

# Joint Resolution (Act 95): Summary of Process and Recommendations

Presented to a Joint Session of the South Carolina  
Senate Finance Committee and House Ways and Means Committee

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Energy+Environmental Economics

MOELIS & COMPANY

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# Agenda

1. Overview of Process
2. Evaluating Rate Projections
3. Santee Cooper Reform Plan
4. Management Proposal – Dominion Energy
5. Bid for Sale – NextEra Energy
6. Potential Benefits and Additional Considerations
7. Conclusion

# Overview of Process

# Key Considerations

- Pursuant to Act 95, the Department hired advisors in June and July, 2019
- The Department and advisors immediately began to prepare the necessary process materials and data room and publicly announced an invitation for interested parties on Aug. 16, 2019
- Process and timeline were developed with a view to facilitate negotiations with Central while also maximizing outcomes as defined by Act 95

# Key Process Items

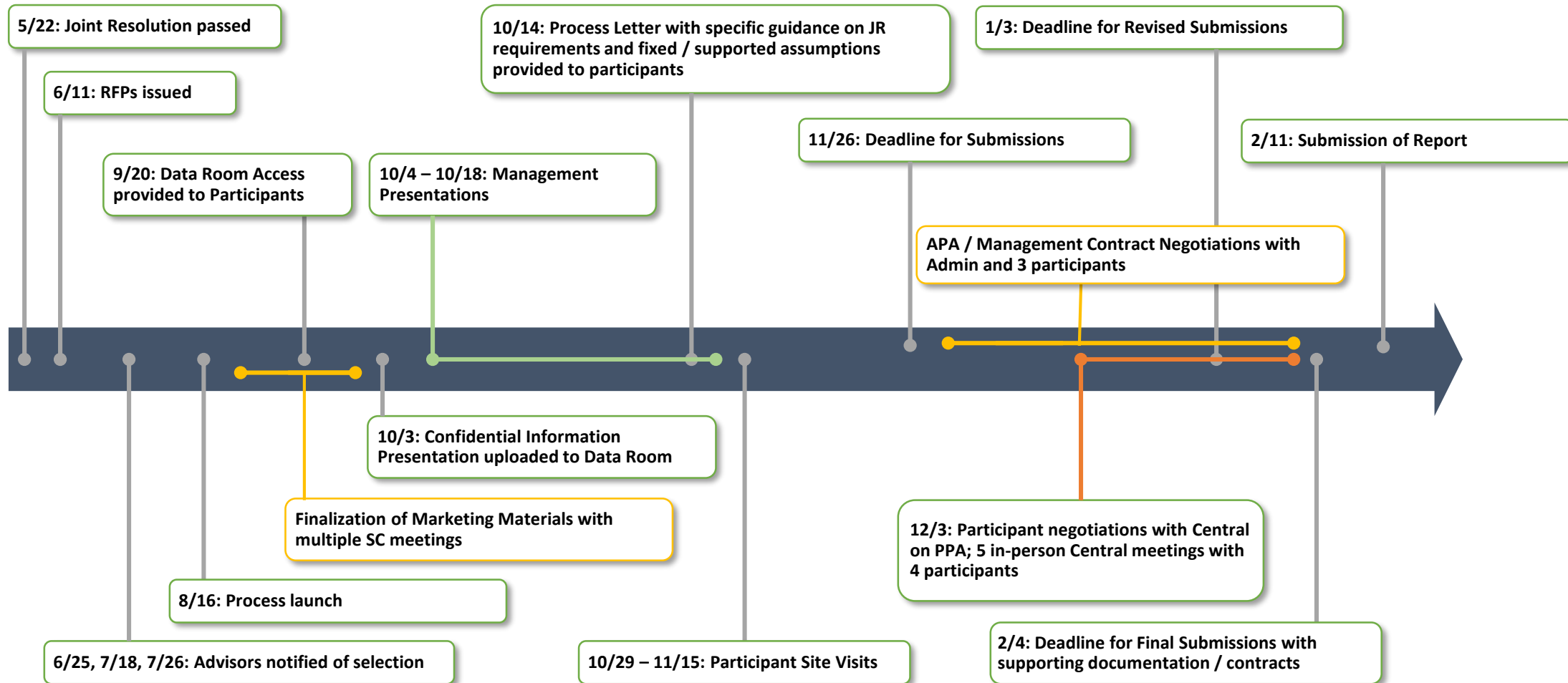
- 26,000+ of Data Room documents
- 358,000+ of Data Room pages
- 2,000+ diligence questions
- Approximately 50,000+ man-hours
- Hundreds of conference calls and in-person meetings

# Overview of Participants

<b>Parties Contacted</b>	<b>55</b>
<b>NDA's Executed</b>	<b>13</b>
<b>Data Room Access Granted</b>	<b>13</b>

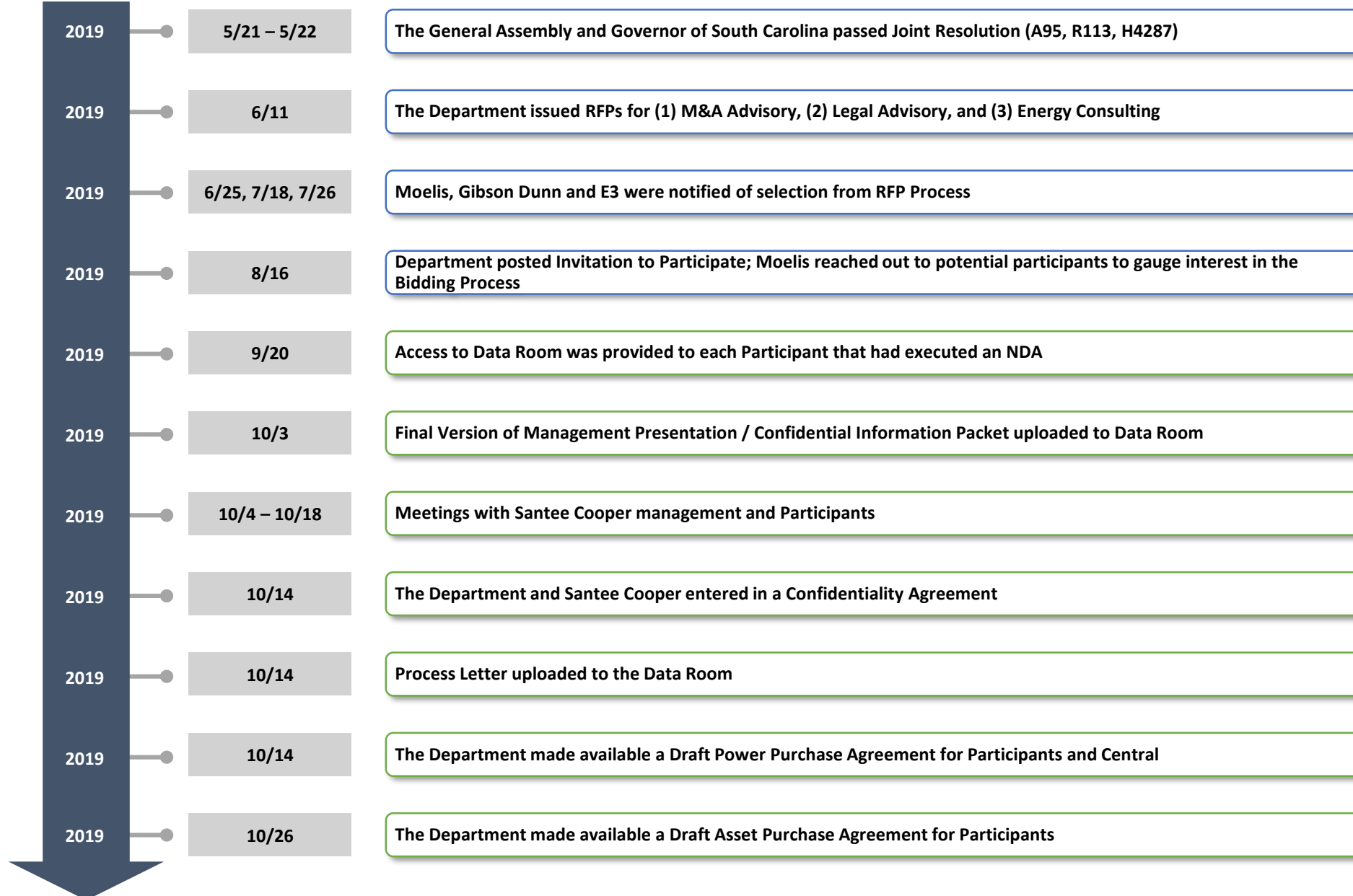
	<b>SALE</b>	<b>MANAGEMENT CONTRACT</b>
<b>Management Presentations</b>	<b>5 (2 Consortiums)</b>	<b>3 (1 Consortium)</b>
<b>Site Visits</b>	<b>3 (2 Consortiums)</b>	<b>2 (1 Consortium)</b>
<b>Final Proposals Submitted</b>	<b>2 (1 Consortium)</b>	<b>2</b>

