
19 coordination agreement. Now we're expanding
20 that to a public purview, public oversight of
21 integrated resource planning process. And
22 we're simply suggesting that it would be best
23 probably to go forth together on that.

24 SENATOR SETZLER: Well, clarify for me.
25 You do not have a direct relationship or

1 contract with individual co-ops, correct?

2 Yours is only with Central?

3 MR. BONSALL: That is correct, yes.

4 SENATOR SETZLER: Then why would you
5 propose that the co-ops be placed under the
6 authority of the PSC for any reason?

7 MR. BONSALL: For integrated resource
8 planning?

9 SENATOR SETZLER: Does Central represent
10 them?

11 MR. BONSALL: Central does represent them,
12 but each individual system, they have their own
13 preferences and want to express that in the
14 process, so we'd like to respect that. If they
15 don't want to do that, that's fine, too.

16 SENATOR SETZLER: Are there any other
17 contracts, other than the gypsum contract, that
18 Santee Cooper is a party to currently that you
19 are losing money on that contract, and if so,
20 what is it? How long the terms?

21 MR. BONSALL: I'm going to ask a little
22 help in responding to that question. I'm going
23 to ask Ms. Williams to come up. I'm going to
24 also ask Charlie Duckworth, who is our deputy
25 CEO and resource planner, along the lines of

1 energy contracts, as well, to answer your
2 question, with your permission.

3 SENATOR SETZLER: Sure.

4 MS. WILLIAMS: Senator Setzler, I am
5 unaware of any other contract that we're losing
6 money on like the gypsum contract that's
7 outside of the energy market. We have --

8 SENATOR SETZLER: What does that mean,
9 outside --

10 MS. WILLIAMS: Charlie -- Mr. Duckworth is
11 going to come up and talk about our power
12 purchase arrangements, other things. I want to
13 be very careful and not mislead you. I may be
14 giving more detail than you like. But, for
15 example, we have gas hedges in place, and those
16 are contractual arrangements to lock in gas
17 prices at a certain level. We do that for
18 price stability. We work with Central; we work
19 with our industrial customers. They want us to
20 do that.

21 So at times the actual price of natural
22 gas might be lower than the financial product
23 that we've purchased to lock it in. So --

24 SENATOR SETZLER: I do understand.

25 MS. WILLIAMS: So, again, those types of

1 arrangements might be out there, but there's
2 nothing that I'm aware of. We'll go and rack
3 everybody's brain, like the gypsum contract,
4 where we're losing money on something that's
5 really outside of the energy market.

6 SENATOR SETZLER: Does Mr. Duckworth want
7 to expand on that?

8 MR. DUCKWORTH: Just briefly, yeah. Thank
9 you.

10 The question, Senator: We do have hedges
11 buying forward natural gas for three years,
12 '20, '21, and '22. That's regular practice,
13 something that we do, again -- and Ms. Williams
14 talked about this -- because customers want
15 certainty. They want to know about what prices
16 will be out over time. Those hedges -- so
17 those are here's what we would pay for gas.
18 They are financial-related hedges.

19 Today the market for natural gas has
20 fallen, continues to fall. It is lower than
21 what it was at the time those hedges were put
22 into place. So if you -- if, based on your
23 question, you see that as a loss, that we are
24 below, the market today is below what those
25 hedges are.

1 SENATOR SETZLER: I do understand that.
2 Do you have any what you call hedges or
3 contracts that extend beyond three years?

4 MR. DUCKWORTH: No, sir.

5 SENATOR SETZLER: Okay. I think that's
6 all I've got, Mr. Chairman. Thank you. Thank
7 you all.

8 CHAIRMAN LEATHERMAN: I guess no one else.
9 Mike just reminded me to thank Santee
10 Cooper for your proposal and time involved.

11 SENATOR SETZLER: Mr. Chairman, I don't
12 think the court reporter can hear you. I'm
13 sorry.

14 CHAIRMAN LEATHERMAN: Mike just reminded
15 me to thank Santee Cooper for your proposal and
16 time involved. Thank you for that. I suspect
17 this is going to be looked at very, very
18 carefully. We appreciate you bringing it to
19 us.

20 MR. BONSALL: Thank you, sir.

21 CHAIRMAN LEATHERMAN: Anyone else?
22 Do I get a motion to adjourn and we can be
23 gone.

24 SENATOR SETZLER: So move.

25 CHAIRMAN LEATHERMAN: How about a second?

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SENATOR NICHOLSON: Second.

CHAIRMAN LEATHERMAN: Thank you all for
coming.

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(Proceedings were adjourned at 11:46 a.m.)

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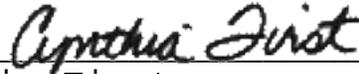
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I, Cynthia First, Registered Professional Reporter and Notary Public of the State of South Carolina at Large, do hereby certify:

That the foregoing proceedings were taken before me on the date and at the time mentioned on page 1 and the proceedings were recorded stenographically by me and were thereafter transcribed under my direction; that the foregoing transcript as typed is a true accurate and complete record of the proceedings to the best of my ability.

I further certify that I am neither related to nor counsel for any party to the cause pending or interested in the events thereof.

Witness my hand, I have hereunto affixed my official seal this 3rd day of March 2020, at Chapin, Lexington County, South Carolina.



Cynthia First
Registered Professional Reporter
Notary Public
State of South Carolina at Large
My Commission expires:
October 16, 2028