

Jim Robo
Chairman & Chief Executive Officer



MEMO TO SENATE FINANCE COMMITTEE

February 24, 2020

RE: Follow-up to February 19, 2020 Senate Finance Committee Hearing

Dear Chairman Leatherman and Members of the Senate Finance Committee:

Thank you again for the opportunity on February 19 to appear before you to discuss NextEra Energy's proposal to purchase Santee Cooper. We hope that you found our presentation informative and helpful as you consider the options before you with respect to Santee Cooper's future.

There were a number of questions and follow-up items from our session that we promised to provide to you promptly. A list of these items and our responses are outlined below for your review and consideration.

1. Length and route of proposed natural gas pipeline lateral to NextEra's proposed new combined-cycle generation plant site

The proposed natural gas pipeline lateral is a 60-mile, 20 to 24-inch intrastate pipeline that would run through Spartanburg, Union & Fairfield counties. The pipeline route would not cross national forest land.

We have analyzed a number of different configurations, sites and connection points for the proposed combined cycle. The 17 miles was in reference to the length of an electric transmission tie line we analyzed as an option in an earlier configuration of the combined cycle.

2. Tax Items, including:

- a. Projected 30-year tax payments
- b. Tax exemptions in Enabling Legislation
- c. Estimated state taxes over 30 years
- d. Comparison of estimated tax payments during rate freeze
- e. Comparison of estimated tax payments after rate freeze
- f. Allocation of property taxes by county

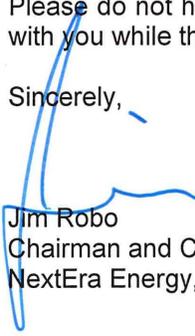
Please refer to Appendix 1.

3. Estimate of Charges to Santee Cooper Power & Light for Job Functions in Florida

Florida Power & Light Company ("FPL") provides corporate services today to all the NextEra Energy family of companies. These services include day to day work processes using common systems and tools, including but not limited to: centralized Human Resources services, such as benefits planning and administration, some legal services, including corporate legal and environmental compliance oversight, financial back office support, such as general ledger accounting, audit services both internal and external, treasury and cash management, and Information Technology. We estimate that to provide those corporate level services to the new utility, Santee Cooper Power & Light ("SCP&L") will cost approximately \$19 million in the first year of ownership declining to approximately \$17 million by 2024. The overall non-fuel O&M costs, including the costs of these corporate services, is substantially lower than overall non-fuel O&M costs under the Santee Cooper Reform Plan.

Please do not hesitate to reach out with any additional questions. We look forward to continuing to work with you while the state determines the best path forward for Santee Cooper.