# Timeline

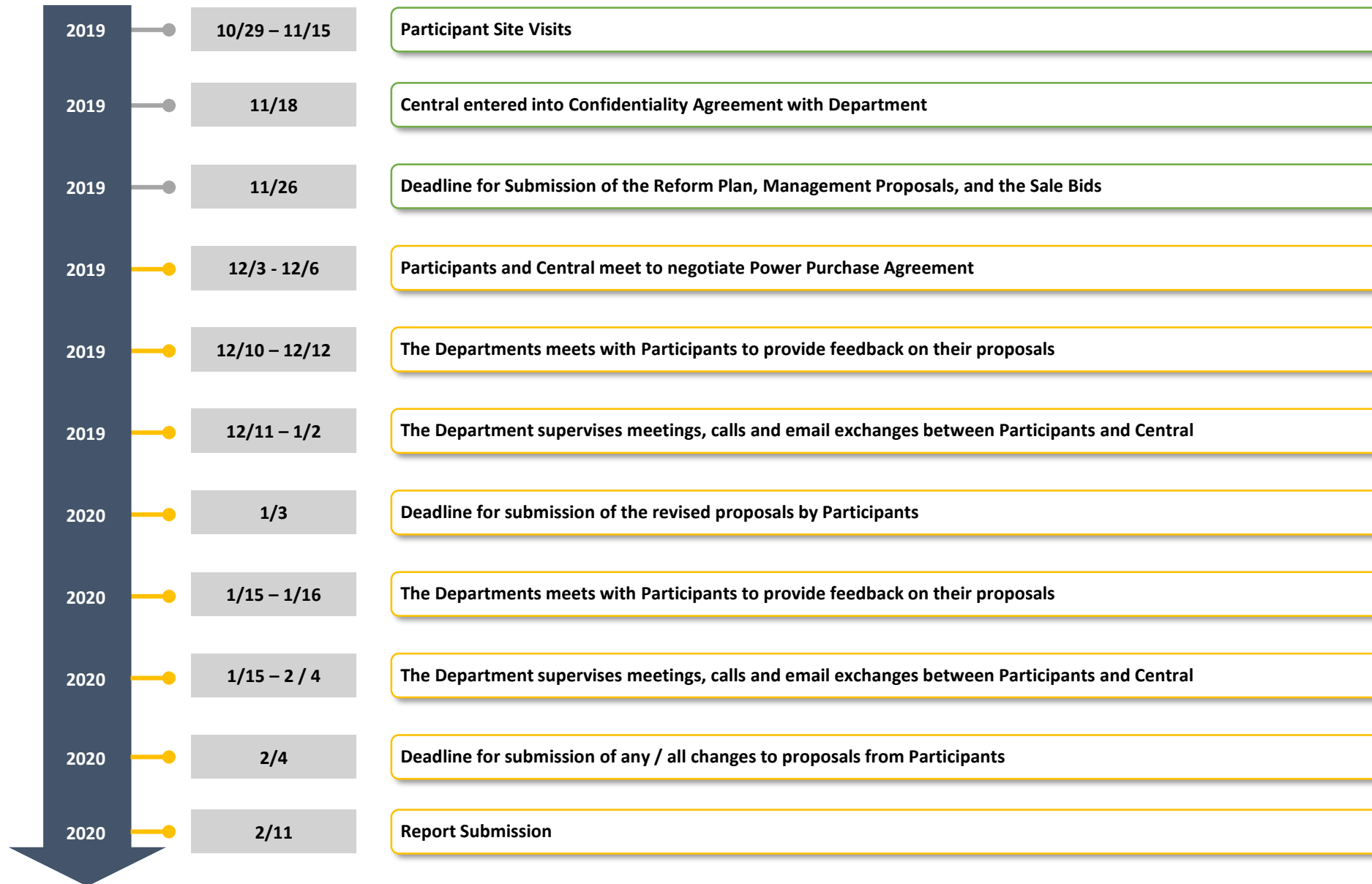




# Detailed Timeline



# Detailed Timeline



# Process Considerations

- Process was delayed by months by a lack of cooperation by Santee Cooper
  - Delay in funding the Department in June delayed the Process by nearly a month
  - The Data Room for participants was delayed in opening based on Santee Cooper failing to provide data in an efficient or expeditious manner
  - Threatened to not conduct management presentation due to not having a signed NDA with Admin (including when participants were in Santee Cooper's building for the Management Presentation)
  - Entering into Southern MOU had a chilling effect on multiple bidders and had unknown negative impacts
- Santee Cooper rank and file employees continue to be a bright spot for Santee Cooper, and they worked tirelessly to support the Process

# Evaluating Rate Projections

# Evaluating Rate Projections

- **Customer rates are critically important in considering options for Santee Cooper's future...**

...as recognized by the JR requirement for *“electrical rate projections and projected financial impact to Santee Cooper retail customers”*

- **Electricity Rates depend on many factors:**



Fuel



+ Operations, Maintenance, and Overhead



+ Recovery of Capital Investment



+ Taxes (Federal, State, Local)

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**Revenue Requirement**

- **Rate projections need to be “normalized” ...**
  - To ensure a fair comparison of proposals
  - To provide a sound basis for the General Assembly's decision-making based on facts and a greater likelihood of achievement

# “Apples to Apples” Comparisons

- Standardized assumptions → proposals are differentiated ONLY by *plans, commitments and competitive advantages*.
- Participants each submitted the Revenue Requirement Model
- Submissions normalized by **three kinds of assumptions**, as specified in the Process Letter:

## Fixed Assumptions

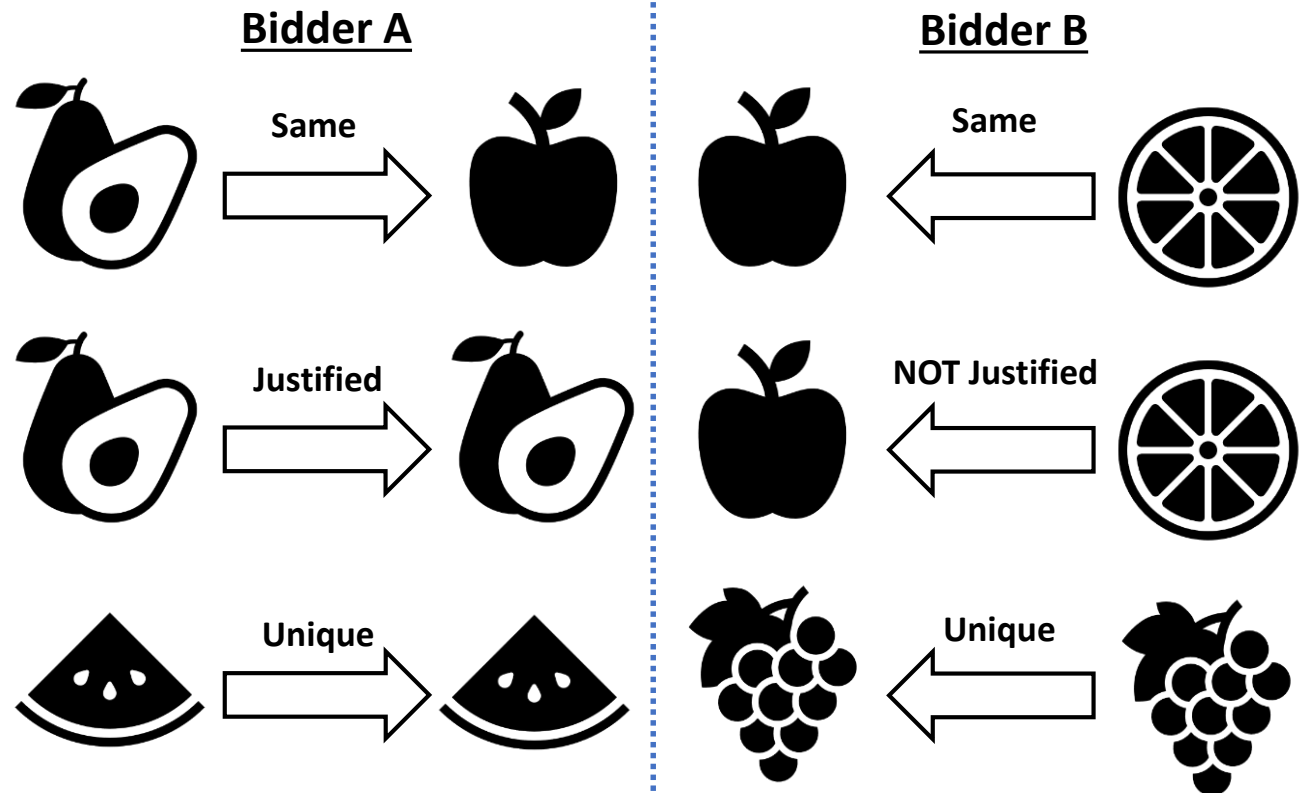
- Same external factors for all Participants
- Gas prices, interest rates, inflation, load forecasts...

## Supported Assumptions

- Justification required for different value
- Resource costs, operational efficiencies, other cost savings...

## Variable Assumptions

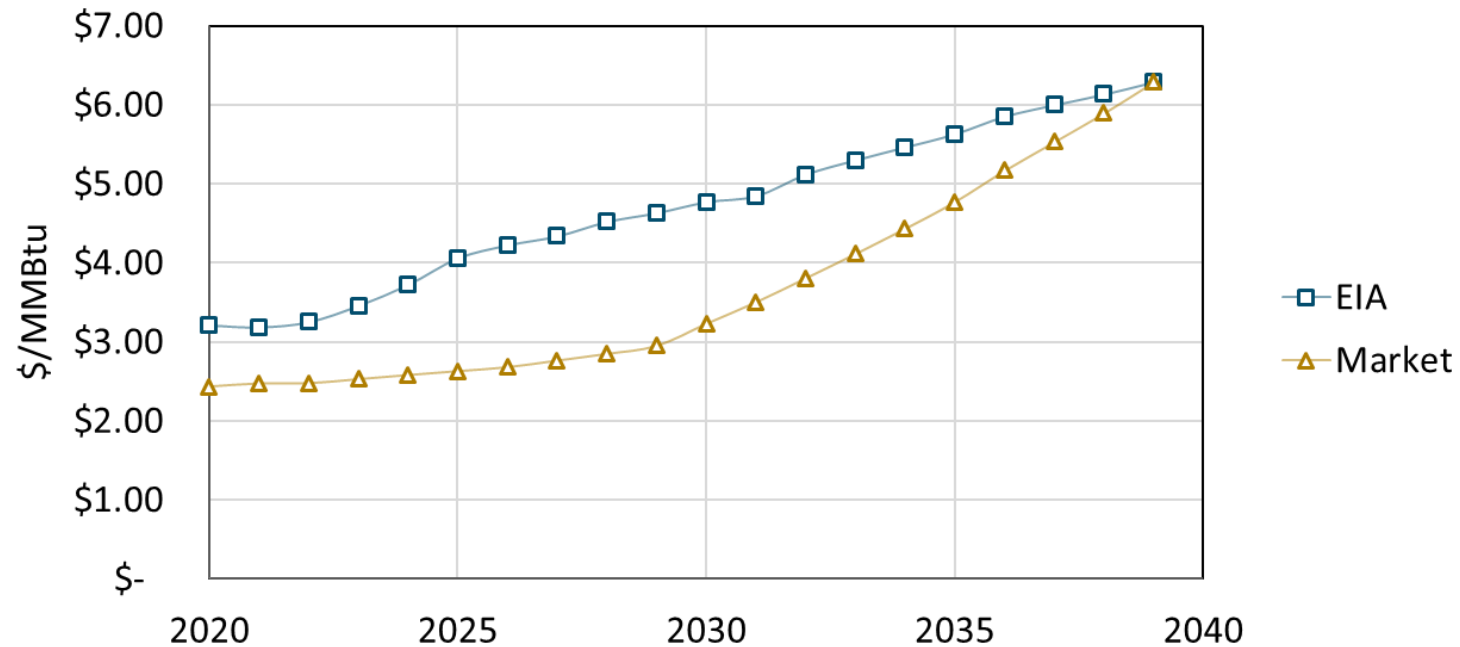
- Participants provide their own values
- Resource plan, fees/purchase price, financing structure, return on equity...