Sincerely,

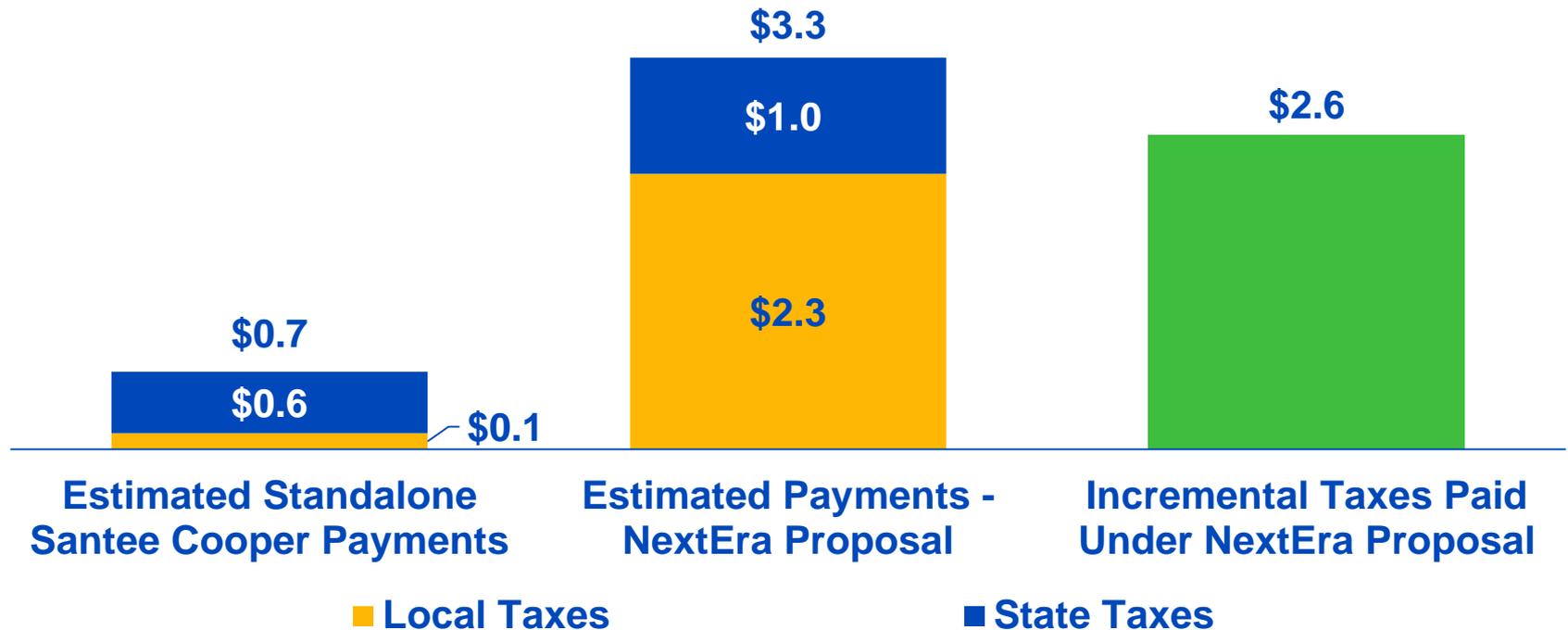


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NextEra Energy, Inc.

Appendix 1

Under our proposal, we estimate that SCPL would pay state and local taxes totaling \$3.3 billion over 30 years

Projected 30-Year Tax Payments (Nominal \$ B)⁽¹⁾



The incremental taxes paid under NextEra's proposal would represent a \$1.6 B NPV to South Carolina's state and local governments⁽²⁾

1) Includes taxes, PILOTs and FILOTs

2) 30-year NPV; assumes 3.0% discount rate based on current long-term state and municipal bond yields

The proposed enabling legislation would provide only the following tax exemptions⁽¹⁾

Tax Exemptions in Enabling Legislation

- Only during the rate freeze period, the state PILOT payments of ~\$18 MM per year would be made by SCPL in lieu of all of the following taxes:
 - 1 State income tax
 - 2 State electric power tax
 - 3 State license fees
- Over the 30-year period following the closing date, the local PILOT payments of ~\$5 MM per year would be made by SCPL in lieu of local property taxes for the following assets:
 - 4 Assets acquired as of the closing date
 - 5 Investments made to the acquired assets (repairs, replacements, improvements, additions) during the rate freeze period

1) This page reflects the intention of NextEra's proposal regarding tax exemptions. Where there is any discrepancy with the proposed legislation included with the Department's February 7, 2020, submission, we will provide revisions as necessary.

In addition to ~\$2.3 B of property taxes, SCPL would be estimated to pay ~\$1 B of taxes to South Carolina over the first 30 years under the enabling legislation

Estimated State Taxes over 30 Years⁽¹⁾

\$ MM	Rate Freeze	2025-2050	Total
	Period		
State PILOT Payment	\$70 ⁽²⁾	N/A	\$70
1 State Income Tax	N/A	\$312	\$312
2 State Electric Power Tax	N/A	\$249	\$249
3 State License Fees	N/A	\$334	\$334
Total State Tax Payments (other than property taxes)	\$70	\$895	\$965
Net Operating Loss Balance at the End of Rate Freeze	\$692		