# Natural Gas Price Forecasts

- Future gas prices were the largest factor impacting rate projections
- Each Participant proposed to increase gas-fired generation to save on costs compared to coal, and each had a distinct view of future gas prices
- The Professional Service Experts used **two book-end, well-supported projections** to forecast each Participant's plan

## Henry Hub Gas Price Forecast used in the Process



# Santee Cooper Reform Plan





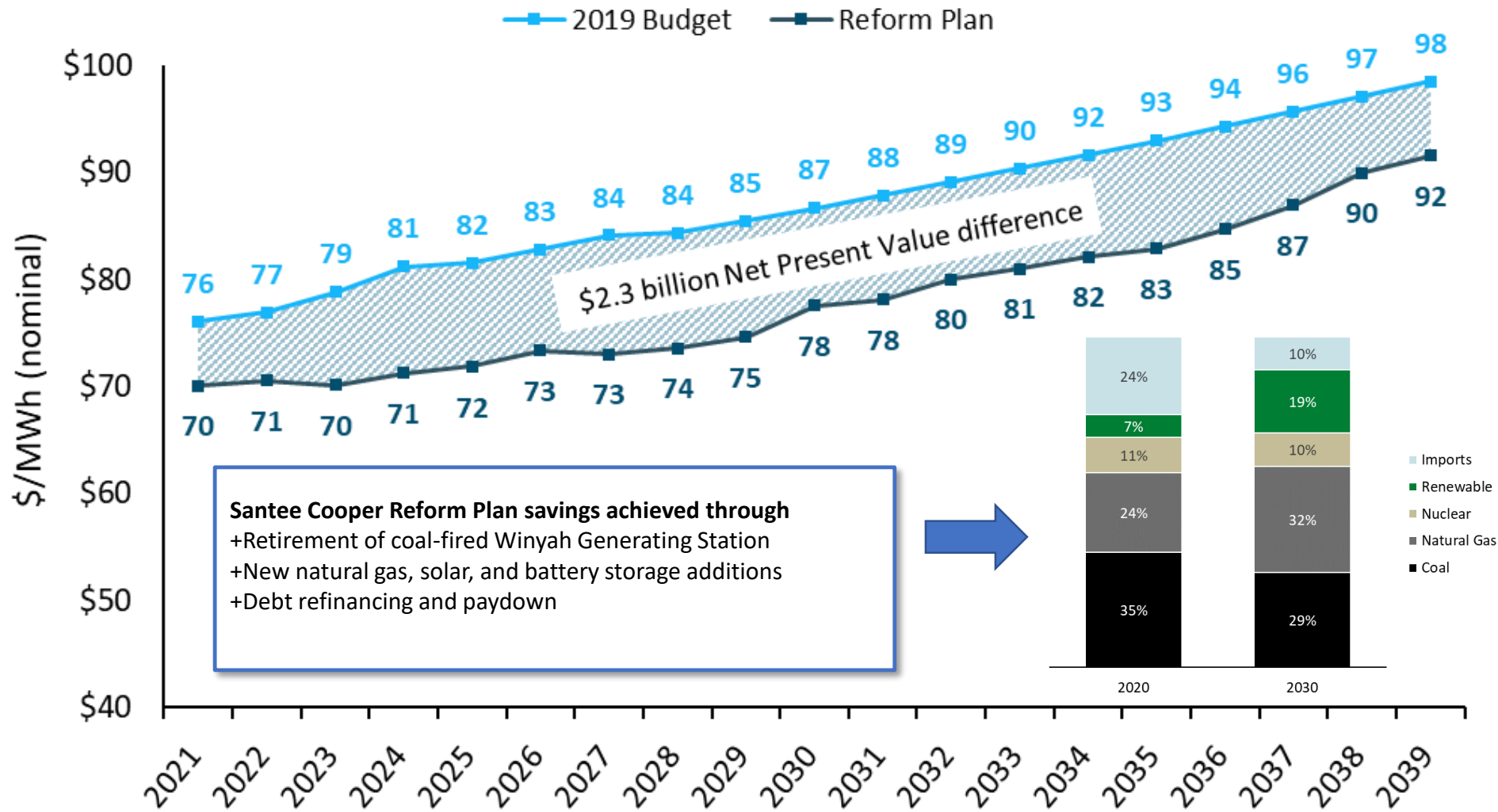
# Key Terms of Santee Cooper Reform Plan

- Santee Cooper would implement a new power supply roadmap (↑ reliability, ↓ coal/emissions, ↓ cost)
- Santee Cooper would reduce its outstanding debt by \$4.7 Billion over 20 years
- New transparency and oversight measures would improve governance and increase stakeholder involvement
- Reform is dependent on legislative action and Santee Cooper's ability to successfully implement the plan
- The Reform Plan does not resolve the Cook litigation; the Reform Plan does not expressly propose how to repair the Central relationship
- Santee Cooper would reduce headcount by 10% without any layoffs (retraining, attrition, and retirement only)

# Financial Overview of Santee Cooper Reform Plan

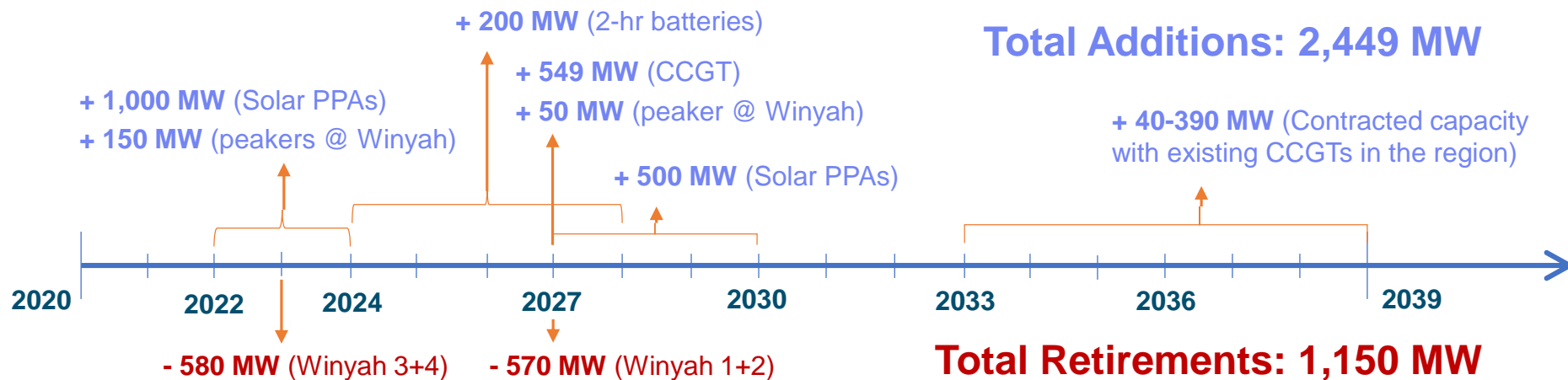
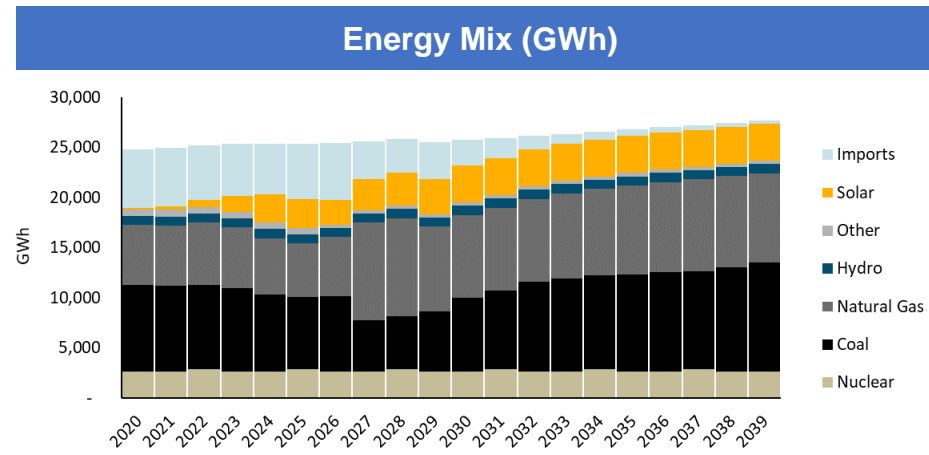
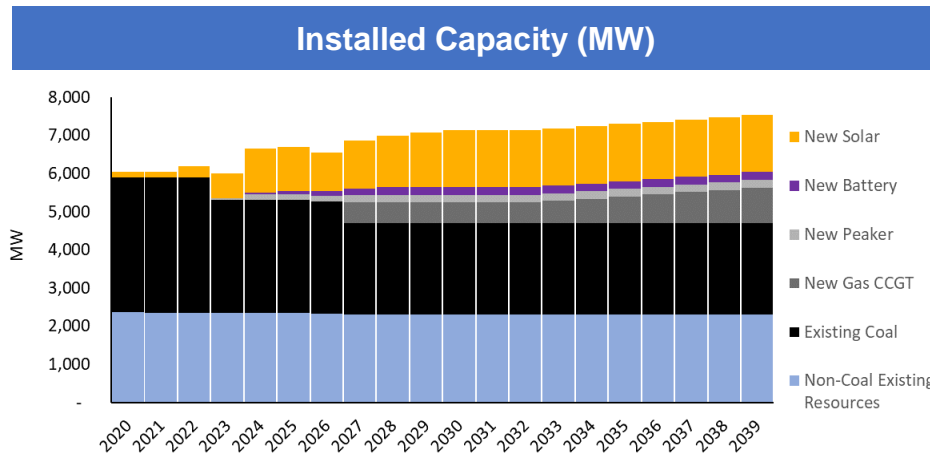
- Current credit rating – A2/A-
- Outstanding debt – \$6.9 Billion
- Reform plan pays down \$4.7 Billion in debt over 20 years
- All liabilities remain outstanding
- Estimated \$2.3 Billion NPV improvement to customer rates relative to 2019 budget

# Projected Santee Cooper Rates Under Reform Plan



# Proposed Santee Cooper Generation Mix

- **Santee Cooper modernizes generation mix through:**
  - Retirement of the Winyah coal station
  - New additions of natural gas, solar, and battery storage



# Management Proposal — Dominion Energy



# Key Terms of Dominion Management Proposal

- Dominion would place three of its executives as senior managers at Santee Cooper (and would consider placing one as CEO)
- Dominion would not charge a management fee; it would only be reimbursed for its costs
- Dominion would seek mutual cost savings through synergies with Santee Cooper
- Term: 10 years, with an option to terminate upon a change of control of either party
- Dominion executive to be Santee Cooper's primary point of contact for Central
- Benefits may not be realized without additional legislative reform at Santee Cooper

# Financial Overview of Dominion Management Proposal

- Current market capitalization of approximately \$70 Billion, representing one of the largest publicly traded utilities globally
- Credit Ratings
  - HoldCo: BBB+/Baa2
- Assumes Reform Plan implemented as proposed by Santee Cooper
- Proposed incremental joint cost savings to benefit Santee Cooper customers
  - Operating synergies and partnerships
- Only recovery of placed employee costs; no other management fees
- No payment to the State beyond Santee Cooper's current practices

# Bid for Sale — NextEra Energy





# Key Terms of NextEra Bid for Sale

- Defeases 100% of debt at closing and covers all defeasance costs
- Provides payment to State and allows the State to keep Santee Cooper balance sheet cash to cover estimated liabilities left behind
- Offers solution to Cook litigation and additional credits for ratepayers

Sources of Funds	\$ millions	SCP&L Capitalization	\$ millions	Uses of Funds	\$ millions
NextEra Cash Contribution	5,410.3	SCP&L Equity	2,929.5	Santee Cooper Bonds Outstanding	6,553.1
Corporate Bonds	2,720.5	SCP&L Debt	2,720.5	Santee Cooper Commercial Paper	306.2
Securitization Bonds	1,330.8	SCP&L Rate Base	5,650.0	Debt Defeasance Penalties	1,046.2
				Payment to State	500.0
				Funding of Escrow	100.0
				Reimbursement of Transaction Costs	15.0
				Customer Refunds & Credits	941.0
				for Cook litigation	541.0
				for all ratepayers	400.0
<b>TOTAL</b>	<b>9,461.5</b>		<b>5,650.0</b>		<b>9,461.5</b>

# Key Terms of NextEra Bid for Sale

CONSIDERATION	
<i>Cash Consideration</i>	
Cash	\$500mm
Cash (post-closing escrow)	\$100mm
Cash (expense reimbursement)	\$15mm
	TOTAL \$615mm

<i>Debt Repayment and Defeasance</i>	
Defease/repay long-term and short-term debt	\$6.859B
Defeasance and make-whole costs	\$1.05B
	TOTAL \$7.909B

<i>Customer Rate Credits</i>	
To settle Cook litigation	\$541mm
To current wholesale and resale customers	\$400mm
	TOTAL \$941mm
<b>TOTAL CONSIDERATION \$9.4615B</b>	