The enabling legislation only exempts SCPL from customary IOU state taxes for four years out of the 30-year period

1) Includes taxes, PILOTs and FILOTs

2) Assumes PILOT equal to Santee Cooper's 2019 payment to the state

During the rate freeze, SCPL would pay the same as Santee Cooper for all state and local taxes

Estimated Tax Payments During Rate Freeze⁽¹⁾

Type of Tax	Santee Cooper Standalone (\$ MM)	NextEra Bid (\$ MM)
4 Property Tax on Assets Acquired 5 as of the Closing Date ⁽²⁾	\$18	\$18
Property Tax on New Investments and Negotiated FILOTs ⁽³⁾	\$0	\$0
State Taxes Other than Property Tax	\$70 ⁽⁴⁾	\$70
Total	\$88	\$88

1) Includes taxes, PILOTs and FILOTs

2) Including additional capital spent on acquired assets during the rate freeze

3) Including property taxes paid under FILOTs negotiated for new generation facilities placed into service during the rate freeze

4) Estimated Santee Cooper state PILOT

The enabling legislation provides no property tax exemption for any investment made after the rate freeze period

Estimated Tax Payments After Rate Freeze (2025-2050)⁽¹⁾

Type of Tax	Santee Cooper Standalone (\$ MM)	NextEra Bid (\$ MM)
4 Property Tax on Assets Acquired 5 as of the Closing Date ⁽²⁾	\$120	\$120
Property Tax on New Investments and Negotiated FILOTs ⁽³⁾	\$0	\$2,228
State Taxes Other than Property Tax	\$455 ⁽⁴⁾	\$895
Total	\$575	\$3,243

1) Includes taxes, PILOTs and FILOTs

2) Including additional capital spent on acquired assets during the rate freeze

3) Including property taxes paid under FILOTs negotiated for new generation facilities placed into service during the rate freeze

4) Estimated Santee Cooper PILOT

We believe that the tax mechanisms in NextEra's proposal offer the best balance of revenue for the state and customer rates

Key Considerations on Taxes

- **NextEra does not make any money from federal, state or local taxes; these taxes are simply passed on to SCPL customers**
 - Taxes, PILOTs and FILOTs are recoverable through rates
- **State tax incentives during the rate freeze period would allow us to modernize Santee Cooper while keeping rates low**
 - We would be paying the same amount of state taxes during the freeze that Santee pays today while we modernize the generation fleet
- **Once we complete the proposed generation plan, we would be in a position to pay higher taxes to the state while maintaining low rates to customers**
- **NextEra's proposal is the option that provides the most tax revenue for the state while maintaining low rates**

Additional Detail on Local Taxes

SCPL would pay approximately \$2.3 B in property taxes and FILOTs across the counties

Allocation of Property Taxes by County

County Allocation		30-year Property Tax Payments
Transmission	<ul style="list-style-type: none"> Taxes will be paid primarily in the 36 counties where Santee transmission assets are located 	\$537 MM
Distribution	<ul style="list-style-type: none"> Taxes will be paid primarily in Berkeley, Horry, and Georgetown counties which have direct serve customers 	\$579 MM
Generation Capital not Covered by FILOTs	<ul style="list-style-type: none"> Taxes will be paid primarily in counties with existing or proposed generation facilities (Georgetown, Berkeley, Anderson, Fairfield, Beaufort, Horry, Lee, Richland, Hampton, Florence; others TBD) 	\$775 MM
General and Other⁽¹⁾	<ul style="list-style-type: none"> Primarily Moncks Corner (Berkeley County) and other counties where corporate offices reside 	\$41 MM
FILOTs⁽²⁾	<ul style="list-style-type: none"> Fairfield, Orangeburg, Florence, Marion, and additional counties to be determined 	\$295 MM
Local PILOT Payments	<ul style="list-style-type: none"> Will be apportioned to counties according to current Santee allocation 	\$138 MM
Total		\$2,365 MM

1) Includes customer service and corporate services capital

2) New FILOTs negotiated by NextEra