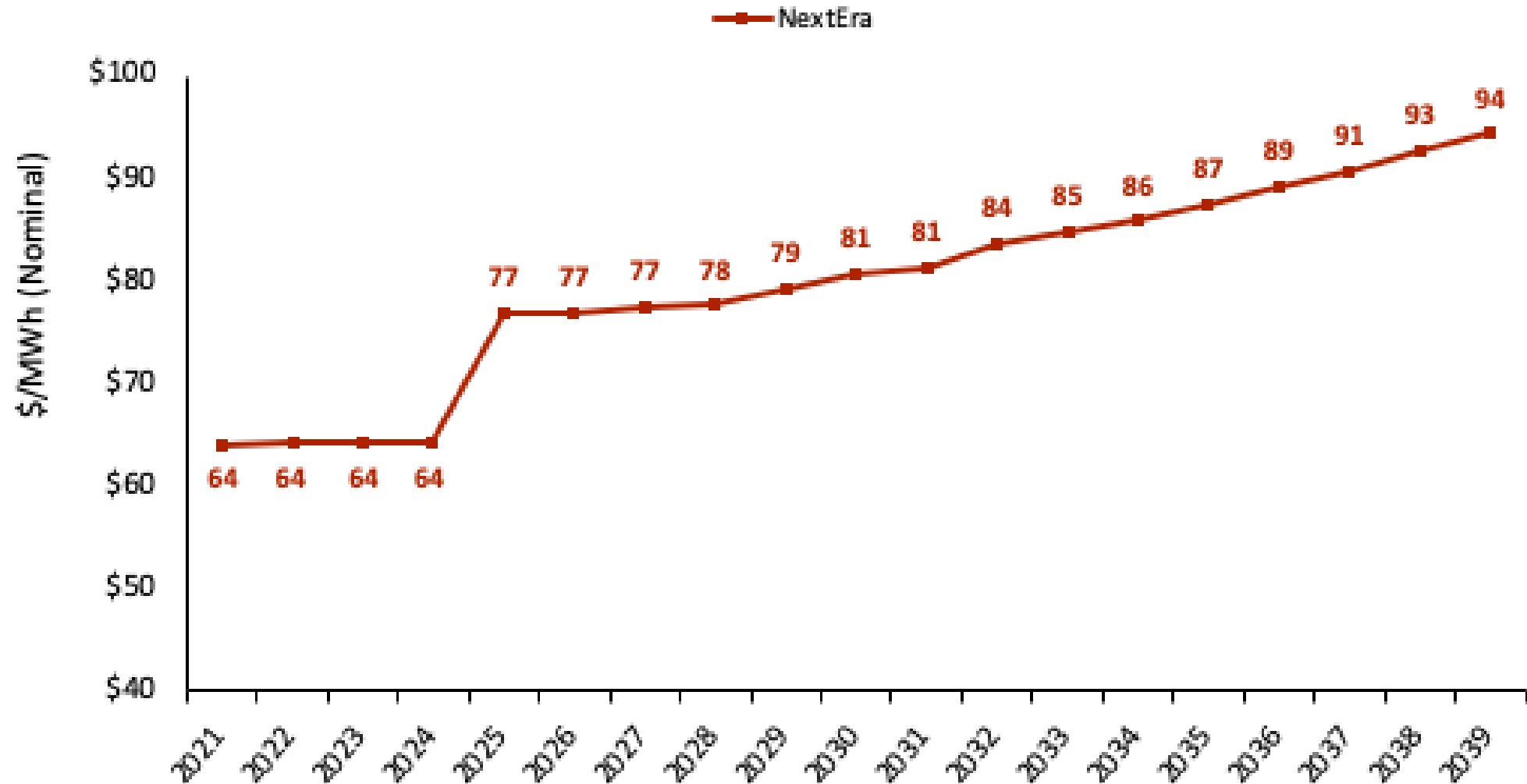
<b>CASH ON BALANCE SHEET**</b>	
Non-nuclear cash on SC balance sheet to be retained by Santee Cooper/State	\$485mm to 535mm

CERTAIN KNOWN REMAINING LIABILITIES	
<i>Employee Benefits</i>	
Pension	\$309.7mm
OPEB	\$186.7mm
SERP	\$13.6mm
Accrued vacation	\$14.4mm
	TOTAL \$525mm

# Financial Overview of NextEra Bid for Sale

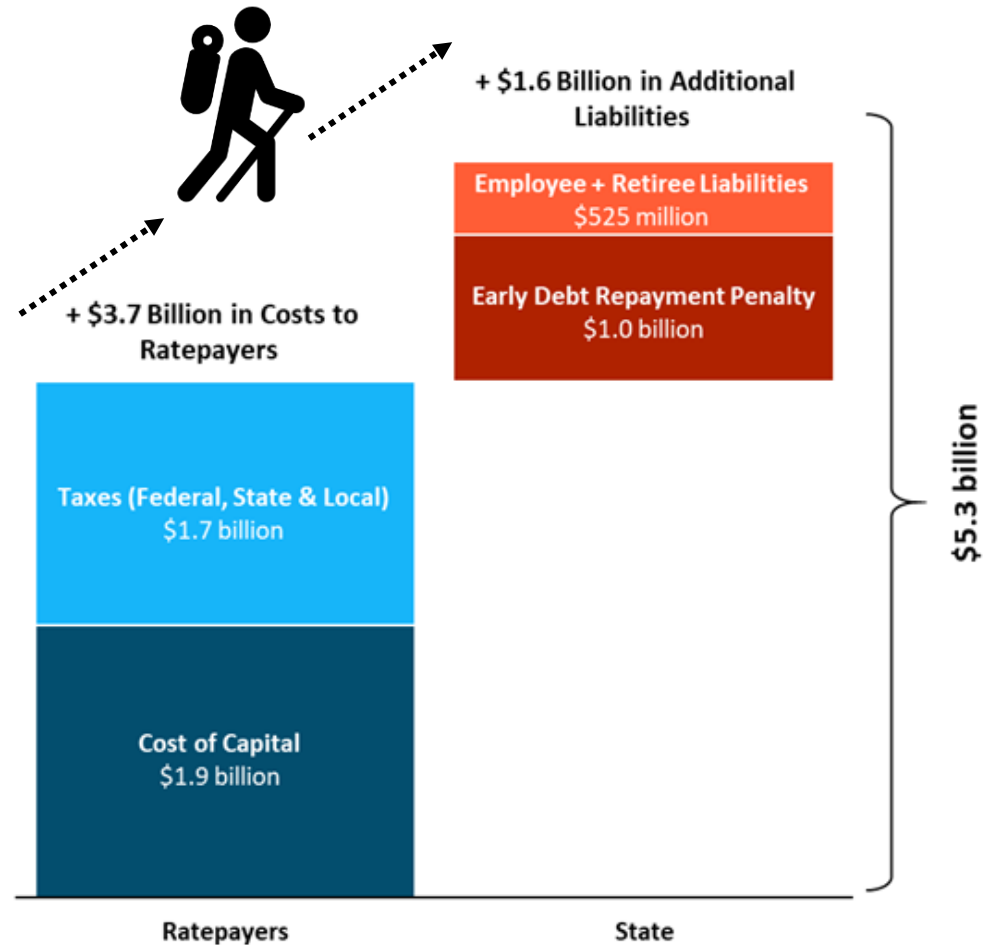
- Current market capitalization of approximately \$130 Billion, largest publicly traded utility globally
- Credit ratings
  - HoldCo: A-/Baa1
- Approximately \$1.1 Billion proceeds to the State to offset liabilities left behind
  - \$600 Million payment to the State, \$100 Million to be held in escrow
  - Approximately \$500 Million of balance sheet cash to be provided to the State
  - \$15 Million in transaction reimbursement to the State
- Substantially all pre-closing liabilities to be left behind with the State

# Projected NextEra Rates Under Bid for Sale



# Any Bid for Sale Faces Structural Hurdles

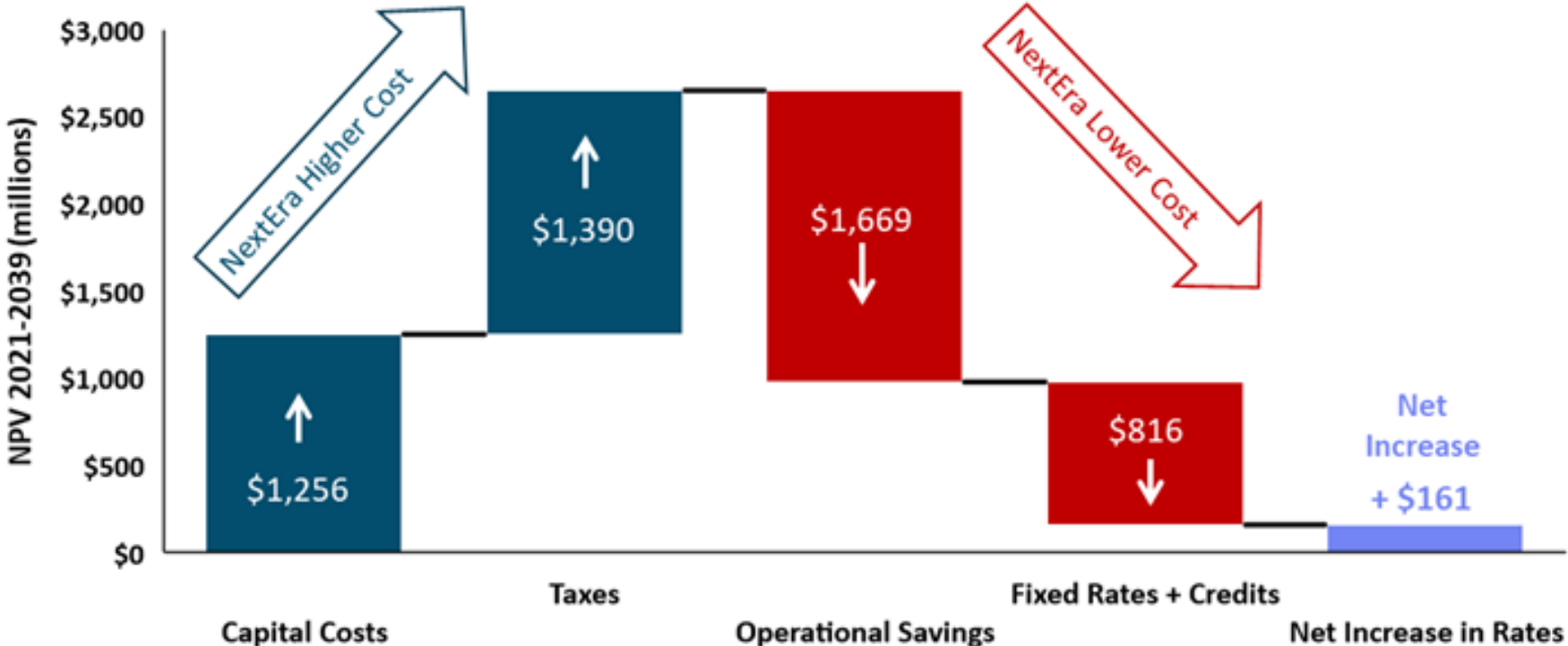
- Sale Bidders face a “hill” of additional costs to **ratepayers** and **the State**.
- Structural differences between publicly-owned utilities and investor-owned utilities create ~\$3.7 billion in costs.
- Liabilities triggered by the sale amount to \$1.6 billion in costs to be settled at closing.
- **Overcoming the hill is critical to delivering value in a sale...**



# NextEra Bid for Sale Addresses Structural Hurdles

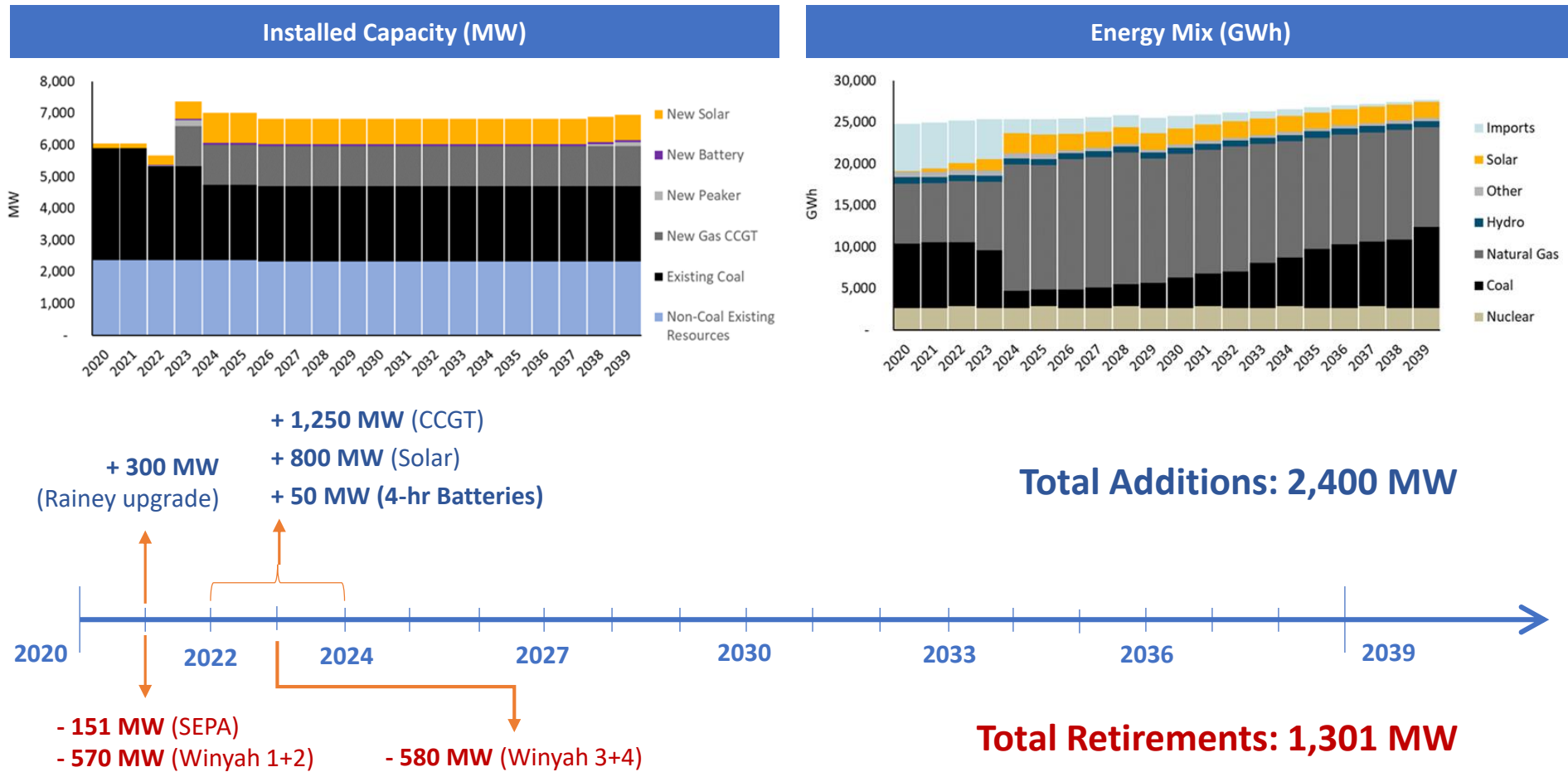
NextEra Bid for Sale successfully climbs the “hill” of an IOU transition...

- ✓ Limited increase in projected rates vs. Santee Cooper Reform Plan
- ✓ Provides funds to cover additional liabilities to the State



# NextEra Bid for Sale Generation Mix

- **NextEra modernizes generation mix through:**
  - Accelerated retirement of the Winyah coal station
  - Early, large addition of CCGT in Fairfield County, plus solar and battery storage additions



# Potential Benefits and Additional Considerations



# Santee Cooper Reform Plan

## Potential Benefits



### Low Cost

Lowest cost alternative and \$2.3 billion lower than previous plan



### Generation Modernization

Retirement of coal and new natural gas, solar, and battery storage



### Governance Improvements

More oversight and stakeholder engagement



### Central Improvements

Concession on several key terms in contract



### No Layoffs

Staff reductions accomplished through retirement and retraining



### Debt Payoff

Pays down \$4.7 billion by 2039



### State Control

Control of utility stays within South Carolina



### Safety and Reliability

Santee likely to continue excellent track record

## Additional Considerations



### Central Relationship

Relationship remains strained due to historical friction and fundamental disagreements



### Governance Changes

Proposed changes could go further for more oversight on pricing and planning



### Necessary Codification

Without legislative codification of Reform Plan, progress created by JR could be lost



### Track Record

Santee Cooper does not have a track record of generation modernization as contemplated in Reform Plan



### Litigation

Does not resolve Cook litigation



# Dominion Management Proposal

## Potential Benefits



### No Management Fee

Santee Cooper only reimburses costs of Dominion employees placed at Santee Cooper



### Limited Duration

Management contracts lasts 10 years with option to extend



### Track Record

Dominion is a large and well-respected investor owned utility



### Central

Central has expressed positive view in dealing with Dominion



### Synergies

Possible synergistic efficiencies and savings with Dominion

## Additional Considerations



### Debt

Debt remains outstanding



### Litigation

Does not resolve Cook litigation



### Implementation

Dominion managers still subject to oversight from Santee Cooper CEO and Board



### Reform Plan

Benefits of proposal may not be realized without Santee Cooper reform



### Conflict of Interest

Potential for Dominion managers to pursue synergistic savings with Dominion ahead of internal Santee savings



### Savings

The proposed synergistic savings are difficult to quantify



# NextEra Bid for Sale

## Potential Benefits



### Debt Defeasance

Immediately pays off all debt, including early repayment penalties



### Litigation

Provides roadmap and resources to resolve Cook litigation through \$541 million ratepayer credit and the payment of plaintiffs' lawyers' fees



### Rate Credits

Provides additional \$400 million to ratepayers upfront



### Payments to State

Provides \$515+ million to State  
Approximately \$500 million of balance sheet cash goes to the State



### Synergistic Savings

Opportunity for meaningful savings by combining operations with other NextEra utilities such as FPL



### Generation Modernization

Retires coal and replaces it with a combination of new natural gas, solar, and battery storage



### Track Record

NextEra is a large and well-respected investor owned utility

## Additional Considerations



### Legislative Ask

Comprehensive legislation bypasses traditional Public Service Commission oversight and opportunity for public stakeholder engagement by pre-approving:

- Rates for four years
- \$2.3 billion in new generation capital expenditures
- Fee-in-lieu of taxes provisions
- Securitization bonds
- Non-standard depreciation with opportunity to defer costs after the four-year fixed rate period



### Headcount Reduction

Immediately lays off 300 employees and ultimately reduces 660 employees below Reform Plan by 2025



### Out-of-State Reporting

Management will be based in Moncks Corner but will report to NextEra leadership in Juno Beach, FL

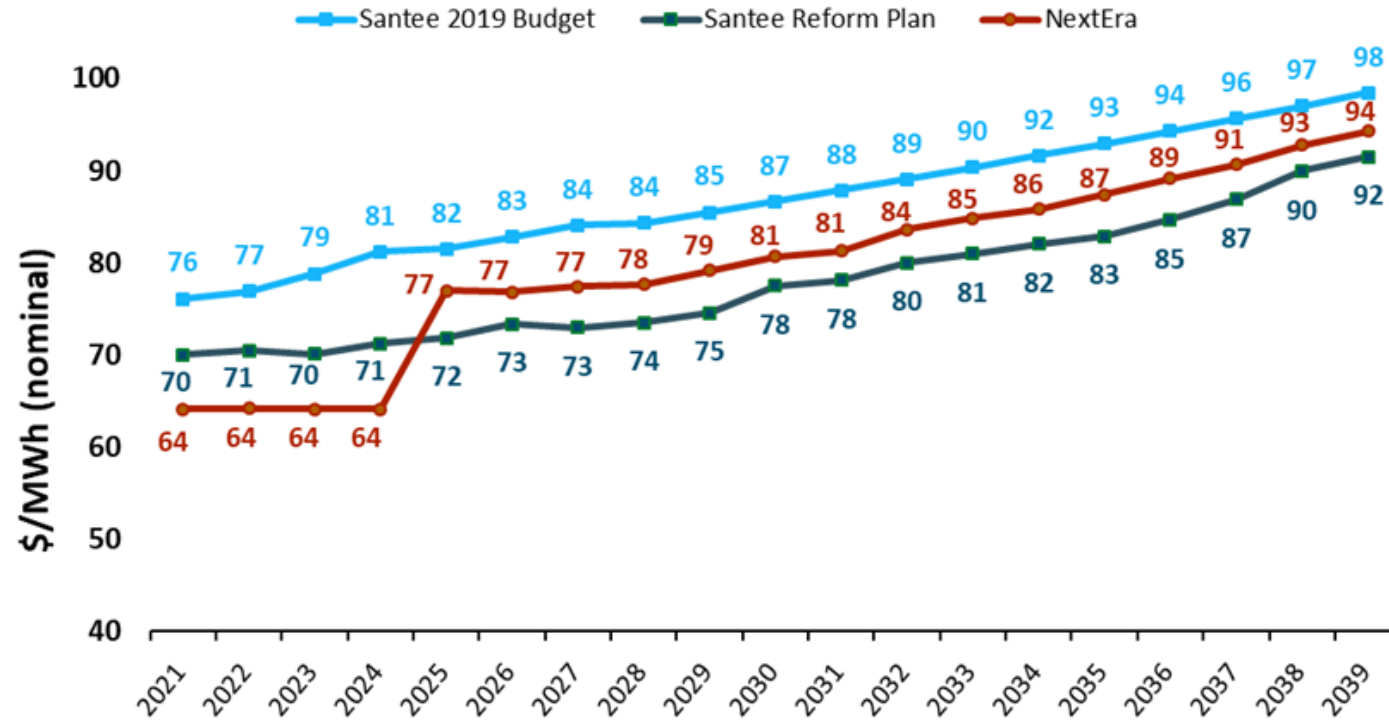


### Liabilities

Most pre-closing liabilities will remain behind



# Results



- **Santee Reform Plan** saves \$2.3 billion (NPV) vs. Santee 2019 Budget
- **NextEra Sale Proposal** defeases 100% of Santee Debt, covers additional liabilities; projected rates are 10% lower than Santee for four years, then 5% higher

# Conclusion